

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 31 JANUARY 2024 AT 14:00 HOURS
IN COMMITTEE ROOMS 3 & 4, COUNCIL HOUSE, VICTORIA
SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

The Chair to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Public-I microsite ([please click this link](#)) 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 they must declare all relevant pecuniary and other registerable interests arising from any business to be discussed at this meeting.

If a disclosable pecuniary interest is declared a Member must not participate in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If other registerable interests are declared a Member may speak on the matter only if members of the public are allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If it is a 'sensitive interest', Members do not have to disclose the nature of the interest, just that they have an interest.

Information on the Local Government Association's Model Councillor Code of Conduct is set out via <http://bit.ly/3WtGQnN>. This includes, at Appendix 1, an interests flowchart which provides a simple guide to declaring interests at meetings.

4 **EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 100I of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.

• **Item 8 – Update on Statutory Recommendations**

(Exempt paragraph 5 from Schedule 12A of the Local Government Act 1972

- Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings).

b) If so, to formally pass the following resolution:-

RESOLVED – That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

5 - 30

5 **MINUTES - AUDIT COMMITTEE 29 NOVEMBER 2023**

To confirm and sign the minutes of the last meeting of the Committee held 29 November 2023.

31 - 34

6 **COMMISSIONERS REVIEW & COMMENTS ON THE AGENDA**

To note the attached comments from the Commissioner.

35 - 52

7 **INTERNAL AUDIT PLAN UPDATE**

(15 minutes allocated) (1405 – 1420 hours)

Report of the Assistant Director Audit and Risk

53 - 68

8 **UPDATE ON STATUTORY RECOMMENDATIONS**

(30 minutes allocated) (1420 – 1450)

Report of the Interim Finance Director, Section 151 Officer

- 69 - 74** 9 **UPDATE ON RISK MANAGEMENT PROGRAMME**
(15 minutes allocated) (1450 – 1505 hours)
Report of the Head of Professional Standards
- 75 - 90** 10 **FINANCE UPDATE - JANUARY 2024**
(35 minutes allocated) (1505 - 1540 hours)
Report of the Interim Finance Director, Section 151 Officer
Including updates on Oracle (ERP) and Equal Pay
- 91 - 144** 11 **FINANCE - TREASURY MANAGEMENT**
(15 minutes allocated) (1540 – 1555 hours)
Report of the Interim Finance Director, Section 151 Officer
- 145 - 162** 12 **EXTERNAL AUDIT UPDATE**
(20 minutes allocated) (1555 – 1615 hours)
Report of the External Auditors
- 163 - 236** 13 **FINAL REPORT ON ORACLE**
(20 minutes allocated) (1615 - 1635 hours)
Report of the External Auditors
- 237 - 244** 14 **SCHEDULE OF OUTSTANDING MINUTES**
Information for noting.
- 15 **DATE OF THE NEXT MEETING**
The next meeting is scheduled to take place on Wednesday, 21 February 2024 at 1400 hours in Committee Room 3 & 4, Council House.
- 16 **OTHER URGENT BUSINESS**
To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chair are matters of urgency.
- 17 **AUTHORITY TO CHAIR AND OFFICERS**
Chair to move:-

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

BIRMINGHAM CITY COUNCIL

<p>AUDIT COMMITTEE 29 NOVEMBER 2023</p>
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**MINUTES OF A MEETING OF AUDIT COMMITTEE HELD ON WEDNESDAY,
29 NOVEMBER 2023 AT 1400 HOURS IN COMMITTEE ROOM 3 & 4,
COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

PRESENT:-

Councillor Fred Grindrod in the Chair;

Councillors Robert Alden, Shabrana Hussain, Miranda Perks and Paul Tilsley

ALSO PRESENT:-

Paul Clarke, Assistant Director Programmes, Performance & Improvement
Sarah Dunlavey, Assistant Director Audit & Risk Management
Richard Fitzjohn, Equal Pay Programme Lead
Fiona Greenway, Interim Finance Director & Section 151 Officer
Julia Lynch, Assistant Director of Legal Litigation & Deputy Monitoring Officer
Dr Robert Milford, Managing Director, Milford Research & Consultancy Limited
John Preston, Group Auditor, Corporate Fraud
Craig Price, Principal Group Auditor
Jon Roberts, External Auditor, Grant Thornton
Mohammed Sajid, Assistant Director Financial Strategy
Mark Stocks, External Auditor, Grant Thornton
Mandeep Marwaha, Committee Services

NOTICE OF RECORDING/WEBCAST

684 The Chair advised and the Committee noted this meeting will be webcast for live or subsequent broadcast via the Council's Public-I microsite ([please click this link](#)) and that members of the press/public may record and take photographs except where there are 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

685 Apologies were submitted on behalf of Councillors Meirion Jenkins and Shafique Shah for their inability to attend the meeting.

Audit Committee – 29 November 2023

In advance of the next meeting (31 January 2024), Councillor Alden submitted his apologies due to a prior commitment he had before being appointed to the Audit Committee. This will be noted again at the next meeting. The Chair noted the point made and welcomed Councillor Alden to the Committee.

DECLARATIONS OF INTEREST

- 686 Councillor Tilsley declared his standing declaration. He was a Non-Executive Director for Birmingham Airport (Non-pecuniary).
During discussions for item 9, Internal Audit Update, Councillor Miranda Perks declared she was a School Governor at a maintained Nursery School.
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair notified members of the Committee currently there were no items on the agenda that had to be discussed in private. However, if members made a request for a private session, he would be guided by the Assistant Director of Legal Litigation & Deputy Monitoring Officer should there be a need to move into a private session for any items.

This moved by the Chair and agreed by the Committee.

Upon consideration, it was:

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RESOLVED

That in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

MINUTES – AUDIT COMMITTEE 18 OCTOBER 2023

- 688 The minutes of the meeting held on 18 October 2023, having been previously circulated, were confirmed and signed by the Chair.
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COMMISSIONER'S REVIEW AND COMMENTS ON THE AGENDA

The following document from the Commissioner was submitted:

(See document No.1 of the agenda pack)

The Commissioner's Review was read out by the Chair. It stated:

“Commissioners are pleased to see that the Committee are being recommended to adopt the CIPFA guidance and model terms of reference for the Audit Committee. This is an important step in the process of recovery. The Council’s Constitution should make it explicit that no Councillor should be able to serve on the Audit Committee until they have attended the necessary training course on how to be an effective member of the Committee. As part of the annual review of the effectiveness of the Committee the training and development needs of councillors in general and members of this committee should be considered.

Audit Committees are required to produce an Annual report. In addition to this the Chair of the Committee should have the ability to place an item on the Cabinet agenda and attend and speak to it if there are significant issues arising that needs Cabinet to give specific attention to the issue. The Committee should also consider whether major issues require them to report directly to full Council as every councillor is responsible for financial stewardship.

Members should satisfy themselves that the level of activity in Counter Fraud is appropriate for a Council of Birmingham’s size. The council will inevitably undergo some disruption through the intervention period and this always provides an opportunity for challenge to the Council’s processes.

When staff members are involved in fraudulent activities it is not acceptable for the report to say that the matter has been passed to management to deal with. Public service demands the highest standards of probity and the public’s trust and confidence in the stewardship of the authority is put at risk in such circumstances. The Committee should require follow up reports to understand what action management take and in what timescale”.

The Chair and Committee noted the points raised by the Commissioner. As part of the work programme for the Committee, the Managing Director, Milford Research & Consultancy Limited was programming a series of training and briefing sessions for Members. The Chair emphasised the importance of attending the training which will be delivered.

The Managing Director, Milford Research & Consultancy Limited highlighted agenda item 8, a work programme was available including a bitesize training programme with the view of a formal induction training programme from May 2024 onwards. The new Terms of Reference for the Audit Committee emphasised the need to comply with CIPFA guidance 2022, where it states members need to be trained.

No other comments were made by Members of the Committee.

Upon consideration, it was:

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RESOLVED:-

The Audit Committee noted the comments made by the Commissioner on the 29 November 2023 agenda.

NEW TERMS OF REFERENCE – AUDIT COMMITTEE

The following document from the Interim Director of Finance, Section 151 Officer was submitted:

(See document No.2 of the agenda pack)

The Interim Director of Finance, Section 151 Officer made introductory comments on the report. The Commissioner welcomed the new terms of reference in advance of the meeting which had also been reflected in item 6 of the agenda 'Commissioners review and comments on the agenda'. It was highlighted members of the committee must undertake training to ensure they were compliant.

The Managing Director, Milford Research & Consultancy Limited gave an overview of the new terms of reference for the Committee and highlighted the previous terms of reference for the Committee were included within the report as a comparator to see the differences. The CIPFA Position Statement 2022 was referenced within the report and the new terms of reference were based on the model from CIPFA.

The key changes within the new Terms of Reference were highlighted. These were noted as the addition of ethical and cultural aspects (Ethical Framework), fraud risks and potential harm to the council from fraud and corruption, strategy and the level of resource available. This was now included, and the Commissioner had referred to this area in their comments at agenda item 6. Details around the arrangements for audit and assurance had been enhanced for Internal and External Audit i.e. there would be more information available from Internal and External audit.

Prior to this Committee meeting, a bitesize training session on Internal Audit took place for members.

Section 14.4 of the new Terms of Reference, Internal Audit, now had thirteen different areas to consider whereas previously Internal Audit was referenced as one summarised paragraph. Members were advised the new terms of reference indicated the Committee could hold private meetings with Internal Audit as well as External Auditors to address confidential information. Further details around Internal Audit, accountability and CIPFA standards were shared with members.

Members were reminded training was essential as part of the delivery of the meetings as Audit Committee dealt with various technical areas for the Council.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Audit Committee – 29 November 2023

Members raised questions and made the following comments;

- Councillor Alden made several comments and suggestions to the report. It was highlighted the new terms of reference was an improvement to the previous version.
- There were parts of the CIPFA guidance that were missing in the new TOR. It was suggested further details around ensuring the committee had a robust arrangement for value for money; improving public reporting on transparency, accounting and embedding ethical values and counter fraud in the organisation were reflected.
- Point 14.3 – Reference was made on reviewing the Annual Governance Statement (AGS). The previous AGS, 2020/2021 and 2021/22, was submitted to the Committee for approval rather than commentary for shaping and building the AGS. Examples of risks that were not highlighted in previous AGS was shared with the members.
- There should be clear indication when the AGS would be shared with the Committee as the CIPFA guidance indicated that Audit Committee should have an influential role in seeing a draft form of the AGS so that amendments can be placed forward.
- Point 14.4 – Internal Audit – Reference was made to Head of Internal Audit however, the CIPFA guidance referred to the department rather than the individual and this should be factored into the new TOR.
- Point 14.7 - Conflicts of Interests – It was proposed the Chief Whip was not compatible with being the Chair of the Audit Committee and this should be indicated under this section.
- Point 14.6 – Membership (Co-opted members) – further details were required on how the Independent Technical Advisor would be appointed. The appointment should be made via a skills-based route and identifying where the gaps in knowledge were to support members.
- The Commissioner had commented in item 6 of the agenda that Chair should have the ability to place an item on the Cabinet and Council (CBMC) agenda which would need to be reflected into the new TOR. It was suggested for the Chair of Audit Committee to write on behalf of the Committee to the City Solicitor and Monitoring Officer requesting for these powers to be embedded into the Constitution review.
- Councillor Tilsley emphasised there was a requirement for openness and transparency by all parties servicing the Audit Committee including, Council officers, Internal Audit and External Audit. Examples of the financial situation and risk register were referred to as members felt up to date information had not been shared with the Committee therefore there were difficulties allowing lines of enquires.

In response to members questions, the Chair and the Managing Director, Milford Research & Consultancy Limited made the following points:

- The comments around the membership would be considered.

Audit Committee – 29 November 2023

- The AGS would be reviewed via the Corporate Governance Group (CGG) as this group would be supporting the Audit Committee. This would be enhanced in the new TOR.
- Point 14.2 referred to Value for Money however this can be enhanced.
- The Public Sector Internal Audit Standards was also referred to. The Internal Audit service can be referred to in the new TOR however, this responsibility was for the Head of Internal Audit under their code.
- The appointment of the Independent Technical Advisor was via an interview process and where a job description was agreed. Interviews took place involving members from all three political groups. The skills gap would be factored into future appointments. A summary of the role of Independent Technical Advisor was provided by the Chair and members were encouraged to utilise the support available.

Upon consideration it was;

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RESOLVED:-

That the Audit Committee;

- (i) Commented on the new terms of reference for Audit Committee and proposed the following amendments to be made by the Interim Director of Finance, Section 151 Officer and the Milford Research & Consultancy Limited.
 - a) Point 14.2 - Reflect on the CIPFA guidance and ensure the committee had a robust arrangement for value for money; improving public reporting on transparency, accounting and embedding ethical values and counter fraud.
 - b) Point 14.4 - The Annual Governance Statement to be reviewed via the Corporate Governance Group (CGG);
 - c) Point 14.4 – The department of Internal Audit to be referenced rather than the individual officer;
 - d) Point 14.6 – Membership (Co-opted members) – The Independent Technical Advisor would be appointed via a skills-based route and identifying where the gaps in knowledge were to support members.
 - e) The Chair of the Audit Committee to have the ability to place an item, attend and speak to it if there are significant issues arising that needs Cabinet and City Council to give specific attention to the issue;
 - f) The Chair of the Audit Committee to write the City Solicitor and Monitoring Officer requesting for these powers to be embedded into the Constitution review.
 - g) The requirement for openness and transparency by all parties servicing the Audit Committee including, Council officers, Internal Audit and External Audit;
- (ii) Noted the new requirements and responsibilities the requirement for the committee to conduct an annual review of its compliance with the CIPFA Position Statement 2022; and

- (iii) Subject to the inclusion of the above amendments at point (i), the Audit Committee approved the terms of reference for consideration and approval by Full Council as necessary to amend the constitution: Part B Roles, Functions and Rules of Procedure May 2023 B14 Audit Committee.

CORPORATE GOVERNANCE GROUP ASSURANCE REPORT

The following document from the Interim Director of Finance, Section 151 Officer was submitted:

(See document No.3 of the agenda pack)

The Managing Director, Milford Research & Consultancy Limited informed Members the Corporate Governance Group (CGG) was a new group led by key statutory officers and officer with governance related responsibilities within the organisation. The CGG would assist in delivering the new terms of reference for the Audit Committee. The terms of reference for this group were mapped against the Annual Governance Statement (AGS) requirements and would be responsible for monitoring the implementation of actions related to the significant issues listed in the AGS.

It was noted this group would consist of statutory officer led group rather than specific named officers (i.e. Lead Officer for Internal Audit; Risk Management etc) as well as other key governance related officers. The rationale for this group was to minimise the risk of single point of failure or losses of corporate knowledge due to staff turnover which was an issue identified in previous Audit Committee meetings. The meetings for this group would be aligned to the Audit Committee dates. Members were informed, the CGG would act as a Governance, Risk and Compliance (GRC) repository of knowledge for BCC to ensure that the key elements of governance remain effective and continually developing.

A draft schedule, work programme was attached to the report. This included proposed items for agendas for Audit Committee. A summary of the work programme was provided. The work programme was aligned to bitesize training for Members of the Committee.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Prior to the meeting, the Interim City Solicitor and Monitoring Officer had identified the Monitoring Officer or a Member from the Legal Services should be included in the terms of reference for the CGG.
- Questions were raised around the interrelationship of the Audit Committee and the CGG as there were no members in the CGG during the transition phase.
- The Chair noted once the CGG group was more established, a Member from the Audit Committee was part of this group in order to hear the Members voice.

This can be any Members of the Committee and not just the voice of the Chair or Vice Chair. This was welcomed by Members of the Committee.

- Members were in support of the creation of the group however, there were concerns around creating another group; the capacity to resource the group may cause as well as duplication concerns. In addition, it was raised what the CGG would be responsible for.
- It was important to retain corporate memory across the organisation.
- Questions were raised on when the Audit Committee would have sight of the Annual Governance Statement (AGS) during the draft stages and not just on the completed and sign off stage.
- It was queried if the documents from the CGG would be shared with Audit Committee members.
- It was important to understand what information was available to the Committee and accessible in private. It was suggested a guidance should be available to Committee to understand what information was accessible to the Members.

In response to members questions, the Managing Director, Milford Research & Consultancy Limited made the following points:

- Statutory officers listed within the membership include the Lead Officer for legal as well as the Section 151 Officer and the Chief Executive, however, this would be explicitly set out.
- The group would be set up to improve the governance as they would decide how to facilitate and support actions that occur. The bitesize training and work programme would prompt the CGG to look at what had to happen in accordance to the reporting timelines. The AGS would be a key area referred to in this group.
- As the CGG matures and became stable over time, it may be possible to invite Audit Committee Members to provide a Member perspective.
- Information would be brought into the CGG to help the organisation across the board. The CGG would be able to identify key themes and issues across various aspects of governance which then the Committee could focus upon. This group would focus on the AGS, Governance and test its effectiveness. It was recognised there was benefit in having this group and protecting against loss of any knowledge when employees leave the organisation.
- The AGS timeline was critical as this aligned to the accounts. There should be clear deadlines of when the CGG would report this through to the Committee. The AGS would be an ongoing part of the work programme.
- Birmingham City Council had to decide how the documents and papers were managed on behalf of the organisation as there may be a need for private meetings for significant issues that may arise.
- It was important to build the trust between the CGG and Audit Committee.

Upon consideration it was;

691 **RESOLVED:-**

That the Audit Committee;

- (i) Commented on the new terms of reference for the Corporate Governance Group and proposed the following amendments to be made by the Interim

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Director of Finance, Section 151 Officer and the Managing Director, Milford Research & Consultancy Limited.

- a) The Membership of Corporate Governance Group (CGG) to include the Lead officer for legal;
 - b) To include the option of inviting Audit Committee members to the CGG once the group stabilises to provide a member's perspective;
- (ii) Commented on the new work schedule for the Audit Committee and Corporate Governance Group and proposed the Annual Governance Statement to be programmed into the work schedule.
 - (iii) Noted the new requirements for the Corporate Governance Group to report to this Audit Committee as set out in the schedule; and
 - (iv) Guidance to be shared with Committee on information that was accessible to Audit Committee and Corporate Governance Group Members.

INTERNAL AUDIT UPDATE

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

(See document No.4 of the agenda pack)

The Assistant Director for Audit and Risk Management gave an overview of the report. It was noted the last report covered the first 6 months of the year. This report focused on the activity for October 2023.

In total, 16 reports had been issued, of which 8 reports were related to schools; 5 Audit Reports and 3 follow up reports. A summary of the issues found related to the schools was grouped as themes. Individual schools were not listed or named. At present, schools were in a difficult place with Oracle. Therefore, there was no explicit criticism to their financial position as financial reports, reconciliation was not available.

The key changes to the Internal Audit Plan were around;

- 1) The addition of the Section 114 Spend Control
- 2) The addition of Management and control of seized items.
- 3) The removal of Stock Condition Data 2024 – City Housing

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Question was raised around the final reports and the number of issues identified. It was queried if there are potential risks indicated against the final reports, what was in place to mitigate the risk i.e. next steps. The example of temporary accommodation (Income and expenditure) was referred to and the

statement mentioned at the time of testing there were still no reliable processes in place to undertake targeted visits. It was queried if the targeted visits would take place with a follow up report by Internal Audit. Further comments were made around Temporary accommodation and purchase cards. It was questioned if spot checks had been undertaken to ensure there was no fraudulent activity. Members felt this should be monitored and an update to be provided at a future meeting.

At this juncture, Councillor Perks declared she was a Governor at a Maintained Nursery School. (This has been referred to in Declarations of Interest section of the meeting)

Further questions raised by the Members:

- Schools Audit Reports – Schools were not being penalised for any issues that were out of the school’s control – it was queried if these issues had been reported back to the Corporate Leadership Team and if controls and processes was in place for matters to be dealt with. It was questioned if Internal Audit would be monitoring this. Furthermore, concerns were raised around the school’s actual financial position not being looked at. It was requested for the School Audit Reports and financial position to be discussed as a separate agenda items at a future meeting. The Chair supported this request.
- Point 3.4 – School Reports – indicated carried forward balances would be available in early November 2023, confirmation was sought if these were available. It was requested for an update to be shared to the Committee.
- Suggestions were made for the relevant Overview and Scrutiny Committee to be advised to monitor the work around the final audit reports.
- Corporate Starters and leavers – The risk rating of ‘low’ – This was questioned and what work was taking place within the Directorate to prevent this reoccurring in the future.
- Information Governance Data Breach – It was suggested the Corporate Governance Group should focus on this matter to ensure the recurring issues do not get missed.
- Other work – Oracle (ERP) – The update in the report did not provide an assessment of the current risk for the organisation i.e. implementation and what was the latest position on Oracle (ERP).
- Stock Condition Data – City Housing – Members sought the rationale for removing jobs from the plan and assurances if this would be picked and there were no gaps.

In response to members questions, the Assistant Director for Audit and Risk Management and the Principal Group Auditor made the following points:

- Temporary Accommodation – The risk was related to paying for a room within the accommodation that may not be occupied. Details around the process, matching invoices to a payment was shared with Members. It was noted, the Council could be charged for rooms where occupants may have left. The recommendation for this risk would be closed by making unannounced visits. Management was aware of this action. There were no routine spot checks on the use of the purchase cards by Internal Audit. The data for the purchase cards was very large.

- Schools Reports – The information within school reports via Oracle (ERP) was incorrect. There were two School Facing Advisors that had been appointed to communicate between the Schools and the Council. Details around the processes and tracking of Oracle (ERP) was shared with Members. Internal Audit was in the process of designing a job to monitor this work. The Officers within the Oracle Programme (ERP) were providing regular updates on this issue. Some of the carried forward balance was available.
- Corporate Starters and leavers – People Services had issued a reminder to all Managers to ensure the required documentation was in place. People Services had been undertaking checks to validate documentation.
- Information Governance Data Breach – Item 10 on the agenda covered a centralised tracker which would build in workflows.
- Oracle (ERP) – This was listed as a ‘high’ risk on the Strategic Risk Register.
- Stock Condition Data – City Housing – This was reviewed by the Ombudsman followed by the Social Housing Regulator. A half year update would be shared with the relevant Overview and Scrutiny Committee.

The Chair concluded more information was required in the Internal Audit Reviews table i.e. departments of the Council that was impacted; a next steps column; a timeline of what was happening; themes from the reviews and improvement to work practices. In addition, an update to be provided on where the risk was and what actions had been taken around Oracle (ERP). It was suggested the changes to the Internal Audit Plan should indicate the impact on resources within Internal Audit Team.

Upon consideration, it was:

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RESOLVED:-

That the Audit Committee;

- (i) Noted the Internal Audit updates and commented for the following to be included in future updates:
 - a) Temporary accommodation – Update on Purchase cards and spot checks to ensure there was no fraudulent activity.
 - b) Proposed Internal Audit to advise Overview and Scrutiny Committees on monitor Internal Audit Reviews relevant to their areas.
 - c) Requested for additional information around next steps; themes; improvement to work practices; actions taken on Oracle (ERP) and impact on resources within Internal Audit Team to be included in the Internal Audit Reviews and relevant sections of the Internal Audit Plan.
 - (ii) Noted the School Audit Reports and financial position to be included as a separate item for discussion on a future agenda. To include an update on the carry forward balances from the local authority.
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INTRODUCTION OF INTERNAL AUDIT RECOMMENDATION TRACKING

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

(See document No.5 of the agenda pack)

The Assistant Director for Audit and Risk Management informed the Committee the report linked to the Peer Review Equality Assessment recommendation which was shared with the Committee earlier in the year. This was in line with the Committee's new Terms of Reference. Members were informed the current system used by Internal Audit did not allow a central tracking system of recommendations. Work had been taking place with the Digital and Technology Service.

The Principal Group Auditor added the report outlined the work being undertaken to replace the Audit Management System and the steps that were being taken to implement a central internal audit recommendation tracker and final report repository. It was highlighted there was not a consistent format across the Directorates therefore, this cause difficulties to gain a Council wide overview. The Directorates process was manually led. This tracking system would now enable Internal Audit to track recommendations on a Council Wide perspective as well support reporting and the implementation of recommendations. Further details around the tracking system was provided to the Committee as per the report.

The replacement system, containing the base functionality, was unlikely to be in place until at least April next year. In the interim, a Central SharePoint recommendation tracking solution was being established. An update on the Central SharePoint repository and the initial recommendation progress monitoring report would be reported at the next Audit Committee meeting in January 2024.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Concerns were raised around replacement systems, and if this had been thought out carefully, especially moving from one system to another. It was important not to lose information during the process.
- Committee Members to have the ability to access completed reports through the repository.
- Previously, Members of the Council have had severe issues tracking reports therefore, this area of development was welcomed by Members. However, it was crucial the system worked in line with other systems across the Council to avoid duplication.
- Point 6.3 – Indicated this would save the Council some funds. It was suggested this could be another area for discussion in the Corporate Governance Group.

Audit Committee – 29 November 2023

In response to members questions, the Principal Group Auditor made the following points:

- The Central Point Repository would be used as a register for Internal Audit reports. Audit Committee members would have secured access to view the detail in their own time.
- Discussions were taking place within Digital and Technology Services around reviewing other work practices by utilising the current technology, Microsoft 365.
- The tracker was using Microsoft Lists with a tracking facility and functionality.

Upon consideration, it was:

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RESOLVED:-

That the Audit Committee;

- (i) Noted the steps taken to implement a replacement audit management system and the interim solution that was sought to support the consistent tracking of internal audit recommendations across the Council; and
- (ii) An update on the Central SharePoint repository and the initial recommendation progress monitoring report to be reported at the next Audit Committee meeting.

ANNUAL COUNTERFRAUD REPORT 2022/23

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

(See document No.6 of the agenda pack)

The Assistant Director for Audit and Risk Management made introductory comments. Members were informed an update on fraud was routinely provided within half year reports and annual reports to the Committee however, a standalone report on Counter fraud was share with the Committee once a year.

The Group Auditor, Corporate Fraud presented the report. It was noted the report provided an update on how the Council has managed the risk of fraud during the period April 2022 to March 2023.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- It was queried if there were any cross-checking on National Insurance numbers with other public bodies within the West Midlands to see if anyone was on two payrolls.

- Question was raised on how many staff were working from home. Reference was made to the media and an article referring to Birmingham City Council and potential fraud occurring.

At this juncture, Councillor Alden proposed inclusion and consideration of the following items as part of the recommendations.

- Section 3 – Resources for Counter fraud work – The report covers the period 2022-23. Reference was made to point 3.4 and the monitoring of fraud via analytical testing. It was questioned how this could be accurate given the issues with Oracle (ERP) within this period. This report should have referred to other systems used to undertake checks and highlight the issues with Oracle (ERP).
- Section 5.5 – Levels of Fraud – approximately 100 cases per year and at the end of the year approximately 50 cases were remaining. It was questioned if Birmingham were undertaking enough Counter fraud cases in comparison to other Core Cities such as Manchester as there was no benchmarking data available.
- It was questioned how many of the cases carried forward cases were more than one year old.
- It was suggested a follow up report to be provided to the Committee on the process, actions taken where employees were found undertaking fraud and in what timescales to action. In addition, the process of what action to take when criminal activity had taken place.
- Point 9.3 – System and IT – ERP system was not mentioned in the report though it was one of the system failures within the Council in 2022-23 and to ensure there was fraud taking place on how the ERP programme was being delivered. There were concerns around the security aspects of the ERP system which should have been investigated by the fraud team. Further assurances were sought in this area in future reports.
- The fraud team was investigating specific referrals made by individuals rather than the broader issues like Oracle (ERP). Members requested for additional reports for 2022-23 from the Counter Fraud Team including updates on the enforcement process as well as benchmarking against other Core Cities as well as Birmingham's updates on Fraud from previous years. Common themes of fraud to be made available to Members with the escalation process identified. It was highlighted the process of monitoring and accountability should be clearly set out.

In response to members questions, the Group Auditor, Corporate Fraud made the following points:

- The National Fraud Initiative was available to cross check across other bodies for data match. This would identify those who were employed by more than one authority.
- There were no figures available on how many employees of BCC were working from home. There was a mixture of work settings dependant on commitments. Working from home and potential fraud of dual working was an issue that had been identified nationally. It was important for Managers within the organisation to manage their staff. Allegations of dual working were investigated through checks with IT and other organisations.

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- Oracle (ERP) was not the only system used for the analytical monitoring. There were several Council system that was used to assess any fraudulent activity i.e., Council Tax, Housing, electoral roll, social care, schools, payroll etc. Access to Oracle (ERP) had hindered some of the tests however, there was other systems available to undertake checks.
- Most counter fraud cases were closed within a year.
- There was no direct issues related to ERP and fraud. The access to ERP system and data was improving.
- Concluded reports on fraud were shared with the Directorates highlighting the recommendations. This would also filter to the Audit Team.
- The Business Process Team would pick up some of the compliance work. In relation to Oracle (ERP), checks on payroll and payments would take place.

The Chair concluded that further information was required for the Counter fraud updates including comparative data from previous years, benchmarking against other local authorities such as Manchester and other Core Cities. This to be brought as a singular item to the Committee and then incorporated into further Annual Counter Fraud report updates.

The Chair supported comments made by the Commissioners around how the Council responded and dealt with staff fraud as well as the processes involved. If a private session around this matter was required, then this would be considered. An update on the impact and limitation of the ERP system to be shared at a later meeting.

Upon consideration, it was:

694

RESOLVED:-

That the Audit Committee;

- (i) Noted the Counter Fraud work undertaken during the year of 2022-23 and members drew assurances from the policies and procedures that were in place to prevent and detect fraud and error. The Committee agreed for further work to be undertaken on the impact and limitations of the ERP system.
- (ii) Agreed for the Counter Fraud report updates to include data from previous years as a comparative. In addition, to include information from other Core Cities including Manchester as a benchmark; common themes of fraud and details of the escalation process identified.
- (iii) Agreed for further updates on how the Council responded to staff fraud and the processes involved to be shared at a future meeting.

FINANCE UPDATE – NOVEMBER 2023

The following report of the Interim Director of Finance and Section 151 Officer was submitted:

(See document No.7 of the agenda pack)

Audit Committee – 29 November 2023

The Interim Finance Director, Section 151 Officer informed the Committee the 2020/21 and 2021-22 accounts have remained opened for a long time and therefore, this was one of the biggest risks. These now remained open due to the Equal Pay calculations and other matters.

At this juncture, the Chair Audit Committee added previous minutes and letters from External Auditors of the Committee had indicated the reason the 2021-22 accounts were left open. This was due to the valuation of assets (infrastructure) challenges. Only in early 2023, the Committee had been informed about the Equal Pay liability. The Committee was not provided with the information that the accounts remained open due to the Equal Pay liability.

The External Auditor, Jon Roberts, informed members this was based at a certain time of the year, valuation of assets. In March 2023, information about the Equal Pay pressure had surfaced. Councillor Tilsley added this information was not reported to the Audit Committee and the External Auditor agreed with this point.

The Interim Finance Director, Section 151 had been appointed on 11th April 2023, whilst these accounts remained open.

Members were informed, for the 2022-23 financial year, Internal Audit had reviewed the reliability of transactions in detail due to the ERP Risk Management Cloud not being switched on. The impact of the issues made it difficult for the Council to come to a financial position. The Interim Director for Finance could not provide assurances on the 2022-23 accounts or any actions of fraud through the ERP system. It was important to note, there was a first stage in producing for 2022-23 accounts (referred to as stage zero), where the Section 151 Officer would be able to sign off a set of accounts for External Audit to audit. Since April 2022, other systems had been used to provide financial information i.e. spreadsheets; systems used within Adult Social Care; Care Package systems to allow forecasting.

- 2022-23 Accounts – At January 2023, estimated an overspend of £86 million. This had now reduced to £78 million and now stabilising at around £70 million.
- A paper was due to go to Cabinet in November 2023, outlining the position for 2022-23 however, this did not happen as there were reconciliation issues. The ERP system had to show the same as the manually produced position.
- January 2024 – it was aimed for an outturn to be shared for a budget to be set in February 2024.
- 2023 – 24 Accounts – Quarter 1, a forecast overspend of £87.4 million. This was rising into 2024-25. As a result, there was a carried forward of £165 million pounds budget gap which again was increasing.
- Since the last Committee, the 2023-24 base budget had been reviewed. The overspend were related to inflation issues and national issues (within Children and adults services). Further details around these issues were shared with the Committee which had been shared with Finance and Resources Overview and Scrutiny Committee.

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- A financial position report would be shared with Cabinet in December 2023.

Further details as per the presentation attached in the document pack was shared with the committee. This included; Finance Position (General Fund); Negative Reserves of -£680 million; High level Recovery Plan – 2024-25 & 2025-26 targets; Effectiveness of Spend Control Process including Governance (New Governance & Next Steps as the S151 Spend Control Board will have 4 attendees) and budget setting milestones 2024-25.

Extensive details around the savings and how to overcome the issues were shared with members of the Committee by the Section 151 Officer. The savings proposals to meet the target were to be submitted by the 24 November however, the £200 million pounds was not met therefore further proposals would be submitted by Friday 1st December 2023. Both years 2024/25, 2025/26 would need to be balanced by 7th January 2024.

The issues raised from 2021 onwards would be reflected in the Annual Governance Statement as the accounts remained open since then. In addition, Internal Audit was undertaking a review of the Spend Control process to provide assurances.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- Concerns were raised around the budget that was agreed on 28 February 2023. It was mentioned that there was a current overspend of £11 million pounds which evolved to £78 million pounds. Emphasis was made to the requirement of officers to be open and transparent to Audit Committee Members. It was questioned if the External Auditors had sight of the budget.
- Further concerns on the Equal Pay liability and on the negative reserves had been raised with the External Auditors. Audit Committee had not been provided with the full financial facts of the Council's position.
- Members noted it was an asset issue that resulted the previous accounts not being signed off. In March 2023, the Equal Pay issue was highlighted by the External Auditors.
- The possibility of qualification of accounts for Equal Pay was queried for previous years which had been signed off.
- Reference was made to the savings target issued on 16 November and what is the current financial position.
- It was questioned if certain actions within the budget milestones within 2024/25 had occurred.
- The Committee would express their concerns to the Chief Executive and the Leader if the deadline for the budget setting was not met in the given timeframe.
- Confidence was sought on the Reserves balance figure as at 31 March 2022.
- Questions were raised budget consequences to the reasonable expectations of overspend relative to other large local authorities and why Birmingham was an outlier / unique.

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- How was Birmingham going to manage the Equal Pay Liability e.g. capitalisation. Questions were raised on how the £760 million calculation had been done.
- The Chair sought confirmation if a set of different models and scenarios had been shared with the External Auditors or was this one set of assumptions and one model.
- The Leadership postholder for Legal and HR had now changed, had there now been a different view on the assumptions?

In response to members questions, the External Auditors, the Section 151 Officer and the Assistant Director Financial Strategy made the following points:

- The External Auditors were not notified about considering the Equal Pay factors around enrichment, task and finish, as they were not known. The disclosures around this area had not been made to the External Auditors. Only details of the provisions and calculations in the draft accounts were shared.
- The External Auditors informed members; in relation to the open accounts, a complete accurate position was not provided by the Management. As we knew we hadn't been told the complete position immediately challenged the provision and calculations
- 2023-24 Base budget, more pressures had been identified. As at 16 November 2023, the figure was £250 million across the two years.
- Responses to the budget milestones were made. The only action that had not been completed was the commencement of the drafting of the February Cabinet report as work was taking place around finalising the savings. The was a more detailed timeline which sat behind the Budget Milestone timeline could be shared with the Committee.
- There was still a shortfall to identify.
- The Accounts for 2021/22 were prepared in the old accounting system. Officers were confident on the Outturn figure for 31 March 2022.
- 6 years' worth of analysis had taken place on the national spend reviews and the information would be placed together for the Committee.
- The best way to reduce the Equal Pay liability was to reduce the number of successful claims.
- Discussions have been taking place with Government around funding (exceptional financial support e.g. capitalisation).
- The Equal Pay liability continues until the problem of Equal Pay is resolved. In depth discussion took place around when the Equal Pay Liability could be stopped.
- £760 million pounds was based on revised Job Evaluation Scheme being in place on 01 April 2025, with a pay and grading structure agreed and certain practices being stopped earlier. The information was very complex, and the models had been shared with the External Auditors this week. A written answer would be shared with the Committee.
- It was confirmed a set of the Equal Pay liability calculations had been submitted to the External Auditors. The legal likelihood of success is applied with strands attached to this. Claims can continue up until the Job Evaluation scheme was in place.
- The assumptions were being reviewed by the new postholders for Legal and HR. Legal advice via Kings Counsel was also incorporated.

At 1610 hours, Councillor Alden left the room.

Extensive discussions took place around the details of the financial position and the members sought confidence on the financial figures presented to the Committee. Details around the SAP system and budget was provided by the Assistant Director Financial Strategy.

At 1612 hours, Councillor Alden returned to the room.

The Chair sought assurances that the assumptions that were used to base on the budget were credible. He concluded that prompt action was required so that the Council was clear to the financial position and challenges. Action must be taken carefully, and confidence was needed with the financial figures. This report/ information to be discussed a part of the training schedule of the Committee to gain a better understanding. It was suggested for a possible online session to take place to go through item 12 – Financial information in detail.

The Managing Director, Milford Research & Consultancy Limited informed the Committee there was another bitesize training scheduled ahead of the next meeting in January, with a particular focus on Finance.

Upon consideration, it was:

695

RESOLVED:-

That the Audit Committee;

- (i) Noted the current financial position of the Council as set out in this report;
- (ii) A further update to this report to be shared at the next meeting.
- (iii) Requested for an additional briefing session to take place on the financial position of the Council;
- (iv) A written response to be provided how was Birmingham going to respond to the Equal Pay Liability and how the £760 million calculation had been calculated; and
- (v) Details on budget consequences on spend reviews for the last 6 years to be shared for Birmingham and other similar local authorities.

EXTERNAL AUDITORS UPDATE

The following report of the External Auditors was submitted:

(See document No.8 of the agenda pack)

The External Auditor, Jon Roberts gave an overview of the presentation attached to the report which outlined the financial statement audit position for prior years, 2020/21 and 2021/22, and the additional information was required to complete these audits. This included an update on the financial statements

Audit Committee – 29 November 2023

audit for 2022/23. The overarching Value for Money work and additional powers, and other work necessary for Value for Money to complete 2020/21 to 2022/23 was also summarised.

Previous areas reported to the Committee had progressed however, there were new areas of assessment identified.

An extensive summary of all the areas was shared with the Committee. The equal pay models and assumptions had been shared with the External Auditors. It was noted both the External Auditors as well as the Audit Committee had faced challenges with the openness and transparency of information that had been shared by management. A lot of the External Audit work was based on the assurances provided by management. The risk assessment had been increased in certain areas. The models had been received and External Auditors experts were going to test the models. Further detail around the External Audit was provided to the Committee.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by officers).

