BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 30 JUNE 2020 AT 14:00 HOURS
IN AN ONLINE MEETING, NOT APPLICABLE

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

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

2 **DECLARATIONS OF INTERESTS**

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

3 **APOLOGIES**

To receive any apologies.

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.

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 - 24 | 5 **MINUTES - AUDIT COMMITTEE - 28 JANUARY 2020**

To confirm and sign the minutes of the last meeting of the Committee held 28 January 2020.

25 - 96 | 6 **TREASURY RISK MANAGEMENT ARRANGEMENTS**

(20 minutes allocated) (1405 - 1425)

Report of the Head of Capital and Treasury Management

97 - 146 | 7 **BIRMINGHAM AUDIT ANNUAL REPORT 2019/20**

(10 minutes allocated) (1425 - 1435)

Report of the Assistant Director Audit and Risk Management

147 - 166 | 8 **ANNUAL GOVERNANCE STATEMENT 2019/20**

(15 minutes allocated) (1435 - 1450)

Report of the Interim Chief Finance Officer

167 - 192 | 9 **ADOPTION OF ACCOUNTING POLICIES FOR 2019/20**

(5 minutes allocated) (1450 - 1455)

Report of the Interim Chief Finance Officer

193 - 200 | 10 **FINANCIAL MONITORING 2020/21**

(20 minutes allocated) (1455 - 1515)

Report of the Interim Chief Finance Officer

201 - 212 | 11 **AUDIT FINDINGS REPORT RECOMMENDATIONS - PROGRESS REPORT**

(5 minutes allocated) (1515 - 1520)

Report of the Interim Chief Finance Officer

213 - 238 | 12 **EXTERNAL AUDIT PLAN AND PLAN UPDATE**

(20 minutes allocated) (1520 - 1540)

Report of the External Auditor

239 - 276 13 **INFORMING THE AUDIT RISK ASSESSMENT**

(5 minutes allocated) (1540 - 1545)

Report of the External Auditor

277 - 278 14 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

15 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 28 July 2020 at 1400 hours via on-line meeting.

16 **OTHER URGENT BUSINESS**

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

17 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
28 JANUARY 2020

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 28 JANUARY 2020 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Tilsley, Jenkins, Bridle and Quinnen

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NOTICE OF RECORDING/WEBCAST

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

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

DECLARATIONS OF INTEREST

190 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

In relation to agenda item 8, the Chair declared that he was a non-executive Director for Acivico Limited.

At this point in the proceedings, Councillor Jenkins requested considering the seriousness of the matter concerned, to move agenda item 13, Travel Assist (ATG) to be the first item on the agenda for discussion. The Chair and Committee Members agreed to bring this item forward.

APOLOGIES

191 Apologies were submitted on behalf of Councillors Webb, Jones and Akhtar for their inability to attend the meeting.

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

192 **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.

The Chair highlighted that Councillor Alex Yip will be in attendance as an observer throughout this Committee.

Item number 13 was the new item 5. A script was then read out in 'Public' by the Chairman in relation to Travel Assist.

"The Travel Assist reports contain references to a "serious incident in relation to the DBS process". These references are on pages 2, 3, 4, 6 and 15 of the Audit report, and in paragraph 4.3.13 of the covering report.

The Council have taken legal advice about what we can and cannot say about this and we are advised that we are unable to release any information which we would have known about solely from any DBS check – such a release is a criminal offence under the Police Act 1997.

To avoid this scenario, we must be careful about what we say and how we say it.

I am recommending as a result that to avoid the risk of an unintentional criminal act occurring on the part of a Member or officer, we do not refer to any information which we would have known about following a DBS check, such as names, or individual people's background information.

We should focus on those aspects of the reports which fall within the remit of the Committee – mainly controls, risk management and process issues.

Safeguarding issues in individual cases are the remit of the Birmingham Safeguarding Children Partnership”.

TRAVEL ASSIST

Councillor Kate Booth, Cabinet Member for Children’s Wellbeing introduced Tim O’Neill and Nichola Jones to deliver a presentation on Travel Assist.

Tim O’Neill, Director for Education and Skills explained that he would be giving an overview to set the context and overarching activities that have taken place over the last 7-8 months. Following the presentation Nichola Jones, Assistant Director for SEND and Inclusion would go through the details depending on questions that would be asked at that point.

Tim O’Neill outlined the audit report was commissioned by him in the Spring of 2019 (April 2019), where he was in post for around 3 months. At that point it was noted there were a range of activities that were not going right. As a result, audit was used in a proactive way to understand why there were gaps.

Reference was made to the second bullet point of the presentation, ‘Turning over stones’ as this was noted as an important phrase. It was important to look everywhere for evidence of where practise could be improved. In addition to this, to ensure that the Education and Skills Directorate was working to ‘at least’ the industries standard. Previous audit reports indicated this was an area of struggle to provide a service that was fit for purpose for all children. As a result, the Director for Education and Skills undertook the decision to carry out an audit on the Service area.
Subsequently, a meeting took place in the summer chaired by the Chief Executive, where the quality of the draft version of the existing audit report came through.

2 issues key issues that were emphasised in the audit report:

- There were a range of cross council issues emerging that were required to be flagged up in the report.
- The quality of the audit practice i.e. how could audit be used to our advantage in the Council to ensure all services were performing to standard.

Additional comments in the audit report that came through which were incorporated to the final October 2019 audit report. The final version referred to the cross-council issues particularly around safeguarding. In addition to this the DBS process was reviewed for which HR colleagues would discuss at Audit Committee.

It was important to highlight there were many areas that could have been worded and written better in the October 2019 report. Some of the actions overlapped, therefore difficult to interpret and unclear. Clarification on those actions would be made to the Committee in order to be clear how to take practise forward.

Committee members were informed there were previous audit reports on Travel Assist in 2017, 2018 which identified a range of poor contract risk and performance management activity.
Tim O'Neill emphasised that he could respond to the actions that were delivered during him being in post however, less confident of what happened prior to his appointment.

The October 2019 audit report clearly identified that the rolling over of the yearly contract took longer to resolve than required.
The quality of the Council's commissioning and management activity across the Education and Skills Directorate as well as across the Council was noted as a critical factor and contributor to these outcomes. The Corporate Leadership Team (CLT) and Cabinet are aware that improvement is required in the Contracts Management area. However, this has been addressed in Education and Skills Directorate in terms of the audit report. The Directorate would continue to ensure this was in place as there was high value and risks associated under this area of the Council. Thus, Commissioning of quality and resources was essential.

19 actions were identified in 2019 Audit report. Some of the actions overlap therefore roll into each other. The following list draws the key deficits together and these were the key deficits in the 2019 audit report:

- Commissioning framework, resources and quality of frontline provision
- Commissioning policy and procedure
- Associated issues around Contract management
- Quality and extent of management information
- Safeguarding checks and DBS information
- Quality assurance of drivers, guides and vehicles
- Budget management

A summary was provided of the activity that had taken place against the issues that were identified.
These were listed as:

- New providers, commissioning and contract arrangements in place
- New SEND leadership recruited and embedded – Started in August 2019.
- Increased resources into commissioning and quality management
- Additional investment into home to school transport (HTST)
- Investigation undertaken regarding identified breach of process (concludes end of January 2020 to which an initial report was completed in November 2019).
- Appropriate managerial action taken regarding breach of process
- New HR leadership, review of DBS policy and practice (including contractors)
- Change of resources in safeguarding team
- Appropriate budget setting
- Weekly monitoring processes established

It was noted that there are fundamental issues identified for the Council and lessons to be learnt around:

- Commissioning – Quality management.
- Contractor management regarding safeguarding, linking to council DBS processes
- Refresher training
- Importance of quality management and business intelligence in the commissioning and contract management sphere – Peter Bishop (Director of Digital & Customer Services) assisting to drive this across the Council rather than just specific Directorates.
- Audit - Made good strides and are currently having very detailed conversations around planning and connecting the 19 recommendations.

Following the initial overview from Tim, the Chair requested the Internal Audit Team to give a summary of the 02 October 2019 Birmingham Audit Report.

Sarah Dunlavey, Assistant Director for Audit and Risk Management referred to the Audit Report.

(See document No. 1) – (Page 179)

All the recommendations were listed in the covering report which indicated the current position and responses to these. The covering report gave a more up to date contemporary position.
In terms of previous audit reports in 2017, 2018, they were purely of a contract nature. Recommendations stated stronger contract management should be in place and that the contract risks should be identified with KPI's set. By incorporating these into the recommendations initially, it may have given early indication of contracts collapsing. Though contracts collapsing can come as a surprise no matter what due diligence arrangements are in place.

Sarah Dunlavey thanked Tim O'Neill for developing a collaborative relationship as now there was close work being undertaken between the Directorate and internal Audit Team. A draft protocol has been drawn with particular input for Education and Skills Directorate.

The Chair invited the Director for Human Resources (HR), Dawn Hewins to add any further comments.

Dawn Hewins, Director for HR emphasised it was important to note that this audit report was in relation to the contractor and not an employee of Birmingham City Council (BCC). There was a set process which was the employer's responsibility. Lessons have been shared between the contractor and BCC which included a review of the process and strengthening of the safeguarding team. The process of checking DBS was currently being reviewed. It was noted that as the DBS status changed for the employee, this in turn triggered the investigation. The Council took immediate action and pursued an investigation.

Members were given the opportunity to raise any questions.

Councillor Meirion Jenkins indicated that he had a few detailed points to make. It was recognised this was a dreadful failure. It was a failure of contract management, a failure of due diligence and financial control and most of all failure to protect some of the most vulnerable people of the City.

The Audit report was commissioned in the Spring of last year (2019), which was nearly a year ago. However, it was ready in July yet taken until the end of January to come into the public domain to be discussed at this Committee. Councillor Jenkins felt there was no substantive change in this report for the last 3-4 months. It is not clear why this was not shared at the Committee in the Autumn. Following this the audit report was then deferred for political convenience using purdah as an excuse though this had nothing to do with purdah. He stated this was about good financial management of the Authority and protection of vulnerable citizens. It was wrong that it had taken since the spring of last year to get to the point that we are discussing one of the most dreadful reports that BCC had seen. He questioned if the Council was being open and honest since the details have not been shared. Rumours that were spread gave light to the situation. Councillor Jenkins questioned if this was not shared via a rumour, would this have been brought to the attention of members.

Discussions on ATG, contracts and financial situation have been talked about for several years. Members have been drawing attention to these issues and problems for a number of years. Issues around the contract and that the automatic renewals were raised, and these should not be taking place. Only until ATG contract fell through that this became a priority.

Councillor Jenkins referred to the audit report reading out:
'A poor understanding (BCC) about the importance of safeguarding, inadequate safeguarding arrangements, poor management control, no real contract management, poor quality management information and an absence of KPIs.'
It was felt that BCC was not being open about what was meant by the serious incident that took place. The reader of the report was left to speculate as to what was meant by serious incident.

Some of the children have profound disabilities and the reader could think that had something terrible happened, these children may not have been able to draw it to the attention of others. It was felt that the responsibility had to go right to the top of the political leadership.

This was not an isolated failure of contractual management. Birmingham had failed to follow contractual processes repeatedly. When contracts are up for renewal the correct processes are not adhered to.

The Audit report stated that the contract extension which should have been re-procured was illegal and almost unenforceable. This was not addressed by the Council and nor have the historic issues. The Deputy Leader had overseen Children Services for most of the period. Initially when Councillor Booth was appointed as the Cabinet Member, she stated that this was one of her key

priorities. However, it was felt that these priorities have not been addressed correctly and appropriate action had not taken place.
It was recognised that the ATG contract management takes a substantial amount of the budget area around 80% however, the audit of the expenditure had not been monitored correctly i.e. if the money was spent correctly, the journeys that BCC were invoiced for took place.

There is no timeline of the all incidents, events that have taken place even though an internal investigation is being undertaken. It was felt that if an officer is found responsible then a written warning should be issued.

The Chair supported comments made by Members and though there were several investigations taking place, including from the Safeguarding Board, the Audit Committee expect to see the outcomes of the investigations. Members agreed that an update should be provided to a future Audit Committee.

Councillor Jenkins suggested that the matter be referred to Overview and Scrutiny. He recommended the Chair of Audit Committee write to relevant Overview and Scrutiny Chairs (Resources, Education & Children's Social Care) and state that 'in light of the report that came to Audit Committee on this day, there may be other matters that may need to be brought forward'.

This recommendation was accepted by the Chair.

Councillor Tilsley pointed he had been asking questions about this particular area of work for a considerable amount of time. When the contract started in 2009, he was extremely concerned about this area given the vulnerability of the children. At the time, questions were raised to which the answers were not satisfactory. These questions were continually raised however never responded to appropriately thus lost control. The contract was in place 8/9 years before it collapsed. Councillor Tilsley stated that he had never seen such a damming report with high priorities identified. It was noted as one of the worst audit reports that had been shared at Audit Committee.

Travel Assist had been audited in the past and concerns were raised however these had not been actioned appropriately. If the actions were addressed correctly then the current situation would not have been in place.

Members agreed an urgent response should be made as this had caused a lot of anguish to many families especially since majority of the dates referred to in the audit report were during June, July 2019. There had been no further follow up to this report and we are now in January 2020. Therefore, the City of Birmingham as well as the Council are due an updated report which identifies and reaches a conclusion on all 19 recommendations.

Tim O'Neill agreed that the substance of the audit report should be written in a recent format. The only addition to the report was the cross-council issues as there were wider concerns beyond the Directorate. Work was being taken on these issues and was now coming together.

The following points were noted in response to the questions raised by members:

- The serious incident that was mentioned in the report was a breach of process and openly in the media.
- The language used in the report - 'serious incident' was not the best form of words used.
- Contractual arrangements – The Directorate are accountable however, these issues are being resolved. Majority of these actions are now in place.
- With the support of Audit, the current report can be converted to an up to date report which describes what has been done. Any outstanding issues can be brought back to Audit Committee.
- Contract arrangements with National Express – They are responsible for a third of the assisted routes. The contract with T23 covers the remainder of the routes. Audit Committee would be updated on this.
- Investigation – investigation work being carried out, however it would need to be checked with legal colleagues to ensure what can be shared.
- The activity the Safeguarding Board undertakes on behalf of BCC would be shared with Audit Committee.
- Regular 1:1 with Penny Thompson (Chair of Birmingham Safeguarding Children's Board) takes place.
- KPI's – Information would be shared with Audit Committee and any mitigating actions identified.
- Members were reminded the covering report works in conjunction with the Audit report. The covering report describes all the activities to date that have taken place. This can be brought into an audit report at a future Committee.

Nichola Jones assured the Committee that the Directorate would ensure quality services are delivered to the citizens of Birmingham. Since October 2019, the DBS framework had been implemented. The National Express contract was now fully embedded. There have been no cancelled routes since the take over by National Express in November 2019. The next focus area was the sickness of travel guides and the monitoring of the times of transport. Weekly monitoring takes place on a dashboard and KPI's. This ensured that the Directorate would be driving through performance and using quality information to make well informed decisions. A process was now in place for DBS checks which are held centrally. In addition to this, relationships with procurement had been strengthened as close work is undertaken.

It was noted that intense work with telephony and information management systems was being progressed. Emphasis was given to the number of dependencies in this area which meant the Corporate part of this system was critical i.e. management systems, fleet management, personnel as well as management of DBS. Conversations are currently being undertaken to strengthen relationships. A lot of work has been undertaken despite increased placements to special schools by 500. 48% of children are not within their local area whom are transported which was unusual. As a result, this placed a significant amount of pressure on a group of professionals. Reviews were taking place to see if the current teams in place and are adequate. Undertaking efficiencies and savings at a period where planning and process are not in place was difficult, therefore it was raised with the Directorate that these cannot be made. Long term planning and systemic work was being undertaken in SEND as well as Home to School Transport Service.

Councillor Marje Bridle emphasised the report was shocking. It was clearly systematic and illustrative of the problems that BCC had. More honesty was required as people were well paid within the Council. They were in post to deliver a service therefore denying problems and issues was not right. Openness and transparency were always required. BCC should be keeping members informed of improvements being made.

It was noted, due to the size of Birmingham this caused a number of issues and problems. Several Councils have improved much faster than Birmingham.
Councillor Bridle questioned around accountability and where does this lie. At a previous Audit Committee, a presentation on CIPFA was delivered which indicated lack of accountability in Birmingham. Systems as well as people were at fault and there was a need for clarity for failures and accountability. Those whom were accountable, what action would be raised against them.

Councillor Booth firstly thanked the auditors for the work placed into the report as well as the update to date work and actions taken. Following this, she thanked Members for their comments and referred to the initial quote in the presentation, 'no stones unturned'. She stated that in her role as the Cabinet Member for Children's Wellbeing, this was what had been actioned i.e. 'no stones unturned'. It was vital that a service that is provided for the most vulnerable young people in the City had to be exemplary. She was delighted that a new contractor was in place and met with them. Additional to this some journeys, routes were undertaken. Councillor Booth was determined that in her role there is a fresh vision and a new direction. It was important to bring this service as well as other services within the Education and Skills Directorate into the 21st Century.
An independent report had already been conducted. Another independent report will be brought together at the end of January 2020.
It was felt that an independent report, i.e. not produced from the Council would be recommended to Overview and Scrutiny. The Council had to be reviewed as a whole and not specific to the Education & Skills Directorate.

Councillor Meirion Jenkins indicated several questions. These were noted as;

- In relation to the DBS checks, who signed off the checks? Was it the Council or the contractor as this was not clear in the audit report.
- The report indicated 'serious incident' was this a process failure. Independent readers wouldn't interpret 'serious incident' as a failure of administration but would think of a worse situation. This should be clear.
- Accountability – The person whom is in charge of the Service areas is ultimately the person who should be accountable i.e. the Cabinet Member. However, officers should also be disciplined as a subject of failures.

- In comparison to the private sector, it was noted that written warnings were issued immediately. Written warnings show a sign of accountability and matters are actioned seriously.
- Independent report – this was queried previously via the Chief Executive. However, the response received indicated that internal audit function should be trusted. If an independent audit was explored that would have implied that there was no trust in BCC internal audit. Members disagreed with this view.

Tim O'Neill responded to some of the queries and the outstanding points Management structure was robust in both Education & Skills and HR Directorates. In reference to the 'serious incident' the language was not clear and open for interpretation. A breach of process was a more appropriate way of describing that incident. Therefore, the language does not reflect what happened.

Dawn Hewins confirmed that responsibility of the contractors was to carry out the DBS. In terms of the City Council process, the information from the contractors to BCC, there were gaps which were being addressed. As a result, this went to a safer recruitment panel and the information produced was being investigated. A disciplinary process was subject to a thorough investigation which would be undertaken by end of January 2020. Actions would be addressed accordingly.

Councillor Meirion Jenkins questioned again if the Council signed off the DBS checks or if the contractors alone signed off the DBS checks.
Dawn Hewins clarified there was a process to go through in terms of the DBS checks. DBS checks do not come to BCC as part of that process. All the information was provided to HR was currently being investigated. Due to the statement made at the start of the Committee, Dawn was limited to say any further detail.

Members agreed that the Committee were entitled to know if the Council signed off the DBS checks or was this only the Contractor. A clear response to this query was to be reported back to the Committee after the investigation had taken place.

The Chair supported and echoed all the points raised from members of all political parties.
Questions raised by the Chair;

- This audit report was in relation to two Directorates and in the public domain. The audit report indicated a poor understanding of the safeguarding and its importance. This was shocking and indicates a cultural problem.
- How would this Committee be confident about the improvement of the culture and engagement with every citizen in Birmingham. Safeguarding should be at the centre of everything BCC undertakes.

The Commissioning arrangements of the Council were referred to and how these were managed. It was clear this was an area to make significant improvements. The Audit Committee would be interested in looking at how improvements in that area was made over time. The process issues in HR were led by Dawn Hewins. This would assist in getting to a position where the confidence can be gained. To be at 'very least' industry standard was crucial as previously there had been very thin client relationship between the Directorate and its providers. The Council's CLT was urgently addressing the matter to which the details would be shared with Audit Committee.

Dawn Hewins stated the Directorate were taking this very seriously. A series of actions had been implemented. The arrangements with the providers had been reviewed including the services on how DBS works, and processes attached to that. The DBS panel had been strengthened internally. Training was provided for staff and reviewed in terms of safeguarding. The audit report was issued in 2019 therefore action was being taken. The Directorate were not waiting for the result of the investigation.
The Chair emphasised to the Members that as a councillor for Birmingham, he would want confidence that safeguarding was right. The response from the Council should be fast and effective so that members and officers can be proud in protecting vulnerable citizens. At present there was nothing to be proud of therefore reassurances need to be delivered.

Nichola Jones reassured the committee by pointing out safeguarding audits are a part of the new DBS framework. Each contractor undergoes a safeguarding audit. Quality assurance, mechanical inspection of the vehicles, routes would be checked. All these checks would be introduced through the framework. Penalty points would be introduced i.e. for late routes and fine drivers. The contract would be ceased if there are numerous penalty points.

At this point, Clive Heaphy, interim Chief Executive joined the Committee.

The Chair queried how committee members can be assured that no child using council services would be at harm. The national context gives a warning picture for what needs to be done in Birmingham.
It was noted that this was one element of vast array of activities for children. Birmingham Children's Trust was key to work into this area. Was the DBS process fit for purpose?
It was felt that you can never say all children are safe as therefore safeguarding boards are in place. Many children are on child protection plans and there is a requirement to review how to deliver services. A possibility would be to explore early matrix. These issues are centre to the Directorate and will be reported back at a future Committee.

Upon consideration, it was:

193 **RESOLVED:-**

i) That the Committee noted the report.
ii) The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries**.**

At this juncture, Councillor Tilsley suggested to move item 12 – Early Years Health and Wellbeing Contract to be the next item for discussion as this was another report delivered by the same Directorate. Therefore, this was noted as the new item 6.

EARLY YEARS HEALTH AND WELLBEING CONTRACT

The following report of the Director of Education and Skills was submitted:

(See document No. 2) – (Page 145)

Lindsey Trivett, Head of Early Years, Childcare and Children's Centres informed Members the report had been shared prior to Committee meeting. This gave an overview to set the context. In March 2019, another audit report was requested via Directorate officers. The comments of the previous Committee had been taken on board and this had moved forward. Considerable progress had been made to contract management function.

Lindsey Trivett outlined 3 areas:

1) Issues - Late introduction to TUPE requirement which had led to additional finances being placed thus delay in staff being transferred over. Lindsey updated members that the TUPE was completed on 01 January 2020. 94 staff transferred to Birmingham Community Healthcare NHS Foundation (BCHCT). Close work had been undertaken with the trade unions over the last 2 years to ensure the transition went smoothly. Lessons were learnt from this experience and applied to the Cabinet report on Council Day Nurseries. As a result, the transfer of Council Day Nurseries progressed smoothly. This evidenced that lessons were being learnt and applied.

2) Strengthening of the governance and oversight of the contract – Interim arrangements were now in place where there was a Contract Manager in post. Overall commissioning arrangements in Education and Skills were being reviewed with an Improvement Consultant in post. However, a permanent Contract Manager would be managing the contract on a monthly basis. A Contract Review meeting takes place monthly with a Public Health Fund commitment in place to ensure long term function. Linked into this, a Public Health Outcomes Improvement Board had been developed which brought together key partners to discuss the delivery of the contract. Performance monitoring takes place on a monthly basis and had a revised trajectory for improvement setting out what the plan is to get to a good level of contract delivery. That focused on the areas that were initially weak.

3) Reduced from a long list of risks down to 3 risks remaining.
    i) Capital clawback – Previous investment from Surestart Children Centres delivery. As a result, some of those buildings were no longer in use. A new officer had been appointed and would be linking with the DFE to negotiate how the capital clawback would be mitigated. Therefore, this was not identified as a risk since Corporate cover the budget that may invoke sometime in the future.

ii) Final sign off all the leases for all the buildings that were in use. there had been some delays due to legal capacity available via BCC. All buildings are being occupied under heads of terms and license to occupy however the final leases were now with the BCHCT legal team in preparation to come back to BCC legal team to get signed off.

iii) Performance – KPI performance

Councillor Paul Tilsley referred to the previous report where he was the Non-Executive Director for the Chair of the Contracts Committee for BCHCT. At that point there were several issues that were not closed off. Initially there were contracts and leases that were not closed off, survey's outstanding etc. As one of the largest Local Authorities in UK, it would be expected to have these closed off as a matter of cause, yet this was not the case. Therefore, as a result that had to be corrected. Unnecessary work across the Directorate and associated areas was caused which could have been avoided first time round. The onus was on BCC and not the Birmingham Children's Trust.

Councillor Tilsley was pleased to hear that lessons had been learnt therefore when entering the new contract, the process was smooth. Concerns were raised as both previous and more recent audit report were very close to having similar outcomes. Since processes were corrected, this avoided a repeat of initial outcome. It was emphasised that BCC should get it right first-time round.

At this juncture, Councillor Alex Yip and Councillor Marje Bridle left the Committee.

Tim O'Neill was delighted at the progress made in the Directorate. Early Years Health and Wellbeing was one of the key priorities upon his appointment. He agreed with Councillor Tilsley's comments as there were a lot of outstanding issues that had to be rectified. This was the testimony of BCC officers and BCHCT delivering positive outcomes. It was now crucial to ensure the contract was working effectively for children and vulnerable adults.

Upon consideration, it was:

194 **RESOLVED:-**

That the Committee noted the contents of the report.

AUDIT COMMITTEE – FUTURE WAYS OF WORKING

On reflecting the two audit reports that were presented at this Committee, the Chair emphasised he wanted to ensure effective work on risk and assurance was being delivered at Audit Committees. There are a number of items reported on these agendas which possibly need to be reduced to provide focus onto issues that need to be addressed. A question arose as to whether the Audit Committee was looking at what the Council was doing or whether it was instrumental to driving forward a cultural of good risk management and

supporting ethics, values the Council aspires to. In addition to ensure that the citizens of Birmingham get the best value of service.
The Chair proposed to reformat the Audit Committee where a tighter agenda was set. A request would be made for Cabinet Members and Directorate Leads to inform the Committee of what their areas were. In addition, utilise the available risk registers by making them Directorate specific so that Cabinet Members and Directorate leads were sharing how they are managing the risks. That would enable open discussions on the value for money findings provided by the external auditors. It would assist in seeing how value for money findings were being delivered. The statutory role remains in place however this would enable structure format to schedule items to the Committee. Reports should be flagged up to members of the committee as to why a discussion was required. Directors would report twice a year to provide a follow up so progress can be monitored. Linking this to the risk management report would be essential to see how risk was managed in the Council.

The Chair requested for a relevant officer to draft proposals together to share with the Committee.

Comments made by Members:

- Endorse initial comments made by the Chair
- Lack of accountability by Cabinet Members in the City Council. Crucial to be accountable for actions and failings.
- Referred to previous regime where Cabinet Members reported to City Council once every year and debate would take place on their part of the portfolio. That was disbanded when there was a change of control therefore now there was no accountability in place.
- Audit was the conscience of the City Council effectively to ensure it was well run and addressed all that the external auditors would draw attention to.
- Risk register – Audit Committee should enquire on an annual basis how Cabinet Members and Chief Officers are dealing with the risks identified for their area. That would increase the accountability.
- Further enable an audit trail of outcomes being delivered or not.
- At present the responsibility seems to be shared across departments, Directorates where no one is held to account.
- Accountability in the 'Private' sector would tackle differently as the seriousness would be actioned promptly and the person responsible held to account.
- In the Private sector, members of Audit Committee would be less involved in the 'detail' than Public sector.
- Due to BCC failings, Audit Committee should have more involvement.
- Expect complete honesty from the civil servants of the Council. Honest and transparent answers should be given to questions raised.
- Members are part time representatives therefore rely on officers to draw matters to their attention.
- Names of attendees to be indicated so that viewers on webcasting can clearly see who was speaking to the item and partaking in the discussion.

- It was previously agreed from the work undertaken by the Audit Committee Chairs to have an independent chair to the Committee to give an independent view.
- Revisit the suggestion to have an Independent Advisor to Audit Committee.
- West Midlands Combined Authority Risk and Assurance Committee, there was an independent Chair in place.
- Improve competence and performance of Committee Members to challenge Cabinet Members and officers on their Service areas.
- Essential for members to have a good understanding of the reports within the first 2 pages therefore need to be kept simple.

Jon Roberts, Grant Thornton External Auditor, supported suggestions made by Members. The role of the Audit Committee could get lost in transition and the auditing standards oversaw the governance. It was important to strengthen the role and governance of the framework.
Integration between internal and external audit team's governance system were important to link together. The work from the external auditors would respond to the work on the value for money however the new proposed way of working would also drive the work on value for money.
For example, Travel Assist would be risk focusing on as part of the value for money responsibility.

It was important to not lose sight of the Annual Governance Statement which was a useful document that sets out a range of governance issues for Local Authorities.

At this point Councillor Hendrina Quinnen left the meeting.

The remaining Members were disappointed by the commitment and responsibility received by Councillors to audit committees i.e. shown by their attendance. It was noted there was a challenge within BCC across all Committees and members attendance.

It was suggested that the annual report of the Audit Committee should be shared at City Council for a response to be made. All Council Members could then see the work of Audit Committee with a possibility of including a way of noting differences of opinions from various political parties. There are many Local Government Audit Committees which practice this and enables to gain wider engagement.

It was proposed the annual governance statement and the external auditors report could be used as 'marks up's' for Leader, Chief Executive and Directors to review at least once a year.

There are reports on Audit Committee agendas that can be reports to note or tabled for information.
The Chair specified that he would like to draft a proposal with officers on how to take this forward.

Clive Heaphy, Interim Chief Executive BCC, supported shaping draft proposals of future ways of working for the Audit Committee. He added CIPFA issue the terms of reference for Local Authority Audit Committees. The Audit Committees remit was to provide those charged with governance, independent assurance. In addition to that, adequacy of risk management framework to control internal process with the integrity of financial reporting governance processes.
CIPFA are clear that Audit Committee should be independent from the Executive and Scrutiny functions as they have very different roles.

It was emphasised that it was critical Audit Committees were taken seriously and are at the heart of the Councils business. The annual report of the Audit Committee should be shared with City Council, highlighting work undertaken, challenges that have been raised and how the Council would respond to that. By sharing this work in the public domain would be good practice. It was noted to have an independent advisor to improve the journey and way forward.

However, there was a requirement to differentiate roles, as the scrutiny role holds officers to account. The audit role focuses on controls and processes to ensure the control environment was the right environment for services to work across the Council.
Jon Roberts added the Redmond review would be in place soon and focusing on developing the role of the Audit Committee. It was recognised the quality of the local audit could be improved in all areas. Audit Committees would be instrumental to the shaping of that.

It was noted that there is a gap in skills, knowledge and ability of members to serve on Audit Committees and specialised Scrutiny bodies. However, assurances would need to be given to other Councillors in order to show outcomes are being met.

Furthermore, Members added officers need to share all information with the Audit Committee and not to refuse disclosing information. Trust had to be in place in both the role of Audit Committees and its Members. CIPFA guidance would enable this however there are areas under legal privilege that can not be shared at the Committee. Majority of information would be shared openly however the external auditors had already undertaken work therefore assurances should be sought through the external auditor’s work. A balance of assurances from internal as well as external auditors work was required.

Upon consideration, it was:

195 **RESOLVED:-**

Following verbal discussions, the Committee agreed a draft proposal on future ways of working of the Audit Committee to be shared at the 24 March Committee.

REVISED RISK MANAGEMENT FRAMEWORK

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

(See document No. 3) – (Page 113)

Sarah Dunlavey, Assistant Director for Audit and Risk Management introduced the report and gave an update on the risk management framework and highlighted there was a very important change. Emphasis was given to consider the strategic risk faced by the Council. The Corporate risk register had a mixture of strategic, operational, financial and contractual risks. These were the risks impacting on the Council's priorities. The report had a strong link to the Council's priorities and resources allocation. The template of the document had been updated to include opportunities and innovation. The Audit Committee role was to oversee that there was a robust process in place to monitor, report and mitigate risk therefore submitted for approval.

The Chair queried how do we get good risk management through the Council? There was the question of risk appetite i.e. which risks do we manage, which was a 'right first-time risk' e.g. Safeguarding should be right first time. Also understand what was best practice of risk management and how does risk strategy look like in other Councils?
Councillor Jenkins added this would be a balance of risk and risk evasion.

Rebecca Hellard, Interim Chief Finance Officer explained that she had been working on the Risk Register with the CLT. In terms of risk appetite, a strategy was being developed that picked up opportunities and risk. Starting with the strategic risks (i.e. potential, economical, legal, environmental, social etc risks). Subject to the strategy being approved, it would be shared with the Committee. The risk appetite would be indicated alongside the strategic risks. The inherent risk would also be indicated as well as mitigating actions. The Strategy would indicate the level where the risk should go down to.

