



ADDENDUM FOR ANNUAL GOVERNANCE STATEMENTS FOR ACCOUNTING
PERIODS 2020/21 and 2021/22

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1. Introduction

- 1.1 This addendum has been prepared following the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance as set out in CIPFA Bulletin 16 February 2024 – Local audit delays and the publication of the annual governance statement:

CIPFA's recommended approach.

- 1.2 To fulfil the AGS's primary function as an accountability statement for the year it relates to, the AGS should remain focused on the effectiveness of governance arrangements during that period. It should contain the opinion and the significant governance issues identified by the review of effectiveness for that year.
- 1.3 The draft AGS should have been reviewed and agreed in accordance with the applicable timetable set out in the Accounts and Audit Regulations. If the financial statements are unaudited at the required publication date, the statements and the AGS must be published on the authority's website.
- 1.4 The authority should consider whether changes to the draft AGS are required during the period leading up to the finalisation of the audit. This will enable the authority to approve a final AGS for the period. Taking the AGS, whether amended or not, for formal approval prior to publication will ensure clarity that the AGS is appropriate and fulfils the CIPFA requirement that it is up to date.

What matters would prompt an update to the AGS for a prior year?

- 1.5 If a significant governance issue emerges after the year-end, the authority should consider whether it was pertinent to the prior year. For example, the discovery of significant control weaknesses that allowed a fraud to occur, including during the prior year, should be considered as a matter for inclusion. At 31 March of the prior year, the authority might have considered their control arrangements to be robust but new information has shown that not to be the case, so it would be appropriate for the AGS to be updated.
- 1.6 Significant governance matters that would not lead to the adjustment of the prior year AGS:

- 1.7 Where emerging governance issues are clearly linked to events after 31 March of the prior year, then it would not be necessary to include them in a prior year AGS. They should be considered for the AGS of the year they were related to, and in subsequent AGS until they are resolved. Such examples could be:
- control failures related to an IT system that was implemented after 31 March of the prior year
 - more recent developments in governance, for example the establishment of a new trading company or shared service arrangement, that takes place after the year-end
 - significant problems in capacity and capability in critical areas that have developed after 31 March of the prior year.
- 1.8 The more recent AGS should address significant governance issues such as these and track their resolution through the action plan.