Members raised questions and made the following comments;

- The Chair requested for the papers to be presented in a format where specific words can be filtered.
- Reference was made to the new information within the External Auditors report such as the Highways PFI and reflecting on previous accounts. It was queried if there was a point this would cease due to cost implications and finding further new information.
- Queries were raised around the additional information required (i) Grant – would this include funding of the Athletes Village (ii) Corporate Landlord Function – concerns within this area including council companies (iii) Issues around public register of interest/ conflicts of interests with staff.
- The term ‘deliberately’ had been referred to in the report – members sought comments on this word referred to in the report and would this be a ‘normal’ statement within reports.
- A clear reason for the 2020-21 accounts remaining open due to the information provided by External Auditors up until March 2023 this had changed.
- The Chair highlighted reviews taking place across the Council. It was highlighted the Audit Committee had a good set of minutes and can be reviewed to see discussions that had taken place where assurances were provided on Equal Pay in the presence of the External Auditors. Up until March 2023, the Audit Committee had been reassured at several meetings that Equal Pay was no longer a risk. Now the Committee had been advised Equal Pay was a risk.

In response to members questions, the External Auditors made the following points:

- Under the auditing standards, certain processes had to be undertaken. Details around post balance sheet events were shared with Members.

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- Conflict of interest registers were referred to by the External Auditors however, this would be enhanced.
- The meaning of ‘deliberately’ in the report - Anything that was deliberately undertaken with a purpose may have been undertaken to mask pressures on the revenue. External Auditors were looking at the level of potential manipulation within the accounts. This was in place due to the current situation of the Council.
- The 2020-21 accounts should have been closed by November and the assurances provided by the previous management.
- The External Auditors had not received communication on the developments around Equal Pay despite formal request for communication.

The External Auditor, Mark Stocks gave an overview around the 2022-23 accounts. Members were reminded the Audit would take place in two phases and a summary of the individual phases was provided. The situation related to the 2023-24 accounts had the same situation as the 2022-23 accounts. Several special reviews were taking place. The External Auditor could not provide assurances over IT controls, security, and data migration as the work on controls indicated significant weaknesses. The External Auditor had concerns if a control environment was not in place by March 2024.

Members raised further questions and made the following comments;

- Was there evidence that information was deliberately manipulated?
- Would a timeline of events be available to set out what had happened?
- Based on the finding, how confident was the External Auditors that the Councils Financial position in the financial update report to the Committee was accurate?
- Reference was made to a Freedom of Information (FOI) request regarding the Accounts and Equal Pay made to Grant Thornton (External Auditors). Details of the FOI were read out by Councillor Tilsley.
- Reference was made to the Oracle (ERP) and reports to Cabinet. It was highlighted the initial budget was £15 million pounds, final approved budget in 2019 was £19 million pounds and this was further revised.
- Separation of duties within ERP system – Previous issues had been raised with this area. The Audit Committee had been reassured the implementation of Oracle (ERP) would remove the risk therefore there was no issues with SAP.
- Descoping of the Risk Management Cloud – Was the Risk Management cloud switched on and how many issues had been raised since it had been switched on.
- There were concerns on the number of issues that had been flagged on the Oracle Risk Cloud which had been reviewed by Internal Audit and proposed a report to the Committee on what Counter fraud and Internal Audit had been undertaking to tackle this issues. This information to be shared at the next meeting.
- Questions were raised around the disclaimed risk and if this was for previous and/or for future years or this financial year.
- Equal Pay and methodology – would the External Auditors undertake work to track the progress of the implementation of Job Evaluation Scheme.
- In relation to the historical review, it was suggested the advice given/ not given and possible warning provided or not provided on equal pay since 2017 to be

investigated as well as any information on Equal Pay being leaked to avoid this in future.

In response to members questions, the External Auditors made the following points:

- The External Auditors had not been informed on the developments on Equal Pay claims and the financial risks around Oracle. There was a lack of openness of culture and communication.
- The special investigation would provide a timeline of what had happened and the level of failure.
- The External Auditors had to run through the Equal Pay model and acknowledged a lot of work and due diligence from BCC team of officers had taken place and some tough decisions had to be made. If the Section 151 Officer was content with the figure. Each of the key system, multiple systems have had some form of failure. The External Auditor could not confirm if the figures provided were reliable.
- In response to the FOI query and redaction of the response, it was noted if confidential information was released, this would undermine the Councils defence thus this information should not be provided. It was important the relationship with BCC officers was maintained and sharing of information. Members of the Council were responsible for setting the budget including the conduct and governance of the Council. The External Auditors had shared the information with the Committee as and when received.
- Segregation of duties (ERP) – It was not usual for employees to have multiple roles and access. However, in SAP this could be tracked but as the Oracle Risk Cloud was not in place for 2022-23, there was no facility to track the changes. This was a significant concern from External Audit. From September 2023, the Oracle Risk cloud was now in place. It was highlighted this only covered the Oracle aspects and not the add-ons to the system. The Assistant Director for Audit and Risk Management confirmed there were hundred thousand issues that had been flagged by the Oracle Risk Cloud which had now decreased by tens of thousands.
- The External Auditor gave a summary as to what a disclaimed audit opinion was. There was a risk to the 2023-24 accounts. An appropriate control environment had to be in place for 2024-25 accounts without placing pressure on BCC Finance Team.
- Job evaluation methodology – This would need to be procured followed by implementation. An agreed Job Evaluation methodology is planned to be in place by 1st April 2025.
- Historical Review – This would be a comprehensive review including interviews and how decisions were made including the control of legally privileged work.

Upon consideration, it was:

696

RESOLVED:-

That the Audit Committee;

- (i) Noted the contents of the report as set out by the External Auditors; and

- (ii) Proposed for a report to be shared at the next meeting by Counter fraud and Internal Audit on the concerns on the number of issues that had been flagged on the Oracle Risk Cloud.

INTERIM ORACLE REPORT

The following report of the External Auditors was submitted:

(See document No.9 of the agenda pack)

The External Auditor, Mark Stocks gave a high-level summary of the report. Key points made on the ERP system and finance operations:-

- There was no effective control in place at present. As a result, this prevents Councils doing financial accounts and financial management reports.
- This will continue at least until there was a cash reconciliation system in place. We think that Procurement is about to start however this was at least 12 months away. There was manual processing of cash transactions taking place which had to be financed.
- Safe & Complaint – External Audit was of the view there had not been the necessary focus on the fixes. As a result, the finance team have had to undertake their own fixes therefore the critical aspects for the finance team, People Team had not been resolved to be safe and compliant. This was an area of concern for the External Auditors.
- Future Optimisation – The programme requires more of a focus which was likely to be done in around 2 years.

The Chair wanted to address a point to the Chief Executive however, in her absence this question was directed to the Section 151 officer. It was questioned if there was a plan in response to the External Auditors comments findings and could the Audit Committee see these plans at the next meeting. In addition, link this to the other aspects raised by the Committee on the ERP system. This was agreed by the Section 151 Officer.

It was requested for the Chief Executive to be in attendance for the next meeting.

Upon consideration, it was:

697

RESOLVED:-

That the Audit Committee;

- (i) Noted the contents of the External Auditors letter dated 26th October 2023; and
- (ii) Requested for the Chief Executive and the Section 151 Officer to provide a response to the External Auditors letter date 26th October 2023 including other aspects of the ERP system raised by the Committee.

CORPORATE PERFORMANCE MANAGEMENT FRAMEWORK

The following report of the Director of Strategy, Equalities and Partnerships was submitted:

(See document No.10 of the agenda pack)

The Assistant Director Programmes, Performance & Improvement informed members the report provided an overview of the council's Corporate Performance Framework. The Corporate Performance Framework is an integral part of the council's overall governance, control, and assurance mechanisms.

It was highlighted an effective performance framework has four key components:

- (1) Clear roles, accountabilities, and responsibilities
- (2) Clearly stated ambition and aims
- (3) Consistent and accurate reporting against the framework
- (4) Robust measures and deliverables that are clearly linked to improving outcomes for citizens (the "golden thread").

The report was shared with the Committee for information. It was proposed this could be one of the bitesize training sessions led by the Managing Director, Milford Research & Consultancy Limited as part of the Audit Committees Work Programme.

A summary of the improvement and recovery plan was shared with members.

The Chair highlighted previous concerns raised by the Committee around management directives which had failed at a local level. It was important to understand how this would tackle and challenge the culture across the organisation. A briefing discussion was proposed by the Chair.

It was proposed for Audit Committee to recommend additional actions to be tracked via the Corporate Performance Management Framework. This was welcomed by the Assistant Director Programmes, Performance & Improvement. The Corporate Governance Group would be a mechanism to better join up these areas and monitor and track at the same time.

Members were reminded to undertake the 1-2-1 sessions with the Managing Director, Milford Research & Consultancy Limited.

Upon consideration, it was:

698

RESOLVED:-

That the Audit Committee noted the report and considered information, briefings or training on this topic that might be helpful in supporting the Committee to best undertake their role and responsibilities.

SCHEDULE OF OUTSTANDING MINUTES

Minute 575 (ii) - 28/03/2023; 577 (vi) - 28/03/2023; 603 (iii) - 28/06/2023 – Milford Research & Consultancy Limited to incorporate into the bitesize training sessions for the Committee.

Minute 666 06/10/2023 - Assurance Session – Leaders Portfolio – Milford Research & Consultancy Limited to incorporate into the bitesize training sessions for the Committee to explore how this item to be incorporated into the work programme of the Committee. This would be factored into the Members Assurance work.

Minute 679 (iii) 18/10/2023 - Responses to Councillor Yip’s questions emailed to Committee Members on 21/11/2023. Therefore, this action was noted as ***completed and discharged***.

Minute 679 (v) 18/10/2023 – Links to a secure repository of Internal Audit reports referred to the Children and Young People’s Travel Service were emailed to Committee Members on 20/11/2023. Therefore, this action was noted as ***completed and discharged***.

699 **RESOLVED:-**

That the Audit Committee noted the schedule of outstanding minutes.

700 **DATE OF THE NEXT MEETING**

The next meeting was scheduled to take place on Wednesday, 31 January 2024 at 1400 hours in Committee Room 3 & 4, Council House.

701 **OTHER URGENT BUSINESS**

There was no other urgent business.

AUTHORITY TO CHAIRMAN AND OFFICERS

702 **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.

The meeting ended at 1725 hours

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CHAIR

Birmingham City Council
Audit Committee

Date: 31 January 2024



Commissioner Review

Items 8, 9, 10, 11 and 12 on the agenda were all cleared with no comments from Commissioners.

Item 7 – Internal Audit Plan Update

As set out in the Directions issued October 5, 2023, Commissioners will review the provision and operation of BCC’s internal audit function over the next 6 months.

Item 13 – Final Report on Oracle

Comments from the Commissioners attached as a separate document.

Birmingham City Council

Title: Grant Thornton Value for Money report in relation to the implementation of Oracle

Date: 18th January 2024



Commissioner Review

This report delivers a number of very useful observations and recommendations that should improve the success of the current “Safe and Compliant/Stabilisation”, “Income Management System Replacement” and the “Re-implementation of Oracle” programme workstreams.

Many of the recommendations have been identified in other reviews of the Oracle programme and the Commissioners broadly support those in this report.

Commissioners would like to see the management responses to the recommendations to ensure that BCC have considered their priorities, how they will approach resolving them, resources needed and timescales.

We expect that BCC’s Oracle Programme Leadership (the three workstreams) will review these proposals and seek to adopt, if they are not already doing so, the programme focussed recommendations. The segregation of duties observations is of particular concern and Commissioners expect the SRO, Programme Director and Team to address these as a priority.

BCC has stated their commitment to adopt Oracle best practice processes and configuration for the re-implementation. Commissioners believe that the observations and recommendations in this report re-enforce these principles.

Commissioners suggest that a senior Grant Thornton person e.g. Mark Stone, has an invitation, to join, if he wishes, the high level Oracle Programme board at appropriate points.

Myron Hrycyk

Commissioner

Birmingham City Council

Audit Committee

31st January 2024



Subject: Internal Audit Update – January 2024
Report of: Sarah Dunlavey, Assistant Director Audit and Risk Management
Report author: Craig Price, Principal Group Auditor

Does the report contain confidential or exempt information? Yes No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential:

1 Executive Summary

- 1.1 The attached report provides an update to the Audit Committee on Internal Audit activity for November and December 2023. It summarises the key findings arising from the work completed and provides a summary of progress against the 2023/24 Internal Audit plan.
- 1.2 The report also provides an update on non-assurance activity including progress in developing a central audit recommendation tracker and Internal Audit report repository.

2 Recommendation(s)

- 2.1 Members are asked to note the update.

3 Background

- 3.1 Management is responsible for the implementation of a sound and effective system of internal control to manage risk effectively.
- 3.2 Internal Audit provide independent and objective assurance to management and those charged with governance on the systems of internal control that have been established, contributing to the overall assurance framework. This is achieved by systematically examining, evaluating, testing, and reporting on the effectiveness of the system of internal control through a risk-based audit methodology. Where

weakness or non-compliance is found, recommendations are made to management to improve the operation of internal controls.

- 3.3 The organisation is continuing to face significant challenges.
- 3.4 During November and December 2023 27 final reports have been issued. The key findings contained with these reports are summarised in the attached report.
- 3.5 As at the end of December 2023 56% of the 2023/24 audit plan has been completed to draft report stage, this is just slightly below our target of 65%. Our target for the year is to complete 95% of the plan to draft report stage.
- 3.6 The plan remains dynamic and under reviewed. The plan is updated and reprioritised in line with emerging issues and demands.

4 Options considered and Recommended Proposal

- 4.1 The report is for information purposes.

5 Legal Implications

- 5.1 Section 151 of the Local Government Act requires the Chief Finance Officer (as responsible officer) to ensure proper administration of the Council's financial affairs.
- 5.2 Under Part 3 of the Accounts and Audit Regulations 2015 a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

6 Financial Implications

- 6.1 There are no financial implications directly arising from this report or its recommendations.

7 Public Sector Equality Duty

- 7.1 There are no equality duty or equality analysis issues relating to the information set out in this report.

8 Other Implications

8.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 8.1.1 Sound internal controls and financial management underpins all the Council's priorities, plans and strategies.

8.1.2 Management is responsible for the implementation of a sound and effective system of internal control to manage risk effectively.

8.1.3 Internal Audit provide independent and objective assurance to management and those charged with governance on the systems of internal control that have been established.

9 Background Papers

9.1 None.

10 Appendices

10.1 Appendix 1 Internal Audit Update – January 2024

Internal Audit Update – January 2024

31st January 2024

Contents

1. **Background**
2. **Significant Issues Impacting upon the Organisation**
3. **Internal Audit Final Reports Issued November and December 2023**
4. **Other Work**
5. **2023/24 Plan – Progress / Summary of any Changes**
6. **Emerging Issues**

1. Background

- 1.1 Internal Audit provide independent and objective assurance to management and those charged with governance on the systems of internal control that have been established, contributing to the overall assurance framework. This is achieved by systematically examining, evaluating, testing, and reporting on the effectiveness of the system of internal control through a risk-based audit methodology. Where weakness or non-compliance is found, recommendations are made to management to improve the operation of internal controls. Management is responsible for actioning recommendations to improve internal controls, strengthening risk management arrangements, or accepting the risks.
- 1.2 Internal Audit activity is governed by the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. These standards seek to secure a professional, independent, and objective internal audit by setting out the mission and definition of Internal Auditing, the core principles for professional practice, together with a Code of Ethics. Specific attribute and performance standards provide guidance on how internal auditing should be carried out and the function managed. Guidance on the interpretation of the Standards is set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Local Government Application Note.
- 1.3 The baseline audit plan for 2023/24, developed following the completion of a risk assessment, was agreed by the Audit Committee at the March meeting. The audit plan is dynamic and is reviewed and updated throughout the year, based on discussions, feedback received, emerging issues, and changing risks. Additionally the views of the Audit Committee are important, any concerns flagged by Members will be fed into the planning process.
- 1.4 This report provides an update to the Audit Committee on Internal Audit activity for November and December 2023. It summarises the key findings arising from the work completed and provides a summary of progress against the 2023/24 Internal Audit plan. Reports summarising the key findings arising from Internal Audit activity completed between April – October 2023 have been presented at previous Audit Committee meetings.

2. Significant Issues Impacting upon the Organisation

2.1 The organisation continues to face significant challenges. These include:

- Finalisation of the Statement of Accounts for the year ending 31st March 2021 and 31st March 2022.
- Operating under section 114 notices and additional financial controls.
- Setting a balanced budget.
- Implementing the agreed job evaluation methodology.
- Actioning the Statutory Recommendations issued to the Council under Schedule 7 of the Local Audit and Accountability Act 2014.

3 Internal Audit Final Reports Issued November and December 2023

3.1 Audit reports are given risk and assurance ratings to assist in the identification of the level of corporate importance.

Risk Ratings

Low (Green) - Non-material issues

Medium (Amber) - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance

High (Red) - Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

Assurance Ratings

Level 1: Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.

Level 2: Some control weaknesses noted. However, generally the controls evaluated are adequate, appropriate, and effective.

Level 3: Control weaknesses of a significant nature, or the number of minor weaknesses noted was high. Management of risks and achievement of objectives is compromised.

Level 4: Controls not adequate, appropriate, or effective. Risks not adequately managed and achievement of objectives unlikely.

3.2 During November and December 2023 27 final reports have been issued:

	Nov 2023	Dec 2023
Audit Reports	8	3
Follow-up Reviews	1	4
School Audits	4	5
Investigations	2	0
	15	12

3.3 A breakdown and summary of the key findings is given below:

Audit Reviews

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
Nov 2023	The Funeral Service	Adult Social Care	Medium	Level 3	Although the governance arrangements for monitoring and management of the Funeral Service are compliant with procedures and are assisting with the provision of an adequate and effective service, we have continued to identify areas for improvement. These include reviewing fees and charges every three years, closure of funeral accounts, and the resilience of IT systems.	Recommendations to be added to action tracker and monitored. Follow-up to be considered dependent on actioning of recommendations.

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
Nov 2023	Local Government & Social Care Ombudsman (LGSCO) - Homelessness Cases	City Housing	Medium	Level 3	<p>Areas for strengthening processes around the management of LGSCO investigations and rulings have been identified. During 2022/23, the level of upheld complaints about BCC (per capita) was double that of any other council. In addition, BCC provided a 'satisfactory remedy' in just 7% of upheld cases before the complaint reached the Ombudsman, compared to a national average of 10%.</p> <p>We identified that the arrangements for reviewing, tracking, and addressing inherent service delivery weaknesses in terms of Homelessness related cases require strengthening.</p>	<p>Recommendations to be added to action tracker and monitored.</p> <p>Follow-up to be considered dependent on actioning of recommendations.</p>
Dec 2023	Public Health Financial Management of Grant Allocations	Strategy Equalities & Partnerships	Medium	Level 3	<p>We found that management and monitoring of funding was inconsistent. Whilst there was good evidence to validate the appropriate use of funding, we identified issues with timely and robust management, such as a lack of regular formal meetings with service providers. Effective monitoring has been made more difficult as OHID (Office for Health Improvement and Disparities) has not been forthcoming with guidance on what a proportionate amount of monitoring should look like, and the amount of evidence expected to be obtained.</p>	<p>Recommendations to be added to action tracker and monitored.</p> <p>Follow-up to be considered dependent on actioning of recommendations.</p>
Nov 2023	Housing Capital Receipts Pooling	Finance	Low	Level 3	<p>We established that there are processes in place to complete the Capital Receipts Pooling claims. However, our testing did identify a lack of documented procedures or process maps, and no reconciliation between Northgate and Oracle.</p>	<p>Recommendations to be added to action tracker and monitored.</p>

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
					Despite significant effort we have not been provided with client comments from Finance or the Home Ownership Team. We have therefore issued the report on the basis that the findings and recommendations have been accepted and will be fully implemented within 3 months of this report.	
Nov 2023	Schools Related Party Transactions	Finance	Low	Level 3	Maintained schools must submit a Schools Financial Value Standard (SFVS), this now requires schools to confirm they have adequate arrangements in place to manage Related Party Transactions (RPTs) and complete an excel spreadsheet template detailing RTPs, which must be submitted with their SFVS. We found that schools were ensuring RTP's were appropriately declared. However, there were weaknesses within evidencing transparency in Governing Board minutes to show that conflicts of interest had been properly managed. We acknowledge that the need to declare RPT in the SFVS is relatively new, but the principles of transparency as part of good Governance in procurement should be embedded in all schools.	Recommendations to be added to action tracker and monitored.
Nov 2023	Oracle Accounts Payable - One Time Payments (OTPs) & Request for Payments (RFPs)	Finance	Low	Level 2	A One Time Payment (OTP) is a request for a payment when there is no invoice or vendor in place within Oracle. A Request for Payment (RFP) is a request for a payment where there is a vendor but no invoice. As there is no invoice, OTP's and RTP's carry a higher risk and need to be tightly controlled.	Recommendations to be added to action tracker and monitored.

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
					<p>Whilst our review found no obvious instances of fraud/manipulation of OTP and RTP, we did identify:</p> <ul style="list-style-type: none"> • Duplicate Payments – 26 duplicate OTPs for a value of £28,980, and 1 duplicate RFP for a value of £50,000. A number of these duplicates occurred due to an upload error which was known about and has now been rectified. Recovery is underway. • OTPs are being made where a vendor is in place. <p>These payments are being reviewed and OTPs rejected where vendors are in place.</p>	Exercise to be repeated in 2024/25.
Nov 2023	People Services Compliance with Key Policies - Acting Up Pay	People Services	Low	Level 2	Acting up pay is when an employee temporarily undertakes the full duties and responsibilities of a post graded higher than their substantive post. Our testing identified that the policy and procedures for granting acting up payments have been followed. However, we did identify the most recent review date had not always been recorded and whilst available, business cases had not always been saved to the employee Document Records.	Recommendations to be added to action tracker and monitored.
Dec 2023	Rent Collection and Charges - Management of Rent Refunds	Adult Social Care	Low	Level 2	The current procedure for processing and approving of refunds has been made overly complicated due to Oracle role alignment. Work-around measures have had to be implemented to compensate. Discussions are taking place to streamline the process.	Recommendations to be added to action tracker and monitored.

Month issued	Final Report	Directorate	Risk Rating for Council	Assurance Level	Issues Identified / Assurance Provided	Next Steps
Dec 2023	Public Health Compliance with Corporate Recruitment Practice	Strategy Equalities & Partnerships	Low	Level 2	Corporate recruitment policies and procedures are being adhered to within Public Health (PH) teams and the required information was available to support the recruitment reviewed.	Recommendations to be added to action tracker and monitored.
Nov 2023	Manual Invoice related CHAPS Payments - Accounts Payable	Finance	Low	Level 1	Procedures detailing the processes to be followed for invoices paid via CHAPS, to ensure they are correctly recorded and accounted for, are in place. Testing confirmed that the procedures are being complied with. Invoice CHAPS payments have been reconciled to bank statements by Cashbooks.	Recommendations to be added to action tracker and monitored.
Nov 2023	Public Health- Adherence to NICE Guidelines NG44	Strategy Equalities & Partnerships	Low	Level 1	We found that there was a clear understanding of the requirements of the National Institute for Health and Clinical Excellence (NICE) requirements/guideline recommendations for NG44 – Community Engagement – Improving health and wellbeing and reducing health inequalities, and that these were being considered and appropriately complied with within the projects/services reviewed.	Recommendations to be added to action tracker and monitored.

Follow-up Reports

Month issued	Final Report		Original Risk Rating	Revised Risk Rating	Issues Identified	Next Steps
Nov 2023	BACS Follow up	Finance	Low	Low	Progress has been made to improve security on the BACS processing system and a second administrator has been setup for contingency purposes. A periodic review of access is now scheduled.	Consider as part of risk assessment for 2024/25 audit plan.
Dec 2023	Fleet Services External Review	City Operations	Medium	Medium	This follow up review has identified that, to date, no further action has been taken to review or implement the Operational Improvement Plan (OIP), for Fleet Services previously produced in conjunction with Ernst & Young (EY) consultants. As a result, the wide range of long standing strategic and operational issues within the Fleet Services function in WMS remain unaddressed. Whilst no action has been taken to date, we have been informed that ongoing discussions are currently being held between City Operations and Commissioners in relation to a new Transformation plan.	Continue to monitor and escalate to Audit Committee if actions remain outstanding.
Dec 2023	GDPR Compliance City Operations	City Operations	Medium	Medium	The previously agreed recommendations have not yet been implemented fully, but there has been progress since the last review. The Business Support function are now re-developing their Information Asset Register (IAR) to make it easier to maintain and address the outstanding actions.	Continue to monitor and escalate to Audit Committee if actions remain outstanding.
Dec 2023	IT Governance	Strategy Equalities & Partnerships	Medium	Low	Our previous recommendations have been completed, and the level of risk has now reduced. Following a redesign and implementation of a new operating model and structure, the new Digital and Technology Service was launched on 1 st March 2023.	Consider as part of risk assessment for 2024/25 audit plan.

Month issued	Final Report		Original Risk Rating	Revised Risk Rating	Issues Identified	Next Steps
Dec 2023	IT Asset and Configuration Management	Strategy Equalities & Partnerships	Medium	Medium	The position from the previous audit has not largely changed. However, work on developing a new Hardware Governance initiative to simplify the management of assets and gain control over the current volume of inactive assets within the estate has now commenced. The level of 'Inactive' assets without a sub-status has reduced.	Continue to monitor and escalate to Audit Committee is actions remain outstanding.

School Audit Reports

- 3.4 Schools received confirmation of their 2023/24 financial year carry forward balances (CFB) from the Local Authority (LA) on 24 November. We understand that schools were asked to respond to the LA with any queries and concerns. Clarification of their CFB along with the reconciliation of income and expenditure files downloads from Oracle should enable schools to review their financial position, respond, plan, and report to Governors accordingly during the spring term 2024.
- 3.5 The school audit reports finalised in November and December, showed similar trends to those seen throughout the year. In the main we found good systems and controls in place to ensure compliance and that Governors and Senior Leadership teams had confidence in each other. There is firm evidence that schools are taking the financial challenges seriously and there is a focus on maintaining or bringing about financial stability, especially where there are falling pupil numbers due to demographics and where schools are supporting a high proportion of pupils with SEND. Operationally we have continued to see a need to further strengthen compliance and controls in relation to purchasing including purchase cards and delegation frameworks. Our follow up work identified that progress had been slower than expected, and as a result is likely to lead to full audit reviews being undertaken within 12 months because this will be factored into the school's risk-based audit planning.

3.6 We acknowledge that our risk-based planning invariably means the audits are focused on those schools facing greater financial challenges. Where there are significant financial concerns identified during the audit this is raised with the LA, and when appropriate, multi-disciplinary project boards are established by the LA to support the schools in addressing any deficit and to bring about financial stability.

4. Other work

4.1 In addition to the ongoing audit assurance reviews, work is ongoing to support management. Whilst this work does not ultimately result in the provision of assurance it is considered to be key in supporting the organisation. A brief outline of this ongoing work is provided below:

- **Oracle:** Appointed as workstream lead and sponsor for the Oracle Risk Management Cloud implementation.

Under the Public Sector Internal Audit Standards, Standard 1112 Chief Audit Executive Roles Beyond Internal Auditing, where the Chief Audit Executive / Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. When asked to undertake any additional roles/responsibilities outside of internal auditing, the Chief Audit Executive / Head of Internal Audit must highlight to the board / Audit Committee any potential or perceived impairment to independence and objectivity.

Whilst this role does limit my independence any assurance related activities will be reported through the Principal Group Auditor to maintain a separate set of roles. As a key tool for assisting in managing the effectiveness of segregation of duties the External Auditor will also be maintaining oversight and independently reporting to the Committee, further strengthening the arrangement.

- **Pay compliance:** we are continuing to provide ongoing support and data analysis to support the pay compliance group. Undertaken timesheet compliance testing, which will be repeated in January, to ensure appropriate working practices are consistently adopted.
- **Grant Certification:** Completion of grant certifications.

- **Adult Social Care home support and supported living commissioning:** Provided a critical friend role to support the Directorate in identification of delays and issues arising from the payment of packages of care.
- **Home to School Transport:** Supported identification of lessons learnt in relation to the 365 IT Solution.
- **Banking:** Examination of the processes in place to open / close and reconcile bank accounts.
- **Central Recommendation Tracker:** Working with Digital Technology Services to develop a central audit recommendation tracker. The database is now in place, work to finalise the workflow automation and Power BI dashboards is nearing completion. Following testing, implementation will begin on a phased basis. Our follow up progress will be reviewed in light of the central tracker.
- **Audit Committee Report Repository:** A central repository to provide Audit Committee Members access to Internal Audit reports has been developed. The solution is currently being tested and the security model applied. Subject to completion of the testing it is hoped that January's audit reports will be made available through this solution.

5. Internal Audit Plan

- 5.1 As at the end of December 2023 56% of the 2023/24 plan has been completed to draft report stage, this is just slightly below our 65% target. Our target for the year is to complete 95% of the plan to draft report stage.
- 5.2 We have received an increased number of requests to defer or cancel jobs due to work demands and pressures. We are currently discussing these requests with directors and their management teams.
- 5.3 The plan remains dynamic and under review. The plan continues to be assessed and reprioritised based on emerging issues and demands.
- 5.4 Work to update the audit needs assessment is commencing, this will support the development of 2023/24 Internal Audit plan.

6. Emerging Issues

New Global Internal Audit Standards

- 6.1 Following a period of consultation the International Internal Audit Standards Board have released new Global Internal Audit Standards. The new standards become effective from 9th January 2025. The format and content of the new standards differs from the current International Professional Practice Framework. The UK Public Sector Internal Audit Standards Advisory Board (IASAB) has begun its review of the new global standards. The IASAB will determine the implications for the Public Sector Internal Audit Standards (PSIAS) and will develop proposals for revised material which will be suitable for the UK public sector context. Any subsequent changes to the UK's PSIAS, and their implementation, will be subject to consultation and appropriate transitional arrangements.
- 6.2 We continue to maintain a close watching brief on the development and revision of the PSIAS and will report back on the implications once further guidance is published.

Birmingham City Council

Audit Committee

31st January 2024



Subject: Update to Statutory Recommendations from External Auditors Grant Thornton

Report of: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Report author: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Does the report contain confidential or exempt information? Yes No

1 Executive Summary

- 1.1 On Friday 29th September 2023, the Council's External Auditors Grant Thornton issued Statutory Recommendations to the Council under Schedule 7 of the Local Audit and Accountability Act 2014.
- 1.2 This report provides an update on progress against the action plan that was agreed at Cabinet in response to the twelve statutory recommendations contained within the External Auditors report, as of December 2023.
- 1.3 Delivery against these recommendations is crucial for financial sustainability and effective governance for Birmingham City Council. The issues raised within the External Auditor's report are significant enough to have caused them to use their statutory powers. Addressing these recommendations will re-affirm a basis for sound financial management and effective governance within the Council and

provide a platform from which we can address the broader challenges facing the Council and City as a whole.

- 1.4 This aligns to the response presented to City Council on 12th October 2023, at which it was agreed that a regular update would be presented to Audit Committee.

2 Recommendation(s)

- 2.1 Audit Committee is recommended to:

- 2.1.1 Note current progress against the agreed action plan.

3 Background – Statutory Recommendations

- 3.1 Statutory Recommendations under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 refer to formal advice issued by the External Auditor. These recommendations require the Council to discuss and respond publicly to the report.
- 3.2 Please see Appendix 1 for an update on progress against the action plan.

4 Legal Implications

- 4.1 The Council will comply with all relevant legal requirements and obligations in implementing the recommendations, including conducting independent reviews and ensuring transparency in decision-making processes.

5 Financial Implications

- 5.1 The Council will allocate the necessary resources and budgets to execute the recommended actions effectively. The cost implications will be detailed in the updated budget for 2024/25, and future years within the Medium Term Financial Plan (MTFP).

6 Public Sector Equality Duty

- 6.1 The Council will ensure that all actions taken in response to these recommendations are in line with the Public Sector Equality Duty, promoting fairness and equality for all residents and employees.

7 Background Papers / Appendices

Appendix 1: Update Consolidated Action Plan in response to the External Audit report dated Friday 29th September 2023 – Table.

Background Paper: Response to Statutory Recommendations from External Auditors Grant Thornton, City Council, 12th October 2023.

Appendix 1: Updated Consolidated Action Plan in response to the External Audit report dated Friday 29th September 2023

No.	Statutory Recommendation	Council Response	Officer	Member
1	<p>The commencement of the job evaluation process should not be further delayed (as this would further undermine the Council’s financial sustainability). As the Addendum was not signed by 11 September 2023 the Council should apply the safeguard within the CBMC report and should determine the job evaluation option it intends to follow at the earliest opportunity.</p>	<p><i>Commencement of Job Evaluation:</i> The Council will initiate the job evaluation process without further delay.</p> <p><i>Safeguard Application:</i> As the Addendum was not signed by 11 September 2023, the Council will apply suitable safeguards within future CBMC reports to address any further delay.</p> <p><i>Determination of Job Evaluation Option:</i> The Council will promptly determine the job evaluation option to follow, considering the best interests of the organisation and its employees. The next steps for this will be decided at Full Council on 12th October 2023.</p> <hr/> <p>Latest Update:</p> <p>BCC has commenced its Equal Pay Programme, and the latest timelines are shown in the schematic above. The job evaluation programme is based upon the principles of NJC Gauge, with external support provided by WME. At present there is no indication that the programme will not hit its timelines. That will become clearer when the process has been tested through the evaluation of the benchmark role set through to 31st May 2024.</p>	<p>Director of People Services, Katy Fox</p>	<p>Leader of the Council, Councillor John Cotton</p>

No.	Statutory Recommendation	Council Response	Officer	Member
2	<p>It is important that the Council reviews its previous equal pay estimates and regularly updates its estimate of the potential future liability (at least on a quarterly basis). This updated position should be reported to members on a quarterly basis.</p>	<p><i>Quarterly Review:</i> The Council will establish a quarterly review process for potential equal pay liability estimates.</p> <p><i>Reporting to Members:</i> Regular updates on the updated potential equal pay liability estimates will be provided to members on a quarterly basis.</p> <p>Latest Update:</p> <p>The first of these regular updates will be presented in the New Year, following validation of the updated Equal Pay models by the External Auditor Grant Thornton.</p>	<p>Interim Director of Finance Section 151 Officer, Fiona Greenway</p>	<p>Cabinet Member for Finance and Resources, Councillor Brigid Jones</p>
3	<p>The Council should separately report the financial impact of potentially enriched roles to members as a matter of urgency and should prioritise their assessment as part of the job evaluation process. This should include a consideration of the Council's Best Value duty. Similarly, officers should provide monthly updates to members on the Council's identification of roles where task and finish has been in operation and the financial impact of this practice and confirm at the earliest opportunity that these practices are no longer operated. The Council should undertake a review of all</p>	<p><i>Reporting Financial Impact:</i> The Council will separately report the financial impact of potentially enriched roles to members as a matter of urgency.</p> <p><i>Job Evaluation Priority:</i> The assessment of potentially enriched roles will be prioritised as part of the job evaluation process.</p> <p><i>Monthly Updates:</i> Officers will provide monthly updates to key members on the identification of roles operating under 'task and finish,' including the financial impact.</p> <p><i>Review of Working Practices:</i> A comprehensive review of all working practices within the Council</p>	<p>Director of People Services, Katy Fox</p>	<p>Leader of the Council, Councillor John Cotton</p>

No.	Statutory Recommendation	Council Response	Officer	Member
	<p>working practices within the Council and ensure that all employees comply with their terms and conditions, including working their full contractual hours.</p>	<p>will be conducted to ensure compliance with terms and conditions and full contractual hours.</p> <hr/> <p>Latest Update</p> <p>A comprehensive review of all working practices within the Council has been completed to ensure compliance with terms and conditions and full contractual hours. More details are provided for the Committee as an exempt annexe to this report as this is the subject of pending litigation .</p>		
4	<p>The Council should commission an independent review of the process for receiving and considering legal advice, including consideration of whether the Monitoring Officer’s advice was appropriately taken into account and followed, and whether access to legally privileged information was appropriately safeguarded. If the local inquiry outlined by the Secretary of State does proceed this should be part of the wider inquiry.</p>	<p><i>Commission Independent Review:</i> The Council will commission an independent review of the process for receiving and considering legal advice. It is acknowledged that if the local inquiry outlined by the Secretary of State does proceed, this should be part of the wider inquiry.</p> <p><i>Monitoring Officer's Advice:</i> The review will specifically assess whether the Monitoring Officer's advice was appropriately considered and followed.</p> <p><i>Safeguarding Legal Privilege:</i> The review will also ensure that access to legally privileged information was appropriately safeguarded.</p>	Interim Monitoring Officer, Marie Rosenthal	Leader of the Council, Councillor John Cotton

No.	Statutory Recommendation	Council Response	Officer	Member
		<p>Latest Update:</p> <p>An independent review is being commissioned to investigate the extent to which the Monitoring officer's legal advice in relation to the adoption of a new Job Evaluation Scheme was followed and kept secure by members prior to the publication of the Monitoring Officer Report published on 21 September 2023 under Section 5 Local Government and Housing Act 1989.</p> <p>A Monitoring Officer Protocol will be agreed at full Council in April 2024 as part of the Constitution Review setting out the roles and responsibilities of the Monitoring Officer including details of the working arrangements necessary to ensure that Members and Officers work together to promote the corporate health of the Council. The Protocol will govern:</p> <ol style="list-style-type: none"> 1. The process for receiving and considering legal advice and 2. Arrangements for the security and safeguarding of legally privileged material. 		
5	<p>The Council should set a target date for the completion of the 'safe and compliant' phase. We consider that this should be completed by 30 November 2023.</p>	<p><i>Readiness review:</i> The Council will undertake a review of the safe and compliant phase of Oracle recovery against specific criteria, in partnership with the Commissioner with responsibilities for Oracle and the External</p>	<p>Interim Director of Transformation, Meena Kishinani</p>	<p>Cabinet Member for Digital, Culture, Heritage &</p>

No.	Statutory Recommendation	Council Response	Officer	Member
		<p>Auditor, and agree a target date to conclude this stage of the work.</p> <p><i>Transition to optimisation phase:</i> In this review of the scope of the 'safe and compliant' phase, the Council will aim to accelerate work on 'optimisation'.</p> <p>Latest Update:</p> <p><i>Readiness review:</i> In response to the feedback provided, a review has taken place with the business services and with input from the Commissioners to confirm the remaining list of essential fixes. These are now underway with a target date for 30 April 2024.</p> <p><i>Transition to optimisation phase:</i> Through agreeing a finite list of short term 'essential fixes' to conclude the 'safe and compliant' work, we will be able to focus on the acceleration of the solution optimisation. The approach, costs and timescale for this optimisation work are set out in the Cabinet Paper 'Oracle Re-implementation' which is tabled for Cabinet on 13th February 2024.</p>		Tourism, Councillor Saima Suleman
6	The Council should report its outturn for 2022/23 and its current financial position by 30 November 2023. It should provide	<i>Reporting Deadlines:</i> The Council will report its 2022/23 outturn and current financial position by 30 November 2023.	Interim Director of Finance Section 151	Cabinet Member for Finance and