An example referred to was on safeguarding. There would be strategic risk (top), operational risk (bottom) and an operational risk that would be the escalating step (middle). That would be the crucial section and would require a tight overview. This would allow the risk to be visible and actively managed whereas other operational risks could be managed within Directorates. Other examples of Programme risk such as Commonwealth Games are monitored routinely and would become visible if there was a transition in the ratings i.e. amber to red.
Routine risks would be monitored within the Directorates and could be reported on a quarterly basis. It was stated that these were early days in the shift of how risk was managed.

The strategy would be brought to the committee to discuss and to see what the Audit Committee would be comfortable with. The change in culture would take time as the 'proposed' new way of working would be more of a proactive way of managing risk. In terms of governance this was currently being outlined as to where this sat. Risk Champions are already in place and not used to this way of working. Therefore, there would be a massive cultural shift programme that would need to be rolled out alongside this. This was a beginning of a journey for change across the Council.

The following suggestions were made by Members and officers to consider:

- Possibly hold risk workshops and the agenda is large
- Use of risk heatmaps – a) challenge what risks are on there, b) what was missing c) where do they sit in the heat map d) is the risk appetite right
- List critical operational risks
- Requires dedicated time as this was a new set up
- Deep dive session – to explore responsibility and resilience
- Session on risk appetite
- Resilience – difficult to plan for but would take place to which a plan would need to be in place

The Chair requested to see additional input and shaping of the risk management framework. This would be used as a tool for regular engagement for Cabinet Members and Directors therefore essential to get this right.

Members agreed for the work on development of strategic heat map, critical operational risks to sit alongside the risk management framework and brought back to the Committee.

Upon consideration, it was:

196 **RESOLVED:-**

(i) That the Risk Management Framework was approved however development of strategic heat map, critical operational risks to sit alongside the document.

(ii) That the Committee agreed for the risk management to be reported 3 times per annum.

MINUTES – AUDIT COMMITTEE – 16 DECEMBER 2019

197 **RESOLVED:-**

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

At this juncture, the Chair requested if there were any items currently on the agenda that was essential to discuss at the Committee.

THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN'S ANNUAL REVIEW 2018/19

The following report of the Chief Executive was submitted:

(See document No. 4) – (Page 05)

Miranda Freeman, Senior Liaison Management Officer informed Members this was a routine update report to the Committee about the Local Government and Housing Ombudsman reports for 2018/19. The LGSCO figures have gone up by a 1000 and BCC have stayed the same. The LGSCO indicate the largest category of complaints dealt with by the LGSCO's investigators was Education and Children's Services, at 18% followed by Adult Care Services at 16% and then Planning at 12% of all the complaints and enquiries received. Birmingham has never followed the LGSCO's trend as complaints about Housing matters have traditionally been our largest category. The combined complaints determined by both Ombudsmen, this was still the case in 2018/19, 151 cases. This was followed by what the LGSCO calls 'Environment Services', both Regulatory Services and Waste Management fall into this Category. The complaints for waste management increased and now there were 137 complaints, most were about failure to collect waste.

The outcomes were outline, where the Ombudsman deal directly with the complaint and sends these back to BCC to deal with. It was noted that these were the largest category for complaints. 173 cases (40%) complaints were received. The LGSCO closed 112 cases after carrying out initial enquiries and undertook detailed investigations in 100 cases. The LGSCO upheld 77 which was a large amount. This was due to the LGSCO not working on many the previous year therefore were catching up therefore figures were over what would normally be determined.

The Committee preciously requested two reports to be conveyed during 2019 (2019/20 reports). The ombudsman was satisfied with the actions BCC took with respect of Education Transport which was given the clearance. In relation to Waste Management, that was still pending as the Ombudsman requested to monitor the 17 cases and still in progress. Waste management had been held up due to purdah and would come back to Committee in due course.

The Chair suggested that it would be interesting to understand the figures by comparing Birmingham with Leeds. As Birmingham was three times bigger than Leeds, it would give a better overview to compare and see if there was a huge difference in figures or if Birmingham was in line. By illustrating the percentage of figures and factoring in the size of authorities would give a better understanding of where Birmingham was.

198 **RESOLVED:-**

That the Committee received and noted the Local Government and Social Care Ombudsman's Annual Review report for 2018/19.

At this juncture, the Chair thanked all officers in attendance especially those whom came to present a report and they were not covered at this Committee.

DATE AND TIME OF NEXT MEETING

The next meeting was scheduled to take place on Tuesday 24 March 2020 at 1400 hours in Committee Room 6.

OTHER URGENT BUSINESS

199 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

RESOLVED:-

200 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 16:01 hours.

……………………………..
CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Head of Capital and Treasury Management**
Date of Meeting:	**30th June 2020**
Subject:	**Treasury risk management arrangements**
Wards Affected:	**All**

1. Purpose of Report

1.1 To update members on the Council's treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices.

2. Recommendation

2.1 That the Audit Committee notes and considers the Council's treasury risk management arrangements as set out in the attached Treasury Management Policy, Strategy and treasury management practices.

3. Detail

3.1 The functions of Audit Committee include "(d) 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 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 which will be given to the Committee meeting, which outlines 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 Treasury Management Strategy and Policy: these form appendixes N and O to the Financial Plan 2020-24 approved by City Council meeting on 25 February.

Appendix 3 The Council's 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 10.5. These are approved by the Director of Finance, and reviewed annually.

Appendix 4 Treasury management reporting and monitoring (Quarter 3 monitoring example attached): this is provided quarterly to Cabinet as part of the financial monitoring report, and a summary dashboard is provided to Resources Overview and Scrutiny in the intervening months. 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. The next training had been arranged for 27th April, to be provided by Arlingclose (the Council's treasury advisers) together with our own treasury staff. We are now rearranging this in Teams / Webinar format. Audit Committee members are asked to consider attending.

Name of report Author: Martin Easton
Title: Head of Capital and Treasury Management, Finance and Governance Directorate

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e-mail address: **martin.k.easton@birmingham.gov.uk**

Birmingham City Council Treasury risk management
Outline of presentation 30 June 2020

- Director of Finance introduction
- Audit Committee's role
- TM Regulatory system in local government
- The Council's TM Policy and TM Practices
- How the main risks are managed
- Strategy for 2020-21
- Reporting and Monitoring
- Questions and discussion

Audit Committee’s role in relation to treasury management

The functions of Audit Committee include:

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

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

Cabinet monitors TM activity in quarterly financial monitoring.

This presentation and attached papers supports Audit Committee’s review role.

What is treasury management?

CIPFA Code definition:

- management of borrowing, investments, and cashflows
- Banking, money market and capital market transactions
- Control of risks associated with these activities
- Pursuit of optimum performance consistent with risk appetite

The annual financial planning process decides how much the Council plans to borrow affordably;

The job of treasury management is to arrange and manage that borrowing.

Headline figures for Birmingham City Council

	number	£m value
Total loan debt outstanding	203	£3,469m
Total treasury investments outstanding	12	£283m
Total transactions 2019/20	1,500	£8,465m
Total treasury revenue budget 2020/21		£270m

TM Regulatory system in local government

- CIPFA Code for Treasury Management in local authorities (revd 2018):
  - 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
  - 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

… more on this in the 27 April training

BCC’s TM Policy (Appx O to Financial Plan 2020)

- 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 and other risks

  see slides on each below

- Describes Treasury delegations and reporting

  See slide on reporting and monitoring below

BCC’s Treasury Management Practices

the framework for officer processes and controls, as required by CIPFA 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

CREDIT RISK

The risk of default (or accounting write down) of investments

- Write off would hit revenue account immediately: high impact
- TM Policy section 7 sets risk management framework:
  - Investment grade credit criteria and investment limits – next slide
  - Credit Default Swap prices and other information also taken into account
  - Longer term investment subject to further limits
- Controlled in daily dealing by lending list which checks limits and ratings before dealing
- Staff always have discretion not to lend if they have doubts
- Regular team meetings agree tactics and activity

Investment credit rating criteria (Policy 7.4)

'Specified' short-term loan investments (all in Sterling)	Minimum Short-term rating*	Minimum Long-term rating*	Maximum investment pe 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) usir the rating of the collateral or individual investment		

LIQUIDITY RISK

The risk that the Council cannot obtain funds when needed

- Daily dealing aims to maintain funds in bank account
- Target deposit balance of £40m at month end, for liquidity
- Prudential limits for maturity structure of borrowing

  To avoid too many loans maturing in one year creating big refinancing risk
- Keep a variety of borrowing options and sources open
  - Develop options which may never be used - just in case

INTEREST RATE RISK

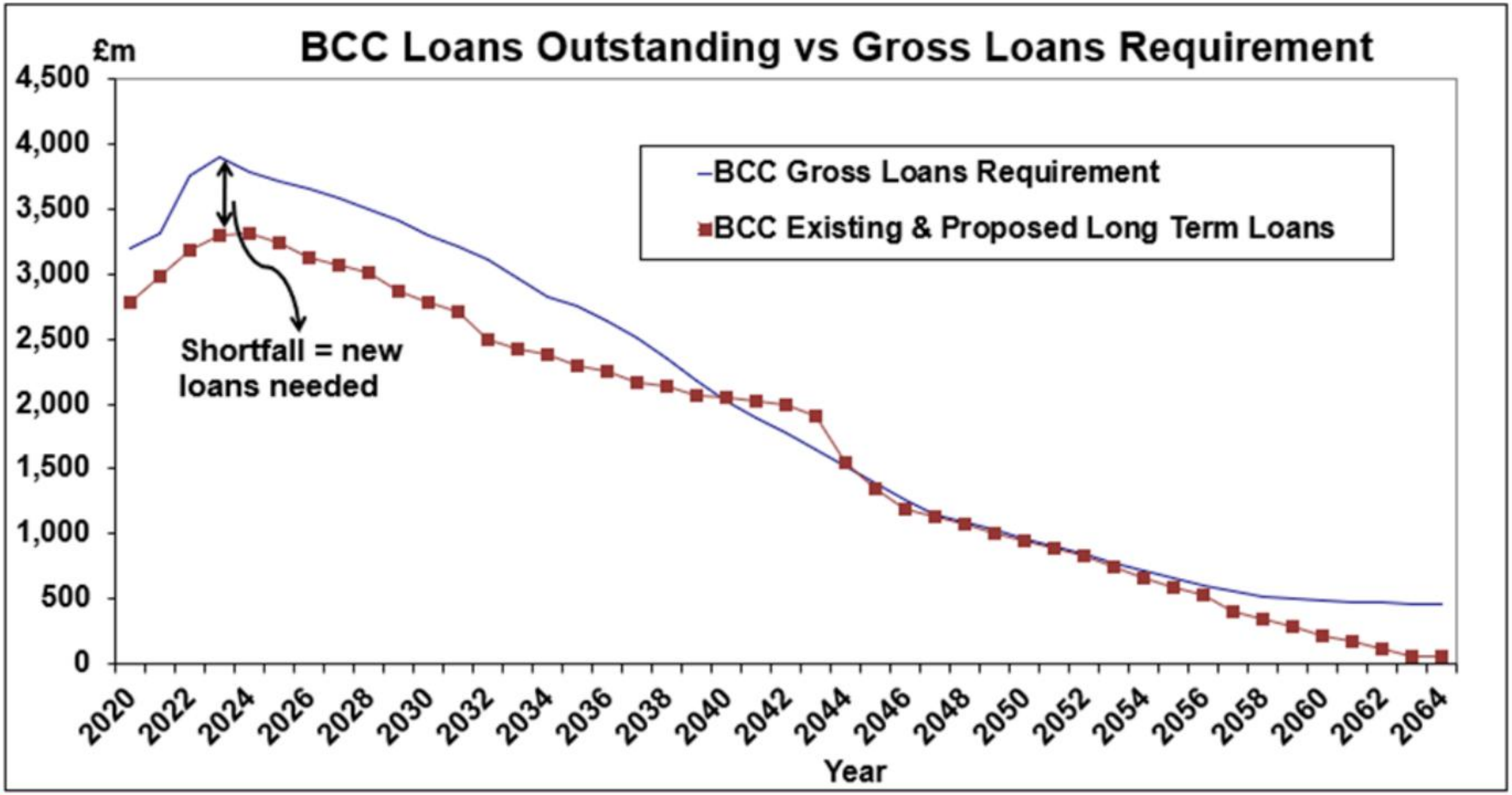
The risk of loss due to future interest rate changes

- Probably the biggest financial risk, but costs may be slow burn over many years

- TM Policy and Strategy set risk management framework:
  - 30% limit on variable rate loan debt
  - Key element of annual Strategy:
  - Target £500m short term loans portfolio closely monitored
  - Prudential limit on maturities
  - Spreading loan maturities over long term: next slide

Birmingham City Council

Spreading maturity risks



OTHER TREASURY RISKS

- Human error, fraud, and contingency planning
  - Treasury Management Practices set out procedures
  - Internal controls and check built into processes
  - Maintaining a culture of check and supervision

- Exchange rate risk
  - Not significant to BCC – little foreign currency

- Legal and regulatory risks
  - Ensure legal advice is obtained for complex or novel transactions

BCC's TM Strategy (Appx N to Financial Plan 2020)

Strategy for treasury management activity in the coming year:

- Identifies borrowing (and lending) need
- Reviews market outlook
- Proposes the types and sources of borrowing for the year
- Subject to change dependent on market conditions

Strategy for 2020/21

- Continue to maintain a significant short term loans portfolio:
  - Target £500m to £600m
- Borrowing to fund advance pension contribution:
  - £245m up to 3 years maturity (completed in April)
- Longer term borrowing for capital programme
  - Probably Private Placement of bonds rather than PWLB, around £100m
- Maintain £40m target investments for liquidity

BCC treasury reporting and monitoring

- Quarterly reporting to Cabinet (Appx C to monitoring report)
  - The full Q3 report is in Audit Committee papers
  - includes summary dashboard to Cabinet - see next slide
  - Summary dashboard also taken monthly to Finance O&S Committee
  - Outturn report due shortly

- includes decisions made by officers under delegations

- Prudential indicators reported quarterly
  - Code requirement is only half yearly

Cabinet summary dashboard: Q3 2019/20

		value	comparator	difference
1	**gross loan debt**	**£m**	**£m**	**£m**
	at month end	**3,149**		
	year end Forecast (vs Plan)	3,201	3,573	-372
	year end Forecast (vs Pru Limit for loan debt*)	3,201	3,867	-666
	**monitoring of the full set of prudential indicators is reported quarterly to Cabinet*			
2	**short term borrowing**			
	at month end (vs Guideline)	**236**	500	-264
	interest rate year to date on outstanding deals (vs assumption)	**0.74%**	0.85%	-0.11%
3	**Treasury investments**			
	at month end (vs Guideline)	**23**	40	-17
	interest rate year to date on outstanding deals (vs assumption)	**0.62%**	0.55%	0.07%
4	**Long term loans taken**			
	year to date (vs plan for year)	**150**	225	-75
	ave. interest rate obtained (vs assumption)	**1.87%**	2.85%	-0.98%
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**		

FINANCIAL PLAN

2020 - 2024

TREASURY MANAGEMENT EXTRACTS

Making a positive difference

Birmingham City Council

APPENDIX N: TREASURY MANAGEMENT STRATEGY

1. Summary

1.1. This appendix sets out the proposed Treasury Management Strategy for 2020/21 given the interest rate outlook and the Council's treasury needs for the year, and in accordance with the Treasury Management Policy at Appendix O.

1.2. A balanced strategy is proposed which continues to maintain a significant short-term and variable rate loan debt in order to benefit from low short-term interest rates, whilst taking some fixed rate borrowing to maintain an appropriate balance between the risks of fixed rate and short-term or variable rate borrowing. The balance between short- and long-term funding will be kept under review by the Chief Finance Officer and will be maintained within the prudential limit for variable rate exposures.

1.3. Separate loans portfolios are maintained for the General Fund and the HRA. Separate treasury strategies are therefore set out below where relevant. [1]

2. Treasury Management Policy and Objectives

2.1. The Treasury Management Policy (Appendix O) 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.

2.3. 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 is set out in Table 7.1 in Chapter 7 above and is a combination of its new prudential borrowing for capital, reduced by the amounts set aside to repay debt, and short term cashflows. Most of the Council's loan debt is in existing long term loans which mature over periods of up to 40 years or more. The balance of new loans which the Council will need to obtain in each of the next four years is set out in Table N.1:

[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.

Table N.1 Forecast Borrowing Requirement

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Forecast gross loan debt	3,831.8	3,913.4	3,750.5	3,653.0
Forecast treasury investments	(40.0)	(40.0)	(40.0)	(40.0)
Forecast net loan debt	3,791.8	3,873.4	3,710.5	3,613.0
of which:				
existing long term loans outstanding	2,856.2	2,831.0	2,781.0	2,761.0
Short term investments working balance	(40.0)	(40.0)	(40.0)	(40.0)
Required new/ replacement loan balance	975.8	1,082.5	969.4	892.0
	3,791.8	3,873.4	3,710.5	3,613.0

3.2. 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.

3.3. The forecast debt includes the Council's agreed advance payment of £369.2m in April 2020, to cover its employer's pension contributions to the West Midlands Pension Fund for the next three years. An early payment discount of £25.8m was agreed resulting in significant net savings for the Council. This increases the Council's borrowing need in 2020/21 and reduces it correspondingly in the following two years.

3.4. The Council has £71.1m of Lender's Option Borrower's Option (LOBO) loans outstanding. In these loans, the lender has the right to increase the interest rate at certain dates during the loan term, and in this event the Council has the right to repay the loan immediately without penalty. £41.1m of the loans have the potential to be exercised during 2020/21. This would increase the Council's borrowing requirement, but it is considered unlikely that it would happen in the current market environment.

3.5. In 2019/20, the Council repaid £30m of its LOBO loans early, funded through a combination of short term and long term borrowing. This resulted in a significant saving for the Council and removed a substantial amount of LOBO loans from its loan portfolio. The Council will consider further loan restructuring opportunities if they become available and where they are considered financially advantageous.

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. The global economy has experienced a slowdown in growth, driven by an increase in trade protectionism. This has prompted the Federal Reserve in the US to cut interest rates in the past year. There has been some degree of optimism recently as global financial markets reached record highs and as the US and China agreed phase one of their trade negotiations; however, the outlook for the global economy still remains uncertain.

4.3. UK economic growth is expected to remain slow as influenced by weak global growth and the domestic impact of Brexit. Consumer Price Inflation (CPI) fell to 1.3% in December 2019, below the Bank of England target of 2%. Some commentators have considered this a temporary contraction and have predicted a recovery, with the near-term political certainty generated by the parliamentary majority gained by the Conservative government in the December 2019 General Election.

4.4. Arlingclose, the Council's treasury advisor, has forecast the Bank Rate to remain at 0.75% for the foreseeable future with some risks weighted to the downside. Given the level of uncertainty over economic growth and the impact of Brexit trade talks, the Council has taken a prudent view and has assumed a small increase in Bank Rate for the treasury budget by the end of 2020/21.

4.5. Upside risks to UK interest rates in 2020/21 include:

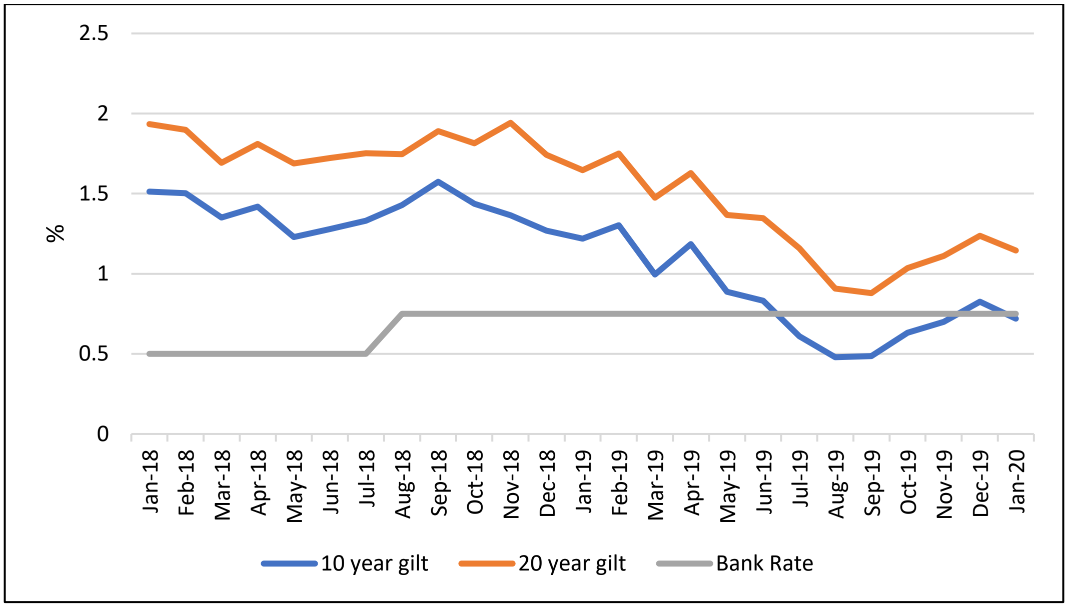
- Higher than expected economic growth
- Higher than expected inflation rates
- Indications of a closer than expected relationship with the EU post-Brexit

Downside risks to UK interest rates include:

- World and UK growth falters
- A no deal Brexit
- Safe haven investment flows into the UK as a result of geopolitical risk

4.6. Longer term interest rates are typically represented by UK Government Gilt yields. The chart at Figure O.2 shows that Gilt yields have risen recently although they remain near historically low levels. Most forecasts for long-term interest rates envisage little change from current levels. However, volatility arising from both economic and political events are likely to continue.

Figure N.2 Bank Rate and Gilt Yields



4.7. The credit outlook for banks became more significant following the introduction of 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. The Council will continue to monitor bank credit worthiness and seek the advice of its treasury advisor, Arlingclose.

4.8. Credit risk for UK retail banks improved following the adoption of ring-fencing legislation; larger UK banks separated their retail banking activity (ring-fenced) from the rest of their business (non ring-fenced) i.e. investment banking. The aim is to protect retail banking activity from unrelated risks elsewhere in the banking group, as occurred during the global financial crisis. Credit rating agencies have adjusted the ratings of some of the legally separate entities with ringfenced banks generally better rated than their non-ringfenced counterparts.

4.9. In December 2019, the Bank of England released its annual bank stress test results; this showed all seven banking groups under review passed the test, and no banks were asked to raise additional capital. The test results indicate major UK banks are able to withstand shocks to the financial sector, including a no-deal Brexit scenario.

5. Borrowing strategy

5.1. For some years the Council has targeted a short term or variable rate loans balance of around £500m to £600m to take advantage of very low short term borrowing rates. During the first half of 2019/20 there was a substantial fall in long term rates and £120m of new long term borrowing was taken from the

PWLB before the increase in its margins (see paragraph 5.7). This combined with short term cashflow movements helped to reduce the Council's short term loans outstanding to around £250m.

5.2. Low short term rates are expected to continue in 2020/21, and it is proposed to resume the short term loans target of £500m to £600m, with the balance of the Council's borrowing needs being met through long-term borrowing (i.e. for periods of one year or more).

5.3. 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 N.3 Proposed borrowing strategy

cumulative new borrowing:	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
total long term loans	415.0	502.0	534.0	487.0
new short term loans	560.8	580.5	435.4	405.0
Required new/ replacement loan balance	975.8	1,082.5	969.4	892.0

5.4. Short-term borrowing is available largely from other local authorities. This may be supplemented with borrowing from other sources such as banks, or in different forms. Short-term and variable rate exposures remain within the 30% prudential limit set out in Appendix U4.

5.5. The strategy results in a forecast for new long-term borrowing of £415m in 2020/21. The balance of new long term borrowing required increases to £502m in 2021/22; the increase is relatively small due largely to the three year advance pensions payment in 2020/21 noted in paragraph 3.3 above. In effect, the larger pensions cash outflow in 2020/21 has replaced the previously expected pensions cashflows in the following two years. The borrowing strategy to fund the advance pensions payment will be to take loans for one to three years, to fund the pensions cash payment net increase of £245m in 2020/21.

5.6. 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.

Long term borrowing

5.7. The main source of long term borrowing for local authorities historically has been the Public Works Loans Board (PWLB). However, in October 2019 the PWLB increased its rate to local authorities from 0.8% above gilts to 1.8% above gilts. The Treasury stated that this was due to the substantial increase in borrowing from the PWLB by local authorities in recent months, combined with the significant reduction in the underlying gilt yields which are used to calculate PWLB rates. The consequence of the PWLB increase is that borrowing from market sources is likely to be significantly cheaper than the PWLB, possibly by around 0.75%.

5.8. A market funding strategy for the Council's annual long term borrowing requirement is likely to focus on private placements of bonds with capital market investors. A private placement is likely to be arranged by a bank, or by the Council with the support of a financial adviser. Lenders may agree for the bonds to be drawn over a period of time ("deferred start") rather than all up front, which may be beneficial in managing credit risk and interest rate risk for the Council.

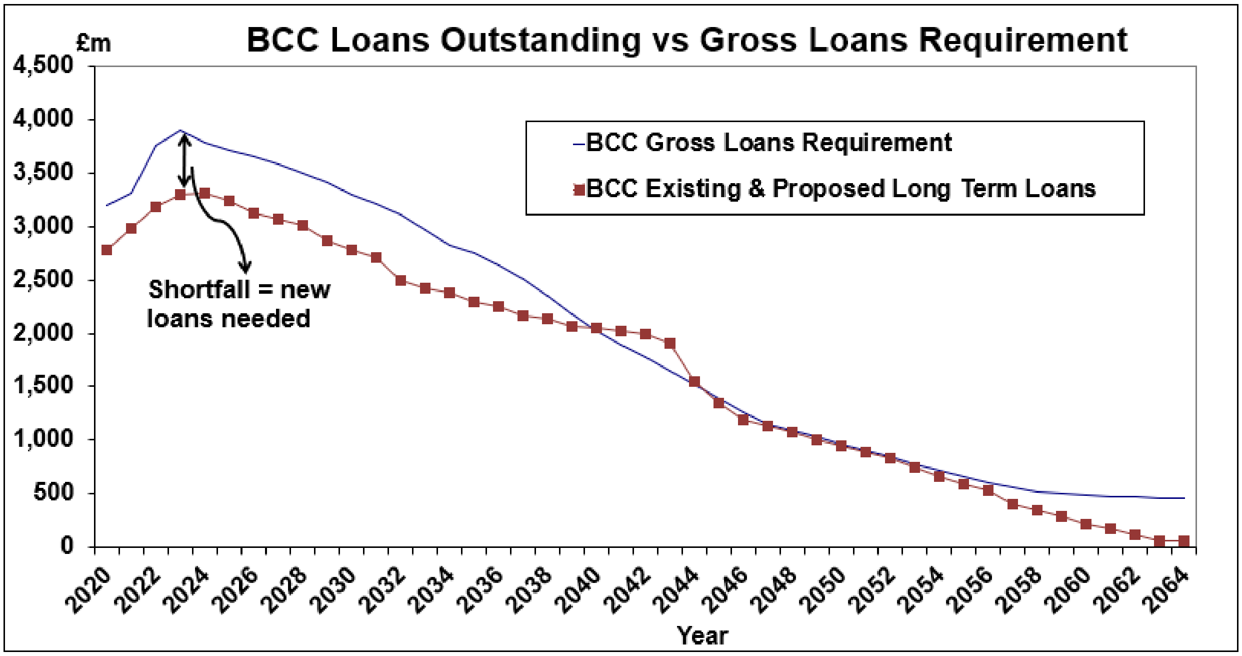
5.9. A listed bond issue is also an option, but these require a credit rating and are generally in the order of £250m or more (although the Council forecasts £415m for long term borrowing, about £245m of this is expected to come from local authorities for maturities of 1-3 years to cover the advance pensions payment – see paragraph 3.3).

5.10. At a smaller scale, long term market borrowing can be arranged bilaterally with single lenders, either direct or through brokers. This is likely to be the least efficient way to borrow from the market, but may represent good value opportunistically or when the size of a private placement is not needed.

5.11. The Council actively reviews market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long-term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others, Islamic forms of finance and sale and leaseback arrangements. The Council may also restructure existing loans and other long term liabilities eg by prematurely repayment and replacement with new loans.

5.12. The £415m new long-term borrowing forecast for 2020/21 is planned to be taken at a spread of maturities appropriate to the Council's long-term debt liability profile. The Council's loan maturity profile can be compared with the level of loan debt outstanding required by this Financial Plan, as follows:

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



5.13. The Gross Loans Requirement in Figure O.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 for debt (MRP). The difference between the Gross Loans Requirement and Existing & Proposed long term loans represents forecast short-term borrowing or investments. The Gross Loans Requirement represents a liability benchmark against which to measure the amount and maturity of required borrowing

5.14. The shortfall shown in the chart is planned to be met by a short-term loans portfolio of around £500m in accordance with current strategy (see paragraph 5.1).

5.15. The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Appendix U, including a summary loan debt maturity profile.

5.16. The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Chief Finance Officer in accordance with treasury management delegations.

6. HRA and General Fund treasury strategies

6.1. The HRA inherited a largely long-term fixed rate debt portfolio at the start of the current HRA finance system in 2012. For the Medium Term Financial Plan period, its debt reduces broadly in line with the current HRA Business Plan. No new long-term borrowing for the HRA is therefore currently planned. The General Fund and HRA exposures to short-term and variable interest rates in accordance with the strategy are as follows:

Table N.5 Forecast Variable Rate Exposure based on the proposed borrowing strategy

(taking account of debt maturities and proposed long term borrowing)	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Housing Revenue Account				
Year end net exposure to variable rates	168.3	179.6	202.0	223.7
Closing HRA net loan debt	1,097.1	1,090.6	1,105.7	1,109.5
Variable exposure % of debt	15.3%	16.5%	18.3%	20.2%
General Fund				
Year end net exposure to variable rates	377.5	410.7	420.4	403.3
Closing General Fund net loan debt	2,694.7	2,782.8	2,604.7	2,503.5
Variable exposure % of debt	14.0%	14.8%	16.1%	16.1%
Year end variable interest rate assumption provided for in the budget	1.50%	2.00%	2.50%	2.75%

Note: the variable rate figures above include long-term loans with less than a year to maturity. Potential repayment option calls on LOBO loans are excluded as none are expected in this period.

6.2. The variable rate exposure means that a 1% rise in variable rates at the end of 2020/21 would cost an estimated £3.8m per annum for the General Fund and £1.7m per annum for the HRA. However, the budget provides for a potential increase in variable rates (as shown above), which is considered to be prudent in this context.

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

7. Treasury Management Revenue Budget

7.1. Based on this strategy the proposed budget figures are as follows:

Table N.6 Treasury Management Revenue Budget

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Net interest costs	133.766	138.623	142.818	143.216
Revenue charge for loan debt repayment	136.484	141.008	133.171	143.535
Other charges	(0.238)	(6.026)	(11.932)	(1.044)
Total	270.013	273.605	264.057	285.707
Met by the HRA	63.145	62.230	62.416	61.866
Met by the General Fund	206.868	211.375	201.641	223.841
Total	270.013	273.605	264.057	285.707

7.2. 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.

8. Investment Strategy

8.1. 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, which are close to instant access, is targeted 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. Money Market pooled funds 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 top quality institutions and spreading the risk more widely.

8.2. 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.

9. Other Treasury Management Exposures and Activities

9.1. 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 is reflected in the Council's own debt and is managed as part of treasury activity.

9.2. 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. Advisers

10.1. Arlingclose have been 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.

11. Prudential Indicators for Treasury Management

11.1. The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management. These are presented in Appendix U4.

APPENDIX O: TREASURY MANAGEMENT POLICY

1. Overview

1.1. This appendix sets out the Council's proposed Treasury Management Policy. This 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 Strategy at Appendix N, and the Service and Commercial Investment Strategy at Appendix P, 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 (revised December 2017)
- CIPFA's Prudential Code for Local Authority Capital Finance (revised December 2017)
- The Government Guidance on Local Authority Investments (revised February 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, 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 management.[2]

Attitude to 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

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

significant part of the Council’s revenue budget. The Council’s objectives in relation to debt and investment can accordingly be stated more specifically as follows:

“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.”

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

3.5. The Treasury Management Team has capability 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, 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 Risks[3]

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. As a result, 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.

