

Birmingham City Council

Report to Cabinet Committee – Group Company Governance

16 September 2021



Subject: Governance Review – Improvement Plan
Report of: Assistant Director Inclusive Growth
Relevant Cabinet Member: Councillor Brigid Jones
Relevant O &S Chair(s): Councillor Mohammed Aikhlaq
Report author: Assistant Director Development & Commercial

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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

At its July meeting, Cabinet Committee Group Company Governance (CC-GCG) received a report published by CIPFA entitled “The Need for Guidance About Council Owned Companies”. The report gave details of recent Public Interest Reports (PIR) that wholly or in part referred to the group company holdings of three other local authorities. CC-GCG reviewed the article and findings considering how they may relate to BCC’s own group company governance arrangements. Following that discussion a series of actions to improve and strengthen BCC’s governance arrangements were agreed. This report sets out the improvement plan and progress against it.

2 Recommendations

- 2.1 To note the information provided within the report and the improvement plan at appendix 1.
- 2.2 To confirm those actions and target implementation dates that refer to CC-GCG members.
- 2.3 To continue to receive updates on governance process enhancements in line with target implementation dates, including an updated Group Company risk register.

3 Background

- 3.1 A recent article by Joanne Pitt, local government policy manager at the Chartered Institute of Public Finance & Accountancy (CIPFA) on 25 May 2021 wrote of the need for guidance about council-owned companies. This article gave examples where recent public interest reports have shown how failures around council-owned companies can have devastating consequences. Her report summarised that the potential for issues can generally be linked to organisational governance, leadership, capacity, financial stability, and culture, including:

- a lack of understanding of roles and responsibilities
- a lack of skills around commercial decision making
- an optimism bias that does not reflect the true position
- a lack of strategic rationale surrounding the creation of companies
- a reluctance to listen to challenges.

- 3.2 Two case studies of recent Public Interest Reports written by External Auditors, Grant Thornton, were provided – Nottingham City Council, Robin Hood Energy and Croyden MBC, Brick by Brick Ltd. The CIPFA article further draws on experience from the recent enquiry into Liverpool City Council. The findings and recommendations from these reports were provided against an assessment of their relevance and position within BCC and an action plan for improvement was discussed. CC-GCG requested that a plan be drawn up and progress reported regularly, this is the first of those reports.

4 Options considered and Recommended Proposal

- 4.1 This report provides a governance improvement plan. There will be options to consider at future points of implementation and these will be addressed as appropriate. The proposal to adopt the improvement plan as set out in appendix 1 and as amended/enhanced from time to time in the future is recommended.

5 Consultation

- 5.1 CC-GCG were consulted at the initial stage in July 2021 when the findings of the PIR on 3 other local authorities were reported. This report draws together the discussion on how the City drew on those PIR findings in order to improve its own group company governance arrangements. Where appropriate further consultation will take place with Members and officers as individual process and control changes/enhancements are implemented.

6 Risk Management

- 6.1 This report seeks to improve existing governance arrangements in light of recent PIRs issued to three other local authorities. These actions and implementation of

improvements and enhancements will contribute to the risk management process of the Group Company position.

7 Compliance Issues:

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

- 7.1.1 The Council provides services to community through a number of different vehicles. This report provides information on the governance structure through which service delivery is being provided.

7.2 Legal Implications

- 7.2.1 The Council's Section 151 Officer has a duty to ensure the proper administration of the Council's financial affairs. The Accounts and Audit Regulations 2015, requires the Council to have effective arrangements for the management of risk.

7.3 Financial Implications

- 7.3.1 Group company governance is a vital tenet of sound group financial management. Improvements to the process and operation as a "best in class" authority in this regard will contribute to the overall reduction of financial risk for the Council
- 7.3.2 Where implementation of improvements have a financial impact then that will be considered at the decision point for that action, be it by member or officer delegation. None of the elements within Appendix 1 have a material financial impact.

7.4 Procurement Implications

- 7.4.1 There are no procurement implications directly arising from this report.

7.5 Human Resources Implications

- 7.5.1 There are no direct human resources implications arising from this report.

7.6 Public Sector Equality Duty

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

8 Appendices

- 8.1 Appendix 1 – Governance Improvement Action Plan

9 Background Documents

Report to Group Company Governance Committee – 15 July 2021 – Governance Review – CIPFA Article on Local Authority Companies