No.	Statutory Recommendation	Council Response	Officer	Member
	<p>financial statements for 2022/23 for audit by 31 January 2024.</p>	<p><i>Audit Financial Statements:</i> Financial statements for 2022/23 will be prepared for audit by 31 January 2024.</p> <hr/> <p>Latest Update</p> <p>Due to the significant workload required to put together the 2024/25 Budget and associated savings plans, as well as the time taken to review the final outputs of the 2022/23 financial year from Oracle, it has been agreed by the Section 151 officer, members and commissioner that the outturn report will come to Cabinet in March.</p> <p><i>Audit Financial Statements:</i> Revised deadlines are being discussed with the external auditors. Increased audit enquiries for 2020/21 and 2021/22 have lead to the revised deadlines.</p>	Officer, Fiona Greenway	Resources, Councillor Brigid Jones
7	<p>The Council should consider the capacity of its senior staff to deal with the Oracle ‘safe and compliant’ and ‘re-implementation’ phases alongside the other competing pressures. Additional resources should be provided to ensure that this critical project is completed at the earliest opportunity. This may include additional internal or external IT capacity and capability. In the longer term,</p>	<p><i>Capacity Assessment:</i> The Council will assess the capacity of its senior staff to manage the Oracle 'safe and compliant' and 're-implementation' phases alongside other competing pressures.</p> <p><i>Additional Resources:</i> Additional internal or external IT capacity and capability will be provided to ensure the critical project's timely completion.</p>	Interim Director of Transformation, Meena Kishinani	Cabinet Member for Digital, Culture, Heritage & Tourism, Councillor Saima Suleman

No.	Statutory Recommendation	Council Response	Officer	Member
	<p>the Council will need to ensure that it rebuilds its own IT capacity and capability.</p>	<p><i>Long-Term IT Capacity:</i> The Council will develop plans for rebuilding its own IT capacity and capability in the long term.</p> <hr/> <p>Latest Update:</p> <p><i>Capacity Assessment:</i> The Council recognises the need to assess the capacity of its senior staff to manage the Oracle 'safe and compliant' and 're-implementation' phases alongside other competing pressures. Additional senior staff have been brought into the programme and the programme team structure will continue to be evolved prior to the commencement of re-implementation.</p> <p><i>Additional Resourcing:</i> As part of resourcing the reimplementation phase we have identified that a significant increase in resources will be required. A detailed resourcing model has been produced to support the February 2024 Cabinet Paper 'Oracle Re-implementation', and we will be addressing key resourcing gaps before the re-implementation begins.</p> <p><i>Long-Term IT Capacity:</i> The Council will develop plans for rebuilding its own Oracle IT capacity and capability in the long term. Options</p>		

No.	Statutory Recommendation	Council Response	Officer	Member
		<p>around how this can best be implemented are being considered prior to re-implementation commencing in order to obtain the most value from knowledge transfer during the re-implementation process.</p>		
8	<p>The Council should provide an updated budget for 2023/24 that takes account of the 2022/23 outturn, its current financial position for 2023/24, its progress on delivering savings plans in 2023/24, and the other financial pressures impacting on the Council.</p>	<p><i>Budget Revision:</i> The Council will provide an updated budget for 2023/24, which will include progress on savings plans in 2023/24, and other financial pressures by the end of October 2023. The final 2022/23 outturn will be presented in November 2023 with a final reserve position for the 2022/23 financial year. The updated budget in October 2023 will include appropriate caveats, as needed, due to the need for additional time to present outturn in November 2023 as a result of ongoing Oracle challenges.</p> <p>Latest Update:</p> <p>Due to significant pressures on the finance team, and the wider organisation, as a result of the work to balance the 2024/25 budget with a robust programme of savings, these reports have not yet come through Cabinet. The plan is to provide an update on the Period 9 financial position for 2023/24 to Cabinet in March 2024.</p>	<p>Interim Director of Finance Section 151 Officer, Fiona Greenway</p>	<p>Cabinet Member for Finance and Resources, Councillor Brigid Jones</p>

No.	Statutory Recommendation	Council Response	Officer	Member
9	<p>The Council must now, as a matter of urgency fully support the Section 151 Officer in effectively responding to the s114 report and, specifically:</p> <p>give full support to the development of the mandatory spending controls and savings and recovery plan.</p> <p>identify and implement a suitable asset disposal plan; and</p> <p>continue to work with the Department for Levelling Up, Housing and Communities over the extent and timing of support that will then be required to secure the ongoing financial viability of the Council.</p>	<p><i>Mandatory Spending Controls and Savings Plan:</i> The Council will provide full support to the Section 151 Officer in developing mandatory spending controls and a savings and recovery plan.</p> <p><i>Asset Disposal Plan:</i> An appropriate asset disposal plan will be identified and implemented.</p> <p><i>Collaboration with the Department:</i> The Council will continue to collaborate with the Department for Levelling Up, Housing, and Communities to secure ongoing financial viability.</p> <hr/> <p>Latest Update:</p> <p><i>Mandatory Spending Controls and Savings Plan:</i> Savings proposals have been put forward by CLT and have gone through challenge and scrutiny both by peers and Members. Spend Controls continue to be in place and spend continues to be scrutinised.</p> <p><i>Asset Disposal Plan:</i> Since 2018/2019 the Property Team has been working to an asset strategy for the Commercial Portfolio approved by Cabinet. This focused on selling smaller assets in the portfolio and recycling capital receipts into purchasing larger assets. In 2020 and 2021 the team received advice from Avison Young on what should be sold and where (sector etc) receipts should be reinvested. Since the s114 notice this sales programme has</p>	Interim Director of Finance Section 151 Officer, Fiona Greenway	Cabinet Member for Finance and Resources, Councillor Brigid Jones

No.	Statutory Recommendation	Council Response	Officer	Member
		<p>been accelerated, obviously with the amendment that receipts will not be reinvested. In addition, the Property Team have identified various larger assets which should be sold to meet the capital target of £500m. Some of the Council's largest assets were already planned for disposal (e.g. Perry Barr) since that formed part of their original investment strategy, approved by Cabinet. Again, these have been accelerated. In addition to the Commercial Portfolio, the Council have identified certain buildings within the Central Administration Estate which are surplus to requirements, and the Corporate Landlord team has been working on a disposal strategy.</p> <p><i>Collaboration with the Department:</i> Discussions are ongoing with the Department for Levelling Up, Housing, and Communities and a letter has been sent requesting an increase to the Council Tax referendum limit. An Exceptional Financial Support letter has also been drafted.</p>		
10	<p>Officers should put in place a formal and detailed cashflow model that focusses on when the payment of the Council's liabilities will fall due against the timing of its other cash outgoings and inflows (including the estimated funds produced from asset sales). This cashflow model should predict at what</p>	<p><i>Establish Cashflow Model:</i> Officers will establish a detailed cashflow model focusing on when the payment of the Council's liabilities will fall due against the timing of its other cash outgoings and inflows, including estimated funds from asset sales. This will be based on legal advice on the timing of potential liabilities falling due.</p>	<p>Interim Director of Finance Section 151 Officer, Fiona Greenway</p>	<p>Cabinet Member for Finance and Resources, Councillor</p>

No.	Statutory Recommendation	Council Response	Officer	Member
	<p>point, without Government support, the Council will exhaust its usable reserves and will no longer have sufficient finances to be able to continue to operate or would be unable to meet its financial obligations when they become due.</p>	<p>This model will predict the point at which, without Government support, the Council will exhaust its usable reserves and be unable to meet its financial obligations.</p> <p>Latest Update: Cashflow modelling has been undertaken and various scenarios have been modelled. The cashflow model is being regularly updated as the MTFP develops. Significant input will be from the modelling of the potential equal pay liability which is being finalised and reviewed by external auditors.</p>		Brigid Jones
11	<p>Given the significant risks facing the Council it should ensure that it cooperates with external audit in a timely and appropriate manner, and in accordance with legal requirements.</p>	<p><i>Timely Cooperation:</i> The Council will ensure timely and appropriate cooperation with external audit, in strict accordance with legal requirements.</p> <p>Latest Update: <i>Timely Cooperation:</i> Co-operation with external audit is continuing with regular communication by email and in-person at various levels of management.</p>	Chief Executive, Deborah Cadman	Leader of the Council, Councillor John Cotton
12	<p>The EP liability model should be completed, and the 2020/21 and 2021/22 accounts should be closed by 30 November 2023.</p>	<p><i>Completion of EP Liability Model:</i> The Council will prioritise the completion of the EP liability model.</p>	Interim Director of Finance Section 151	Cabinet Member for Finance

No.	Statutory Recommendation	Council Response	Officer	Member
		<p><i>Accounts Closure:</i> The accounts for 2020/21 and 2021/22 will be closed by 30 November 2023, pending agreement of models presented to the External Auditors and coordination of an agreed funding strategy for the potential Equal Pay liability (which may involve discussions with DLUHC).</p> <p>Latest Update:</p> <p>The EP liability models for the 2020/21 and 2021/22 accounts were provided to Grant Thornton in November 2023. Since then, officers have been working with auditors to review these provisions and a plan of work has been agreed, to be completed in January 2024.</p>	Officer, Fiona Greenway	and Resources, Councillor Brigid Jones

Birmingham City Council

Audit Committee

31st January 2024



Subject: Update on Risk Management Rebuild

Report of: Interim Director Finance (Section 151 Officer)

Report author: Anthony Farmer – Head of Professional Standards

Does the report contain confidential or exempt information? Yes No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :

1 Executive Summary

- 1.1 Multiple reports, evaluations, assessments, and opinions have reflected on the need to improve the way threats and opportunities that impact on the achievement of BCC objectives - "*risks*" - are managed within BCC.
- 1.2 A programme of work has recently begun to address both the observed and reported shortcomings, and also some industry recognised improvements that will improve the risk management maturity and sophistication of BCC.
- 1.3 The programme of work is thematic to include consideration of Risk Visibility, Articulation, Process, Procedure, Recording and Reporting, and whilst some actions could be considered to be *quick wins* in terms of improvement, there are longer-term continual aspects included to address *attitudes*, *behaviours* and *culture* pertaining to risk.
- 1.4 Under the new Audit Committee Terms of Reference, there is a clear remit for this committee to have oversight of both the overarching Risk Management system and systems to manage risks within directorates/service areas, but also those services that look to provide assurance over the mitigation strategies, actions and controls in place to manage those risks, e.g. Internal Audit.

2 Recommendation(s)

- 2.1 That the Audit Committee supports the risk management rebuild programme outlined within the update and makes comment on any additional assurance that might be required to satisfy Committee Members with regard to the way the City Council considers, responds to, and manages risk.

3 Background

- 3.1 The [Institute of Risk Management](#) consider enterprise risk management as “*a process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure.*”
- 3.3 Against a backdrop of multiple significant events and external recommendations by both external and internal partners such as Milford Research & Consultancy, KPMG, the Centre for Governance & Scrutiny and Members of the Audit Committee amongst others, a refresh and rebuild of the way that risk is managed within the City Council has been identified as critically important as a way of increasing the probability of success and reducing the likelihood of failure in Council business.
- 3.3 In order to deliver the necessary improvements and provide greater assurance around the way risks are understood, evaluated and acted upon, the Interim Director of Finance / Section 151 Officer launched a rebuilding exercise in November 2023 to implement significant improvements to the way risk is identified, assessed, and managed across the authority, including developing the role of the Audit Committee and supporting their oversight role in risk management.
- 3.4 The suite of individual changes is intended to deliver significant improvements to the overarching maturity and sophistication of risk management as well as other thematic changes with the aim of achieving specific and measurable improvements by the end of 2025. Whilst some of the proposed changes will deliver more tangible and immediate benefits - addressing the perceived and communicated shortfalls in the current risk management process - the extended timeframe recognises that changing cultural aspects of risk management will be a definite longer-term prospect.

4 Themes and Timeframes

4.1 Proposed improvements fall broadly into 3 themes:

4.1.1 Theme 1 - Visibility & Articulation

This theme will cover some short term (i.e. within 6 months) improvements to the way that risks are elicited, held, and described for the purposes of evaluation, understanding and action, as well as identifying appropriate assurance for Members of the Committee and Senior Officers. This will help to lead resourcing decisions on opportunity and threat risk mitigation, ensuring treatment of risks maps to both appetite and situation. Key milestones and products include:

- In conjunction with KPMG, a refresh of BCC's current Strategic Risks, including revisiting the way they are articulated and categorised with new/improved assessment and evaluation criteria, including - but not limited to – new risk perspectives such as *Proximity*, *Velocity* and *Tolerance*.
- Development of a new Risk Platform to enable the communication and interrogation of Strategic Risks (and the additional perspectives referred to above), which will include dynamic and real-time reporting capability. An example of this would be the capability to show Risks that have overdue mitigating actions, updates outstanding, or where actions/controls have not had the required mitigating impact and therefore ensuring BCC continues to learn.
- Medium term (6-12 months) actions and improvements will include enhancements to the way that risks are *surfaced*, including the ability to identify risks emerging from our own data (Key Risk/Control Indicators), our people (regular workshops), and the ability to *crowdsource* emerging risks, whilst also capturing and reporting the impact of control weaknesses identified by assurance providers such as Internal Audit.

4.1.2 Theme 2 - Process & Procedure

This theme will cover both short and medium term improvements including both behavioural and process/procedural changes that will begin to deliver some of the critical "ABC's" (i.e. *Attitudinal*, *Behavioural* and *Cultural* aspects) of risk aware organisations. Key milestones and products include:

- In conjunction with Milford Research & Consultancy, delivery of an accredited Governance & Assurance training programme for Officers & Elected Members involved in strategic decision-making, which will include a specific module on Risk Management.
- In conjunction with Milford Research & Consultancy, a refresh and relaunch of BCC's *Risk Management Framework*, which will include updated terminology and standardisation of some key aspects of the approach to risk management, and explanations of key areas such as *Risk Appetite*. This exercise will include effective engagement with key stakeholders surrounding the proposed

changes, and recognition and inclusion of local service area risk and appetite systems, ensuring purpose is not lost through process.

- The consideration and selection/development of an appropriate long term improvement/maturity model for structured self-assessment and subsequent independent assurance of the effectiveness of organisational risk management.

4.1.3 Theme 3 - Recording & Reporting

This theme also covers multiple time horizons for improvement delivery, and includes areas that will enhance learning, communication, and accountability for risk management across the authority. Key milestones and products include:

- In conjunction with Milford Research & Consultancy, the inclusion of a formal *Risk Management* section in decision-making reports, and subsequent development of supporting documentation and guidance to assist authors with including threats and opportunities arising from their proposals so that these may be monitored and included in risk data.
- In conjunction with Milford Research & Consultancy, the creation of a Knowledge Repository for all associated risk management data, reports and action plans, to enable cross-referencing and comparison by Committee Members and Officers, delivering improved transparency and accountability.
- In conjunction with Milford Research & Consultancy, specific training in relation to the new systems, consultation and engagement on the approach taken, and future reports required by Committee Members and the type and nature of information required in order to provide assurance over the way risks are managed within the Authority.
- Consultation and engagement on future reports required by the Corporate Leadership Team and the type and nature of information required in order to facilitate decision-making and provide assurance over the way risks are managed.
- In conjunction with Internal Audit colleagues, the inclusion of bi-annual reports to the Committee on the effectiveness of the Risk Management function itself.

5 Legal Implications

- 5.1 There are no direct legal implications arising out of this update report.

6 Financial Implications

- 6.1 Whilst a new Risk Management Function operating model is being developed, it is anticipated the costs of populating this can be met from within the existing budget envelope. As such there are currently no direct financial implications arising out of this update report.

7 Public Sector Equality Duty

7.1 There are no equality implications arising out of this update report.

8 Other Implications

8.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

8.1.1 This is an update report for Committee Members on proposed workstreams/actions that are consistent with other improvement and recovery/stabilisation activities currently underway.

9 Background Papers

9.1 None

10 Appendices

10.1 None

Birmingham City Council

Audit Committee

31st January 2024



Subject: Finance Update – January 2024

Report of: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Report author: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Does the report contain confidential or exempt information? Yes No

1 Executive Summary

- 1.1 The Section 151 Officer has been providing a series of regular updates on the financial position of the City Council to Cabinet.
- 1.2 The report attached outlines the financial situation of Birmingham City Council as of January 2024 . As outlined in the reports to Cabinet in November and December 2023, the City Council faces very significant structural financial challenges which are being addressed as part of the 2024/25 and 2025/26 budget setting process.
- 1.3 This report focuses on:
- a) An update on the overall financial position and savings programme for 2024/25 and 2025/26 (paragraphs 3.3 to 3.13 refers);

- b) An update on the progress towards setting the budget and Council Tax Requirement for 2024/25 (paragraphs 3.14 to 3.30 refers);
- c) An update on the savings and transformation programme for 2025/26 (paragraphs 3.31 to 3.38 refers).

2 Recommendation(s)

2.1 Audit Committee is recommended to:

2.1.1 Note the update on the financial position, as at January 2024.

3 Background

3.1 Please see attached report to Cabinet, Section 151 Officer Update on the Financial Position of the Council – January 2024.

4 Legal Implications

4.1 Please see attached report to Cabinet, Section 151 Officer Update on the Financial Position of the Council – January 2024.

5 Financial Implications

5.1 Please see attached report to Cabinet, Section 151 Officer Update on the Financial Position of the Council – January 2024.

6 Public Sector Equality Duty

6.1 Please see attached report to Cabinet, Section 151 Officer Update on the Financial Position of the Council – January 2024.

7 Background Papers / Appendices

Appendix 1: Section 151 Officer Update on the Financial Position of the Council – January 2024.

Birmingham City Council

Report to Cabinet

16 January 2024



Subject: Section 151 Officer Update on the Financial Position of the Council – January 2024

Report of: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Relevant Cabinet Member: Leader, Councillor John Cotton

Relevant O&S Chair(s): Chair of Finance & Resources Overview & Scrutiny, Councillor Jack Deakin

Report author: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential: N/A		

1. Executive Summary

1.1 This report outlines the financial situation of Birmingham City Council as of January 2024 . As outlined in the reports to Cabinet in November and December 2023, the City Council faces very significant structural financial challenges which are being addressed as part of the 2024/25 and 2025/26 budget setting process. This is the third report in a series of regular updates on the financial position of the City Council.

- 1.2 This report will focus on:
- a) An update on the overall financial position and savings programme for 2024/25 and 2025/26 (paragraphs 3.3 to 3.13 refers);
 - b) An update on the progress towards setting the budget and Council Tax Requirement for 2024/25 (paragraphs 3.14 to 3.30 refers);
 - c) An update on the savings and transformation programme for 2025/26 (paragraphs 3.31 to 3.38 refers).
- 1.3 As outlined in the December 2023 Financial Position Update, as the Section 151 Officer, I am currently unable to make a Section 25 statement under the Local Government Act 2003 in relation to the robustness of estimates and adequacy of reserves.
- 1.4 The Council is currently facing a two-year savings target in the region of £300m, following a re-basing exercise of the 2023/24 budget. To date, the Council has identified £149.2m of savings for the 2024/25 financial year. Through work over the recent weeks, the Council has identified a further £81.8m of additional savings for the 2025/26 financial year. These savings continue to go through due diligence, in particularly those for 2025/26 which will be firmed up during Quarter 1 of the 2024/25 financial year.
- 1.5 The Council is currently in a position where it is unable to set a lawfully balanced budget, and as such a formal request is now required with the Department of Levelling Up, Housing and Communities (DLUHC) to explore Exceptional Financial Support (EFS) to enable the setting of a balanced budget for 2024/25. This will be in the form of two requests, one for the permission to increase Council Tax above the referendum limit, and one for a Capitalisation Direction.
- 1.6 The estimated size of the request for EFS is still to be determined but must be of sufficient size to cover provisions for Equal Pay, capitalisation costs involved in a redundancy scheme, and the forecast budget deficit 2024/25 and 2025/26. This will need to be funded through the application of capital receipts, for which the Council has a £500m target in 2024/25, and use of loan facilities. Any loan facilities will need to be funded over an agreed loan period, and will be at a penalty rate due to the Council using capital funding for revenue spend.

- 1.7 A substantial amount of work is now required to ensure the savings programme identified for the 2024/25 and 2025/26 financial years is deliverable. This needs to be undertaken at pace, with ownership and accountability from nominated Officers and Cabinet Members. Non-delivery of savings is unacceptable in the current financial situation. Any non-delivery or under-delivery of savings must be addressed expediently by Officers and Cabinet Members with savings or reductions in services of an equivalent value.
- 1.8 To return the Council to financial stability, we must rebuild our usable reserves and our General Fund balance to an adequate level. To achieve this all Directorates must live within their means, to be agreed as part of the 2024/25 budget setting process.
- 1.9 Further detail on the budget, savings programme, and EFS requests will be released in line with the budget setting process for 2024/25.

2. Recommendation(s)

- 2.1 Cabinet is recommended to:
 - a) Note the update on the **overall financial position and savings programme for 2024/25 and 2025/26** (paragraphs 3.3 to 3.13 refers);
 - b) Note the current status of the **progress towards setting the budget and Council Tax Requirement for 2024/25** (paragraphs 3.14 to 3.30 refers);
 - c) Note the update on the **savings and transformation programme for 2025/26** (paragraphs 3.31 to 3.38 refers).

3. Background

- 3.1 As outlined in the Cabinet Reports presented to Cabinet on 14th November 2023 and 12th December 2023, and in the supporting Commissioner Review comments on both reports, the Council faces significant financial challenges. Having identified savings for both the 2024/25 and 2025/26 financial years, pace is required to develop a robust savings programme to deliver and monitor delivery of savings throughout the financial year.
- 3.2 Further detail on the proposals for the 2024/25 financial year are being developed through the budget setting process for the coming financial year. In addition to this,

the Council is developing a plan to deliver a two-year balanced budget, acknowledging the challenges involved in achieving a substantial £300m savings target in one financial year.

2024/25 Financial Position

- 3.3 The 25th July 2023 high-level Quarter 1 forecast for 2023/24 presented to Cabinet also included a forecast budget gap for future financial years, in addition to an in-year forecast overspend of £87.3m. The forecast for 2024/25 also showed an additional budget gap of £77.5m in-year, making this £164.8m cumulative across the two years.
- 3.4 During November and December 2023, the Finance team performed a 're-basing' exercise on the 2023/24 budget. This included a full review of the key assumptions upon which the 2023/24 incremental budget was based, including:
- a) Inflation;
 - b) Pressures/growth;
 - c) Savings;
 - d) Use of, and contributions to, reserves and provisions.
- 3.5 On 12th December 2023, Cabinet received an update on the financial position, outlining the position that the current two-year savings target for the Council was in the region of £300m. Due to the size of this target, and the feasibility of achieving £300m of sustainable recurring savings in one financial year, CLT have been working towards meeting this target over the next two financial years. This is with the intention of delivering a cumulative £300m recurring savings target from the 2025/26 financial year.
- 3.6 In December 2023 the Provisional Local Government Finance Settlement and Office for National Statistics inflation figures were released, which allowed the Finance team to update assumptions in their modelled budget gap.
- 3.7 Continued analysis now indicates that the budget gap may rise to tens of millions over the original £300m, with this being finalised in January 2024 to be included within the reports to Cabinet and Full Council in February 2024.
- 3.8 The re-basing exercise in November 2023 highlighted a number of significant issues with the 2023/24 base budget which, alongside pressures identified through the

normal course of business, result in a budget gap of over £300m for the Council for the 2024/25 financial year:

- a) **Budget pressures, including Demand and Complexity Growth** – Growth across Directorates such as: growth pressures against packages of care across adults and childrens social care (both in rising demand and increased complexity); increased demand for temporary accommodation; Oracle programme costs; and forecast equal pay costs; **additional staffing costs** across social care and to support the Oracle finance system; and expected **lost income** (mainly from parking and potential asset sales).
- b) **Inflation** – this covers assumed increases for future pay settlements as well as assumptions for growth in care packages, transport and general price inflation. This increase reflects a change to previous forecasts for inflation made during the 2023/24 budget – these have been updated for latest forecasts. Therefore, general price inflation has been increased in line with Bank of England forecasts (compared to an estimate of 0% for 2024/25, made in the 2023/24 budget) and the cost of social care packages for adults and children has been uplifted from a 0.6% inflation forecast to a 6.7% inflation forecast;
- c) **Savings Write Off** – Savings written off from the 2023/24 and 2024/25 financial years, as outlined in the 12th December Cabinet Report;
- d) **Collection Fund Deficit** – this relates to an underachievement against forecast Council Tax and Business Rates income for the 2022/23 and 2023/24 financial years. Any known and forecast deficit at the time of budget-setting in February is charged to the General Fund for the next financial year. This deficit mainly relates to a significant reduction in forecast business rates mainly as a result of reduced collection rates (partly the result of difficulties with the Oracle system) and higher than expected appeals against business rates (as March 2023 was the last point at which appeals could be lodged against 2017 rates bills). This forecast has been reviewed by an external consultancy to confirm the deficit.
- e) These increases have been partially offset by reducing forecast contributions to reserves (that were planned for 24/25 but are no longer required).

3.9 The deficit for the 2024/25 financial year continues to be reviewed and forecasts updated. The deficit will be confirmed as part of the budget setting process for the coming financial year, presented alongside mitigations to address the gap in

January. This will also include updates from the provisional Local Government Finance Settlement announced on 18 December 2023.

3.10 The savings figures, following the assurance process, are detailed in the following two tables, 2024/25 totalling £149.2m and an additional £81.8m in 2025/26 bringing the total cumulative savings by 2025/26 to £231.0m. These savings were incorporated into the submission to Commissioners on 31st December 2023 (original deadline 7th January 2024), **Tables 1 and 2** refer:

Table 1 – Summary of Savings identified for 2024/25 and 2025/26 by Directorate

Directorate	2024/25 £000	2025/26 £000
Adult Social Care	25,211	52,306
Children & Families	55,586	67,036
City Housing	6,236	9,436
City Operations	33,898	56,741
Place, Prosperity and Sustainability	8,365	12,550
Strategy, Equality and Partnerships	2,447	2,597
Council Management	15,767	22,597
Cross-cutting	1,700	7,807
Total	149,210	230,970

Table 2 – Summary of Savings identified for 2024/25 and 2025/26 by Risk Rating

Rating	2024/25 £000	2025/26 £000
Green	93,827	124,161
Amber	37,743	71,380
Red	17,240	33,429
Total	149,210	230,970

3.11 **Table 3** below shows the current estimated changes in departmental cash limits from the 2023/24 financial year to the 2024/25 financial year, factoring in inflation, variations and savings. All Directorates, except Strategy, Equality and Partnerships, have net increases in their 2024/25 base budget when compared to the 2023/24 base budget. City Housing, Council Management and Strategy, Equalities and Partnership have also identified savings that are relatively high proportions of their 2023/24 base budget, 41%, 31% and 30% respectively.

Table 3 – Summary of Directorate Changes to Net Base Budget

Directorate	2023/24 Original Net Base Budget £'000	Inflation & Pay Award 2024/25 £'000	Variations +/- £'000	Savings 2024/25 £'000	2024/25 Net Base Budget £'000	Savings 2024/25 as % of 2023/24 Base Budget
Adult Social Care	403,077	32,921	22,431	(25,211)	433,218	6%
Children, Young People and Families	401,909	27,220	30,951	(55,586)	404,494	14%
City Housing	15,334	5,283	19,477	(6,236)	33,858	41%
City Operations	199,057	23,931	21,331	(33,898)	210,421	17%
Council Management	36,302	5,864	58,993	(11,127)	90,032	31%
Place, Prosperity and Sustainability	53,497	6,662	13,423	(8,365)	65,217	16%
Strategy, Equalities and Partnerships	8,195	238	1,322	(2,447)	7,308	30%
Total Directorate Net Expenditure	1,117,371	102,119	167,928	(142,870)	1,244,548	13%
Corporately Managed Budgets	(192,294)	(9,113)	20,932	(1,700)	(182,175)	-1%
Total General Fund Budget	925,077	93,006	188,859	(144,570)	1,062,372	16%

Notes:

1. The Finance team is carrying out a final review of savings and pressures before finalising the budget in the next couple of weeks
2. Savings No. 7 (£0.8m Single Person Discount) and No. 10 (£3.8m Additional staff for council tax and business rate collection) are not included in Directorate Budgets as they help to improve Collection Fund forecasts for Council Tax and Business Rates income (a total of £4.641m). This income will be shown below-the-line

- 3.12 The 2024/25 Net Base Budget increases mainly due to the phasing of the £300m savings over two years.
- 3.13 The Council is currently in a position where it is unable to set a lawfully balanced budget, and as such two formal written requests to the DLUHC for EFS are now required, to include:
- a) Permission to increase the Council Tax level above the referendum limit, and to support this, the Council will review and revise the Council Tax Support Scheme to offset the potential impact to citizens;
 - b) A formal application for a Capitalisation Direction (figure to be confirmed) and 'minded to' letter to cover the Equal Pay accounting liability, the costs involved in the redundancy scheme, and support to deliver a balanced budget for the 2024/25 financial year.

Budget Setting Update for the 2024/25 Financial Year

- 3.14 On 12th December 2023, Cabinet received an update on the financial position which outlined the activities completed between 14th November 2023 and 1st December 2023.
- 3.15 On Friday 1st December 2023, the Council has identified £149.8m savings for the 2024/25 financial year. This was submitted to Commissioners, with supporting detail on the savings, delivery, risks, and mitigations. The high-level breakdown of these savings can be found in **Table 1** – 2024/25 Savings Categories and **Appendix 2** to the Section 151 Officer Update on the Financial Position of the Council – December 2023 report to Cabinet on 12th December 2023.
- 3.16 The latest revised 2024/25 Budget Setting Timetable and status is as per **Appendix 1** attached.
- 3.17 The key updates from the December Cabinet Report are as follows:
- Monday 4th December to Friday 8th December 2023
- 3.18 Following the submission of savings for the 2024/25 financial year to Commissioners, further due diligence was required to validate the constituent savings within the submission. Further work was completed during this week to

assess the deliverability of savings, risks identified, and mitigations associated with risks.

3.19 In addition, during the week commencing 4th December three Budget Scrutiny Task and Finish Group sessions were completed to review the savings identified to Friday 22nd December 2023. Savings were presented by Corporate Leadership Team (CLT) Directors, alongside Finance Business Partners (FBPs) and Heads of Service. A cross-party group of Elected Members provided challenge to savings proposals, with Directorates taking away feedback to be addressed in future submissions.

3.20 On Friday 8th December 2023 a series of Budget Assurance Forums commenced, with the Leader, Cabinet Member for Finance and Resources, and the relevant Cabinet Member hosting challenge sessions with CLT Directors, FBPs, and Managers responsible for delivery of the saving. In addition, relevant Commissioners have attended these sessions to provide feedback on savings proposals and identify further savings opportunities.

Monday 11th December to Friday 15th December 2023

3.21 Further sessions of the Budget Assurance Forums were delivered during week commencing 11th December 2023, broken out by relevant Cabinet Member portfolio.

3.22 In addition, a further Budget Scrutiny Task and Finish Group was arranged to challenge the savings proposals which bridged the gap between 24th November 2023 and 1st December 2023 savings submissions.

3.23 In addition to this initial Directorate engagement sessions were held, to ensure Directorates were aware of potential staffing implications within the savings proposals for their Directorate.

3.24 The savings put forward by Directorates have gone through a number of challenge and assurance sessions over these two weeks. This is to better understand proposals put on the table, assumptions underpinning them, where the savings will come from (e.g. income generation, staffing or vacancy reductions, overhead reductions etc.), and assumptions on timings of the savings.

Monday 18th December to Friday 22nd December 2023

3.25 Further sessions of the Budget Assurance Forums were delivered during week commencing 18th December 2023, split by relevant Cabinet Member portfolio.

3.26 In addition, CLT were tasked with identifying further 2025/26 savings, with a deadline of 19th December 2023. This has identified a further £22m of savings in 2025/26. A meeting between CLT and Commissioners was held on 20th December 2023 where a selection of these new 2025/26 savings were presented.

3.27 The latest savings submission was presented to Commissioners on 31st December 2023 with £149.2m of savings in 2024/25 and a further £81.8m in 2025/26.

Outcomes from Challenge

3.28 Necessarily, due to the timelines to complete all the work to deliver a budget for 2024/25, the challenge process has been undertaken at pace. The following high-level themes have come out of the review and challenge exercise:

- a) A number of the proposals were found to have assumed a **full year effect** of the savings in 2024/25. These have been challenged and rephased where appropriate.
- b) **Cross-cutting savings** have been part of the process and these will ultimately need to be extracted from service level budgets. At present these proposals will need to be substantiated at a Directorate level in terms of the base budget on which this is predicated and hence how it would be allocated by service and cost centre. Cross-cutting savings must be accepted at a Directorate level to be deliverable.
- c) Proposals regarding use of **Public Health Grant** funding to support service area expenditure on eligible activity has been reviewed with teams looking to establish in more detail what the funding would be applied to. This has now been reviewed by the Director of Public Health and discussions with the Office for Health Improvement and Disparities, to ensure proposals behind savings meet relevant criteria.

3.29 The most substantial risk arising from the review is the delivery and grip of savings by Directorates. While services have explained and stood by the deliverability of their savings, Directorate are responsible for delivering the necessary actions in full, on time and to scale in order to deliver the savings put forward. The accountability for the delivery of the savings rests with Directors and Managers responsible for delivery. As commented by the Commissioners on the December 2023 Financial Update Report, "Going forward, every budget-holding officer must not overspend

without reporting a viable compensating saving. If this is not possible, delegated authority to spend will need to be withdrawn”.

3.30 The timeline attached as **Appendix 1** includes an updated forecast for activities into January 2024, and to conclusion of the budget setting process for the 2024/25 financial year.

Savings and transformation programme for 2025/26

3.31 As outlined in paragraphs 3.6 and 3.7, the Council intends to present a balanced budget over two financial years. This means developing a two-year savings programme which achieves £300m of credible savings by the 2025/26 financial year.

3.32 In order to achieve this, the Council must look at transformational savings for the 2025/26 financial year, which provide sufficient lead time to invest in services to achieve transformation which changes the ways of working within Directorates. Transformational savings have a longer lead time, however should deliver more significant savings which will fundamentally redesign the cost base for Council services.

3.33 In order to achieve this, the Chief Executive has instructed CLT Directors to lead on the development of transformational cross-cutting savings. This exercise was led by Director of Strategy, Equality and Partnerships and the Director of Transformation.

3.34 During the week commencing 4th December 2023, CLT was challenged to present savings which would align to future delivery model structures. This was completed in a whole day CLT session, facilitated by a third party, to challenge the ways of working across Directorates and focus on customer outcomes rather than Directorate siloes.

3.35 During the week commencing 11th December 2023, an outline Savings and Transformation Plan for 2025/26 was presented to Commissioners. This was an early draft with significant additional work required by the end of December 2023 to develop detail behind the savings proposals.

3.36 During the week commencing 18th December 2023, Directors built on the ideas identified for the 2025/26 savings programme, following the removal of areas of duplication. This meant developing sufficient detail behind the saving to ensure they

were right sized and addressable to support achieving the savings target for 2025/26. This was in the form of a savings proforma, including a risk assessment, identification of addressable budget, and assessment of potential deliverability through the use of benchmarks and peer comparisons.

3.37 The detail of this work was presented to Commissioners on 31st December 2023, as part of the Savings and Transformation Plan for 2025/26 submission (original deadline 7th January 2024).

3.38 The credibility of this submission is critical to providing assurance to the Section 151 Officer and Commissioners on the deliverability of the 2024/25 and 2025/26 savings programmes. This is required in order to get support from Commissioners for the Council's request for EFS from DLUHC. **Receipt of EFS from DLUHC is currently the only feasible route to presentation of a lawfully balanced budget for 2024/25, alongside a Section 25 Statement of the Local Government Act 2003.**

4. Public Consultation and Engagement

4.1 This report has been written in consultation of CLT members and has been discussed with EMT. The content of this report is also based on presentations to the Commissioner led Finance Sub-Board.

4.2 The full 2024/25 budget will be subject to legal advice and guidance regarding statutory consultation, at that point specific plans will be developed to ensure all relevant groups and communities are appropriately and meaningfully consulted with.

4.3 A statutory business rate payers consultation meeting will be held in January 2024.

5. Risk Management

5.1 All savings presented against the 2024/25 and 2025/26 savings targets will be fully risk assessed. This will ensure all savings are presented with a robust risk assessment prior to approval as part of the 2024/25 budget setting process.

6. Compliance issues

6.1 **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?** All implications and priorities will be considered

in the development of savings proposals alongside CLT and Cabinet Members. EMT engagement sessions ensure that there is alignment of proposals with City Council priorities, plans and strategies.

- 6.2 **Legal Implications:** Members have a statutory responsibility to ensure that the Council acts lawfully. The Council must set and maintain a legally balanced budget and must take steps to deal with any projected overspends and identify savings or other measures to bring budget pressures under control. Cabinet is responsible for preparing the annual Council budget in good time for the Council budget meeting on 27 February 2024.
- 6.3 Members are reminded in this context of their fiduciary duty to the Council Taxpayer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of the Council's resources.
- 6.4 The Council must comply with all relevant legal requirements to complete Council Tax Setting on 27 February 2024, including employment consultation and consultation with the public where appropriate on the implications of proposals as part of this process. The Council will make sure that Equality Impact Assessments and all appropriate statutory consultation takes place in the development of savings proposals. This will be referenced in future reports to Cabinet and City Council.
- 6.5 **Financial Implications:** Financial implications are included in the body of this report.
- 6.6 **Public Sector Equality Duty:** The Council will ensure that all actions taken in response to these recommendations are in line with the Public Sector Equality Duty, this includes aligning to Equality Impact Assessments completed in the development of savings proposals, and ensuring the impact of savings proposals are aligned to the Public Sector Equality Duty.

7. Appendices

- 7.1 Appendix 1 – Budget Timeline for 2024/25 and 2025/26 as of January 2024

Birmingham City Council

Audit Committee

31 January 2024



Subject: Treasury risk management arrangements
Report of: Interim Director of Finance (s151 Officer)
Report author: Mohammed Sajid, Assistant Director, Financial Strategy

Does the report contain confidential or exempt information? Yes No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :

1 Executive Summary

- 1.1 To update members on the Council's treasury risk management arrangements as set out in the draft 2024/25 Treasury Management Policy, Strategy and Treasury Management Practices.

2 Recommendation(s)

- 2.1 Audit Committee is recommended to:

2.1.1 Note and considers the Council's treasury risk management arrangements as set out in the attached draft 2024/25 Treasury Management Policy, Strategy and Treasury Management Practices.

3 Background

- 3.1 The functions of Audit Committee include "to review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices."

The Council's Treasury Management Policy and Strategy are approved in the annual Financial Plan by full Council, in accordance with CIPFA's Treasury Management Code for local authorities ("the CIPFA Code"). Quarterly monitoring of

treasury management activity is included in the financial monitoring and annual outturn reports to Cabinet.

3.2 Treasury Management is defined in the CIPFA Code as “the management of the organisation’s borrowing, investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

3.3 **Appendix 1** is a presentation outlining the main risk management processes and controls for treasury management in the Council. These processes and controls are set out in further detail in a set of key governing documents, in accordance with the CIPFA Code, which are attached for reference as follows:

Appendix 2 The Council’s Draft Treasury Management Strategy and Policy: these are the key documents that set out the main risk management processes and controls for Treasury Management in the Council. They will form appendices to the Budget Papers to be approved by City Council meeting, scheduled for 27 February 2024, and for transparency, are in that format. The numbers are likely to change from this version, as the Budget is finalised. They at this stage do not include the impact of any Exceptional Financial Support. The risk management principles will equally apply to that support.

Appendix 3 The Council’s Draft Treasury Management Practices (TMPs): these are operational procedures regulating day to day treasury activities, including the management of risk. They are referenced in the TM Policy paragraph 10.4. These are reviewed annually and are due to be approved by the Director of Finance (S151).