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 achieving the lowest rates in the short-term and in the long-term, and between short-term savings and long-term budget stability. The Council will therefore limit the amount of the short term debt it holds in order to manage its variable interest rate exposure. The Council will monitor the following amounts for its Interest Rate exposure:

Table O.1 Prudential Limits - Interest Rate Exposure

	% of loan debt (net of investments):		
	2020/21	**2021/22**	**2022/23**
General Fund impact of an unbudgeted 1% rise in interest rates	£3.8m	£4.1m	£4.2m
Upper limit on net variable rate exposures	30%	30%	30%

4.3. The current planned variable rate exposure is set out in the Treasury Management Strategy.

Maturity Profile

4.4. The Council will have regard to forecast Net 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:

[3] 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.

Table O.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%

Policy for Borrowing in Advance of Need

4.5. Government investment guidance expects local authorities to have a policy for borrowing in advance of need, in part because of the credit risk of investing the surplus cash. The Council's policy is to borrow to meet its forecast Net Loan Debt, including an allowance (currently of £40m) for liquidity risks. 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.

4.6. The Council is a substantial net borrower and only has cash to invest for relatively short periods as a result of positive cashflow or borrowing in advance of expenditure. The Council considers all its treasury risks together, taking account of the investment risks which arise from decisions to borrow in advance. 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 cash proceeds until required. This will be a matter of treasury judgement at the time, within the constraints of this policy, and treasury management delegations.

5. Investment Policy: All Investments

5.1. The revised 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 issued revised investment guidance in February 2018, which strengthens the management and reporting framework relating to commercial and service investments.

5.2. The Council seeks to be a responsible investor but makes few if any investments in listed equities or bonds. Within the relatively narrow scope of its investments, it will seek to avoid investment in companies whose business is primarily the generation or supply of fossil fuels.

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 Appendix P.

7. Investment Policy: Treasury Management Investments

7.1. 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.

7.2. 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

7.3. 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 over achieving a high return. The Council will consider secured forms of lending such as covered bonds, but these instruments are not generally available for short-term and smaller size deposits. 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

7.4. The Council will limit risks by applying lending limits and criteria for 'high credit quality' as shown in Table O.3:

Table O.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.

7.5. 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.

7.6. The Council may also provide short-term supply chain finance where the credit risk is based on the Council's own payment on the invoice due date, and in relation to invoices payable by other bodies meeting the above lending criteria.

7.7. 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. The use of particular permitted counterparties may be restricted if this is considered appropriate.

7.8. Credit rating methodologies change from time to time, and in this event the Chief Finance 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

7.9. 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

7.10. Other categories of non-specified investments will not be used for treasury management purposes.

Investments of Group companies

7.11. 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

7.12. 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 O.4 Prudential limits on investing principal sums for over 364 days:

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

7.13. In making investments in accordance with the criteria set out in this section, the Chief Finance 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 earn less than riskier ones.

7.14. Where the Council deals with financial firms under the MiFID II regulations[4], 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.

7.15. The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if 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 Chief Finance Officer.

[4] 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.

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 Chief Finance 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 as agent. The Chief Finance 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 Chief Finance 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 Chief Finance Officer reports during the year to Cabinet on the decisions taken under delegated treasury management powers.

10.3. In exercising this delegation, the Chief Finance 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

10.5. The Chief Finance 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 being prepared in accordance with the newly revised 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.

APPENDIX P: SERVICE & COMMERCIAL INVESTMENT STRATEGY

Compliance with the main requirements of the Government's Statutory Guidance on Local Authority Investments is shown by cross reference in square brackets to the relevant paragraph of the Guidance.

1. Scope and Purpose of Strategy

1.1. The word "Investments" in this strategy covers financial investments, including loans and shares, which have been made to support service and commercial objectives. Examples include loans to InReach and Warwickshire County Cricket Club, and the Council's investment in Birmingham Airport. Non-financial investments such as commercial property are included where the main objective is financial return [4]. Investments taken for treasury management reasons are considered in the Treasury Management Strategy and Policy elsewhere in this Financial Plan.

1.2. This strategy sets out the Council's approach to such investments, including risk management, appraisal, monitoring, governance and procedures. In doing this it addresses the requirements of the recently expanded Government Guidance on local authority investments.

1.3. Investment values provided in this appendix are the book values in the Council's accounts, unless otherwise stated.

2. Objectives of the Strategy

2.1. To use investments where appropriate to support the Council's priorities, within prudent financial limits.

2.2. To ensure that investment decisions and portfolio management are joined up with the Council's overall business and financial planning.

2.3. To deliver value for money (e.g. commercial terms or if less than commercial, social benefits to justify this).

2.4. To manage risks in accordance with the Council's risk appetite and financial circumstances (including due diligence when making investment decisions).

3. The Existing Financial and Property Investment Portfolios

3.1. The Council's service and commercial investments are extremely diverse, given their very different service motives and applications. The estimated book value of financial investments at 31 December 2019 is £135.0m.

3.2. The commercial property portfolio is currently being reorganised in accordance with the Council's Property Investment Strategy. Its gross income in 2020/21 is budgeted at £24.6m.

3.3. Table P.3 at the end of this appendix shows the main contribution of the Council's service and commercial investments to Council objectives. [22]

4. Investment Policy and Strategy 2020+

4.1. Joint working, partnerships and joint delivery arrangements are key to the provision of Council and wider public services. Financial and property investments are likely to be an ongoing result of the Council's partnership working.

4.2. In the context of the current Council Plan and priorities, investments may feature in arrangements for:

- Supporting specific policy priorities in the Council Plan or policy frameworks, e.g. housing
- Supporting partnership working, including with the voluntary sector
- Supporting the commercialism agenda and the Council's savings proposals, by providing financial return.

4.3. The Council recognises that all investments carry the risk of financial loss. The risk of losses may seem distant or not be apparent at the time an investment is considered, but an estimate of the risk of loss needs to be accounted for from the outset. Financial gains and losses from investments will be the responsibility of the service to which the investment relates.

4.4. The Council will be particularly cautious where investments are funded wholly or partly from borrowing. Debt "gearing" creates additional costs of interest and repayment. It creates a fixed liability and a fixed repayment obligation, whilst the investment's value and income are at risk. The scope for the Council to borrow to fund investments is also limited by the relatively high level of Council debt and low headroom for additional borrowing. The Council will not borrow to invest purely for financial gain, as recommended by Government Guidance [46]. This principle does not prevent the Council from borrowing for the prudent management of its financial affairs or protection of its existing financial and property investment portfolios in its financial best interests.

4.5. The Council's risk appetite in relation to new financial investments will therefore be low, given the high level of financial risks the Council is already exposed to, including the need to balance the revenue budget and manage the level of Council debt. Any new investments will therefore be expected to:

- Show a compelling contribution to the Council's core objectives and planned service strategies, and must be prioritised within the Council's available resources
- Evidence a low financial risk with a commensurate financial return, or if returns are below commercial levels, provide clear non-financial benefits to the Council which demonstrate strong value for money, and comply with State Aid requirements.
- Be prioritised within the investment limits set out below, to ensure that investment activity remains proportionate to the Council's finances overall
- Strike a prudent balance between security, liquidity and yield (whilst recognising that the delivery of strong service benefits may sometimes justify a higher financial risk) [29]

New commercial property investments will be managed under the policies and criteria set out in the July 2019 Property Investment Strategy. Investment is expected to be restricted to the reinvestment of sales proceeds rather than growing the portfolio.

4.6. The Council is mindful of Government and CIPFA advice that commercial investments including property must be proportionate to the resources of the authority [34]. The Council should avoid becoming over-reliant on risky investment income to support core service obligations, especially given its low investment risk appetite set out in 4.5 above. Budgeted gross income from service and commercial investments (including commercial property) represents 4.2% of the net revenue budget by 2020/21 [44]. This investment income exposure represents a manageable financial risk, and will be monitored as part of the Council's normal revenue monitoring as well as through the investment indicators (section 7 below).

4.7. Any shortfall in budgeted net income from service and commercial investments will be managed through the Council's regular budget monitoring and mitigation processes, and through the investment governance arrangements described in Section 7 below [44].

4.8. The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy (Appendix T) sets out the arrangements to repay debt without resorting to a sale of the investments [42-43].

5. Financial Investment Plans and Limits for 2020+

5.1. The main area of additional investment proposed in this Financial Plan, as in last year's, is to expand the Council's investment in InReach, its wholly-owned Housing company. The Council has provided loans and equity of £15.4m to develop the Embankment private rented housing. This development is now complete, fully let, and performing well. Further loans to InReach are in the Council's budgets to develop rented housing at the Brasshouse and Key Hill. The Council's total proposed investment outstanding in InReach including both current arrangements and new proposals amounts to £68.7m. InReach will increase the supply of both private rented and affordable housing in Birmingham, which is a key priority for the Council, as well as generating a net income for the Council. In the longer term, further opportunities for InReach activity will be kept under review.

5.2. The main financial risk when investing in loans and equity is that the loan repayments are not made, and that the shares lose value or dividends are less than expected. In order to limit the financial impact of investment risks, an overall limit for the Council's service and commercial investments (excluding the commercial property portfolio) is proposed as follows:

Table P.1 Service and Commercial Investment Strategy

Financial Investments	est value at 31.12.19 £m	planned changes £m	total value £m	limit £m
Loans to subsidiaries	33.6	48.3	81.9	
Loans to businesses	43.5	-12.4	31.1	
Other loans	16.5	0.0	16.5	
Shares in subsidiaries	11.5	5.0	16.5	
Shares in businesses	29.6	0.0	29.6	
other shares	0.3	0.0	0.3	
Total	**135.0**	**40.9**	**175.9**	**326.0**

The figures above are the estimated book value in the Council's accounts

5.3. The planned changes reflect the proposals described above, over the medium term to 2023/24. The limit has been set with a view to allowing scope for some limited further investment of £50m during this period, together with potential for further investment of £100m in InReach to support the potential purchase of part of the Commonwealth Games Village. This would be subject to resource prioritisation and business case approval. Cabinet may approve a reallocation of individual limits within the total limit above. The limit applies to the Council's own investments and not to investments which it holds as accountable body or on behalf of others [34, 36].

5.4. Investments may also carry liquidity risk, which is the risk that funds may be tied up in investments and not available if needed for other purposes. The Council's due diligence procedures for investments review liquidity risk, including how exit routes have been considered and the appropriate maximum period for investments to be committed [42].

6. Property Investment Portfolio Plans and Limits for 2020+

6.1. The Council's Strategy for the Property Investment Portfolio was approved by Cabinet in July 2019. This seeks to remove lower value and inefficient property holdings from the portfolio and reinvest into fewer, high quality commercial property assets, with a view to a better risk balanced portfolio and an increase in gross income by 20% in cash terms by the end of 2023/24. In particular,

- An active disposals programme is in progress to fund reinvestment
- Investment will be primarily in Birmingham and the wider Midlands region
- An external investment adviser is being commissioned to advise and recommend on opportunities in the market to acquire new assets (which may include property loans as well as direct property holdings)
- The first strategic investment has been completed, which was the acquisition of the headlease on a Council owned site increasing the income stream by £0.3m.

6.2. The strategy envisages that reinvestment into new properties may be funded temporarily from borrowing, pending capital receipts from the portfolio's asset sales, providing that the individual sales are agreed by the time of borrowing. The borrowing is limited to £50m and will be repaid by the end of 2023/24. The Government Investment Guidance recommends authorities not to borrow to invest purely for profit. The purpose of the temporary borrowing is not for additional long term investment, but supports the 'prudent management' of the portfolio by avoiding the risk of being out of the market and losing income for a sustained period while a large number of small properties are progressively sold over the next few years.

6.3. The main financial risks of property investment are that rental income or property values may fall as a result of changing economic and market conditions, or due to the condition of the individual properties. New purchases may also show an initial loss due to transaction costs and stamp duty. The risk of loss compared with any borrowing taken to purchase investments investments is shown by the indicator below for the % of investments financed from borrowing [38-40]. The property risks in this strategy will be managed by the Property Investment Board in accordance with the parameters and procedures set out in the Property Investment Strategy approved by Cabinet, and within the temporary investment increase of £50m set out above.

6.4. Liquidity risk in property investments will be managed by the Commercial Property Board and through the limit of £50m on new investments (6.3 above) [43].

7. Investment Indicators

7.1. The Council will use the investment indicators set out below to strengthen its investment risk management framework, as recommended by the Government Guidance [23]:

Table P.2 Service and Commercial Investment Indicators

Service and commercial investment indicators	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Financial investments:				
planned value	146.6	144.8	161.8	175.9
investment limit	226.0	280.0	326.0	326.0
(including £100m allowance for potential investment in InReach)				
borrowing to fund investments	71.8	82.4	99.5	113.6
% investments financed by borrowing	49.0%	56.9%	61.5%	64.6%
secured investments	90.2	100.8	117.8	132.0
% investments secured	61.5%	69.6%	72.8%	75.0%
Commercial properties:				
New investment limit (cumulative)	50.0	50.0	50.0	50.0
budgeted gross investment income:				
Investment income (financial and property)	36.1	42.1	47.0	50.6
Council net revenue budget	852.9	872.4	890.7	909.8
Investment income as % of net budget	4.2%	4.8%	5.3%	5.6%

8. Governance

8.1. The Capital Board will review new investment proposals and programmes prior to approval, and will monitor existing investments and risks. The Development and Commercial Finance Team and the Treasury Management team will exercise Council-wide oversight and co-ordination of service and commercial investments.

8.2. Financial and property investment decision making will follow the Council's Business Case governance requirements, with particular attention to expert due diligence, robust financial appraisal and taking external advice in consultation with the Chief Finance Officer. Procedures and checklists for investment appraisal and management are set out in the Council's financial procedures (My Finance on the Intranet) [41,50]. Market understanding and analysis will be the responsibility of the relevant service supported by their Finance Business Partner and Treasury Management Team, but it is recognised that for complex investments, external advice is likely to be needed, especially where financial return is significant [41]. New investments must reflect the Council's core priorities, and must be agreed by the Chief Finance Officer via the Treasury Management team before presentation of any executive decision report.

8.3. Individual investment monitoring is the responsibility of the service holding the income budget, as part of normal budget monitoring, with overall co-ordination and oversight from Finance staff.

8.4. Investment Management Practices are required by the CIPFA Treasury Management Code to support strong and sound financial management in this specialist area. These will be maintained for each type of investment by the service budget-holder responsible, with support from Development and Commercial Finance, and will include appropriate income collection and credit control arrangements [41]. Investment Management Practices will be reviewed annually.

8.5. Advisers will be used where necessary to achieve sufficient skills and understanding, in particular, the Council's treasury management adviser (Arlingclose) can provide support in relation to financial investments, and the Council also retains a property adviser to support the Property Investment Portfolio. These appointments are monitored and assessed by treasury and property officers [41]. The Council's business loans and investments portfolio is managed by Finance Birmingham, the Council's wholly owned fund management company. Officer and Member training will be available through the Council's treasury advisers, alongside treasury management training opportunities. Information relevant to investment decisions will form part of executive decision reports to members [48]. Cabinet Committee – Group Company Governance and relevant officers also receive training on companies. Due diligence requirements for investments will ensure that officers are aware of the core principles of the prudential framework and local authority regulatory requirements [49].

8.6. These arrangements will support the capacity, skills and culture of the Council in making and managing investments for service and commercial purposes [48-49].

Table P.3 Contribution of Investments to Council Outcomes

Financial Investments	main contribution	other contribution
Loans		
InReach Ltd - housing developments	housing	profit
InReach Ltd - CWG housing purchase	housing	profit
InReach Ltd - HRA housing purchase	housing	profit
Birmingham Propco (NEC Hotels)	economy	profit
Performances Birmingham Ltd	economy	arts
Birmingham Science Park (Aston) Ltd	economy	profit
iCentrum	economy	
Business loans portfolio	economy	
Warwickshire County Cricket Club	economy	
WM Collective Investment Fund	economy	
BLLP	education	
Kick Start loans	housing	
Other commercial loans	various	
Loans to non-BCC schools	education	
Birmingham Childrens Trust	children	
Other small loans	various	
loans to employees	management	
Wholesale Markets	economy	profit
Shares		
Birmingham Airport Holdings	economy	profit
InReach Ltd	housing	
Birmingham Propco (NEC Hotels)	economy	profit
Business share portfolio	economy	
Financial vehicle shareholdings	financial mgt	economy
Other small share holdings	various	

APPENDIX U: PRUDENTIAL INDICATORS

Appendix U1

	WHOLE COUNCIL	20/21 Indicators £m	21/22 Indicators £m	22/23 Indicators £m	23/24 Indicators £m
	Capital Finance				
1	Capital Expenditure - Capital Programme	710.1	481.9	327.0	223.1
2	Capital Expenditure - other long term liabilities	38.2	37.8	33.1	33.3
3	Capital expenditure	748.3	519.7	360.1	256.4
4	Capital Financing Requirement (CFR)	4,839.3	4,941.7	5,135.1	4,834.4
	Planned Debt				
5	Peak loan debt in year	3,849.9	3,932.9	3,852.3	3,719.5
6	+ Other long term liabilities (peak in year)	415.5	396.7	373.4	348.2
7	= Peak debt in year	4,265.4	4,329.6	4,225.7	4,067.7
8	does peak debt exceed year 3 CFR?	no	no	no	no
	Prudential limit for debt				
9	Gross loan debt	4,084.5	4,203.3	4,026.6	3,951.8
10	+ other long term liabilities	415.5	396.7	373.4	348.2
11	= Total debt	4,500.0	4,600.0	4,400.0	4,300.0

Notes

4 The Capital Financing Requirement represents the underlying level of borrowing needed to finance historic capital expenditure (after deducting debt repayment charges). This includes all elements of CFR including Transferred Debt.

5-7 These figures represent the forecast peak debt (which may not occur at the year end). The Prudential Code calls these indicators the Operational Boundary.

8 It would be a cause for concern if the City Council's loan debt exceeded the CFR, but this is not the case due to positive cashflows, reserves and balances. The Prudential Code calls this Borrowing and the Capital Financing Requirement.

11 The Authorised limit for debt is the statutory debt limit. The City Council may not breach the limit it has set, so it includes allowance for uncertain cashflow movements and potential borrowing in advance for future needs.

Appendix U2

	HOUSING REVENUE ACCOUNT	20/21 Forecast £m	21/22 Indicators £m	22/23 Indicators £m	23/24 Indicators £m
	Capital Finance				
1	Capital expenditure	125.8	129.4	145.1	129.5
	HRA Debt				
2	Capital Financing Requirement (CFR)	1,097.1	1,090.6	1,105.7	1,109.5
	Affordability				
3	HRA financing costs	97.2	98.7	100.5	101.4
4	HRA revenues	279.9	286.2	293.3	301.2
5	HRA financing costs as % of revenues	34.7%	34.5%	34.3%	33.7%
6	HRA debt : revenues	3.9	3.8	3.8	3.7
7	Forecast Housing debt per dwelling	£18,423	£18,446	£18,785	£18,914

Notes

3 Financing costs include interest, and depreciation rather than Minimum Revenue Provision (MRP), in the HRA.

6 This indicator is not in the Prudential Code but is a key measure of long term sustainability. This measure is forecast to fall below 2.0 by 2026/27, which is two years later than previously forecast.

7 This indicator is not in the Prudential Code but is a key measure of affordability: the HRA debt per dwelling should not rise significantly over time.

Appendix U3

	GENERAL FUND	20/21 Forecast £m	21/22 Indicators £m	22/23 Indicators £m	23/24 Indicators £m
	Capital Finance				
1	Capital expenditure (including other long term liabilities)	622.5	390.4	215.0	126.8
2	Capital Financing Requirement (CFR)	3,742.2	3,851.1	4,029.3	3,724.9
	General Fund debt				
3	Peak loan debt in year	2,752.8	2,842.3	2,746.6	2,610.0
4	+ Other long term liabilities (peak in year)	415.5	396.8	373.5	348.2
5	= Peak General Fund debt in year	3,168.3	3,239.1	3,120.1	2,958.2
	General Fund Affordability				
6	Total General Fund financing costs	255.6	260.0	250.2	272.1
7	General Fund net revenues	852.9	872.4	890.7	909.8
8	General Fund financing costs (% of net revenues)	30.0%	29.8%	28.1%	29.9%
9	General Fund financing costs (% of gross revenues)	23.0%	22.6%	21.2%	22.5%

Note

4 Other long term liabilities include PFI, finance lease liabilities, and transferred debt liabilities.

6 Financing costs include interest and MRP (in the General Fund), for loan debt, transferred debt, PFI and finance leases.

8 This indicator includes the revenue cost of borrowing and other finance, including borrowing for the Enterprise Zone and other self-supported borrowing.

9 This is a local indicator measuring finance costs against relevant gross income including revenues from sales, fees, charges and rents, which are available to support borrowing costs.

Appendix U4

	TREASURY MANAGEMENT		20/21	21/22	22/23	23/24
		Limit	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	Interest rate exposures					
1	General Fund impact of an unbudgeted 1% rise in interest rates		£3.8m	£4.1m	£4.2m	£4m
2	upper limit on variable rate exposures	30%	19%	22%	23%	21%
	Maturity structure of borrowing	**Limit**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	(lower limit and upper limit)		**Year End**	**Year End**	**Year End**	**Year End**
3	under 12 months	0% to 30%	16%	17%	16%	17%
4	12 months to within 24 months	0% to 30%	1%	1%	6%	1%
5	24 months to within 5 years	0% to 30%	4%	10%	6%	7%
6	5 years to within 10 years	0% to 30%	16%	15%	12%	12%
7	10 years to within 20 years	5% to 40%	21%	20%	26%	30%
8	20 years to within 40 years	10% to 60%	37%	34%	30%	31%
9	40 years and above	0% to 40%	4%	2%	2%	2%
	Investments longer than 364 days					
	upper limit on amounts maturing in:					
		Limit	**Forecast**	**Forecast**	**Forecast**	**Forecast**
10	1-2 years	400	0	0	0	0
11	2-3 years	100	0	0	0	0
12	3-5 years	100	0	0	0	0
13	later	0	0	0	0	0

Note

1 Based on year end debt borrowing less investments, with less than one year to maturity.

2-9 These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan

2 The limit on variable rate exposures is a local indicator.

Appendix U5

SERVICE AND COMMERCIAL INVESTMENT INDICATORS	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Financial investments:				
planned value	146.6	144.8	161.8	175.9
investment limit	226.0	280.0	326.0	326.0
(including £100m allowance for potential investment in InReach)				
borrowing to fund investments	71.8	82.4	99.5	113.6
% investments financed by borrowing	49.0%	56.9%	61.5%	64.6%
secured investments	90.2	100.8	117.8	132.0
% investments secured	61.5%	69.6%	72.8%	75.0%
Commercial properties:				
New investment limit (cumulative)	50.0	50.0	50.0	50.0
budgeted gross investment income:				
Investment income (financial and property)	36.1	42.1	47.0	50.6
Council net revenue budget	852.9	872.4	890.7	909.8
Investment income as % of net budget	4.2%	4.8%	5.3%	5.6%

BIRMINGHAM CITY COUNCIL

TREASURY MANAGEMENT PRACTICES
December 2019

The Budget Report approved by the City Council every year confirms the 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 2018.

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, 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 **schedules 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.

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 only borrow in advance of need where there is a clear business case for doing so and will only do so for the day-to-day cashflows, the current capital programme or to finance future debt maturities.

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 interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended 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, exchange rates. This will be subject to the consideration and, if required, approval of any policy or budgetary implications.

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, private financing and partnership arrangements 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 minimise the risk of these impacting adversely on the organisation.

TMP 1.7 fraud, error and corruption, and contingency management

The City Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. 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 principal sum 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 the **Schedule to TMP 2** to this document.

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** to this document.

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** attached to this document, 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: at March 2017 the City Council's 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 TMP 5.1** *and the Delegations to Treasury Management staff 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 TMP 5.1**.

The delegations to the responsible officer in respect of treasury management are set out in **Schedule 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, on the effects of the decisions taken and the transactions executed in the past year, and on 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 TMP6** to this document.

TMP7 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 of 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* demonstrat*ing* compliance *of the budget* with TMP1 Risk management, TMP2 Best value and 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.

TMP8 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) liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in **Schedule TMP 8** to this document.

TMP9 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 TMP 9** to this document.

TMP10 Staff 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.

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 are detailed in **Schedule TMP 10** to this document.

TMP11 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. And 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 TMP 11** to this document.

TMP12 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 recommendations 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 ____________________

Date 3/12/19

Appendix C1

TREASURY MANAGEMENT MONITORING DASHBOARD: PERIOD 9 (DECEMBER 2019)

		value	comparator	difference
1	**gross loan debt**	**£m**	**£m**	**£m**
	at month end	**3,149**		
	year end Forecast (vs Plan)	3,201	3,573	-372
	year end Forecast (vs Pru Limit for loan debt*)	3,201	3,867	-666
	**monitoring of the full set of prudential indicators is reported quarterly to Cabinet*			
2	**short term borrowing**			
	at month end (vs Guideline)	**236**	500	-264
	interest rate year to date on outstanding deals (vs assumption)	**0.74%**	0.85%	-0.11%
3	**Treasury investments**			
	at month end (vs Guideline)	**23**	40	-17
	interest rate year to date on outstanding deals (vs assumption)	**0.62%**	0.55%	0.07%
4	**Long term loans taken**			
	year to date (vs plan for year)	**150**	225	-75
	ave. interest rate obtained (vs assumption)	**1.87%**	2.85%	-0.98%
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**		

Treasury Management: portfolio overview

This appendix summarises the council's loan debt and treasury management investments

	this quarter £m 31/12/2019	last quarter £m 30/09/2019
PWLB	**2,461**	**2,461**
Bonds	**373**	**373**
LOBOs	**71**	**72**
Other long term	**7**	**7**
Salix	**1**	**1**
Short term	**236**	**263**
Gross loan debt	**3,149**	**3,177**
less treasury investments	**- 23**	**- 39**
Net loan debt	**3,126**	**3,138**
Budgeted year end net debt	3,532	3,532
Prudential limit (gross loan debt)	3,867	3,867

Treasury investments by source

	£m
UK Government	**0**
Money Market Funds	**17**
Banks and Building Societies	**6**
Supply Chain finance	**0**
	23

Treasury investments by credit quality

	£m
AAA	**0**
AAAmmf	**17**
AA	**5**
A	**1**
	23

Investments as Accountable Body

These are investments made as Accountable Body on behalf of on behalf of others, and are not the Council's own money

	Growing Places Fund £m	AMSCI[1] £m	Regional Growth Fund £m	Local Growth Fund £m	NMCL[3]	Total £m
UK Government	**0**	**7**	**10**	**0**		**17**
Birmingham City Council[2]	**0**	**0**	**0**	**0**		**0**
Money Market Funds	**15**	**20**	**2**	**43**	**1**	**81**
Government Money Market Funds	**0**	**0**	**0**	**0**		**0**
Banks and Building Societies	**0**	**0**	**0**	**0**		**0**
	15	**27**	**12**	**43**	**1**	**98**

[1] *Advanced Manufacturing Supply Chain Initiative*
[2] *These funds have been lent to the Council by agreement at a commercial rate*
[3] *National Manufacturing Competitiveness Levels*

Appendix C3

Treasury management: summary of delegated decisions in the quarter

This appendix summarises decisions taken under treasury management delegations to the Corporate Director of Finance and Governance during the quarter

1. Short term (less than 1 year)	borrowing	investments
	£m	£m
opening balance	**263**	**-39**
new loans/investments	**438**	**-499**
loans/investments repaid	**-465**	**515**
closing balance	**236**	**-23**

These loans and investments are for short periods from one day up to 365 days. There is therefore a rapid turnover of new loans.

2. Long term borrowing:

date	lender	£m	rate	maturity
28/05/2019	Public Works Loan Board	30	2.31	28/05/2038
17/06/2019	Public Works Loan Board	30	2.14	17/06/2037
09/08/2019	Public Works Loan Board	30	1.63	09/08/2033
20/08/2019	Public Works Loan Board	30	1.72	20/08/2069
05/09/2019	Public Works Loan Board	30	1.57	05/09/2037

3. Long term loans prematurely repaid:

date	lender	£m	rate	maturity
28/05/2019	Commerzbank	30	4.48%	24/11/2065

4. Long term treasury investments made:

date	borrower	£m	rate	maturity

no long term investments made

This appendix provides monitoring against the Council's approved Prudential Indicators

Appendix C4a

DEBT AND PRUDENTIAL INDICATORS

	WHOLE COUNCIL	19/20 Indicators £m	19/20 Forecast £m	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m
	Capital Finance						
1	Capital Expenditure - Capital Programme	631.5	502.5	554.2	685.1	377.2	446.7
2	Capital Expenditure - other long term liabilities	36.3	36.3	38.2	38.2	37.8	37.8
3	Capital expenditure	667.8	538.8	592.4	723.2	415.0	484.5
4	Capital Financing Requirement (CFR)	4,731.8	4,607.9	4,909.2	4,822.4	5,069.9	4,903.9
	Planned Debt						
5	Peak loan debt in year	3,590.5	3,313.9	3,781.4	3,829.2	3,884.2	3,889.9
6	+ Other long term liabilities (peak in year)	432.5	432.5	415.5	415.5	373.4	396.8
7	= Peak debt in year	4,023.0	3,746.4	4,196.9	4,244.7	4,257.6	4,286.7
8	does peak debt exceed year 3 CFR?	no	no	no	no	no	no
	Prudential limit for debt						
9	Gross loan debt	3,867.5	3,313.9	3,984.5	3,829.2	4,103.3	3,889.9
10	+ other long term liabilities	432.5	432.5	415.5	415.5	396.7	396.8
11	= Total debt	4,300.0	3,746.4	4,400.0	4,244.7	4,500.0	4,286.7

Notes

1 Forecast capital expenditure has increased since the indicator was set due to additions to the capital programme, as reported in the quarterly capital monitoring reports.

4 The Capital Financing Requirement represents the underlying level of borrowing needed to finance historic capital expenditure (after deducting debt repayment charges).This includes all elements of CFR including Transferred Debt.

5-7 These figures represent the forecast peak debt (which may not occur at the year end). The Prudential Code calls these indicators the Operational Boundary.

8 It would be a cause for concern if the City Council's loan debt exceeded the CFR, but this is not the case due to positive cashflows, reserves and balances. The Prudential Code calls this Borrowing and the Capital Financing Requirement.

11 The Authorised limit for debt is the statutory debt limit. The City Council may not breach the limit it has set, so it includes allowance for uncertain cashflow movements and potential borrowing in advance for future needs.

	HOUSING REVENUE ACCOUNT	19/20 Indicators £m	19/20 Forecast £m	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m
	Capital Finance						
1	Capital expenditure	134.0	105.4	131.7	125.8	109.7	129.4
	HRA Debt						
2	Capital Financing Requirement (CFR)	1,051.9	1,084.5	1,051.0	1,097.1	1,032.7	1,090.6
3	Statutory cap on HRA debt		1,150.4		1,150.4		1,150.4
	Affordability						
4	HRA financing costs	96.7	96.3	96.9	97.2	97.5	98.7
5	HRA revenues	273.8	273.8	279.7	279.7	285.8	285.8
6	HRA financing costs as % of revenues	35.3%	35.2%	34.7%	34.7%	34.1%	34.5%
7	HRA debt : revenues	3.8	4.0	3.8	3.9	3.6	3.8
8	Forecast Housing debt per dwelling	£17,446	£18,038	£17,605	£18,423	£17,461	£18,446

Notes

2-3 The HRA Capital Financing Requirement (CFR) is being used by the Government as the measure of HRA debt for the purposes of establishing a cap on HRA borrowing for each English Housing Authority.

4 Financing costs include interest, and depreciation rather than Minimum Revenue Provision (MRP), in the HRA.

7 This indicator is not in the Prudential Code but is a key measure of long term sustainability. This measure is forecast to fall below 2.0 by 2026/27, which is two years later than previously forecast.

8 This indicator is not in the Prudential Code but is a key measure of affordability: the HRA debt per dwelling should not rise significantly over time.

	GENERAL FUND	19/20 Indicators £m	19/20 Forecast £m	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m
	Capital Finance						
1	Capital expenditure (including other long term liabilities)	533.8	433.3	460.7	597.4	305.3	355.1
2	Capital Financing Requirement (CFR)	3,680.0	3,523.4	3,858.2	3,725.3	4,037.2	3,813.4
	General Fund debt						
3	Peak loan debt in year	2,538.6	2,229.4	2,730.4	2,732.1	2,898.6	2,799.3
4	+ Other long term liabilities (peak in year)	432.5	432.5	415.5	415.5	396.8	396.8
5	= Peak General Fund debt in year	2,971.1	2,661.9	3,145.9	3,147.6	3,295.4	3,196.1
	General Fund Affordability						
6	Total General Fund financing costs	249.3	248.6	267.3	259.5	272.4	259.1
7	General Fund net revenues	851.6	851.6	867.5	867.5	892.5	892.5
8	General Fund financing costs (% of net revenues)	29.3%	29.2%	30.8%	29.9%	30.5%	29.0%
9	General Fund financing costs (% of gross revenues)	22.4%	22.4%	23.6%	23.6%	23.6%	23.6%

Note

4 Other long term liabilities include PFI, finance lease liabilities, and transferred debt liabilities.

6 Financing costs include interest and MRP (in the General Fund), for loan debt, transferred debt, PFI and finance leases.

