BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 26 JANUARY 2021 AT 14:00 HOURS
IN ON-LINE MEETING, MICROSOFT TEAMS

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:-

- Item 5 - Private - Minutes Audit Committee 25 November 2020 (exempt paragraph 3)

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.

1 - 14 5 **MINUTES - AUDIT COMMITTEE - 25 NOVEMBER 2020**

To confirm and sign the minutes of the last meeting of the Committee held 25 November 2020.

6 **USE OF DELEGATED AUTHORITY**

To note the use of authority delegated to the Chair to act between meetings.

7 **ASSURANCE SESSION - CABINET MEMBER FINANCE & RESOURCES PORTFOLIO**

(50 minutes allocated) (1410 – 1500)

Verbal discussion

The Cabinet Member of Finance & Resources with the Director of Human Resources

15 - 22 8 **RISK MANAGEMENT UPDATE**

(5 minutes allocated) (1500 – 1505)

Report of the Assistant Director Audit and Risk Management

23 - 82 9 **BIRMINGHAM AUDIT - HALF YEAR UPDATE REPORT 2020/21**

(10 minutes allocated) (1505 – 1515)

Report of the Assistant Director Audit and Risk Management.

83 - 138 10 **TREASURY RISK MANAGEMENT ARRANGEMENTS**

(15 minutes allocated) (1515 - 1530)

Report of the Interim Head of Capital and Treasury Management

139 - 222 11 **AUDIT FINDINGS REPORT**

(10 minutes allocated) (1530 - 1540)

Report of the Interim Chief Finance Officer

223 - 242	12	**ANNUAL AUDIT LETTER**

(5 minutes allocated) (1540 - 1545)

Report of the Interim Chief Finance Officer

243 - 262	13	**OMBUDSMAN REPORT CONCERNING COMPLAINT ABOUT BIRMINGHAM CHILDREN'S TRUST - RESPONSE TO THE PUBLIC REPORT**

(15 minutes allocated) (1545 – 1600)

Report of the Chief Executive Birmingham Children's Trust

14 **ASSURANCE SESSION - CABINET MEMBER CHILDREN'S WELLBEING PORTFOLIO**

(55 minutes allocated) (1600 – 1655)

Verbal discussion

The Cabinet Member of Children's Wellbeing

i) Travel Assist - (Chief Executive and the Assistant Director Inclusion, SEND and Wellbeing (20 minutes)

ii) SEND - (the Assistant Director Inclusion, SEND and Wellbeing (15 minutes)

iii) Other risk related issues associated with the Portfolio - (20 minutes)

263 - 264	15	**SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

16 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Monday, 22 February 2021 at 1400 hours via MS Teams (on-line).

17 **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.

18 **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'.

Item 5

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
25 NOVEMBER 2020

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON WEDNESDAY, 25 NOVEMBER 2020 AT 1400 HOURS - ONLINE MEETING

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Akhtar, Bridle, Jenkins, Morrall, Quinnen and Tilsley

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NOTICE OF RECORDING/WEBCAST

250 The Chair 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

251 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.

- Councillor Grindrod declared he was a Non-Executive Director for Acivico Ltd which was referred to in the Statement of Accounts – (Appendix 4). (Non-pecuniary interest).
- Councillor Tilsley declared he was a Non-Executive Director for Birmingham Airport which was referred to in the Statement of Accounts – (Appendix 4, page 58). (Non-pecuniary interest).
- Martin Stevens declared he was a Director on some of the PETPS Companies that were consolidated within the Statement of Accounts – (Appendix 4).

At 1404, the meeting was adjourned due to technical difficulties.

At 1405, the meeting was reconvened.

APOLOGIES

252 There were no apologies submitted.

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair notified the Committee, item 7 Statement of the Accounts, appendix 2 would be taken in a private session under exempt paragraph 3.

253 **RESOLVED**:-

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

MINUTES – AUDIT COMMITTEE – 20 OCTOBER 2020

254 **RESOLVED:-**

That the minutes of the last meeting were agreed. There were no matters arising.

ANNUAL GOVERNANCE STATEMENT

The following report of the Interim Chief Finance Officer was submitted: -

(See document No.1)

The Interim Chief Finance Officer gave a summary around the Annual Governance Statement (AGS) which formed a part of the Statement of Accounts for 2019/20.

An overview was given around the 8 key issues highlighted in the AGS for the Council which may impact on the organisation's governance arrangements. These key issues were;

- Covid-19 Pandemic
- Financial Resilience
- Major Projects and Partnership Working
- Homelessness and Safety Implications for Tower Blocks
- Asset Condition and Sufficiency
- Commonwealth Games (CWG)
- Commissioning and Contract Management
- Birmingham SEND Inspection – Inadequate provision and Written Statement

of Action required

The Assistant Director, Audit & Risk Management informed the Committee the AGS was a key part of the overall assurance process. The key issues coincided with the Cabinet Members Assurance Sessions which the Audit Committee had implemented. The process for next year had started by defining what questions should be asked to all the business units within the Directorates.

Members response

The Committee then asked questions of the Interim Chief Finance Officer and the Assistant Director, Audit & Risk Management and the following points were noted:

- The Chair referred to the Audit Committee's Assurance Sessions and upon reviewing these sessions, if further development work was required.
  In response, the Assistant Director, Audit & Risk Management noted the Assurance Sessions had been working well. The Audit Committee had kept focus on the governance, risk and assurance agenda. As part of the Assurance Sessions, background packs were provided to Members as guide to enable direct questioning on focussed areas.

- Councillor Bridle noted lessons had been learnt during the pandemic, especially as the Council had entered a long emergency period. She noted initially, there were issues around decision making process and the lack of accountability and transparency however, the decisions made during this period were eventually placed in the public domain. It was emphasised though there was a command structure in place, the accountability was with the Council therefore it was crucial transparency was always in place.

  Councillor Tilsley echoed Councillor Bridle's point as there were initial concerns around the decision-making process during this period.
  In response, the Assistant Director, Audit & Risk Management informed Members, emergency powers would only be used when required. The transparency was re-established by decisions undergoing immense scrutiny to ensure these were recorded correctly before they were published.

255 **RESOLVED:**

That the Committee;

i) Approved the updated Annual Governance Statement that will be included in the 2019/20 Statement of Accounts.

ii) Agreed that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee during the year.

STATEMENT OF ACCOUNTS 2019/20

The following report of the Interim Chief Finance Officer was submitted: -

(See document No.2)

The Interim Chief Finance Officer informed Members the Statement of Accounts had been shared at a previous Committee. Reference was made to the Audit adjustments which had been agreed between BCC and the External Auditors. She noted there was still outstanding audit work to be completed.

The Head of City Finance notified Members the draft Statement of Accounts were submitted to the External Auditors on 28 August 2020 to enable them to undertake their audit work. He highlighted three errors which had been identified. These were around;

i) Housing Revenue Account Dwellings - An incorrect valuation being entered in the calculation of 1 bed maisonettes within the HRA which led to an overstatement in the Council Dwellings valuation. Reduction in value of £23.2m.

ii) Tyseley Waste Centre - An incorrect value being entered in respect of Other Land & Buildings which led to an understatement in valuation. Increase in Tyseley of £2.4m.
These adjustments had no impact on the Council's level of usable reserves.

iii) At its meeting on 10 November 2020, Cabinet agreed to amend the revenue outturn for 2019/20 through the replacement of £8.7m of Direct Revenue Financing of Capital. This was undertaken by increasing the Council's Capital Financing Requirement, thereby increasing the level of usable reserves available to the Council to provide additional resilience against the financial consequences of the actions taken to mitigate the impact of Covid-19.

Members response

The Committee then asked questions of the Interim Chief Finance Officer and the Head of City Finance and the following points were noted:

- Councillor Jenkins queried what was the current materiality threshold and why was the decision made not to make any provisions to keep Birmingham Airport viable.
  In response, the Head of City Finance informed Members that for a provision to be recognised it had to meet three specific areas under the accounting standards.
  These were; i) there had to be a past event for a provision to be made; ii) there had be some probability that resources were transferable;
  iii) the transfer could be reliably estimated.

  Unfortunately, Birmingham Airport did not meet the criteria therefore, this was reflected correctly in the accounts. It was noted Birmingham Airport may be a need support in the future.

  The level of materiality for Birmingham City Council was £34.354 million pounds.

- Councillor Morrall referred to page 132 of the Statement of Accounts (page 236 of the document pack), which listed officer's renumeration/ salaries. He noted names of officers were not listed due to GDPR reasons.

  He referred to a document on the Information Commissioner's Office website*, "Requests for personal data about public authority employees - Freedom of Information Act Environmental Information Regulations"* with a focus on pages 13 -16 (section 3. Does the legitimate interest outweigh the interests and rights of the individual? Salaries and bonuses and termination of employment).
  He felt there was no legitimate reason for officers' names not to be included in the accounts. Members would not be aware if there was any mismanagement of these individuals.

  The City Solicitor informed Members there was no evidence of any mismanagement and proposed to have a discussion with Councillor Morrall outside of the meeting to discuss any further queries in accordance to data protection guidance.

  Councillor Jenkins supported comments made by Councillor Morrall. He hoped following the briefing session with Councillor Morrall this would be clearer.

  The Chair highlighted Members should not assume the sum indicated was due to mismanagement as there was no evidence. He advised Members to view this as a legitimate action until there was evidence otherwise. The process and sum of the amount could be questioned however, it was not appropriate for the Committee to automatically conclude this was due to mismanagement given there were other routes that this amount could be achieved.

The Head of City Finance further explained, the External Auditors would need to be satisfied before they can sign off the accounts. He highlighted there could be minor changes before the accounts were fully signed off therefore, proposed the Audit Committee to agree to delegate the sign off of the Accounts to the Chair of the Audit Committee and the S151 Finance Officer.

<u>The Audit Findings for Birmingham City Council – External Auditor</u>

The following appendix 1 of the External Auditors was submitted: -

(See document No.3)

The Key Auditor Partner, Grant Thornton set out the headlines and other matters arising from the statutory audit of Birmingham City Council. These were around; Covid–19; Financial Statements; value for money arrangements and statutory duties.

The External Auditors were close to concluding their audit work with the BCC and the aim was to complete the audit by the 30th November 2020. A number of recommendations were made on both value for money audit and financial statements audit.

The External Auditors had additional formal auditors' powers that could be used in significant circumstances however, Grant Thornton were not proposing to use these powers for Birmingham this year.

Financial Statements

The Engagement Manager, Grant Thornton gave a comprehensive breakdown on the Financial Statements and the work set out to address the significant risks. The expenditure in this year's accounts was lower than last year's therefore, the materiality threshold had been changed. Members were informed the External Auditors were still undertaking expenditure testing around the Council's properties and awaiting supporting documentations.

In summary, there were two 'assumed' risks identified around the fraudulent revenue recognition and the management override of controls. The audit work around these areas were near completion and no issues had been raised. Further details were provided on the valuation work on land and buildings which referred to two errors highlighted earlier in the Committee by the Head of City Finance.

The financial statements contained a prior period adjustment. The Council disposed of two assets in 2017/18 but did not derecognise these in the accounts and the External Auditors thought that as the transaction was not material, the disposal should have been transacted within the 2019/20 year, and not as a prior period adjustment.

Members response

- Councillor Jenkins noted the error related to the Housing Revenue Account Dwellings and queried if this concerned one or more properties. He questioned if the External Auditors were concerned this error was not checked.
  In response the Engagement Manager, Grant Thornton informed the Council valued their dwellings based on the Beacon Approach where properties were split into architypes or similar constructions, styles etc. A sample from the architypes were selected for evaluation and the valuation of the property was then incorporated to the whole portfolio. In this instance, the portfolio was overvalued.
  As a result, the External Auditors recommended appropriate quality checks were delivered via the Council to ensure errors were addressed.

A further summary was provided by the Engagement Manager, Grant Thornton around the valuation of pension fund net liability and the valuation and completeness of equal pay liability.
There were some issues on the Group Audit around the consolidation process and the incorrect handling of VAT. Overall, the adjustments did not have an impact on the total balance sheet. There were minor adjustments on the disclosures as well as awaiting final confirmation from the Birmingham Children's Trust Audit Team.

At present there were no issues on the ‘going concern’ assessments however, the Council were answering questions that had been raised by the External Auditors.

It was noted there were two outstanding matters of communication around the third-party requests. Confirmations and assurances were still being undertaken.

The Government’s Accounts procedures work had started, and the consolidation pack was being produced. It was noted this work may not be completed in time however, the audit report would be issued without the certification of completion of the audit.

The External Auditors had undertaken additional work for the Birmingham City Council since 1st April 2019. Therefore, an additional fee was proposed for this Audit which was above the scale fee. Any additional fees were subject to agreement by the PSAA.