Appendix 4 Treasury management reporting and monitoring (Quarter 2 monitoring example attached): this is usually provided quarterly to Cabinet as part of the financial monitoring report, as well as to Resources Overview and Scrutiny. This includes monitoring of the treasury management and other Prudential Indicators (which are required by the CIPFA Prudential and Treasury Codes).

3.4 Training on treasury management is provided periodically for City Councillors.

4 Options considered and Recommended Proposal

4.1 Options relevant to each risk are contained within the presentation and Appendices.

5 Legal Implications

5.1 Risk management forms an important part of the internal control and governance framework within the Council.

6 Financial Implications

6.1 This is contained within the presentation and appendices.

7 Public Sector Equality Duty

7.1 There are no equality duty or equality analysis issues relating to the information set out in this report.

8 Other Implications

8.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 8.1.1 Risk management and sound internal controls underpin all the Council's priorities, plans and strategies.
- 8.1.2 Management is responsible for the implementation of a sound and effective system to manage risks effectively.
- 8.1.3 Audit Committee Members have a key role within the risk management and internal control process. This includes reviewing and providing the Executive with assurance on the embedding and maintenance of an effective system of corporate governance, including the Council's Corporate Governance Code and Framework, risk management framework, and the associated control environment.

9 Background Papers

- 9.1 None

10 Appendices

- 10.1 Appendix 1 Treasury Risk Management Powerpoint presentation
- 10.2 Appendix 2 The Council's Draft Treasury Management Strategy and Policy
- 10.3 Appendix 3 The Council's Draft Treasury Management Practices (TMPs)
- 10.4 Appendix 4 Treasury management reporting and monitoring

Birmingham City Council Audit Committee Treasury risk management arrangements

31 January 2024



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Treasury risk management

- Audit Committee's role
- Treasury and risk management
- The Council's TM Strategy highlights 2024-25
- Treasury Reporting and Monitoring

Audit Committee's role in relation to Treasury Management

Audit Committee's role: *(FP17 of BCC Financial Procedures)*

“(d) to review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices”.

The Treasury Policy and Strategy are approved by full Council in accordance with CIPFA's Treasury Management Code.

What is treasury management?

CIPFA Code definition:

- Management of borrowing, investments, and cashflows
- Management of banking, money market and capital market transactions
- Effective control of risks associated with these activities
- Pursuit of optimum performance consistent with risk appetite

The annual financial planning process determines how much the Council plans to borrow affordably or invest prudently;

The role of treasury management is to arrange and manage these borrowing and investments.

Guidance for managing treasury activities

Statutory requirement to have regard to:

- CIPFA's Code of Practice for Treasury Management in the Public Services (2021)
- CIPFA's Prudential Code for Local Authority Capital Finance (2021)
- The Government Guidance on Local Authority Investments (2018)

We comply with these

External professional advisers appointed (best practice)

Arlingclose Ltd provide us with regular treasury advice and support – but BCC is responsible for TM decisions.

Headline figures for Birmingham City Council

	£m value
Total loan debt outstanding As at 31 December 2023	£3.345bn
Total treasury investments As at 31 December 2023	£68m
Total value of transactions to Q2 2023/24	£2.080bn
Total draft treasury revenue budget 2024/25	£266m

Key risks and issues we manage

Liquidity and refinancing risk - the risk that the Council cannot obtain funds when needed

This is the main risk – would affect the functioning of the Council.

Risk has increased due to s114

How?

- Day to day Cash flow forecast – updated for planned daily payments and receipts
- Target a deposit balance of £40m for liquidity
- Maintain access to swift borrowing : Working Capital facility with Bank, good relationships with money brokers and other LA's
- Have limits on the maturity profile for borrowing – ensure too many loans do not mature in one year creating a refinancing risk

Key risks and issues we manage

Interest rate risk - the risk that future borrowing costs rise post budget

- Ensure certainty in the budget – reduce volatility of costs
- Lack of Short term lending has increased this cost by reducing flexibility
- 1% rise to forecast rates mean a £2.4m increase in interest costs

How?

- Optimal balance of short and long term debt - key objective is a stable charge to revenue, by having a limit of 30% on variable rate loan debt.
- Repay debt with any surplus receipts instead of investing
- Monitor the market and be flexible to take opportunities e.g. forward borrowing, repay loans early
- Not borrow too early or for too long (optimise cashflow)

Key risks and issues we manage

Credit risk - the risk of default in a Council investment

How?

- Regular review of investment grade credit criteria and investment limits (limit who we lend to/invest with and how much)
- Para 7.7 of Treasury Management Policy shows current criteria e.g. no more than £40m with any one financial institution, limit of £25m with other LA's
- Constantly monitor financial developments
- TM advisers monitor credit risk of financial institutions

Key risks and issues we manage

Environmental, Social & Governance (ESG) risk - the risk that the Council's treasury activities negatively impact sustainability and climate change.

How?

- Ensure investment counterparties such as money market funds are engaged with ESG as an issue for their investors.
- Consider ESG bonds such as green bonds as part of the Council's long term borrowing strategy.
- When making investment and borrowing decisions, the Council will seek positive ESG benefits alongside managing other treasury risks

TM Strategy for 2024/25

- Continue to maintain a balanced short term loans portfolio:
 - Target around £200m due to interest cost savings – this is about 16% of net loan debt
- Longer term borrowing for capital programme
 - Around £230m from the PWLB (subject to meeting conditions of not borrowing to fund assets primarily for yield) or through better value/flexibility of market loans.
- Maintain £40m treasury investments for liquidity
 - Liquid investments in high credit quality institutions such as Money Market Funds (MMFs).

BCC treasury reporting and monitoring

- Cabinet monitors TM activity as part of quarterly financial reporting (Appx C to monitoring report)
 - The full Q2 report is in Audit Committee papers (appendix 4)
 - includes summary dashboard to Cabinet - see next slide
 - includes decisions made by officers under delegations
- Prudential indicators reported as part of quarterly monitoring
 - Code requirement is only half yearly
- Monitoring from Treasury Management Panel
 - Regular meetings of senior finance officers has supportive role for treasury decision making

Summary dashboard: Q2 2023/24

TREASURY MANAGEMENT MONITORING DASHBOARD: 30 SEPTEMBER 2023				Appendix C1
	value	comparator	difference	
1	Gross loan debt at month end	£m	£m	£m
	3,237			
	year end Forecast (vs Plan)	3,331	3,502	-171
	year end Forecast (vs Pru Limit for loan debt)	3,331	4,151	-820
	Forecast year end debt is currently below the year end plan. The Forecast year end debt is well within the prudential limit for loan debt, set for unplanned cashflow movements.			
2	short term borrowing at month end (vs Plan)	283	453	-170
	interest rate year to date on outstanding deals (vs assumption)	4.85%	5.25%	-0.40%
	The Council's short term borrowing is mainly made up of loans agreed before the Council issued its S114 notice. Following the notice, the Council has seen a significant reduction in local authority lenders as most are unwilling to lend to local authorities who have issued a S114 notice. If these restrictions continue, the Council may need to rely on long term borrowing from the PWLB to meet any borrowing requirements in the second half of the year.			
3	Treasury investments at month end (vs Plan)	145	40	105
	interest rate year to date on outstanding deals (vs assumption)	5.24%	5.00%	0.24%
	In light of restricted short term lending from local authorities since the issuance of the S114 notice, the Council has sought to maintain a higher cash balance to reduce liquidity risk.			
4	Long term loans taken year to date (vs Plan)	5	120	-115
	ave. interest rate obtained (vs assumption)	4.00%	5.00%	-1.00%
	The £5m loan was a local authority loan taken in January 2023 with a duration of just over a year so has been classified as a long term loan. The Council is likely to need to take out long term loans from the PWLB in the second half of the year as planned and due to the restrictions in short term borrowing.			
5	Assurance			
	were Credit criteria complied with?	yes		
	were investment defaults avoided?	yes		
	was the TM Code complied with?	yes		
	were prudential limits complied with?	yes		
	These are key performance indicators for treasury management which in normal circumstances should all be yes. Investment quality is kept under continual review with support from the Council's treasury advisers.			

BCC's TM Policy (Appx to Budget 2024+)

- Sets TM objectives and risk appetite

“To assist the achievement of the City Council’s service objectives by obtaining funding and managing the City Council’s debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested.”
- Sets framework and controls for interest rate risk, credit risk, liquidity risk, ESG risk and other risks
- Describes Treasury delegations and reporting
- Outlines the Treasury Management Practices (TMPs)

BCC's TM Strategy (Appx to Budget 2024+)

Strategy for treasury management activity in the coming year:

- Identifies borrowing (and lending) needs
- Provides market outlook including interest rates and credit
- Proposes the types and sources of borrowing for the year
- Subject to change dependent on market conditions

TM Regulatory system in local government

- CIPFA Code for Treasury Management in local authorities (2021):
 - Full Council must approve a Treasury Strategy and a Policy annually, including prudential indicators for treasury
 - Treasury Management Practices must be approved and maintained
 - Risk management is at the centre of the Code

- Government Guidance on local authority investments (2018)
 - Full Council must approve Investment Strategy (as part of Treasury Strategy)
 - Must set out arrangements for regulating use of investments of high credit quality and lower credit quality
 - Detailed requirements for managing and reporting non-treasury investments

APPENDIX M: TREASURY MANAGEMENT POLICY 2024+

This is a draft version for Audit Committee only to demonstrate the management of Treasury risks. The figures quoted and details of the policy are to be finalised for approval as part of the Council's Budget at Full Council in February 2024

1. Overview

- 1.1. This appendix sets out the Council's proposed Treasury Management Policy. The policy sets the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

2. Statutory Guidance

- 2.1. This Treasury Management Policy, the Treasury Strategy, and the Service and Commercial Investment Strategy, comply with the statutory requirement to have regard to the following Codes and Guidance:
- CIPFA's Code of practice for Treasury management in the public services (2021)
 - CIPFA's Prudential Code for capital finance in local authorities (2021)
 - The Government's Statutory Guidance on Local Authority Investments (2018)

The Council has adopted the above Codes.

3. The Council's Treasury Management Objectives

- 3.1. The Council's treasury management objectives and activities are defined as:

"The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 3.2. Effective treasury management will provide support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management¹.

¹ Paragraphs 3.1, 3.2, 3.6 and the final sentence of 4.5 are required by the CIPFA Treasury Management Code

Treasury Management Risks

- 3.3. The Council attaches a high priority to a stable and predictable charge to revenue from treasury management activities, because borrowing costs form a significant part of the Council's revenue budget. The Council's objectives in relation to debt and investment can be stated more specifically as follows:

“To assist the achievement of the Council's service objectives by obtaining funding and managing the Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested.”

- 3.4. This does not mean that it is possible to avoid all treasury risks, and a balance has to be struck. The main treasury risks which the Council is exposed to include:

- Interest rate risk - the risk that future borrowing costs rise
- Credit risk - the risk of default in a Council investment
- Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed
- Environmental, Social and Governance (ESG) risks – the risk that the Council's treasury activities negatively impact sustainability and climate change.

- 3.5. The Treasury Management team has suitably qualified and trained staff to actively manage treasury risks within this Policy framework. However, staff resources are limited, and this may constrain the Council's ability to respond to market opportunities or take advantage of more highly structured financing arrangements. External advice and support may also be required. The following activities may for example be appropriate based on an assessment at the time, to the extent that skills and resources are available:

- the refinancing of existing debt
- borrowing in advance of need, and forward-starting loans
- leasing and hire purchase
- use of innovative or more complex sources of funding such as listed bond issues, private placements, ESG bond issues and private placements, commercial paper, Islamic finance, and sale and leaseback structures
- investing surplus cash in institutions or funds with a high level of creditworthiness, rather than placing all deposits with the Government

- 3.6. The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council's treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the

organisation, and any financial instruments entered into to manage these risks.

- 3.7. The Council's approach to the management of treasury risks is set out in the rest of this Treasury Management Policy.

4. Managing Treasury Risks²

Interest Rate Exposures

- 4.1. It is important for the Council to manage its interest rate exposure due to the risk that changes in the level of interest rates leads to an unexpected burden on the Council's finances. As the Council has and expects to have significant loan balances, rather than investment balances, a rise in interest rates poses greater risks for the Council.
- 4.2. The stability of the Council's interest costs is affected by the level of borrowing exposed to short term or variable interest rates. Short term interest rates are typically lower, so there can be a trade-off between short term savings and long term budget stability. The Council will therefore limit the amount of short term debt it holds in order to manage its variable interest rate exposure. The Council will monitor the impact of a 1% interest rate rise on the General Fund, to ensure that it can adequately protect itself should this or a similar scenario occur:

Table N.1 Prudential Limits - Interest Rate Exposure

	2024/25	2025/26	2026/27	2027/28
General Fund impact of an unbudgeted 1% rise in interest rates	£-0.4m	£0.5m	£0.8m	£0.3m
Upper limit on net variable rate exposures	30%	30%	30%	30%

- 4.3. The above table shows variable rate exposure for the General Fund is expected to be lower than previous years. This is due to lower planned short term borrowing as a result of a more restrictive local authority lending market especially since the Council issued its Section 114 notice. The current planned variable rate exposure is set out in the Treasury Management Strategy Appendix L.
- 4.4. Decisions taken to borrow in advance of need will consider all treasury risks together, including interest rate risk and investment risk (credit risk). Such decisions need to weigh the financial implications and risks of deferring borrowing until it is needed (by which time fixed interest rates may have risen), against the cost of carry and financial implications of reinvesting the

² Throughout this Financial Plan, debt and investments are expressed at nominal value, which may be different from the amortised cost value required in the statutory accounts.

cash proceeds until required. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the forecast capital programme, to replace maturing loans, or to meet other expected cashflows.

Maturity Profile

4.5. The Council will have regard to forecast Gross Loan Debt in managing the maturity profile. This takes account of forecast cashflows and the effect of MRP (minimum revenue provision for debt repayment) to produce a liability benchmark against which the Council’s actual debt maturity profile is managed. Taking this into account the proposed limits are as follows:

Table N.2 Prudential Limits - Maturity Structure of Fixed Rate Borrowing

	lower and upper limits:
under 12 months	0% to 30% of gross loan debt
12 to 24 months	0% to 30%
24 months to 5 years	0% to 30%
5 to 10 years	0% to 30%
10 to 20 years	5% to 40%
20 to 40 years	10% to 60%
40 years and above	0% to 40%

4.6 An exception to this could be borrowing for a capitalisation direction where there is a high potential for the borrowing to be repaid at a particular point in time due to expected cash inflows or contribution from revenue budget and savings. Such exceptions will be subject to due diligence for prudence.

5. Investment Policy: All Investments

5.1. The CIPFA Prudential and Treasury Codes recommend that authorities’ capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- Treasury management investments, which are taken to manage cashflows and as part of the Council’s debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return
- Service investments, which are taken mainly to support service outcomes

The Government's investment guidance strengthens the management and reporting framework relating to commercial and service investments.

6. Investment Policy: Service and Commercial Investments

- 6.1. Service and commercial investments are taken out for different reasons from treasury management investments. The Council's strategy for such investments, including commercial property investments, is set out in the relevant policy document.

7. Investment Policy: Treasury Management Investments

- 7.1. The Council is a substantial net borrower and usually only has cash to invest for relatively short periods, as a result of positive cashflow or borrowing in advance of expenditure. Due to the Council's current financial situation and capitalisation needs, any non-temporary 'surplus' cash will be used to reduce the Council's borrowing needs.
- 7.2. The Council's cashflows and treasury management activity will generally result in temporarily surplus cash to be invested. The following paragraphs set out the Council's policy for these 'treasury management' investments.
- 7.3. The investment of temporarily surplus cash results in credit risk, i.e. the risk of loss if an investment defaults. In accordance with Government investment guidance, the Council distinguishes between:
- 'Specified Investments' which mature within 12 months and have a 'high credit quality' in the opinion of the authority
 - 'Non-specified Investments' which are long term investments (i.e. maturing in 12 months or more), or which do not have such high credit quality. The Government views these as riskier. Such investments require more care, and are limited to the areas set out in the policy for Non-specified Investments below
- 7.4. Low investment risk is a key treasury objective, and in accordance with Government and CIPFA guidance, the Council will seek a balance between investment risk and return that prioritises security and liquidity as more important than achieving a high return. The Council will also consider secured forms of lending such as covered bonds, but these instruments are not generally available for short term and smaller size deposits.
- 7.5. The Council seeks to be a responsible investor and will consider ESG factors within the relatively narrow scope of its investments. The Council makes few if any investments in listed equities or bonds and will seek to avoid investment in companies whose business do not have regard to ESG objectives.

- 7.6. The Council will continue to make deposits only with institutions having high credit quality as set out in the Lending Criteria table below. The main criteria and processes which deliver this are set out in the following paragraphs.

Specified Investments

- 7.7. The Council will limit risks by applying lending limits and criteria for 'high credit quality' as shown in Table N.3; these limits have been set by the Council in consultation with Treasury advisors.

Table N.3 Lending Criteria

'Specified' short term loan investments (all in Sterling)	Minimum Short term rating*	Minimum Long term rating*	Maximum investment per counterparty
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short term and Enhanced)	AAA (with rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	None
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the collateral or individual investment		

* Fitch / S&P / and Moody's rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

- 7.8. Money may be lent to the Council's own banker, in accordance with the above lending limits. However, if the Council's banker does not meet the above criteria, money may only be lent overnight (or over the weekend), and these balances will be minimised.

- 7.9. Credit ratings are monitored on a real-time basis as provided via the Council's Treasury Management advisers, Arlingclose, and the Council's lending list is updated accordingly, when a rating changes. Other information is taken into account when deciding whether to lend. This may include the ratings of other rating agencies; commentary in the financial press; analysis of country, sector and group exposures; and the portfolio make up of Money Market Funds (MMFs). The use of particular permitted counterparties may be restricted if this is considered appropriate.
- 7.10. Credit rating methodologies and credit limit requirements may change as the circumstances demand: in this event the Director of Finance (Section 151 Officer) may determine revised and practicable criteria seeking similarly high credit quality, pending the next annual review of this treasury management policy.

Non-specified Investments and Limit

- 7.11. For treasury management investment purposes, the Council will limit non-specified investments to £400m (there are presently none), and will use only the following categories of non-specified investments:
- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years: up to 100% of non-specified investments
 - Covered bonds and repo where the security meets the Council's credit criteria set out above: up to 50% of non-specified investments
 - Unsecured corporate bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to the Lending Criteria in the table above: up to 20% of non-specified investments
- 7.12. Other categories of non-specified investments will not be used for treasury management purposes.

Investments of Group companies

- 7.13. The Council participates in a range of joint ventures and companies. The Treasury Management team maintains a group Treasury Policy for group entities with significant investment balances, with the objective that the treasury investments of the companies are invested consistently with the Council's own treasury investment criteria. This is generally achieved by the Council taking deposits at a commercial rate from the companies.

Investment Maturity

- 7.14. Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the Council will plan to have surplus cash for longer than three years. However, where surplus cash for over 12 months is envisaged, it

may be appropriate to include some longer term (non-specified) investments within a balanced risk portfolio. The following limits will be applied:

Table N.4 Prudential Limits on Long-term treasury management investments :

1-2 years	£400m
2-3 years	£100m
3-5 years	£100m

- 7.15. In making investments in accordance with the criteria set out in this section, the Director of Finance (Section 151 Officer) will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will usually earn less than riskier ones.
- 7.16. Where the Council deals with financial firms under the MiFID II regulations³, it has requested to be opted up to 'professional' status. This means that the Council does not receive the level of investment advice and information which firms are required to provide to retail investors. Professional status is essential to an organisation of the Council's size, to give it access to appropriate low-risk investments available only to investors classed as professional, and to ensure that it is able to act quickly to invest Council funds safely and to earn a good return.
- 7.17. The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if investment managers are appointed, their lending of Council funds would not be subject to the above restrictions, provided that their arrangements for assessing credit quality and exposure limits have been agreed by the Director of Finance (Section 151 Officer).

8. Policy for HRA Loans Accounting

- 8.1. The Council attributes debt and debt revenue consequences to the HRA using the 'two pool' method set out in the CIPFA Treasury Management Code. This method attributes a share of all pre-April 2012 long term loans to the HRA. Any new long term loans for HRA purposes from April 2012 are separately identified. The detailed accounting policy arising from the 'two pool' method is maintained by the Director of Finance (Section 151 Officer).

9. The Council Acting as Agent

- 9.1. The Council acts as intermediary in its role as agent for a number of external bodies. This includes roles as accountable body, trustee, and custodian, and these may require the Council to carry out treasury management operations

³ The Markets in Financial Instruments Directive 2 (MiFID II) regulates, amongst other things, the way that financial firms provide advice to various categories of client.

as agent. The Director of Finance (Section 151 Officer) will exercise the Council's treasury responsibilities in accordance with the Council's treasury delegations and relevant legislation, and will apply any specific treasury policies and requirements of the external body. In relation to the short term cash funds invested as accountable body, the Council expects to apply the investment policy set out above.

10. Reporting and Delegation

- 10.1. A Treasury Management Strategy report is presented as part of the annual Financial Plan to the Council before the start of each financial year. Monitoring reports are prepared monthly, and presented quarterly to Cabinet, including an Annual Report after the year end.
- 10.2. The management of borrowings, loans, debts, investments and other assets has been delegated to the Director of Finance (Section 151 Officer) acting in accordance with this Treasury Management Policy Statement. This encompasses the investment of trust funds where the Council is sole trustee, and other investments for which the Council is responsible such as accountable body funds. The Director of Finance (Section 151 Officer) reports during the year to Cabinet on the decisions taken under delegated treasury management powers.
- 10.3. In exercising this delegation, the Director of Finance (Section 151 Officer) may procure, appoint and dismiss brokers, arranging and dealer banks, investment managers, issuing and paying agents, treasury consultants and other providers in relation to the Council's borrowing, investments, and other treasury instruments and financing arrangements, and in relation to funds and instruments where the Council acts as agent.
- 10.4. The Director of Finance (Section 151 Officer) maintains statements of Treasury Management Practices in accordance with the Code:

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications

TMP11	Use of external service providers
TMP12	Corporate governance

Similarly, Investment Management Practices for service and commercial investments are prepared in accordance with the Treasury Management Code.

11. Training

- 11.1. Planned and regular training for appropriate treasury management staff is essential to ensure that they have the skills and up to date knowledge to manage treasury activities and risks and achieve good value for the Council. Staff training will be planned primarily through the Council's performance and development review process, and in accordance with Treasury Management Practice 10. Training and briefings for Councillors are also held as appropriate.

DRAFT

DRAFT TREASURY MANAGEMENT STRATEGY

This is a draft version for Audit Committee only to demonstrate the management of Treasury risks. The figures quoted and details of the strategy are to be finalised for approval as part of the Council's Budget at Full Council in February 2024

1. Summary

- 1.1. This appendix sets out the proposed Treasury Management Strategy for 2024/25 given the Council's current financial position, its treasury needs for the year and the interest rate outlook, and in accordance with the Treasury Management Policy.
- 1.2. On 5 September 2023 the Council's Interim Director of Finance (Section 151 Officer) issued a notice under Section 114(3) of the Local Government Finance Act 1988. The Council is in a challenging financial position primarily because it has insufficient resources to meet the expenditure required in relation to the costs of providing for Equal Pay claims. Its planned Financial Recovery Plan will have a significant impact on the Council's treasury management strategy for 2024/25.
- 1.3. The Council is intending to make an application to the Government for Exceptional Financial Support (EFS). This is likely to be in the form of a capitalisation direction. A condition of the EFS may be that all borrowings from the PWLB after the Direction will be subject to a premium for as long as the Council's Capital Financing Requirement (CFR) includes amounts related to the Capitalisation Direction. In addition to the premium the Council will also need to make annual provisions for the repayment of any borrowed amounts part of the Capitalisation Direction in line with its MRP policy or Government directions, if any.
- 1.4. At the time of writing this Strategy a 1 percentage point premium on such borrowings has been assumed, along with a repayment period of 20 years.
- 1.5. The Council proposes to continue with a balanced borrowing strategy that maintains a proportion of short term and variable rate loan debt, whilst taking long term or fixed rate borrowing to maintain an appropriate balance between the risks of fixed rate and variable rate borrowing. However, this strategy will be kept under review by the Director of Finance (Section 151 Officer) within the context of Financial Recovery and the availability of short-term loans. Any short-term loans will be maintained within the prudential limit for variable rate exposures.

- 1.6. Separate loan portfolios are maintained for the General Fund and the HRA; therefore, separate treasury strategies are set out below where relevant¹.
- 1.7. Externally, a weaker economic outlook for the UK with uncertainty around inflation and interest rate expectations, uncertain government policy with an upcoming general election and geopolitical risk from the conflict in Ukraine and the Middle East will also have a major influence on the Council's treasury management strategy for 2024/25.

2. Treasury Management Policy and Objectives

- 2.1. The Treasury Management Policy sets the Council's objectives and provides a management and control framework for its Treasury Management activities, in accordance with CIPFA's Code of Practice for Treasury Management in the Public Services.
- 2.2. For the Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss. The Strategy will try to minimise the cost of borrowing to the Council whilst balancing its security and liquidity risks.
- 2.3. Due to the importance of environmental, social and governance (ESG) issues including climate emergency agendas, the Council will continue to consider ESG factors in the context of its treasury activities.
- 2.4. These objectives must be implemented flexibly in the light of changing market circumstances.

3. Council Borrowing Requirement

- 3.1. The Council's forecast of its required gross loan debt (excluding the Capitalisation direction) is a combination of its forecast capital expenditure funded from borrowing, reduced by the amounts set aside to repay debt, and short term cashflows. The Council's gross loan debt is forecast to increase in forthcoming years due to significant investments required for the Housing Revenue Account (see paragraph 9.2 below). If additional capital expenditure funded from borrowing is decided on in the future, this will further increase the debt levels.

Table J.1 Forecast Borrowing Requirement

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Forecast gross loan debt	3,249.1	3,567.4	3,618.0	3,656.3
Forecast treasury investments	(40.0)	(40.0)	(40.0)	(40.0)

¹ This Strategy relates to loan debt only. Other debt liabilities relating to PFI and finance leases are not considered in this Strategy and are managed separately. Throughout this Financial Plan, debt and investments are expressed at nominal value, which may be different from the valuation basis used in the statutory accounts.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Forecast net loan debt	3,209.1	3,527.4	3,578.0	3,616.3
of which:				
long term loans outstanding	2,843.5	2,784.7	2,717.9	2,581.9
Short term investments working balance	(40.0)	(40.0)	(40.0)	(40.0)
Required new/ replacement loan balance	405.5	782.7	900.1	1,074.4
	3,209.1	3,527.4	3,578.0	3,616.3

3.2 Most of the Council's loan debt is funded from existing long-term loans which mature over periods of up to 40 years or more. Table J.1 above shows that the Council's outstanding long-term loans decrease over the next few years as they are repaid upon maturity. This means that its new loans requirement will increase in order to meet the forecast net loan debt.

3.3 This strategy sets out how the Council plans to obtain the required new borrowing shown above, by a combination of short term and long-term borrowing, where short term lenders are available (see paragraph 5.6 below).

3.2. The Council currently has £61.1m of Lender's Option Borrower's Option (LOBO) loans outstanding. For these loans, the lender has the right to increase the interest rate at certain dates during the loan term; in this event the Council has the option to accept the rate increase or repay the loan immediately without penalty. In May 2023, a £10m LOBO loan held with Dexia was repaid after the bank exercised its option to raise the interest rate. In November 2023 the Council chose to accept a rate increase on a £10m LOBO loan held with Erste as the new rate was well below forecast market rates at the time.

3.3. During 2024/25, £41.1m of the Council's LOBO loans have the potential to be exercised. As market interest rates remain relatively high, further LOBO lenders may choose to exercise their option. If LOBO loan options are exercised, the Council will look to repay these loans through refinancing where this is financially viable.

3.4. In previous years the Council has repaid some of its LOBO loans early. In May 2019, £30m of LOBO loans held with Commerzbank were repaid early following negotiations with the bank. The repayments resulted in a significant saving for the Council, and it removed a substantial amount of LOBO loans from its loans portfolio. The Council will consider further loan restructuring opportunities for its entire loans portfolio if they become available and where they provide a cost saving or a reduction in risk.

4. Interest Rate and Credit Outlook

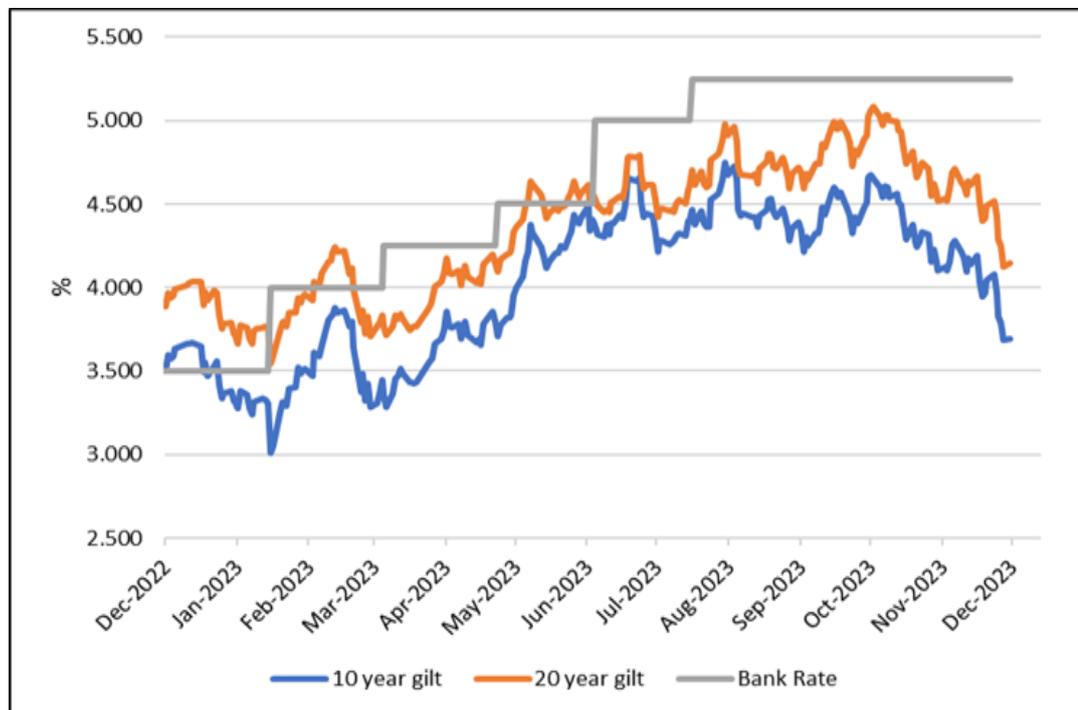
- 4.1. UK Bank Rate is fundamental for the Council's treasury management activity, in terms of expenditure on loan interest where new loans are taken out and on income received from investments. UK Bank Rate is set by the Bank of England's Monetary Policy Committee (MPC) and their interest rate outlook is influenced by domestic and international economic and political developments.
- 4.2. To combat high and persistent inflation in the UK, the Bank of England made consecutive increases to Bank Rate from December 2021 to reach 5.25% by September 2023. Monetary policy appears to have had the desired effect with UK inflation, measured by the Consumer Prices Index (CPI), falling to 3.9% in November 2023, down from a high of 11.1% observed in October 2022.
- 4.3. With the decreasing inflation numbers, the MPC has paused further Bank Rate rises. Financial markets now indicate rates have peaked and have priced in rate cuts from Q1 2024/25. The impact of interest rate rises is already being felt in the UK with GDP growth remaining below pre-pandemic rates in the medium term. GDP is forecast to rise by 0.4% in 2023 and by 1.0% in 2024. However, the MPC continues to warn about retaining tight financial conditions in the UK whilst service inflation and wage growth remain elevated. Continued economic uncertainty means the MPC has not ruled out further increases to Bank Rate in order to return inflation to its target of 2%.
- 4.4. Arlingclose, the Council's treasury advisor, has forecast the Bank Rate to have peaked at 5.25% and do not expect rate cuts until Q3 2024/25 and only when the MPC are confident that risks of 'second round' effects of inflation (e.g. on wage growth) are diminished. Given the level of uncertainty over economic growth and interest rates the Council has taken a prudent view on Bank Rate for the treasury budget by the end of 2024/25.
- 4.5. Upside risks to UK interest rates in 2024/25 include:
- Persistence of inflation where the UK economy remains resilient to the recent rate hikes
 - Continued wage growth and high vacancies in the UK labour market
 - Increased energy prices due to continued geo-political risks from the conflict in Ukraine, the Middle East and elsewhere

Downside risks to UK interest rates include:

- Impact of UK recession causes UK GDP to fall by more than expected with inflation falling below the target of 2%.
- Higher than expected falls in the level of unemployment
- Risks of economic downturns in the US and China causing a global slump

4.6. Longer term interest rates are typically represented by UK Government Gilt yields. Figure J.2 below charts Gilt yields and Bank Rate over the past year.

Figure J.2 Bank Rate and Gilt Yields



4.7. Gilt yields increased significantly during 2023 in line with interest rate increases and expectations for interest rates. Since October 2023 gilt yields have fallen sharply as the market currently expects Bank Rate to have peaked with rate cuts expected from the middle of next year. However, considerable uncertainty remains around future Bank of England monetary policy.

4.8. Gilt yields are still near the higher levels seen before the financial crisis of 2008 and are no longer at the historically low levels seen in the last decade. The Council expects long-term gilt yields to remain relatively higher than in the past, partly due to quantitative tightening, with periodic volatility arising from both economic and political events.

4.9. The credit outlook for banks relates to their risks for default and became more significant following the 2015 Bank Recovery and Resolution Directive (BRRD). Here a failing bank would need to be 'bailed in' by current investors instead of being 'bailed out' by the Government, thus increasing the risk of loss for local authorities holding unsecured bank deposits.

4.10. With the UK economy expected to experience a downturn due to the effects of higher interest rates, the risks for UK banks are heightened as shown by recent volatility in UK bank Credit Default Swap (CDS) prices. However, the banking sector is generally better positioned to withstand shocks to the

economy due to their required capital positions. The Council will continue to monitor bank credit worthiness and seek the advice of its treasury advisor, Arlingclose.

5. Borrowing strategy

5.1. The Council's capital investment programme allows it to deliver key priorities such as economic regeneration, transport, housing and school improvements, and to support service transformation. The capital investment programme can be funded from government grants, revenue resources, capital receipts from asset sales and prudential borrowing.

It can be appropriate for the Council to borrow to fund its capital expenditure. However, given the Council's current financial situation and expected capitalisation direction, borrowing for capital purposes is being kept to an absolute minimum.

5.2. Although borrowing costs (including interest costs and repayment charges) reflect a substantial investment in capital, the Council will ensure borrowing for the capital programme remains at an affordable and sustainable level. The Council periodically reviews its capital programme and associated prudential borrowing requirements and will reduce this where it can as long as it does not impede the Council's key priorities.

5.3. Borrowing costs are also managed by the type of loans the Council takes. As part of its borrowing strategy, the Council has previously targeted a short term or variable rate loans balance (less than 12 months) of around £600m, to take advantage of lower short term borrowing rates. Although short term rates increased significantly during 2023/24 they are not forecast to go much higher in 2024/25.

5.4. It is proposed to try to continue to maintain a short term loans portfolio for 2024/25 although not at the levels targeted in the past. This will in part depend on the availability of short term loans. The balance of the Council's borrowing needs is proposed to be met through long term borrowing (i.e. for periods of one year or more).

5.5. During 2023-24 there has been a notable reduction in the supply of short term local authority lenders. More significantly, the Council's issuance of a Section 114 Notice has meant the number of lenders willing to lend to the Council has considerably reduced. Both of these factors are likely to impact on the Council's ability to source new short term funding. Where short term funding cannot be sourced it will be replaced with long term borrowing.

5.6. Based on this strategy, the following table summarises, for the Council as a whole, the new long term and short term borrowing proposed to fund the required new or replacement borrowing each year:

Table J.3 Proposed Borrowing Strategy

Cumulative new borrowing:	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
total long term loans	230.0	470.0	580.0	730.0
total short term loans	175.6	312.7	320.1	344.4
Required new/ replacement loan balance	405.6	782.7	900.1	1,074.4

5.7. This strategy results in a forecast for new long term loans in the next four years to meet the required loan balance. The Council may still reprofile new long term loans during this period depending on market conditions. Although future borrowing rates are not forecast to be significantly higher than current rates, the outlook is uncertain and taking some long term loans earlier may remove some refinancing risk.

6. Short term borrowing

6.1. The Council's short term borrowing needs are largely met through other local authorities who lend their surplus cash balances at comparatively low rates. Loans from local authorities are deemed to meet the Council's ESG considerations as surplus funds will have been obtained from sources with public service objectives.

6.2. As mentioned in paragraph 5.7 above, the Council has experienced limited availability of loans from local authority lenders since it issued its Section 114 notice and this may continue into 2024/25. The Council has sought to diversify its sources of short term borrowing from reliance on the local authority lending market. The Council currently has a Working Capital Facility available with its bankers should it require loans for a short period. However this Facility would not be able to meet the Council's total requirements for short term borrowing.

6.3. Short term and variable rate exposures remain within the 30% prudential limit set out in Appendix J.4.

6.4. It should be noted that a possible scenario is that short term and long term interest rates may rise (or are expected to rise) more sharply than currently forecast. A higher level of long term borrowing may be taken if appropriate to protect future years' borrowing costs.

7. Long Term Borrowing

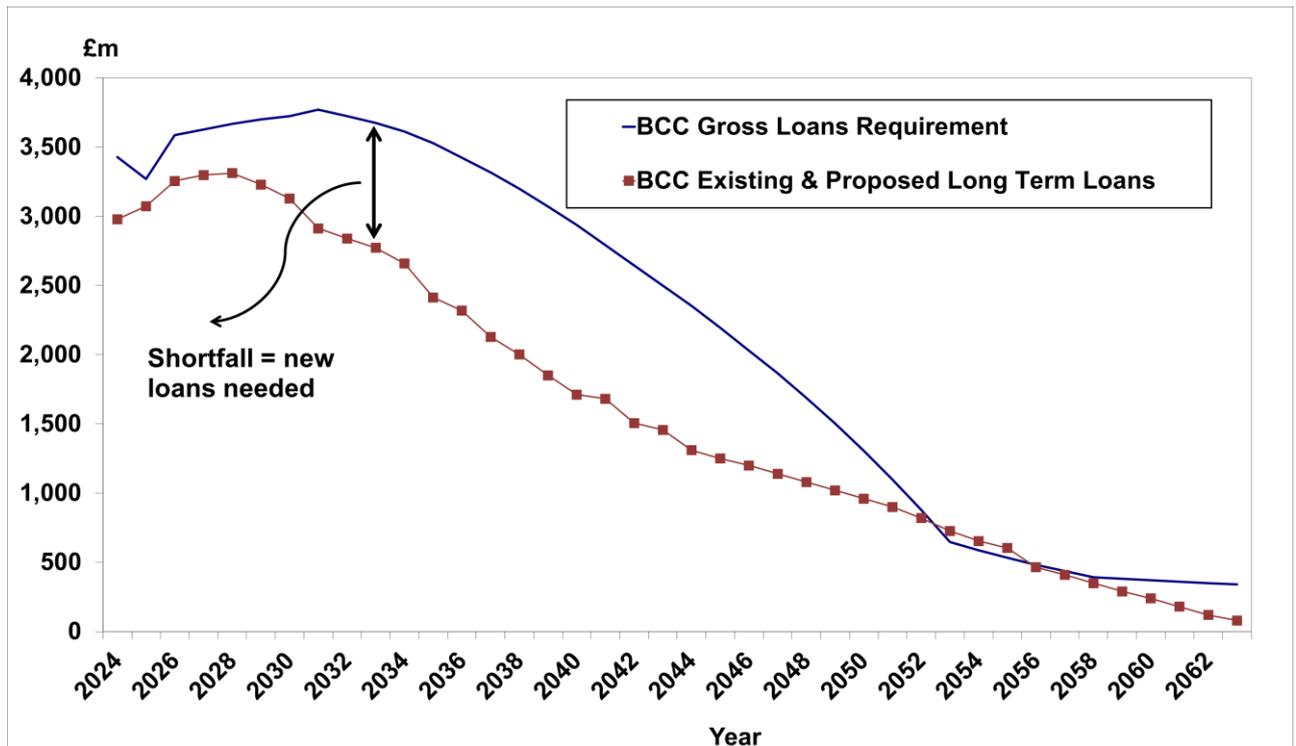
7.1. The main source of long term borrowing for local authorities has been the Public Works Loans Board (PWLB), managed by HM Treasury. PWLB lending comes with the condition that local authorities would not be able to access PWLB loans if their 3 year capital programme included capital expenditure primarily for yield. The Council has not undertaken, nor has plans to undertake any investments primarily for yield.