8 This indicator includes the gross revenue cost of borrowing and other finance, including borrowing for the Enterprise Zone and other self-supported borrowing.

9 This is a local indicator measuring finance costs against relevant gross income including revenues from sales, fees, charges and rents, which are available to support borrowing costs.

	TREASURY MANAGEMENT	19/20 Indicators	19/20 Forecast	20/21 Indicators	20/21 Forecast	21/22 Indicators	
	Interest rate exposures		**Forecast Maximum**		**Forecast Maximum**		**Forecast Maximum**
1	upper limit on fixed rate exposures		93%		94%		91%
2	upper limit on variable rate exposures	22%	15%	19%	19%	29%	29%
	Maturity structure of borrowing	Limit	**Forecast**	Limit	**Forecast**		**Forecast**
	(lower limit and upper limit)		**Year End**		**Year End**		**Year End**
3	under 12 months	0% to 30%	10%	0% to 30%	14%	0% to 30%	27%
4	12 months to within 24 months	0% to 30%	1%	0% to 30%	14%	0% to 30%	6%
5	24 months to within 5 years	0% to 30%	11%	0% to 30%	4%	0% to 30%	7%
6	5 years to within 10 years	0% to 30%	13%	0% to 30%	15%	0% to 30%	13%
7	10 years to within 20 years	5% to 40%	21%	5% to 40%	14%	5% to 40%	23%
8	20 years to within 40 years	10% to 60%	39%	10% to 60%	35%	10% to 60%	34%
9	40 years and above	0% to 40%	6%	0% to 40%	4%	0% to 40%	2%
	Investments longer than 364 days						
	upper limit on amounts maturing in:						
		Limit	**Forecast**	**Limit**	**Forecast**	**Limit**	**Forecast**
10	1-2 years	400	0	400	0	400	0
11	2-3 years	100	0	100	0	100	0
12	3-5 years	100	0	100	0	100	0
13	later	0	0	0	0	0	0

Note

1-9 These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan debt.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**30th June 2020**
Subject:	**Birmingham Audit Annual Report 2019/20**
Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 This report is the culmination of the work completed during the course of the year and provides an objective opinion on the adequacy and effectiveness of the systems of internal control for the financial year ending March 2020. It highlights any significant issues that have arisen from internal audit activity during the year.

1.2 The report provides Members with information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2019/20, and compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).

1.3 It also sets out the Internal Audit Charter and Internal Audit plan for 2020/21.

2. EXECUTIVE SUMMARY

2.1 Based on the audit work undertaken I am able to provide a reasonable assurance on the core systems of internal controls evaluated for the year ending 31st March 2020. As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Director during the year.

2.2 Birmingham Audit has complied with the requirements laid out within mandatory professional standards during the year.

2.3 The Internal Audit Charter is a key document that sets out the purpose, authority and responsibility of the internal audit function.

2.4 The 2020/21 plan contains 4664 days. COVID-19 restrictions are posing a number of operational challenges. The plan has been prioritised on a Must / Should / Could basis to help ensure that we undertake sufficient work to form an opinion on the control environment at the end of the financial year. The plan will be updated for any emerging issues or risks as the Council moves into the recovery and normalisation of service delivery.

3. RECOMMENDATIONS

3.1 Members accept this report and the annual assurance opinion for 2019/20.

3.2 Members approve the 2020/21 Internal Audit Charter.

3.3 Members approve the 2020/21 Internal Audit Plan and its prioritisation.

4. LEGAL AND RESOURCE IMPLICATIONS

4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015.

4.2 The Internal Audit service has complied with the requirements laid out in the Public Sector Internal Audit Standards.

4.3 The work is carried out within the approved budget.

5. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

5.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the Internal Audit plan.

5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit

6. COMPLIANCE ISSUES

6.1 Council policies, plans, and strategies have been complied with.

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Birmingham Audit Annual Report 2019/20

30th June 2020

Contents

1. Background

1.1 The 2019/20 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.

1.2 The Council continues to face significant challenges and go through a high level of change. Over recent years demand for services has continued to rise against a backdrop of reduced funding and austerity. During a period of change internal controls can become unstable and ineffective, it is important that any increased business risks are identified and appropriately managed. Our 2019/20 audit plan reflected these changes by concentrating on those areas that were considered to be of highest risk. We have applied the same approach to our 2020/21 audit planning process.

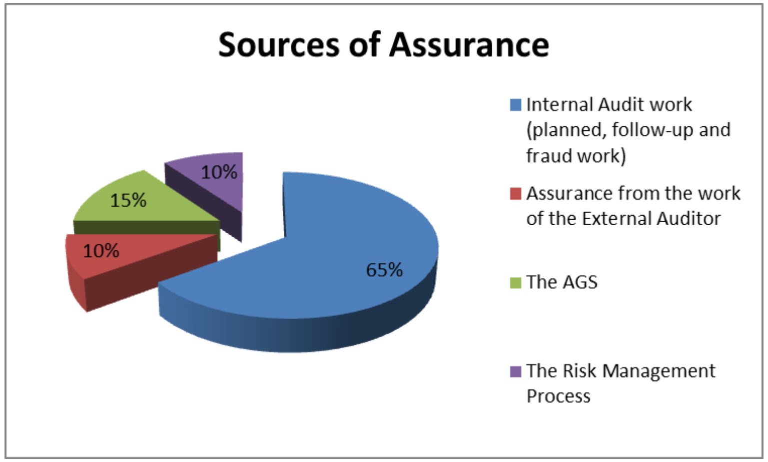
2. Assurance Opinion

2.1 The audit plan is prepared and delivered to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising of risk management, corporate governance and financial control). My opinion forms part of the Annual Governance Statement (AGS), which the Council is legally required to produce.

2.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide, at best, reasonable assurance. No process can provide an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.

2.3 Our work is carried out to assist in improving control. Management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that the Council's resources are utilised efficiently and effectively; risks in meeting service objectives are identified and properly managed; and corporate policies, rules and procedures are adequate, effective and are being complied with.

2.4 The model used to formulate the end of year opinion places reliance on assurance provided from other parties and processes. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion. The model is an evolving one which changes from time to time as the intelligence we collect on sources of assurance develops. The opinion for 2019/20 is based on the following sources of assurance and weightings:



2.5 Based on the audit work undertaken I am able to provide a reasonable assurance on the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Director during the year. A summary of the significant findings from our work (including the main financial systems), is included as Appendix A.

2.6 The Birmingham Independent Improvement Panel, appointed by the Secretary of State, formally stepped down at the beginning of the year (31st March 2019), since then the Council has appointed five non-executive advisors to support ongoing improvement. These advisors are aligned to the Council's priority areas and work alongside the Council Leadership Team. They cover:

- Risk management.
- Good Governance and Culture Change.

- Waste governance and industrial relations.
- Outcomes for vulnerable adults and children.
- Financial resilience.

2.7 Within their Audit Findings Report (September 2019) and Annual Audit Letter (October 2019) for the year ending 31st March 2019 the Council's External Auditors gave an unqualified opinion on the Council's financial statements and were satisfied that, in all significant respects, except for governance and the waste service, that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Due to delays in the independent review of the waste service External Audit felt that they did not have sufficient information to judge whether the risks were being sufficiently mitigated and had ongoing concerns over the effectiveness of industrial relations.

2.8 On 18th March 2020 the Council formally activated its business continuity and emergency plans in response to COVID-19. As a result, reporting structures and approval pathways were replaced by Strategic, Tactical and Operational groups. These groups and revised governance processes remain in place. Whilst this incident does not have an adverse impact on my opinion for the year ending 31st March 2019 it does present a number of challenges for the forthcoming year. These challenges are detailed in section 7 below.

3. Added Value

3.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include:

- The Schools' audit team has continued to work closely with the Education and Skills Directorate to support delivery of improvement across Birmingham Schools. This has included attendance at the Schools Causing Concern and Schools in Financial Difficulty Boards.
- Providing a quarterly update on emerging issues to the Adult Social Care Risk Board to help ensure that effective solutions are identified to service delivery challenges.

- Working with management within the Appointee & Court Deputy Service to ensure that their systems and procedures are fit for purpose and protect service users.
- Continuing to use data analytics as part of our financial systems work to target our work and identify exceptions to agreed business processes.
- Contributing to the implementation of the Eclipse system through the provision of critical challenge and gateway assurance.
- Delivering Fraud Awareness Training to around 150 Adult Social Care managers.
- Developing our programme of proactive fraud work to continue to identify anomalies and issues of procedural non-compliance to be flagged up to directorates.
- Identification and prevention of Social Housing and Council Tax related fraud, delivering real financial savings to the authority.

4. Quality, Performance & Customer Feedback

4.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control and governance processes. An annual review of the system of internal audit is no longer required under the Accounts and Audit Regulation 2015. However, Internal Audit must comply with the requirements laid out in the Public Sector Internal Audit Standards (PSIAS).

4.2 The PSIAS became effective from 1st April 2013, these standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

4.3 Quality Assurance

4.3.1 The provision of a quality service continues to be important. In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to ensure compliance with PSIAS; internal quality standards; that the service is efficient, effective and continuously improving; and that the service adds value and assists the organisation in meeting its objectives.

4.3.2 In line with PSIAS requirements a full external assessment of Birmingham Audit's compliance to the mandatory standards was completed in July 2016. This assessment identified that:

"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards" and that *"the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control".*

4.3.3 During the year a PSIAS self assessment has been completed, this self assessment confirmed our ongoing compliance with the standards.

4.3.4 We are currently in discussion with Core City collegues to agree a framework for undertaking PSIAS reviews on a peer basis. Further details will be report to Committee in the near future.

4.3.5 During the year, we retained our accreditation to the internationally recognised information security standard ISO27001:2013. An external inspection of our processes was undertaken in October 2019. Additional, internal quality audits on our ISO processes are undertaken annually, most recently in March 2020. As in previous years, only minor issues were identified; actions have been taken to correct these.

4.3.6 It is imperative that the Internal Audit Function continues to provide an effective service and responds to the assurance needs of the organisation. In order to help us ensure that we are providing appropriate insight and added value we have commenced, with support from an external partner, an Internal Audit Total Impact Review. The review is designed to capture independent feedback on the impact of internal audit and identify areas for development. The result of the review, together with the development road map, will be reported to Audit Committee.

4.4 **Inputs**

4.4.1 The 2019/20 internal audit plan contained 4691 productive days. During the year 4316 days were delivered. The variance between planned and actual days has arisen due to due to the impact of a vacancy, which we are attempting to fill, and investment in the Council's culture change Programme – 'Owning and Driving Performance'. Despite this reduction I am satisfied that we delivered sufficient audit work to enable me to form my annual opinion.

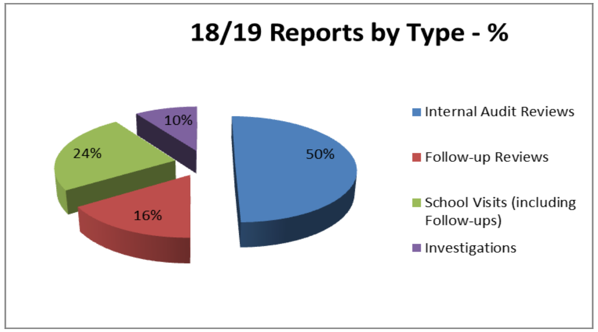
4.4.2 The actual days delivered in 2019/20 compared to those planned is detailed in the table below:

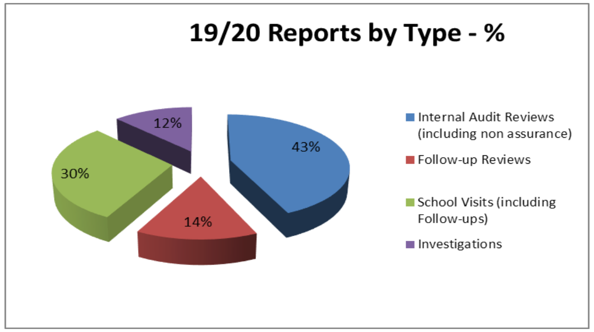
	19/20				
	Planned		Actual		Variance
Number of Audit Days in the annual plan	**100%**	**4691**	**100%**	**4316**	**(376)**
Main financial systems	15%	725	17%	719	(7)
Business controls assurance	38%	1770	31%	1343	(427)
Investigations	18%	830	21%	900	70
Schools (Non-Visits)	1%	60	2%	108	48
Schools (Visits)	15%	720	13%	544	(176)
Follow up work	4%	175	6%	264	89
Ad-hoc work	6%	286	6%	268	(18)
Planning & reporting	3%	120	4%	164	44
City initiatives	0%	5	0%	6	1

4.5 Outputs

4.5.1 During the year we issued 210 final reports, containing 1508 recommendations. For comparison purposes during 2018/19 we issued 246 final reports containing 2326 recommendations.

Reports by Type	18/19	19/20
Internal Audit Reviews	124	91
Follow-up Reviews	40	30
School Visits (including Follow-ups)	61	63
Investigations	24	26
Total	**249**	**210**





A full list of the audit reports issued, together with risk and assurance ratings, during the year is detailed in Appendix B.

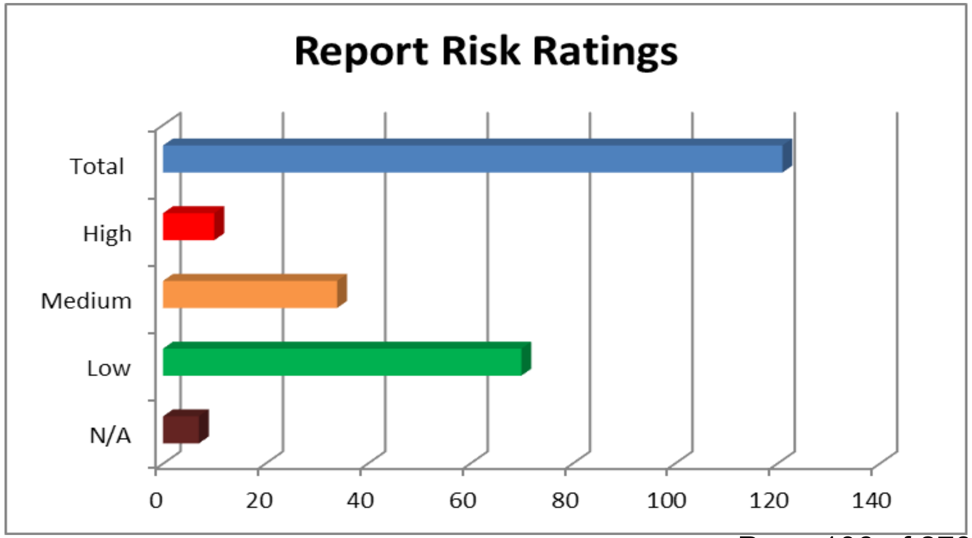
4.5.2 Audit and follow up reports are given a risk rating of 1 - 3 to assist in the identification of the level of corporate importance. The key to the ratings given is:

1. Low (Green) - Non-material issues

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

3. 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.

4.5.3 Of the 121 reports (91 Internal Audit and 30 Follow-up Reviews) issued during the year, 10 were given a high-level rating, 34 had a medium level rating, 70 had a low rating, and 7 related to non-assurance work.



4.5.4 On a monthly basis a list of all final reports issued, together with their risk rating, is sent to Members of the Audit Committee, Cabinet and the Council Leadership Team. Under the agreed protocol, Members can request to see a copy of any report.

4.6 Performance and Customer Feedback

4.6.1 As at 31st March 2020 we had completed 96% of planned jobs to draft report stage, against an annual target of 95%.

4.6.2 Throughout the year we have sought feedback from our customers by attending management teams and capturing comments via our ISO processes.

4.6.3 Both internal and external customers continue to provide positive feedback on the services provided, examples include:

'…………It was exceptionally useful, and I do really appreciate the time you gave the service.'

'…….I wanted to repeat our thanks and appreciation for the work you have undertaken in respect of this project. A really important piece of work.'

'…….Brilliant work Audit team, mentioned at CMT today.'

'……I am grateful to Birmingham Audit for their ongoing support over a very difficult period of 3 years. It is pleasing and a recognition of all the hard work of the team, …..'

4.7 **Corporate Fraud Team**

4.7.1 In common with other public bodies, the Council has a duty to protect the public purse. The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. A sub-team within CFT is established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. The work of the Team is prioritised on a materiality basis, as well as putting greater emphasis on proactive work to try and identify and stop fraud and error. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance. We are continuing to develop analytical tests designed to detect fraud and error.

4.7.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) during the year.

	2018/19	**2019/20**
Number of outstanding investigations at the beginning of the year	28	14
Number of fraud referrals received during the year	109	105
Number of cases concluded during the year	123	89
Number of investigations outstanding at the end of the year	14	30

4.7.3 All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned. We have continued to ensure that our processes are as lean as possible to ensure we can balance the caseload against available resources.

4.7.4 The team have carried out a number of proactive exercises utilising data analysis to identify potential anomalies in payroll and payments records; attendance; and serious and organised crime in procurement; as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. The Team have delivered fraud awareness training and have issued various bulletins to raise awareness of fraud.

4.7.5 The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications. Last year the team recovered 59 properties and cancelled 667 housing applications prior to letting. The team also identified Housing Benefit overpayments totalling £473,794 and Council Tax changes of £429,144. This shows that, in addition to the obvious social benefits deriving from the work, there is also a real financial saving from preventing and / or terminating fraud.

4.7.6 Our annual fraud report will be presented to Committee Members at the September meeting.

5. The Internal Audit Charter

5.1 The Public Sector Internal Audit Standards requires the purpose, authority and responsibility of the internal audit function to be formally defined in an Internal Audit Charter.

5.2 On an annual basis Members are asked to approve the Internal Audit Charter. The Charter for 2020/21 is attached as Appendix C. It sets out the objectives; framework and services delivered by Birmingham Audit, and details the relationship with the Audit Committee, our business plan objectives, the statutory requirements around our service, together with the rationale behind the annual risk-based audit plan.

6. Internal Audit Plan

6.1 The 2020/21 plan was developed following the completion of a risk assessment and was due to be approved by Members at the March Audit Committee meeting. Unfortunately, due to COVID-19 restrictions this meeting was cancelled. The 2020/21 plan contains 4664 days (including a vacancy on the Schools Audit Team which were attempting to fill). This compares to 4,691 in 2019/20.

6.2 The table below shows a summary split of audit days over the different categories of work we undertake, based on our initial risk assessment. The previous year information is given for comparison purposes.

	19/20	19/20 Days	20/21	20/21 Days
Number of Audit Days in the annual plan	**100%**	**4691**	**100%**	**4664**
Main financial systems	15%	725	15%	705
Business controls assurance	38%	1770	38%	1780
Investigations	18%	830	18%	830
Schools (Non-Visits)	1%	60	1%	30
Schools (Visits)	15%	720	15%	720
Follow up work	4%	175	4%	175
Ad-hoc work	6%	286	6%	299
Planning & reporting	3%	120	3%	120
City initiatives	0%	5	0%	5

7. Impact of COVID-19 Restrictions on the Audit Service and 2020/21 Audit Plan

7.1 COVID-19 restrictions have had a significant global impact. Whilst measures are being taken to slowly and safely lift the restrictions across the UK there is no doubt that the impact of the pandemic will continue to influence how the Council operates and the services it delivers to the communities and citizens of Birmingham for the foreseeable future.

7.2 The restrictions have posed a number of operational challenges for Birmingham Audit, these include:

- Working from home – the need to move quickly to an alternative service delivery model. Making the best use of the technology to continue to operate the audit function whilst ensuring audit staff are supported.
- Maintaining compliance with professional standards, ensuring that we continue to add value to the organisation, contribute to the effectiveness of the control environment whilst maintaining our independence and objectivity.
- Agreeing and finalising draft reports, allowing managers the time to respond to the incident but reminding them of the need to respond and act on significant audit issues.
- Commencing planned audit reviews. The Council has had to focus its resources on reacting and responding quickly to the pandemic, whilst we have been able to start some planned reviews (mainly IT and financial); work in a number of areas has been deferred.
- Supporting key activities. Two members of staff have recently been seconded to the Track and Trace Team, this will result in a reduction of the planned days.

7.3 We have adopted a four phase strategy to respond to the incident:

- React – initial reaction to the incident ensuring that appropriate safeguarding steps are taken and audit staff are able to work safely from home.
- Resilience – helping the Council to continue to run, contributing and advising on the emerging risks and controls e.g. IT security, financial controls and government support schemes e.g. Retail, Hospitality and Leisure Grant, Discretionary Small Business Grant.
- Recover, working with the Council to assess the risks associated with recovery and rethinking future operating models.
- Realise, the 'new norm', identification of any new risks and updating the audit plan in line with revised operating models.

7.4 It is key that we are proactively engaged as the Council recovers and we are able to provide sufficient audit coverage in order to form an opinion at the end on the current financial year on the effectiveness of the control framework. In order to help us achieve this the audit plan has been prioritised on a Must / Should / Could basis:

- Must – minimum work required to support the annual opinion (i.e. financial, governance, risk management).
- Should – would significantly add to the opinion, systems and processes may have changed as a result of COVID-19.
- Could – would add to the opinion and the management of risks and issues.

A detailed breakdown of the plan is given in Appendix D.

7.5 As the Council recovers from the incident and begins to normalise systems and processes we will need to consider any new or emerging risks together with any potential changes to priorities. The audit plan will be updated to reflect these emgering issues to ensure our work is appropriately targeted. Any changes made to the plan will be reported to Audit Committee.

7.6 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage, the impact of COVID-19, and identify any areas they wish to suggest for inclusion in the audit planning process to support their own assurance.

7.7 During the year we will continue to provide the monthly audit report schedules to Audit Committee Members. Under the agreed protocol Members can select and view any report. A half-yearly report will also be produced to update Members on progress with the delivery of the 2020/21 plan.

8 Grant Certification

8.1 In addition to controls assurance reviews I am required to provide audit certificates, verifying the expenditure incurred, for a number of grants that have been awarded to the Council.

Grant Certificates
Troubled Families
Scambusters
Growth Hub
Collaborative Fund
Highways Maintenance Challenge Fund
Integrated Transport Grant

8.2 I have also been formally appointed as the First Level Controller for a number of European Grants. The First Level Controller is a formally appointed independent role that is required to provide a certification that the expenditure incurred under the programme is eligible and correctly accounted for.

European Grants – First Level Controller
Pure COSMOS – Public Authorities enhancing competitiveness of SMEs
Urban M – Stimulating Innovation through Collaborative Maker Spaces
Urban-Regen-Mix
TRIS – Transition Regions towards Industrial Symbiosis
SPEA – Supporting Public Procurement of Innovative Solutions
BETTER – Stimulating regional innovation through better e-government services

Birmingham City Council

Summary of Significant Findings & our work on the Main Financial Systems

1. High Risk Reports

During 2019/20 we issued 8 audit reports and 2 follow-up reports where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

Travel Assist (Home to School Transport) – Commissioning **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

Our review, undertaken at the request of the Directorate, identified significant issues around the commissioning, contract management, and quality assurance arrangements. Additional, cross cutting concerns were identified in relation to the management of Disclosure and Barring Scheme (DBS) checks. A Response Team was immediately formed by the Education and Skills Directorate, which included an officer from Birmingham Audit, to put in place actions to mitigate the risks. We have undertaken progress reviews throughout the year, at our last review, undertaken in December, management were able to provide their assurance that our recommendations had either been implemented or were on track. The directorate is continuing to improve the controls within the service.

SENAR Commissioning Arrangements **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

A joint Ofsted and Care Quality Commission (CQC) inspection of the implementation of disability and special educational needs reforms as set out in the Children and Families Act 2014 identified significant concerns. These included the commissioning of services and the capacity of SENAR. In response to these concerns, and budget pressures, a service re-design was undertaken. At the request of the Directorate we undertook a review of the arrangements for external / independent providers commissioning and placement. We identified areas of weaknesses including the lack of a commissioning framework and the need to strengthen quality assurance arrangements.

Our follow-up review identified that whilst progress was being made, this had been slower than expected due to the lack of capacity within SENAR. However, additional resources have been made available and we would expect to see sufficient progress at our next review.

Equalities and Cohesion **Council Risk Rating: High Assurance: Level 3 RAG:**

The Public Sector Equality Duty was created by the Equality Act 2010, which states that everything a public body does, must have regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Our review into the adequacy and effectiveness of the equalities and cohesion arrangements in place identified issues with regards to the Council's approach, particularly in relation to the lack of strategic vision, governance and compliance which could lead to significant reputational risk. We acknowledge that these were urgently addressed in 2019.

Placement, Supported Living **Council Risk Rating: High Assurance: Level 3 RAG:**

Supported Living is provided to assist service users with complex needs to live independently and safely in their own property as an alternative to living in residential accommodation.

Our review of the management and administration of supported living found issues which impacted on the Directorate's ability to deliver the required outcomes in an effective manner. These include inconsistent assessments, S117 reviews not completed jointly with Health, and ineffective management information and reporting. A follow-up review found out that whilst progress had been made with the implementation of the recommendations, there was a need for the Directorate to continue to drive implementation plans forward.

In-year School Admissions **Council Risk Rating: High Assurance: Level 3 RAG:**

In-year admissions are those which are outside the annual admissions cycle, the Council took the decision to delegate this to maintained / state funded schools, whilst co-ordinating all other parts of the admissions processes centrally. However, the system was not working as increasing numbers of schools were failing to notify the School Admissions and Fairer Access (SAFA) team of their in-year admissions and leavers in a timely manner; this position posed potential risks.

We reviewed the current system and facilitated a series of workshops with the SAFA team to explore alternative models of delivery. A delivery model based around the current system but with improved IT that gave greater control, tracking, and communication with schools was agreed. A follow up review indicated that considerable progress has been made leading to improvements in school reporting.

Children's Trust (Client) – Focused Governance Review **Council Risk Rating: High** **Assurance: Level 3** **RAG:**

In April 2018, the Birmingham Children's Trust (BCT) was launched to provide children's services on behalf of the Council. BCT is a wholly owned company (WOC) and was created to deliver improvements in children's services. Overall responsibility for children's services is still retained by the Council. It is therefore important that strong governance arrangements are in place to monitor and manage the performance of the trust.

Our review found that governance arrangements required strengthening. Our follow up review, which was based on management assurance, confirmed that recommended actions had been taken.

Commonwealth Games Village - Management of Construction **Council Risk Rating: High** **Assurance: Level 3** **RAG:**

In June 2018, Cabinet approved the Outline Business Case for the Commonwealth Games Village (CGV) and the wider Perry Barr Regeneration programme. The CGV is being developed on the former Birmingham City University site, providing accommodation for around 6,500 athletes and team officials during the Games, and in legacy, 1,416 new homes.

At the time of our audit, there was significant pressure on the budget and slippage on the project timelines. Subsequently, a revised Full Business Case was approved by Cabinet. We also noted that there was insufficient contingency and that risk management process were inadequate. Following a subsequent progress review undertaken in March 2020, we concluded that the level of project contingency remained a high project risk.

Temporary Accommodation **Council Risk Rating: High** **Assurance:** **RAG:**

Local housing authorities in England have a duty to secure accommodation for unintentionally homeless households in priority need. Households might be placed in Temporary Accommodation (TA) until suitable secure accommodation becomes available.

In common with national trends, there has been significant increased pressure on the statutory homeless service in Birmingham in relation to the volume of customers; this has also resulted in significant financial pressures due to the need to increase the use of TA, such as expensive Bed & Breakfast accommodation.

Our review identified that the Council is reliant on external providers to advise of changes in placements without any verification process to validate the charges, debt escalation procedures are not being robustly and consistently applied due to lack of resources, and inadequate reporting to enable an oversight of the Debt.

Data Protection Regulation - Procurement and Contract Management, Follow up **Council Risk Rating: High** **RAG:**

The Data Protection Act 2018 (DPA 2018) came into force in May 2018, implementing the EU General Data Protection Regulation (GDPR). Whilst established key principles of data privacy remained relevant in the new legislation, it also introduced a number of changes that affect commercial arrangements with suppliers. Our review identified that there is still work to do to implement effective arrangements to ensure that effective procurement arrangements are in place to ensure full compliance. Specific training on GDPR for procuring officers and contract managers has still not been delivered, and procurement and contract management tools and templates have not been updated.

2. School Visits

Throughout 2019/20 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of maintained schools that focuses on the systems of effective financial management. Schools are selected on a risk basis to ensure we focus our resources in the most appropriate areas and respond to the current challenges. Fewer school visits were undertaken compared to previous years as we are in the process of filling a vacancy. Also, a greater number of follow ups have been undertaken.

As part of the audit, Governors and Senior Leadership are asked to complete a survey on their views on financial management within their school, the appropriateness of roles, core values, and the culture of tolerance / mutual respect. No significant concerns were identified from the surveys. Any minor issues have been appropriately escalated and support provided.

Overall, we have continued to find that the majority of schools visited have effective systems in place, and staff and Governors are complying with key processes. There are areas for development which would improve strategic and operational delivery and continued financial challenges.

The main issues identified are:

- Financial Governance – Despite the re-launch of the updated Schools Financial Procedures Manual (SFPM) in September 2018 which included revised model templates, we are still finding areas for development with the governance framework. While these do not stop schools functioning effectively, it means that there is not the required clarity around financial responsibilities.
- Adequacy of financial reporting to Governors and scrutiny / challenge by Governing Boards remains an area that requires improvement especially given the financial situation schools are finding themselves in.
- The correct completion of pecuniary interest forms remains an ongoing issue, new templates and guidance have been issued in the SFPM to support schools.
- The majority of schools are now completing their Schools Financial Value Standard on an annual basis but not always submitting it by the deadline or recording its approval.
- Budget Planning – We continue to see an increase in schools in deficit, not able to set a balanced budget, or forecasting deficits in future years. While most Governors and Schools Senior Leadership are looking to establish and agree mitigation action plans to address this risk, often these have not been formalised or do not go far enough to address the problem.
- Purchasing – Compliance with the school's financial procedures manual purchasing procedures continues to be an issue. In particular the ordering and receipting of goods.
- Delegated Powers – We have continued to find a need for greater compliance in the reporting of quotes to Governors. Improvements are also required in the monitoring and reporting of cumulative expenditure to ensure value for money obtained and compliance with the Schools Financial Procedures requirements.
- Attendance – We continue to review the destination of pupils who leave schools in year. A small number of schools are not making referrals to the Children Missing in Education (CME) team within the required 5 days of a pupil's absence without contact or seeking advice when forwarding addresses are not provided for pupils moving abroad before removal from roll.
- Safeguarding – Schools are aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. However, the following areas require further strengthening; Monitoring IT and internet usage of staff and pupils and undertaking appropriate due diligence prior to lettings to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements.

Our follow up work identified that insufficient progress was being made with the implementation of agreed recommendations. As a result, we have introduced a 'real time' follow up process where schools receiving a level 3/4 assurance and High-risk rating are visited at a 3, 6 and 9 month interval to verify progress. Early indications are that this new process has led to an improvement.

3. Risk Management

The Council's Risk Management Framework, which sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels, has been reviewed and updated to ensure focus on the strategic direction of the Council. The previous corporate risks, which had become increasing operational in their nature, have been removed from the corporate register for management at a directorate level. The Council Leadership Team (CLT), using a 'PESTLE' (Political, Environmental, Social, Technology, Legal, and Environmental) analysis, have identified the strategic risks faced by the Council together with potential development opportunities. The management of these risks will help to support the ongoing improvement of the Council and delivery of strategic priorities and outcomes. This revised Strategic Risk Register, together with the supporting risk action plans, is reviewed on a monthly basis by CLT.

The Risk Champions Group, which is made up of representatives from each directorate, has been revitalised and is supporting the implementation of robust operational risk management.

Advice and guidance, together with a supporting e-learning module, are available via the Council's Intranet to help embed risk management as a proactive management tool.

4. Corporate Governance

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives. During the year we have completed audit reviews across information governance, project Governance, the actioning of Ombudsman recommendations, transparency, and the implementation of risk management.