Members response

- Councillor Jenkins referred to the audit fee for Acivico Limited indicated as £35k. He queried the turnover for the company as most of the services were provided to Birmingham City Council.

  At this juncture, the Chair handed over to Vice-Chair to lead the Committee as Councillor Grindrod was a member of the Acivico Limited Board.

  The Head of City Finance confirmed the turnover for Acivico Limited was £25 million.

  Following this confirmation, the Chair was handed back to Councillor Grindrod.

Value for Money

The Key Auditor Partner, Grant Thornton noted during planning the audit, five risks were identified.

This year, the External Auditors were qualifying against two specific areas however, the overall reflection on the value for money was the right assessment for Birmingham as part of their improvement journey. These two specific areas were;

i) Council resilience & financial sustainability – This was a key risk applied to all Councils and there was no proposal for any qualification on this area for Birmingham. The Council were aware of Neighbourhoods and Education & Skills were two areas of recurrent overspend, which was being addressed.

ii) Financial impact of the CWG – The External Auditors were satisfied with the Governance structure and supporting arrangements. The funding arrangements for the CWG was satisfactory though there was a funding gap which would be monitored.

There was a qualification made against identifying, managing and monitoring risks relating to the financial impact of the Games. It was noted the key in year financial arrangement (Full Business Case completed in June 2019) was inadequate due to the financial difference.
As a result, the Council placed a revised business case which was sufficient in the opinion of the External Auditors.

In addition, the Perry Barr regeneration would be monitored by the Council and External Auditors.

Members response

- Councillor Tilsley noted the CWG had £25m shortfall from partners which was a risk to the Council as Government had capped their contribution to the CWG. He queried why this was not a matter for qualification by the External Auditors.
  In response, the Key Partner, Grant Thornton indicated there was still time remaining to close the funding gap as there were contingencies that could be utilised to offset the amount. This was a risk for the Council and would be reviewed in next year's accounts hence the reasoning why this was not a significant level of risk for a qualification. The External Auditors had recommended for the Council to close the gap as soon as possible.

- Councillor Jenkins noted the Perry Barr Scheme was the only part of the CWG the Council had sole responsibility for. He queried if the expected future value of the properties may be a risk to the Council therefore should this be recognised in the accounts.
  In response, the Key Partner, Grant Thornton noted concerns raised however, the accounts were sufficiently presented, and the External Auditors were looking at the work for 2019/20. The Perry Barr Scheme was beyond those responsibilities and would be focused upon in a future audit.

Further summaries on contractual arrangements relating to the highways PFI Scheme; Waste service continuity and industrial relations and contract monitoring and management were provided.

Members response

- The Chair queried what evidence had been presented to the External Auditors to give confidence the Waste service and industrial relations was improving.
  The Committee were advised by the Key Partner, Grant Thornton this had been supported by the improved industrial relations referred to on pages 72 and 73 of the document pack. There had been constructive engagement relating to the Memorandum of understanding and working beyond. The sickness levels had reduced, and new working practices were positive.

At this juncture, the Chair noted the appendix 2 – Audit Findings Report would be shared in a private session.

At 1513 hours, the Committee moved to a private session.

EXCLUSION OF THE PUBLIC

256 **RESOLVED**:-

That, in view of the nature of the business to be transacted, which includes exempt
information of the category indicated, the public be now excluded from the meeting:-

Exempt Paragraph 3

Item 7 - Appendix 2 – Audit Findings Report for Birmingham City Council (Statement of Accounts).

At 1527 hours, following discussions on appendix 2 – Audit Findings Report for Birmingham City Council (Statement of Accounts), the Committee moved back into the public meeting.

The Chair noted Councillor Morrall's earlier comments on the Statement of Accounts and GDPR queries. This did not change the implication of the accounts and he advised officers arrange a separate briefing.

At this juncture, Councillor Jenkins voted against the delegation of signing off the accounts and as the accounts were not complete. It was suggested rather than delegating the final sign off to the Chair of Audit Committee and S151 Finance Officer, an additional Committee would possibly be required.

The Head of City Finance clarified that if the accounts are not signed by 30 November, then they would be placed on the Council's website with a note to indicate the audit was still being progressed. The Audit would continue up until sign off.

A couple of options were shared by the Key Partner, Grant Thornton of how to progress the sign off of the accounts.

The Engagement Partner, Grant Thornton referred to the disclosure of renumeration and the external auditors had confirmed the breakdown of details were correct where a significant number was related to the pension strain and was not a payment to an individual. There was no requirement under the Accounting Standards and Local Government code for the name to be included.

Councillor Jenkins confirmed he was happy to support delegation of the accounts to the Chair of the Audit Committee and S151 Finance Officer as long as any further adjustments were clearly set out in an email for Committee Members to view prior to approval.
Councillor Tilsley and Councillor Morrall supported Councillor Jenkins proposals.

Members were reminded management responses to the Audit Findings report would be presented at the next Audit Committee.

The Head of City Finance referred to the senior officers note and the names were not indicated following the financial regulation 2015 guidance. The requirements of the legislation were followed therefore the legal obligations had been met.

257 **RESOLVED:**

That the Committee;

i) Noted the Audit Findings Report from Grant Thornton and accept the recommendations of that report;

ii) Approved the Letter of Representation from the Interim Chief Finance Officer;

iii) Approved the Statement of Accounts for 2019/20 subject to external audit clearance of any outstanding issues.
In addition, agreed the following process for the Committee to approve the Statement of Accounts 2019/2020;

- The External Auditors clearance of any outstanding issues will be notified to Members via email.
- Members will be given the opportunity to study the External Audit clearance.
- Members to notify the Chair if any of the issues have been identified from the External Auditor that requires an emergency Audit Committee to be held.
- Otherwise, the delegation of the sign off the accounts to the Chair of the Audit Committee and S151 Finance Officer.

iv) Noted that officers will arrange a briefing for Councillor Morrall to discuss Senior Officers' Remuneration table within the Statement of Accounts – (Non- disclosure of names and GDPR related concerns).

ASSURANCE SESSION - CABINET MEMBER FINANCE & RESOURCES PORTFOLIO

The Chair noted the Cabinet Member of Finance & Resources was in attendance however, due to the prolonged discussions on the Statement of Accounts, he proposed this to be deferred to the next Committee in order to allow more time for discussion on this item.

258 **RESOLVED:**

That the Assurance Session for the Cabinet Member Finance and Resources to place at the next Committee in January 2021.

RETROSPECTIVE PURCHASE ORDERS

The following report of the Interim Chief Finance Officer was submitted: -

(See document No.5)

The Head of City Finance highlighted the report was responding to a query raised by Councillor Tilsley at a previous Committee in respect of retrospective purchase orders.

Overall, the purchase order compliance for August 2020 was 97%. Within this total there was some 4% of purchase orders, based on total value, that were retrospectively raised. The Procurement Team were working with the Directorates. In particular, Neighbourhoods Directorate where a number of retrospective purchase orders related to purchase of services for homelessness through several different suppliers. The Directorate had since been advised to raise 'call off' orders in order to be compliant with procurement process. Support and advice have been given to service areas to try to reduce the level of retrospective purchase orders.

259 **RESOLVED:**

That the Committee noted the information provided and the actions being taken to reduce the use of retrospective purchase orders.

INDEPENDENT ADVISOR TO AUDIT COMMITTEE

The following report of the Assistant Director, Audit & Risk Management: -

(See document No.6)

Members were informed this was a consultative report to seek the Committee 's view on what was required from an independent advisor. An outline of the draft person specification was shared setting out the requirements of the advisor.

Feedback from Core City auditors has been sought where independent members were in place. It was noted they offer valuable challenge and contributions.

Discussions took place of when the Independent Advisor would be expected to input to the Committees work i.e. pre-meetings, etc. Further detail would be provided at a later Committee of how the selection process would work.

Members response

- The Chair noted the Independent Advisor would be valuable to support in subject knowledge and give expertise on complex issues.
- Councillor Bridle was in support of an Independent Advisor as routinely the Committee discussed serious areas. The pre-discussions with an advisor who was well versed with good practice procedures would be valuable. In

addition, the advisor would have to have the knowledge of the challenges Birmingham City Council faces in Audit Committee.
- The Independent Advisor should be available outside of the Audit Committee for any key issues of discussion.
- Councillor Jenkins queried if the role was a paid position as there was a significant number of documents to read and this would have to cover the cost to read documents. In addition, he queried if the Audit Committee would be involved in the recruitment of the position.
- Councillor Tilsley supported comments made by Councillor Jenkins. He was in favour of having an Independent Member to the Committee, however, was happy for the alternative option of an Independent Advisor.

In response, the Assistant Director, Audit & Risk Management notified Members this was a blend of both recruitment and procurement processes. This was a consultative role therefore a procurement route would be taken. The selection of the postholder would be channelled through a recruitment process. The Chair had previously indicated it was important to have cross party representation. The time the advisor would need to dedicate to the Committee was being explored due to budget purposes.

It was proposed a day would be sufficient for reading documents for the Committee and providing support.

The Chair added the Independent Advisor should help steer the Committee in order to increase their effectiveness and challenges of Birmingham.

Reference was made to Cabinet Members and the peer monitoring support. However, it was highlighted a particular skill set and expertise was required to support the Audit Committee.

260 **RESOLVED:**

That the Committee;

i) Reviewed the attached Role Specification for the Independent Advisor.

ii) Noted the proposed selection process.

iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role.

RISK MANAGEMENT UPDATE

This item was deferred to the next Committee in January 2021.

261 **RESOLVED:**

That the Committee agreed to discuss the Risk Management update at the 26 January 2021 Committee.

BIRMINGHAM AUDIT - HALF YEAR UPDATE REPORT 2020/21

This item was deferred to the next Committee in January 2021.

RESOLVED:

262 That the Committee agreed to discuss the Risk Management update at the 26 January 2021 Committee.

SCHEDULE OF OUTSTANDING MINUTES

Information for noting.

- **Minute 196 28/01/2020 – Travel Assist** - The report is due on 26 January 2021. The report on various enquires linked to Travel Assist to be shared with the Committee.

- **Minute 223 28/07/2020 – Retrospective Purchase Orders** – Completed and discharged at this Committee.

- **Minute 227 28/07/2020 - Other urgent business - Travel Assist) -** Completed and discharged at the 20 October Committee.

- **Minute 235 29/09/2020 - Financial Statement - Senior Officers Note) –** Completed and discharged with the exception of Councillor Morrall's points noted. A briefing will be arranged by officers to address these concerns**.**

- **Minute 246 20/10/2020 - Assurance Session – Deputy Leader's Portfolio Additional recommendation added following discussions:**

ii) That the committee be provided with the total cost so far for the work to make the Council GDPR compliant

Response provided by the Director for Digital & Customer Services;

"Thank you for your question. I tasked officers to come up with some comparable legislation to understand the impact of the implementation of the Data Protection act of 2018, and this has proved difficult to find something that is comparable. As Members of the Committee will know the new GDPR legislation introduced new rights for citizens in respect of their control over their personal data, it introduces the 'accountability' principle' as well as wider compliance obligations on data controllers and processors, such as records of processing activity, data breach reporting, DPIA's etc., all of which have a potential costs as well as benefits, e.g., trust in organisations handling of personal data. The Council allocated funds of £400k in 2018 to manage the transition to the new obligations required by the act."

Any further queries to be emailed to the Chair. Based on the response provided this action was completed and discharged.

DATE AND TIME OF NEXT MEETING

The next meeting is scheduled to take place on Tuesday, 26 January 2021 at 1400 hours via MS Teams (on-line).

OTHER URGENT BUSINESS

The Chair notified the Committee, that Officers were producing a draft Annual Report of the Audit Committee which will be presented at the 02 Feb 2021 City Council. The draft report would be shared with Members via email for comments and amendment. Officers will clearly indicate the deadline for comments.

263 **RESOLVED: -**

That the Committee noted the draft Annual Report of the Audit Committee would be circulated to Members for comments.

AUTHORITY TO CHAIRMAN AND OFFICERS

264 **RESOLVED**:-

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee with the exception of the process of delegation agreed as part of the Statement of Accounts 2019/2020.

The meeting ended at 1608 hours.

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CHAIR

Item 8

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**26th January 2021**
Subject:	**Risk Management Update**
Wards Affected:	**All**

1. Purpose of Report

1.1 To update Members on the management of strategic risks and implementation of the Risk Management Framework.

2. Recommendation

Audit Committee Members:

2.1 Note the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT).

2.2 Review the strategic risks and assess whether further explanation / information is required from risk owners in order to satisfy itself that the Risk Management Framework has been consistently applied.