- 7.2. The PWLB rate is likely to offer a cheaper and quicker route to borrowing than alternative sources of borrowing. For value for money, it is important that the Council continues to meet the PWLB's lending criteria.
- 7.3. The Council is aware that its Financial Recovery will likely require additional Exceptional Financial Support (EFS) from the Department of Levelling Up, Housing and Communities (DLUHC) including capitalisation to cover provisions for Equal Pay, capitalisation costs involved in a redundancy scheme, and the forecast budget deficit 2024/25. The Council will need to be mindful of the criteria for borrowing from the PWLB under these circumstances including the potential premium being charged.
- 7.4. The Council will continue to monitor market developments and will seek to use and develop other funding solutions if better value may be delivered. Again, any request for EFS from DLHUC is likely to have an impact on the Council's ability to source long term funding from other sources alternate to the PWLB.
- 7.5. Other sources of long term borrowing which could be considered if available and the terms are suitable, include listed and private placements, bilateral loans from banks, local authorities or others, Islamic forms of finance and sale and leaseback arrangements.
- 7.6. The Council may consider forward starting loans from capital markets, where the interest rate is fixed in advance, but the cash is received in later years. This would be beneficial when interest rates are forecast to rise in later years and the Council has a future borrowing requirement.
- 7.7. Debt capital markets have indicated ESG bonds or ESG private placements could be competitive when compared to the PWLB, due to a lack of supply and increasing demand from institutional investors. ESG bonds are used to finance projects that support environmental and social goals. Most local authority capital schemes, including significant aspects of Birmingham's capital programme, could be linked to ESG objectives and fit the criteria for an ESG bond. The Council may consider the use of ESG bonds in sourcing long term borrowing, should they be available and if they provide better value through lower costs and rates when compared to PWLB borrowing.
- 7.8. The Council may also restructure existing loans and other long term liabilities e.g. by premature repayment and replacement with new loans.

8. Liability benchmark

- 8.1. The Council's loan maturity profile can be compared with the level of loan debt outstanding required by this Financial Plan (excluding potential Capitalisation Direction), as follows:

Figure J.4 BCC Loans Outstanding vs. Gross Loans Requirement



8.2. The Gross Loans Requirement in Figure J.4 represents the level of outstanding loan debt required by this Financial Plan. It takes account of existing loans outstanding plus planned prudential borrowing; this reduces over time as a result of the Minimum Repayment Provision (MRP) for debt. The difference between the Gross Loans Requirement and Existing & Proposed long term loans represents forecast long term and short term borrowing or investments. The Gross Loans Requirement represents a liability benchmark against which to measure the amount and maturity of required borrowing. In practice, future borrowings would never allow the outstanding loans to reach nil as matured debt is replaced by debt for new capital projects.

8.3. The shortfall in the medium term as shown in the chart is planned to be met by a short term loans portfolio, in line with the current strategy, although this may be restricted by the availability of local authority lenders following the Council's issuance of its Section 114 notice (see paragraph 5.7 above).

8.4. The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Appendix N (of the Financial Plan), including a summary loan debt maturity profile.

8.5. The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Director of Finance (Section 151 Officer) in accordance with treasury management delegations.

9. HRA and General Fund Treasury Strategies

9.1. The Housing Revenue Account (HRA) inherited a largely long term fixed rate debt portfolio at the start of the current HRA finance system in 2012. As a result, the Council has previously looked to increase the HRA's exposure to short term loans whenever possible.

9.2. The current HRA Business Plan has substantial investment plans for its existing housing stock in order to achieve compliance with Decent Homes Standards. As the HRA seeks to increase its prudential borrowing levels significantly in the next few years, the Council will supplement the HRA with further long term loans, a significant factor in the Council's overall net loan debt increasing over the next few years.

9.3. The following table shows how net loan debt for the HRA increases as a result of forecast new long term debt. Conversely net loan debt for the General Fund reduces over the same period although some new debt will be required:

Table J.5 Forecast net loan debt for the HRA and General Fund based on the Proposed Borrowing Strategy

<i>Cumulative debt (taking account of debt maturities and proposed long term borrowing)</i>	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Housing Revenue Account				
Year end net exposure to variable rates	235.0	286.8	330.1	353.1
Existing HRA long term debt	872.1	857.3	850.8	840.1
Forecast HRA new long term debt	180.0	330.0	440.0	590.0
Closing HRA net loan debt	1,287.1	1,474.0	1,620.9	1,783.2
General Fund				
Year end net exposure to variable rates	-40.6	52.7	85.9	33.6
Existing GF long term debt	1,912.6	1,860.7	1,731.1	1,659.6
Forecast GF new long term debt	50.0	140.0	140.0	140.0
Closing General Fund net loan debt	1,922.0	2,053.3	1,957.0	1,833.2
Year end variable interest rate assumption	5.50%	4.25%	4.00%	4.00%
Year end fixed interest rate assumption	4.50%	4.25%	4.00%	4.00%

Note: the variable rate figures above include long term loans maturing in less than a year net of short term investments.

9.4 Variable rate exposure means that a 1% rise in variable rates at the end of 2024/25 would cost an estimated £2.4m per annum for the HRA and neutral for the General Fund. The budget provides for a potential increase in variable rates (as shown above), which is considered to be prudent in this context. Variable rate exposure for the HRA and General Fund are likely to be lower than previous years due to the limited availability of local authority lenders since the Council issued its Section 114 notice.

9.5 This strategy therefore acknowledges the risk that maintaining a significant variable rate loan debt may result in increased borrowing costs in the longer term, but balances this against the savings arising from cheaper variable interest rates. The Director of Finance (Section 151 Officer) will keep the strategy under close review during the year, in light of the Council's financial position and the outlook for interest rates.

10. Treasury Management Revenue Budget

10.1 Based on this strategy the proposed budget figures (excluding Capitalisation Direction) are as follows:

Table J.6 Treasury Management Revenue Budget

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Net interest costs	136.2	137.0	139.1	141.6
Revenue charge for loan debt repayment	123.8	129.9	138.9	143.0
Other charges	5.8	6.5	5.8	5.8
Total	265.8	273.4	283.9	290.4
Met by the HRA	64.0	67.6	71.9	76.2
Met by the General Fund	201.8	205.8	211.9	214.3
Total	265.8	273.4	283.9	290.4

10.2 The budgeted interest cost in each year reflects a prudent view of borrowing costs and the cost of the additional borrowing in this Financial Plan. Actual interest costs will be affected not only by future interest rates, but also by the Council's cash flows, the level of its revenue reserves and provisions, and any debt restructuring.

10.3 Investment Strategy

10.3.1 The Council has surplus cash to lend only for short periods, as part of day-to-day cashflow management and to maintain appropriate cash liquidity. A month end investment balance of £40m in deposits is used as guidance in order to maintain adequate liquidity to meet uncertain cashflows. Any such surplus cash is invested in high credit quality institutions and pooled investment funds such as Money Market Funds (MMFs). MMFs are expected to continue to form a major part of the cash investment portfolio, as they are able to reduce credit risks in a way the Council cannot do independently, by accessing high quality institutions and spreading the risk more widely.

10.3.2 In terms of the Council's ESG considerations for its investment strategy, MMFs are not typically managed with the explicit or implicit aim of being an ESG or 'ethical' product. MMF managers have varying approaches to ESG incorporation with many preferring active engagement, using their shareholding and voting rights to influence and improve corporate behaviour and responsibility.

10.3.3 The ESG credentials of the MMFs that the Council invests in have been reviewed, based on information provided by individual MMFs. All MMF managers have engaged with ESG as an issue for their investors and the Council will consider those MMFs that show a genuine commitment to incorporate ESG as a source of enhanced financial risk management.

10.3.4 Long term investments of one year or more are not currently expected to be appropriate for treasury management purposes, as the Council does not expect to have temporary surplus cash to invest for that length of time.

10.4 Other Treasury Management Activities and Exposures

10.4.1 The Council has a Treasury Management Panel consisting of senior Finance Officers and treasury officers at the Council. The Council's Treasury Management Panel meets regularly and acts as an advisory body, providing guidance, support and scrutiny to decisions made by treasury officers.

10.4.2 The Council has guaranteed the £73m loan debt issued by NEC (Developments) Plc, which since the sale of the NEC Group has been a wholly owned subsidiary of the Council. The value of this liability, due to mature in 2027, is reflected in the Council's own debt and is managed as part of treasury activity.

10.4.3 The Council is a constituent member of the West Midlands Combined Authority (WMCA). Participating authorities share an exposure to any unfinanced revenue losses of WMCA, including debt finance costs. The Council and other member authorities support WMCA's capital

investment plans, which include substantial prudential borrowing (subject to revenue funding support). This exposure is managed through the authorities' voting rights in WMCA including approval to its annual revenue and capital budget.

10.5 Advisers

10.5.1 Arlingclose Limited are appointed to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisers are a useful support in view of the size of the Council's transactions and the pressures on staff time. Arlingclose were reappointed as the Council's treasury management advisor following a competitive tender exercise during 2022/23.

10.6 Prudential Indicators for Treasury Management

10.6.1 The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management..

APPENDIX 3: TREASURY MANAGEMENT PRACTICES

The Budget Report approved by the City Council every year confirms the City Council's adoption of the CIPFA Code of Practice for Treasury Management in the Public Services ("the TM Code"). The TM Code requires Treasury Management Practices (TMPs) to be maintained. The following TMPs have been revised in accordance with the revised TM Code of 2021.

Organisations are permitted by the Code to amend CIPFA's standard text for TMPs "where necessary to reflect the particular circumstances of the organisation". Some amendments have been made to reflect the City Council's circumstances (for example, the TMPs cover a wide range of public bodies and some issues are not so significant for local authorities). For the sake of accountability all departures from the standard text are shown *in italics* or ~~struck through~~ as appropriate.

The TMPs require a number of detailed Schedules to be produced (whose content is not prescribed). They are working documents and are approved by the S151 Officer (they can also be updated for factual changes by TM staff).

The "responsible officer" referred to in the TMPs is the S151 Officer.

TMP 1 Risk Management

General statement

The City Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the City Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedules to this document.

TMP 1.1 Credit and counterparty risk management

The City Council will ensure that its counterparty lists and limits reflects a prudent attitude towards organisations with whom funds may be deposited or investments made, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the **Schedule to TMP 1.1**. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements. This will set out the City Council's policy and practices relating to environmental, social and governance (ESG) investment considerations.

TMP 1.2 Liquidity risk management

The City Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The City Council will not borrow earlier than required to meet cashflow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to finance future debt maturities or to ensure an adequate level of short term investments to provide liquidity for the organisation..

TMP 1.3 Interest rate risk management

The City Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues, in accordance with its treasury management policy and strategy and in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved *financing and investment* instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This will be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual treasury strategy (*note: the City Council's current Treasury Strategy does not approve any use of derivatives*).

TMP 1.4 Exchange rate risk management

The City Council will manage its exposure to fluctuations in exchange rates ~~so as to minimise~~ *taking account of* any detrimental impact on its budgeted income/ expenditure levels.

TMP 1.5 Refinancing risk management

The City Council will ensure that its borrowing and other long term liabilities are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

TMP 1.6 Legal and regulatory risk management

The City Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such

compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1.1 Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The City Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to manage the risk of these impacting adversely on the organisation.

TMP 1.7 Operational risk, including fraud, error and corruption

The City Council will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

TMP 1.8 Price risk management

The City Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the sums it invests *or borrows*, and will accordingly seek to manage the effects of such fluctuations.

TMP 1.9 Inflation risk

The City Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

TMP 2 Performance measurement

The City Council is committed to the pursuit of value for money in its treasury management activities, and to use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the City Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in **Schedule to TMP 2**.

TMP 3 Decision-making and analysis

The City Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to

be addressed and processes and practices to be pursued in reaching decisions are detailed in the **Schedule to TMP 3**.

TMP 4 Approved instruments, methods and techniques

The City Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in **the Schedule to TMP 1.1**, and within the limits and parameters defined in TMP1 Risk management.

Where the City Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual Treasury Strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products (*note: the City Council's current Treasury Strategy does not approve any use of derivatives*).

This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

The City Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the City Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in **Schedule to TMP 5.1** and *the Delegations to Treasury Management staff* **Schedule to TMP 5.3**.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in **Schedule to TMP 5.1**.

The delegations to the responsible officer in respect of treasury management are set out in **Schedule to TMP 5.3**. The responsible officer will fulfil all such responsibilities in accordance with the City Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP 6 Reporting requirements and management information arrangements

The City Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The City Council meeting will receive:

- an annual report on the Treasury Management Policy, Strategy and plan to be pursued in the coming year

The Cabinet will receive:

- Regular monitoring reports on treasury management activities and risks. *This encompasses the TM Code requirement for a mid year review;*
- an annual report on the performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the City Council's treasury management policy statement and TMPs.

The City Council's Cabinet is considered to be an appropriate equivalent to the "Full Board" in the Code for receiving these reports.

The appropriate City Council body responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management *prudential* indicators will be reported as detailed in the Sector-specific Guidance Notes.

The present arrangements and the form of these reports are detailed in **Schedule to TMP 6**.

TMP 7 Budgeting, accounting and audit arrangements

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget *report* will at minimum be those required by statute or regulation, together with such information as will *assist in demonstrating compliance of the budget* with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible

officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The City Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1.2) Liquidity risk management, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate). The present arrangements for preparing cash flow projections, and their form, are set out in **Schedule to TMP 8**.

TMP 9 Money laundering

The City Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of treasury management counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in **Schedule to TMP 9**.

TMP 10 Training and qualifications

The City Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The responsible officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance *have an* individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements, including a knowledge and skills schedule, are detailed in **Schedule to TMP 10**.

TMP 11 Use of external service providers

The City Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in **Schedule to TMP 11**.

TMP 12 Corporate governance

The City Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The City Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedules to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Section 151 Officer: **Fiona Greenway**

Date

TREASURY MANAGEMENT MONITORING DASHBOARD: 30 SEPTEMBER 2023

	value	comparator	difference
1 Gross loan debt	£m	£m	£m
at month end	3,237		
year end Forecast (vs Plan)	3,331	3,502	-171
year end Forecast (vs Pru Limit for loan debt)	3,331	4,151	-820

Forecast year end debt is currently below the year end plan. The Forecast year end debt is well within the prudential limit for loan debt, set for unplanned cashflow movements.

2 short term borrowing			
at month end (vs Plan)	283	453	-170
interest rate year to date on outstanding deals (vs assumption)	4.85%	5.25%	-0.40%

The Council's short term borrowing is mainly made up of loans agreed before the Council issued its S114 notice. Following the notice, the Council has seen a significant reduction in local authority lenders as most are unwilling to lend to local authorities who have issued a S114 notice. If these restrictions continue, the Council may need to rely on long term borrowing from the PWLB to meet any borrowing requirements in the second half of the year.

3 Treasury investments			
at month end (vs Plan)	145	40	105
interest rate year to date on outstanding deals (vs assumption)	5.24%	5.00%	0.24%

In light of restricted short term lending from local authorities since the issuance of the S114 notice, the Council has sought to maintain a higher cash balance to reduce liquidity risk.

4 Long term loans taken			
year to date (vs Plan)	5	120	-115
ave. interest rate obtained (vs assumption)	4.00%	5.00%	-1.00%

The £5m loan was a local authority loan taken in January 2023 with a duration of just over a year so has been classified as a long term loan. The Council is likely to need to take out long term loans from the PWLB in the second half of the year as planned and due to the restrictions in short term borrowing.

5 Assurance	
were Credit criteria complied with?	yes
were investment defaults avoided?	yes
was the TM Code complied with?	yes
were prudential limits complied with?	yes

These are key performance indicators for treasury management which in normal circumstances should all be yes. Investment quality is kept under continual review with support from the Council's treasury advisers.

Birmingham City Council

Audit Committee

31 January 2024



Subject: External Audit: Progress Report for Birmingham City Council

Report of: Mark Stocks, Grant Thornton

Report author: Mark Stocks, Grant Thornton

Does the report contain confidential or exempt information? Yes No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :

1 Executive Summary

- 1.1 The attached presentation outlines the financial statement audit position for prior years, 2020/21 and 2021/22, and the additional information needed to complete these audits. An update on the financial statements audit for 2022/23 and 2023/24.
- 1.2 This is contained within the presentation dated 15th January 2024.

2 Recommendation(s)

- 2.1 Audit Committee is recommended to:
- 2.1.1 Note the contents of the report as set out by the External Auditors.

3 Background

- 3.1 This is contained within the presentation dated 15th January 2024.

4 Options considered and Recommended Proposal

- 4.1 This is contained within the presentation dated 15th January 2024.

5 Legal Implications

- 5.1 This is contained within the presentation dated 15th January 2024.

6 Financial Implications

- 6.1 This is contained within the presentation dated 15th January 2024.

7 Public Sector Equality Duty

7.1 This is contained within the presentation dated 15th January 2024.

8 Other Implications

8.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

8.2 This is contained within the presentation dated 15th January 2024.

9 Background Papers

9.1 None

10 Appendices

10.1 None

External audit: progress report for Birmingham City Council

**Audit years 2020-21, 2021-22,
2022-23 and 2023-24**

15 January 2024



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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.

This progress report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260.

Name: Mark Stocks
For Grant Thornton UK LLP
Date: 15 January 2024

Financial statements audits

2020/21 and 2021/22

As reported at previous Audit Committees, and as set out in more detail in our recent External Audit Landscape document, the financial statements of the Council for the years ending 31 March 2021 and 31 March 2022 both remain open. The most significant outstanding factor from both is the Council's Equal Pay liability.

In our November update, we reported we had not been provided with the information necessary to undertake the work in September and October 2023 as initially planned. We also set out the additional work that we determined was necessary following further information coming to light, to mitigate the risk that the Council's draft accounts for the years in question may have been deliberately misrepresented.

We acknowledge that the Council's focus is on producing the budget for future years as well as to provide a financial outturn to inform its decision making, but equally it is important that sight is not lost of the importance of closing down the Council's open years of account. As such we meet with the s151 and other officers on a regular basis to discuss outstanding work.

This paper gives an update on progress against each of the outstanding items reported to you previously. More details are provided on the following pages.

With the retirement of Jon Roberts in December 2023 Mark Stocks has taken over responsibility for these audits.

Financial statements audit - 2020/21

Issue	September update	November update	January update
<p>Equal Pay provision (2020-21 and 2021-22)</p> <p>A fresh analysis of the Council's equal pay liability has been conducted which will give a more accurate estimate of the financial position and will require significant adjustments to be made to the financial statements.</p>	<p>Several meetings have been held between key members of the audit team and key individuals at the Council, including initial discussions with the Council's modelling team, to discuss the process that has been undertaken and the progress that the Council has made.</p> <p>Given our expectation that the provision currently reflected in the draft accounts is materially understated, we will then consider the implications of the anticipated material misstatement (if uncorrected in the draft accounts) for our audit opinion.</p>	<p>We have recently received the Council's accounting paper, which sets out the rationale for its assumptions and judgements to be applied within its accounting model. We are currently working through this paper and have yet to receive the Council's models, though we understand from officers that they are expected to be with us over the course of November with a model being provided each week for each year in question.</p>	<p>Models were received on 29 November for the years ending 31 March 2020, 31 March 2021, and 31 March 2022. We have been advised that these have subsequently been updated and will be provided to us in due course.</p> <p>We are working with officers to:</p> <ul style="list-style-type: none"> • Obtain assurance over the completeness and accuracy of the source data being used to feed the models • Understand and audit any judgements and assumptions that have been applied to the source data • Challenge the judgements and assumptions being applied, as set out in the Council's accounting paper referred to in our November update <p>We have engaged Grant Thornton modelling specialists to assist us in our work on the data transformations that feed the models, and to review the model being used to determine that it is operating as expected.</p> <p>On completion of the above, we will need to review the proposed amendments to and disclosures in the financial statements, which we anticipate requiring updates to the areas of provisions, events after the reporting period, critical judgements and estimation uncertainties.</p>
<p>AGS update (2020-21 and 2021-22)</p> <p>The Annual Governance Statement will need to be updated to the date that it is signed.</p>	<p>We have not received any updates on the AGS. Once management have completed the other areas of work, consideration should turn to updating the AGSs as necessary. We can then consider the completeness and appropriateness of the proposed updates.</p>		

Financial statements audit - 2021/22

Issue	September update	November update	January update
<p>Oracle impairment assessment</p> <p>The Code requires that assets are carried at no more than their recoverable amount (recoverable through sale or use).</p>	<p>Officers have not yet provided us with this information on the grounds that focus has been on Equal Pay matters.</p> <p>We have requested that management document their consideration of whether any impairment is required in relation to the capitalised costs of the new ledger system.</p>	<p>The Council's assessment and proposed treatment in relation to this issue was provided in early November. We are currently working through this paper.</p>	<p>We provided responses to the Council's proposed treatment in November. Officers are considering our queries.</p>
<p>Actuarial valuation under IAS 19</p> <p>The LGPS underwent a full triennial valuation at 31 March 2022, the results of which are now available and are a more accurate estimate of the Council's pension liability at that date than the previous roll-forward estimate.</p>	<p>The actuary has provided us with initial responses on queries raised on review of the assumptions applied in the revised IAS 19 report, based on our review of the pension liability.</p> <p>Our work on the pension asset is ongoing as at the time of writing.</p> <p>We have asked officers to confirm with the actuary to what extent the Equal Pay liability will need to be reflected in the IAS 19 valuation.</p> <p>We have also asked officers to consider the impact of the triennial valuation on the Children's Trust, given that it is a significant consolidated component in the group accounts.</p> <p>Upon receipt of this information, the Council will need to amend the financial statements accordingly, for us to audit any adjustments arising.</p>	<p>A partial response was forwarded to us from the actuary on 1 November. The Council has considered the response and is in the process of requesting a further report from the actuary to inform any adjustments that might be necessary in the financial statements.</p>	<p>As November.</p>

Financial statements audit - 2021/22 (continued)

Issue	September update	November update	January update
Property valuations	A small number of queries remain outstanding to complete our work on the Council's property valuations in 2021/22.	Dialogue has taken place with relevant officers and the latest iteration of the information is now with the audit team to consider, but we anticipate that adjustments will be required to the financial statements.	The queries have now been resolved, but the work is not complete, pending quality review, and receipt of updated financial statements showing the agreed adjustments.
Capitalisation	N/A	We reported that we would be undertaking a more extensive review of the Council's approach to capitalisation, focussing on the risk that revenue expenditure had been deliberately capitalised as a means of reducing the pressure on the I&E account.	The Council has provided a first tranche of information from our initial requests which we are in the process of auditing and following up.
Housing Revenue Account	N/A	We will undertake a detailed review of the interface between the General Fund and the HRA to ensure that proper (and lawful) distinction had been made between those costs attributable to the Council's landlord function and those more appropriate to be categorised within the General Fund.	The Council has provided transaction listings of expenditure which has been applied to the Housing Revenue Account. Pending receipt of a response to a query we have on how payroll costs are treated and apportioned, we will provide a sample for testing.
Grants	N/A	We will be performing a detailed challenge of the Council's use of grants to ensure that they have been applied according to the conditions of grant. As part of this we will consider in detail the application of any grants which are ring-fenced, such as the Public Health Ring-fenced Grant.	We have selected a number of grants from both years in order that we can review the contract agreement and expenditure incurred. The Council is in the process of providing the information requested.

Financial statements audit - 2021/22 (continued)

Issue	September update	November update	January update
Land and property sales	N/A	We will consider whether proper consideration has been obtained and has the impact of any related parties been appropriately dealt with.	We identified asset sale losses for testing. Supporting evidence has been received from the Council, which we are in the process of auditing.
Highways PFI	N/A	Given the Council's communication with Government regarding its Highways PFI we will need to consider whether there are any accounting implications (adjusting or disclosure) that have not been reflected in the accounts, such as impairment of valuations or contract liabilities.	Officers are preparing a paper considering the accounting implications.
Regulator of Social Housing	N/A	The Council will need to consider whether there are any adjusting or non-adjusting Post Balance Sheet events attributable to the Regulator of Social Housings assessment of the Council's performance against the Decent Home Standard.	Officers are preparing a paper considering the accounting implications.
Related Parties	N/A	We will extend our consideration of related parties, particularly in relation to procurement and contracting.	This is being considered where relevant as part of all the workstreams set out above. Additionally, the Council is reviewing the list of all related parties, and comparing to the contract register to ensure disclosure is complete and accurate.
Management override of control	N/A	To reflect the risks set out above, we have reopened our journals work and selected further transactions to test, which officers are in the process of providing evidence for. We are seeking assurance of what the journal is for, that it is appropriately authorised and that therefore it has relevant business rationale.	

Financial statements audit - 2022/23

Background and Audit Approach

The audit of the 2022/23 financial statements is significantly delayed. This is primarily due to 2 reasons:

- Equal pay – as outlined in the previous slides the Council's equal pay liability is significant and the focus of the Council has been on putting in place an appropriate Job Evaluation process.
- Oracle – the Council has experienced significant problems from the implementation of its new Enterprise Resource Planning (ERP) IT system, Oracle Cloud, leading to anticipated additional costs of (total costs of £100m compared to an initial budget of £38.7m as approved by Cabinet in March 2021). This has significantly impacted on the Council's ability to operate business-as usual activities, due to the workarounds and manual interventions needed to operate the system.

Due to these issues the Council has been unable to produce

- An outturn position for 2022/23
- A set of financial statements for 2022/23.

We have outlined to previous committees that we would undertake our audit in two phases:

Phase 1 – this comprises of a consideration of IT controls and security, Data Migration, and core processes. These core processes are: system controls; journal controls (because they're associated with the significant risk of management override of controls and fraud); control account reconciliations (as a fundamental financial reporting control); and cash (due to the failures in the cash posting system and the significant backlog that arose). We estimate that this will take c3 months to complete

Phase 2 – this will comprise of detailed testing on all integrated and non-integrated systems. It will require substantive testing of transactions within those systems. We estimate as a minimum that this will take a period of 12 months to complete.

Financial statements audit - 2022/23

Progress to date

We have not been able to significantly progress our work on Phase 1 of the audit. To date we have formed the following conclusions:

IT controls and security

Segregation of duties, Change in Key Personnel and Scale of unresolved issues – we reported to the last Audit Committee that we do not consider that we can place reliance on the Council's IT control environment.

Management override – we reported to the last Audit Committee that we were reviewing the journals control environment. We have not been able to progress this work.

Data migration - Due to the lack of evidence support the resolution of data migration issues and the lack of segregation of duties within Oracle Cloud we have been unable to gain assurance that the data migration is free of error or fraud.

Core processes

Our work has not substantively progressed from our last updated.

We have begun documenting our understanding for the key financial systems of cash; journals; holding and control accounts; housing benefit, council tax and business rates expenditure; payroll; and property, plant and equipment. The work is still underway but initial findings indicate that there are processes that have been negatively impacted by Oracle and weaknesses that will need to be explored further to ascertain the level of additional substantive work that will be required.

We are waiting for information from officers in order to progress work in the areas of accounts payable, accounts receivable, revenue and grants.

We have arranged a controls workshop with finance officers on 19 January 2024. The workshop will focus on reaching a consensus regarding the operation of financial controls during 2022/23 and whether we can rely on the controls in place.

Summary

As outlined above, we do not have assurance over IT controls and security, or with regard to data migration. Our work on controls is ongoing but indicates significant weaknesses.

We will report our full findings to members of Phase 1 following the controls workshop. Phase 2, if undertaken, will take place across 2024.

At present, we consider that the risk of a disclaimed audit opinion is high.

Financial statements audit - 2023/24

Update

The matters impacting the 2022/23 financial statements are equally applicable to 2023/24.

As outlined for 2022/23, we do not have assurance over IT controls and security, or with regard to data migration. Our work on controls is ongoing but indicates significant weaknesses.

We have arranged a controls workshop with finance officers on 19 January 2024. The workshop will focus on reaching a consensus regarding the operation of financial controls during 2023/24 and whether we can rely on the controls in place.

We will report our full findings to members of Phase 1 following the controls workshop.

At present, we consider that the risk of a disclaimed audit opinion is high.

Overarching VFM and additional powers

Equal Pay

Background

The Council's current Equal Pay (EP) agenda is one of the most significant challenges that any Council in England has ever faced. Previous historical EP claims at the Council have been significant (exceeding £1 billion) and, over the last year, we have become aware of factors that have arisen since 2017, that have driven further claims, with a value currently estimated by officers of up to £760 million.

Update – Job evaluation methodology

The Council has now put in place a Job Evaluation (JE) methodology. It is planning to implement a new pay and grading system by 1 April 2025. We have not taken any additional work on this matter since the last Audit Committee.

We currently reviewing the chosen JE methodology and the revised 2023 Addendum to the Job Evaluation Joint Principles Document. We are awaiting management's responses to the queries raised.

Update – historical review

We have now commenced our additional work on the Council's governance arrangements in relation to the management of equal pay claims. We reported our key lines of enquiry to the last Audit Committee.

We have undertaken a number of interviews as part of our work and have issued a data request to officers for additional documentation. We have agreed with officers that we will have access to legally privileged information. This release is subject to strict conditions and the information cannot be released into the public domain without the permission of the Monitoring Officer. We consider that these restrictions are reasonable.

We are in discussion with the DLUHC regarding the planned inquiry (announced by the Secretary of State in Autumn 2023) and how this impacts our own work.

Overarching VFM and additional powers

Financial Sustainability

Background

The Council has Earmarked Reserves of £383m and Unearmarked Reserves of £230m. These are available to the Council. Earmarked reserves have been set aside to meet particular liabilities, or for particular purposes. Unearmarked reserves are available for use.

Given the additional financial pressures of EP referred to in the previous slide of up to £760 million, the Council has recently put in place a series of cost control measures to help it to stay solvent in the short-term. However, a number of further financial pressures have also been identified, including the costs of putting right the Oracle financial ledger system issues referred to in the following slide. As a result, the Council's Finance Director (s151 officer) is giving active consideration to the adequacy of the Council's reserves and future sources of additional funding it is likely to be able to secure, to ensure that the Council continues as a going concern.

Should the Council exhaust its levels of usable reserves and be unable to generate sufficient funding to sustain its revenue expenditure commitments (through savings, additional Government support, permitted capitalisation direction and borrowing, or asset sales) then it would cease to be viable and would be in breach of its statutory duty to have a balanced budget, or the imminent prospect of one. This would trigger the s151 officer's statutory duty to report under s114 of the Local Government Finance Act 1988 and could also trigger a s5 report from the Monitoring Officer under the Local Government and Housing Act 1989.

Update

We have determined that additional interviews are required to complete our work. These interviews are currently being arranged. We will report our findings on completion of these interviews.

Overarching VFM and additional powers

Oracle

Background

The Council has experienced significant problems from the implementation of its new Enterprise Resource Planning (ERP) IT system, Oracle Cloud, leading to anticipated additional costs of (total costs of £100m compared to an initial budget of £38.7m as approved by Cabinet in March 2021). This has significantly impacted on the Council's ability to operate business-as usual activities, due to the workarounds and manual interventions needed to operate the system. Due to these issues the Council has been unable to produce

- An outturn position for 2022/23
- A set of financial statements for 2022/23.

We have been monitoring the issues associated with the Oracle Fusion implementation, and the plans and further investment required for this programme's completion. The programme is currently going through a process of re-planning and there is a risk that weaknesses in the governance and management of the programme present significant risks to the effective use of resources. Until these are resolved that the Council is at risk of not having adequate governance arrangements in place to ensure that it can effectively discharge its statutory responsibilities and maintain its financial sustainability.

We therefore determined that we need to undertake a review of the Oracle implementation.

Update

Our interim report on the current and future operations was reported as part of the agenda for the 29 November 2023 Audit Committee. Our final report on the current and future operations was issued in draft in January 2023 and is part of the January Audit Committee agenda.

Our backwards looking review re the implementation of the Oracle ERP system is ongoing.

Other work necessary to conclude our Statutory Audits for VFM 2020/21-2022/23

Background

We have already undertaken, or have in train, substantial risk-based work in the areas that the National Audit Office (NAO) has prescribed under its Code of Audit Practice and supporting auditor guidance. So far, we have completed work supporting our Statutory Recommendations, that was considered by the Extraordinary Full Council Meeting of 12 October 2023 and have issued separate reports on its Oracle implementation and its Financial Sustainability (the latter currently with officers in draft). In addition, work has now commenced on the governance implications of the Council's management of Equal Pay in recent years.

Update (no change from November Audit Committee)

To fulfil our statutory audit responsibilities, we also have to consider the implications of the completed work the adequacy of the Council's arrangements across the three 'Code Criteria' defined by the NAO:

- Financial Sustainability
- Governance
- Arrangements for supporting economy, efficiency and effectiveness.

In addition, we also consider whether there are other relevant risks of significant weakness in arrangements, relating to the period of audit not yet covered by the work above. At this stage we are reflecting on two additional areas where further audit attention may be required – namely the recent progress of the Council's Highways PFI retendering and its response to the breaches reported by the Regulator of Social Housing. We will discuss our considerations with officers and will inform the Audit Committee, should we determine whether further work in these areas is necessary.

Other matters

Continuation as auditor

In recent weeks we have become concerned regarding some of the discussions between ourselves and Council officers and members. In certain instances, we consider that this has created an unacceptable working environment. We note that this does not extend to the finance team where a professional relationship remains.

On 21 December 2023 we raised our concerns with the Chief Executive. We raised similar observations with regard to the working environment for the S151 officer and the finance team. Following discussions with the Chief Executive we have agreed additional safeguards to ensure an appropriate working environment is maintained. On this basis we have confirmed that we will continue as the Council's auditor.

We note that in response to our Statutory Recommendations and Value for Money work an external organisation has twice raised the possibility that it would raise a complaint with regard to our work. We are currently actively considering as a firm whether this constitutes an intimidation threat under the Financial Reporting Council Ethical Standards and whether this impacts on our:

- Independence and objectivity
- Ability to continue as the Council's auditors.

Birmingham City Council

Audit Committee

31 January 2024



Subject: Additional Value for Money Work Oracle Interim Findings

Report of: Mark Stocks, Grant Thornton

Report author: Mark Stocks, Grant Thornton

Does the report contain confidential or exempt information? Yes No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :

1 Executive Summary

1.1 The report outlines the findings from the review by external auditors Grant Thornton in relation to the review of the Oracle Fusion implementation, and the plans and further investment required for this programme's completion.

1.2 This is contained within the report attached to this cover paper.

2 Recommendation(s)

2.1 Audit Committee is recommended to:

2.1.1 Note the contents of the letter as set out by the External Auditors.

3 Background

3.1 This is contained within the report attached to this cover paper.

4 Options considered and Recommended Proposal

4.1 This is contained within the report attached to this cover paper.

5 Legal Implications

5.1 This is contained within the report attached to this cover paper.

6 Financial Implications

6.1 This is contained within the report attached to this cover paper.

7 Public Sector Equality Duty

7.1 This is contained within the report attached to this cover paper.

8 Other Implications

8.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

8.2 This is contained within the report attached to this cover paper.

9 Background Papers

9.1 None

10 Appendices

10.1 None

Birmingham City Council

Value for Money report in relation to the
implementation of Oracle

Draft for discussion

December 2023



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Introduction

Context, Background and Scope

Background to this review

Following the identification of significant audit issues, our letter 9th May 2023, we have undertaken an additional Value for Money (VfM) review of your Oracle Fusion implementation, and the plans and further investment required for this programme's completion.

The decision to undertake this review was based upon the fact that the programme has experienced significant slippage, costs incurred are in excess of those envisaged in the initial business case and ongoing issues with Oracle are impacting delivery of your statutory and regulatory obligations. This means that there is a risk that weaknesses in the governance and management of the programme present significant risks to the effective use of resources.

The purpose of the review is to draw conclusions on the key lines of enquiry set out opposite, and if necessary, determine the extent to which further action is required by the Council, in order for us to reach a satisfactory conclusion of our audit on VfM and to fulfil our responsibilities as external auditor. Our work is undertaken in accordance with the Local Audit and Accountability Act 2014, sections 20 and 24 and may result in Statutory Recommendations or a Public Interest Report.

Our fieldwork was performed between 8th August and 4th October 2023, further documentation and Oracle update reports have been reviewed up until 15th December 2023. This report presents the findings and recommendations from our review.

Key Lines of Enquiry

Following an initial mobilisation meeting with Council Officers, 8th August 2023, the lines of enquiry for our additional work have focused on the current position of the Oracle programme and the plans for further investment, and are defined as follows:

- **Finance Operations:** The Council's process to close the 2022/23 Financial Year and produce an auditable set of accounts, and accounting and financial management for 23/24.
- **The Safe and Compliant Programme:** The processes and governance arrangements put in place to identify and manage issues arising from the Oracle implementation.
- **Future Optimisation:** The Council's plans to transition from the Safe and Compliant programme into optimisation of the Oracle solution.

Further details on our approach to the work carried out against the three KLOEs is set out on the following pages.

During the period of our review the programme was going through a process of re-planning and we have made observations and recommendations relating to this.

Our approach

Scope and Approach

Following the initial mobilisation meeting, we aligned our lines of enquiry to the focal points of the Council's current efforts in relation to Oracle, as follows:

- **Finance Operations:** Our work has looked in detail at the issues affecting Finance Operations; the Council's process for closing and reporting on Financial Year 2022/23 and approach to maintaining effective financial control in the period since Oracle go live, April 2022, and the present. This has been assessed against the fundamental requirements for effective financial control.
- **Safe and Compliant:** In April 2023 the Council established the Safe and Compliant (S&C) governance arrangements, implementing a crisis management approach in order to get a grip of the Oracle implementation issues. We have assessed how effective the S&C process has been in gaining control of the issues and delivering a plan to ensure that the Council is able to deliver its **statutory, legal, contractual and policy obligations** in the short-term.
- **Future Optimisation:** The Council has identified the need for additional investment to establish an Oracle solution which efficiently and effectively supports delivery of the Council's services in the medium and long term. Our work has sought to understand the Council's approach to delivery of an optimised solution and evaluated it against a framework of recognised good practice for the full lifecycle of a technology led transformation programme.