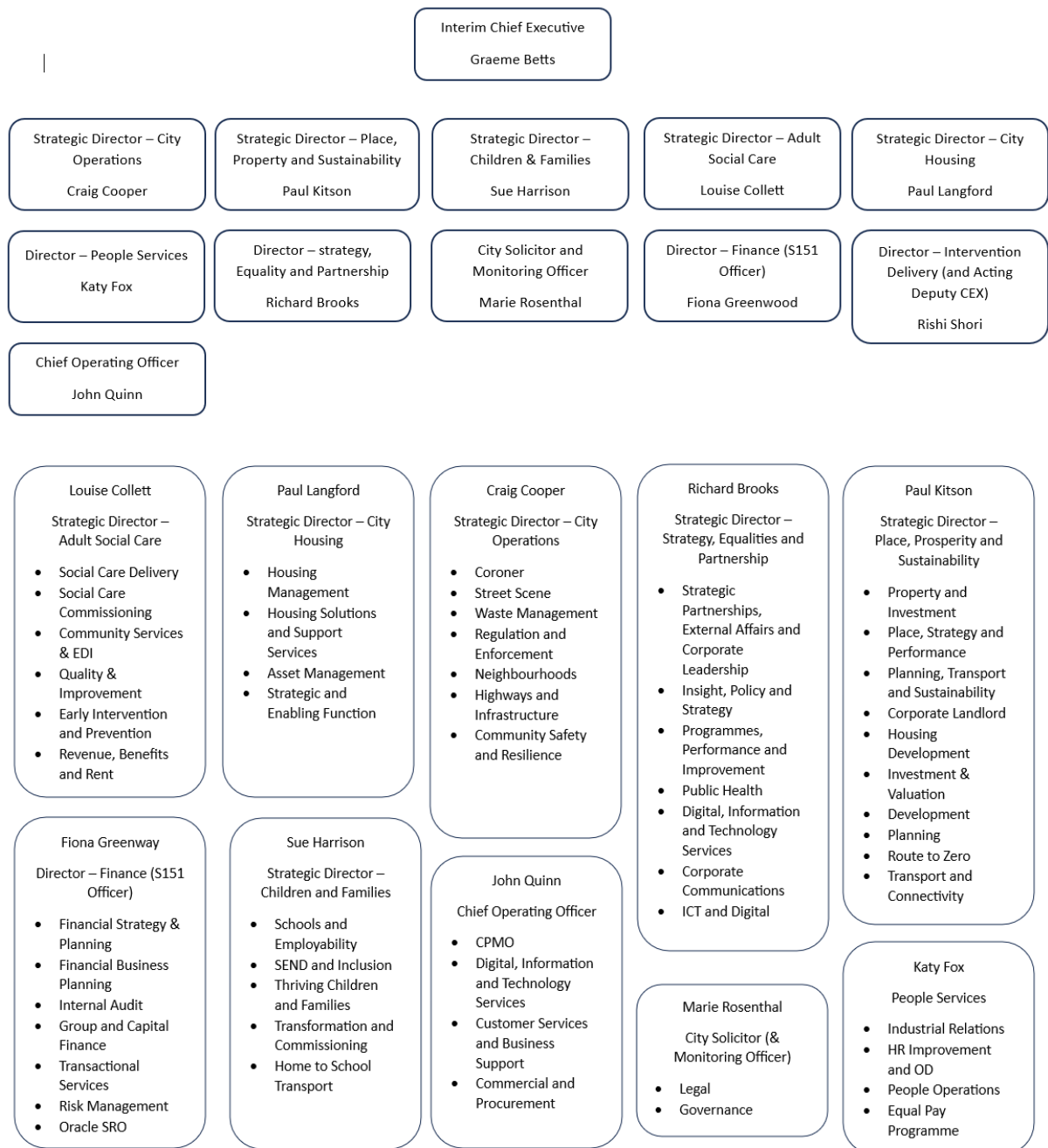
2. Background

- 2.1 The Annual Governance Statement (AGS) reports the governance framework in place at the Council for the year ended 31st March 2021 and 31st March 2022.
- 2.2 There is a requirement to update the AGS up to the date of approval of the Statement of Accounts. This addendum was finalized for the 31st March 2024 with the expectation that the accounts for 2020/21 and 2021/22 will be finalized at the same point. These will then be reported to Audit Committee in April 2024.
- 2.3 The information in this addendum reflects the changes in the Council's governance arrangements and the significant reviews that challenge the effectiveness of the BCC governance within the AGS.
- 2.4 Given the significant years of accounts to which the impact of the addendum covers the first 2 periods (2020/21 and 2021/22) are set out as per the last time they were reported to the Audit Committee March 2023. However, this addendum highlights the significant governance changes and effectiveness reviews that have occurred since then that have an impact of the final position of the statement of accounts for those periods. This is in alignment with the guidance as set out by CIPFA above.