3. Risk Management Framework

3.1 The Risk Management Framework sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels.

3.2 The framework is implemented through a network of Directorate Risk Representatives. Risk representatives assist directorate management teams in producing and maintaining up-to-date risk registers and supporting action plans.

3.3 Strategic risks are reviewed and challenged through the Corporate Leadership Team.

4. Strategic Risk Register

4.1 The strategic risks have been piloted on a heat map within Appendix A and are summarised within Appendix B. The profile of the strategic risks, against each 'PESTLE' category is given below:

	High	Medium	Low	Total
SR1 - Political	1	2		3
SR2 - Economical	3	3		6
SR3 - Social	5	3		8
SR4 - Technological	1	2		3
SR5 – Legal	4	1	1	6
SR6 - Environmental	2	0		2
SR7 - Cross Cutting	1	4		5
Total	**17**	**15**	**1**	**33**

4.2 Two new Commonwealth Games related risks have been added:

SR7.4	Birmingham 2022 Commonwealth Games Delivery of Core Services and Infrastructure
SR7.5	Birmingham 2022 Commonwealth Games Legacy Realisation

4.3 One risk has been deleted:

SR1.2	Officer / Member Roles

4.4 Three risks have been identified with a high residual impact and likelihood score:

SR3.4	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism
SR4.3	Risk of Cyber Attacks
SR5.1	Inadequate Property Portfolio (including Health & Safety and Working conditions)

Assurance on the management of these risks has been provided, or is scheduled on the Committee's work programme, via the Cabinet Member Assurance Sessions.

4.5 The strategic risk register is updated and reviewed on a monthly basis by CLT to ensure robust oversight and that appropriate action is being taken.

5. Directorate Risks

5.1 Each Directorate maintains their own risk registers. These Directorate risk registers contain the operational risks facing the Council and are managed at a local level.

5.2 The top operational risks are being captured as part of the ongoing corporate business planning process and will be subject to a similar level of scrutiny as Strategic Risks. This will include reporting all significant operational risks to the Audit Committee.

6. Role of the Audit Committee

6.1 Members have a key role within the risk management and internal control processes.

6.2 The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:

- providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment;
- whether there is an appropriate culture of risk management and related control throughout the Council;
- to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and
- to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

7. Legal and Resource Implications

7.1 The work carried out is within approved budgets.

8. Equality Impact Assessment Issues

8.1 Risk management forms an important part of the internal control framework within the Council.

8.2 The Council’s risk management framework has been Equality Impact Assessed and was found to have no adverse impacts.

9. Compliance Issues

9.1 Decisions are consistent with relevant Council Policies, Plans and Strategies.

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Appendix A

Risk Heat Map

Strategic Risk Map – January 2021

Likelihood \ Impact	Low	Medium	Significant	High
High			SR1.1 Relevance to citizens	SR3.4 Counter Terrorism / emergency incidents; SR4.3 Cyber attacks; SR5.1 Health & Safety / Inadequate property portfolio
Significant		SR2.6 Future Financial Resilience; SR4.1 Loss of personal/sensitive data; SR3.3 Equality representation; S3.8 Effective Public Hubs	SR6.2 Health & wellbeing; SR3.7 Public Health interventions; SR6.1 Climate change / air pollution; SR7.2 Rising pressure of demand	SR2.2 Homelessness & housing; SR2.3 Financial insecurity for citizens; SR3.2 Localisation / personalisation; SR3.5 Lack of engagement; SR3.1 Community Leadership quality; SR5.6 Safeguarding Children
Medium		SR5.3 Brexit impact on legislation; SR7.3 Achieving desired culture change; SR7.4 CWG Delivery	SR4.2 Harnessing technology opportunities; SR2.4 Leading the regional agenda; SR2.5 Development of local urban centres; SR7.4 CWG Legacy Realisation; SR1.3 Opportunities of devolution	SR5.4 Meeting social care requirements; SR5.5 View of BCC by regulators; SR2.1 National politics; SR7.1 Service Improvement
Low		SR5.2 Approach to equalities	SR3.6 Preventing crime agenda	

Key

Severe	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved.
Material	Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained
Tolerable	Regular review, low cost control improvements sought if possible.

Appendix B

Strategic Risk Register Summary

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan	Direction of Travel
SR1 Political							
SR1.1	The Quality of Services impacting on the relevance of the Council to the Citizens of Birmingham	Director of Digital & Customer Services	Severe	Severe	Tolerable	Yes	↔
SR1.2	Officer / Member Roles	Director of Legal Services	Severe	Material	Tolerable		**Deleted**
SR1.3	Failure to realise the opportunities of devolution and the Combined Authority	Assistant Chief Executive	Severe	Material	Tolerable	Yes	↔
SR2 Economic							
SR2.1	Impact of National politics on jobs	Acting Director – Inclusive Growth	Severe	Severe	Tolerable	Yes	↔
SR2.2	Homelessness and less affordable housing with rising housing requirements	Acting Director – Inclusive Growth & Acting Director -Neighbourhoods	Severe	Severe	Material	Yes	↔
SR2.3	Increased financial insecurity and inequality for citizens	Assistant Chief Executive	Severe	Severe	Tolerable	Yes	↔
SR2.4	Leading on the Regional Agenda	Acting Director – Inclusive Growth	Severe	Material	Tolerable	Yes	↔
SR2.5	Development of Local Urban Centres	Acting Director – Inclusive Growth	Material	Material	Tolerable	Yes	↔
SR2.6	Future Financial Resilience	Interim Chief Finance Officer	Severe	Material	Tolerable	Yes	↔
SR3 Social							
SR3.1	Quality of Community Leadership, at Member and Officer level	Director of Neighbourhoods	Severe	Severe	Tolerable	Yes	↔
SR3.2	Localisation and personalisation being delivered effectively	Director of Neighbourhoods	Severe	Severe	Tolerable	Yes	↔
SR3.3	Equality representation within the Council does not represent the city	Director of Human Resources	Severe	Material	Tolerable	Yes	↔

Appendix B

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan	Direction of Travel
SR3.4	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism	Assistant Chief Executive	Severe	Severe	Tolerable	Yes	↔
SR3.5	Lack of Engagement	Directors of Adult Social Care and Education and Skills	Severe	Severe	Tolerable	Yes	↔
SR3.6	Inability to effectively influence the preventing crime agenda	Assistant Chief Executive	Severe	Material	Tolerable	Yes	↔
SR3.7	Public Health approach to early interventions ineffective	Director of Public Health	Severe	Severe	Tolerable	Yes	↔
SR3.8	Creation of effective public hubs in line with local needs	Director of Inclusive Growth	Severe	Material	Material	Yes	↔
SR4 Technological							
SR4.1	Loss of personal and sensitive data	Assistant Director for IT&D & CIO	Severe	Material	Tolerable	Yes	↔
SR4.2	Failure to take advantage of new ways of working enabled by technology	Assistant Director for IT&D & CIO	Severe	Material	Tolerable	Yes	↔
SR4.3	Risk of Cyber Attacks	Assistant Director for IT&D & CIO	Severe	Severe	Material	Yes	↔
SR5 Legal							
SR5.1	Inadequate Property Portfolio (including Health & Safety and Working conditions)	Assistant Director Property Services	Severe	Severe	Material	Yes	↔
SR5.2	Ineffective approach to Equalities	Assistant Chief Executive	Severe	Tolerable	Tolerable	Yes	↔
SR5.3	Future Brexit agenda and impact on legislation	Director of Legal Services	Severe	Material	Material	Yes	↔
SR5.4	Inability to fully meet social care requirements	Director of Adult Social Care	Severe	Severe	Tolerable	Yes	↔
SR5.5	View of BCC by Regulators	Directors of Adult Social Care and Education and Skills	Severe	Severe	Tolerable	Yes	↔
SR5.6	Safeguarding Children	Directors of Education and Skills	Severe	Severe	Tolerable	Yes	↔

Appendix B

Risk No.	Risk	Risk Owner	Inherent Risk	Residual Risk	Target Risk	Action Plan	Direction of Travel
SR6 Environmental							
SR6.1	Ability to address air pollution and full delivery of the climate change agenda	Acting Director, Inclusive Growth	Severe	Severe	Material	Yes	⇔
SR6.2	Health & Wellbeing	Director HR	Severe	Severe	Tolerable	Yes	⇔
SR7 Cross Cutting							
SR7.1	Service Improvement	Assistant Chief Executive	Severe	Material	Tolerable	Yes	⇔
SR7.2	Rising pressure of demand	Directors of Adults Social Care / Education and Skills	Severe	Severe	Tolerable	Yes	⇔
SR7.3	The organisational culture change needed to become a modern council is not achieved	Chief Executive re organisational culture	Severe	Material	Tolerable	Yes	⇔
SR7.4	Birmingham 2022 Commonwealth Games Delivery of Core Services and Infrastructure	Chief Executive	Material	Material	Tolerable	Yes	New
SR7.5	Birmingham 2022 Commonwealth Games Legacy Realisation	Chief Executive	Material	Material	Tolerable	Yes	New

Item 9

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**26th January 2021**
Subject:	**Birmingham Audit - Half Year Update Report 2020/21**
Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 The attached report provides Members with information on outputs and performance measures in relation to the provision of the internal audit service during the first half of 2020/21. Together with an update on the Internal Audit Total Impact Review and proposed Public Sector Internal Audit Standards compliance requirements.

2. RECOMMENDATIONS

2.1 Members note the:

- level of audit work undertaken, and assurances provided;
- implications of COVID-19 and the potential limitation in audit opinion at the end of the financial year; and
- findings from the Internal Audit Total Audit Impact Review.

2.2 Members approve the proposed approach to the Public Sector Internal Audit Standards compliance review, i.e. a Core Cities peer review, together with the Terms of Reference.

3. BACKGROUND

3.1 COVID-19 has had a significant impact on the ability of the Internal Audit to progress the Audit Plan in the first few months of the current financial year. Several Council services were involved in the emergency response and had no capacity to review draft audit reports. The schools audit team was unable to undertake visits and working from home restricted access to documents.

3.2 As at the end of September 2020 we had completed 25% of the original planned jobs which is below our target of 40%. It is unlikely that we will be able to deliver the full programme of audit reviews that have been set out. However, we are continuing to strive to deliver all reviews that have been allocated a 'must do' priority.

3.3 We have continued to seek to add value and support the Council's response to the pandemic and in maintaining critical services to the citizens of Birmingham.

3.4 An Internal Audit Total Impact Review has been undertaken to help in developing the effectiveness of the Internal Audit Service and maximising insight and added value.

3.5 The Public Sector Internal Audit Standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. An external assessment, to measure compliance against these standards, is due during 2021. A Core Cities Peer Review approach is recommended.

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

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Birmingham City Council

Birmingham Audit Half Year Report 2020/21

26th January 2021

Contents

1. Background / Annual Opinion

1.1 The 2020/21 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. 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 COVID-19 had a significant impact on the ability of the team to progress the Audit Plan in the first few months of the current financial year. A number of Council services were involved in the emergency response and had no capacity to review draft audit reports. The schools audit team was unable to undertake visits and working from home restricted access to documents.

1.3 The Council continues to go through significant change and pursue an ambitious agenda. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. The audit plan is prepared using a risk-based methodology and is continually updated throughout the year, this helps to ensure that we concentrate on the most significant areas. The plan is prepared and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). In addition to audit reviews, the model used to formulate the end of year opinion, places reliance on assurance provided from other parties and processes. The opinion for 2020/21 will be based on the following sources of assurance:

1.4 The 2020/21 audit plan was approved by the Audit Committee at its June 2020 meeting. This report provides a summary of the progress made in delivering the agreed plan.