Workstreams (Cross cutting themes)

Our review considered each core element of the Safe and Compliant phase (KLOE 2), and the plans for future optimisation (KLOE 3), under four workstreams that cut across the different phases of programme implementation. These workstreams are clearly heavily dependent upon each other and the associated teams have worked closely together to integrate our understanding and subsequent findings. The workstreams are:

- Operating Model, i.e. Business Requirements (Operating Model changes to be enabled by Oracle, incl. structure and core processes; by function and departments within BCC)
- Governance and Risk Management (incl. Corporate and Programme governance, roles and responsibilities and effectiveness of management and decision-making processes)
- Technology implementation and Programme Management (Programme structure and resourcing, and the effectiveness the of programme management approach and tools incl. data cleansing, data migration, build, test, implement)
- Change management approach (incl. change readiness assessment, training, and change adoption)

Executive Summary

Executive Summary

Programme Overview

The Council went live with Oracle Cloud Fusion, a new Enterprise Resource Planning (ERP) solution, in April 2022.

The key components of the Oracle solution to be implemented are summarised below^[1]:

- Financial
- Human Capital Management (HCM)
- Procurement
- Payroll
- Supply Chain Management (SCM)
- Customer Relationship Management (CRM)

Key Implementation Issues

Customisation of standard Oracle

- Oracle replaced a SAP solution, which had been in place since 1997 and had been heavily customised to align to Council processes but was no longer considered able to meet the Council's requirements.
- Oracle Cloud Fusion is a Software as a Service (SaaS) solution, designed around standardised, recognised good practice processes. The original implementation of Oracle included a high level of customisation, moving away from standard Oracle functionality, to accommodate existing Council processes and ways of working. Some elements of customisation, including the Bank Reconciliation Solution (BRS) are recognised to have led to significant process failures and operational risks for the Council.

[1] Solution Architecture Design Final – V1.0

[2] IT Audit Background and Reporting Summary 2022 | Grant Thornton UK LLP | May 2023

Integration with feeder systems

- The programme's Solutions Architecture documentation identified more than 140 pre-existing interfaces or integrations, required to transfer data between Oracle and other Council systems, which would need to be replicated. However, it was anticipated many of these could be rationalised or consolidated and 83 interfaces were planned.
- At the time of going live, a number interfaces or integrations to enable transfer of data between the Council's feeder systems were either not completed or not tested. No alternative solutions, including manual processing, had been established. Consequently, data was not transferred to Oracle until the necessary interfaces were written, in some cases up to six months after go live. Work in the 12 months post go live has largely addressed this, those which remain unresolved are not considered part of the original programme deliverable.

Access Controls

- Segregation of Duties (SOD) had previously been noted as a weakness in SAP^[2]. The Oracle governance, risk and compliance module, Oracle Risk Management Cloud, (ORMC) which manages user access across Oracle was removed from the scope of the original implementation, **though no documentation of this decision has been provided.** With the ORMC not implemented the number of SOD risk events could not be actively monitored.

Testing and Change Readiness

- Interviewees have identified that limited testing or user training was carried out in advance of go live. Consequently, issues with the solution were not fully identified and users were not sufficiently familiar with the requirements of the new system and processes to be able to adequately adopt the new ways of working.

Executive Summary

Programme Overview

Post Go Live

The original implementation included a period of two months post implementation hyper care, during which the programme team and external partners were retained to provide close support to users. Following this period, it was planned that Oracle would be transitioned to business as usual (BAU) management and support.

Operational Challenges

- Immediately post go live users began to identify issues. At this point issues with Oracle were captured as service requests to the IT Service Desk as they arose. In the first six months post go live, April to September 2022, over 8,000 issues were recorded, see Appendix A.
- The hyper care period was extended with a phased transition to BAU support for HR (July 22) and Finance (November 22).
- The Council's contract with its Systems Integration partner (SI) Evosys, responsible for the technical build of the Oracle solution, was completed post an extended hyper care period. At this point ongoing support for the solution transferred to Version One Ltd, the Council's IT Managed Services provider.

Key Issues

In addition to the known issues with integration, issues identified post go live included:

- **Access Control:** The security model developed to manage user access across Oracle, was a 100% customised solution designed to mimic previous SAP functionality. The customisation was found to have a number of serious flaws enabling staff to access and potentially alter data outside their areas of responsibility. A basic ORMC went live in September 2023, but cannot operate across all of the customisation.

- **People Services Reporting:** In People Services the Oracle Human Capital Management (HCM) module supports reporting for operational and statutory purposes, including staff DBS checks, Right to Remain status and management of absence. Many of these reports were identified as not working or incomplete.
- **Payroll:** calculation of Gross to Net pay was seen as reasonably correct in application of the Council's rules. However, the capture of gross pay data e.g. Time and Attendance, Starters and Leavers was described as particularly challenging. Three parallel runs were performed before Oracle payroll went live.
- **Finance Operations:** Issues across transactional finance impacting the Council's ability to pay suppliers, chase debtors and effectively report on costs. The BRS solution, a 100% customised solution for cash allocation, was found to be misposting or failing to post a high proportion of transactions. This resulted in a significant and growing level of unallocated cash and materially affected the integrity of transactions posted to the General Ledger.
- **Financial Management:** As a consequence of issues in Finance Operations, the Council was unable to produce reliable reporting for financial management or statutory purposes.

Interviewees state that during this period the extent and significance of issues with the Oracle implementation were not understood or acknowledged by the Council Leadership Team (CLT) and remediation efforts were localised and inadequately resourced.

Executive Summary

Programme Overview

Oracle Recovery Programme

- In April 2023, in response to ongoing issues and the significant impact on Council operations, the Council established its Oracle Recovery Programme. The programme set out three phases, as below:
 - **Phase 1a: Safe and Compliant:** Fix 22/23, complete year-end activities and close financial accounts. Comply with legislative and statutory requirements.
 - **Phase 1b: Tactical Stabilisation:** Mitigate risks to 23/24 year end activities and the closure of financial accounts. Make targeted tactical changes to better manage services, finances, and statutory and legislative compliance while maintaining operational functionality.
 - **Phase 2: Reset and Optimise:** Deliver a long-term Strategic ERP solution based upon redesigned business processes and workflows that align with best practices when transitioning to a cloud implementation.
- The design and planning for Phase 2 was intended to run in parallel to Phase 1a and b activities.
- In July the Council began work on the High-Level Design (HLD) for the future optimisation of the Oracle solution. As at October, this work is on going and Oracle UK Ltd have been engaged to support a series of design workshops. The aims for and approach to HLD have been discussed with the Director of Transformation and other programme stakeholders, but no outputs from this activity have been available for review as part of our work.
 - In parallel to commencing HLD the Council are proposing to transition from the Safe and Compliant governance arrangements to a more traditional transformation programme governance model.

Executive Summary

Key Findings

Our key findings in relation to the overall Oracle Recovery Programme are summarised below.

Current State

The Council has taken a significant amount of time to recognise the scale of issues and take action to address the effects of a fundamentally flawed implementation. Consequently, at the time of our review, eighteen months after going live with Oracle, the Council:

1. is not able to fully meet its statutory and regulatory obligations, due to process failure and data integrity issues in Oracle,
2. does not have effective financial control or the ability to report on its financial performance for FY 22/23 or 23/24., is reliant upon a large number of interim resources and out of hours working to maintain day to day operations in finance,
3. has not yet established a cohesive plan to resolve these immediate challenges and deliver a sustainable solution in the medium to long term, and
4. is reliant upon external expertise and experience garnered from other local authorities to shape the recovery and optimisation programme.

These issues are reflected in the December Cabinet report on the Oracle programme an extract of which is included as Appendix D.

Oracle Recovery Programme summary

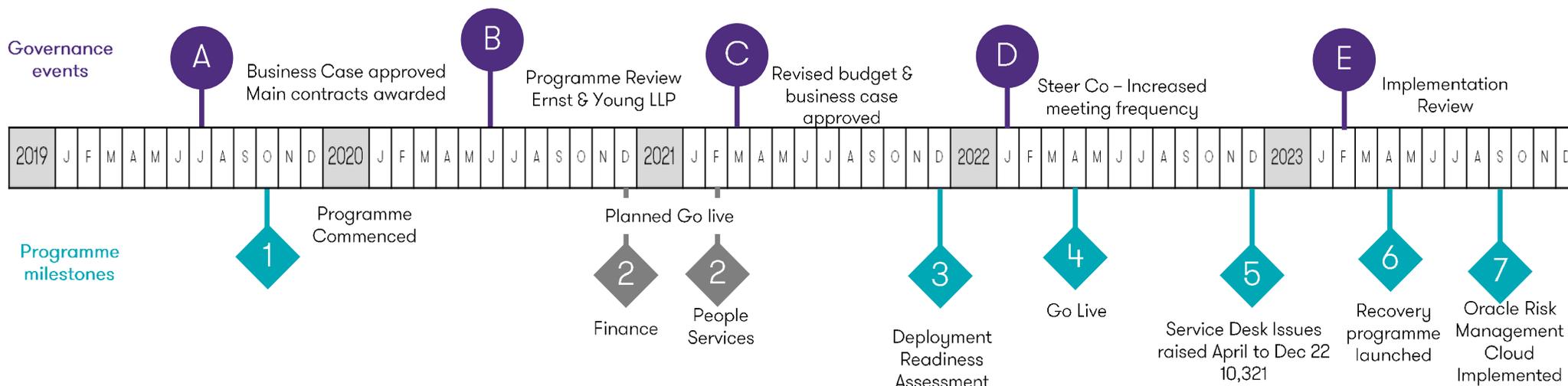
The recovery programme, as described on page 9, has brought greater transparency and senior oversight to the Oracle issues affecting Council operations and ability to deliver its statutory objective. However, we believe there are a number of issues preventing the Council from making adequate progress:

- The approach to recovery has been very reactive and operationally focused. As such material issues, e.g. BRS, are being addressed in an incremental and incomplete manner, contributing to a delay in identification of a robust medium to long term solution.
- The original three phase recovery has not been apparent in reality, with more complex Safe & Compliant issues being moved into future optimisation. This has resulted in the Tactical Stabilisation phase effectively being lost.
- The programme leadership, and wider Council Leadership Team (CLT) does not have significant experience of large ERP projects and specifically of Oracle implementation.
- The lack of Oracle knowledge across the Council has led to an over reliance on external support, leaving the Council without the capability and expertise to adequately challenge their delivery partners or define the solution to meet their requirements.
- Planning for the future optimisation is again reliant upon external expertise and is not based upon a clear definition of the Council's requirements.

Executive Summary

Programme Timeline

A high level of governance events and programme milestones over the life of the programme.



Ref	Governance events	
A	Cabinet approved programme business case (FBC) - Budget £19m - Net Savings £26.9m Award of main contracts approved	July 2019
B	Ernst & Young Independent review of ERP Programme	June 2020
C	Cabinet approve revised Go Live date and budget - Budget £39m - Net Savings £10.92m	March 2021
D	Programme Steer Co increase frequency to bi weekly	January 2022
E	Independent Post Implementation Review	February 2023

Ref	Programme Milestones	
1	Oracle Programme (1B) launched	October 2020
2	Original planned Go Live dates - Finance - People Services	December 2020 February 2021
3	Deployment readiness assessment completed <i>Appendix B</i>	December 2022
4	Go live - all functions	April 2022
5	At end December 2022 over 10,000 Oracle related service issues had been raised <i>Appendix A</i>	December 2022
6	Oracle Recovery Programme launched	April 2023
7	Oracle Risk Management Cloud implemented	September 2023

Executive Summary

Key Findings

Our findings against our key lines of enquiry are summarised below. These findings and conclusions are based upon our interviews with key stakeholders and review of documents provided by the Council or in the public domain. Further details of our findings and recommendations are included in later sections of the report.

Finance Operations

The Council does not have effective financial control and is dependent upon interim resources to deliver manual processes in order to maintain its core finance operations.

- The Council is not yet in position to report full year outturn for Financial Year (FY) 2022/23 and is several months from having an auditable set of accounts for FY22/23.
- The Council has been operating during FY22/23 and 23/24 without an effective budgetary control mechanism in place. No budget monitoring reports have been provided to Directorates or Schools during this period. There is no reliable forecast outturn for FY 23/24, or a reliable baseline cost position against which to set the 24/25 budget.
- Finance Operations is reliant upon high levels of manual processing and additional resource to maintain basic day to day transaction processing, while in parallel working to resolve post go live backlog issues.
- Finance will remain dependent upon high levels of additional resource to support manual processes and controls until critical issues with the Oracle solution are resolved. At the time of our review options were being investigated to replace the BRS solution with a combination of standard Oracle functionality supported by bolt on Income Management software. While these options were being actively evaluated no decisions had been reached.

Safe and Compliant

The Safe and Compliant (S&C) governance arrangements have brought necessary focus to the issues arising from the Oracle implementation and provided the resources to address a significant backlog of post go live issues. However, at this time, the Council cannot be described as Safe and Compliant in key areas because of ongoing issues with Oracle.

- Critical issues with the Oracle implementation have not been fully resolved, leading to a failure of financial management and control, and an ongoing reliance upon interim resources to maintain basic financial processes.
- People Services has the largest number of open items classified under Safe & Compliant, principally issues affecting the Council's ability to report against its statutory obligations, or because they form part of essential requirements for schools.
- There is limited documentation of the operating procedures the Council is reliant upon to maintain basic operations. Combined with the high level of interim resource required, this represents a significant risk to resilience.
- There is a gap between finance operations and the programme team in terms of how issues are being prioritised and the extent of progress against key issues.

Executive summary

Key Findings

Safe and Compliant (Cont.)

- Exit criteria have been identified for S&C but we have seen no evidence that they have been objectively tested, or how a decision to exit the governance arrangements for this phase of the programme will be made.

Future Optimisation

The Council does not currently have a developed strategy and business case for the optimisation of the Oracle solution.

- The Council is currently undertaking a twelve-week high level design activity supported by Oracle.
- Efforts are being made to ensure Oracle expertise and the experience of other Local Authorities and their Oracle implementations, is brought into the high-level design and planning process at an early stage.
- We understand the approach to high level design is based upon adopting standard Oracle functionality across its principal business processes, e.g. Procure to Pay, adapting the Council's ways of working. This is an appropriate approach to process design but wider consideration needs to be given to future resourcing and organisation, i.e. the target operating model for corporate functions, in order to design a complete and efficient solution.
- The Programme team recognise that significant business change will be required. However, at the time of our review, plans for resourcing the future optimisation phase and supporting change management had not been developed. These critical elements of the programme need to be developed before moving into detailed design.
- There are potentially a number of different approaches which could be used to achieve optimisation. From our interviews it appears that the primary focus is on establishing a new "clean" Oracle instance, with a phased transfer from the current version. There are significant technical considerations and financial implications to this approach. Other options may offer a more practical and value for money solution.
- Options need to be fully evaluated and a business case established, to enable informed decision making as to the right approach to optimisation. The latest Oracle update report that went to the Cabinet in December 2023, reported that a separate report that sets out the recommended approach and timeline towards delivering an optimised solution will be presented in January 2024.
- The Director of Transformation's view is that all likely costs are covered by the £100M estimate already stated in the public domain and they are trying to stay within this cost envelope.
- This assumption in relation to costs is based upon: The cost of the original implementation of approximately £40M, an additional £26m to deliver the Safe & Compliant phase of the programme and a further £18m for completion of the future optimised solution, keeping them within the £100m envelope. Further evaluation of the cost of optimisation will be required following the high-level design activity, to better understand the cost of future optimisation.

Executive summary

Principal recommendations

The table groups our main recommendations, across all three key lines of enquiry, in themes. Further consideration of the issues and purpose of each recommendation is provided in the following pages.

Theme	Recommendation	KLOE Reference
Interim Resilience	The Council need to put in place arrangements to secure resources and improve resilience in the delivery of business as usual services and ongoing work to manage the manual remediation of implementation issues.	Finance Operation Ref: 1,2,3 Safe & Compliant Ref: 6,9
Statutory Recommendations	The Council and the programme need to agree a plan to complete actions required to enable the fulfilment of Statutory Recommendations.	Finance Operation Ref: 3
Finance Operations	The Council needs to establish an adequate financial control environment by 1 April 24, or have clear plan in place to address all outstanding issues.	Finance Operation Ref: 3
Issue / Backlog Prioritisation	The programme need to review the process for management of new issues and ongoing prioritisation of Safe & Compliant issues. This should identify where tactical actions, in the short and medium term, are required to support Statutory and Regulatory obligations and can be delivered in advance of the Future Optimisation programme.	Finance Operation Ref: 5 Safe & Compliant Ref: 1,8,11,15
Programme Planning	The Council need to complete an overarching plan for the Safe & Compliant phase and transition to Future Optimisation. This needs to establish detailed gateway review processes to support decision making, transparency and reporting of progress against milestones.	Safe & Compliant Ref: 2,3,4,12,14
Oracle Expertise	The Council need to ensure Oracle expertise is engaged and developed to support the programme and embed capability into business as usual operations.	Safe & Compliant Ref: 5,7,10
Outcomes for Future Optimisation	The Council needs to establish a clear vision for transformation and the outcomes delivered or enabled by the future optimisation of Oracle.	Future Optimisation Ref: 1
Detailed Design / Options Analysis	As an outcome from High Level Design and to inform detailed design the Council need to undertake a full analysis of the options for future optimisation and related costs and benefits.	Future Optimisation: 3,5,6
Business Change	The Council need to ensure adequate planning and management of business change is built into the future optimisation programme. Consideration needs to be given to the impact of change on all stakeholder groups and the communication and other interventions required to prepare the organisation.	Future Optimisation Ref: 2,4,7,8

Key Lines of Enquiry



Finance Operations

Finance Operations

The objective of this line of enquiry is to understand the Council's process to close the 2022/23 Financial Year and produce an auditable set of accounts, and accounting and financial management for 2023/24, in order to assess the level of assurance that can be placed on the Council's financial control environment.

Summary

We note that it took significant time after the implementation of the Oracle system on 1st April 2022 for the organisation to appreciate the extent of the problem with the integrity of the underlying financial records. The ongoing lack of financial reporting at cost centre level effectively blinded the organisation to the full extent of the problems.

Some issues with the more visible aspects of finance processing, such as payroll and accounts payable, were more quickly identified often through notification from employees and suppliers and were able to be mitigated through system fixes to the relevant Oracle modules. Some other subsidiary processes such as Treasury and Asset management had been much less reliant on the previous SAP ledger and subsequently, the Oracle implementation. While some problems remain in these areas, these are of a lesser magnitude.

The key problem areas relate to the Bank Reconciliation System (BRS) and Accounts Receivable. These systems ensure that the very high volume of payments and receipts transacting through Council bank accounts on a daily basis are posted to the correct accounts in the General Financial Ledger, enabling the Council to maintain an accurate record of payments and receipts within each cost centre, department and service directorate. In the absence of an effective system to facilitate this, the Council has not been able to track the accumulation of cost and the collection of money owed, against its service areas within an acceptable degree of accuracy.

It should be pointed out that post Oracle implementation, the majority of transactions have continued to be posted correctly by the system. However, throughout 2022/23 and into 2023/24 a materially significant volume of transactions have been either posted to the wrong accounts or were not able to be posted, accumulating in a holding account. The significant undermining of the financial record this created only began to emerge in the second half of the financial year as the year end close process for 2022/23 was started.

Since this time we found that the Council has undertaken significant remediation work to restore a credible financial outturn position for 2022/23. This work has primarily been led by the finance team with the short-term objective of establishing new temporary processes and we have been advised that they have been able to:

- Clear the very large backlog of mis-posted and unposted transactions to the correct accounts in the general ledger. This process is being reported as substantially complete.
- Reduce the level of system generated errors from the routine processing of transactions through Oracle system fixes, where this is possible. This has been substantially completed to the extent possible under the limitations of the current system.

Finance Operations

Summary

- Identify where and when errors are being generated day by day and categorising these. We note that with of backlog now cleared, the number of errors has continued to reduce.
- Implement a labour-intensive set of new short-term measures to correct errors as they accumulate, increasingly on a BAU basis.

Despite these achievements, the Council has significant further work to complete before the 2022/23 outturn position can be fully assured. The quality and availability of an audit trail that can be effectively interrogated remains a significant concern.

Regarding 2023/24, the Council is facing similar problems to 2022/23 which is inhibiting their ability to accurately report their financial position. This includes a significant backlog in cash postings and continuing control weaknesses across its financial systems. The Council is focusing on working up and documenting the new temporary financial processing arrangements that will serve to keep the ongoing level of error to a minimum and enable a systematic approach to clearing manual processing backlogs as they accumulate on a daily, weekly and monthly basis. New financial control arrangements will also need to be built around these short-term processes in order to achieve a minimum level of assurance over the robustness of the financial record for 2023/24. The re-establishment of robust budget monitoring arrangements will be a key part of this process.

Our general recommendation is as follows:

- The Council need to prioritise on delivering an out-turn position for both the 2022/23 and 2023/24 financial years. Although the accuracy of this position may be challenging due to the control environment present in both financial years, it is essential that they close out both financial years for them to be able to concentrate on ensuring an adequate control environment for their 2024/25 financial year.
- The Council should ensure that the support and further development of the new temporary finance processes are managed as a core part of the ongoing Oracle recovery programme. This is especially important, as the implementation of a longer-term solution is expected to take at least 1 year.
- The short-term financial arrangements that have been developed are largely tactical rather than strategic and have mainly been directed from within the finance team. There is a danger that this important area becomes detached and overshadowed by the increasing focus of the programme on the longer-term solution. The Council should consider how the short to medium term solution could be further supported by the wider Oracle programme and how lessons learned could contribute to the design of the longer-term solution.

Finance Operations

Basis of evaluation

It should be noted that the stage of completion of the remedial action to restore basic financial business as usual functionality is progressing at speed. The focus of the finance team has been on short term solutions to achieve the restoration of materially correct financial records, basic financial reporting and the re-establishment of high-level financial controls. Our fieldwork was primarily completed between August and October 2023 and our findings reflect a point in time.

Progress on 2022/23 and 2023/24 backlogs

At the time of writing of this report the backlog of transactions needing to be processed on BRS had been reduced from c. 70,000 to 8,000. The majority of the outstanding items related to 2023/24 and only a few hundred remained to post for 2022/23.

In order to process the volume of corrections needed the finance team has been augmented by additional temporary staff, resource allocated through the Oracle recovery programme. The initial focus for this additional resource has been to rectify the financial records for financial year 2022/23 and to establish a reliable outturn position.

Finance believe, that having almost completed 2022/23, they can now switch focus and resources to 2023/24, and will benefit from having developed a much clearer idea of how and where the errors are occurring. Rectification of these issues requires a significant level of ongoing manual effort, investigating each transaction to identify and correct postings to the General Ledger and this needs to be done in the context of the Council needing to minimise costs due to the requirements of the S114 notice.

Production of a 2022/23 financial outturn

The Council are some months from having an auditable set of accounts for 2022/23. The finance team have provided some assurance that the level of manual corrections to the ledger that have now been processed for 2022/23 means that the draft Q4 outturn report is expected to be produced in January 2024. The delivery timeline for this process has not been formerly defined.

We note the heavy reliance on a high volume of correcting journal entries, some of which have been posted on the basis of limited information and in some cases 'best fit'.

We have general concerns about the lack of reliable financial controls within Oracle and a lack of reliable financial reports to enable effective monitoring of budgets which mean that the financial record for 2022/23 is likely to be vulnerable to error. Therefore, the Council is likely to require significant further time to obtain robust internal assurance over the accuracy of the Quarter 4 figures, before these will be ready for external audit.

The Council needs to establish an adequate financial control environment by 1 April 2024, if managed consider this is not possible a detailed analysis of outstanding issues needs to be produced supported by a robust plan for resolution.

Overall, the Council are speaking positively about remediation in regard to the financial records for 2022/23 but we have not yet been able to see sufficient evidence to provide assurance that the Q4 position is materially correct. The first stage should be an internal assurance process carried out by the Finance team and this should be able to begin once the full draft Q4 position is available for review by budget holders and senior corporate finance managers.

Finance Operations

Production of a 2022/23 financial outturn

At this stage, there seems to have been little provision made to independently check controls over the manual processes being followed or to test the financial record for 2022/23 using internal audit or other 3rd party. Some form of independent assurance process would be advisable prior to any attempt to present 2022/23 outturn as accurate.

The November 2023 Finance Position paper reported that the forecasted out-turn position for 2022/23 is an estimated £78.2m overspend. With a forecasted use of £336.2m reserves in 2022/23, which has depleted the reserves balance from an opening position of £596.8m to £260.6m in 2022/23.

The finance team have an expectation that 2023/24 will have at least a similar forecast overspend to 2022/23, with the high level quarter 1 report forecasting an overspend position of £87.1m. The November 2023 finance paper has forecasted that when the use of reserves in 2023/24 and additional drawdowns are taken into consideration then the Council is currently at a negative reserves position of (£677.9m). Please see Appendix E for a full breakdown.

Retention of finance staff

The high level of turnover of middle and senior finance staff has resulted in a fundamental loss of corporate memory which is relevant to the production of the accounts following such a period of delay. The Deputy S151 Officer had been leading the BRS work and had been using a dashboard to monitor the gradual reduction in the level of backlog errors (volume and value). We note that this individual has now left the Council and the role has been filled by an experienced internal promotion.

There is acknowledgment of a high level of fatigue within the Finance team. A number of senior finance officers communicated deep dissatisfaction with the senior management culture and lack of receptiveness to finance expressing concerns, perceptions of poor treatment by colleagues outside of the finance team and the lack of engagement particularly with the design aspect of the revised Oracle implementation plan.

They also raised concerns about the lack of sufficient engagement from the Oracle Programme team on supporting shorter term systems fixes within the existing Oracle modules, that could help reduce the reliance on labour intensive and costly manual workarounds that they have had to deploy to address the immediate remedial requirements and maintain basic business as usual finance functions. This issue is seen as important given the significant time period that will elapse before a longer-term solution can be implemented.

Finance Operations

System created challenges

Remediation of 2022/23 and ongoing processes for 2023/24 require significant manual intervention and are reliant upon additional temporary resource. It is likely that the additional costs being incurred will therefore continue to accumulate until a solution which resolves the BRS issues is fully implemented.

There is a reliance on material levels of interim resource, including middle to senior management levels both in terms of business as usual financial management and Oracle remediation. A large team of additional temporary finance staff had been brought in to clear the backlog, this team was now being reduced but still c. 20 are needed to complete the backlog work and continue making corrections to support BAU in 2023/24, in the absence of an interim systems based solution. The current manual workarounds in place are costing the Council £500k per month.

Other sources of assurance on the system of financial control

To date, Internal Audit have not done and are not planning any assurance work around the measures taken to correct the ledger. We understand that plans are being put in place to commission an external party to carry independent assurance work.

Finance operations

Bank reconciliation system

Current State

We have established that the main source of error in the financial processing has been the Bank Reconciliation Solution (BRS) a bespoke add on to Oracle, which has resulted in transactions either not being posted to the ledger or posted incorrectly. This appears to be a result of attempts prior to implementation to customise the module to mirror existing allocation rules under the previous SAP ledger system, but which had not been successfully implemented. As a result, throughout 2022/23 a very large backlog of posting errors had accumulated. This has resulted in the need for a very large volume of correcting journals to be processed manually in order to correct the financial records on the general ledger.

We note that the finance team assert that the same BRS system issues have continued to apply to transactions day by day in 2023/24, with errors occurring in approximately 40% of transactions. As at 25th September there were 9,057 unallocated transactions with a net value of £74.43 million, a Debit balance of £118.12 million and Credit balance of £43.69 million.

Evaluation / Assessment

We note that the finance team is confident that basic bank reconciliation processes can be restored, but that further work is required to restore this to a daily BAU process. The current issues are primarily around the ongoing difficulty with allocating income receipts. This is the focus of much of the manual processing that continues to be required.

There appears to be limited system-based fixes that can be applied to BRS in the short term, and therefore the finance team will continue to be reliant upon an ongoing process of retrospective transaction analysis and manual journal adjustments until BRS is replaced. A specification process has been started for the replacement of BRS with standard Oracle functionality supported by specialist income management software. From procurement to implementation, it is estimated replacement of BRS will take up to twelve months once approved. It is likely that there will be no fully working cash system until early 2025. During this procurement manual workarounds will still need to be in operation.

Recommendations

- (1) We note that the new short term finance processes that have been developed are highly reliant on the accumulated knowledge of key finance personnel, many of whom are interim/temporary appointments. The Council should prioritise the codification and documentation of the new processes to mitigate the risk that key knowledge could be lost.
 - (2) Until such time as the issues with Oracle are resolved, the Council must ensure that the Finance team is provided with the ongoing financial support needed to maintain the labour-intensive manual processes which it is now dependent on, in the context of cost savings measures as a result of the S114 notice.
 - (3) The Council need to ensure that an adequate control environment, including BRS and cash by 1 April 24, otherwise it will not have appropriate financial reports and its accounts may be qualified.
- If this is not possible, a list outstanding issues with finance op's issues need to be produced with a clear plan to resolve each one**

Finance operations

Budget management and monitoring

Current State

The Council has been operating during 2022/23 and 2023/24 without effective budgetary control mechanisms in place. Due to the complexity of manual processes, the significant volumes of manual postings and the number of error corrections required due to BRS, it has been a challenge for the Council to produce accurate monthly monitoring on a timely basis during 2022/23 or 2023/24. Directorates do have information around several key areas such as payroll and accounts payable but the issues within the BRS system have directly impacted the production of monthly budget monitoring.

Localised efforts to manage budgets within the services using historic performance as a benchmark appear to have been taking place, but this has not been adequate to provide a reliable measure of performance against budget or the delivery of savings to the corporate management team or to members.

Overall, the Council does not have a reliable forecast outturn figure for 2023/24 or a reliable baseline cost position on which to set the 2024/25 budget. The baseline budget position on which the 2023/24 budget was set must also be in significant doubt.

A full breakdown of the current situation of budget management and monitoring is available in Appendix D.

Evaluation / Assessment

There is acknowledgement from the finance team that that budgetary control and the monitoring savings had not been functioning effectively in 2022/23 or 2023/24. While the Council is nearing a position where the overspend for 2022/23 can be calculated within a degree of accuracy, very little reliance can be placed on the financial information available on the forecast financial outturn for 2022/23 or 2023/24. This is likely to result in a qualification of the accounts for these financial years.

Recommendations

- The Council should obtain independent confirmation over the forecasted financial outturns for 2022/23 and 2023/24. To obtain assurance over the reported balances.
- The Council should report its outturn for 2022/23 by January 2024 as per their plan. Given the delayed completion of the outturn position the Council should target to complete their 2022/23 financial statements by 31 March 2024.
- The Council should provide an updated budget for 2023/24 that takes account of the 2022/23 outturn, its current financial position for 2023/24, its progress on delivering savings plans in 2023/24, and the other financial pressures impacting on the Council.

Finance operations

Accounts payable

Current State

We note that unlike other Oracle Modules, the Accounts payable module had not been subject to major customisation, which had been the driver of many of the issues with BRS. As a result, the reported issues were fewer and the additional manual input required to run business as usual appears to have been less. Some initial issues with payments to suppliers were able to be dealt with largely through systems fixes during the first part of 2022. There remain some issues around scanning of invoices and some reporting and raising of invoices still has to be done manually.

Onetime payment requests is an area of high risk. Internal Audit (IA) found that the workflow process for these payments was not operating correctly so the required compliance checks were not being completed. The workflow has now been rectified. Any payments with no supporting attachments will now be rejected. IA are in the process of completing a follow up.

It should also be noted that the matching of payments made to the appropriate accounts has been affected by issues with the BRS system.

The audit team is awaiting a full update on the operation of controls over this system so this assessment is subject to change.

Evaluation / Assessment

The finance team are relatively comfortable with the performance of Accounts Payable Processes. While there are some inefficiencies, the process appears to be functioning to a reasonable standard. Sources of independent assurance on this process are limited at this point.

The audit teams view is pending completion of the controls systems review.

Recommendations

To be updated on completion of audit team review.

Finance operations

Accounts receivable/ Revenues and Benefits

Current State

The Accounts Receivable module has been identified as an area of risk, current issues with cash allocation and reporting of debtors, which relies to a high degree on information from the BRS system, is affecting the Council's ability to operate effective credit control processes.

For much of 2022/23, direct debits and other types of payment were not being effectively collected. In addition, we note that Revenue and Benefits are managed in a separate team within Finance and there were also issues with the interface of BRS with this process which affected Council Tax and to a lesser extent, Business Rates collection. Significant work has been done to match income received to debtor accounts to understand the debtor position. This is not yet resolved and there is a lack of assurance around the calculation of bad debt provisions, which are by necessity, significantly greater than was the case pre-Oracle implementation. One of the key issues has been that debt collection was largely done by individual services, but this has been severely hampered by the lack of information that can be drawn from the system.

The finance team indicate that income collection generally has suffered from the prioritisation process under Safe and Compliant programme and had not initially had the resources it needed. Credit Control and debt collection remain under resourced.

Evaluation / Assessment

Standard reports such as aged debtor reports have had to be produced manually and this has only been undertaken since the latter half of 2022/23. The finance team continues to struggle with effective debtor management and credit control.

Work is currently being undertaken to find an automated solution to the Dunning process which allows the automated generation of debt recovery letters. It was commented by finance that debt collection had been problematic under the previous SAP system.

Cashflows are monitored on a daily basis and a higher level of free cash is being held to manage short term volatility. Officers also recognise the impact upon collection rates and the risks around debt recoverability, and plans are being put in place with Directorates to manage long-term collection. However, there are indications of a significant problem with the recoverability of accumulated debt.

Recommendations

(4) Credit control and debt management processes require increased development and prioritisation. Additional resources should be considered in this area to strengthen income collection. The longer-term income management solution will need to consider how it can be implemented consistently across the individual services and Revenues and Benefits, in addition to transaction services within Finance.

Finance operations

Payroll

Current State

Payroll processing is considered to have been stabilised and we note that this module was not subject to significant customisation under the new Oracle implementation and that workflows had not been required to change significantly.

We have established that the new Oracle module relating to payroll, has experienced issues particularly immediately post implementation in April 2022. For example:

- due to the security model Corporate Payroll were unable to process the backdated pay awards for November 2022 (NJC) and December 2022 (JNC/teachers) for some employees. The allocation of the award failed for anyone who had received an in-year contract change, for example, acting up, honoraria etc. For the errors to be cleared and ensure everyone received payment, there was a need for payroll to make the adjustments.
- Shortly after the system went live a large salary overpayment occurred due to an employee being paid their annual net salary in a single payment. This occurred due to numerous control failures.

Management consider that these have now been resolved and the level of adverse feedback from employees is at pre-Oracle levels. However, there remain a number of issues around the interface between payroll and changes to employee status and details driven from the HR module that require additional manual checks. There have been other issues around holiday pay.

While some issues are related to training on the system, the lack of automated reporting and system controls is a key driver of the additional workload. In addition, there remain some unresolved issues around the schools' payroll process.

There continue to be significant manual work arounds which are adding to the levels of overtime within the team. These include the manual input of overtime hours by the payroll team.

Evaluation / Assessment

Although payroll appears to be functioning to a reasonable level of accuracy. There is an ongoing requirement for manual intervention and additional resource in Payroll. An estimated additional 60 to 100 hours per month are currently required to manage the monthly payroll process, some of which is being absorbed by overtime. In the absence of system-based controls, the process remains very reliant on manual checks to prevent errors such as overpayments and the calculation of overtime. In addition, there are some specific areas, such as processing payroll adjustments for schools that continue to be worked on, as this is generating a lot of queries each month that the new Schools team is having to work through.

Recommendations

See recommendation (1) , Page 21, on the documentation of controls and controls assurance processes.

Finance operations

Treasury management and Fixed Assets

Current State

The Council's key Treasury Management and Asset Management processes continue to use a separate system that is independent from Oracle.

[Note: this assessment has not looked at the effectiveness of the process outside of the context of the Oracle implementation].

Evaluation / Assessment

Other than in regard to the posting of entries into the General Ledger, there has been minimal impact in these areas.

Recommendations

NA

Other areas – Schools Finance

Current State

We note that in addition to its core finance processes, the Council is also responsible for finance processing and payroll at a large number of schools. The issues closely mirror those of the core council finance functions. However, it is noted that schools have a range of specific income sources that have to be managed under their own sub-processes.

Our discussions with the finance team indicate that this is an area that had a number of unresolved challenges, and the potential for further financial control risks.

Evaluation / Assessment

We note that in March 2023 a dedicated team was set up to deal with the heightened level of financial queries coming in from schools. The work in this area is ongoing.

Because schools are effectively paying customers purchasing services from the Council, there is a risk that continuing limited service will result in schools finding other providers.

Recommendations

(5) Issues with Schools payroll need to be added to the priority list and a solution reached.

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Safe and Compliant phase

Safe and Compliant phase

The objective of this line of enquiry is to understand the processes and governance arrangements put in place to identify and manage issues arising from the Oracle implementation. In order to evaluate how effective these arrangements have been in gaining control of the issues and delivering a plan to ensure that the council is able to deliver its **statutory, legal, contractual and policy obligations** in the short-term.

Basis of evaluation

The Safe and Compliant (S&C) phase was established in April 2023, in response to the volume of issues arising out of the Oracle implementation and the impact these issues were having on the Council's ability to deliver basic business processes.

S&C was established based upon a crisis response model, introducing significant new governance arrangements intended to:

- Give CLT and Members **confidence and assurance** that the Oracle issues are being taken seriously and being managed effectively.
- Develop and deliver a plan to ensure that the council is able to deliver its **statutory, legal, contractual and policy obligations** in the short-term.
- Develop and deliver **a plan to 'fix' Oracle** in the medium to long-term and mitigate risks.

To evaluate the effectiveness of this phase of the programme we have considered these arrangements against:

- A framework of best practice for the full lifecycle of a transformation programme, summarised in Table One opposite.
- Evidence of progress against its stated objectives.

Table One : Programme best practice principles

Phase	Description
Define	The programme has a clear purpose, which is bought into by key stakeholders. It has defined objectives aligned to that purpose and specific measurable targets.
Setup	The programme has a structured approach and plan and is organised and resourced to deliver that plan efficiently and effectively.
Implementation	The approach to delivery is aligned to the programmes purpose and objectives and is underpinned by effective governance and change management.
Measurement	Performance against plan can be measured and appropriate reporting and gateway processes are in place to enable effective management and decision making.

Safe and Compliant phase

Summary of our recommendations

The following table sets out a summary of recommendations made in response to our review of the Safe and Compliant (S&C) phase.

Safe and compliant Phase	Summary of recommendations
<p>Define</p> <p>The programme has a clear purpose, which is bought into by key stakeholders. It has defined objectives aligned to that purpose and specific measurable targets.</p>	<ol style="list-style-type: none"> (1) In advance of transition from the current S&C governance arrangements the programme needs to agree with stakeholders, how ongoing or newly arising issues will be managed and reported. E.g. where previously untested transaction rules in BRS fail, or data integrity issues in HMC. (2) Decision gateways should be formalised for both the governance arrangements, and this phase of the programme. Decisions should be based upon objective assessment of progress against clearly defined exit criteria, which have specific and measurable targets. <ul style="list-style-type: none"> • Roles and responsibilities in the decision gateways need to include all relevant stakeholders. Given the sensitivity around the programme independent evaluation should also be considered. • Decisions and their basis, against exit criteria, and any related actions need to be documented. (3) As part of any transition from the S&C governance arrangements: <ul style="list-style-type: none"> • all implemented fixes should be documented • all unresolved issues should be documented and prioritised, with clear ownership within the new governance model. • a plan and budget need to be agreed covering all manual interventions, required to fulfil an S&C requirement or maintain business as usual operations, until they can be fully resolved.