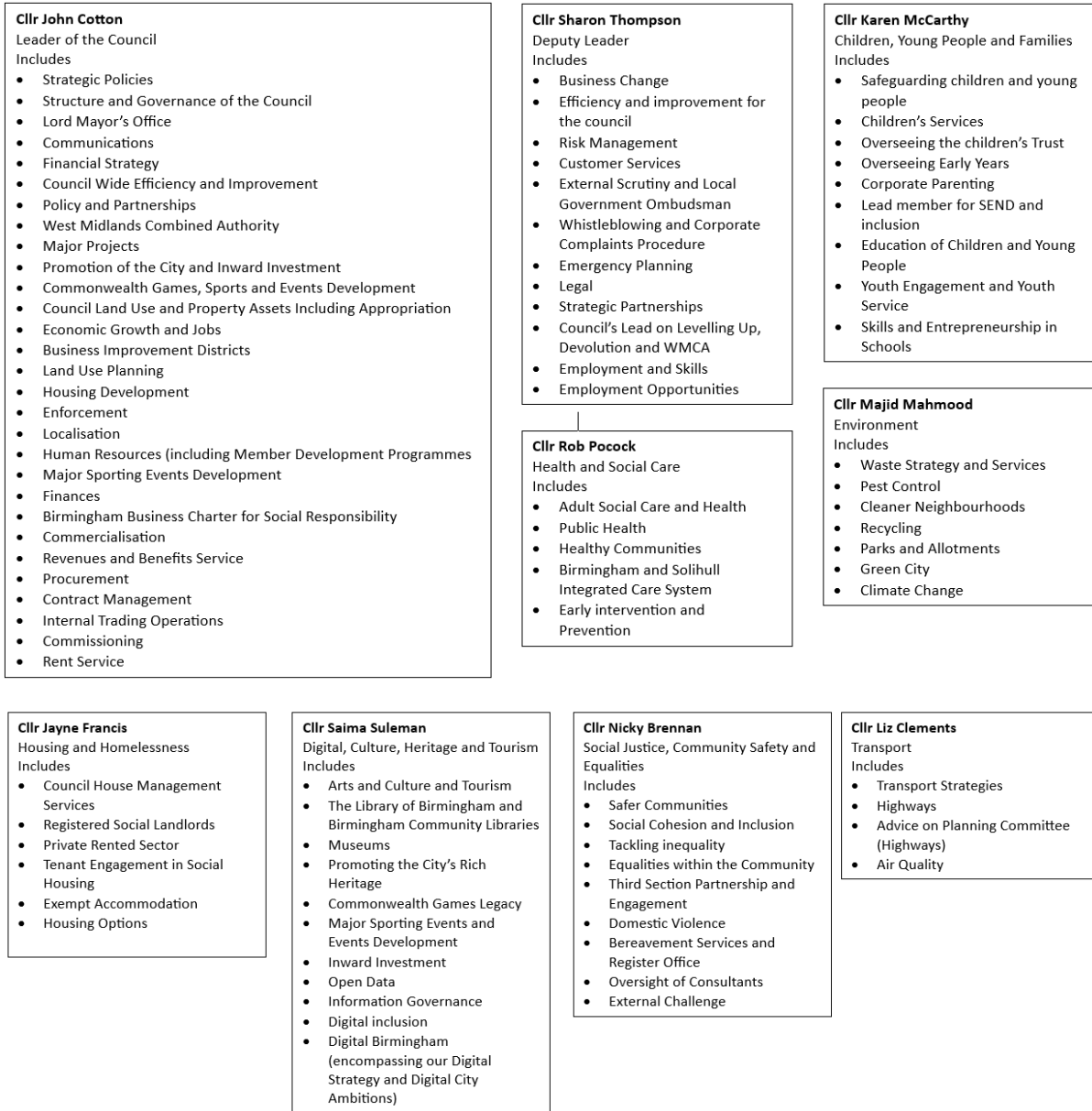
3. Changes in Governance Framework

3.1 Changes in Governance Framework:

3.2 Since the Last AGS and Addendum were reported to Audit Committee on the 28th March 2023 there have been changes in the management structure. Management Structure and Areas of Responsibility as at 31st March 2024



3.3 The Council's Executive Structure has changed. There are nine members of Cabinet including the Leader and Deputy as at 31st March 2024



4. Significant Governance Issues Identified:

- 4.1 External/internal reports and appointments commenting on the effectiveness of the governance framework:

External Auditors Grant Thornton – Statutory Recommendations issued 29th September 2023

- 4.2 Report to Full Council on the 12th October 2023 from Grant Thornton the External Auditors identifies the range of **12 Statutory Recommendations** issued by Grant Thornton. Also in this meeting the Full Council agrees their response.
- 4.3 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. The recommendations are aimed at improving financial management, governance, or operational practices within a Council. Statutory Recommendations carry significant weight, promote transparency and accountability for the Council, and advocate for best practice in local government.
- 4.4 In the Grant Thornton report – “Birmingham City Council External Audit 2020-21 to 2023-24 Statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014”, Grant Thornton make specific reference to periods of 2020/21 and 2021/22 to which this Addendum refers. Grant Thornton state:

“Statutory accounts 2020/21, 2021/22, and 2022/23

The Council’s accounts for 2020/21 and 2021/22 are still unsigned – primarily due to the need to ensure that the provisions for EP liabilities are not materially misstated. Officers have been working on a new accounting model to estimate these liabilities at the various year-ends subject to audit. Officers have recently informed us that whilst the model is nearing completion, various parameters would still need to be updated following the decision of the CBMC.