2. Added Value Services

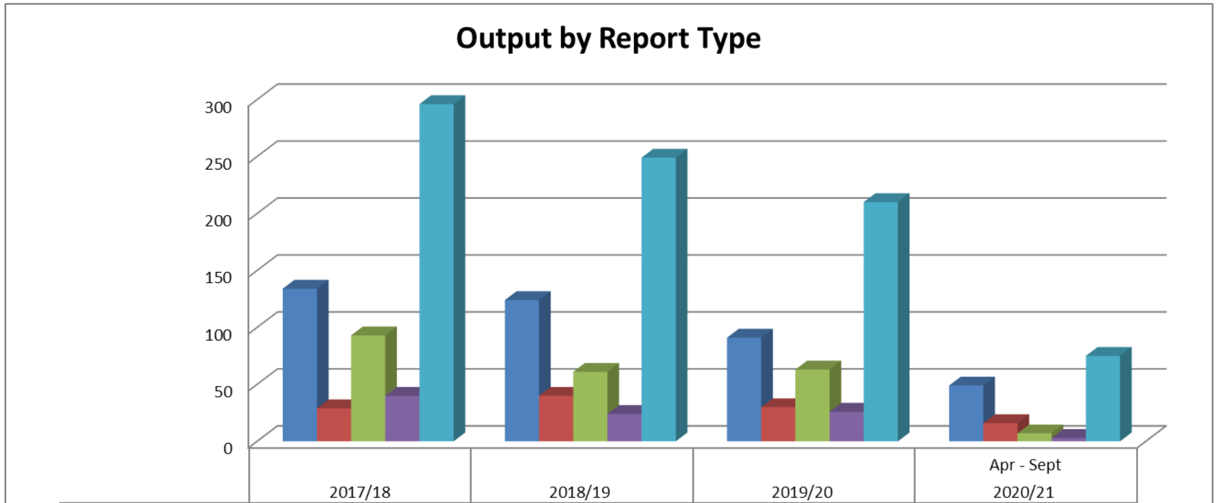
2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives. This is particularly true in the current uncertain times where everyone needs to provide support and help the Council in providing critical services to the citizens of Birmingham. Examples of how we have done this during the first half of 2020/21 include:

- Seconding audit resources to support the COVID-19 Track and Trace team.
- Providing advice and guidance on emergency / revised operating procedures.
- Providing resources to support the COVID-19 Test Drop and Collect initiative.
- Undertaking pre and post due diligence checks on COVID-19 support grant payments; investigating any anomalies that are identified.

3. Performance

3.1 Outputs

3.1.1 During the first half of 2020/21 we issued 75 final reports. A comparison to the last 3 years (full years) is given in the chart below:



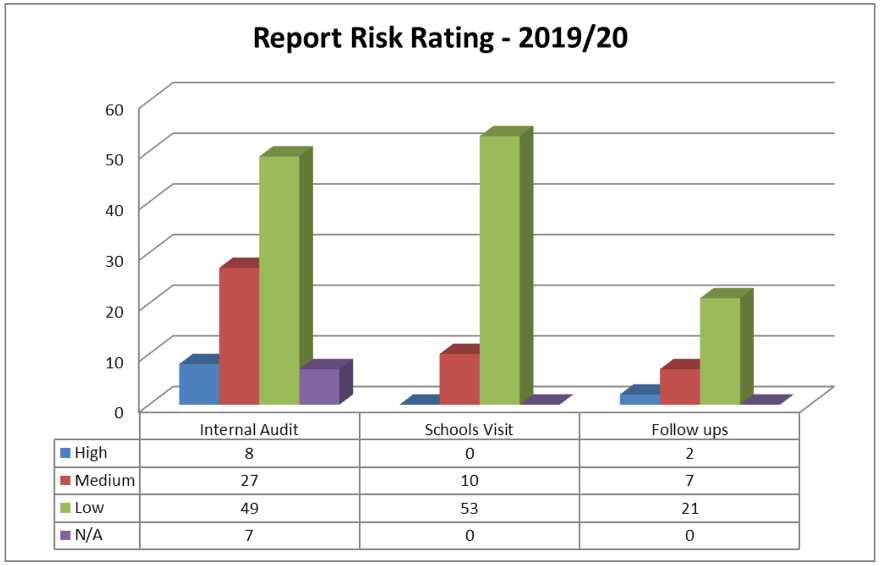
	2017/18	2018/19	2019/20	Apr - Sept 2020/21
Internal Audit Reviews	134	124	91	49
Follow up Reviews	29	40	30	16
School Visits	93	61	63	7
Investigations	40	24	26	3
Total	296	249	210	75

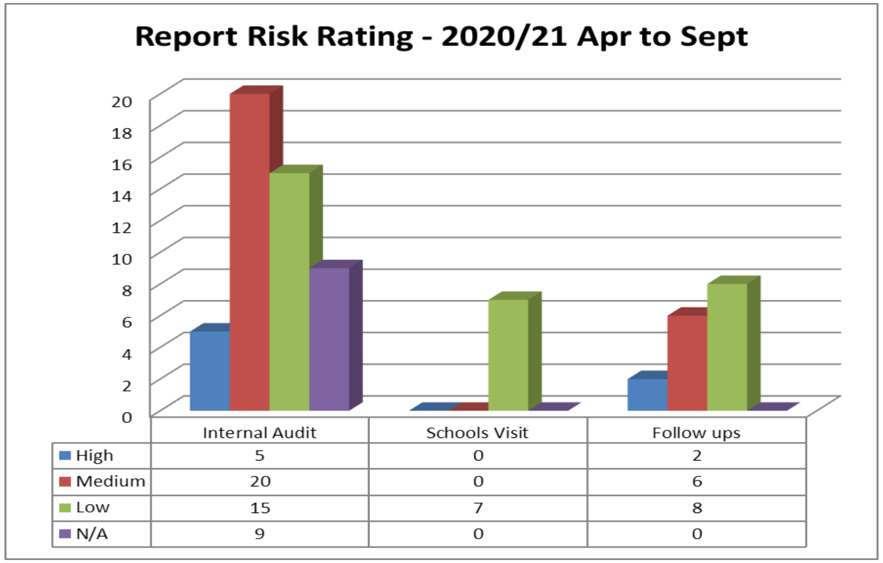
3.1.2 In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members can request copies of reports and receive further information. A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priority outcomes, core objective of good governance, the Corporate Risk Register, financial and business controls assurances is detailed in Appendix A.

3.1.3 Audit, school visit and follow up reports are generally given a risk rating to assist in the identification of the level of corporate significance. The key to the ratings given is:

1. Low - Nonmaterial issues.
2. Medium - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance.
3. High - Matters which in our view are of high corporate importance, high financial materiality, significant reputational risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

3.1.4 From the 72 reports issued (49 Internal Audit, 7 School Visits, and 16 Follow up reviews) issued, 7 were given a high risk rating, 26 had a medium rating, 30 had a low rating, and 9 (relating to advice and guidance or monitoring improvement progress) were not assigned a rating. An analysis of the report risk ratings, together with a comparison to 2019/20 is given in the charts below. A summary of the significant findings from our work is detailed in Appendix B.

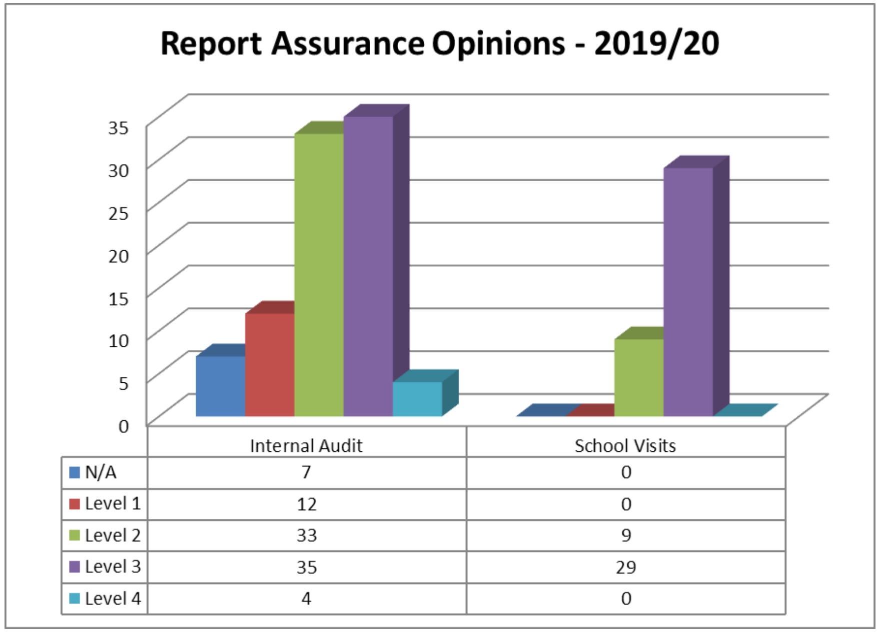




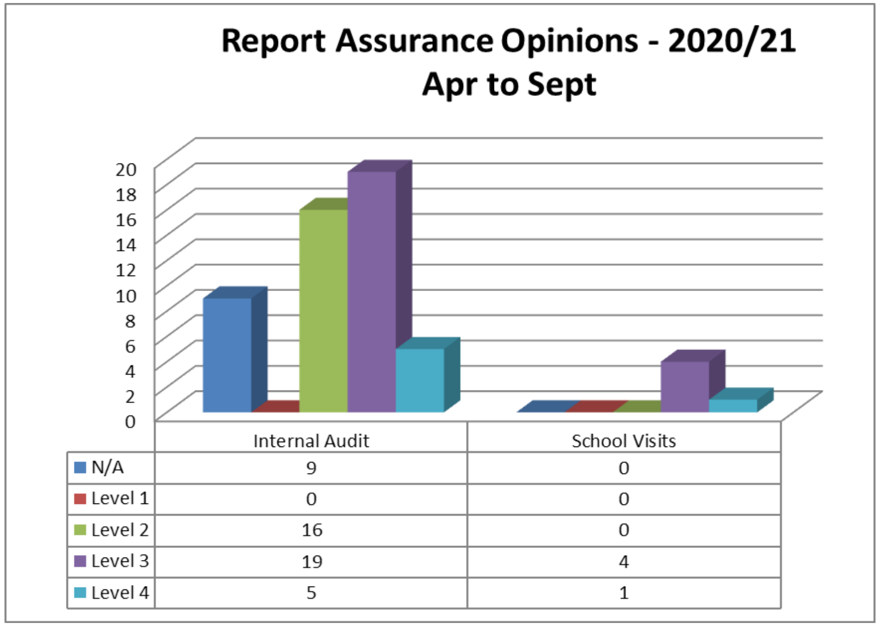
3.1.5 In addition to a risk rating, audit and school reports are given an opinion rating on the effectiveness of the control environment. The audit opinion ratings are:

Level 1 - Controls evaluated are adequate, appropriate and are operating effectively to ensure that risks are being managed and objectives achieved.
Level 2 - Specific control weaknesses were noted. However, generally the controls evaluated are adequate, appropriate and effective to ensure that risks are being managed and objectives achieved.
Level 3 - Specific control weaknesses of a significant nature were noted, or the number of minor weaknesses noted was considerable. The ability to manage the relevant risks and achieve objectives is compromised.
Level 4 - Controls evaluated are not adequate, appropriate or effective. Risks are not being managed and it is unlikely that objectives will be met.

3.1.6 An analysis of the opinion ratings (excluding follow ups), together with a comparison with 2019/20 is given in the charts below. To date 53% of reports issued (including schools) this year have contained a negative assurance (Level 3 or 4) this is comparable to the whole of last year (i.e. 52%).



	Internal Audit	School Visits
N/A	7	0
Level 1	12	0
Level 2	33	9
Level 3	35	29
Level 4	4	0



	Internal Audit	School Visits
N/A	9	0
Level 1	0	0
Level 2	16	0
Level 3	19	4
Level 4	5	1

3.2 **Plan Completion**

3.2.1 The approved 2020/21 plan contains 4,664 productive days. The table below details completion as at 30th September 2020 and provides a comparison to 2019/20.

	2019/20				2020/21			
	Planned Days	**%**	**Actuals**	**%**	**Planned Days**	**%**	**Half Year Actuals (Apr – Sept)**	**% (Apr – Sept)**
Number of audit days in approved plan @ 1st April.	**4691**	**100%**	**4316**	**100%**	**4664**	**100%**	**1687**	**100%**
Main financial systems	725	15%	719	17%	705	15%	258	15%
Business controls assurance	1770	38%	1343	31%	1780	38%	725	43%
Investigations	830	18%	900	21%	830	18%	313	19%
Schools (Non-Visits)	60	1%	108	2%	30	1%	13	1%
Schools (Visits)	720	15%	544	13%	720	15%	103	6%
Follow up work	175	4%	264	6%	175	4%	71	4%
Ad-hoc work	286	6%	268	6%	299	6%	100	6%
Planning & reporting	120	3%	164	4%	120	3%	104	6%
City initiatives	5	0%	6	0%	5	0%	0	0%

3.2.2 COVID-19 restrictions have had a significant impact on a global basis. The Council has had to respond to the pandemic, continuing to maintain critical services to the citizens of Birmingham. This inevitably has had, and will continue to have, an adverse impact on the delivery of the audit plan. As at 30th September 2020 we had completed 25% of the original planned jobs which is below our target of 40%. Ultimately there will be some restriction and limitation to the scope of the annual opinion that I am able to deliver at the end of the financial year. In order to minimise this limitation, the plan agreed in June was 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.

We are continuing to work to this prioritisation.

3.3 **Corporate Fraud Team**

3.3.1 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.

3.3.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2018/19	**2019/20**	**2020/21 (Apr – Sept)**
Number of outstanding investigations at the beginning of the year	28	14	30
Number of fraud referrals received during the year	109	105	50
Number of cases concluded during the year	123	89	42
Number of investigations outstanding	14	30	38

3.3.3 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.