Safe and Compliant phase

Summary of our recommendations continued

Safe and compliant Phase	Summary of recommendations
<p>Setup</p> <p>The programme has a structured approach and plan and is organised and resourced to deliver that plan efficiently and effectively.</p>	<p>(4) An overarching plan for the S&C phase should be developed to support transparency and management of programme performance., providing greater visibility of:</p> <ul style="list-style-type: none"> • progress in support of milestones for the Council’s safe and compliant status, e.g. Close of FY 22/23, • dependencies between the multiple initiatives in flight, • planned deployment of fixes or improved functionality, and • the demands being placed on Council staff in delivery of the programme and business as usual services. <p>(5) The programme must seek to strengthen the input of Oracle expertise at programme and functional level.</p> <ul style="list-style-type: none"> • The lack of understanding by the current team around the existing design and why it was configured this way makes resolution harder and higher risk. • Control of configuration changes and deployment has been significantly improved during the S&C phase. However, the programme needs a true solution / enterprise architect and process champions to build corporate understanding and limit the risk of point solutions being deployed. • the demands being placed on Council staff in delivery of the programme and business as usual services. <p>(6) The level of additional resources, both interim staff and excess hours needs to be identified to ensure programme costs are fully transparent.</p> <p>(7) The Council need to develop routes to embed Oracle skills and expertise within its own resources, taking opportunities through knowledge sharing and training from third parties, focused development of existing staff and recruitment.</p>

Safe and Compliant phase

Summary of our recommendations continued

Safe and compliant Phase	Summary of recommendations
<p>Implementation</p> <p>The approach to delivery is aligned to the programmes purpose and objectives and is underpinned by effective governance and change management.</p>	<ul style="list-style-type: none"> (8) Given the significance of the issues caused by the failure of the BRS solution and the ongoing costs and risks of the current manual process, specific action should be taken to identify and implement a more robust and sustainable solution in the short to medium term. (9) The programme needs to catalogue any interim fixes which require extra personnel and or are supported by off system workarounds and establish plans to sustain these solutions beyond the immediate term. (10) The underlying lack of understanding of how and why the original configuration was built and why the extensions or customisations were needed has not been mitigated. The reliance on Version one to fix issues and the lack of BCC Oracle expertise is an ongoing concern. The unresolved issues around BRS need to be addressed and cannot wait for a re-implementation. (11) The impact of the issues with the ORMC implementation needs to be understood and a rectification plan put in place, as BCC expect this to mitigate additional audit concerns moving forward. (12) An overarching plan for the S&C phase, with actions aligned to specific objectives / S&C goals, should be prepared and used to support more transparent reporting and management of the programme. (13) A gateway review process, with agreed criteria and mechanisms for decisions related to the governance and ultimately exit from this phase of the programme needs to be documented and approved. (14) A robust review of the extensions / customisations and if they can be replaced or reworked needs to be actioned as a key input into the decision on how to resolve the issues.

Safe and Compliant : Define phase

In this section we have assessed how effectively the purpose and objectives for the Safe and Compliant phase of the programme are defined, the level of consensus amongst stakeholders and the extent to which measurable targets have been established for this phase of the programme.

Current State	Evaluation / Assessment	Recommendations
<ul style="list-style-type: none"> The Safe and Compliant phase was established with a clearly defined purpose and objectives, being to⁽³⁾: <ul style="list-style-type: none"> Give the Council Leadership Team (CLT) and Members confidence and assurance that the Oracle issues are being taken seriously and being managed effectively. Develop and deliver a plan to ensure that the council is able to deliver its statutory, legal, contractual and policy obligations in the short-term. Develop and deliver a plan to 'fix' Oracle in the medium to long-term and mitigate risks. It has been organised based upon a crisis response governance model, acknowledging the scale and materiality of issues arising from the Oracle implementation. The timeline for this phase of the programme has been described as between 6 and 12 months. At the time of our review there was a desire to move away from the S&C governance arrangements, to a more traditional transformation programme model. This is based upon the view that the progress made by the existing structure has enabled the programme to establish effective ways of working underpinned by detailed plans, RAID logs and collaboration across workstreams. 	<p>Against its stated objectives:</p> <ul style="list-style-type: none"> The S&C phase has given greater visibility to issues within the Oracle implementation, with detailed analysis of issues, functions affected and implications for the Council. Providing greater transparency for the CLT and Members. A significant volume of issues have been documented and addressed through this phase, though the programme acknowledges many of the fixes put in place may be temporary, subject to a long-term solution being established. At the time of our review there were still issues categorised as Safe and Compliant which had not been resolved, and interviewees confirmed some of the most significant issues were being managed via manual intervention. For example: <ul style="list-style-type: none"> The Outturn and Financial Statements for FY 22/23 had not been completed. Monthly reporting to budget holders was not in place. Staff DBS clearance checks and Right to Remain reporting. 	<ol style="list-style-type: none"> In advance of transition from the current S&C governance arrangements the programme needs to agree with stakeholders, how ongoing or newly arising issues will be managed and reported. E.g. where previously untested transaction rules in BRS fail, or data integrity issues in HMC. Decision gateways should be formalised for both the governance arrangements, and this phase of the programme. Decisions should be based upon objective assessment of progress against clearly defined exit criteria, which have specific and measurable targets. <ul style="list-style-type: none"> Roles and responsibilities in the decision gateways need to include all relevant stakeholders. Given the sensitivity around the programme independent evaluation should also be considered. Decisions and their basis, against exit criteria, and any related actions need to be documented. As part of any transition from the S&C governance arrangements: <ul style="list-style-type: none"> all implemented fixes should be documented all unresolved issues should be documented and prioritised, with clear ownership within the new governance model. a plan and budget need to be agreed covering all manual interventions, required to fulfil an S&C requirement or maintain business as usual operations, until they can be fully resolved.

⁽³⁾ Oracle Programme Governance Review | Birmingham City Council | August 2023

Safe and Compliant : Setup phase

Evaluation of the Setup considers the scope of the S&C phase and its approach to the delivery of its objectives. It then goes on to consider the structure and organisation of this phase and how it is organised and resourced in order to efficiently and effectively fulfil its objectives.

Current State	Evaluation / Assessment	Recommendations
<p>Scope & Approach</p> <ul style="list-style-type: none"> The S&C phase was established, applying a crisis management governance model, to provide the necessary governance and oversight to address the ongoing issues following the Oracle Implementation. Interviewees describe a consistent approach and direction for the S&C phase and an estimated duration of 6 to 12 months. However, at the time of our review, there was no overarching project plan against which progress can be evaluated. 	<ul style="list-style-type: none"> These arrangements were put in place April 2023, a full year after go live, following an independent review of issues arising from the implementation. In the 12 months between go live and setup of the S&C governance arrangements, issues were being managed at a local / functional level and via the IT Service Desk. Interviewees identified that significant concerns about Oracle's performance were raised regularly with senior officers following go live but a lack of recognition of the scale of the problem contributed to a slow response. While the programme is operating in an agile manner, based upon the prioritised backlog, an overarching project plan incorporating the phased Sprints and other key activities e.g. implementation of the Risk Management Cloud, with alignment to corporate milestone targets e.g. completion of FY22/23 Financial Accounts would provide a greater level of transparency. 	<p>(4) An overarching plan for the S&C phase should be developed to support transparency and management of programme performance, providing greater visibility of:</p> <ul style="list-style-type: none"> progress in support of milestones for the Council's safe and compliant status, e.g. Close of FY 22/23, dependencies between the multiple initiatives in flight, planned deployment of fixes or improved functionality, and the demands being placed on Council staff in delivery of the programme and business as usual services.

Safe and Compliant : Setup phase

Current State	Evaluation / Assessment	Recommendations
<p>Organisation & Structure</p>	<ul style="list-style-type: none"> The structure of the S&C phase, terms of reference for its various forums and make up of attendees including Members, Officers and external third-party support indicates an appropriate level of: <ul style="list-style-type: none"> ownership from the CLT, opportunity for functions to engage with and influence the process, and transparency and visibility to allow effective decision making and Member oversight. 	<p>NA</p>
<p>Resource</p>	<ul style="list-style-type: none"> The level of resource and seniority of participants indicates the priority and focus now being given to the Oracle issues. From interviews CLT members and other officers acknowledge the importance of this phase of the programme. But in some cases, they have confirmed that they have limited capacity or relevant technical knowledge and need to rely upon the expertise available within the wider programme team in order to fulfil their role. 	<p>(5) The programme must seek to strengthen the input of Oracle expertise at programme and functional level.</p> <ul style="list-style-type: none"> The lack of understanding by the current team around the existing design and why it was configured this way makes resolution harder and higher risk. Control of configuration changes and deployment has been significantly improved during the S&C phase. However, the programme needs a true solution / enterprise architect and process champions to build corporate understanding and limit the risk of point solutions being deployed.

Safe and Compliant : Setup phase

Current State	Evaluation / Assessment	Recommendations
<p>Resource</p> <ul style="list-style-type: none"> Project Management Office (PMO) services are provided by PWC. There is an agreed budget of £26.5m for this phase of the programme. 	<ul style="list-style-type: none"> Budget is being used to fund interim resources including the PMO function and critical delivery resources in Finance Operations. These additional staff are primarily involved in reduction of transactions backlogs, caused by the lack of interfaces with feeder systems at go live, and identification and correction of posting errors from the BRS solution. Some additional resource has also been required to support processes which are now considered stable in Oracle (e.g. Accounts Payable and Payroll) due a perceived reduction in operational efficiency caused by the complexity of the Oracle solution. 	<p>(6) The level of additional resources, both interim staff and excess hours needs to be identified to ensure programme costs are fully transparent.</p>

Safe and Compliant : Setup phase

Current State	Evaluation / Assessment	Recommendations
<p>Resource</p> <ul style="list-style-type: none"> Members of the CLT chair the Gold and Silver Taskforce groups and the Design Authority and a seconded Programme Director from PWC chairs the Bronze Taskforce group. Each of these groups meeting weekly. Daily stand up and Grip meetings are led by the Interim Director of Transformation (DoT) and attended by senior officers including the Director of Finance and S151 and the Monitoring Officer. Bronze Operational Groups are led by the relevant senior Officer for each function and supported by senior team members and PMO resource. The Digital Technology Services workstream also includes service provider Version One. Member oversight boards (Finance Board and Oracle Programme Board) are chaired by the Council leader and attended by relevant portfolio holders, Cabinet Member for Finance and Resources and the Chair of the Audit Committee. Additionally, each board is supported by an independent external consultant. These weekly meetings are also attended by senior officers including the Chief Executive, DoF & S151 and Monitoring Officers. 	<ul style="list-style-type: none"> There appears to have been limited Oracle expertise in the programme, despite certain roles being badged as such. Where the expertise is present it is typically interim staff with Oracle experience engaged by the functions or Version One in their role as the Council's IT Support service provider. The lack of BCC personnel and any 3rd party who designed the original deployment results in a lack of understanding around how the process was designed and why. This makes resolution very difficult. For areas such as Finance the operational issues following the implementation have created additional workload pressure and contributed to increased levels of staff turnover. Alongside this, wider issues within the Council mean Officers have not been able to provide the level of dedicated input the programme requires. 	<p>(7) The Council need to develop routes to embed Oracle skills and expertise within its own resources, taking opportunities through knowledge sharing and training from third parties, focused development of existing staff and recruitment.</p>

Safe and Compliant : Implementation phase

Implementation: Assessment of the Implementation considers the programmes approach to delivery of the S&C phase, how well delivery aligns to its purpose and objectives the effectiveness of governance and change management arrangements.

Current State	Evaluation / Assessment	Recommendations
<p>Analysis & Prioritisation</p> <ul style="list-style-type: none"> The programme has been able to get a grip of a substantial backlog of issues. As at June 2023 it had identified and categorised 522 product backlog defects requiring action, of which 170 were classified as Safe and Compliant issues. There are defined criteria for the assessment of backlog items, which are used by the Design Authority to inform prioritisation, these are summarised in Appendix C. The programme has also undertaken a review of the impact on frontline services, reporting back to the Members Oversight Board on: <ul style="list-style-type: none"> Place, Prosperity & Sustainability Housing, and City Operations These reviews identified a range of impacts for frontline services, some of which have an impact upon the delivery of statutory obligations, Key issues included: <ul style="list-style-type: none"> manual processes in supplier invoicing and payments, now resolved delays in recruitment and limited reporting through People Services availability of budget and expenditure reports from Finance visibility of payments from debtors 	<ul style="list-style-type: none"> The programme's aim, to complete year-end activities and close financial accounts for FY22/23, has not yet been achieved, and there is an absolute reliance on manual processing to complete FY22/23 and FY23/24. The reporting of progress on S&C issues and the KPI's do show a reduction in the list of issues / errors. This does give a level of confidence but there is no robust internal audit / review to prove this is the case. Interviews with functional teams also confirm progress has been made, but highlight significant on-going issues. Interviewees raised concerns about the prioritisation process highlighting ongoing issues with Debtor Reporting and Cash Collection and the BRS module as not being given sufficient priority. The issues with the BRS module are central to the breakdown in Finance Operations and in the Councils Financial Management. Ongoing rectification of posting errors from BRS requires 21 FTE delivering highly manual processes. Fixes for BRS are incremental and reactive, addressing categories of transactions, when errors are found. 	<p>(8) Given the significance of the issues caused by the failure of the BRS solution and the ongoing costs and risks of the current manual process, specific action should be taken to identify and implement a more robust and sustainable solution in the short to medium term.</p>

Safe and Compliant : Implementation phase

Current State	Evaluation / Assessment	Recommendations
<p>Delivery</p> <ul style="list-style-type: none"> • There is a current working assumption that most of the issues are caused by the modifications / PaaS extensions to Oracle, and all of these were built to accommodate the finance team making Oracle work like SAP. • The programme acknowledge that fixes are focused on addressing the immediate problem not necessarily resolving the underlying issues, and that many of the fixes being implemented are not aligned to the long-term vision for Oracle and are thus considered temporary. • ORMC has now been implemented and is currently deployed in the live environment tracking and monitoring risk events. Though we have been informed by the Programme team, that the version implemented cannot operate across a number of the PaaS extensions or customisations that have been made. • In Finance a significant part of the short-term response has been to mobilise additional resources, upto 65 FTE alongside resource from KPMG and PWC supporting transaction processing and manual correction of postings from BRS in Finance Operations. 	<ul style="list-style-type: none"> • The controls put in place to test and deploy the fixes appear robust, but they are clearly been in a firefighting mode. • There remains a large backlog of issues, some of which are categorised as Safe and Compliant, that are planned to be addressed in a future phase. • Where reduction in backlog issues is reported we have not seen evidence to show if these are interim fixes or a full resolution, or any assessment of the on-going / additional cost to the council. • The output from the ORMC will provide details of Risk Events, that is activities within Oracle which impact risk the Council have defined in the module. The events will need to be analysed to understand the extent and materiality of risks the Council is exposed to in the operation of Oracle. • With work on Segregation of Duties at an early stage, and with the gaps in what ORMC can interrogate and a high volume of Risk Events being reported in areas that it can interrogate, the Council cannot currently provide assurance around the risk of fraud. 	<p>(9) The programme needs to catalogue any interim fixes which require extra personnel and or are supported by off system workarounds and establish plans to sustain these solutions beyond the immediate term.</p>

Safe and Compliant : Implementation phase

Current State	Evaluation / Assessment	Recommendations
<p>Delivery (Cont.)</p> <ul style="list-style-type: none"> • Work on Segregation of Duties (SOD), previously a significant issue in SAP, is ongoing but at an early stage. • ORMC went live W/e 29 September 2023, initially identifying over 344,000 access control incidents. Each incident represents a potential Segregation of Duties or Sensitive Access issue to be investigated. • At W/e 08 December 23, following investigation of incidents by a trained analyst, this has reduced to around 184,000 outstanding issues. This has primarily been achieved by removing Super User access which allowed staff to access all parts of the system irrespective of role. • Further work on improving Folder Security, Access Rights is ongoing. Role based Access Rights will need to be established as part of redesign. 	<ul style="list-style-type: none"> • We have a real concern that BCC have not addressed or understood fully the root causes of the functional issues and why more tactical and sustainable solutions have not been addressed in this phase. The priority appears to have been to focus on safe and compliant issues with discrete fixes and defer all other issues to the optimisation phase based on a general assumption that a re-implementation solves them. • If as believed the cause of many issues is the bespoke extensions or customisations it is not clear why these have these not been targeted for replacement or improvement. For example, <ul style="list-style-type: none"> • work on a sustainable replacement for BRS is only happening now • the ORMC implementation, in September 2023, not being able to cater for the level of customisation. • In Oracle cloud you cannot modify the core code only extend around this. This means core Oracle does and will work today. 	<p>(10) The underlying lack of understanding of how and why the original configuration was built and why the extensions or customisations were needed has not been mitigated. The reliance on Version one to fix issues and the lack of BCC Oracle expertise is an ongoing concern. The unresolved issues around BRS need to be addressed and cannot wait for a re-implementation.</p> <p>(11) ORMC has been implemented to test a range of basic controls. The impact of not being able to analyse transactions through the customisation / PAAS extensions needs to be understood and a rectification plan put in place, as BCC expect this to mitigate additional audit concerns moving forward.</p>

Safe and Compliant : Measure phase

In this phase we consider how effectively performance against plan can be measured the extent to which management information and project gateway processes support effective management and decision making

Current State	Evaluation / Assessment	Recommendations
<ul style="list-style-type: none"> The programme has a number of trackers, reporting progress on completion of integrations and completion of fixes. We have not however, seen an overarching plan for delivery against the objectives of the S&C phase, or programme risk register. There is stated aim to transition from the Safe and Compliant governance arrangements to a more traditional model of transformation programme governance. Again, high level criteria for exit have been documented. 	<ul style="list-style-type: none"> The programme can demonstrate progress, based upon the reduction in volume of backlog items and fixes implemented, but this does not provide a clear sense of progress against objectives, or the expected lifespan of this phase. A level of manual intervention and effort is still required to: <ul style="list-style-type: none"> manage broken processes within BRS, compensate for the lack of financial management reports and manage less efficient processes, in areas such as Payroll <p>Issues of this nature are somewhat masked by the reporting processes and focus on transaction volumes and values.</p> <p>The exit criteria for the S&C governance process do not provide specific targets or a mechanism which will enable management to make an informed decision and provide a transparent process for all stakeholders.</p>	<p>[12] An overarching plan for the S&C phase, with actions aligned to specific objectives / S&C goals, should be prepared and used to support more transparent reporting and management of the programme.</p> <p>[13] A gateway review process, with agreed criteria and mechanisms for decisions related to the governance and ultimately exit from this phase of the programme needs to be documented and approved.</p> <p>[14] A robust review of the extensions / customisations and if they can be replaced or reworked needs to be actioned as a key input into the decision on how to resolve the issues.</p>



Future Optimisation phase

Future optimisation

The objective of this line of enquiry is to understand the Council's plans for the Reset and Optimise phase of the programme and assess these plans against recognised best practice for the delivery of technology led transformation.

Basis of evaluation

Reset and Optimisation is the phase of the programmes through which the Council aims to deliver the strategic ERP solution to support its future requirements.

A level of planning and design activity has been carried out in parallel to the S&C phase. This has included:

- knowledge sharing with other Local Authorities who have completed Oracle implementations,
- Internal workshops to define the aspirations for this phase and target state for the solution, and
- High Level Design workshops, supported by Oracle UK.

We recognise that this phase of the programme is still in its early stages. Therefore, to evaluate the effectiveness of this phase we have considered the Council's plans against the Define and Setup phases of the best practice framework in Table One, opposite.

As the programme does not yet have detailed plans for implementation, we have included key considerations and potential areas of risk, for management to take into account, based upon our experience of similar programmes.

Table One : Programme best practice principles

Phase	Description
Define	The programme has a clear purpose, which is bought into by key stakeholders. It has defined objectives aligned to that purpose and specific measurable targets.
Setup	The programme has a structured approach and plan and is organised and resourced to deliver that plan efficiently and effectively.
Implementation	The approach to delivery is aligned to the programmes purpose and objectives and is underpinned by effective governance and change management.
Measurement	Performance against plan can be measured and appropriate reporting and gateway processes are in place to enable effective management and decision making.

Future optimisation

Summary of our recommendations

The following table sets out a summary of recommendations made in response to our review of future optimisation.

Future Optimisation Phase	Summary of recommendations
<p>Define</p> <p>The programme has a clear purpose, which is bought into by key stakeholders. It has defined objectives aligned to that purpose and specific measurable targets.</p>	<p>(1) A vision for the Council's future state and supporting target operating model should be created</p> <ul style="list-style-type: none"> • The operating model review should be approached holistically. This should involve assessing all elements of the operating model from capability and processes through to management information and organisational structures alongside the systems review to avoid siloed decisions being made. • The outputs of the operating model review should be stress tested with the relevant areas to ensure that those closest to the work are engaged and non-documented practices can be flagged to inform next steps. • A detailed gap analysis should be performed to identify the level of change required to move from the current operating model to the target To Be state. • A transition roadmap, from As Is to To Be, with any interim state(s) should be prepared. <p>(2) It has been referenced that Process Owners will be put in place for the end-to-end processes. Process Owners should be identified and involved in the design process to create ownership and accountability up front</p> <ul style="list-style-type: none"> • From our understanding from interviewees, moving to Process Ownership will be a significant shift to how the processes are managed today and so this should form part of the change impact assessment. • Appropriate upskilling for the process owners on their accountabilities should be provided, as well as clear communication to the organisation on what these changes mean for how people work and governance processes. The embedding of the Process Owner model should be closely monitored to ensure this new approach is embedded and supported to be sustainable.

Future optimisation

Summary of our recommendations

Future Optimisation Phase	Summary of recommendations
<p>Define</p>	<p>(3) In advance of moving into detailed design a detailed review of options e.g. Re Implementation or retention of modules (e.g. Payroll), adopt or adapt processes & use of supporting best of breed tools needs to be undertaken, taking full account of the costs and benefits.</p> <p>(4) The Council need to understand all inflight programmes and identify dependencies and any common resources, e.g. Oracle and the middleware programme.</p>
<p>Setup</p> <p>The programme has a structured approach and plan and is organised and resourced to deliver that plan efficiently and effectively.</p>	<p>(5) The high-level design scope appears to focus on the functional design. We would expect to see a clear strategy and costing in addition for integrations, extensions, data migration, reporting, testing, training, cutover and support beyond go-live. The key areas that overran on cost time and money first time should be the focus as a minimum in addition to a new functional design.</p> <ul style="list-style-type: none"> BCC also need to challenge all of the areas where PaaS extensions were built and understand if this was to make it work like SAP or was it needed to deliver an effective and efficient solution for BCC. BRS is a case in point. We would also see all of the areas listed above including a business case as a pre-requisite for a design phase <p>(6) Our current understanding is the focus is on a new Oracle high level design, but we are not clear on how, when and by whom the other areas are being considered before the sign-off for a low-level design. The key risk is BCC cannot afford to adopt Oracle processes out of the box.</p>

Future optimisation

Summary of our recommendations

Future Optimisation Phase	Summary of recommendations
Setup	<p>(7) Resource should be introduced at programme level that is accountable for end-to-end change management across the Oracle programme for the optimisation as soon as possible.</p> <p>(8) A change management approach for the programme should be established and agreement on what will be led at programme level and what will be led at work stream/ Directorate level set out.</p> <ul style="list-style-type: none"> • A full change management plan should be created and implemented covering the case for change, change impact assessments by stakeholder group, employee engagement approach, user testing, back office and end user training plans and metrics to measure adoption. • Within the training elements, a full skills gap analysis should be carried out by area to ensure the required skill level to implement successfully is outlined and an understanding of the current skill level is obtained to inform the training approach. • The change management approach and plan should be aligned to the communications plan to ensure these are cohesive.

Future optimisation : Define phase

In this section we have assessed how effectively the purpose and objectives for the Future optimisation phase of the programme are defined, the level of consensus amongst stakeholders and the extent to which measurable targets have been established for this phase of the programme.

Current State	Evaluation / Assessment	Recommendations
<p>Target Operating Model</p> <p>Vision</p> <ul style="list-style-type: none"> The Council intends to have an overarching vision after the high-level design phase. The Council's vision for the programme is to implement and adopt standard Oracle modules wherever possible and simplify processes accordingly. There is a desire to move to focussing on processes end to end to create a more joined up approach across the Council. <p>Design Principles</p> <ul style="list-style-type: none"> The design principles that were agreed for the initial Oracle implementation have been revisited and refreshed with the SRO and other key senior leaders from each directorate. There has not been any wholesale change to the design principles as there is agreement that they are broadly still relevant to the future design, but some of the language has been changed to reflect the focus on system adoption over system adaption which is key to the Council's go forward approach. <p>Design</p> <ul style="list-style-type: none"> HLD only at this stage - the Council has been doing high-level value chain mapping activity as part of the scope of the workshops being carried out in September and October 2023. The intention is for processes to be assessed end to end to reduce the risk of solutions being developed and decisions being made in siloes. 	<ul style="list-style-type: none"> A clearly defined vision for their target operating model has not been articulated or shared. Moving into high-level design without this is a risk to the Council as they are relying on the design to inform the vision, rather than the vision to inform the design. Carrying out value chain mapping in both the high-level design and building this out in the detailed design phase will help to drive the approach the Council wish to take in this next phase of work, ensuring that processes are changed to adopt the new system in a cohesive way. Mapping the gaps between the 'As Is' and 'To Be' states will allow the Council to establish what needs to be addressed to move to the future state. It will also allow them to highlight whether an interim state is required and allow them to create a roadmap to move to the interim and 'To Be' state. The steps to do this after the initial workshops does not appear to have been outlined or planned. 	<p>(1) A vision for the Council's future state and supporting target operating model should be created</p> <ul style="list-style-type: none"> The operating model review should be approached holistically. This should involve assessing all elements of the operating model from capability and processes through to management information and organisational structures alongside the systems review to avoid siloed decisions being made. The outputs of the operating model review should be stress tested with the relevant areas to ensure that those closest to the work are engaged and non-documented practices can be flagged to inform next steps. A detailed gap analysis should be performed to identify the level of change required to move from the current operating model to the target To Be state. A transition roadmap, from As Is to To Be, with any interim state(s) should be prepared

Future optimisation : Define phase

Current State	Evaluation / Assessment	Recommendations
<p>Target Operating Model</p> <ul style="list-style-type: none"> • Design (Cont.) 	<ul style="list-style-type: none"> • The Council are planning to introduce process owners who have accountability and oversight of the end-to-end process. This will further support the approach and avoid leaders only taking responsibility for their piece of the process. Moving to this approach will require a cultural shift and this does not appear to be being addressed yet as there are no change management plans in place. 	<p>(2) It has been referenced that Process Owners will be put in place for the end-to-end processes. Process Owners should be identified and involved in the design process to create ownership and accountability up front</p> <ul style="list-style-type: none"> • From our understanding from interviewees, moving to Process Ownership will be a significant shift to how the processes are managed today and so this should form part of the change impact assessment. • Appropriate upskilling for the process owners on their accountabilities should be provided, as well as clear communication to the organisation on what these changes mean for how people work and governance processes. The embedding of the Process Owner model should be closely monitored to ensure this new approach is embedded and supported to be sustainable.

Future optimisation : Define phase

Current State	Evaluation / Assessment	Recommendations
<p>Target Operating Model</p> <ul style="list-style-type: none"> • Strategy: We could not evidence a definition of what success looks like or any success criteria identified for the optimisation / re-implementation. • We understand the approach going into HLD is to adopt standard Oracle functionality and let this dictate processes and design. As opposed to a business led approach in which business requirements are defined, based upon the target operating model. 	<ul style="list-style-type: none"> • The BCC strategy appears to be founded on a working assumption that Oracle out of the box best practise will address all of the issues and this is the only viable option. • Despite senior stakeholders stating a decision has not been made to re-implement Oracle. Feedback from attendees at the HLD workshops for payroll suggested this was the approach being proposed, despite it being considered unnecessary in their area. • Due to the size, complexity and volumes at BCC this assumption needs challenging. Whilst we agree many of the processes could be adopted, the cost to BCC of adopting these needs to be fully understood and evaluated against other suitable options. We would want these areas identified and considered as part of defining success for the programme. For example, If adopting standard Oracle increases costs the relative benefits against other options need to be fully understood. • It is unclear how these areas are planned to be addressed, but it was acknowledged they needed to be done. • In addition to an Oracle re-design we were also informed a major middleware programme was being started in parallel. This raises questions about how these two major programs be delivered at the same time from the same team. 	<p>(3) In advance of moving into detailed design a detailed review of options e.g. Re Implementation or retention of modules (e.g. Payroll), adopt or adapt processes & use of supporting best of breed tools needs to be undertaken, taking full account of the costs and benefits.</p> <p>(4) The Council need to understand all inflight programmes and identify dependencies and any common resources, e.g. Oracle and the middleware programme.</p>

Future optimisation : Setup phase

Evaluation of the Setup considers the scope of the future optimisation phase and its approach to the delivery of its objectives. It then goes on to consider the structure and organisation of this phase and how it is organised and resourced in order to efficiently and effectively fulfil its objectives.

Current State	Evaluation / Assessment	Recommendations
<p>Scope & Approach</p> <ul style="list-style-type: none"> Planning for future optimisation is at a very early stage and a clear end state for the Council's functions and the approach to Oracle optimisation have yet to be defined. Work is underway by the Transformation programme team to identify the relevant SMEs across the Council to be involved in workshops with Oracle to review end-to-end processes through a series of workshops. The intended output of these workshops is to identify what will change across each process at a high level which will inform the change management approach and the detailed design. Key members of senior leadership are also being engaged but it is expected that they will not be required in all workshops and that SME involvement is more important. BCC has commenced a £500k piece of work with Oracle to produce a high-level design based on work they did at Norfolk council. There is no clear business outcomes or requirements to design against. and many areas of substantial cost to BCC in a re-implementation are not covered or we could not evidence this. There is a view to move to an end to end process ownership model which will address the original siloed approach. 	<ul style="list-style-type: none"> Functional design is only one aspect of establishing a successful programme and the critical areas of strategy and approach we would expect to be agreed and in place, to make this effective, were not available at the time of our review. In any re-implementation we would expect a clear well-defined strategy around integrations, data migration and reporting to establish costs and resources. These are not currently in place. As a general observation Oracle consulting have less experience in Local government than Mastek. The reliance on a different SI and the working assumption because its Oracle consulting the design will be right is high risk. This is no different to the first design approach, which used the same principles. Before BCC commenced a new high-level Oracle design, we would expect a clear understanding of the People (resources needed), the process complexities (BCC specific) and a plan for the programme to be in place with clear costs and strategies in place. 	<p>(5) The high-level design scope appears to focus on the functional design. We would expect to see a clear strategy and costing in addition for integrations, extensions, data migration, reporting, testing, training, cutover and support beyond go-live. The key areas that overran on cost time and money first time should be the focus as a minimum in addition to a new functional design.</p> <ul style="list-style-type: none"> BCC also need to challenge all of the areas where PaaS extensions were built and understand if this was to make it work like SAP or was it needed to deliver an effective and efficient solution for BCC. BRS is a case in point. We would also see all of the areas listed above including a business case as a pre-requisite for a design phase <p>(6) Our current understanding is the focus is on a new Oracle high level design but we are not clear on how, when and by whom the other areas are being considered before the sign-off for a low-level design. The key risk is BCC cannot afford to adopt Oracle processes out of the box.</p>

Future optimisation : Setup phase

Current State	Evaluation / Assessment	Recommendations
<p>Organisation & Change management</p> <ul style="list-style-type: none"> • There is a member of the Programme team whose BAU role is the Portfolio Lead for the Fit for Future portfolio. They are leading on the target operating model plan for the Optimisation phase of the programme as this aligns with their portfolio, which encompasses a large number of operating model programmes for the Council's corporate functions. As many of these programmes have been paused, due to the interdependency with Oracle, their involvement aims to reduce duplication and tie in other strategic aims into the Target Operating Model work. • While the Council acknowledges that insufficient change management was a key area of failure in the initial Oracle programme, no dedicated change management resource is in place at a programme level and no detailed planning has commenced yet. • No change champion network has been created across the directorates. There is an existing employee voice group that the Oracle Communications Lead is starting to revive to bring the employee voice into the Oracle programme. 	<ul style="list-style-type: none"> • Having a member of the programme team specifically focusing on the operating model review and providing more holistic perspective in terms of the interlinks with other operating model programmes will provide better join up across the Council's Transformation portfolio. • From our understanding all change management activity will be picked up after high level design from change impact assessments through to training plans. No accountability for change management at a programme level means that, while the Council are acknowledging it is important and the 'lessons learnt' from last time point towards this being a critical enabler for success going forward, nothing is underway yet. • We would have expected to see a holistic approach to change management being taken across the programme with a case for change being articulated and up-front effort being invested in setting up the foundations (e.g., building a change champion network, stakeholder mapping and creating personas). There are only siloed efforts where Directorates are choosing to drive this themselves underway currently. 	<p>(7) Resource should be introduced at programme level that is accountable for end-to-end change management across the Oracle programme for the optimisation as soon as possible.</p> <p>(8) A change management approach for the programme should be established and agreement on what will be led at programme level and what will be led at work stream/ Directorate level set out.</p> <ul style="list-style-type: none"> • A full change management plan should be created and implemented covering the case for change, change impact assessments by stakeholder group, employee engagement approach, user testing, back office and end user training plans and metrics to measure adoption. • Within the training elements, a full skills gap analysis should be carried out by area to ensure the required skill level to implement successfully is outlined and an understanding of the current skill level is obtained to inform the training approach. • The change management approach and plan should be aligned to the communications plan to ensure these are cohesive.

Future optimisation

Setting up for success

The Council's planning for future optimisation is at a very early stage. While there is a need to move quickly the programme also needs to manage the ongoing issues affecting the Council's ability to deliver day to day operations and fulfil its statutory and regulatory obligations.

Given the Council's plans are not at a point where they can be assessed as part of this review, the following pages include details of key activities we believe the programme needs to consider which we have not commented on elsewhere.

Resilience in business operations: Securing the Council's ability to support business operations and progression of Safe and Compliant activities in parallel to the optimisation programme.

Issues

- The Council recognises low morale and increased staff turnover in functions significantly affected by issues with Oracle. This has contributed to a loss of corporate knowledge which is critical during design and implementation of a future solution.
- The Council is reliant upon interim resource and out of hours working to deliver business as usual processes and to maintain the level of manual intervention required to mitigate on going Oracle issues.
- Any reduction, or significant turnover, in current interim resource will put at risk the Council's ability to deliver core finance processes and progress the remediation of issues.

Recommendations

- A strategy should be developed to build resilience into support functions delivering day to day business services and ongoing activities required to meet the Council's statutory and regulatory obligations:
- A resource strategy should be developed, identifying staff key to Council operations and the future optimisation, and identifying options to secure those staff or plan for succession / build resilience where there are ongoing risks.
- A specific plan is required to ensure adequate resources are maintained within finance operations until issues are fully resolved.
- Action is being taken to document Standard Operating Procedures (SOPs) in finance operations. Resource should be made available to accelerate this activity and improve

Future optimisation

Setting up for success

Design for future optimisation: Design of the Oracle solution needs to be based upon a clear view of what a successful outcome for the Council looks like. A solution which is aligned to and supports achievement of the strategic outcomes described in the Council's Corporate Plan.

Issues

- The operational imperative, to fix Oracle, creates the potential for the programme to design a solution based purely on what standard functionality can deliver, as opposed to one which optimises the efficiency and effectiveness of the Council's end to end processes.
- Decisions made during the design phase for optimisation will embed processes and ways of working into the Council, with associated costs and impact for service delivery, which will be difficult and costly to change later.

Recommendations

- The Council should agree a TOM for support functions which supports delivery of their Corporate Plan and for which Oracle is a key enabler.
 - Design principles should be based upon optimal use of Oracle functionality in the delivery of business processes which are optimised for the Council's requirements.
 - Design options need to be fully evaluated based upon a set of agreed criteria. These criteria may include, though not exclusively:
 - alignment to business functional and non-functional requirements,
 - security and compliance, aligned the Councils obligations,
 - scalability and performance, the solutions ability to support current and forecast future demand,
 - integration with existing systems and data sources, internal and external,
 - costs and benefits, total cost of ownership and related benefits against alternatives.

Future optimisation

Setting up for success

Programme Leadership: This phase of the programme aims to deliver a long-term Strategic solution for the Council, as such the solution must be owned and advocated by the senior leadership of the Council.

Issues

- The programme is one of many priorities for the Council and there is a risk that focus on the future solution may be diminished.
- Transition from the S&C governance process may create an impression that the risks in the programme have been addressed, though many of the current fixes are known to be temporary.
- Delivery of a robust long-term solution will require significant investment of resources and a willingness to drive change in the Council's ways of working and its culture. Visible ownership and advocacy from the senior leadership will be essential to that.

Recommendations

- The Council's senior leaders, Leader of the Council and Chief Executive, need to own and be accountable for the solution delivered through this phase of the programme.
 - The Council's senior leaders must take a role in the governance process which enables them to adequately own the solution delivered.
 - A Senior Responsible Officer (SRO) for the delivery of the programme needs to be appointed. Particular consideration needs to be given to the capability and experience of the SRO in terms of the scale, complexity and profile of the programme.

Programme Planning: Governance arrangements need to ensure appropriate levels of input and oversight from senior officers and members and ensure they are supported in their decision making by Oracle expertise which is independent of their chosen delivery partners.

Issues

- As the programme moves from its S&C governance arrangements to a more traditional programme governance model the visibility and senior oversight of the programme should not be lost.
- The Council does not have a depth of Oracle experience to draw upon and senior officers, with service delivery responsibilities, have limited capacity to address the technical requirements of the programme.

Recommendations

- Governance arrangements must include appropriate input and oversight from senior officer and members , as well as functional and technical leads.
 - The Council should seek to strengthen its inhouse Oracle capabilities across all grades.
 - This may include independent Oracle expertise in a strategic advisor / critical friend capacity.