As in previous years, we also reviewed the process used to produce and monitor the Annual Governance Statement (AGS) which forms part of the Council's accounts. The AGS 2019/20 identifies eight significant issues: Financial Resilience; Major Projects; Homelessness and Safety

Birmingham City Council

Implications for Tower Blocks; Asset Condition and Sufficiency/ Health & Safety; Commonwealth Games; Commissioning and Contract Management, COVID-19 Pandemic and SEN Inspection.

5. Main Financial Systems

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2019/20 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

Financial Control / Ledger

Our work on financial controls did not identify any fundamental or material issues; we are able to provide assurance that, in general, effective arrangements are in place. However, our work did identify some concerns around saving plans, including instances where adequate information was not readily available to support the basis of how some of the savings proposals had been identified or that the current status of the savings proposals was always accurately documented within the saving trackers maintained by Directorates. We also identified that there is further scope for greater scrutiny / challenge to be provided by Finance. The Council continues to face significant financial pressures. As with the work undertaken by CIPFA on forecasting; the forecasting reviews which we undertook for both Inclusive Growth and Education and Skills Directorates also identified that Voyager does not provide the budgeting and forecasting functionality required by the finance teams, what it provides is on-demand extracts of data that are used by the finance teams in their own spreadsheet-based monitoring “system.” However, there is a lack of a formal audit trial, and a general reliance on Excel spreadsheets, many of which are re-created each month.

Within their Audit Findings Report and Annual Audit Letter (October 2019) the Council’s External Auditor gave an unqualified opinion on the Council's financial statements for the year ending 31st March 2019. The External Auditor recognised the improvements that the Council had made regarding value for money and concluded that value for money risks had generally been mitigated, except in one area relating to Governance and the Waste Service, where it was concluded that the value for money risk had not been sufficiently mitigated.

Payroll and Human Resources (HR)

The gross payroll cost has reduced in line with staffing resources. However, the payroll related expenditure still represents a significant cost to the Council. The payroll system continues to be stable and functioning well.

Processes and controls are in place and operated by HR and Payroll staff to ensure that the payroll is accurate and that employees are paid correctly, and statutory and voluntary deductions accurately made. However, employees and their line managers are also responsible for accurately updating the system via Employee Self-Service and Manager Self-Service. In some cases, this can affect pay e.g. claims for overtime / additional hours worked, reductions in working hours, unpaid leave taken, maternity leave and sickness absences. Whilst the number of directorate overpayments remains low in comparison to the number of payments made, managers still need to ensure all changes are actioned on a prompt basis. Robust procedures are in place to recover any overpayments or agree appropriate payment plans.

Work undertaken on starters and leavers have found that in the main that all the correct checks and controls are taking place.

Accounts Payable (AP)

The Accounts Payable (AP) team is responsible for the payment to suppliers for goods and services ordered by directorates and non-Academy schools. Processes and controls are in place to ensure that the council discharges its responsibilities and accurate payments are made to the correct supplier (target 95% of invoices paid within 30 days).

In 2019/20 10,464 vendors were paid, totalling £1.95bn, including feeder file transactions. Purchase card spend across the Council was approximately £12.5m. 94% of invoices were paid within 30 days of the invoice date.

Payment processes are well established with checks in place to prevent duplicate payments and enforce compliance. Our work identified that the quality of vendor master data records remains high.

Procurement

Our audit on the Travel Assist – home to school transport service identified significant issues around commissioning, contract management and quality assurance. In particular, we identified weaknesses in the management of Disclosure and Barring Scheme (DBS) checks. We have undertaken progress reviews throughout the year and at our last progress review, undertaken in December 2019, management were able to confirm that recommendations had either been implemented or were on track.

Our work on reviewing how well the corporate Supply Chain Risk Methodology (SCRM) is being embedded, identified that very little progress has been made. The methodology, which includes an annual financial health check of contractors, is still not widely embedded within contract management arrangements.

Our follow-up review of the arrangements in place within the Council's procurement and contract management processes, to ensure compliance with the Data Protection Act 2018, identified that significant issues remain. Specific training on GDPR for procuring officers and contract managers has still not been delivered, and procurement and contract management tools and templates have not been updated. There is also currently insufficient due diligence at tender stage and during contract management to obtain sufficient guarantees regarding the contractors' ability to implement appropriate security measures.

The Council's External Auditors within their audit plan for the year ending 31st March 2020 have raised a specific contract monitoring and management value for money risk and will be considering the improvement actions taken by the Council.

Accounts Receivable (AR)

The invoicing and recovery of sundry debt is an essential part of the Council's financial management processes and reliance is placed on services achieving their sundry income targets. The value of sundry debts raised in 2019/20 was £658m (excluding Housing Benefit Overpayment debts). Overdue sundry debts (over 90 days old) as at 06/04/2020 was £41.5m, including Housing Benefit overpayments.

Overall, processes were found to be operating effectively, with appropriate systems in place for raising bills and recovering debt; but there is room to secure greater process efficiency and maximise collection, e.g. billing for service in advance where appropriate.

Benefits Service

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). Housing benefit payments are returned to the Council through the subsidy grant. The subsidy claim must be accurate as a 1% error could cost the Council £3m reduction from Government. The Housing benefit caseload has seen a steady decrease (approximately 21%) over the last 3 three years. This decrease is due to the introduction of Universal Credit which replaces means tested benefits for working age people, one of which is Housing Benefit. Housing Benefit Overpayments (HBOs) have seen a corresponding reduction, reducing from approximately £16.1m to £13M between March 2019 and March 2020. HBOs for citizens migrating over to Universal Credit can no longer be recovered via Housing Benefit and must be reclaimed through Universal Credit payments. The overall level of Housing Benefit debts as at the end of March was £43.9m.

Council Tax Support (CTS) applications have remained at a static level during 2019/20 at approximately 123,000 but were starting to rise at the end of March due to the implications of COVID-19 restrictions.

The processes and procedures reviewed were found to be operating as intended.

Council Tax & Non-Domestic Rates

Council Tax is one of the ways the Council receives money to provide local services. The amount paid is based upon the value of the property.

In 2019/20 properties with a full year liability were raised totalling £419m with a year-end collection target of £391.8m (93.48%). The total amount collected as at 31/03/20 was £391.1m (92.94%).

Non-domestic rates, or business rates, collected by Local Authorities are the way that those who occupy a non-domestic property contribute towards the cost of local services. Apart from properties that are exempt from business rates, each has a rateable value (RV) which is set by the Valuation Office Agency. There are various exemptions and reliefs that can be applied to empty properties, charities and small businesses. In 2019/20 an annual liability of £458.1m was raised against properties with a year-end collection target of £437.6m (95.52%). The total amount collected as at 31/03/20 was £429.3m (94.21%).

Rents

At March 2020 there were 57,157 city tenancies with 17,721 arrears cases (31%) including those in receipt of Universal Credit. Rent accounts in receipt of Universal Credit equate to 16,054 accounts totalling approximately £7.782m (60.9% of the total arrears figure). The current tenancy arrears at 31st March 2020 are approximately £12.776m.

Improvements have been made in the monitoring of Rent accounts. Recovery action is now targeted based on the level of arrears. The processes introduced are proving to be effective in ensuring that accounts with an arrears balance are actively monitored and increases in arrears are acted upon promptly.

6. **Information Governance / Technology (IT) Issues**

The Council operates in a complex IT landscape in which the contours are constantly changing. Ensuring the Council's systems remain secure is essential to protect sensitive information and retain public trust. Adequate and effective information technology (IT) and information governance controls need to be in place to ensure that the Council can continue to operate effectively and deliver essential services.

The Council has embarked on a major IT change programme which has seen IT services transition of from Capita back to the Council and the implementation of the BRUM account for online citizen services during 2019. The Council is also progressing a number of high-profile projects that are aimed at transforming operational process and improving customer experience e.g. replacement of the Finance and HR system, implementation of a new Social Care system, and refreshing the technical infrastructure.

Significant progress has been made during the year in strengthening Information Governance processes. Whilst the Council appears to be well on track to achieve level 2 maturity against the Information Assurance Maturity Model (IAMM); initial evidence suggests that these processes still next to embed and be applied on a consistent basis.

Our work has been targeted to provide assurance over the areas of greatest risk. The findings of our work have been summarised below:

- Performance in responding to Freedom of Information and Subject Access Requests continues to be low.
- There is a need to ensure that all data sharing and processing activities are covered by appropriate agreements.

- There continues to be a need to reinforce and ensure compliance with the ICT Acceptable Use policy.
- Effective control over the management of system user accounts continues to be problematic. During periods of significant organisational change, it is essential that IT access is tightly controlled to avoid data breaches and possible inappropriate activity occurring.
- Management of IT assets continues to be an area of concern.
- Our work in respect of management and security of the IT infrastructure (network, directory service, data centres) continues to provide a reasonable assurance.
- Project governance and management arrangements are improving; however, it is important that lessons learnt are shared across the Council and robust processes established to ensure expected benefits are realised.
- Progress is being made against the ICT Strategy, with the delivery of a number of key outcomes. There is a need to complete an annual review of outcomes to continue to drive the strategy forward on a successful basis.

Through our work we have continued to support the Information Assurance Board in their role of ensuring that information risks are identified and responded to.

Appendix B

Final Reports Issued During 2019/20

Audit Reviews (91 Reports, including 7 non-assurance reports):

Key to Council priorities and nature of assurance provided.

Outcomes
1. Birmingham is an entrepreneurial city to learn, work and invest in.
2. Birmingham is an aspirational city to grow up in.
3. Birmingham is a fulfilling city to age well in.
4. Birmingham is a great city to live in.
5. Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.

Assurance Type
6. Good Governance.
7. Corporate Risk Register.
8. Financial Assurance.
9. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Travel Assist (Home to School Transport) – Commissioning	High	Level 4			✓		✓	✓		✓		✓
SENAR Commissioning Arrangements	High	Level 4			✓		✓	✓		✓		✓
Equalities and Cohesion	High	Level 4			✓		✓			✓		✓
Placement, Supported Living	High	Level 3				✓	✓					✓
In-year School Admissions	High	Level 3			✓		✓					✓
Birmingham Children Trust Client Focussed Governance Review	High	Level 3		✓	✓		✓		✓			
Commonwealth Games Village - Management of Construction	High	Level 3						✓	✓	✓	✓	✓
Temporary Accommodation	High	Level 3					✓				✓	✓
Information Governance - Use of live data	Medium	Level 3		✓					✓			✓
The Birmingham and Solihull Youth Promise Plus Funding Programme Management Arrangements	Medium	Level 3			✓		✓					✓
InReach	Medium	Level 3		✓		✓	✓		✓			✓
Equalities and Cohesion	Medium	Level 3		✓			✓		✓	✓		
Joint Strategic Needs Assessment	Medium	Level 3				✓	✓					✓
Carers Strategy	Medium	Level 3				✓	✓					✓
Ladywood Regeneration - Competitive Dialogue - Post Advert	Medium	Level 3		✓					✓			✓
Prevention Agenda	Medium	Level 3		✓		✓						✓

Appendix B

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Direct Payments Annual Review	Medium	Level 3		✓		✓					✓	✓
Adult Social Care Joint NHS Funding	Medium	Level 3				✓	✓				✓	✓
Impulse and CACI Hub	Medium	Level 3			✓		✓					✓
Review of Civic Catering	Medium	Level 3		✓	✓						✓	✓
Payroll - Overtime Payments	Medium	Level 3		✓							✓	✓
Construction Industry Scheme	Medium	Level 3		✓							✓	✓
Data Protection Impact Assessments	Medium	Level 3		✓					✓			✓
Review of Savings Plan	Medium	Level 3		✓	✓	✓	✓				✓	✓
Improvement Agenda - Corporate Improvement Plan	Medium	Level 3		✓	✓	✓	✓					✓
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓			✓	✓
Specialist Care Service (Implementation of Improved Practices)	Medium	Level 3			✓	✓						✓
Housing Repairs Contract Management	Medium	Level 2					✓					✓
IT Governance	Medium	Level 2		✓					✓			✓
Information Governance - Caldicott Guardian	Medium	Level 2		✓	✓	✓	✓	✓				✓
Three Conversations	Medium	Level 2			✓	✓	✓					✓
The Health and Social Care Network (HSCN)	Medium	Level 2			✓	✓	✓		✓			✓
Information Governance - Access to Information	Medium	Level 2		✓					✓			✓
Clean Air Zone	Medium	Level 2		✓	✓	✓	✓					✓
Public Service Network (PSN)	Medium	Level 2		✓								✓
Leaseholder Service Charges	Low	Level 4					✓				✓	✓
Risk Management Arrangements	Low	Level 3		✓	✓	✓	✓	✓		✓		
Control Accounts	Low	Level 3		✓							✓	
Waste Management Service - Fleet Services Vehicle Maintenance Recharges	Low	Level 3					✓				✓	✓
Agency - Contract Management and Compliance	Low	Level 3		✓								✓
Council Tax - Deceased Customers, use of Probate Register	Low	Level 3					✓				✓	
Schools PFI - Contract and Financial Management	Low	Level 3			✓		✓				✓	
Commercial Activities - Review of Corporate Digital Mail Centre	Low	Level 3		✓								✓
Ladywood Regeneration Competitive Dialogue - Selection Questionnaire Stage	Low	Level 3		✓					✓			✓

Birmingham City Council

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Highways and Infrastructure Works Framework - Allocation of work packages to contractors	Low	Level 3		✓					✓			✓
House Sales	Low	Level 3			✓	✓	✓				✓	✓
Due Diligence of Bidders	Low	Level 3		✓					✓			
Integrated 3rd Sector Funding	Low	Level 2		✓							✓	✓
SAP Security Review	Low	Level 2		✓	✓	✓	✓					✓
Commissioning, Supported Living	Low	Level 2				✓	✓					✓
Information Technology and Digital Strategy	Low	Level 2		✓					✓			
Schools - Surplus Balances	Low	Level 2			✓						✓	✓
Northgate Housing	Low	Level 2				✓	✓					✓
Payroll - Wage Types Use of Delimited	Low	Level 2		✓							✓	
West Midlands Job Portal	Low	Level 2		✓								✓
IT Project Governance	Low	Level 2		✓					✓			
Car Parking - Civil Enforcement	Low	Level 2		✓							✓	✓
Accounts Receivable - Invoice and Receipt of monies	Low	Level 2		✓							✓	✓
Eclipse Project Assurance - Governance and Management arrangements	Low	Level 2			✓	✓	✓		✓			✓
Information Governance - Data Review - Education and Skills	Low	Level 2			✓		✓		✓			✓
Accounts Receivable - Invoicing and Receipt of Monies Crems/Cems	Low	Level 2		✓							✓	✓
Data Sharing	Low	Level 2		✓	✓	✓	✓	✓	✓			✓
Capita Transition - IT Procurement	Low	Level 2			✓	✓	✓	✓	✓			✓
IT Network	Low	Level 2		✓								✓
Birmingham Virtual School	Low	Level 2			✓		✓					✓
IT Infrastructure - Modern Workplace Window 10 and Office 365	Low	Level 2		✓	✓	✓	✓	✓				✓
Accounts Payable Substitution Process	Low	Level 2		✓							✓	✓
Northgate Housing - IT Review	Low	Level 2				✓	✓					✓
Implementation of Ombudsman Recommendations	Low	Level 2		✓	✓	✓	✓		✓			✓
Revenues and Benefits Information Systems (RBIS)	Low	Level 2				✓	✓				✓	
CareFirst-Eclipse IT Review	Low	Level 2			✓	✓	✓					✓
IT Infrastructure - Application Platform Modernisation	Low	Level 2		✓	✓	✓	✓					✓
Verify Earnings & Pensions (VEP) Service	Low	Level 1			✓	✓	✓				✓	✓
Payroll Monthly Reconciliation Report	Low	Level 1		✓							✓	

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Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
NNDR - Retail Reliefs	Low	Level 1		✓							✓	✓
Accounts Payable - Payments Above £75k	Low	Level 1		✓							✓	
Accounts Receivable - Creation of Business Partners	Low	Level 1		✓							✓	
Council Tax - Citizen Access Exception Reports	Low	Level 1				✓	✓				✓	✓
Benefits - New Claims in Suspend	Low	Level 1				✓	✓				✓	✓
Accounts Receivable - Raising of invoices within 10 days	Low	Level 1		✓							✓	✓
Rent Collection & Charges - Locality Managers	Low	Level 1				✓	✓				✓	✓
Rent Collection & Charges - Court Process	Low	Level 1				✓	✓				✓	✓
NNDR - Inspection Regime	Low	Level 1		✓							✓	
Benefit Service - Diary Events Monitoring of Claims	Low	Level 1				✓	✓				✓	✓
Multi Agency Engagement with the ICPC	N/A	N/A										
Improving Financial Management in Schools - Progress Report	N/A	N/A			✓	✓						✓
Supported Living	N/A	N/A				✓	✓					✓
Residential Care Centres	N/A	N/A				✓	✓					✓
SENAR Commissioning - Interim Progress Report	N/A	N/A			✓		✓			✓		✓
Transition to Adulthood - Progress Report	N/A	N/A				✓	✓					✓
Commonwealth Games Village - Progress Report	N/A	N/A						✓	✓			✓

Follow Up Reports (30 Reports):

Title	Risk Rating Council	RAG
Travel Assist	High	
Data Protection Regulation - Procurement and Contract Management	High	
Safeguarding – Adults	Medium	
Housing Allocations	Medium	
Information Governance - Data Quality	Medium	
IT Emerging Issues IT Governance Housing Repairs	Medium	
IT Emerging Issues Fake E Mail Invoice Scam	Medium	

Title	Risk Rating Council	RAG
Insurance follow up	Medium	
Neighbourhoods Directorate Budget Management and Monitoring	Medium	
Third Party Governance - Information Security	Low	
IT Infrastructure Mobile Phones	Low	
Web Services	Low	
Corporate Payroll – Allowances	Low	
Council Tax Student Discounts	Low	
Wireless Network	Low	
Information Governance - Environmental Health	Low	
IT Emerging Issues Neighbourhoods Birmingham Wellbeing	Low	
IT Asset and Configuration Management	Low	
IT Infrastructure - DMZ	Low	
Information Governance - Local Government Transparency Code	Low	
Rent Collection and Charges - Arrears Recovery	Low	
Housing Rents - Former Tenancy Arrears	Low	
Appointee and Court Deputy	Low	
Information Governance - Public Health Secure Restricted Zone	Low	
Accounts Receivable - Aged Debts – Adults	Low	
Public Health - Compliance with Governance Requirements	Low	
Risk Management Arrangements	Low	
SEGWEB Neighbourhoods	Low	
Corporate Payroll – Exceptions	Low	
West Midlands Job Portal	Low	

Investigation Reports (26 Reports)

School Visits (38 Reports, 25 Follow-up Reports)

Birmingham City Council

Internal Audit Charter 2020/21

1. Introduction

1.1 This charter sets out Birmingham Audit's:

- purpose, authority and responsibilities;
- establishes Birmingham Audit's position within the organisation, including reporting relationships with the 'board';
- covers the arrangements for appropriate resourcing;
- defines the scope of internal audit activities and role of Internal Audit in any fraud-related work; and
- includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

It also sets out the objectives, framework and services delivered by Birmingham Audit (which are in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS)). The detailed actions to deliver the charter are contained within the Birmingham Audit Business Plan.

Notes:

1. *The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive, Chief Financial Officer, or Monitoring Officer.*

2. *Statutory officer roles with regards to Internal Audit:*

   Chief Executive and Assistant Chief Executive - ensure there is an open, honest, transparent and accountable culture in operation within the Council and are records and explanations are available as and when required by Internal Audit.

   Chief Financial Officer - is responsible for ensuring the sound financial administration of the Council and effective systems of Internal Audit. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.

   Monitoring Officer - has a specific duty to ensure that the Council, its officers, and its Elected Members, maintain the highest standards of conduct in all they do.

2. Purpose, Authority & Responsibilities

2.1 Birmingham Audit's primary purpose is to provide independent and objective assurance to the Council on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisations objectives.

Birmingham Audit's helps the Council meet high standards of Service delivery, conduct and governance and assist in driving down the levels of fraud which achieved by examining, evaluating and reporting on the effective use of resources, reviewing the whole system of internal control and implementation of the intelligence led investigations regime.

2.2 In accordance with the Council's Constitution, Part D – D1 Financial Regulations, section 1.13 Internal Audit:

- each Chief Officer/Director must ensure there is an open, honest, transparent and accountable culture in operation within their area of responsibility and must make its services available as and when required for audit both internally and externally;
- Internal Audit will notify the results of internal reviews in writing to Chief Officers/Directors who must respond in writing to any recommendations contained in audit reports in accordance with the agreed protocol. Chief Officers/Directors must establish processes to ensure that recommendations are implemented within the agreed timescales. In line with good governance requirements the Audit Committee will monitor the implementation of recommendations.
- the Assistant Director Audit and Risk Management on the authority of the Chief Financial Officer, shall have authority to:
    - enter any Council premises or land at all reasonable times;
    - have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties;
    - require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination; and
    - require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

The rights above apply equally to organisations which have links with or provide services on behalf of the Council (e.g. wholly owned companies, third parties or other agents acting on behalf of the Council) where the Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered with such organisations.

2.3 Birmingham Audit's responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.

2.4 Individual auditors are responsible for ensuring that they operate with due professional care. This means that Birmingham Audit staff will:

- be fair and not allow prejudice or bias to override objectivity;
- declare any interests that could potentially lead to conflict;
- sign a confidentiality statement;
- not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties;
- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions;
- be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest;
- have sufficient knowledge to identify indicators that fraud may have been committed;
- disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice subject to confidentiality requirements; and
- disclose in reports any non-compliance with these standards; and not use information that they obtain in the course of their duties for personal benefit or gain.

3. Position within the Organisation (including reporting relationship with the board)

3.1 Birmingham Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Where appropriate audit staff will be rotated to avoid and conflict of interests. Birmingham Audit will not have any operational responsibilities.

3.2 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by Birmingham Audit lies with management. Management can either accept the advice and implement recommendations or reject them. Any advice, guidance or recommendations made by Birmingham Audit will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.

3.3 The Assistant Director Audit and Risk Management will report the results of audit work in accordance with the Birmingham Audit Protocol.

4. Resourcing

4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. Birmingham Audit has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.

4.2 During 2020/21 we will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit data warehouse and data analysis will be used to support our assurance work and provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, and to carry out exception reporting, to identify samples and review data quality.

4.3 We will work with private sector partners as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.

4.4 We will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.

4.5 If the Assistant Director Audit and Risk Management, or those charged with governance, consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of Birmingham Audit, or prejudice the ability of Birmingham Audit to deliver a service consistent with the definition of Internal Audit, they will advise the Council accordingly.

5. Scope

5.1 The scope of the internal audit function will embrace the internal control system of the Council. It covers all financial and non-financial related activities of the Council at all levels of its structure.

5.2 The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the Assistant Director Audit and Risk Management will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.

5.3 Birmingham Audit will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities Birmingham Audit will take this into account. Where the results indicate that insufficient work has been done then Birmingham Audit may undertake a separate review.

5.4 The scope of audit work extends to services provided through partnership arrangements. The Assistant Director Audit and Risk Management will decide, in consultation with all parties, whether Birmingham Audit conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the Assistant Director Audit and Risk Management will agree appropriate access rights to obtain the necessary assurances.

5.5 Birmingham Audit will not undertake tasks which are likely to compromise its independence, internal control functions, or certification processes.

5.6 Birmingham Audit will participate and contribute to Council and Directorate policy development as required through attendance at Managers Network events and working groups.

5.7 Other Work

Where appropriate resources exist, Birmingham Audit will make provision within the plan for the review of key systems or key services provided by:

- the Council on behalf of other organisations; and
- others on behalf of the Council. In order to achieve this Birmingham Audit will require access to partner records, systems and staff. This access should form part of any partnership contract between the Council and the partner.

The decision to include it in the plan will be dependent on the level of risk identified and whether reliance can be placed on opinions provided by others.

5.8 Fraud & Corruption

In accordance with the Birmingham City Council Constitution, Part D – D1 Financial Regulations, section 1.15 Irregularities, Fraud and Corruption:

- the responsibility for prevention and detection of fraud rests with all employees;

- each Director must ensure that the Chief Finance Officer, Assistant Director Audit and Risk Management and if applicable, the Monitoring Officer, is notified immediately whenever a matter arises which involves, or is thought to involve, any financial irregularities, fraud and corruption;
- the Chief Finance Officer is responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police;
- if there are any suspicions that a Member may be involved / or associated either directly or indirectly in an incident that may require investigation, then the Director must report this to the Chief Finance Officer, who may refer the matter to the appropriate Cabinet Member or Committee; and
- each Director must implement the Anti-Fraud Strategy, the Criminal Acts Procedure and the Confidential Reporting (Whistleblowing) Code and Public Interest Disclosure Act 1998.

Birmingham Audit will assist managers in minimising the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, Birmingham Audit will, in appropriate cases, undertake an investigation and report to management or will promptly provide advice and guidance to assist managers with their investigation. All investigations undertaken by Birmingham Audit will adhere to all Council policies.

Where Directorates require Birmingham Audit to attend disciplinary hearings as a management witness, sufficient notice, i.e.: 10 working days, should be given.

6. Avoiding Conflicts of Interest

6.1 Birmingham Audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

6.2 Birmingham Audit will maintain a register of interests for Audit staff. Any interests declared will be considered when planning and delivering work.

Birmingham City Council

6.3 Where appropriate audit staff will be rotated to avoid any conflict of interests.

7. The Audit Committee

7.1 Our support to the Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business. We will maintain an effective working relationship with the Audit Committee, this will include:

- their approval of the internal audit charter and audit plan, and monitoring of progress against them;
- the provision of training and technical support to keep Members informed of relevant legislation, good practice and governance issues;
- access to all reports. Those considered to be of the highest risk will be highlighted and bought to their attention; and
- performance management information will be provided.

7.2 We will attend the committee meetings and contribute to the agenda.

7.3 We will participate in the committee's review of its own remit and effectiveness, and ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives.

7.4 Our progress reports will include the outcomes of internal audit work in sufficient detail to allow the committee to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.

7.5 Annual / half year update reports will be produced. The annual report will include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

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8. Birmingham Audit Business Plan – 2020/21

8.1 The Business Plan 2019+ sets out Birmingham Audits vision to be a highly respected and valued team for insight, analysis and advice.

8.2 Expected Strategic outcomes:

- A proportionate and effective internal control framework that secures effective governance and protects the organisation and its assets.
- Efficient, effectiveness and economic services, systems and processes.
- Robust and integrated risk management arrangements that are embedded into day to day management processes.
- Prevention, detection and reduction of fraud and error.

8.3 Objectives:

- To deliver an internal audit service that meets professional and mandatory standards, adds value and delivers suitable assurance to the Council.
- To deliver an effective counter fraud service to prevent, detect and deter fraud and error and to assist law enforcement agencies through the provision of intelligence.
- To embed risk management framework within the organisation and co-ordinate the production of the strategic risk register.
- To deliver a creditor statement reconciliation audit, maximising overpayment recoveries.

9. Statutory Requirements

9.1 There is a statutory requirement for Local Authorities to have a counter fraud and internal audit function. This service is provided for the Council in-house by Birmingham Audit working in partnership with a number of external bodies. The Assistant Director Audit and Risk Management provides a continuous internal audit and counter fraud service and reviews the Council's controls and operations.

9.2 The services we provide are in accordance with the following legal and professional requirements:

Legal:

- Accounts and Audit Regulations 2015
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 2003
- Criminal Procedures Investigation Act 1996
- GDPR/Data Protection Act 2018
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 2002
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2008
- Regulation of Investigatory Powers Act 2012
- Social Housing Fraud (Power to Require Information) Regulations 2014
- The Protection of Freedoms Act 2012
- Theft Act 1978

- Welfare Reform Act 2012

Professional Requirements:
- Relevant CCAB professional guidance including the Public Sector Internal Audit Standards
- Relevant IIA guidance
- Information Security - BS EN ISO27001:2013

9.3 Birmingham Audit reports to the Section 151 Officer under the Local Government Act 2002. The legislative driver for internal audit and counter fraud continue to evolve.

9.4 The Council has adopted the CIPFA / SOLACE code of corporate governance. This code together with the Statement of Recommended Practice (SORP) introduced the requirement for an annual statement of assurance to be made. The Council has subsequently reviewed / revised their Local Code of Governance in accordance with the CIPFA Framework - Delivering Good Governance in Local Government. This means that the Chief Executive and Leader are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements and identify any significant governance issues.

9.5 We have a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An integrated assurance framework in established which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance documentation completed annually at both directorate and business unit level.

9.6 The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. Our opinion will be prepared using the following sources of assurance: Internal / External Audit work, the AGS process and Risk Management processes. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.

9.7 We give an opinion on the internal control environment which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by Birmingham Audit makes an important contribution to providing assurance around the control environment, and the content of the AGS. The categories of work include:

- Section 151 work around the major and significant financial systems;
- IT Governance;
- audit around the major risks and the risk management process;
- audit of corporate governance / business control assurance arrangements;
- counter fraud activities; and
- school activities.

10. The Annual Audit Plan

10.1 We will contribute to protecting and enhancing organisational value, supporting the Council's aim to make a positive difference, every day, to people's lives. We will provide an enterprise wide perspective when carrying out audit work, constantly considering the challenging financial situation, and ensuring our planning process is future focused, adds value and insight, and improves organisational operations. We will continue to provide independent assurance and advice that supports healthy transparency in the risk management process. We will place emphasis on the responsibility taken by management to recognise their key risks and take ownership and accountability to manage these effectively, understanding risk appetite to properly accept / mitigate risks to achieve the best outcome.

10.2 The audit plan for 2020/21 has been compiled based on a number of factors, i.e.:

- the level of risk associated to each entity;
- the level of assurance associated to each entity;

- any reviews that fall under the ‘must do’ categorisation, i.e.: those which are required to be undertaken as part of the minimum internal audit standard.

On an annual basis each entity will be reassessed based on the results of the previous year’s internal audit work and other assurance gained regarding the control environment.

10.3 All the risks contained within the Strategic Risk Register are included within the Council’s Assurance Framework, which is updated prior to producing the audit plan, and some or all of these will be audited on the basis of their likelihood and impact. The focus of the audits will be the testing of the systems, controls and action plans put in place by the nominated risk owner to mitigate the risk. If other significant risks / opportunities are identified either through audit work, new / changing legislation or other change mechanisms they may, subject to resource availability, be added to the audit plan.

10.4 Following guidance from the External Auditors each of the systems they designate as 'main financial systems' will feature in the audit plan, unless otherwise directed.

10.5 We will assess ourselves against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Prevention and detection of fraud remains a priority for the Council.

10.6 We will continue to develop our approach to systems audit work to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the National Fraud Initiative (NFI). And ongoing development of anti-fraud database.

10.7 Follow up audits will be undertaken in accordance with the agreed policy.

10.8 Consultancy work will be undertaken within the limitations of existing resources and where it does not introduce a conflict of interest.

Consultancy work is defined as:

"The provision to businesses of objective advice and assistance relating to the strategy, structure, management and operations of an organisation in pursuit of its long-term purposes and objectives."

Consulting services may include but are not limited to:

- facilitation of workshops;
- assistance in the completion of financial returns; and
- representation on Boards etc.

The purpose, scope and approach for each piece of consultancy work will be agreed prior to commencement of the work.

A Charging Policy has been implemented. This means that some elements of work will only be undertaken if resource is available and the client is willing to incur the cost e.g. grant claim certification.