3.3.4 Within the CFT there is a sub-team specifically established to tackle 'application based' fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2018/19	**2019/20**	**2020/21 (Apr – Sept)**
Properties Recovered	64	59	9
Applications Cancelled	212	667*	348
Housing Benefit Overpayment	£858,202	£473,794	£171,773
Council Tax Change	£559,534	£429,144	£220,393

* increase achieved through the near real time matching of applications with other Council held data. This has been key in helping to ensure that scarce social housing is correctly allocated.

4. Grant Certification

4.1 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 Issued
Troubled Families
Scambuster
Local Transport Capital Grant
Collaborative Fund Grant: Teaching School Core Grant Funding
Greater Birmingham and Solihull Local Enterprise Partnership

4.2 I have also been formally appointed as the First Level Controller for several European Grants. The First Level Controller is a formally appointed independent role that is required to provide a guarantee 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
TRIS – Transition Regions towards Industrial Symbiosis
BETTER

5. Total Impact Review

5.1 It is imperative that the Internal Audit functions provides an effective service, that responds to the assurance needs of the organisation, demonstrates insight, and adds value. In order to help us in maximising insight and added value we have undertaken, with support from an external partner, an Internal Audit Total Impact Review has been completed. The review captured independent feedback from across key stakeholders, to identify the current impact and value of the Internal Audit service, and areas for development. The independent report is attached, Appendix C. The findings from the review are currently being considered and a road map developed. This roadmap, together with implementation progress, will be reported to Audit Committee.

6. Public Sector Internal Audit Standards

6.1 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. The requirements of an effective system of Internal Audit are laid out within the Public Sector Internal Audit Standards (PSIAS). 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.

6.2 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 demonstrate compliance with the standard. External assessments are required to be undertaken on a five year cyclye. Our next external assessment is due for completion during 2021.

6.3 Following market research and discussion with Core City colleagues it is proposed that our next PSIAS review be undertaken on a Core Cities peer review basis. A terms of reference for the peer review is attached in Appendix D. Members of the Audit Committee are asked to approve this approach.

Appendix A

Reports Issued During the First Half of 2020/21

Audit Reviews (49 Reports):

Key to linkages to the Council's priority outcomes, core objective of good governance, Corporate Risk Register, Financial Assurance and Business Control Assurance:

<u>Outcomes</u>

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.
6. Birmingham is a city that takes a leading role in tackling climate change.

<u>Assurance Type</u>

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

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Birmingham Adult Education Service	High	Level 4		✓	✓					✓		✓	
Supplier Financial Risk - Embedding the Methodology	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	✓
Contract Extensions	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	
High Value Payment Report	High	Level 4		✓	✓	✓	✓	✓	✓	✓		✓	
Direct Payments - Progress of Completing Reviews Overdue by 12 Months	High	Level 3				✓						✓	✓
Heartlands Day Centre	Medium	Level 4			✓					✓		✓	✓
Corporate Payroll - IR35 Compliance	Medium	Level 3		✓	✓	✓	✓	✓		✓		✓	
CityServe Contracts Review	Medium	Level 3			✓					✓		✓	
Direct Payments - Impact and Outcomes	Medium	Level 3			✓	✓						✓	✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Revaluation of Assets	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Major Capital Projects - Compliance with the Financial Control Standard	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Non-Treasury Investments	Medium	Level 3		✓	✓	✓	✓	✓				✓	
Ethic 2020 - Gifts & Hospitality	Medium	Level 3		✓	✓	✓	✓	✓	✓	✓			
Enablement	Medium	Level 3				✓							✓
Safeguarding Adults	Medium	Level 3				✓				✓			✓
IT Emerging Issues - User Account Management and Provisioning	Medium	Level 3		✓	✓	✓	✓	✓	✓				✓
Financial Savings Plan	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
Civic Cleaning	Medium	Level 3					✓						✓
Information Governance - Information Asset Register	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Hospital Discharges	Medium	Level 2				✓	✓						✓
Web Services	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Council Tax - Recovery & Enforcement	Medium	Level 2					✓					✓	
NDR - Recovery and Enforcement	Medium	Level 2		✓								✓	
Anti-Virus – Malware	Medium	Level 2		✓	✓	✓	✓	✓	✓				✓
Financial Control Review	Medium	Level 3		✓	✓	✓	✓	✓	✓			✓	
School Themed Work - Income Control	Low	Level 3		✓	✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Non-Invoiced Income - Pause Cafes	Low	Level 3		✓								✓	
Birmingham Municipal Housing Trust - Procurement	Low	Level 3			✓		✓			✓			✓
School Visits Follow up City wide	Low	Level 3		✓	✓					✓	✓	✓	✓
Treasury Management	Low	Level 3		✓	✓	✓	✓	✓	✓			✓	
Rent Collection & Charges - Income Collection & Sundry Debts	Low	Level 2		✓			✓					✓	
Payroll Allowances	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Payment Card Industry (PCI) Compliance - Planning Applications	Low	Level 2		✓								✓	
Ability to pay suppliers compliance	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Information Assurance Maturity	Low	Level 2		✓	✓	✓	✓	✓	✓				✓
SAP	Low	Level 2		✓	✓	✓	✓	✓	✓			✓	
Non-Invoiced Income - Register Office	Low	Level 2				✓						✓	
Public Health - Supporting Clinical Commissioning Groups	Low	Level 2					✓					✓	
Council Tax - Exemptions and Discounts	Low	Level 2					✓					✓	
Neighbourhoods Directorate Risk Management Arrangements	Low	Level 2					✓				✓		
BCT Client Annual Review	N/A	N/A					✓			✓			✓
BCT Client Focussed Governance	N/A	N/A					✓			✓			✓
BCT Client Service Delivery Performance Framework	N/A	N/A					✓			✓			✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10
Home to School Transport 3rd Progress Review	N/A	N/A		✓	✓					✓			✓
Early Years Health and Well being	N/A	N/A		✓	✓					✓		✓	✓
Residential Care Services - Progress Review	N/A	N/A				✓				✓			✓
Funeral and Property Protection Progress Review	N/A	N/A				✓				✓			✓
Kings Norton - Second Progress Review	N/A	N/A		✓	✓					✓	✓	✓	✓
Finance Team Processes Review	N/A	N/A		✓	✓	✓	✓	✓	✓	✓		✓	

Follow up Reviews (16 Reports):

Title	Risk Rating Council	RAG
Adult Education IT Systems Replacement Follow up	High	
General Data Protection Regulation - Procurement and Contract Management – Follow up	High	
Strategic Management of Non HRA Property Follow up	Medium	
Northgate Housing Data Quality Follow up	Medium	
Use of Shared Drives Follow up	Medium	
Information Governance - Access to Information Follow up	Medium	
Interim Executive Board Follow up	Medium	

Title	Risk Rating Council	RAG
Company Assets and Relationship Management Follow up	Medium	
Information Governance - Tenant Management Organisations (TMO's) Follow up	Low	
Council Tax - Student Discount 2nd Follow up	Low	
Payroll Overtime Follow up	Low	
Information Governance - Environmental Health 2nd Follow up	Low	
Third Party Governance - Information Security Follow up	Low	
Information Governance - Transparency Code Follow up	Low	
Accounts Receivable - Adults Aged Debts Follow up	Low	
IT Governance - Housing Repairs Follow up	Low	

Investigations (3 Reports)

School Visits (7 Reports, including 2 school follow up reports)

Appendix B

Summary of Significant Findings

Red High Risk Reports

During the first half of 2020/21 we issued 7 red reports (including 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:

Birmingham Adult Education Service **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

Our review identified significant deficiencies within the financial control environment during the period from October 2017 to August 2019. This situation potentially means that significant financial and reputational risks could arise for the Council.

It is recognised that the issues identified, have been inherited by the Education and Skills Directorate and that the actions subsequently taken by Assistant Director – Skills and Employability since April 2019, which has included the appointment of a new Head of Service have resulted in more stringent measures being introduced to control expenditure and ensure the long-term financial viability of the service; and thereby addressing the wide range of issues arising from the previous management arrangements.

We are encouraged to note that the Directorate has been very pro-active in taking action to strengthen operational controls. The issues identified and highlighted help to ensure strong governance arrangements and that key lessons are learnt for the future.

Supplier Financial Risk - Embedding the Methodology **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

In undertaking this review, we discussed the Supply Chain Risk Methodology (SCRM) with officers across the Council and sought examples from directorates of where the SCRM had been used. Only limited evidence of its use was identified. Whilst, the methodology only needs to be applied to contracts that are deemed critical and therefore, management need to make this judgement, given the nature of services provided by the Council, it is likely that there are critical contracts where the SCRM should have been applied.

Adults Social Care use a different methodology which includes the use of credit alerts from Experian; from our discussions with management this risk management approach appeared effective.

Contract Extensions **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

Our audit identified a high incidence of non-compliance with the Council's Standing Orders relating to contract extensions. The rules are also unclear, particularly as there are inconsistencies between Standing Orders and Operation of Procurement Governance Arrangements (OPGA).

High Value Payment **Council Risk Rating: High** **Assurance: Level 4** **RAG:**

On 1st June 2020 we were notified that a high value payment error had occurred. The details from a non-purchase order invoice had been incorrectly scanned and paid. We concluded that the overpayment was an error and not an attempt to divert funds. The initial error was following by a series of further errors and breakdown of controls. The overpaid funds have been recovered from the vendor.

Direct Payments - Progress of Completing Reviews Overdue by 12 Months **Council Risk Rating: High** **Assurance: Level 3** **RAG:**

Timely actions are not being taken to progress the review of Direct Payments (DP) and packages of care. As at the beginning of July there were a total of 434 cases which had not been reviewed for over 12 months. The oldest of these cases had a last reported review date of the end November 2010. The ineffective completion of reviews presents a number of risks to the directorate, including, provision of an inappropriate package of care to the citizen, inconsistent service provision, and an increase in complaints and Ombudsman enquiries.

Adult Education IT Systems Replacement **Council Risk Rating: High** **Follow up** **RAG:**

The recommendations contained in our original report were not implemented by the previous Head of Service (BAES), who has since left the Council. Whilst the project has delivered business benefits it has been at a cost. Key elements of the planned improvements are yet to materialise e.g. performance reporting dashboards and the curriculum learning package. The recent departure of the Interim IT Manager brought some support difficulties to the service due to this lack of documentation and knowledge transfer. The new Head of Service has a structured plan to address and resolve the issues identified.

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

A number of recommendations have still not been implemented following our original audit. The high-risk rating therefore remains, and significant work is still required to ensure the Council is compliant with GDPR.

The following documents had not been updated to reflect GDPR requirements:

- The Council's standard terms and conditions associated with purchase orders (held on the website);
- Selection Questionnaire (SQ) used to procure contractors;
- Procurement Toolkit;
- Contract Management Toolkit.

School Visits

The school audit visit programme was suspended in March 2020 due to the coronavirus pandemic and first lock down and was not resumed until October following consultation with the Education & Skills Directorate and schools. The approach to each visit will be agreed with the school involved and will include the opportunity for remote auditing and on-site work where appropriate.

During October we recommenced our 'real time follow up' reviews for schools that had received a Level 3 Assurance/High risk rating in the last academic year. This includes two short management assurance discussions followed by a validation review. Early indications are that the more intensive 'real time follow up' process is having a positive impact.

The delay in the start of the audit visits for this financial year will result in fewer school audits and will impact on the extent of the overall assurance we can provide for 2020/21 financial year. However, schools are still required to complete their annual 'Schools Financial Value Standard' submission to the Local Authority and this will continue to support the Section 151 officer's annual assurance statement. We continue to work with the Education & Skills Directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools. Visits are selected through a risk-based plan and our work programme is constantly reviewed to meet key priorities and issues.

The outcomes from the audit completed continued to reflect the general trends from the previous year. Overall, we continue to find schools visited have effective systems of control in place, and staff and Governors are complying with key processes. However, there are still areas for development which would improve strategic and operational delivery - notably Financial Governance, Budget Planning, Financial Management and Purchasing. There are known financial challenges across the maintained school sector resulting mainly from reduced funding and increased staffing costs and we have therefore identified a continued increase in schools relying on previous years' carry forward surplus balances to achieve balanced budgets along with predicted deficits in future years for a majority of the schools visited.

Appendix C

Birmingham City Council

Internal Audit effectiveness review
Final Report

Private and Confidential

July 2020

pwc

Contents

1

Executive summary

1.1 Executive Summary

Background

Internal audit is provided 100% in house by Birmingham Audit (BA). BA are a well-established function that is deemed PSIAS compliant and delivers a large audit plan of over 4,500 days a year. The function has started to consider a number of initiatives that will further enhance its operating model but these need to be considered in the wider context of the Council's overall risk, assurance and audit framework These initiatives also need to be developed based on a solid understanding of areas of strength and areas for improvement as considered by key stakeholders.