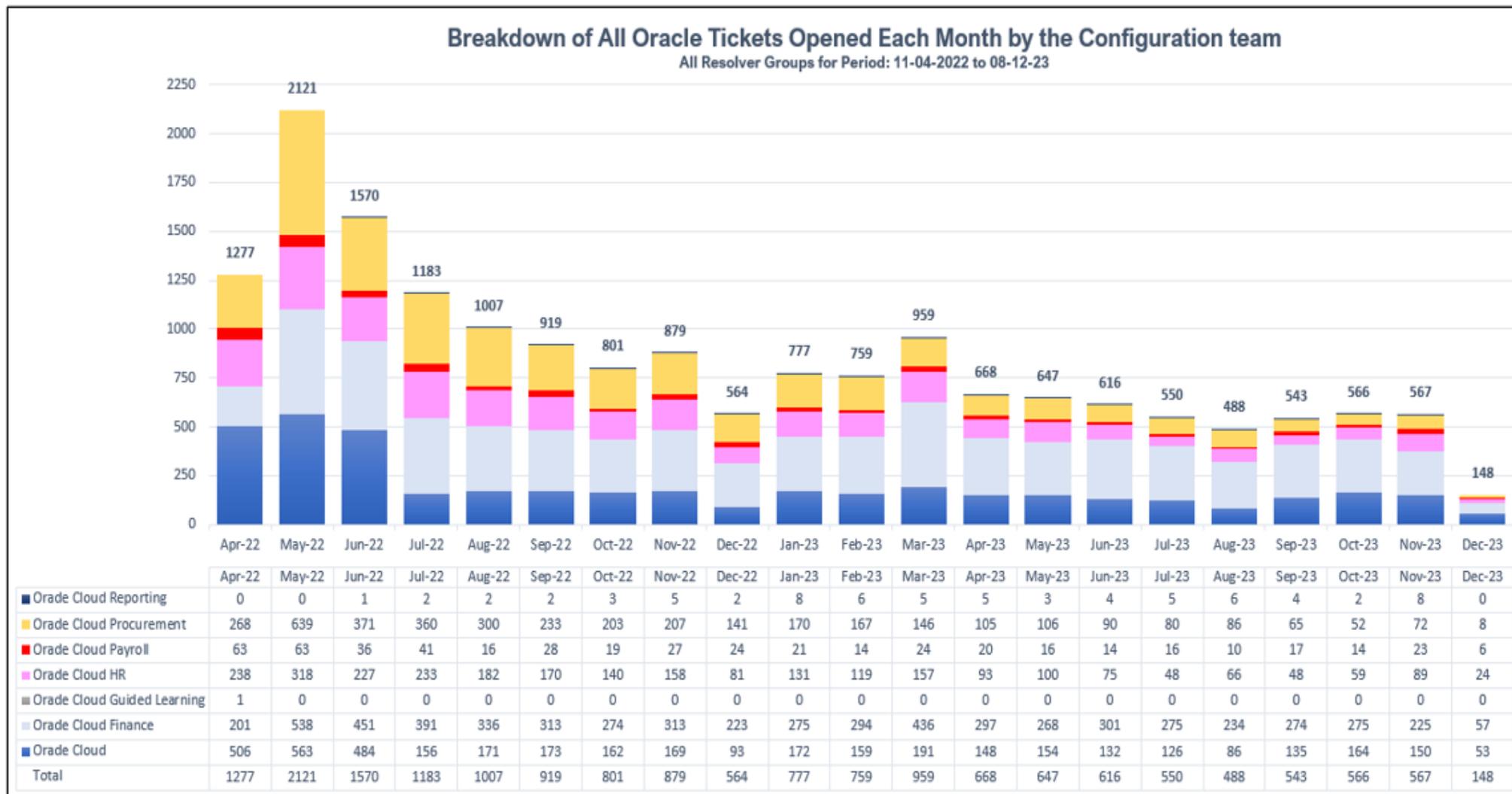
Appendices

- **A : Breakdown of service issues by month and type**
- **B : Programme Deployment Readiness Assessment**
- **C : Safe and Compliant Backlog Assessment Criteria**
- **D : Schedule of stakeholder interviews**

Appendix A

Breakdown of services issues raised by month and type

Source: Oracle Cloud Issues and Remediations by month since April 2022 – 08 December 2023



Appendix B

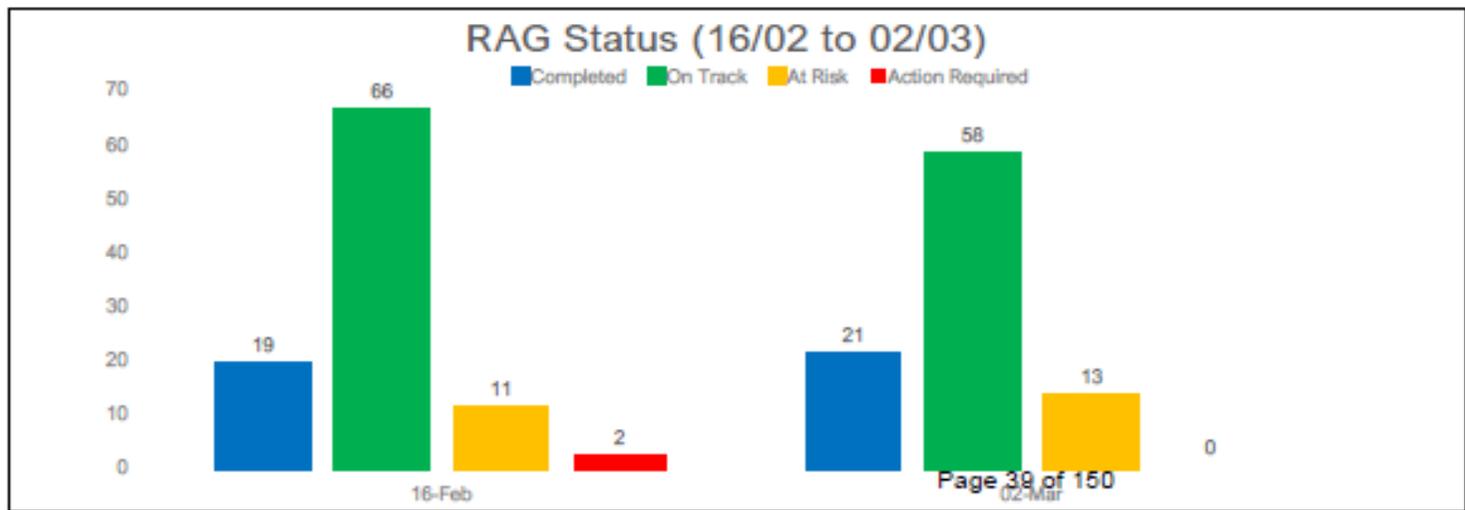
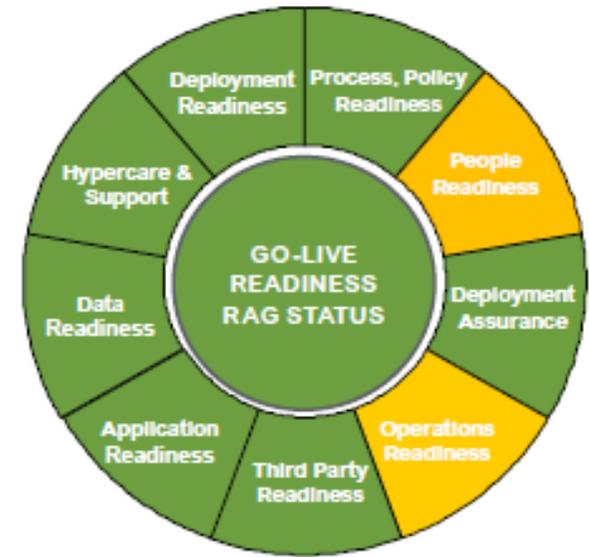
Programme Deployment Readiness Assessment

Source: Resources review and oversight committee March 2023

1B Deployment Readiness Assessment

Summary

- Overall, a Green status is being reported. There are 13 criteria currently with an Amber Status however none of these are considered sufficient to impact Go-Live as plans and mitigations are in place.
- There are 2 Readiness Dimensions driving an Amber Status: People and Operations Readiness. Operations Readiness actions relate to preparedness of the support organisation and the support team who will take ownership of the Oracle Cloud solution. As part of mitigating this area, a review is taking place of the readiness of this team and a possible mitigation is to increase the scope of the procurement of the Managed Service Partner.
- People Readiness is driving an amber status principally due to the tight timeline for completing user training because of time constraints of resources and final elements of the solution where defects are being resolved and re-tested. To mitigate this, regular engagement with the Business coupled with a revised approach to training based on priority processes has been but in place.



Green	Majority green and on-track with max 2 amber
Amber	More than 3 Amber
Red	More than 2 red

 For the full list of criteria and links to the dashboards from the February assessment click [here](#)

Appendix C

Safe and Compliant Backlog Assessment Criteria

Source: Oracle Design Authority Backlog Assessment June 2023

Criteria	Definition	How applied
Safe and Compliant	Criteria: <ul style="list-style-type: none"> Places people (staff, customers, suppliers) at risk of harm Breach of statutory requirement Breach of regulatory requirement Risk of reputational damage 	Yes or No
Simplicity	Range from simple (L) to (H)	H/M/L
Alignment with Oracle Vision	Impact on future strategy for Oracle (e.g. the move to less customisations)	H/M/L
Effort / Cost	Amount of technical and business effort required to both fix and deploy	Effort in days converted to £ impact (simplified to H/M/L)
Business Case / Cost of other options	Savings or benefits acceptable relating to costs, no lower cost temporary solution identified	True / False
Business Change	Business change required is understood and accepted.	True / False

Appendix D

Updated safe & compliant scope: essential fixes.

Source: Oracle Programme Update December 2023 – Finance safe & compliant key areas of focus

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
Collecting debt. Essential business requirement achieved, with some technology enabled improvement needed.	Interim solution target for traded debt outstanding over 90 days at 65%	Performance is now stabilising but can improve. The functionality for collecting debt needs improvement. We need to implement Dunning Letters (debt chasing letters) and improve debtor reporting in Oracle	There are 12 technical fixes required to support the delivery of this outcome. These include implementing Dunning (debt recovery letters), more effective Accounts Receivable reporting to improve our abilities to monitor and collect debt, and automated Direct Debit receipting to reduce manual effort.	Accounts receivable activity is impacted by BRS posting issues and the high volumes of unallocated cash preventing accurate debtor reporting to chase for debts. We have a team of temporary resources needed for manual workarounds to allocate cash and that will need to remain in place until the solution is optimised. We will not be fully safe and compliant in this area until the Income Management system to replace BRS is live and the optimisation phase is complete.

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>Ensuring we pay our suppliers accurately and on time, and provide any associated statutory reporting accurately and to deadlines (e.g. VAT reporting) Essential business requirement achieved, subject to remaining backlog fixes.</p>	<p>Interim solution target for percentage of supplier invoices paid on time 60%</p>	<p>Our performance in paying suppliers on time has stabilised at improved levels over SAP. The functionality needs improvement for certain payment types.</p>	<p>There are 3 technical fixes required to support the delivery of this outcome. These changes will:</p> <ul style="list-style-type: none"> • Help resolution of issues with one time supplier payment approvals • Create a supplier interface feeder file • Deliver a report to enable reconciliation of supplier balances 	<p>Manual work arounds are in place and a team of temporary transaction processors has been in place since Sept 22. These resources will be needed until the system optimisation phase is completed.</p>
<p>Paying our people and maintaining a statutorily compliant payroll system Essential business requirement achieved, subject to remaining backlog fixes</p>	<p>Resolve known payroll errors and statutory reporting issues caused by system</p>	<p>The majority of payroll issues are resolved. Some issues remain to correct errors in statutory reporting. Some payroll accuracy issues are outstanding.</p>	<p>There are 10 technical fixes required to support the delivery of this outcome. Key technical fixes outstanding relate to.</p> <ul style="list-style-type: none"> • Issues producing P45 • Resolving specific payroll accuracy issues • Improved recording of some key data fields <ul style="list-style-type: none"> • Improved reporting • Holiday pay calculation 	<p>Additional resources have been required and high levels of overtime have been worked in this area to maintain a reasonable service. This will need to continue until the solution is optimised.</p>

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>Produce FY22/23 outturn. Essential business requirement achieved, with inherent risks remaining until optimisation delivered.</p>	<p>Produce a financial position for FY22/23</p>	<p>A draft provisional outturn has been produced and is now being reviewed</p>	<p>No further technical fixes proposed ahead of optimisation.</p>	<p>Inherent risks remain to the quality of the outturn due to.</p> <ul style="list-style-type: none"> • The volume of manual processes cleared in short timescales. • The number of errors made by BRS that have needed identifying and correcting manually. • Poor quality system and manual controls in place during the year • Challenges with the performance of the financial reporting solutions available in Oracle • The s151 officer will need to form an opinion on the assurances that can be given on the accuracy of outturn

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>Producing a monthly budget monitor. Essential business requirement not currently being achieved.</p>	<p>To implement a reasonable interim solution to provide a budget monitor. This will be very challenging due to systems issues; a significant manual solution and compromised output is likely to be needed until the technology optimisation phase is delivered.</p>	<p>Currently no monthly budget monitor has been produced since go live. An Oracle Actuals to Budget report has been produced. The volumes of manual postings and error correction needed, and caused by BRS will make it challenging to produce a budget monitor to a reasonable monthly timetable. The bank reconciliation for FY22/23 has been performed manually. We do not have a viable solution for producing a monthly bank reconciliation due to the very high levels of postings that need to be reconciled.</p>	<p>Some fixes are needed to improve the ledger accuracy. There are 14 technical fixes required to support the delivery of this outcome. The main technology issues include:</p> <ul style="list-style-type: none"> • Fixing remaining interface issues • Outstanding reporting needs 	<p>Our ability to produce a timely and accurate budget monitor is severely impacted by the BRS solution and the very high level of manual postings and corrections that need to be made. This will not be resolved until the system is reimplemented. Producing a monthly budget monitor is a key control that our auditors will look for provide assurance in the accuracy of the yearly outturn figures presented to them. The Oracle bank reconciliation is failing and due to the volume of transactions flowing through the general ledger, it will be very challenging to produce a timely monthly bank reconciliation, until an optimised Income Management solution is delivered. The volume of manual postings also presents an inherent risk of manual error and backlogs accumulating, which will remain until BRS is replaced with an Income Management solution. During FY23/24 backlogs in suspense and control accounts have accumulated that now need to be reviewed and cleared before a budget monitor can be produced. Operational resourcing needs and timescales to clear FY23/24 backlogs and produce a budget monitor for P9 are being assessed.</p>

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>Managing risk of theft and Fraud High inherent risks will remain until we deliver an optimised technology solution</p>	<p>Develop a controls framework to mitigate the risk of theft and fraud</p>	<p>There are risks of theft and fraud in the current solution environment due to:</p> <ul style="list-style-type: none"> • User access rights, and segregation of duties issues in Oracle • Poor design of journal approval workflows in the system • The level of manual postings that need to be made in the system 	<p>There is 1 technical fix outstanding for this this outcome to improve timesheet approvals for project resources.</p>	<p>We will not be safe and complaint in this area until an optimised technology solution that addresses inherent systems controls issues in the current solution is delivered. The interim objective will be to mitigate the risks through the following measures that need to be implemented:</p> <ul style="list-style-type: none"> • Additional manual controls and checks will need to be implemented to provide assurance that risk of theft and fraud is reduced. • An assurance and control framework has been developed and processes and manual controls, will now need to be assessed against this framework. • A process lead has been appointed to deploy the controls framework. • Processes and procedures will be implemented in priority areas of risk identified as the controls framework is deployed. • Contingency technology funding should be set aside for any improvements that can be made to the current system controls where there is a reasonable business case. • Additional resources may be required to implement additional controls and checks where risks are identified.

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>Achieving an unqualified audit High inherent risk until the optimised technology solution is delivered</p>	<p>Meeting External Auditor deadlines to publish accounts that will meet audit requirements for satisfactory controls and assurance</p>	<p>Technology issues have been resolved to provide the reporting needs to produce an outturn. However, issues with system controls (particularly fundamental issues with the system access and security) will create risks of audit qualification until the optimisation phase is delivered. The volume of manual postings and corrections required due to BRS issues also present significant risk until BRS is replaced with an Income Management System</p>	<p>The technical fixes required to reduce the risks of failure in this area will not be delivered until the system is optimised to address the following:</p> <ul style="list-style-type: none"> • Replacement of BRS with an Income Management Solution. • Restructuring of the chart of accounts and enterprise structures. • Rebuilding of the user access rights and security model. 	<p>There will be residual risk of audit qualification until the system is optimised / reimplemented. During the interim period, whilst we await a new solution, we will need to mitigate these risks with:</p> <ul style="list-style-type: none"> • Additional manual workarounds and controls • Potential further technology fixes as yet not identified that will reduce the level of manual activity and process risk. • Other controls such as monthly budget monitor, managing systems access controls and a more robust controls framework over the manual controls, described in the sections above are needed to support further mitigation of this risk. <p>There will be a risk of audit qualification for both FY 22/23 and FY23/24 accounts due to the inherent risks that we will not be able to fully mitigate until the solution is optimised.</p> <p>The auditors are currently reviewing the control environment and are yet to decide their approach to the FY22/23. To fully mitigate the risk of audit qualification until the optimised solution is delivered, we will need a large manual work around solution to be developed and implemented. This will take time and cost to implement. This needs to be balanced against acceptable risk, cost and time that the manual solution will be required.</p>

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>All employees are paid on time and correctly. HCM Framework model: Compensation</p>	<p>Holiday pay is calculated correctly for employees on Term Time Only contracts who have Worked overtime or are in receipt of any other contractual allowances.</p>	<p>Any Term Time Only employees who have worked overtime or been in receipt of allowances have not currently had their holiday pay paid accurately. There could therefore potentially be a further budget pressure and we are also in breach of contract and unlawful deduction of wages status. Grievances have started to be received so we have employee relations issues.</p>	<p>A technical fix is proposed that will automate the process of applying the BCC School Term Dates to all relevant staff records in Oracle. This automated process can then be run annually once the new term dates have been agreed.</p>	<p>No manual workarounds currently in place. Any potential mitigation would require the development of reports to identify people who have received allowances or overtime followed by a very complex calculation as to what holiday pay, they should receive. This would be more complex/costly than implementing the identified solution.</p>
<p>All employees are paid on time and correctly. HCM Framework model: Compensation</p>	<p>Ensure allowances are reviewed and updated when employees move between roles.</p>	<p>Currently, there is no automatic process to flag to the new Manager that an employee who is moving to a new role has allowances that need to be reviewed to ensure they are applicable to the employee's new role. We are reliant on the employee to notify us if they are in receipt of any allowances, they are not eligible for. If the allowances aren't correct this can lead to staff being overpaid.</p>	<p>A technical fix is proposed that will automatically flag to manager and / or People Services where allowances are applicable so they can be stopped at source when an employee moves from one role to another.</p>	<p>People Services staff are responsible for validating allowances, however only Payroll team can view employee allowances in Oracle.</p>

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
<p>Compliance with managing absence policy and statutory absence legislation. All employees are paid on time and correctly. HCM Framework model: Managing Absence</p>	<p>Accurately report all instances of sickness absence for BCC, BCT and Schools. Compliance with the managing absence policy and statutory absence and paying employees in line with their contractual sickness entitlement.</p>	<p>A decision was taken during the original Oracle implementation for the Oracle Absence module not to be used for sickness absence recording and for absence to be recorded in Payroll. It is not currently possible for People Services staff to accurately review and analyse absence data held in Oracle, to ensure as an organisation we are managing staff absence correctly and in line with policy and supporting employees. Currently, we are reliant on individual Line Managers managing absence in line with policy. The risk is that Line Managers are not managing absence in line with policy, which could lead to staff not being supported correctly and associated employee relations issues. Where staff are absent for longer, due a lack of appropriate absence management, the Council will incur increased costs for interim resources to cover the absentee employee.</p>	<p>A technical fix is proposed that will provide a series of reports that can then be used by People Services staff to review and analyse absence information to ensure compliance with policy and legislation and to ensure the right support is being provided to staff and Line Managers.</p>	<p>The Employee Relations team are doing what they can currently, but the data / reports are not accurate.</p>

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
Provide HR Services to Schools, including Multi Academy Trusts (MAT) or a Multi Academy Companies (MAC) HCM Framework model: N/A	Support the Academy Conversion process to move employee data to the new MAT or MAC employer.	Where Schools that purchase HR Services from the Council join a Multi Academy Trust (MAT) or a Multi Academy Company (MAC) on either a voluntary or forced (e.g., inadequate Ofsted outcome) basis the Council is contractually required to provide a conversion process to move data within the Oracle solution from the main Council entity to the relevant MAT or MAC entity. This is because the MAT / MAC become the new employer / HR Provider. The key risks to the Council are: 1. Breach of existing service level agreements and contracts if the Service is unable to deliver a conversion process. This could lead to legal challenge, additional, associated financial cost and reputational damage. 2. Potential loss of income of up to £400,000 per annum in recurrent income, which is based on the loss of specific conversation income (about £55k) and also the loss existing and future School's HR income from existing MAT / MAC customers that would have to take their business elsewhere if the Council is unable to convert schools for them.	The proposed technical fix will develop a process to convert existing school customers to an existing MAT/MAC and to onboard a new school to an existing MAC/MAT that is already a Schools HR customer, so supported by the Council.	A potential manual workaround has been considered but had GDPR implications so was not considered viable.

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
Compliant employment contracts HCM Framework model: Core HR	School Manager are giving notice in line with employee contract terms.	Currently there are instances where Schools Managers are not giving sufficient notice to employees in line with the employee's contract. The impact is that contracts have to be temporarily extended to ensure the notice period is sufficient, which creates a financial pressure BCC, BCT and Schools.	A technical fix is proposed that will generate notifications to Schools Managers to highlight contractual actions they need to take, e.g, end of a Fixed Term Contract , Acting Up, sickness triggers, Right To Remain.	Currently manual records are being maintained by each of the 270 Schools we support.
All employees are paid on time and correctly. HCM Framework model: Compensation	Contractual annual leave increases after 5 and 10 years of service are applied for employees on Term Time Only contracts to ensure payment calculations are correct.	There is no mechanism to automatically apply the 5 and 10 annual leave increases to employees on Term Time Only contracts. Where increases are not applied then pay will not be calculated correctly for these employees and they may be paid too little. This impacts the affected staff, has a negative impact on employee relations and puts the Council at risk of legal action, for breach of contract and unlawful deduction of wages. Grievances are now starting to come in.	A technical fix is proposed that will ensure the term time working weeks calculation is accurate in Oracle and reflects the employees correct annual leave entitlement.	There are no manual workarounds in place.

Appendix D continued

High level outcome	Key output	Current situation / limitations	Technical fixes to be delivered by the programme	Residual risk mitigation
Diversity in the workforce. HCM Framework model: Recruiting	Monitor the diversity of shortlisted candidates.	To ensure we are complying with the Council's Everyone's Battle, Everyone's Business (EBEB) strategy, it is important that we can correctly report on the diversity of the candidates that are shortlisted for interview. It has been identified that the report used to monitor data is including all applicants for each role and not those that were shortlisted. The impact is that a key EBEB statistic is not being calculated correctly.	The proposed fix will correct the report so it performs the correct calculation, using only the shortlisted candidates and not all applicants.	There is no manual workaround because they are all pending workers in Oracle Cloud and we have no access to their diversity characteristics as they are not employees
Pay Equity across the organisation. HCM Framework model: Compensation	Annual review of turnover levels to reduce equal pay risk.	Turnover levels need to be reviewed annually by post by service area to ensure both the Council and BCT do not create any Equal Pay risks for itself i.e., paying a market supplement when there are higher levels of turnover elsewhere not receiving such supplements. Payments like these need to be kept under review to ensure the underlying business reason which justifies them continues to exist. The moment that reason disappears, we are at risk of incurring an equal pay liability. Currently there is no report or mechanism to extract information to support this annual review.	A technical fix is proposed to develop a report that will be used to monitor pay equity across the organisation.	Given the volume of employee records and data that would need to be reviewed and checked it is not possible to do this manually. The proposed report would be used in conjunction with other intelligence, such as market data and exit interviews so it is not a standalone fix.

Appendix E

Forecasted reserves position

Source: S151 Officer Update November 2023

1. Negative Reserves of -£680 million

Useable Reserves	Value (£m)
Balance at 31 st March 2022	£596.8m
Reserves used in 2022/23	(£336.2m)
Latest forecast 31 st March 2023	£260.6m
Estimated reserves usage in 2023/24	(£25.6m)
Latest forecast 31 st March 2024	£235.0m

Of the £235.02m, £172.2m is available for use.

*There are **additional draw-downs** which need to be addressed.*

Reserves available for Overspend and Other Items	£172.2m
Overspend for 2023/24	(£87.4m)
Oracle Costs (multi-year)	(£46.5m)
Extra Pay Award Costs 23/24 (assuming 6.5%)	(£11.2m)
Equal Pay Liability, midpoint £650m-£760m future yr	(£705.0m)
Negative Reserves	(£677.9m)

- Useable reserves is currently defined as the sum of the Delivery Plan Reserves, Financial Resilience Reserve, Other Corporate Reserves, and Earmarked Reserves;
- Our expected 2023/24 reserves position forecasts that we could have up to £172.2m of usable reserves to address the challenges above;
- *This is before the impact of Equal Pay, and the costs of borrowing to fund Equal Pay;*
- There are also other risks such as Highways PFI.
- As such, from an accounting perspective we are in a **negative general fund position**.

Appendix F

Schedule of stakeholder interviews

Name	Role
Cheryl Doran	Assistant Director and CIO
Richard Lloyd - Bithell	Asst Director Finance Strategy & Deputy Section 151 Officer
Craig Buckley	Oracle Programme Director (PWC)
Richard Brooks	Head of Design Authority
Meena Kishinani	Director of Transformation
Graeme Betts	Director of Adult Social Care
Sarah Dunlavey	Assistant Director Audit and Risk Management
Sean Thain	PMO lead
Rob Musekiwa	Lead Enterprise Architect
Steve Sandercock	Assistant Director of Procurement
Jonathan House	PWC Partner
Simon Ansell	Head of Transaction Services
Rupert Barlow	Head of Finance Operations and Process
Paul Chinn	Finance Consultant
Chris Holt	Head of Technical Practice
Ian Badger	Application and ERP Consultant

Name	Role
Fiona Greenway	Director of Finance & Section 151 Officer
Ghazala Begum	Oracle Programme Comms Lead
Amanda Mays	Interim Transformation Programme Director
Ian Badger	IT contact - name provided by Rebecca Hemsley
Rebecca Hemsley	Interim Director of People Services
Jamila Mensah	Target Operating Model Lead
Mohammed Sajid	Head of Finance Strategy
Tim Bell	Finance Advisory (\$151 Chief of Staff)
Nic Fell	Transformation Programme Resourcing Lead
Mahboob Ahmed	Finance Contractor
Mukhtar Mirani	Finance Seconded (KPMG)
Lee Bickerton	Finance Manager



BIRMINGHAM CITY COUNCIL**AUDIT COMMITTEE****31 JANUARY 2024****SCHEDULE OF OUTSTANDING MINUTES**

Note: As of 30 September 2021 – Responses to outstanding actions to be made within a 2 month period unless there is an exceptional reason.

	Completed & discharged
	Approaching 2 months
	2 months +
	Ongoing action

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
575 28/03/2023	<p><u>GROUP COMPNY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT</u></p> <p><u>Additional Action:</u></p> <p>(ii) An offline briefing session to be arranged for Committee Members to understand the work undertaken by Cabinet Committee Group Company Governance.</p>	<p>Alison Jarrett/ Mohammed Sajid/ Committee Services</p> <p>Dr Rob Milford to programme briefing sessions into the training timetable for the Committee.</p>
577 28/03/2023	<p><u>APPROVAL OF THE STATEMENT OF ACCOUNTS 2020/21 AND 2021/22</u></p> <p><u>Additional Action:</u></p> <p>(vi) Officers to arrange an offline briefing via the Treasury Advisor for committee members to gain a better understanding on affordable borrowing.</p>	<p>Contact made to David Green on 08.06.2023. Dates to be explored before sharing with Committee Members.</p> <p>Mohammed Sajid/ Committee Services Dr Rob Milford to programme briefing sessions into the training timetable for the Committee.</p>
	<p>(ii) Noted a briefing session to be delivered by the External Auditors on Equal Pay and Oracle.</p>	<p>External Auditors Dr Rob Milford to programme briefing sessions into the training timetable for the Committee.</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
642 15/09/2023	<p><u>REPORT ON ORACLE</u></p> <p><u>Additional Action:</u></p> <p>(ii) A list of ongoing reviews to be logged and shared with the Committee</p>	<p>Marie Rosenthal / Fiona Greenway</p> <p>Final report on Oracle presented at the 31 Jan 2024 meeting.</p> <p>COMPLETED & DISCHARGED</p>
666 06/10/2023	<p><u>ASSURANCE SESSION – THE LEADER’S PORTFOLIO</u></p> <p>The Audit Committee agreed to reconvene the Leader’s Portfolio Session.</p>	<p>This will be considered as part of the new work programme for the Committee (as part of the Assurance Sessions). Dr Rob Milford to programme this.</p> <p>COMPLETED & DISCHARGED</p>
675 18/10/2023	<p><u>INTERNAL AUDIT UPDATE</u></p> <p><u>Additional Action:</u></p> <p>(ii) Noted the report on the work from KPMG on segregation of duties would be shared with members.</p>	<p>Response circulated via email to Committee Members on 08/12/2023.</p> <p>COMPLETED & DISCHARGED</p>
676 18/10/2023	<p><u>STRATEGIC RISK REGISTER – RISK MANAGEMENT UPDATE</u></p> <p><u>Additional Action:</u></p> <p>(ii) Noted there was a root and branch review taking place to review the strategic risks.</p>	<p>A report on Risk Management is scheduled on the 31 Jan 2024 Committee agenda.</p> <p>COMPLETED & DISCHARGED</p>
678 18/10/2023	<p><u>UPDATE FROM EXTERNAL AUDIT</u></p> <p><u>Additional Action:</u></p> <p>(ii) agreed for the section 151 officer to provide a high-level briefing or report on the Equal Pay Model.</p>	<p>Fiona Greenway/ Mohammed Sajid</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
679 18/10/2023	<p><u>ASSURANCE SESSION – CABINET MEMBER CHILDREN, YOUNG PEOPLE & FAMILIES PORTFOLIO</u></p> <p><u>Additional Action:</u></p> <p>(iii) Noted the responses to questions raised by Councillor Yip would be circulated to the Committee Members;</p>	<p>Responses to Councillor Yip’s questions emailed to Committee Members on 21/11/2023.</p> <p>COMPLETED & DISCHARGED</p>
679 18/10/2023	<p><u>ASSURANCE SESSION – CABINET MEMBER CHILDREN, YOUNG PEOPLE & FAMILIES PORTFOLIO</u></p> <p><u>Additional Action:</u></p> <p>(iv) Information on the actual costs for spend for Contracts to be provided;</p>	<p>Outstanding (Mike Smith – Head of Category – Procurement)</p>
679 18/10/2023	<p><u>ASSURANCE SESSION – CABINET MEMBER CHILDREN, YOUNG PEOPLE & FAMILIES PORTFOLIO</u></p> <p><u>Additional Action:</u></p> <p>(v) Noted the internal audit reports referred to the Children and Young People’s Travel Service to be shared;</p>	<p>Email giving information to a secure repository of reports was circulated to Committee Members on 20/11/2023</p> <p>COMPLETED & DISCHARGED</p>
679 18/10/2023	<p><u>ASSURANCE SESSION – CABINET MEMBER CHILDREN, YOUNG PEOPLE & FAMILIES PORTFOLIO</u></p> <p><u>Additional Action:</u></p> <p>(vi) Noted risk & hidden/missing children to be discussed at a future meeting; and</p> <p>(vii) Noted that value for money rather than compliance to be discussed at a future meeting.</p>	<p>Outstanding</p> <p>Outstanding</p>
690 29/11/2023	<p><u>NEW TERMS OF REFERENCE – AUDIT COMMITTEE</u></p> <p>That the Audit Committee;</p>	

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
	<p>(i) Commented on the new terms of reference for Audit Committee and proposed the following amendments to be made by the Interim Director of Finance, Section 151 Officer and the Milford Research & Consultancy Limited.</p> <p>a) Point 14.2 - Reflect on the CIPFA guidance and ensure the committee had a robust arrangement for value for money; improving public reporting on transparency, accounting and embedding ethical values and counter fraud.</p> <p>b) Point 14.4 - The Annual Governance Statement to be reviewed via the Corporate Governance Group (CGG);</p> <p>c) Point 14.4 – The department of Internal Audit to be referenced rather than the individual officer;</p> <p>d) Point 14.6 – Membership (Co-opted members) – The Independent Technical Advisor would be appointed via a skills-based route and identifying where the gaps in knowledge were to support members.</p> <p>e) The Chair of the Audit Committee to have the ability to place an item, attend and speak to it if there are significant issues arising that needs Cabinet and City Council to give specific attention to the issue;</p> <p>f) The Chair of the Audit Committee to write the City Solicitor and Monitoring Officer requesting for these powers to be embedded into the Constitution review.</p> <p>g) The requirement for openness and transparency by all parties servicing the Audit Committee including, Council officers, Internal Audit and External Audit;</p> <p>(ii) Noted the new requirements and responsibilities the requirement for the committee to conduct an annual review of its compliance with the CIPFA Position Statement 2022; and</p> <p>(iii) Subject to the inclusion of the above amendments at point (i), the Audit Committee approved the terms of reference for consideration and approval by Full Council as necessary to amend the constitution: Part B Roles, Functions and Rules of Procedure May 2023 B14 Audit Committee.</p>	<p>The Terms of reference were approved by City Council on 09 January 2024 and reflected in the Constitution.</p> <p>COMPLETED & DISCHARGED</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
<p>691 29/11/2023</p>	<p><u>CORPORATE GOVERNANCE GROUP ASSURANCE REPORT</u></p> <p><u>Additional Actions</u></p> <p>That the Audit Committee;</p> <p>(i) Commented on the new terms of reference for the Corporate Governance Group and proposed the following amendments to be made by the Interim Director of Finance, Section 151 Officer and the Managing Director, Milford Research & Consultancy Limited.</p> <p>a) The Membership of Corporate Governance Group (CGG) to include the Lead officer for legal;</p> <p>b) To include the option of inviting Audit Committee members to the CGG once the group stabilises to provide a member’s perspective;</p> <p>(ii) Commented on the new work schedule for the Audit Committee and Corporate Governance Group and proposed the Annual Governance Statement to be programmed into the work schedule.</p> <p>(iii) Noted the new requirements for the Corporate Governance Group to report to this Audit Committee as set out in the schedule; and</p>	<p>Marie Rosenthal/ Dr Milford</p> <p>The first meeting of the new Corporate Governance Group took place 16/01/2024.</p> <p>The agenda for the next meeting has been agreed and scheduled to take place 07 February 2024. The Annual Governance Statement will be looked at this meeting.</p> <p>A report on the AGS plan is scheduled for Audit Committee on 21 February 2024.</p>
	<p><u>CORPORATE GOVERNANCE GROUP ASSURANCE REPORT</u></p> <p>(iv) Guidance to be shared with Committee on information that was accessible to Audit Committee and Corporate Governance Group Members.</p>	<p>Marie Rosenthal/ Dr Milford</p> <p>Guidance on access to information will be shared at the 21 February 2024 meeting.</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
692 29/11/2023	<p><u>INTERNAL AUDIT UPDATE</u></p> <p><u>Additional Actions:</u></p> <p>That the Audit Committee;</p> <ul style="list-style-type: none"> (i) Noted the Internal Audit updates and commented for the following to be included in future updates: <ul style="list-style-type: none"> a) Temporary accommodation – Update on Purchase cards and spot checks to ensure there was no fraudulent activity. b) Proposed Internal Audit to advise Overview and Scrutiny Committees on monitor Internal Audit Reviews relevant to their areas. c) Requested for additional information around next steps; themes; improvement to work practices; actions taken on Oracle (ERP) and impact on resources within Internal Audit Team to be included in the Internal Audit Reviews and relevant sections of the Internal Audit Plan. (ii) Noted the School Audit Reports and financial position to be included as a separate item for discussion on a future agenda. To include an update on the carry forward balances from the local authority. 	<p>Sarah Dunlavey</p> <p>Updates will be provided as part of the report on 31 January 2024 agenda – Internal Audit Plan update.</p> <p>Updates will be provided as part of the report on the 21 February 2024 meeting – Audit Plan Methodology Report.</p>
693 29/11/2023	<p><u>INTRODUCTION OF INTERNAL AUDIT RECOMMENDATION TRACKING</u></p> <p><u>Additional Action:</u></p> <p>That the Audit Committee;</p> <ul style="list-style-type: none"> (i) Noted the steps taken to implement a replacement audit management system and the interim solution that was sought to support the consistent tracking of internal audit recommendations across the Council; and (ii) An update on the Central SharePoint repository and the initial recommendation progress monitoring report to be reported at the next Audit Committee meeting. 	<p>Sarah Dunlavey</p> <p>Updates will be provided as part of the report on 31 January 2024 – Internal Audit Plan update.</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
694 29/11/2023	<p><u>ANNUAL COUNTERFRAUD REPORT 2022/23</u></p> <p><u>Additional Actions:</u></p> <p>That the Audit Committee;</p> <p>(i) Noted the Counter Fraud work undertaken during the year of 2022-23 and members drew assurances from the policies and procedures that were in place to prevent and detect fraud and error. The Committee agreed for further work to be undertaken on the impact and limitations of the ERP system.</p> <p>(ii) Agreed for the Counter Fraud report updates to include data from previous years as a comparative. In addition, to include information from other Core Cities including Manchester as a benchmark; common themes of fraud and details of the escalation process identified.</p> <p>(iii) Agreed for further updates on how the Council responded to staff fraud and the processes involved to be shared at a future meeting.</p>	<p>Sarah Dunlavey/ John Preston</p> <p>A report will be shared at the 21 February meeting – Audit Plan Methodology Report.</p>
695 29/11/2023	<p><u>FINANCE UPDATE – NOVEMBER 2023</u></p> <p><u>Additional Actions:</u></p> <p>That the Audit Committee;</p> <p>(i) Noted the current financial position of the Council as set out in this report;</p> <p>(ii) A further update to this report to be shared at the next meeting.</p>	<p>Fiona Greenway/ Mohammed Sajid</p> <p>A report on 31 January 2024 – Finance Update – January 2024 (point i) & ii) COMPLETED & DISCHARGED</p>
695 29/11/2023	<p><u>FINANCE UPDATE – NOVEMBER 2023</u></p> <p><u>Additional Actions:</u></p> <p>(iii) Requested for an additional briefing session to take place on the financial position of the Council;</p>	<p>Fiona Greenway/ Mohammed Sajid</p> <p>Outstanding</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
	<p>(iv) A written response to be provided how was Birmingham going to respond to the Equal Pay Liability and how the £760 million calculation had been calculated; and</p> <p>(v) Details on budget consequences on spend reviews for the last 6 years to be shared for Birmingham and other similar local authorities.</p>	<p>Outstanding</p> <p>Outstanding</p>
<p>696 29/11/2023</p>	<p><u>EXTERNAL AUDITORS UPDATE</u></p> <p>That the Audit Committee;</p> <p>(i) Noted the contents of the report as set out by the External Auditors; and</p> <p>(ii) Proposed for a report to be shared at the next meeting by Counter fraud and Internal Audit on the concerns on the number of issues that had been flagged on the Oracle Risk Cloud.</p>	<p>Fiona Greenway/ Mohammed Sajid</p> <p>A report will be shared at the 21 February meeting – Audit Plan Methodology Report.</p>
<p>697 29/11/2023</p>	<p><u>INTERIM ORACLE REPORT</u></p> <p>That the Audit Committee;</p> <p>(i) Noted the contents of the External Auditors letter dated 26th October 2023; and</p> <p>(ii) Requested for the Chief Executive and the Section 151 Officer to provide a response to the External Auditors letter date 26th October 2023 including other aspects of the ERP system raised by the Committee.</p>	<p>A report on 31 January 2024 – Final Report on Oracle.</p> <p>COMPLETED & DISCHARGED</p>