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Proposed Internal Audit Plan 2020/21

	Days	Total		Must	Should	Could
Financial Systems (including computer audits where appropriate)						
Accounts Payable	50			50		
Accounts Receivable	50			50		
Asset Management	50			50		
Audit Letter	5			5		
Benefits	50			50		
Carefirst / Eclipse	30			30		
Cash Income / Cashiers	30			30		
Direct Payments	30			30		
Housing Rents	25			25		
IT Related Financial Systems Work	85			85		
Main Accounting	50			50		
Payroll/HR	50			50		
Procurement, Contract Audit and PFI	140			140		
Revenue (Council Tax and NNDR)	60	**705**		60		
Business Controls Assurance						
Work in Progress b/fwd. from 2018/19	50			50		
IT Related Non-Financial Systems Work	360			235	70	55
Data Analysis	200			100	50	50
Corporate Risk Management Facilitation	50			50		
Chargeable Work - Acivico	40				40	
Chargeable Work - Birmingham Children's Trust	145				145	
Chargeable Work – Grant Certification	80	925			80	
<u>Adults Social Care</u>						
Assessment & Support Planning	25			25		
Transition to Adulthood	20					20
Day Centres	15				15	
Section 117	15				15	
Specialist Care Services	25					25
Independent Living	20				20	
Placements	20				20	
Commissioning	20	160		20		
<u>Education and Skills</u>						
Safeguarding Corporate Overview	30			30		
Home to School Transport	15				15	
Commissioning & Contract Management Framework	20			20		
SEND - Transition from Commissioning Independent Provision to LA School based Provision	6				6	
Birmingham Children's Trust – Annual Review	5			5		
Birmingham Children's Trust – Contract Management	20					20

	Days	Total		Must	Should	Could
Not in Education Employment or Training (NEETS)	10					10
Health & Safety in Community Libraries	12					12
Safeguarding and Statutory Education Entitlement for children in temporary accommodation	12			12		
Youth Employment Initiative – Implications post 2021	20					20
Responding to the Challenge of Improving Financial Management in Schools	20				20	
Elected Home Education	10				10	
Safeguarding & Development – BCSB	30	210				30
Finance and Governance						
Local Enterprise Partnership	15			15		
Governance	20			20		
Ethics	10			10		
Commercial Activities	30				15	15
Risk Management	10			10		
Self-Assessment - AGS Process	10	95		10		
Inclusive Growth						
Highways Management Contract	20			20		
Accountable Body	30	50		30		
Neighbourhoods						
Homelessness	20			20		
Waste Management	25			25		
The Active Wellbeing Society	15				15	
Housing Repairs – Contract Compliance / Assurance	200	260		100	100	
Partnerships, Insight and Prevention						
Public Health	30			30		
Resilience	20			20		
Project Management	30	80		30		
		1780				
Investigations						
Reactive investigations	430			430		
Proactive work	200			200		
Fraud Awareness	200	**830**		200		
Schools - Non-Visits						
Themed Work	30	**30**				30
Schools - Visits	720	**720**		300	210	210
Follow Up Work		**175**			100	75
Ad Hoc Work / Contingency		**299**		299		
Planning and Reporting		**120**		120		
City Initiatives		**5**				5
TOTAL		**4664**		**3141**	**946**	**577**

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Interim Chief Finance Officer

Date of Meeting: 30 June 2020

Subject: 2019/20 ANNUAL GOVERNANCE STATEMENT

Wards Affected: All

1. Purpose of Report

1.1. The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2019/20 and reports on the Council's internal control regime.

1.2. Section 6 of the AGS includes 8 key issues for the Council which may impact on the organisation's governance arrangements.

2. Recommendations

2.1. To approve the Annual Governance Statement that will be included in the 2019/20 Statement of Accounts.

2.2. To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee during the year.

3. Background

3.1 One of the requirements for the Annual Governance Statement (AGS) is that it should reflect the governance arrangements for the financial year to which it relates, up to the date of approval of the Statement of Accounts.

3.2 The AGS forms part of the Council's annual Statement of Accounts. The Statement of Accounts will be available, post audit, at the meeting on 24 November 2020.

3.3 The significant issues raised in the Assurance Statement and audit processes are summarised in Section 6 of the AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

4. Legal and Resource Implications

4.1 The AGS is a requirement of The Accounts and Audit Regulations 2015, Regulation 6(1)(b) and meets the corporate governance best practice recommendations. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No 404 were published on 30 April 2020. These regulations amend the publication dates of the draft accounts to no later than 31 August 2020 and the audited accounts to 30 November for local authorities. There are no direct resource implications arising from this report.

5. Risk Management & Equality Impact Assessment Issues

5.1 The Statement forms part of the Council's risk management approach and the relevant issues are those considered in the attached schedule.

6. Compliance Issues

6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.

6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of the Council of the Future's objectives.

……………………………………..

Rebecca Hellard – Interim Chief Finance Officer

Contact Officer: **Martin Stevens**

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e-mail address: **martin.stevens@birmingham.gov.uk**

Birmingham City Council

Annual Governance Statement 2019/20

Annual Governance Statement 2019/20

1 Scope of responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

1.4. The coronavirus pandemic has meant that we have had to make significant changes to our governance arrangements since the Council declared a major emergency on 23 March 2020. This governance statement provides assurance over the governance arrangements that have been in place for the majority of 2019/20 and it also identifies significant changes that have arisen as a result of the pandemic.

2 The purpose of the governance framework

2.1. The Council as a whole is committed to good governance and to improving governance on a continuous basis through a process of evaluation and review.

2.2. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest at all times.

2.3. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.

2.4. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.5. The governance framework has been in place at the Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts, subject to changes highlighted relating to the pandemic.

3 The governance framework

3.1. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

The Council's vision and priorities for Birmingham

3.2. The Council has been on a journey to redefine its vision and purpose in serving the people of Birmingham, driving the necessary change to deliver a new Council role and relationship with the City, its citizens and its partners.

3.3. The Council's vision for the future of Birmingham is to create a city of growth, in which every child, citizen and place matters and to support this, the Council has set itself six clear priorities:

- **Birmingham - an entrepreneurial city to learn, work and invest in.**
- **Birmingham - an aspirational city to grow up in**
- **Birmingham - a fulfilling city to age well in**
- **Birmingham - a great city to live in.**
- **Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.**
- **Birmingham - a city that takes a leading role in tackling climate change.**

The sixth priority was added to the Council Plan in June 2019 when the Council declared a climate emergency**.**

3.4. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Council Plan 2018-2022 Plan (the Plan). The Plan was updated in 2019/20 and is available on the Council's website.

3.5. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with Cabinet Members and Members from opposition groups, citizens and partners, surveys and consultations.

3.6. A set of service delivery measures, aligned to service plans and Council priorities have been put in place for 2019/20. These measures are designed to ensure improvement in service quality and outcomes for the citizens of Birmingham, some have a particular focus on disadvantaged groups. Regular monitoring and reporting against these measures ensures that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.7. In turn, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed.

3.8. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is a key part of the Council's long term financial strategy.

3.9. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Financial Plan 2020 – 2024.

3.10. A robust system to monitor the achievement of savings proposals and delivery of the base budget with scrutiny by Council Leadership Team (CLT), Budget Board and Cabinet is in place and actions were regularly undertaken throughout the financial year to control spend. During 2019/20, the Council has continued to overhaul and strengthen its financial monitoring and control framework and reasserted 'grip' of the financial position with a series of interventions. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits where possible. The Council also held a Budget Delivery Contingency of £12m for 2019/20 to assist if there were any base budget or savings deliverability issues.

3.11. **The impact of Covid-19 has had a significant impact across local authorities. The Council has from early on been assessing the financial impact. The financial impact is based on a six-month crisis scenario with some ongoing costs (not factoring in a recovery or a new normal as yet) and is broken down into the following elements:**

- **Actual and expected expenditure**
- **Forecast of actual and likely lost income (including economic impact)**
- **Further areas of financial risk**
- **Cashflow monitoring**

3.12. Following the financial experiences over the last three years, highlighted by both the Birmingham Independent Improvement Panel (BIIP) and through Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014, made by the external auditors in July 2018 and in March 2019, the extent of savings delivery risk is clearly recognised along with the potential impacts of unidentified pressures and other changes as the Council looks forward. In response, the Council has improved its controls to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as contingency funding in case of savings delivery difficulties. The Council set its 2019/20 and 2020/21 budgets without expecting to use any general reserves to mitigate the requirement to deliver savings; all uses of reserves were in line with the Council's reserves policy.

3.13. The Council also undertook a significant exercise across December 2019 and early January 2020 to identify anticipated savings non-delivery and base budget pressures in 2020/21 and beyond. Following challenge through the Star Chamber process, these were eliminated from the budget so that Directorates could begin 2020/21 with rebased budgets that should not have any underlying pressures. In order to fund this the Council no longer holds a Budget Delivery Contingency and Corporate Directors / Assistant Directors will be required to sign budget accountability agreements to confirm that they will operate within their budget envelope.

3.14. The Council's workforce has experienced many changes and challenges over the last 10 years as the workforce is modernised. From transforming the customer service function and developing a Citizen Access Strategy to facing some of the challenges driven by being a large employer such as equal pay cases and reviews of terms and conditions. The Council's workforce strategy was agreed by Cabinet in 2018.

3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the WMCA) and the Birmingham and Solihull Sustainability and Transformation Plan (to deliver better health and care for local people).

3.16. The Council has a strong public, third sector, and business engagement role. A new Community Cohesion Strategy has been launched and there is an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority (WMCA). As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic "Pillar Boards", with regular reporting to the LEP Board. . From 1 September 2019 the LEP transferred its revenue operations and full executive team to GBSLEP Limited. BCC remains the accountable body for all capital funds and retains its place on the LEP Board in respect to its s151 role over public funds.

3.18. Change across local government continues. A Mayor was elected on 6 May 2017 to head the WMCA. The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield

3.19. The Cabinet Committee - Group Company Governance works to improve the level of Council oversight of the activities of those companies that it either wholly owns, or in which it has an interest or a relationship through nominees.

3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The Council is sole member of the Trust and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the City. In April

2018, the Children's Trust became operationally independent of the Council as part of an ongoing process of improvement.

3.21. The Council's Constitution which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.22. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2019/20 financial year: the Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:

- Cabinet Member – Children's Wellbeing;
- Cabinet Member – Street Scene and Parks
- Cabinet Member – Health and Social Care;
- Cabinet Member – Homes and Neighbourhoods;
- Cabinet Member – Finance and Resources;
- Cabinet Member – Social Inclusion, Community Safety and Equalities;
- Cabinet Member – Transportation and Environment;
- Cabinet Member – Education, Skills and Culture.

3.23. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.

3.24. The CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.

3.25. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.

3.26. CBMC also discharges the Council's functions in relation to parishes and parish councils.

3.27. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts and to review and make recommendations to the executive regarding the effectiveness of internal audit on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

Roles, Values and Standards of Conduct and Behaviour of Members and Officers

3.28. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.

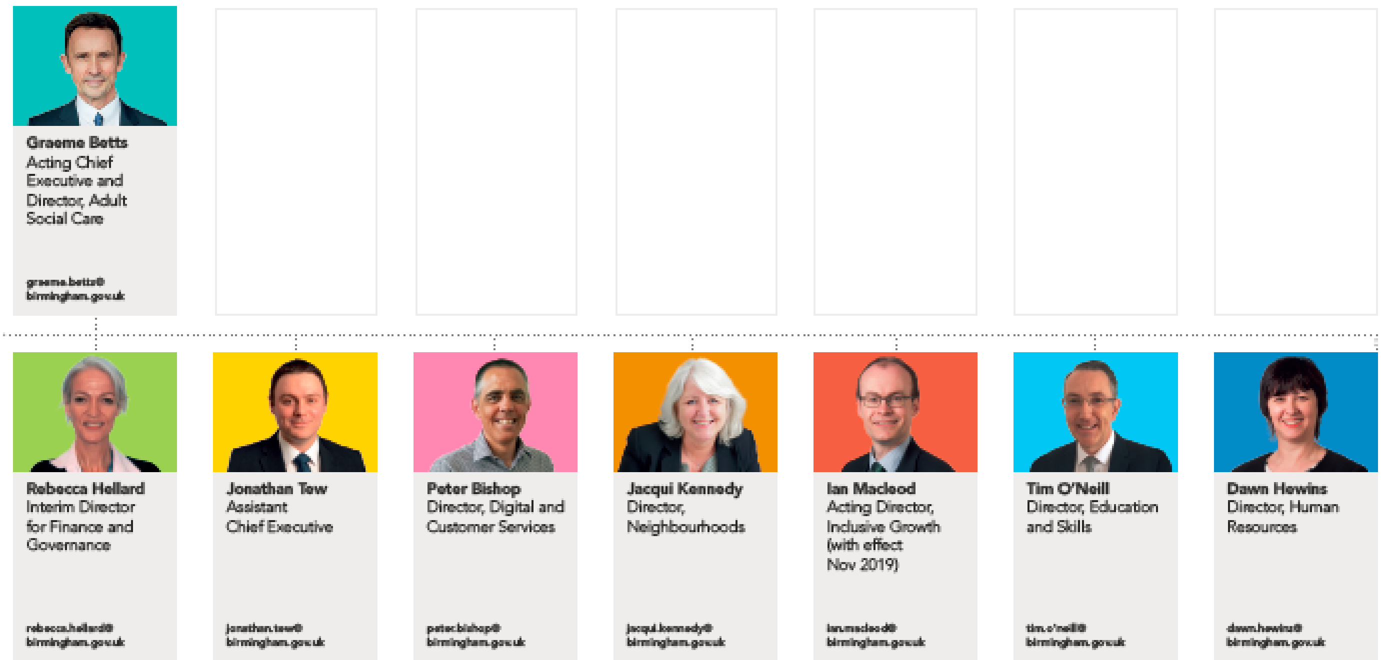
3.29. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

<u>Management Structure</u>

3.31. During 2019/20, the Council operated through eight Directorates, Adult Social Care and Health, Education and Skills, Inclusive Growth, Finance and Governance, Neighbourhoods, Digital and Customer Services, Partnerships, Insight and Prevention, and Human Resources.

3.32. The Council's management structure as at 31 March 2020 was as per the diagram below:



3.33. In addition, during the year, the following key changes occurred

- Dawn Baxendale left the Council as Chief Executive wef 9 October 2019.
- Clive Heaphy became Acting Chief Executive on 11 September 2019. Clive announced his intention to step down in March 2020
- Chris Naylor became Interim Chief Executive wef 18 May 2020 following a period of Acting Chief Exec by Graeme Betts

- Rebecca Hellard took up the role of Interim Chief Finance Officer wef 2 October 2019.
- Neil Carney, Programme Director, Commonwealth Games, left the Council on 1 January 2020 and was replaced on an interim basis by Mina Parmar and by Craig Cooper .
- Waheed Nazir left the post of Director, Inclusive Growth on 1 December 2019. Ian MacLeod became Acting Director on 4 November 2019.
- Peter Bishop was appointed as Director, Digital and Customer Services from 1 July 2019.
- Jacqui Kennedy announced her early retirement on 3 June 2020.

Financial Management Arrangements

3.34. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The role of the Chief Finance Officer (CFO)/Section 151 Officer includes being:

- A key member of CMT, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy;
- Leading the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively;
- To deliver these responsibilities, the CFO leads and directs a finance function that is resourced to be fit for purpose; and is professionally qualified and suitably experienced.

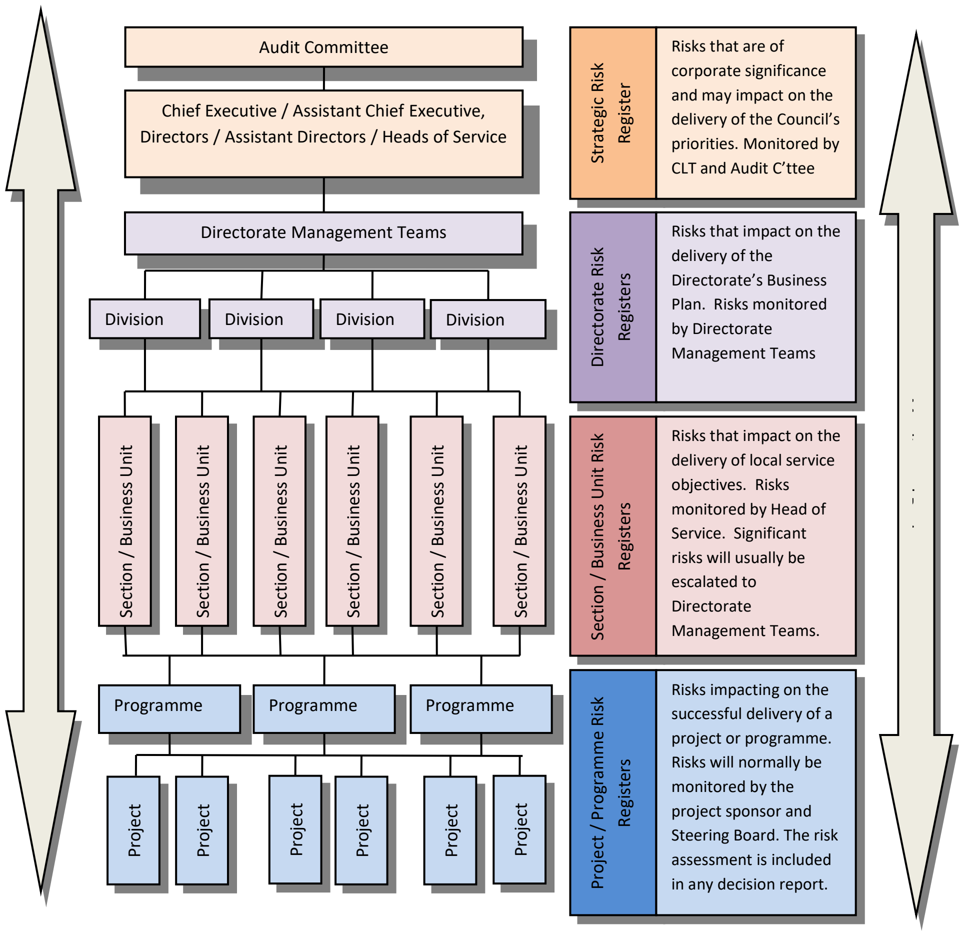
Scrutiny, Accountability and Risk Management

3.35. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

3.36. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.

3.37. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.38. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2019/20:



3.39. The Risk Management Framework is available on the Council's website, and advice and support are provided on request. Updated information regarding the management of the risks within the Council's Strategic Risk Register continues to be reported to the Audit Committee three times per year. CLT identifies new risks to the Council, and the draft Strategic Risk Register update is reported to it monthly. CLT challenge the updated information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.

3.40. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Progressive Assurance Model

3.41. The Kerslake Review of the Council's governance arrangements took place in 2014. Following this review the Birmingham Independent Improvement Panel was set up in 2015 to provide external challenge and support to the Council to effect the improvements recommended in the Kerslake report. The Panel provided challenge and support to the Council for four years and stood down at the end of March 2019.

3.42. In March 2019 Cabinet considered the stock-take report of the Council's improvement journey and also endorsed an outline plan of improvement areas for 2019-20 whilst also agreeing to report, voluntarily, to the Secretary of State in autumn 2019 and spring 2020.

3.43. Cabinet endorsed the adoption of an innovative new model of "progressive assurance." This model entailed the formation of a quarterly Strategic Programme Board and the engagement of specialist Non-Executive Advisors (aligned to specific risk and professional areas of focus) to support the Council Management Team for twelve months from July 2019 to July 2020. It builds on analysis of assurance and improvement models across a range of different sectors and seeks to embed an innovative and novel model with wider applicability and learning for Local Government.

3.44. Membership of the SPB includes all members of the Council Management Team, external advisors (Non-Executive Advisors) in the priority areas and an external advisor of a peer local government Chief Executive.

3.45. The Non-Executive Advisors, in addition to sitting on the SPB, will also offer challenge and support outside the board meetings.

3.46. The model will be supported by the Council's Programme Management Office in support of lead Directors, with programme documentation and draft reports to the Secretary of State reviewed and endorsed by the SPB prior to submission.

External Audit

3.47. In March 2019 the external auditor considered it appropriate to issue further Section 24 recommendations in relation to Governance and the Waste Service and to Financial Management. The Council responded to the recommendations at a meeting of Full Council on 2nd April 2019.

3.48. In September 2019, the external auditor issued the Audit Findings Report (AFR) on conclusion of the audit of the 2018/19 financial statements. The AFR included no Statutory 24 recommendations and reduced the number of recommendations on value for money from six to one in respect of the governance of waste, with the conclusion that the issues on other areas had been sufficiently mitigated.

Member Development

3.49. The Member's Development Strategy 2018-2022 aims to provide a member development programme that will ensure all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21st Century Councillors; make a positive difference every day to the people of Birmingham; provide strategic leadership; working together with officers in the transformation and delivery of Council services.

Councillors are at the heart of the Council and the organisation as a whole will support the member development strategy. It will be overseen by CLT and the Member Development Steering Group; coordinated through the Members Development Team, consisting of officers from Legal and Governance. This collaborative approach will ensure ownership of the strategy by the Council as a whole.

3.50. In addition to the Members' Development Programme, all Councillors have access to e-learning through the Members' portal on People Solutions and are regularly kept up to date on training and development via the City Councillor bulletin circulated by email. This gives details of legislation, training opportunities and other issues of importance to Members.

3.51. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations.

- The Members' Development Programme 2019/20 was delivered around: Role Specific Training, ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees;

- On-going Member Development, to provide on-going development opportunities for members related to current and potential future roles and responsibilities.

Workforce

3.52. Having a flexible, skilled and mobile workforce is critical to the Council effectively responding to increasing demands placed on front line services and support functions and to the delivery of a long-term sustainable organisation. Financial reductions facing the Council are impacting significantly on its ability to recruit and retain the talent needed to ensure workforce capacity.

3.53. During 2019/20, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

- We put citizens first
- We are true to our word
- We act courageously
- We achieve excellence

Engagement with the community and other stakeholders

3.54. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Plan and Budget 2019 to 2023 consultation process included public meetings led by the Council's Leader and Cabinet, an online Be Heard survey, an online communications campaign including webpages, news feeds, Facebook and Twitter, consultation via post and email, and consultation with the business community and the Chamber of Commerce.

3.55. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.

3.56. Clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible and many formal meetings are also webcast. Directorates have extensive programmes of consultation and engagement activity for specific services.

4 Review of effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CMT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the *'Delivering Good Governance in Local Government: Framework'* (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

4.4. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- The work undertaken by Birmingham Audit during the year;
- The work undertaken by the external auditor reported in their annual audit letter and statutory recommendations; and
- Other work undertaken by independent inspection bodies.

4.5. **Business as usual activities were disrupted by the need for social distancing and self-isolation. The Council operated a cell structure led by Strategic Cell (Gold Command) and supported by Tactical Cell. The Council's website was updated with information around access to its services as the pandemic emergency was escalated.**

New areas of activity as part of the national response to coronavirus included food deliveries to shielded residents, distribution of small business grants and the Retail, Hospitality and Leisure Fund, vouchers for families in receipt of free school meals and distribution of personal protective equipment to care settings.

The funding and logistical consequences of delivering the local government response have been closely monitored. Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic is an on-going process.

4.6. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

4.7. As in previous years the Birmingham Audit plan was compiled on the basis of professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

4.8. The resulting work plan is discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.

4.9. From the work undertaken by Birmingham Audit during 2019/20 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action.* In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Director during the year.

4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CLT. The more significant of these are set out in the section entitled '**Significant governance issues 2019/20'** below.

4.11. The internal audit function is monitored and reviewed regularly by Audit Committee. The Committee reviews management progress in implementing recommendations made in significant, high risk audit reports and against issues raised in the AGS through the Corporate Risk Register.

4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2019/20 including the launch of the Birmingham Safeguarding Children's Partnership, the impact of Brexit on the City and the Commonwealth Games.

4.13. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CLT, the Deputy Leader and Cabinet. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.14. The Monitoring Officer advises that there were 73 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2019/20 financial year.

5 Review of 2018/19 governance issues

5.1. The significant 2018/19 governance issues were considered by Audit Committee in June 2019, agreed as part of the Statement of Accounts in July 2019 and reviewed as part of the Corporate Risk Register updates in the 2019/20 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud, Contract Monitoring (Early Years) and the Local Government Ombudsman Annual Review.

5.2. Schools, Children and Families O&S Scrutiny Committee received reports on the Annual review of the Children's Trust This O&S Committee also considered issues such as Safeguarding in Education and Travel Assist.

5.3. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and the Commonwealth Games Village.

5.4. Regular Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.

5.5. The Council worked closely with the non-Executive Advisors.

6 Significant governance issues 2019/20

6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Strategic Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	**Covid-19 Pandemic** The Council declared a major emergency and the emergency plan was put into full effect. As of w/c 23 March, the council was operating under its Emergency Plan, with decisions being made on a 'command and control' basis. The pandemic poses unprecedented public health and operational challenges across many council services.	Strategic Cell (Gold Command) is supported by Tactical Cell and a number of thematic cells to manage the Council's emergency response. New legislation enabled democratic decision-making to resume remotely, with meetings web cast on a priority basis. City Council received a 68 page report detailing the initial response across services and scenario planning for recovery.

Issue No	Governance Issue	Mitigation Action / Proposed Action
2	**Financial Resilience** The Council faces continued pressure in its use of resources. This poses challenges to the financial resilience of the Council. Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'. The impact of Covid-19 on our financial resilience is also of concern Given the Council is in the tenth year of budget constraints the possibility of Judicial Review challenge to the budget or elements of it, remains high.	Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting. Governance processes have been reviewed and significantly enhanced to improve the production of implementation plans and monitoring of the most significant savings proposals at the highest level. We have now introduced monthly exception reporting to focus on significant pressures, key risks and emerging issues and to drive actions around these. This will enhance Star Chamber discussions with portfolio holders and improve overall scrutiny of financial issues. PWC has been commissioned to conduct an early review of the capital programme and improve the robustness of major projects financial governance. The Council is engaged in ongoing discussions with the government around further funding support and additional freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19.
3	**Major Projects and Partnership Working** The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example: • Working with neighbouring authorities in the West Midlands Combined Authority • Strengthening partnership working as Birmingham works	The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is implemented, making sure that work leads to permanent benefits for the region. The Council is reviewing the way it works with its partners - working equally to a common shared purpose.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	towards hosting the Commonwealth Games 2022. • Working with private sector partners on major developments in the City such as Paradise and Smithfield. • Birmingham Children's Trust. • Sustainability Transformation Programme	Children's Services moved to a Trust arrangement from April 2018. A clearly defined relationship between the Trust and the Council has been established based on service contracts. The contracts will be monitored throughout the year. Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements.
4	**Homelessness and Safety Implications for Tower Blocks** The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service. Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.	We have refurbished and opened two buildings for the use of temporary accommodation. Reduced B&B from a peak of 690 in May 2018 to 419 in December 2019. Work is underway with the repairs contractors to meet a new temporary accommodation specification to deliver 380 units. A Fire Safety Steering Group has been set up to lead on and coordinate BCC's response to the building a Safer Future report and the Grenfell Tower Inquiry Phase 1 Report. The project plan continues to be delivered through the fire safety steering group Housing Management are leading on the strategy for engagement with tenants and developing a wider engagement strategy, picking up on the Dame Judith Hackitt recommendations in this regard. .
5	**Asset Condition and Sufficiency** Many operational assets are in very poor condition following years of budget restrictions and lack of investment.	The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	There is an aging schools estate with some assets that are beyond repair. The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency.	Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space
6	**Commonwealth Games** Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.	The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners.
7	**Commissioning and Contract Management** Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision.	Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary. On-going identification of mitigating actions to reduce the level of risk.
8	Birmingham SEND Inspection – Inadequate provision and Written Statement of Action required Joint CQC and Ofsted inspection of Birmingham SEND provision raised significant concerns requiring the CCG and Council to provide a joint response in the form of a Written Statement of Action. This, in conjunction with the implementation of the SEND two-year	Monthly board meetings for inclusion take place with the CCG. Trust and the education and skills directorate, alongside quarterly review meetings with the DfE is closely monitoring progress and ensuring the authority is on track to make the expected progress and deliver the important improvement agenda.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	improvement programme is making the necessary and important improvements for the current local offer for children and young people addressing the issues raised in the OFSTED and CQC inspection.	

6.2. These matters are monitored through the Strategic Risk Register, CLT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.

6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………………
Councillor Ian Ward
Leader of the Council

Signed …………………………
Chris Naylor
Acting Chief Executive

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**30 June 2020**
Subject:	**Adoption of Accounting Policies for 2019/20**

1 Purpose of Report

1.1 To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2019/20.

1.2 To notify Members of the changes in accounting standards that will impact on the Council's accounts in future years.

2 **Decisions recommended**

That Audit Committee:

2.1 Consider and adopt the accounting policies for the determination of the Council's accounts for 2019/20.

2.2 Note the implications for future years' accounts arising from the changes in accounting standards.

Contact Officers:
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3 Compliance Issues

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

3.2 Relevant Ward and other Members/Officers etc. have been consulted on this matter:
The Chair of Audit Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications:
Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

3.4 Will decisions be carried out within existing finances and resources:
Yes.

3.5 Main Risk Management and Equality Impact Assessment Issues:
The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

4 Background

4.1 The Council is required to prepare its accounts with regard to:

a) Relevant accounting standards
b) The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 published by the Chartered Institute of Public Finance and Accountancy (the Code), which is updated annually
c) Relevant Statutes

4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.

4.3 In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance has been used as a base position except where amendments to reflect local circumstances or to enhance the policies is more appropriate. The policies where there is some change to the Code guidance model are:

- iv – Exception Items – policy has been added for clarification

- xviii – Accounting for Schools – additional clarification has been added to set out the Council's approach to accounting for land and building assets associated with Voluntary Aided, Voluntary Controlled and

Foundation Schools

- xx – Cash and Cash Equivalents – the Council policy is to recognise cash and cash equivalents as those assets where the asset can be used or recovered immediately for use. All other deposits are accounted for as investments

- xxi - Provisions, Contingent Liabilities and Contingent Assets – sections added to cover the accounting arrangements for equal pay and onerous contracts.

- xxviii – Council Acting as Agent - policy has been added for clarification

- xxxi – Acquired Operations - policy has been added for clarification

- xxxii – Discontinued Operations - policy has been added for clarification

4.4 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report. When the financial statements are produced, only those accounting policies that have an impact on the financial statements for the years under consideration will be included in the final document.

5 New Accounting Standards

5.1 There are no new major standards that are applicable for the 2019/20 financial statements for the first time.

5.2 The implementation of IFRS 16, Leases, will now be implemented in the 2021/22 financial year.

5.3 The implementation of this standard should have been from the financial year beginning 1 April 2019 but was originally deferred for a year as whilst it has no impact on balances for local authorities it was considered to do so for other organisations that form part of the Whole of Government Accounts (WGA). As a result of the impact on the bottom line for certain organisations, it was decided that implementation would be deferred for part of the public sector for one year. This would have meant that local authorities would have had to produce their accounts under the new accounting standard and then provide information for the WGA on the old accounting basis. Therefore, it was agreed that implementation would be deferred for local authorities until the 2020/21 financial year.

5.4 However, given the impact that Covid-19 has had on organisations abilities to pull information together CIPFA/LASAAC, the code determining body for local authorities has agreed to a further deferral of the accounting standard until the 2021/22 financial year. This is in line with the proposals of the Financial

Reporting Advisory Board to central government departments.

5.5 This standard does not impact on an entity that is a lessor but does have an impact where it is a lessee. Once the standard is implemented lessees will have to account for leases greater than 12 months for assets, other than low value assets, by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet. Effectively operating leases would be treated in the same way as finance leases are at present.

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

6 Accounting Implications

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

7 Recommendations

7.1 It is recommended that Members:

a) adopt the accounting policies for 2019/20 as detailed in Appendix 1.

b) note the implications for future years of the introduction of new accounting standards.

…………………………………………………………………………..
Rebecca Hellard, Interim Chief Finance Officer

Appendix 1

Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Accounts and Audit Regulations 2015, require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, that is, in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

vi. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

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

Other Long Term Benefits

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

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

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

Termination Benefits

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

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

In the Movement in Reserves Statement, appropriations are required to and from the

Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

- The change in the net pensions liability is analysed into the following elements:

  Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;
  - past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
  - net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to

the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

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

Contributions paid to the West Midlands Local Government Pension Fund:

- cash paid as employer’s contributions to the pension fund; not accounted for as an expense.

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

Discretionary Benefits

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

vii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but which does not result in the creation of a non-current asset, has been charged as expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

viii. Charges to Revenue for Non-Current Assets

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

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

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

ix. Government Grants and Contributions

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

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

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

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

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

Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account as they are applied to fund capital expenditure.

x. Overheads and Support Services

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

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Upon revaluation, where the current value of a property has been assessed by the value as being below £50k, the Council applies a de minimis approach and determines the asset as having a nil current value on the basis of materiality.

Impairment

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

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

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

Useful Life

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

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

- Vehicles, Plant, Furniture and Equipment – up to 50 years;
- Infrastructure – up to 40 years.

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

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

Depreciation

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

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

Componentisation

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2019/20, x% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

xii. Heritage Assets

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

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

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

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

xiii. Intangible Assets

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

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

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

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

xiv. Investment Properties

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

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

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

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

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

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

xv. Service Concession Arrangements

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

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

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

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

xvi. Leases

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

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

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

<u>The Council as Lessee</u>

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

<u>Operating Leases</u>

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

<u>The Council as Lessor</u>

<u>Finance Leases</u>

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

Lease rentals receivable are apportioned between:

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

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

Operating Leases

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

xvii. Interests in Companies and Other Entities

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

xviii. Accounting for Schools

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

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

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

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

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

xix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost. Non-borrowing creditors are carried at contract amount. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments to the instrument over the life of the instrument to the amount at which it was originally recognised.