Summary of work performed

We carried out an independent review of the effectiveness of internal audit using PwC's Total Impact of Internal Audit (TIIA) framework; more details of which can be found in Appendix 1. TIIA was used to capture and measure the holistic contribution of Internal Audit and key areas for development. Our findings are based on the views expressed by internal audit and stakeholders supplemented by a desktop review of key documents. A summary of scores under the framework can be found within Section 2.

Summary of findings

There were fairly consistent views on the strengths, weaknesses, areas for development and barriers for improvement for BA. Stakeholders all recognised the function has taken positive steps during the last 12 months to improve their effectiveness.

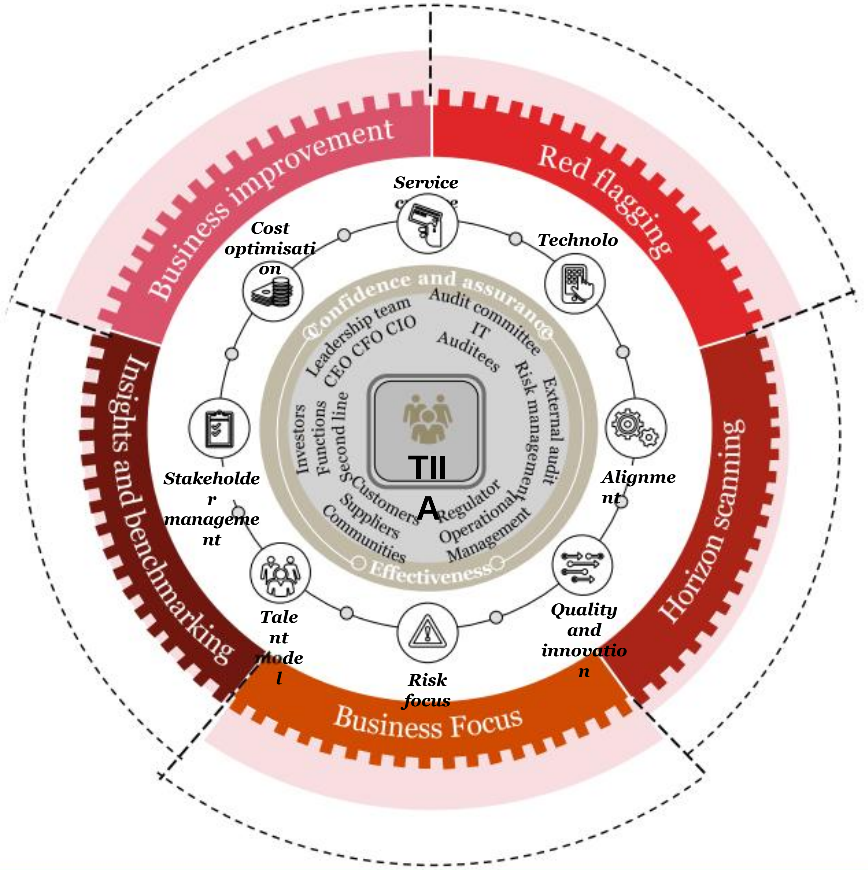
Our key findings and recommendations are:

- BA are a well respected function, recognised as being experienced, professional and easy to deal with. Their current strengths (data, fraud and partnership working with Adult Social Care) will need to be supplemented to enable the step change required to meet their TIIA aspirations. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.
- Stakeholders valued their collaborative approach to the development of the audit plan, which contained sufficient contingency and flexibility to adapt to changing priorities.
- BA are seen as a traditional function focusing on tactical rather than strategic issues and historic rather than emerging challenges. The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity. A large proportion of the audit plan is devoted to low risk or well controlled operational areas. A change in focus is needed but this requires CLT support although stakeholders recognised that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.
- BA have relatively limited involvement in some of the Council's key challenges and initiatives; involvement in key projects at an early stage could help the Council to identify potential issues and advise on the design of controls.
- Audit reports were generally well written with practical and realistic recommendations which reflected the situation.
- Where significant issues were raised and for more complex audits, BA may lack the skills required to identify the root cause of issues and to articulate the actions needed to support improvement. Stakeholders commented that reports didn't tell the story of the audit and recommendations needed to be more insightful.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. BA should consider how it can more effectively engage Members; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

On the next page we have included a summary of findings and a high level assessment of BA's contribution against each attribute in the TIIA framework.

1.2 Executive summary – TIIA results

Below is a summary of our findings against each TIIA attribute. The diagram shows BA's current contribution as assessed by the stakeholders interviewed and the dotted line shows the aspiration for the function. In Section 2 we have provided a more detailed summary of the areas of good practice and areas for improvement.



Business improvement

- ✓ Business improvement was generally seen as a relative strength of BA with the increasing use of technology to identify and quantify findings.
- ‼ Reports didn't always tell the story of the audit and findings and recommendations needed to be more insightful to help bring about noticeable improvement.
- ‼ Stakeholders commented that there needs to be an assessment as to whether BA has the right skills, culture and ways of working to achieve the aspiration to be 'best in class' in this area.

Insights and Benchmarking

- ✓ The projects where BA have used benchmarking have been really well received by the directorates.
- ‼ Stakeholders felt this is an area where BA could add value to the organisation, but it is not something routinely considered in the scope of each audit review.

Red Flagging

- ✓ BA does a good job of flagging issues, although escalation processes and presentation could potentially hamper how quickly they are flagged.
- ‼ BA were seen as quite traditional, focusing on tactical rather than strategic issues with a large proportion of their plan focused on low risk or well controlled areas. Involvement in key projects at an early stage could help the Council to identify potential issues and advise on the design of control improvement.

Horizon Scanning

- ✓ BA use a number of forums to keep up to date with trends within internal audit and with other Councils.
- ‼ BA's work has not been forward looking or focused on predicting future areas of risk, where this has occurred it is usually directorate rather than BA led.

Business focus

- ✓ BA does a good job of consulting with directorates when pulling together the internal audit plan and there is sufficient contingency/flexibility in the plan to adapt to changing priorities.
- ✓ The COVID 19 support provided by BA was valued by the Council particularly in relation to the validation of small business grants and new PPE suppliers
- ‼ Stakeholders were not able to see a clear link from the Council's greatest priorities and business risks through to internal audit activity although it was noted that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.

2

TIIA results

2. Summary of TIIA review

Summary of methodology

PwC's Total Impact of Internal Audit (TIIA) framework was used to direct and measure the holistic contribution of the Birmingham Audit (BA) team to the organisation. Details of the framework can be found in Appendix 1 but, in summary, our review was focussed on the outcomes and value-add of BA rather than on the inputs of a function that have been used historically in the sector to assess internal audit functions.

The key to an audit function's *Impact* is its *Contribution* which is recognised and categorised in the framework into the following five attributes:

- **Business improvement**: Making recommendations that are practical and deliver business improvement.
- **Insights and benchmarking**: Telling the business something that they did not already know and would not have easily identified without internal audit involvement.
- **Red flagging**: Telling the business something that they should be worried about and should act upon.
- **Horizon scanning**: Predicting future areas of risk, concern and non-compliance.
- **Business focus**: Ensuring internal audit's activities are focussed on areas that are most important to the organisational strategy.

Each attribute has a set of criteria which we have used to review the contribution made by BA based on the existence and nature of examples from their work and feedback received from interviews with stakeholders.

Summary of the work performed for the TIIA review

We used our the TIIA framework and criteria throughout our review to rate contributions on a 0-3 scale; with three being assessed as 'best in class' and zero meaning the attribute is never demonstrated. The TIIA review included:

- Workshop with the Internal Audit team to determine their aspirations for the function (Target score) as well as a self-assessment of their current contribution;
- Meetings with the Audit senior management team;
- Interviews with 12 stakeholders including service users, Audit Committee (AC) members and senior management (see Appendix 2). All stakeholders were asked to provide their assessment of the contribution of BA;
- Review of audit working papers, reports and TIIA-related documents created by BA. We assessed the quality of these deliverables against the TIIA framework and validated our assessment of a sample of deliverables during stakeholder interviews;
- Consideration of other assurance activity within the Council and assessed how the work of Internal Audit contributes to the overall assurance provision in accordance with the three lines of defence model (see Appendix 3);
- Provision of feedback to the audit management team; and
- Suggestions on how to improve arrangements going forward.

Below is a summary of the results from our assessment (rating):

A more detailed summary of the TIIA methodology is included in Appendix 1.

2. Summary of TIIA review

Summary of findings

There were fairly consistent views on the strengths, weaknesses, areas for development and barriers for improvement for Birmingham Audit (BA) and stakeholders recognised the function has taken positive steps during the last 12 months to improve their effectiveness.

The gap between stakeholders view of BA and its own self-assessment is due to a combination of the following key findings:

- BA are a well respected function, recognised as being experienced, professional and easy to deal with. Their data and fraud skills were noted as key strengths and for the majority of the audits they carry out they have the right skillset.
- BA could be more effective at promoting their successes across the Council and most directors were only aware of the audits carried out in their directorate.
- The audit plan was discussed and agreed with the CLT and the Audit Committee. Directorates were given the opportunity to contribute and challenge the plan. BA are seen as being flexible and will adapt to changing priorities, but stakeholders felt that the annual process of allocating resources to activities based on a budgeted number of days was out of date and wanted a more regular process of allocation according to emerging risks..
- BA are seen as a traditional function focusing on tactical rather than strategic issues and historic rather than emerging challenges. The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity. A large proportion of the audit plan is devoted to low risk or well controlled operational areas. A change in focus is needed but this requires CLT support although stakeholders recognised that frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities.
- Stakeholders felt the function was more likely to get involved when something has gone wrong. They could have a valuable contribution to projects if they were involved at their outset.
- Audit reports were generally well written with practical and realistic recommendations which reflected the situation.
- Where significant issues were raised and for more complex audits, BA may lack the skills required to identify the root cause of issues and to articulate the actions needed to support improvement. Stakeholders commented that reports didn't tell the story of the audit and recommendations needed to be more insightful.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. There was an appetite to learn more both on individual reviews in their areas of responsibility and more broadly in terms of the audit plan and emerging findings

Key recommendations

Below we have provided a summary of the key recommendations:

- BA should assess whether they have got the right skills, culture and ways of working to enable the step change required to meet their TIIA aspiration and to deliver a more strategic internal audit plan. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.
- Carry out a detailed mapping exercise of the three lines of defence linked to the key areas of risk to the Council. This would help the CLT and the Audit Committee understand where there are potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.
- BA should work more closely with CLT to facilitate more regular involvement of BA in key improvement initiatives, steering committees and transformation projects. Good practice examples of where this has gone well should be shared in order to help CLT see the potential value of BA's involvement.
- BA should consider issuing discussion papers and other thought leadership on trends it identifies in the sector or in governance, risk and control issues more broadly. This activity could feed into their work and help to raise their profile.
- They should be involved at the outset of key projects to help identify potential issues and advise on how design and controls could be improved.. Where BA are not involved they should work with the other lines of defence to ensure key risks are adequately mitigated.
- BA should review the format of its reports, particularly where there are significant issues, to draw the readers attention to the key issues, their cause and consequence. Recommendations need to be more insightful to help bring about noticeable improvement.
- BA should consider how it can more effectively engage Members not on the Audit Committee; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

2.1 Business improvement (1)

Making recommendations that are practical and deliver business improvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | Insights and benchmarking

Description and recommendations

Summary

Business improvement was cited as a strength of the internal audit function by many stakeholders; particularly the use of technology to identify and quantify findings.

The TIIA ratings indicated a gap between stakeholders perception of the function and BA's self-assessment. This was mainly because stakeholders felt recommendations for significant issues were not sufficiently insightful to support business improvement. Some stakeholders also commented that there could be a capability gap if the function is to achieve its aspiration to be 'best in class' in this area. BA need to assess whether they have got the right skills, culture and ways of working to deliver a more strategic internal audit plan which helps the Council on its improvement journey.

TIIA Rating

Aspiration	3
IA assessment	**2.5**
TIIA evidence	**2.3**
Stakeholder assessment	**1.5**

Areas of good practice

- BA uses quantifiable evidence to support findings, through the use of data analytics. This was recognised as a core strength by a number of stakeholders interviewed.
- Some stakeholders commented positively on the quality of reporting, with realistic findings which reflected the situation and well thought out, practical recommendations. The tracking and chasing of actions also works well.
- Internal audit reviews look at compliance with key control objectives which include KPIs/performance measures.
- The team were recognised as very experienced, professional and easy to deal with.
- The team has a good understanding of risk and the details of many of the subject areas being reviewed. They also flag relevant and important points. It was also noted by a number of stakeholders that there has been an improvement recently in this area.
- There are a few examples where internal audit was recognised as playing a critical part in important projects both through key roles on steering committees and strategic reviews/pre-implementation reviews.
- BA has supported the insight team in establishing AI pilots across the Council to help directorates to access and understand the data held by the Council and how it can help them more efficiently deliver their services.
- Not all recommendations get implemented but Directorates acknowledged that it is not solely the fault of BA and their teams can be the barrier.