Whilst we still await finalisation of this position, based on statements already made by the Council that the liability is likely to go up to £760 million by 2025 and the various assessments incorporated into the CBMC report and s114 report, we can now be confident that the provisions set out in the 2020/21 and 2021/22 draft accounts of £150m and £121m respectively are materially understated.”

- 4.5 In **July 2023** the Council commissioned the Centre for Governance and Scrutiny (CfGS) to carry out an independent review of governance. The review was commissioned following a request from the Department of Levelling Up, Housing and Communities (DLUHC) Minister Lee Rowley MP. The Council was asked to consider an independent review to provide assurance that action was being taken to remedy the governance issues identified in reports from the DfE SEND Commissioner, Housing Ombudsman, and various Local Government & Social Care Ombudsman Public Interest Reports
- 4.6 The purpose of the review was to assess key governance issues identified in those various external reviews and judgements, the Council’s response to them, and to recommend actions to further improve governance at the Council. The scope of the review was agreed with DLUHC Local Stewardship Team officials, and was based on the themes of

Theme	Areas of focus
Leading effective governance	Clarity of Vision and priorities Understanding of roles and responsibilities Culture and understanding
Enabling and supporting good governance	Robustness of processes and practice Support services and functions Levels of assurance and compliance
Financial Governance	Capacity and skills Financial management and budget oversight Financial risk management
Improving governance and decision making	Customer focus Stakeholder engagement Learning from external review and challenge

- 4.7 It was agreed with the Department of Levelling Up, Housing and Communities (DLUHC) that the Council should also ask the Review to provide observations on any governance issues that contributed to specific challenges the Council was facing at the time, including the implementation of the Oracle ERP system, responding to potential equal pay liabilities, and the non-compliance against Regulator for Social Housing (RSH) consumer standards which led to the current period of ‘intensive engagement’ with the Regulator.
- 4.8 The **13 recommendations** for immediate action made by CfGS are listed below in their report to Cabinet on the 12th December 2023:
1. Refocus corporate attention and priorities on ensuring safe, legally compliant, and fairly delivered services to local people
 2. Begin work to reframe values and expected behaviours

3. Develop and publicise a set of baseline behavioural standards for members and officers
4. Review the Constitution
5. Reframe the scrutiny work programme to focus on the Council's improvement and recovery priorities
6. Strengthen working relationships between the Chairs of Scrutiny Committees and the Chair of the Audit Committee to lead and direct the function.
7. Put in place new arrangements for the support of the internal audit function, the audit committee, and the links between audit and scrutiny
8. Design, and begin to put in place, new risk & information management arrangements – with an initial focus on member accountability
9. Put in place robust arrangements for members' oversight of the development of the 2024/25 budget and MTFS
10. Integrate action on external auditors' recommendations into wider practice
11. Continue to rebuild relationships with external partners
12. Put in place proportionate arrangements to manage governance and decision making in the context of the role of Commissioners
13. Modernise systems and practices in Scrutiny and Committee Services.

Commissioner Appointment

4.9 On 19 September 2023, the Secretary of State for the Department of Levelling Up, Housing and Communities (DLUHC) announced the government's proposals to handle BCC financial and governance problems.

The proposals included:

- the appointment of commissioners who are responsible for governance, scrutiny of strategic decision making, finance, and senior appointments
- a local inquiry to investigate the cause of the issues faced by BCC

Commissioners in place and their areas of responsibility as at 31st March 2024

<p>Max Caller CBE Lead Commissioner Nominated to lead on</p> <ul style="list-style-type: none">• Bring together the team• Set the direction• Coordinate work to make sure the direction is followed	<p>John Coughlan CBE Commissioner Nominated to lead on</p> <ul style="list-style-type: none">• Supporting Cultural Change and Transformation• Driving Forward work on the Long-Term Sustainability of the Council• Special Education Needs and Disability (SEND) Services	<p>Chris Tambini Commissioner Nominated to lead on</p> <ul style="list-style-type: none">• Supporting work to develop and implement a plan for managing the significant equal pay liabilities that led to the Section 114 Notices• Overseeing the steps needed to manage other budget pressures for the current financial year (2023/24) and beyond• Returning the council to a position of long-term financial sustainability• considering what action may be necessary to make sure we have appropriate and effective processes, governance and capacity in relation to our overall financial management.	<p>Pam Parkes FCIPD Commissioner Nominated to lead on</p> <ul style="list-style-type: none">• Human resource and organisational design capacity• Finding solutions to the equal pay issue• Address and manage our equal pay liabilities in a way that is sustainable and represents value for money
	<p>Myron Hrycyk Commissioner Nominated to lead on</p> <ul style="list-style-type: none">• Supporting on the fix of Oracle Issues• Improve IT• Provide commercial insight.		<p>Jackie Belton Commissioner Nominated to lead on</p> <ul style="list-style-type: none">• Housing Services
			<p>Lord John Hutton Political Advisor to the Commissioners</p>
			<p>John Biggs Political Advisor to the Commissioners</p>

