

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>

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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>

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	<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

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		<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>

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		<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

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	<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

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	<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>		

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		<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>

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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

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		<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>

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	<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

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		<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