2.1 Business improvement (2)

Making recommendations that are practical and deliver business improvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | Insights and benchmarking

Findings

- The function are rarely visible in key improvement initiatives. Stakeholders voiced differences of opinion as to whether that was due to BA not seeking to be involved or Officers not inviting BA to take a seat at the table.
- BA reports need to be stand alone documents which tell the story of the audit clearly to all readers (directorate, CLT and the Audit Committee). It was not always evident the extent of work that had been performed (interviews, sample testing etc.) nor the implications to the Council of key findings. Also the rating scale is contained in a separate document rather than an appendix.
- The 'look and feel' of audit reports did not help facilitate the readers understanding; for example the separate sections for issues (control objectives) and recommendations was quite disjointed.
- For any significant findings these needed precise actions containing a greater level of thought/insight to help the directorate with improvement. Stakeholders commented that in some cases if all actions suggested by BA were implemented it would not result in any significant change to the service/process. Some interviewees felt there is a difference between policy risks and audit risks but that the two were sometimes confused in the approach taken by audit.
- Given the broad range of activities and risks at the Council and the relative stability of the BA team there was a perception of a potential capability gap if the function is to achieve their aspiration to be 'best in class' in this area. In technical areas it is extremely difficult for the in-house audit team to be true specialists that can go beyond what they are told. One Officer was particularly keen to explore how BA and his team could be more joined up in order to share specialist knowledge that would support BA's work in a mutually beneficial, cyclical way.
- Many users of internal audit felt that the function did not regularly seek feedback in order to improve. Instances were identified where feedback given had been acted upon but there is not a regular mechanism for getting feedback that is enforced consistently.

Recommendations

2.1.1 The CLT should be encouraged to facilitate and support the visible involvement of BA in key improvement initiatives. Good practice examples of where this has gone well should be shared in order to help CLT see the potential value of BA's involvement.

2.1.2 BA should review the format of its reports to draw the readers attention to the key issues, their cause and consequence:

- Each finding should be clearly set out with a title, the root cause, implication, rating and recommendations in one place not in separate sections.
- Issues of a similar nature or with the same action and/action owner could be grouped together.
- Details of the depth and breath of testing needs to be documented.
- The rating scale should be included as an appendix to help contextualise the findings.
- A distinction should be made between audit risks and policy risks; at planning and reporting stages.

2.1.3. BA need to assess whether they have got the right skills, culture and ways of working to deliver a more strategic internal audit plan which helps the Council on its improvement journey (see recommendation 2.5.1).

2.1.4 The use of internal or external subject matter experts could help to provide a greater level of insight to reviews.

2.1.5. A more integrated and collaborative approach should be considered to facilitate greater use of specialist knowledge within directorates to support the audit work and encourage greater insight being used to drive BA work.

2.1.6 BA should introduce and strictly apply a feedback mechanism to cover individual reviews and, on a more cyclical basis, broader feedback from Directorates. This feedback should be used to drive continuous improvement.

2.2 Red Flagging (1)

Telling the business something that they should be worried about and should act upon.

Business improvement | **Red Flagging** | Horizon scanning | Business focus | Insights and benchmarking

Description and recommendations

Summary

It was recognised by most stakeholders that BA does a good job of flagging issues when they are identified, although some felt that their escalation processes were quite cumbersome and could hamper issues being flagged quickly enough.

The TIIA ratings indicated a gap between stakeholders perception of the function and BA's self-assessment. This was mainly because stakeholders felt that BA was not involved sufficiently in key business issues and that they should be involved more at the outset of key projects, to help identify potential pitfalls and advise on how the design of controls could be improved, rather than coming in when things have gone wrong. Both the FY2019 and FY2020 audit plans confirmed this view with only a small percentage of the plans devoted to high risk areas and a large proportion of reports rated as low with no material issues.

TIIA Rating

Aspiration	3
IA assessment	**2.5**
TIIA evidence	**2.0**
Stakeholder assessment	**1.4**

Areas of good practice

- When things go wrong most stakeholders felt that BA does flag the issues; through the CLT meetings, monthly reports to the Audit Committee and escalation processes which are in place for 'Red Flag' issues.
- BA is seen by many stakeholders as a key ally during times of organisation disruption and/or crisis as demonstrated by their fraud advice and support during Covid 19.
- There are some areas where BA has reviewed business readiness for new regulatory requirements and business change like IR35.
- Internal Audit are working with the CLT to improve the risk register and align their plan to some key risks, this was noted as a recent improvement that has made a difference.

2.2 Red Flagging (2)

Telling the business something that they should be worried about and should act upon.

Business improvement | **Red Flagging** | Horizon scanning | Business focus | Insights and benchmarking

Findings

- Although BA have been involved at the outset of some projects, this was not standard across the Council and most stakeholders thought BA are more likely to get involved when something has gone wrong. Stakeholders felt BA could have a valuable contribution to projects if they were involved at their outset.
- Some stakeholders felt that BA could be slow to flag issues and are hampered by their escalation processes. BA could adopt a more flexible approach to Red Flagging depending on the style of the Directorate. A number of interviewees references examples of lengthy delays between starting a review and final reports being issued.
- The 2020/21 internal audit plan included only 255 out of 4656 days (5%) on what could be seen as the highest risk areas and of the 121 audits carried out in 2019/20, 70 were rated as low with no material issues. The Council has been reluctant in the past to reduce the level of effort devoted to key financial system which account for 705 days (15%) of the plan, even though there are very few findings in these areas. There has also been push back from some directorates on their involvement in key risk areas.
- The Head of Internal Audit is an Assistant Director and although she has direct access to the CEO and the CFO, stakeholders commented that her position in the organisation can make it more difficult to be heard and to receive directly information regarding strategic priorities.
- Feedback from Members indicated that there was more to do in helping them feel engaged with the audit process; particularly Members that do not attend Audit Committee. There was an appetite to learn more both on individual reviews in their areas of responsibility and more broadly in terms of the audit plan and emerging findings. Reference was made to historically receiving regular bulletins of completed reviews which would allow Members to request further information but that this had ceased.

Recommendations

2.2.1 BA should work more closely with CLT to facilitate more regular involvement of BA in key improvement initiatives. They should be involved at the outset of key projects to help identify potential issues and advise on how design and controls could be improved.

2.2.2 BA should review their escalation processes to ensure they are fit for purpose and do not cause delays in the flagging of key issues, they should consider adopting a more informal/ flexible approach to Red Flagging depending on the style of the Directorate.

2.2.3 BA need to highlight more clearly the split of their work between high and low risk areas to Cabinet, the CLT and the Audit Committee to ensure the Council as a whole is satisfied that their work is focused on the key priorities for the Council (see recommendation 2.4.1)

2.2.4 The Council should consider how the internal audit function is positioned within the Council and whether there are opportunities to raise its profile.

2.2.5 BA should consider how it can more effectively engage Members not on the Audit Committee; both in terms of engaging Members with responsibility for topics subject to individual reviews, and more broadly through the year. A quarterly bulletin would be a reasonable measure.

2.3 Horizon Scanning (1)

Predicting future areas of risk, concern and non-compliance.

•

Business improvement | Red Flagging | **Horizon scanning** | Business focus | Insights and benchmarking

Description and recommendations

Summary

Historically the main focus of BA's work has not been forward looking or focused on predicting future areas of risk, concern and non compliance.

There are a few examples of audits which are more forward focused but this is usually directorate-led rather than driven by BA. Most stakeholders felt that the Council was generally less mature in this area.

TIIA Rating

Aspiration	2.0
IA assessment	1.5
TIIA Evidence	1.0
Stakeholder assessment	1.1

Areas of good practice

- BA use a number of forums to keep up to date with new regulatory requirements and to understand what other functions are including in their audit plans. These include attendance at events organised by CIPFA, participation in special interest groups, Core Cities discussions, webinars and a number of fraud events.
- There is contingency in the internal audit plan to enable BA to be flexible to any new areas of risk or concern as demonstrated by their support during Covid 19.
- Stakeholders generally felt that there has been a change in style over recent months with BA improving the effectiveness of the function. The input BA had to create the new strategic risk register has helped to raise their profile and lift their work out of some operational areas into more strategic priorities.
- Subject/functional leads have been established and regular meetings take place with key contact officers. This approach was working particularly well within Adult Social Care.

2.3 Horizon Scanning (2)

Predicting future areas of risk, concern and non-compliance.

•

Business improvement | Red Flagging | **Horizon scanning** | Business focus | Insights and benchmarking

Findings

- The current audit plan is viewed as more of a formulaic/cyclical plan than forward looking. There are examples of audits which are more forward focused but this is usually directorate-led rather than BA driven. Most stakeholders felt that the Council was generally less mature in this area.
- A number of interviewees felt that the annual process of allocating resources to activities based on a budgeted number of days was out of date and wanted a more regular process of allocation according to emerging risks.
- There is no reference or debate about sector trends or internal audit trends in BA's discussions with stakeholders and although BA are linked into a number of forums these do not seem to have contributed to new areas of focus for the annual plan.
- BA do not, as a matter of course, sit on committees focussing on transformation or steering committees to hear what is happening on a real-time basis and influence plans as they emerge.

Recommendations

If the Council's aspiration for this attribute is to be closer to best practice the introduction of new processes would be beneficial:

2.3.1 The balance of the audit plan would need to change and both BA and the directorates need to work more closely together to identify areas of future risk which can be considered for inclusion in the plan.

2.3.2 BA, working with CLT and AC, should consider introducing a more extensive quarterly process to the audit planning cycle. An annual plan would be still be appropriate but more contingency and a greater expectation of flexing the plan would be beneficial.

2.3.3 The CLT could facilitate BA's involvement on key steering committees and transformation projects. BA will also need to secure a seat at the table in the post Covid-19 lessons learned work and use that to influence their future work programme.

2.3.4 BA should consider widening their network internally and linking up with organisations from other sectors.

2.3.5 BA should consider issuing discussion papers and other thought leadership on trends it identifies in the sector or in governance, risk and control issues more broadly.

2.4 Business Focus (1)

Internal audit's activities are focussed on areas that are most important to the organisational strategy.

Business improvement | Red Flagging | Horizon scanning | **Business focus** | Insights and benchmarking

Description and recommendations

Summary

Business Focus was the highest rated attribute by many stakeholders.

The internal audit plan was developed in consultation with the CLT and stakeholders valued the flexibility in the plan to adapt to changing priorities. This was seen in relation to COVID 19 where internal audit devoted considerable support to the Council particularly in relation to the validation checks for the small business grant scheme and new PPE suppliers.

Stakeholders would like BA to be more strategic in their approach and the work they deliver but recognised that it is hard for the function to be as strategic as they might wish as frequent changes in senior officers impacted the ability of BA to closely focus on a consistent set of priorities, and there has historically been inconsistent support from the whole CLT and varying levels of engagement from Directors.

TIIA Rating

Aspiration	3.0
BA assessment	1.5
TIIA Evidence	2.3
Stakeholder assessment	1.7

Areas of good practice

- The internal audit plan was discussed and agreed with the CLT and the Audit Committee and Stakeholders valued the opportunity they were given to input and challenge the plan.
- Stakeholders noted that BA were very responsive and quick to change priorities if needed. Their response to the Covid 19 challenges and support with developing the strategic risk register were recognised by a number of stakeholders, one commented – "the team are very switched on and can turn things around quickly".
- BA have regular liaison meeting with audit contact officers to discuss progress on planned jobs, emerging risk and any issues encountered.
- The stability of staff and continuity of staff working with the same teams within the directorates was valued by some stakeholders.
- The partnership way of working with Adult Social Care (ASC) works well. In addition to the liaison meetings with contact officers BA:
  - maintain awareness of changes to legislation.
  - held monthly meetings with the ASC Project Lead for the implementation of Eclipse.
  - developed a quarterly Emerging Issues report for ASC which includes highlighted findings from completed audits. This report is provided to the chair of the ASC risk Board for discussion, acceptance and distribution to ASC management.

2.4 Business Focus (2)

Internal audit's activities are focussed on areas that are most important to the organisational strategy.