4.10 First S114 report issued:

4.11 On the 5th September 2023 Full Council considered this report by the Section 151 Officer (the Chief Finance Officer). The report is made under section 114 (3) of the Local Government Act 1988 because the Section 151 Officer is of the opinion that:

a. The Council is currently in a negative General Fund position. That is because of the cost of providing for Equal Pay claims, that the Council is now legally obligated to recognise, will result in exceeding the financial resources available to the Council. This means that spend due within that period exceeded the financial resources available to the Council in that same period.

b. The Council has insufficient resources to meet that expenditure and the Council is not currently able to agree a solution that will allow suitable funding or financing to be obtained for this liability.

4.12 Section 5 and Second S114 Report issued:

4.13 On 21st September 2023, the Monitoring Officer issued a Report under Section 5 Local Government and Housing Act 1989, as a result of the Council failing as at that date to secure a decision relating to the implementation of a job evaluation programme.

4.14 The key issues and context which triggered the issuing the of the Section 5 Report are detailed in the report which went to Full Council on the 12th October 2023.

4.15 Alongside the issuing of the Section 5 Report by the Monitoring Officer, the Section 151 Officer issued a report under Section 114 (2) Local Government Finance Act 1988 to provide her opinion that “omission of a decision by the Council Business Management Committee has resulted in (a) a decision which involves the authority incurring additional expenditure which is unlawful, and (b) the course of action (i.e. inaction) if pursued to conclusion would be unlawful and cause a loss or deficiency on the authority.

Two key impactful governance matters – ERP system Implementation and Equal Pay

- 4.16 The above external and internal significant governance reports issued throughout 2023/24 that impact on the AGS effectiveness commentary for the years 2020/21 and 2021/22 identify two key areas
1. ERP system Implementation (also referred to as Oracle implementation);
 2. Equal Pay Liability.
- 4.17 As part of the governance framework at BCC there is an Audit Committee with the remit for oversight of governance matters. Therefore, this addendum refers to the Audit Committee Annual Report on two significant governance issues identified above. These matters are summarised in the 2023/24 Annual report of the Audit Committee as follows:

Enterprise Resource Planning System Implementation (Oracle)

- 4.18 In October 2022 the Council's Audit Committee were advised that the new Oracle Cloud ERP system had gone live following implementation in April 2022. It was acknowledged that there were still some areas being worked on, but it was considered that the Council was in the post-implementation period. The Committee was assured that the SAP system would still be supported until the final accounts [2021/22] were audited.
- 4.19 In May 2023 the position had substantially changed; the City Solicitor and Interim Director of Finance presented a report to the Committee to acknowledge a major failing with the implementation of the Oracle Cloud ERP system.

Equal Pay Liability

- 4.20 In March 2023 Grant Thornton reported in regard to 2020/21 that the estimate for the liability had been "*determined and recognised in accordance with accounting standards*". Grant Thornton also requested that management document its consideration if there was any new information regarding the estimation of the liability and if any adjustment was required to the accounts. Grant Thornton stated that they would review the position. The position for 2021/22 was also reported as requiring review.
- 4.21 By July 2023 The Committee was advised that it was estimated that as of 31 March 2023, the Council's current potential equal pay liability could be in the region of £650m and £760m. The Committee held a lengthy debate in private session. The Committee were advised that Grant Thornton were undertaking a special review on Equal Pay. The External Auditor was concerned that the Council had not chosen a job evaluation option and was not making progress to closing this liability which was a significant concern for financial future. In September the council was issued with the S114 notice.