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

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for he instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

xx. Cash and Cash Equivalents

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Onerous Contracts

An onerous contract is a contract for the exchange of assets or service in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Onerous Contracts are accounted for under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. A provision will be recognised for the unavoidable costs.

Provision for Back Pay Arising from Equal Pay Claims

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xxii. Reserves

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

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

xxiii. Council Tax and Business Rates

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

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

xxiv. Business Improvement Districts

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

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

xxv. Community Infrastructure Levy

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

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

xxvi. Events After the Reporting Period

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

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

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

xxvii. Joint Operations and Jointly Controlled Assets

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

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

xxviii. Council Acting as Agent

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

xxix. Value Added Tax

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

xxx. Foreign Currency Translation

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

xxxi. Acquired Operations

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

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

xxxii. Discontinued operations

A discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale.

Discontinued operations are accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, except where adaptations to fit the public sector are detailed in the CIPFA Code of Practice.

Discontinued operations are identified separately in the Comprehensive Income and Expenditure Statement in the year of transfer.

BIRMINGHAM CITY COUNCIL

Report to:	**AUDIT COMMITTEE**
Report from:	**Interim Chief Finance Officer**
Date of Decision:	**30 June 2020**
Subject:	**Financial Monitoring 2020/21**

1 Purpose

1.1 This report provides members with an update on the arrangements put in place to monitor the Council's budget and the Covid-19 financial impact.

2 **Recommendations**

Members are asked to note:

2.1 The arrangements in place to monitor the financial impact of Covid-19 and the arrangements for monitoring the Council's budget in 2020/21

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3 Background

Monitoring the financial impact of Covid-19

3.1 The impact of Covid-19 has had a significant impact across local authorities. The Council has from early on been assessing the financial impact. The financial impact is based on a six-month crisis scenario with some ongoing costs (not factoring in a recovery or a new normal as yet) and is broken down into the following elements:

- Actual and expected expenditure
- Forecast of actual and likely lost income (incl. economic impact)
- Further areas of financial risk
- Cashflow monitoring

3.2 Under the emergency planning rules in the Constitution (see below) Covid related financial decisions have been taken by Chief Officer's.

Part E3 Delegations to Chief Officers

3.3 Emergency Plan/Business Continuity

(i) Chief Officers and Statutory Officers (or deputising officers) are empowered to authorise all necessary actions in relation to disasters and emergencies as designated under the Council's Emergency Plan when activated; or under Business Continuity Plans in the event of a business continuity disruption.

(i) In the event of the Emergency Plan being activated, and following action taken, the Chief Officer must notify the Chief Finance Officer in writing of the circumstances and estimated financial impact and report formally to the relevant Cabinet Member or, for non-executive matters, to the next available meeting of the relevant committee.

3.3 Finance is gathering intelligence through the emergency planning governance structures and via Directorates. We are producing reports from a single data source to various stakeholders:

- Leader & Cabinet Member for Finance & Resources – weekly (min)
- Informal Cabinet - weekly
- Extended Management Team - weekly
- Corporate Leadership Team - weekly
- Strategic Cell - weekly
- Core Cities – monthly
- West Midlands Authorities – weekly
- MHCLG (government) - monthly

3.4 As 2020/21 progresses Covid financial monitoring will become integrated into normal budget monitoring while able to be separately identified for MHCLG and other reporting purposes.

Financial Monitoring 2020/21

3.5 Following feedback from stakeholders including Cabinet and Scrutiny the following improvements will be introduced in 2020/21

- Simplify reports to focus on key risks & issues and avoid unnecessary duplication
- Shorten and make more focussed exception reporting between quarters
- Put a greater focus on management actions to be taken to bring budgets back on track
- Raise the level of finance reporting to focus more on insight, analysis, action and value for money.

3.6 The key changes proposed for 2020/21 are:

Monthly Reporting

- An exception based, streamlined report will be introduced for leadership and Resources Overview and Scrutiny committee for those months that do not result in a quarterly Cabinet report,
- Directorates/Services with the highest budget variance, highest risk, a key reputational issue (e.g. Commonwealth Games, waste governance, Children's services improvement) or highest volatility will be the focus for the report narrative, "the things that keep you up at night",
- Explanations will focus on the situation, how it has developed, key risks and what management actions are being put in place.
- Savings will be tracked on an exception basis for those months between quarterly reports, with a focus on material savings variations.

Quarterly Reporting

- A more detailed monitoring process will be undertaken each quarter.
- The quarterly report will contain a shorter corporate overview, focussing on the major issues. Charts will be introduced alongside tables to aid understanding.
- The report will integrate Capital and Treasury Management alongside Revenue reporting.
- The report will focus on what the outturn is forecast to be.
- Over the course of the year it is planned to increase the focus on monitoring key balance sheet items relevant to the budget and the Council's arm's length companies.
- A more detailed analysis of savings will be undertaken.
- The monitoring reports submitted by Directorates will form detailed appendices.

3.7 An example of an improved report is attached based largely on a re-work of the 2019/20 month 10 report.

Month 10 - Budget Management Exception Report

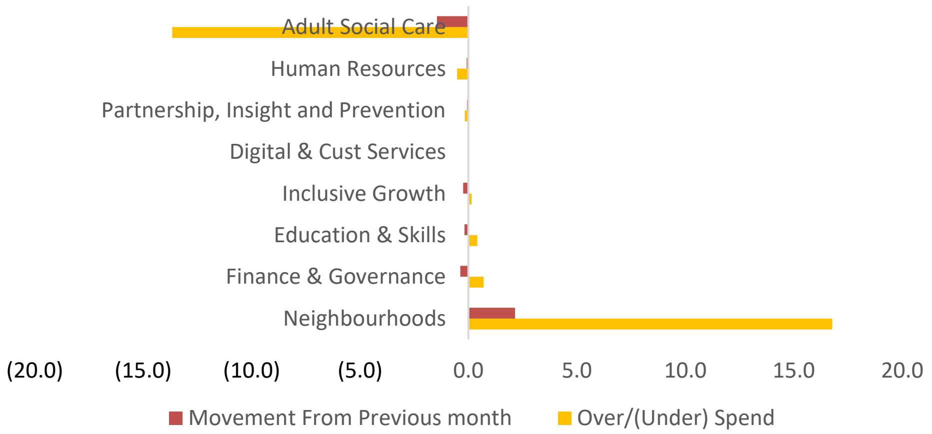
1. Executive Summary

1.1. At the end of month 10 the level forecast for the Council, after taking account of management actions, is an underspend of £1.7m which represents 0.2% of the £851.9m net budget. This is an improvement of £0.2m from month 9 (Quarter 3).

1.2. The Neighbourhoods overspend has risen by a further £2.2m to £16.8m while the Adult Social Care underspend has increased by £1.4m to £13.7m. Other services have either stayed the same or marginally improved their positions since month 9. A forecast corporate underspend of £5.4m helps achieve the overall £1.7m forecast underspend. However, there is a significant risk of Birmingham Children's Trust overspending by up to £8.1m which could require the Council to pick up the cost and this is not reflected in the forecast underspend.

	Budget	P10 Forecast Outturn	Over/(Under) Spend	Movement from Previous month
	£m	£m	£m	£m
Neighbourhoods	106.3	123.1	16.8	2.2
Finance & Governance	24.3	25.0	0.7	(0.4)
Education & Skills	267.4	267.8	0.4	(0.2)
Inclusive Growth	98.4	98.6	0.1	(0.2)
Digital & Cust Services	31.2	31.2	(0.0)	(0.0)
Partnership, Insight and Prevention	6.7	6.6	(0.2)	(0.1)
Human Resources	7.3	6.8	(0.5)	(0.1)
Adult Social Care	331.2	317.6	(13.7)	(1.4)
Directorate Sub Total	**873.0**	**876.7**	**3.7**	**(0.2)**
Corporate Sub Total	(21.4)	(26.8)	(5.4)	0.0
City Council General Fund	**851.6**	**849.9**	**(1.7)**	**(0.2)**

Directorate Position and Movement from Previous Period



2. Key Highlights

2.1 Neighbourhoods (£16.8m forecast overspend)

The Neighbourhoods overspend has increased by £2.2m since Period 9.

- Street Scene has an overspend of £9.5m, an increase of £1.2m since period 9. The key element of the overspend are on £4.6m increased staff and agency costs from the delay in implementing the service redesign, £2.9m higher repair and maintenance costs for waste management due to a delay in acquiring replacement vehicles and £1.9m income shortfall in trade waste, street cleansing and fleet repair services as a result of a loss of customers.
- Housing Services has an overspend of £5.2m, an increase of £1m since period 9. The numbers presenting as homelessness continue to increase resulting in additional spending on bed and breakfast accommodation. The savings in Housing Strategic service redesign, previously identified as at risk will not now be delivered this financial year.
- Business Support continues to overspend at £1.4m due to lower income from land and property disposals. Regulation & Enforcement's overspend of £1m on due to lower income from bereavement services and markets, and Neighbourhoods Management continues to underspend by £0.4m.

Extra content expected:

- *What activity is driving any of these numbers e.g. Homeless – what did the budget assume by way of homeless numbers and what is current activity forecast*
- *The management action is proposed by the directorate on specific items and/or or generally:*

2.2 Adult Social Care (£13.7m underspend)

The underspend has increased by £1.4m since period 9.

- Adult Packages of Care has an underspend of £11.7m, an improvement of £1.8m on period 9 and reflects the Directorates achievement of its challenging savings targets and delivery of the transformation programme.
- The remaining net underspend of £2m reflects vacancies being held to ensure savings related to the customer journey are achieved in future years.

Extra content expected:

- *Better explanation of what activity is driving the Adult Packages underspend and what this means for future years.*

2.3 Education and Skills (£0.4m overspend)

- Education and Skills forecast an overspend of £0.4m in period 9. This has improved by £0.2m since period 9. Not reflected in this position is a financial risk resulting from Birmingham Children's Trust reporting a potential gross overspend of £8.1m less mitigations of between £1.7m and £3.4m. The Council is working with BCT to understand the financial position. While the Council does not provide a guarantee to the Trust to fund an overspend and expects the Trust to manage its position, there is a potential risk to the Council.

Extra content expected:

- *If available a fuller explanation of what is driving the risk and what mitigations are being taken and timescales*

2.4 **Finance & Governance (£0.7m overspend)**

- The overspend reflects savings non-delivery of £0.7m. The Finance and Governance Directorate is actively pursuing solutions to resolve this position.

> **Extra content expected:**
> - *What savings are not being delivered and the reasons*
> - *Explanation of what solutions are being pursed and likelihood of being achieved (especially given this is month 10)*

2.5 **Human Resources (£0.5m underspend)**

- HR Services accounts for £0.3m of the underspend and £0.2m relates to Schools HR. The overspends relate largely to vacancies and additional income.

2.6 **Digital & Customer Services (breakeven)**

While the position is breakeven there are two key positions to report:

- Revenue and Benefits forecasts an underspend of £1.0m due to a surplus on Housing Benefit Subsidy. It is proposed that with the uncertainty of grant income from DWP and the further delay in the implementation of full Universal Credits, allocate this to the specific benefits reserve, put in place to help manage the downsizing of the benefits operation over time.
- IT&D - The forecast assumes that all slippage from the Invest to Save Investment will be carried forward into 2020/21 to be utilised towards IT&D service delivery.

2.7 **Corporate Budgets (£5.4m underspend)**

The £5.4m net underspend in Corporate Budgets is largely a forecast underspend on the policy contingency budget and is unchanged from period 9.

3. Savings Programme

The total approved savings programme is £58.3m in 2019/20. This comprises the approved savings plan of £46.2m plus £12.1m of savings that were only delivered on a one-off basis in 2018/19.

- £41.3m are on track, an improvement of £0.9m from month 9
- £5.0m at risk and, a reduction of £3m from month 9
- £13.0m are classed as undeliverable (purple) or non-delivered (red),
- Directorates are identifying recovery plans to address this and will bring any proposals with policy implications to Cabinet.
- £5.1m of one-off mitigations and £0.1m of new savings have been identified at period 10
- There is £0.9m overachievement of savings at period 10.1

> **Extra content expected:**
> - *Clearer focus only on Amber, Red and Purple savings – present in a table*
> - *Explanation of key material items in these categories*

4. Key Risks not reflected in the forecast

Adult Social Care:

- Any fluctuations in demand over the Winter period may affect commitments against Packages of Care. As the gross budget is £303.8m, minor variations can have a considerable financial impact. This area of expenditure will be closely monitored.
- £2.6m of the base budget savings relate to a one-off benefit as the costs associated with the roll out of the Framework Pricing Policy are anticipated to be lower than anticipated.

As providers are reviewed, and service users moved to Direct Payment arrangements, this forecast underspend may be at risk and is therefore being closely monitored.

- Health and Hospital Discharge Teams within the Assessment & Support Planning Service have reported an increase in hospital activity that has the potential to impact on both hospital discharges and the need for social care packages. This activity is being closely monitored by the service.

Neighbourhoods

- A hazardous incident was addressed by Environmental Services. The final cost of this will be reported once known.
- Housing Options is currently showing an overspend of £4.8m on a budget of £3.5m, however if homelessness cases presenting increase further beyond the capacity of housing services, costs may increase further.
- There are potential risks related to unplanned property repairs within the Mortuary and the main Coroner's building.

Extra content expected:

- *Clearer position on likelihood of risk*
- *What mitigations if any are planned and any timescales*

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**30 June 2020**
Subject:	**AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT**
Wards affected: All	

1 Purpose

1.1 At its meeting on 24 September 2019, Members considered the External Auditor's Audit Findings Report following the audit of the Council's financial statements for 2018/19 which included six recommendations for management to consider.

1.2 The management responses to the External Auditor's recommendations were considered by this committee at that meeting and progress updates have been brought to previous meetings of this Committee. This report provides a further progress update on the implementation of management actions.

2 Decisions recommended:

Members are recommended to:

2.1 Note the progress in implementing management actions, attached as Appendix 1, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in September 2019

2.2 Seek updated reports to future meetings of this committee on the continued progress in implementing the management actions proposed.

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3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?: The coverage of the management actions in response to the Audit Findings Report recommendations are consistent with the policy framework and budget.

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter: The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.

3.4 Will decisions be carried out within existing finances and resources?
Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The Audit Findings Report includes details on activities where the External Auditor has identified that the Council can make improvements or reduce risks in its operations. This report provides a response on the progress in addressing the recommendations made.

4 Relevant background/chronology of key events:

4.1 The Audit Findings Report was considered by this committee at its meeting on 24 September 2019 as part of the process for approving the Council's financial statements for 2018/19. Management responses to the recommendations made by the external auditor were also considered at that meeting.

4.2 This report sets out the current progress in addressing the issues raised in the external auditor's recommendations identified in the Audit Findings Report.

4.3 Further reports will be provided to future meetings of this committee setting out the additional progress in implementing management actions.

Signature:

……………………………………………………………………
Rebecca Hellard, Interim Chief Finance Officer

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

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	Accounts					
1	**System Control – Feeder Files**					
	Residual Risk	Low				
	Impact	Low				
	The Council identified that eight separate feeder files from two subsidiary systems relating to 2019/20 were posted in period 16 of the 2018/19 general ledger in error. These entries were not reflected in the accounts and have been appropriately reversed out of the ledger, so there is no impact on the 2018/19 accounts. **Recommendation** The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future		An investigation into why the role that prevents users posting into the year-end period does not cover feeders will be conducted and appropriate action taken. This will start immediately. Feedback will be provided to the team and relevant managers in the areas where the issues have occurred and reminders given on the requirement to enter data on a timely and accurate basis. Feeder owners will be reminded of their responsibility: • to ensure that files are submitted in a timely manner and • that they reconcile their system to the ledger to ensure that all entries are recorded • that they notify Finance of any files that cannot be processed to ensure these are reflected in the accounts.	Immediate	Finance Manager, Financial Accounts	**November 2019** The chapter in the Financial Management Tool has been reviewed and will be published shortly. Information, Technology and Digital Services (IT&D) are currently looking at a solution to the matter. A progress update will be provided at the next meeting. **January 2020** The chapter for the Financial Management Tool has been reviewed and is awaiting publication. Information, Technology and Digital Services (IT&D) are still looking at a solution for this matter and a progress update will be provided at the next meeting. **March 2020** IT&D have concluded that a solution to automatically prevent this recurring isn't viable as it increases the risk of process failure to other aspects of the

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		The chapter in the Financial Management Tool will be reviewed to include feeder owner responsibilities and guidance in their use. During the closure of accounts, regular Trial Balance reports by document type will be run to ensure that feeder files are not posted retrospectively in the old financial year.			feeder file process. Monitoring of files will continue as before. **June 2020** Transactions through the ledger after the year end are monitored to ensure that only journal transactions are recorded. This will continue to the final closure of the accounts.
2	**Control Weakness - Asset Disposals**				
	Residual Risk: Low				
	Impact: Low				
	An asset with a net book value of £9.4m was disposed of in 2017/18 but this was not accounted for until 2018/19. We are satisfied this appears to be an isolated incident due to the unusual nature of the arrangement, so there is no material risk to the 2018/19 accounts. **Recommendation** The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year	Property Services will ensure that clear instructions are sent to Legal & Democratic Services, Property Records Team and relevant stake holders to facilitate the disposal of assets in an appropriate manner. Legal, Property and Finance staff will meet to share information on property transactions and ensure that processes are in place to capture relevant information and are being followed. Reconciliations will be undertaken during the year of disposals to	March 2019	Assistant Director, Property Services	**November 2019** The particular issue identified related to a CPO undertaken at the behest of a third party. Usually there is a back to back agreement to then transfer the asset on to the third party once the purchase has completed. However, in this case the purchaser did not want the asset immediately which led to the confusion. Going forward, the legal agreements will be amended to ensure that back to back agreements are entered into. The Legal, Finance and Property sections have met to look at tightening up procedures and share information.

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		identify any mismatches in information.			Appropriate processes will be completed to ensure that completion memo's are recorded on IPMS and subsequently reconciled with cash receipts. Any differences will be highlighted at the earliest opportunity. Where external legal support is used the agreement will include the requirement to provide a completion memo for ensuring property records are maintained appropriately. **January 2020** Guidance to be sent to Property Services Heads of Service and Project Officers detailing processes to be followed. **March 2020** Guidance has been issued to Heads of Service and project officers to provide clarity on the process to be followed. **June 2020** All transactions are monitored on a monthly basis by Property Services Officers at each Capital Receipts meeting. From 26 June 2020 there will be an agenda item specifically around completion memos being actioned.

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer	Progress in implementation
3	**Control Weakness – Asset Valuations**					
	Residual Risk	Low				
	Impact	Low				
	We identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation. **Recommendation** Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved		Property services officer valuations will be independently checked by an appropriate qualified valuer with immediate effect.	Immediate	Assistant Director, Property Services	**November 2019** A two tier checking system has been put in place with a peer review by an appropriately qualified surveyor followed by a management review by the Head of Service. **January 2020** Details of valuation sign off process to be followed sent out in week of 15 January 2019. **March 2020** An independent professional review of all cyclical valuations undertaken by in-house valuers has been carried out by Avison Young's valuation team who specialise in valuations of this nature. **June 2020** This recommendation was actioned specifically as part of the 2019/20 Annual Asset Valuation process with the appointment of Avison & Young.

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer	Progress in implementation
4	**Control Weakness – Completeness of Expenditure**					
	Residual Risk	Low				
	Impact	Medium				
	Our testing of the completeness of expenditure identified several items which were paid after 31 March 2019 but should have been accrued into 2018/19. The Council has performed extended analysis covering payments made during the period to 22 August 2019 which has identified £9.8m of invoices which relate to 2018/19 but were not accrued. **Recommendation** The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future.		The current audit and follow up investigation has identified a number of areas where the Council process for procurement and receipting of goods and services and payment of invoices are not being followed appropriately. An analysis of the data will be undertaken to identify those areas where there are significant numbers or value of invoices that have not been accounted for appropriately. Meetings will be held with those teams identified to set out the implications to the Council of not following relevant processes. Finance Business Partners will brief Directorate Management Teams on the issues identified and the action required and procedures to be followed to meet appropriate accounting requirements. The Council has organised a number of mandatory "Finance for Non-Financial Managers" training sessions which has covered the need for accounting for activities in	Immediate	Chief Finance Officer	**November 2019** Directorates have been provided with monthly reports for a number of years detailing areas where: • overdue invoices which have not been authorised within 3 working days • services have been supplied without a purchase order • purchase orders have been raised retrospectively. Whilst the reports have been provided issues have still occurred with the timeliness of invoice payments. Greater emphasis will be placed on this reporting and will be driven through the Corporate Leadership Team and followed up through Directorate Management Teams with Finance Business Partners. In addition, further reports will be run to identify specific hot spots for delays and individuals offered advice and support in clearing invoices on a timely basis.

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		the year that the goods/services are provided. This will be followed up with additional training for managers. The Voyager Newsletter sent out to staff will include articles on the issues identified and the actions that will be required to ensure future compliance. During the year, regular reports will be run to identify where invoices, purchase orders and goods receipts are not being recorded on a timely basis which will be followed up with the appropriate team and Directorate management team. There will be a hard close at a month end prior to the end of the financial year so that a check can be run on ensuring that appropriate procedures are being followed. At year end reports will be run to check those invoices paid early in the new year have been accounted for correctly and goods receipting of purchase orders is appropriate.			Guidance on the processes and procedures to be followed will be republished. Areas of continued non-compliance will be visited to determine the reasons for any issues. **<u>January 2020</u>** Suppliers to be written to to ensure that invoices are sent into the central point as per processes. Guidance being drafted as a reminder to all BCC and BCT services of processes to be followed in procurement and payment to minimise payment delays. Closedown guidance drafted to advise service and finance teams of processes and deadlines for year end, including requirement for appropriate accounting for goods and services deliverd. Monitoring reports continuing to be produced and analysed to identify any hot spots in service or system performance.

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					<u>March 2020</u> Budget Holders have been written to regarding the need for invoices to be paid promptly. Suppliers have been written to requesting that all invoices are sent to a central point to allow faster uploading and capture of information into the finance system. **<u>June 2020</u>** As part of the completion of the financial transactions for the outturn report and the financial statements, a review of outstanding purchase orders and invoice clearance to ensure appropriate entry into the accounts has been undertaken. This has also helped ensure the payment of suppliers on a timely basis. Major payments made in April have been reviewed to check the financial year in which the expenditure should be recorded and whether accruals have been made.

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer	Progress in implementation
5	**Asset Valuation – Determination of appropriate rates**					
	Residual Risk	Low				
	Impact	Low				
	As part of the valuation of Council Dwellings we identified that the valuer applied a £5k adjustment rate for bedrooms to the majority of archetypes On further review, the £5k was based on the approach taken in previous years and it was not clear that a review had been carried out to check if this value was still appropriate. **Recommendation** The Council should ensure that assumptions used in the valuation of property, plant and equipment, including council dwellings, are reviewed for appropriateness each year and updated where appropriate. In particular a review of the actual impact of the number of bedrooms on the valuation of council dwellings should be carried out in order to support the value of the adjustment.		Agreed. A review will be undertaken on the impact of the number of rooms on property prices for relevant archetypes to ensure the robustness of valuations.	Immediate	Assistant Director, Property Services	**<u>November 2019</u>** A full beacon review is being undertaken for 2019/20 which will include a review of the valuation methodology to be adopted with an option to move to a £ per m^{-2} basis rather than a room differential basis. Beacon properties will be identified to ensure a fair representation of the City area. There will be discussions with an external valuer to support the market intelligence gathering. **<u>January 2020</u>** Process implemented with effect from January 2020 and will be followed through the closure of the 2019/20 accounts. **<u>March 2020</u>** Inspections are being conducted by external experts to provide additional resource support to the in-house team. Savills are undertaking a peer review of the valuation once completed.

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer	Progress in implementation
						June 2020 This recommendation was actioned specifically as part of the 2019/20 Annual Asset Valuation process with Sure Surveyors conducting the independent valuations.
6	**SAP – User Access**					
	Residual Risk	Low				
	Impact	Low				
	As part of our review of IT controls, we identified an excessive number of users with access to critical T-codes within SAP. Our IT audit identified 109 uses with potentially inappropriate access out of 668 users tested due their higher risk nature. The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators.		Capita ICTDS have responded to the GT IT Audit on this point which is summarised below The majority of the transactions listed here will be assigned to BASIS only (the team who deal with the core of the system – these transactions are appropriate for this team to use) and most within their firefighter id. The rest have been reviewed after previous audits and deemed appropriate All users with access to any of these transactions will either be support personnel, or in the case of SM37, users within the business. (SM37 monitors jobs run	Commencing September 2019	Finance Manager SAP BSC	**November 2019** The level of access identified in the recommendation is required to ensure that the system functionality can be maintained. Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support monitoring of access.

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	We noted this is primarily due to the current Firefighter setup and the fact that 8 users have SAP ALL access. **Recommendation** Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only.	in the background in SAP. Due to the size and complexity of BCC's ledger, it's recommended that large reports are run in the background to reduce stresses on BAU processing). <u>Response from BCC</u> User access to critical transactions is reviewed regularly with access to areas such as SAP_ALL reviewed daily. Appropriate action is taken to remove or amend as required. In August an upgraded Governance, Risk and Compliance tool was implemented in SAP which will assist with user access administration and monitoring.			**<u>January 2020</u>** The level of access identified in the recommendation is required to ensure that system functionality can be maintained. Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access. This recommendation can be closed.

Grant Thornton

External Audit Plan

Year ending 31 March 2020

Birmingham City Council

March 2020

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of: • Birmingham Children's Trust CIC • National Exhibition Centre (Developments) Plc • Acivico Limited • Birmingham City Propco Limited • InReach (Birmingham) Limited • PETPS (Birmingham) Limited • PETPS (Birmingham) Pension Fund SLP • Birmingham Airport Holdings Limited (Associate) • Paradise Circus General Partner Limited (Joint Venture)
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls (non-rebuttable presumption under ISA 240) • Valuation of land and buildings • Valuation of net pension fund liability • Valuation of equal pay provision We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality	We have determined planning materiality to be £37.0m for the group (PY £44.5m) and £36.95m for the Council (PY £43.8m), which equates to approximately 1.2% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.8m (PY £2.2m). Further information is included on page 12 of this report.
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks: • Council resilience and financial sustainability • Contract monitoring and management • Financial impact of the Commonwealth Games • Waste service continuity and industrial relations • Contractual arrangements relating to the highways PFI Scheme Our risk assessment is a continuous process, and we will consider whether events or conditions give rise to additional risks up until the time that we give our conclusion.
Audit logistics	Our interim visits are taking place in February and March and our final visit will commence in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £297,409 (PY £288,609), subject to the Council meeting our requirements set out on page 15.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Birmingham City Council, financial plans include savings of £56 million over the next four years, including £22 million for 2020/21.

At a national level, the UK has now left the EU, with a transition period now running until the end of 2020 while the UK and EU negotiate additional arrangements. Future arrangements remain uncertain. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in the Appendix to this report.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Local issues

There are a number of matters specific to the Council which we will consider as part of our work, including the publication of the independent review into the Council's waste service, the appointment of Kier as interim services provider for the Birmingham highways contract, the Council's ongoing preparation for the Commonwealth Games in 2022, the development of a new strategic risk strategy, and implementation of the finance improvement plan.

Implementation of IFRS 16 – Leases

From 1 April 2020 the Council will need to implement the new leases accounting standard (IFRS16).

This has the potential for more assets and associated liabilities to be bought onto the Council's balance sheet.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Our proposed work and fee, as set further in this Audit Plan, has been agreed with the interim Director of Finance and any fee variations are subject to PSAA agreement.

We have considered the above issues as part of our Value for Money conclusion risk assessment, and have identified related significant risks as set out in part 8 of this Audit Plan.

We will assess the adequacy of your process to determine the financial impact of implementing the new standard from 1 April 2020.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Birmingham City Council	Yes	Audit of the financial information of the component	Risks set out in section 4 of this report	Full scope UK statutory audit performed by Grant Thornton UK LLP
Birmingham Children's Trust CIC	No	Specified audit procedures	We have not identified any significant risks of misstatement of the group financial statements, however the following balances are expected to be material to the group: • Expenditure • Net pension liability	We will request specific procedures from the component auditor, Crowe UK LLP, on these balances. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks and guidance on designing procedures, followed by the review of relevant aspects of their audit documentation.
National Exhibition Centre (Developments) Plc	No	Specified audit procedures	We have not identified any significant risks of misstatement of the group financial statements, however the company's loan stock is expected to be material to the group.	Specific procedures will be completed on these balances by Grant Thornton UK LLP.
Acivico Limited	No	Specified audit procedures (TBC)	We have not identified any significant risks of misstatement of the group financial statements, however the company's expenditure may be material to the group.	If expenditure is material, specific procedures will be completed on these balances by Grant Thornton UK LLP. If not, analytical procedures will be performed, as below.
Other entities as set out on page 3	No	Analytical procedures	None	Analytical procedures at group level performed by Grant Thornton UK LLP.

From the completion of our planning procedures, we are not aware of any changes within the group during the 2019/20 financial year.

Audit scope

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

4. Significant risks identified

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

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit, with you in our Audit Findings Report in September 2020.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group and Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Birmingham City Council.
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements.

Significant risks continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Council	The Council revalues its land and buildings, including council housing, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions Additionally, where a rolling programme is used, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate; • evaluate the competence, capabilities and objectivity of the valuation experts; • confirm the basis on which the valuation was carried out, through discussions and correspondence with the Council's valuers; • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • engage our own valuer to assess the instructions issued by the Council to their valuers, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued at the balance sheet date and how management has satisfied themselves that the carrying values of these assets are not materially different to current value at year end.
Valuation of equal pay liability	Group and Council	Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk. We identified the valuation of the equal pay provision as a risk requiring special audit consideration.	We will: • update our understanding of management's process and controls in place to estimate the equal pay provision; • review the assumptions on which the estimate was based; • consider events or conditions that could have changed the basis of estimation; • on a sample basis, reperform the calculation of the estimate; • confirm that the estimate has been determined and recognised in accordance with accounting standards; • determine how management have assessed the estimation uncertainty; and • consider the impact of any subsequent transactions or events.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases **(issued but not adopted)**	Group and Council	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code, disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements; • evaluate whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements; • assess the completeness and accuracy of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

6. Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

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

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark.

Materiality at the planning stage of our audit is £37.0m for the group (PY £44.5m) and £36.95m for the Council (PY £43.8m), which equates to approximately 1.2% of your prior year gross expenditure. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

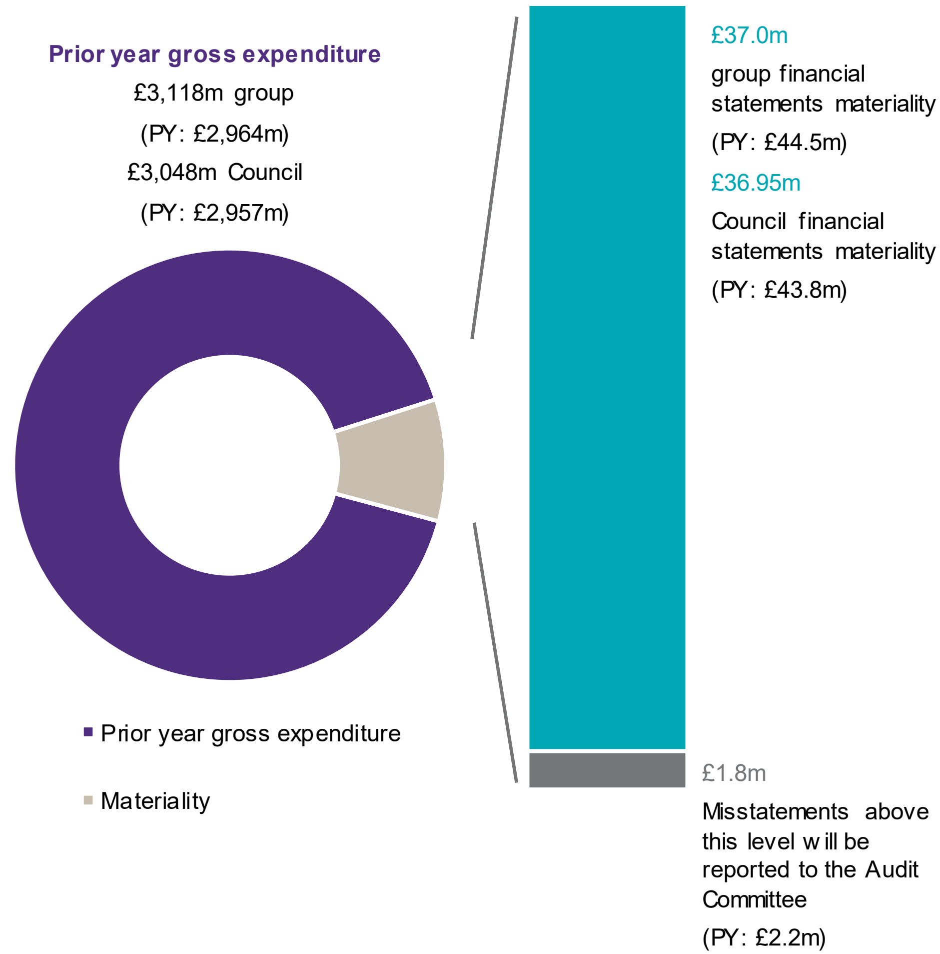
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.8m (PY £2.2m).