5. Significant Governance Issues Action Plan

5.1 A new significant governance issues action plan is set out below and addresses the above matters along with and update of the historic 2020/21 and 2021/22 significant governance action plan.

Ref No.	Governance Issue Identified	Action To Be Taken	Responsible Officer	Target Date
1	The Council must now implement the Stabilisation Plan which was jointly produced with the Centre for Governance and Scrutiny. The Stabilisation Plan is designed to stabilise and strengthen governance within the Council. (See para 4.8 above for reference)	The Plan covers 13 work streams including:- <ol style="list-style-type: none"> 1. Refocus corporate attention and priorities on ensuring safe, legally compliant, and fairly delivered services to local people; 2. Begin work to reframe values and expected behaviour; 3. Develop and publicise a set of baseline behavioural standards for members and officers; 4. Review the Constitution; 5. Reframe the scrutiny work programme to focus on the Council's improvement and recovery priorities; 6. Strengthen working relationships between the Chairs of Scrutiny Committees and the Chair of the Audit Committee to lead and direct the function; 	City Solicitor	June 2024

		<p>7. Put in place new arrangements for the support of the internal audit function, the Audit Committee and the links between audit and scrutiny;</p> <p>8. Design, and being to put in place, new risk & information management arrangements – with an initial focus on member accountability;</p> <p>9. Put in place robust arrangements for the members’ oversight of the development of the 20224/25 budget and MTFS;</p> <p>10. Integrate action on external auditor’s recommendations in to wider practice;</p> <p>11. Continue to rebuild relationships with external partners;</p> <p>12. Put in place proportionate arrangements to manage governance and decision-making in the context of the role of Commissioners;</p> <p>13. Modernise systems and practices in Scrutiny and Committee Services.</p>		
2	Since April 2022 the Council has not been able to produce Spend Compliance Reports.	The reintroduction of Spend Compliance Reports to directorates on a monthly basis is to take place with effect from April 2024.	Director of Finance	April 2024

	(See para 4.19 above for reference)			
3	<p>Since the implementation of Oracle in April 2022 it has not been possible to provide Quarterly Budget Monitoring Reports to Cabinet. This impacts on the ability for members to monitor performance against budget and consider amendments of budgets in line with operational issues. (See para 4.19 above for reference)</p>	<p>Quarterly Budget Monitoring Reports to be reinstated asap.</p> <p>In addition, all Capital Project Budgets to receive a two-year longstop date for spend. Any contracts not entered into within this will require additional approval for an extension of time.</p>	Director of Finance	April 2024
4	<p>General issues with the implementation and set up of Oracle (and particularly the Band Reconciliation System) continue to cause issues for the Council. (see para 4.19 above for reference)</p>	<p>All outstanding issues with Oracle to be resolved and rectified in line with the Oracle Programme deadlines set within the project plan.</p>	Director of Finance	March 2025
5	<p>Capital investment and repairs/asset management continue to cause issues with damp and mould related complaints increasing. (See para 4.5 above for reference)</p>	<p>The service has created a plan to tackle damp and mould issues and manage repairs effectively. Continued monitoring will be undertaken and an extensive acceleration programmes have been identified.</p> <p>Regular reporting and monitoring of contract performance, monitoring the success of new programmes and actual reductions in Ombudsman</p>	Strategic Director – Housing	March 2025

		<p>complaints is required to show success.</p> <p>This includes the close monitoring of HRA finance which must continue on a monthly basis.</p>		
6	<p>The Council must comply with the timescales set out in the Equal Pay Programme which has set out clear governance arrangements.</p> <p>There is concern that the key outcomes of the programme will not be delivered by April 2025. (see para 4.13 above for reference)</p>	<p>The first major milestone is the delivery of the benchmarking phase of the programme by end of May 2024. This should be closely monitored and reports back to the Governance Board and Improvement Board to assess likely adherence with the Programme.</p>	Director of People Services	March 2025
7	<p>Following the issuing of the two Section 114 Notices by the Council, Intervention Directions were issued by the Government which requires the Council to prepare and agree an Improvement and Recovery Plan. (See para 4.11 above for reference)</p>	<p>An IRP has been created and this will be going to Full Council for approval in April. The Council should ensure compliance with the IRP with regular monitoring and reporting.</p>	Chief Executive	October 2024