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



8. Value for Money arrangements

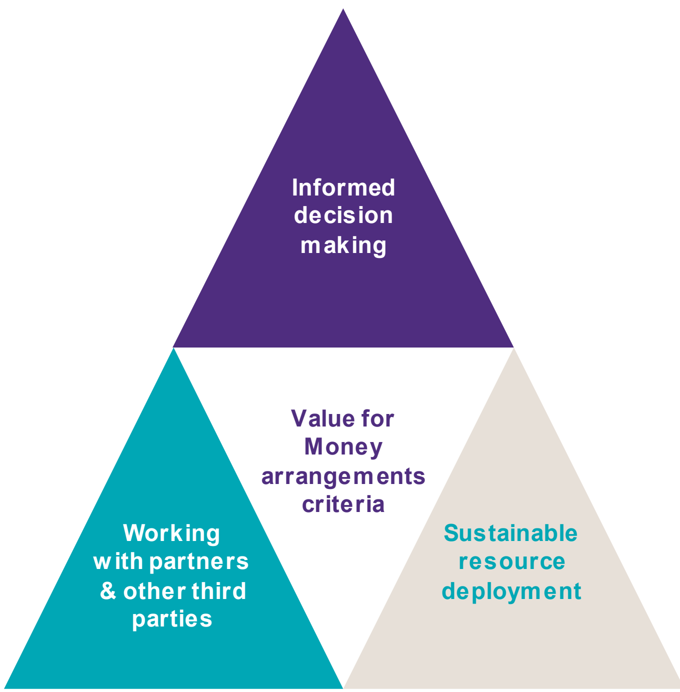
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, and update our risk assessment as necessary up to the date that we issue our auditor's report.

Council resilience and financial sustainability

There is a risk is that the proposed 2019/20 savings plans will not deliver the required recurrent savings, or will take longer to implement than planned. In addition, the Council's medium term financial plan for 2020-21 to 2023-24 needs to incorporate realistic and detailed savings plans, while at the same time maintaining an adequate level of reserves to mitigate the impact of risks including the PFI contract, Commonwealth Games, Equal Pay and Paradise Circus.

Following years of budget restrictions and limited investment, many of the Council's operational assets are in poor condition. The Council's strategy to address this is key, and should link in to its capital plan. We also note that the Council has undergone a significant level of change in senior leadership positions in recent years. There is a risk that the governance arrangements in place have not kept up with the changes in management structure, and are no longer suitable.

We will review the Council's latest financial reports, monitoring report and savings plans trackers to establish how the Council is identifying, managing and monitoring these risks. We will consider the adequacy of reserves and the prudency of their use, as well as the transparency of financial reporting.

We will review the work that the Council has done to re-base its financial budgeting and planning, including the reprofiling of capital projects and the resulting slippage in the capital plan. We will consider the Council's approval routes and their appropriateness and effectiveness.

Value for Money arrangements continued

Waste service continuity and industrial relations

In our 2018-19 VFM work, we identified the VFM risk that the Council would fail to implement adequate governance arrangements in relation to the waste dispute. This had been the subject of previous Statutory Recommendations issued by Grant Thornton in July 2018 and March 2019.

At the time of giving our VFM conclusion in September 2019, the Council had commissioned an independent review of the Waste Service, but this had not concluded. The Council intended to wait for that report before making decisions about future options for the service.

This report has since been received by the Council, and the previous Memorandum of Understanding ended in November 2019. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

We will review the governance arrangements in place for the Waste Service, and consider the progress made by the Council in this area.

Contractual arrangements relating to the highways PFI Scheme

In our 2018-19 VFM work, we identified the risk that ongoing contractual disputes with Amey Local Government (Amey LG) (and other involved parties) in respect of the Highways PFI contract could have a significant impact on the Council's financial sustainability.

At the time of giving our VFM conclusion in September 2019, a settlement agreement had been made between Birmingham Highways Ltd (BHL) and Amey LG, with financial risk to the Council. However, preparations were ongoing for Amey LG's exiting of the PFI contract.

In February, the Council announced the appointment of Kier as interim services provider, with work ongoing to identify a long-term maintenance and management partner to replace Amey LG. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

We will review the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.

Contract monitoring and management

We note that the Council's internal audit function, Birmingham Audit, has issued two separate reports that highlight substantial issues and weaknesses relating to the management and monitoring of significant contracts.

We will consider the work done by the relevant directorates to address the findings contained in the reports issued by Birmingham Audit, as well as considering any potential wider impacts of the weaknesses.

Financial impact of the Commonwealth Games

In our 2018-19 VFM work, we identified the VFM risk that the cost of hosting the Commonwealth Games could impact on the Council's future financial sustainability.

At the time of giving our VFM conclusion in September 2019, we noted that the Council had strengthened its governance arrangements relating to the delivery of the Commonwealth Games over the previous 12 months, and had clarified the governance framework under which partner bodies would report and work.

Work to identify sources of funding for the Council's share of the costs is ongoing. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

We will review the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and the associated funding arrangements, to establish how the Council is identifying, managing and monitoring this risk.

9. Audit logistics & team

Jon Roberts, Key Audit Partner

Jon will be the main point of contact for the Chief Executive, statutory officers and Members. Jon will share his wealth of knowledge and experience across the sector, providing challenge. Jon will ensure our audit is tailored specifically to the Council, focussing his time on the key audit risks

Laurelin Griffiths, Engagement Manager

Laurelin will work with members of the finance and executive teams, ensuring that work is completed as smoothly as possible and on a timely basis. She will attend Audit Committee meetings, undertake reviews of the team's work and draft reports, ensuring that they remain clear, concise and understandable to all.

Zak Francis, Support Manager

Zak will support Laurelin in her work to oversee the delivery of audit testing. He will share responsibility for considering any complex accounting issues that arise in the year, and will complete preliminary reviews of the team's work while providing on-site support.

Kirsty Lees, Audit Incharge

Kirsty will be the day to day contact for the Council's finance team. She will monitor deliverables, highlight any significant issues and adjustments to management, and maintain an awareness of the detail of the rest of the team's work.

The Council's responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a body not meeting its obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2a or above rating (the highest two ratings of their four point scale) this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the interim Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£322,903	£288,609	£297,409

Assumptions:

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	**£241,909**	
Raising the bar	£13,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£4,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£10,000	We have engaged our own audit expert – Wilks Head & Eve LLP – and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This increase includes an estimate for the fee payable to the auditor's expert, which we estimate will be in the region of £5,000.
New standards and developments	£4,000	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16.
Local issues	£20,000	There are a number of local issues specific to the Council and its audit which will require additional inputs to complete our work, including: monitoring the impact of the Strategic Programme Board; the increased level of work we anticipate will be required to support our audit opinion and VFM conclusion, including preparations for the Commonwealth Games, the new strategic risk strategy and implementation of the finance improvement plan; work on the Council's PFI model and the retendered Highways arrangements; and additional testing to gain assurance around the completeness of the Council's expenditure, following issues noted in the 2018/19 year.
Enhanced Audit Report	£4,000	As the Council holds listed debt, it meets the FRC definition of a Public Interest Entity. Certain additional Ethical and Quality standards apply, including the need for us to produce an Enhanced Audit Report.
Revised scale fee (to be approved by PSAA)	**£297,409**	

11. Independence & non-audit services

Auditor independence

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

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

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

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you.

The following other services were identified:

Service	£ Fee	Threats	Safeguards
Audit related:			
Certification of 2018/19 Housing capital receipts grant	5,250	For these three audit-related services, we consider that the following perceived threats may apply: • Self-Interest (because this is a recurring fee) • Self Review • Management	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2018/19 Teachers' Pension return	7,250		Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.
Certification of 2018/19 Housing Benefits Subsidy claim	29,500		The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.

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Independence & non-audit services continued

Service	£ Fee	Threats	Safeguards
Audit related (continued):			
Education Skills Funding Agency agreed upon procedures 2018-19	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on their own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
AMSCI reasonable assurance engagements (undertaken in August and December 2019)	15,800	Self-Interest (because this is a recurring fee)	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £15,800 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related:			
CFO insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
CASS reporting 2019 (Finance Birmingham)	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

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

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendices

Audit Quality – national context

Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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External Audit Plan update

Year ending 31 March 2020

Birmingham City Council

April 2020

Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Birmingham City Council ('the Council') as reported in our Audit Plan dated March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan in March 2020, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Council and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risks identified – Covid-19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach; • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

Informing the audit risk assessment for Birmingham City Council

Year ended 31 March 2020

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Purpose

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

Background

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

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

Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

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

General Enquiries of Management

Question	Management response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	The agreement entered into between Birmingham Highways Limited and the Council in June 2019 for the future delivery of the Highways PFI contract. The agreement required the retendering, both for a short term and long delivery by a new sub contractor of BHL, and the impact of this on the activity during the year will be fully assessed for the impact on the accounts. The Council uses experts to provide estimates for non-current asset and pension liability valuations. A marginal change in assumptions can have a significant impact on outcomes. The Council has used external experts to supplement and provide challenge where internal experts have been used to determine estimates. The spread of Covid-19 and the introduction of lockdown and the subsequent impact on the economy has increased the level of uncertainty on valuations. The financial statements will be based on the best estimates available but the disclosures within the accounts will be enhanced to make the reader aware of the basis of preparation and any uncertainty that follows. The rapid move to working remotely just before the year end as a result of the spread of Covid-19 and the emergency actions that the Council has had to undertake to support the citizens of Birmingham has meant a sudden switch in focus for operational and finance staff. The change in priorities may have lead to a delay in completing actions at the year end and additional checks have been put in place to ensure that information in the financial ledger is robust.
Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The Council bases its accounting policies on the example accounting policies included in the CIPFA Code Guidance. The Audit Committee of the Council considers and approves the accounting policies each year. The accounting policies have been reviewed and only minor changes have been identified.
Is there any use of financial instruments, including derivatives?	Yes as part of the normal treasury management activity with the policy set out in the Council's Financial Plan approved annually. There is no use of derivatives.
Are you aware of any significant transactions outside the normal course of business?	The agreement in respect of the Highways PFI contract, as detailed above, being a change to the 25 year arrangement. The preparation for the delivery of the Commonwealth Games in 2022 involves a number of different activities that would not form part of the Council's normal course of business.

General Enquiries of Management

Question	Management response
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The spread of Covid-19 and the subsequent impact on the economy increases the level of uncertainty on asset values. Valuations of non-current assets have been based on the best information available and have been peer reviewed to ensure that they are as robust as can be. However, given the significant nature of current events there may be some level of uncertainty in valuations which will be explained in the financial statements.
Are you aware of any guarantee contracts?	Yes. The Council recognises, as part of agreements involving TUPE of staff to external organisations, guarantees to the pension fund for default by the external provider and generally to the external provider for increases over and above initial contribution rates payable.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The Council has provided a letter of comfort to a subsidiary company as part of the company's going concern assessment to ensure that it can continue to meet its liabilities as they fall due.
Other than in house solicitors, please provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years.	The Council may use a range of external solicitors to supplement internal provision depending on caseload and the nature of the case under consideration. The external firms used for prior year activities are Bevan Brittan, Browne Jacobson, DWF, Pinsent Masons and Veale Wasbrough Vizards. For current year activity the external firms used are Anthony Collins, APC Solicitors, Berrymans Lace Mawer, Bevan Brittan, Browne Jacobson, DLA Piper, DWF, Gowling WLG, Pinsent Masons and Veale Wasbrough Vizards. The cases cover a range of activities from litigation, HR matters, development projects and contract matters.
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements?	No fraud referrals were of a magnitude to have any impact on the financial statements.

General Enquiries of Management

Question	Management response
Please you provide details of other advisors consulted during the year and the issue on which they were consulted.	Non-Executive Advisors – Support to Council Leadership Team and consulted on budget process Commonwealth Games - Savills, White Young Green, DWF (lawyers), CBRE, PwC, Gerald Eve, Arcadis, Mace ERP implementation – SOCITM Highways PFI contract – DLA Piper and Duff and Phelps Treasury Management - Arlingclose Integrating Health & Social Care – Newton Community Partnership Project Ltd - Schools PFI Saving Waste Strategy - Wood Environment and & Infrastructure Solutions UK Limited , Fichtner Consulting Engineers Smithfield Project – Bevan Britten, Deloitte, Cushman & Wakefield, Amion Paradise Project – Cushman & Wakefield, Amion, KPMG, Gardner and Theobold, Browne Jacobson (State Aid) Ladywood – Avison Young, Amion, Cushman & Wakefield Enterprise Zone model – Montagu Evans Asset valuations – support from Avison Young in completion of some valuations and review of internal valuations. Valuation Office Agency undertaking valuation of Tyseley Waste site. PWC – Procurement assessment, Tax Advice, Tourism Levy Assessment, company liquidation CIPFA – Financial Management, Debt Policy/Strategy Finance Birmingham – external company support and investment

Fraud

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How does the Authority's risk management processes link to financial reporting?	Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas, and a dedicated Counter Fraud Team to investigate allegations of fraud. The Counter Fraud Team undertake reactive and proactive investigations across the organisation, which includes high risk areas such as Social Housing and Council Tax. The risk of material misstatement of the accounts due to undetected fraud is low. A Fraud Risk Assessment was undertaken in 2019, highlighting potential areas for proactive fraud exercises. This is based on the Council's experience of known fraud risk areas, taking in to account previous instances of fraud, and areas which have been identified nationally by the CIPFA Fraud & Corruption Tracker as representing either a high, or emerging, fraud risk. This year Internal Audit have delivered a programme of Fraud Awareness Training to managers in the Adults Social Care Directorate, in direct response to previous frauds within this area. Strategic risks have been taken into account in resource allocation and in the identification of issues highlighted in the AGS.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The CIPFA Fraud & Corruption Tracker has identified Social Housing, Council Tax and Blue Badges as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. In recent years the Council has committed significant resources to tackling Social Housing and Council Tax related fraud, and a programme of Fraud Awareness Training has been delivered to Adult Social Care managers to address the risk of fraud in that area. Internal Audit are also working with Corporate Procurement Services to address the perceived risk posed by Serious & Organised Crime in accessing public sector contracts. Housing Benefit also remains a high risk area however responsibility for investigating fraud in this area was transferred to the Department for Work & Pensions (DWP) in 2015 and the Council no longer has any authority or legal power to investigate benefit fraud. Nevertheless, the Counter Fraud Team are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly.

Fraud risk assessment

Question	Management response
Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Internal Audit log all cases of suspected fraud, error and procedural non-compliance, and since 1.4.19, 94 cases (as at 21.2.20) had been recorded (excluding Social Housing and Council Tax). Other than the misappropriation of around £30,000 from a school by one of its employees, no other significant instances of fraud or irregularity have been identified during the year. Salary overpayments in excess of £3,000 continue to be investigated by Internal Audit, and during the year 15 cases have been referred. Details of all Internal Audit investigations are circulated each month to the relevant Directors, who also receive the Audit Reports on the conclusion of an investigation. An Annual Fraud Report covering Internal Audit's work on fraud is presented annually to the Audit Committee.

Fraud risk assessment

Question	Management response
Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Authority where fraud is more likely to occur?	The CIPFA Fraud & Corruption Tracker has identified Social Housing, Council Tax and Blue Badges as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. In recent years the Council has committed significant resources to tackling Social Housing and Council Tax related fraud, and a programme of Fraud Awareness Training has been delivered to Adult Social Care managers to address the risk of fraud in that area. Internal Audit are also working with Corporate Procurement Services to address the perceived risk posed by Serious & Organised Crime in accessing public sector contracts. Housing Benefit also remains a high risk area however responsibility for investigating fraud in this area was transferred to the Department for Work & Pensions (DWP) in 2015 and the Council no longer has any authority or legal power to investigate benefit fraud. Nevertheless, the Counter Fraud Team are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly. The Counter Fraud Team actively investigate allegations of social housing fraud such as illegal sub-lets, non-residency of properties and fraudulent applications for social housing in respect of the Council's own stock and that of Registered Provider partners. During the year they have also sought to raise general awareness of the problem of tenancy fraud through the media. Internal Audit have also worked with Housing to secure the gateway to obtaining a tenancy through increased use of the Data Warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach has been pursued with applications made under the Right to Buy Scheme. Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions, so counter fraud resources have been committed to identify and investigate fraud and error in this area. The Council has traditionally taken part in the bi-annual National Fraud Initiative (NFI) data matching exercises to identify fraudulent claims for SPD's and Council Tax Support. However Internal Audit has now developed an automated programme of data matching, which allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. In time it is expected that the process will reduce the amount of fraud or error that needs a formal investigation as it will have been prevented or stopped almost as soon as it began. Social Care fraud is also considered to be a high risk area and Internal Audit continue to work closely with the Adults Social Care Directorate to combat Direct Payment fraud.

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
How would you assess the overall control environment for the Authority, including: - does the process for reviewing the effectiveness the system of internal control exist and work effectively? - do internal controls exist and work effectively, including segregation of duties? If not, where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Internal Audit as part of delivering its audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. Data analytical techniques are used to proactively check compliance and identify exceptions. Financial reporting is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts and these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.
Are there any areas where there is potential for misreporting?	The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts, these staff have a reporting line to the Chief Finance Officer. Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.

Fraud risk assessment

Question	Management response
How does the Authority communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Staff Code of Conduct forms part of the contract of employment. The Code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow. There are specific guidelines for dealing with employee fraud relating to benefits, social housing, Council Tax and Blue Badges. Business practices are laid out in the Policies Standards Procedures and Guidelines (PSPG) database. There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. There is a Whistleblowing Policy in place, which includes schools, and a dedicated Whistleblowing Reporting Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on the Employee Portal, includes an email address and telephone numbers for fraud reporting. An on-line referral form is in place on the Employee Portal and Birmingham.gov.uk. In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit. No significant issues have been reported by staff during the last financial year.
From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Those involved in the procurement of goods and services and managing contracts, those involved in the planning process, those involved in processing high value transactions. There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Internal Audit as part of delivering its audit plan.
Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings. Reports provided through NFI are being used by Internal Audit to help identify undeclared relationships, along with proactive exercises analysing data from the main financial systems.

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Fraud risk assessment

Question	Management response
What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud which includes updates on other initiatives such as NFI. The Audit Committee will seek explanations from management as it sees fit where it is felt that failings have led to instances of fraud and error. During the year, the Audit Committee requested further information about the occurrence of salary overpayments and has sought assurance as to how this problem is being addressed.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Whistleblowing allegations can be reported to Legal Services who will determine whether the matters are to be treated as protected disclosures as defined under the BCC Whistleblowing Policy. Allegations of fraud and corruption will invariably be referred to Internal Audit to investigate. No significant issues have been reported during the last financial year.
Have any reports been made under the Bribery Act?	No

Law and regulations

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	This is dealt with in the Annual Governance Statement. All reports to Committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for Decision reports. The Monitoring officer is responsible for ensuring the Council is compliant with laws and regulations. The Council's constitution notes that these responsibilities cover: Report on contraventions or likely contraventions of any enactment or rule of law. Report on any maladministration or injustice where Ombudsman has carried out an investigation. Receive copies of whistleblowing allegations of misconduct. Investigate and report any misconduct in compliance with Regulations. Advices on vires issues, maladministration, financial impropriety, probity and policy framework and budge issues to all members. The Monitoring Officer has access to all Council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific legal issues, the Monitoring Officer would get l involved at an early stage including vetting reports for legal issues. Senior lawyers in Legal Services undertake corporate governance review of reports to Cabinet and Cabinet Members.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Through the Annual Governance Statement process that is approved separately by Audit Committee and forms part of the annual financial statements. Regular updates of the Council's Risk Register are considered by CMT and Audit Committee. The financial and legal implications are set out in committee reports. Reassurance to the Resources Overview and Scrutiny Committee would be through reports to the committee where they were appropriate.
Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No
Is there any actual or potential litigation or claims that would affect the financial statements?	None that have not been already included in current outturn forecasts.

Impact of laws and regulations

Question	Management response
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	Claims involving the Highest Risk to the Council are regularly monitored by the Legal and Governance Management team and reported to the Council Corporate Management Team. Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities where there is uncertainty about any payment.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None received

Going Concern

Matters in relation to going concern

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

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

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

Going Concern Considerations

Question	Management response
Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?	The approval of the Council Financial Plan 2020-2024 was set the groundwork as a robust basis for identifying the Council as a going concern in 2020/21. Please see in particular Chapter 1 (p. 7 to p. 8) and Appendix E (p.102 to p.106), which includes a detailed discussion and tabular summary of the strategic and financial risks which management are aware of. This analysis informs the level of reserves and balances included in the Plan (p.42 to p.47), and supports the S151 officer's S25 Reports of the robustness of budget estimates (Chapter 8, p.73 – p. 81) and the Assessment of Reserves (Chapter 9, p. 82 – p. 85). The impact of the spread of Covid-19 and the subsequent actions taken to support the citizens of Birmingham and the local economy, supported by government funding, has had both short term and long term financial impacts on the Council. The full extent of the impact cannot yet be determined fully as they will be dependent on the extent of the current lockdown arrangements and the support provided by central government. The Council has closely monitored actual and expected expenditure, projected likely levels of income loss, further financial risks and cashflow monitoring. Depending on the extent of the additional pressures faced the Council is holding the commitment of policy contingency or requests to use reserves until the position becomes clearer.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?	The Financial Plan 2020 - 2024 includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members and the Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern. Regular monitoring of the additional pressures faced as a result of the spread of Covid-19 are reported and the associated implications are kept under review.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Plan 2020 - 2024 explicitly takes into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium-and long-term plans. The Council declared a Climate Emergency in June 2019 and introduced a sixth priority for the city to take a leading role in tackling climate change. The Chapter 3 of the Financial Plan 2020 – 2024 includes a section (p. 34 – p. 36) on how it intends to use resources generated from the Clean Air Zone (starting in June 2020) to begin to tackle climate change.

Going Concern Considerations

Question	Management response
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)	Audit Committee has received, and continues to receive, reports on significant issues facing the Council. During the last year, Audit Committee has received updates on matters relating to the Highways PFI contract, Paradise Circus redevelopment and Equal Pay. Regular update reports are provided by Birmingham Audit to Audit Committee. Audit Committee will also be receiving a report on the financial monitoring being undertaken to assess the impact of Covid-19 in addition to the normal monitoring arrangements.
Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	The Council's arrangements for its management of cashflows are set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. Ultimately, negative cashflow is controlled by the balanced budget requirement and the prudential limit and indicators. The Council's arrangements for budget monitoring, including the implementation of the savings programme, monitoring of the Capital Programme, including the Commonwealth Games, ensure that close attention is paid to the need to deliver services and projects within allocated budgets Activity is reported through CLT, EMT and Resources Scrutiny on a monthly basis, and considered further at Capital Board, and ultimately at Cabinet on a quarterly basis. Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme. A fundamental review of Directorates budgets was carried out in December 2019 and January 2020 resulting in savings not considered to be deliverable and a significant number of base budget pressures being identified and funded as part of the 2020/21 budget setting process.
Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?	The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, and the maintenance of reserve balances to mitigate any residual risk. Potential financial risks are identified at Appendix E of the Financial Plan 2020 – 2024 and the value of this is broadly the same as the forecast level of general reserves. These are medium term financial risks so the Council would also have a number of budget cycles to address these if they materialise.

Going Concern Considerations

Question	Management response
Does the Authority have procedures in place to assess its ability to continue as a going concern?	The Council has developed a 10 year cashflow monitoring model to enable it to assess its ability to meet its liabilities as they fall due.
Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	No
Are arrangements in place to report the going concern assessment to the Audit Committee? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	Yes. Quarterly monitoring reports, including statements on revenue, capital, reserves and treasury management positions, are considered at Cabinet. Monthly monitoring reports (months 2 – 10) are also considered by Scrutiny. Audit Committee receives reports on matter that may have a significant impact on the financial position of the Council.

Related Parties

Matters in relation to related parties

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

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

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

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

Related Parties

Question	Management response
What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?	Members and Senior Officers are required to complete an annual register of interests. Members and officers are also required to declare any interests relating to matters to be discussed in each meeting. The Council nominates representatives to organisations which are approved via Cabinet and other committees. Reports on representation on organisations boards are reported to Cabinet Committee –Group Company Governance (CC-GCG). The Council also has relationships with organisations where it is a shareholder or member of that organisation. These relationships are reported to CC-GCG on a regular basis.

Accounting Estimates

Matters in relation to accounting estimates

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

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

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

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

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

Accounting Estimates

Question	Management response
Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Yes. Experts in particular fields are used to provide estimates and there is a reasonableness check on the advice given. Also our external auditors have reviewed the basis of estimates in previous years and confirmed that the council's financial statements are materially correct. Given the significant impact on the citizens of Birmingham and the local economy as a result of the spread of Covid-19 and the associated actions taken to limit that spread, there is likely to be an increase in the level of uncertainty on valuations. Whilst valuations have been peer reviewed to ensure that estimates are reasonable, additional disclosures will be set out in the accounts to explain to readers, the basis of estimation and any potential uncertainty in values.
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Where issues have been identified previously with respect to estimates, additional challenge and review, including external challenge, has been built into processes to ensure that estimates are robust.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Regular monitoring reports are considered by Cabinet and are subject to call in by scrutiny for further review. Reports on specific areas are considered by Audit Committee, for example, on equal pay, highways PFI and Paradise redevelopment.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	A five year rolling revaluation programme supplemented by annual reviews of significant changes in market values, is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years in line with guidance from the Ministry of Health, Communities and Local Government. In intervening years a desktop review of the valuation is carried out. All assets are valued at current value.	The valuer is issued with instructions as to the basis of valuation in line with the CIPFA Code of Practice and RICS guidance. The internal valuations have been supplemented by a number of valuations carried out by external valuers including for the specialist asset of Tyseley Waste. The resultant valuations are then reviewed internally and then through suitably qualified external advisors who provide a challenge process. The resultant valuations are reviewed by Finance as to their reasonableness compared with previous years.	Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where external valuers for either the challenge process, for specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by valuers in line with RICS requirements and taking into account prevailing market conditions. The impact of Covid-19 may have an impact on valuations. Whilst the peer reviews have been put in place, including the use of independent valuers, there may be some level of uncertainty. Additional disclosures will be set out in the financial statements to ensure that the reader understands the basis of valuation, the uncertainties surrounding them and the judgements made in reaching the values accounted for.	No

Appendix A Accounting Estimates (continued)

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

Appendix A Accounting Estimates (continued)

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

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accountin g method in year?
Impairments - property	Property –impairment is considered through two methods. The first is as part of the cyclical valuation undertaken by qualified valuers and the second is through an asset review undertaken by services in respect of their own properties. Once an asset has been identified as being impaired, the qualified valuers then undertake an assessment of the impact of that impairment.	The resultant impairments are reviewed by a qualified RICS surveyor.	Valuations are carried out by appropriately qualified valuers, that is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions. Peer reviews have been undertaken to ensure the robustness of valuations. The impact of Covid-19 may have increased the level of uncertainty in valuations and disclosures will be included in the financial statements to explain the impact of judgements made and any surrounding uncertainties.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments – financial assets	Financial Assets –impairment is considered through two methods. From the investments made by the Council as non-treasury investments advice is sought from experts within Finance Birmingham who have appropriate experience whilst with Treasury investments advice is sought from Arlingclose.	Any resultant impairments are reviewed and challenged where the Council has relevant information	Yes.	As knowledge can only ever be partial in considering the financial position of external organisations, the Council has to rely on guidance from its external advisors with a check back for reasonableness on the basis of local knowledge. The impact of Covid-19 may have increased the level of uncertainty in valuations and disclosures will be included in the financial statements to explain the impact of judgements made and any surrounding uncertainties.	No
Measurement of Financial Instruments	As above in the consideration of impairment in investments, advice is sought from external partners on the value of financial instruments.	As above in the consideration of impairment of investments.	Yes	As above in the consideration of impairment of investments.	As above in the consideration of impairment of investments.

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Expected Credit Losses	An analysis has been made of the repayment profile of invoices raised in a single financial year, broken down by the type of service being provided. This has then been used to inform the judgement as to the level of expected credit losses required taking into account the nature of the debtors and whether there is any security over the debt.	The estimates determined from the exercise have been compared to the amount of debt written off in prior years to ensure that estimates remained reasonable. Assumptions have been challenged on the robustness of provisions proposed.	A range of relevant Council staff have been consulted where appropriate. Training has been provided on the methodologies required under IFRS 9.	There is a general consistency in the nature of services provided from year to year. The information gained from one year is used to refine estimates to ensure that they are as robust as can be. The impact of the spread of Covid-19 and the impact on the citizens of Birmingham and the local economy as a result of the measures taken may not be determined for some time. Whilst initial estimates have been made, the judgements supporting those estimates and the levels of uncertainty will be set out in additional and enhanced disclosures in the financial statements.	No

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Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Accruals are based on the best knowledge available at the year end. Items that have been delivered should be goods receipted and will appear automatically as creditors. However, reviews will be undertaken of open purchase orders, invoices not yet authorised plus a check of new year invoices paid to ensure that activity is recorded in the appropriate year. A team has also been put in place specifically to clear late invoices. Budget holders will also be asked to provide details of activity that has been undertaken and not yet invoiced to ensure that information is up to date. Where estimates have to be used to determine accruals, for example, in areas of high volume, low value activities, the accruals will be based on robust evidence of activity being undertaken.	As well as linking back to the robust forecasting undertaken, checks are made to ensure that there are no significant items that should also be accrued for that were not known at the time of the forecast. Budget holders will also be involved in identifying activity undertaken but not yet accounted for.	Recognition of income and expenditure is undertaken with services who have detailed knowledge on the level of activity committed in the financial year.	As with all estimates, knowledge can never be perfect but checks are undertaken on the anticipated level of activity compared to trends in spend and by checking activity undertaken in the new year to ensure that any significant items have not been excluded. The move to remote working and the introduction of emergency measures to mitigate the impact of Covid-19 just before the year end may have affected the clearance of transactions. Additional checks have been put in place to review new year activity to assess the year they should be recorded.	Given the issues identified in the previous financial year, more rigorous checks have been put in place in advance to raise the awareness of the need to account for activity in the correct financial year and to identify items where processes are not being actioned within appropriate timelines. As part of the evidence presented to audit, more focus is being placed on the provision of evidence supporting accruals and the analysis of recording activity is being undertaken.

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Activity within the Council is reviewed to identify matters that may be material, both on a quantity and a quality basis, that happen after the year-end which may be of import to readers of the accounts.	Activity in the new year is reviewed to assess any implications that may affect views of the Council. This may be through committee reports, spend activity or general briefings.	Internal review	If matters are non-adjusting then there are no changes to numbers in the accounts. However, impacts are assessed to determine whether an item meets the criteria to be an adjusting event.	No

Appendix A Accounting Estimates (continued)

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

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	A review of recharges has been undertaken in 2019/20 with a view to streamline existing processes and eliminate unnecessary recharging within the General Fund. In the next phase of the improvement process it is proposed to centralise 4 key areas, namely Procurement, IT, Legal and Property Services.	The estimates are produced from a download of the draft budget and as such reflect the controls and assumptions within BCC's financial planning process at that point. The process for recharging and reallocation have been strengthened with training given to finance teams.	CIPFA/CCAB qualified accountant.	The basis of allocation across the Council will be net nil in total. However, the next phase of the project will include a review of the bases of allocation.	The accounting method has not yet changed as current budgets are based on existing allocations but any mismatches between sender and receiver have been identified and cleared.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

30 JUNE 2020

SCHEDULE OF OUTSTANDING MINUTES

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
193 28/01/2020	**Travel Assist** The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries.	Report due in 26 Jan 2021.
195 28/01/2020	**Audit Committee – Future ways of Working** The Committee agreed a draft proposal on future ways of working of the Audit Committee to be shared at the 24 March Committee.	Due to cancellation of 24 March 2020 Committee, proposals will be shared 28 July 2020.