Business improvement | Red Flagging | Horizon scanning | **Business focus** | Insights and benchmarking

Findings

- Currently the working style of BA is viewed as quite traditional and their activities more focused on tactical issues rather than strategic areas. Stakeholders commented that there was limited coverage of more significant areas which could have a greater impact. There was surprise noted amongst some interviewees that BA had not been more central to some of the Council's major historic or current challenges (such as Commonwealth Games capital projects, waste dispute) or some of its major partnerships (such as LEP activity).
- The internal audit plan is not mapped to the three lines of defence (LOD) and did not include any testing of the adequacy of second line assurance activity so BA are not currently leveraging the work of other LODs so may be undertaking work on risks that are well managed or may not be focussing enough effort on risks that are not being adequately managed or mitigated within the Council.
- BA came across as passionate about the work they have done and its impact in the TIIA workshop, but many stakeholders commented that this enthusiasm is not coming across strongly enough in the CLT, the Audit Committee or within the interactions with each Directorate.
- BA's relationships with each directorate varied considerably; this was reflected in the range of scores for 'Business Focus'. The successful partnership they have developed with ASC was not replicated across the other directorates.
- The function don't get regular feedback and the metrics reported to Audit Committee are focused on audits completed and volume of recommendations.

Recommendations

2.4.1 See findings 2.2.3 and 2.3.1 for recommendations on redressing the balance between historic and tactical work to forward-looking and strategic work.

2.4.2 Carry out a detailed mapping exercise of the three lines of defence linked to the key areas of risk to the Council. This would help the CLT and the Audit Committee understand where there are potential gaps and where they are placing significant reliance on first and second line activity with no independent assurance.

2.4.3 Where BA are not involved in transformational activities/steering committees they should work with the other lines of defence to ensure key risks are adequately mitigated.

2.4.4 Use the positive outputs from the TIIA project to promote what they have achieved and use the TIIA methodology to regularly test and report on the value of their contributions, using the current scores as a benchmark.

2.4.5 Use their promoters to help raise their profile with the less engaged directorates. A number of directors commented that they would be supportive of this approach

2.4.6 Set up regular meetings with each directorate to obtain feedback on key projects, discussion on 'contribution' and 'impact' for the previous period, update on changes to significant risks and to discuss the audit plan for the next period.

2.5 Insights and Benchmarking (1)

Telling the business something that they did not already know and would not have easily identified without internal audit involvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | **Insights and benchmarking**

Description and recommendations

Summary

Insights and benchmarking was seen by most stakeholders and BA as the weakest of the five TIIA attributes.

It was an area where stakeholders felt BA could add real value to the organisation and where BA have used benchmarking these projects have been really valued by the directorates (which is why the TIIA evidence rating is above the other ratings) but that it was not being done consistently enough.

TIIA Rating

Aspiration	2.0
IA assessment	1.0
TIIA evidence	1.5
Stakeholder assessment	0.8

Areas of good practice

- The team use technology to provide a greater level of insight to their findings, stakeholders commented that the use of data analytics and the data warehouse is good and recognised as being much better than average for an in-house function in the sector.
- In relation to fraud, BA have developed a schedule of routine data extraction reports to proactively detect potential error or anomies (e.g. benefit fund and duplicate payments) and internal audit contribute to thought leadership across a number of directorates.
- All reports are rated using the same scale to provide more context and impact analysis.
- There were two examples noted from our meetings where using benchmarking and was valued:
    - BA benchmarked current processes against the Information Assurance Maturity Model Assessment Framework (a good practice guide published by National Cyber Security Centre (NCSC)). This identified significant weaknesses in the Council's current processes and lead to an improvement programme to address significant weaknesses.
    - The audit of Enablement Services for the Adult Social Care director was cited as a particularly valued piece of benchmarking. The audit was undertaken to assist management in identifying the current service delivery working patterns to assess whether they met the needs of the business and support the delivery of an efficient value for money service.

2.5 Insights and Benchmarking (2)

Telling the business something that they did not already know and would not have easily identified without internal audit involvement.

Business improvement | Red Flagging | Horizon scanning | Business focus | **Insights and benchmarking**

Findings

- BA are good at spotting issues but they can be more focused on the detail and do not necessarily see the 'real big picture'. Stakeholders commented that they typically playback what they have been told rather than provide robust and insightful findings.
- Stakeholders valued the function's data warehouse skills but commented that this is also a single point of failure and should be shared and accessed more broadly.
- The team don't use external 'Subject Matter Experts' or specialists to supplement the skills within the team when needed (such as GPDR, Cyber, Health and Safety, Supply Chain Risk, Emerging Technology). This is increasingly common in the sector given the complexity of emerging risks.
- Although some stakeholders valued the consistency of staff others felt that BA would benefit from more churn within the function which would bring fresh thinking, new insight and new skills. There was a concern that the team was too indoctrinated in 'the Birmingham way' or the way that individual Directorates did things.
- Some interviewees articulated that they did not know if BA had a methodology and, if they did, were not aware of it or how that drives the audit approach for individual reviews which could vary significantly.

Recommendations

If the Council's aspiration for this attribute is to be closer to best practice BA should look at the skills within the team and:

2.5.1 Consider using subject matter experts (either internal or external), particularly for high risk reviews where they don't have the best skills within the team. This will improve the quality of deliverables.

2.5.2 Devote more time to report writing to better articulate the root cause and impact of every finding. Peer review of reports would also help.

2.5.3 Work more closely with the directorate to develop robust findings which will deliver tangible improvement to the function or process.

2.5.4. Consider rotation of staff (particularly in directorates with less engagement) and how to bring in new resources to the function on a more regular basis.

2.5.5 Consider how the benefits of the data warehouse can be shared and accessed more broadly.

2.5.6 Include benchmarking as a regular part of each audit review (where appropriate) to provide additional insight to the review. This could be against an external standard or another organisation/s or between council directorates

2.5.7 Roll out a campaign to increase awareness of the function's methodology and operating protocol. This could involve a one-off element and be incorporated into induction training and refresher training for particular roles.

Appendices:

Appendix 1: TIIA methodology

Bringing it together

The Total Impact of Internal Audit

Total

Impact

Total Impact = Effectiveness + Contribution

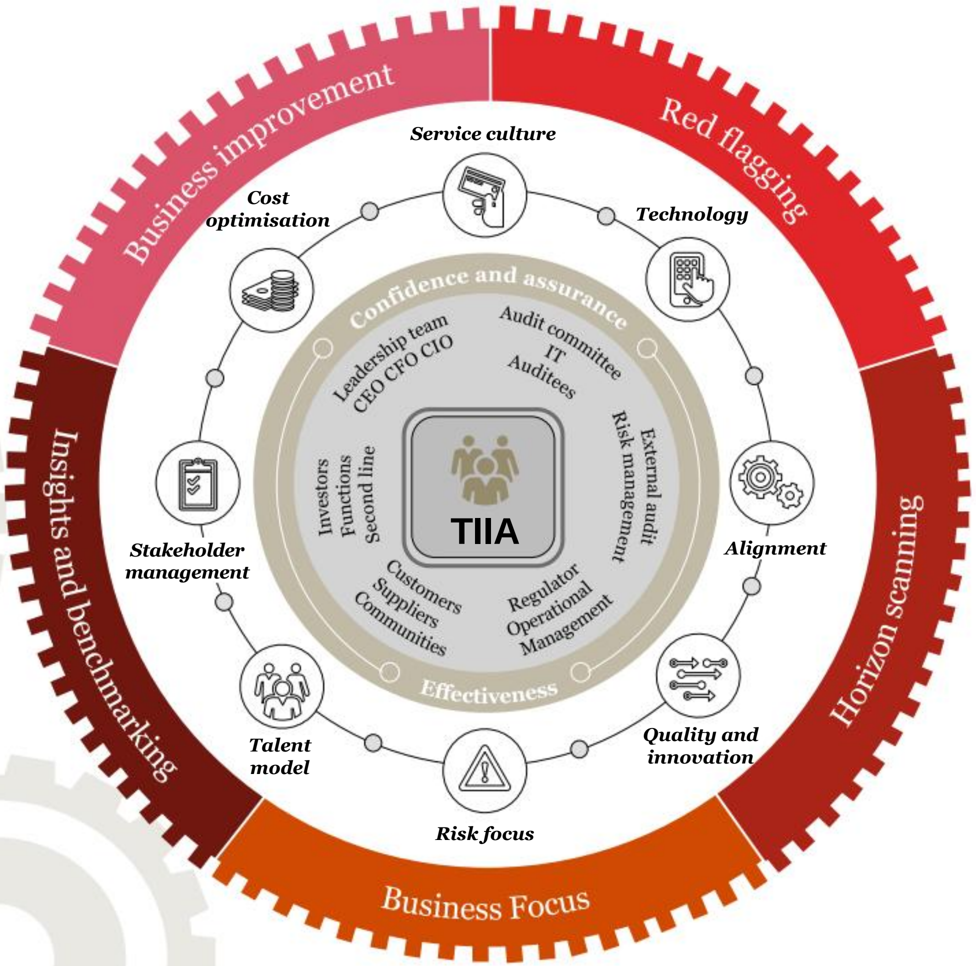
TIIA is a PwC framework for directing and measuring the holistic contribution of Internal Audit.

Typical reviews of an internal audit function focus on the measurable ‘inputs’ for the function such as the existence of policies, procedures, quality standards, qualifications.

We considered the existence and effectiveness of the areas set out overleaf as the ‘effectiveness’ element of the Total Impact of Internal Audit.

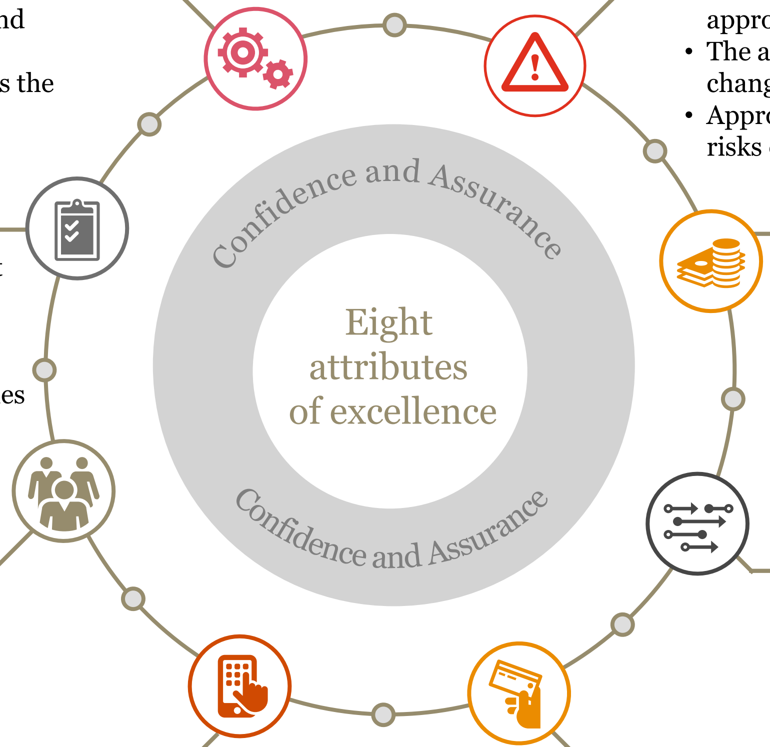
However, in accordance with our scope of work we focussed the greater part of our efforts on considering the **outputs, outcomes and value-added contribution** of the audit function. This is described in the following page on ‘Contribution’. The following pages set out the five key elements used to assess the audit function’s contribution.

Together the elements informed our view of the Total Impact of Internal Audit.



Delivering the IA mandate

Effectiveness



Business alignment

- Expectations are clearly articulated and communicated
- Internal audit defines and articulates its mission and value
- Metrics are developed to measure progress towards the stated mission and vision

Stakeholder management

- Stakeholders perceive IA as operationally excellent and, where appropriate, as a provider of strategic support
- An IA strategic plan exists that captures expectations, communication strategy, and timelines
- IA coordinates with business units to define expectations and share audit scopes and seeks function-specific feedback regularly

Talent model

- An appropriate mix of core internal audit and subject matter specialists (including those with business acumen)
- A continual learning and development model exists

Technology

- Data analytics/continuous auditing are deployed, allowing for alignment with business areas, providing efficiency/increased coverage in testing and early warning of risk indicators
- Data is utilised to provide deep and persuasive intelligence on business issues and observations/recommendations

Risk focus

- The audit plan is based on both a top-down, strategic approach and bottom-up approach to business risks
- The audit plan is continuously updated to respond to changes in the company and the external environment
- Appropriate time and effort are spent on assessing the key risks of the enterprise

Cost effectiveness

- Use of internal and external resources, varying staff levels and geographical locations to increase efficiency
- Productivity is actively measured and managed
- Audit methodology and processes are standardised and simplified to be cost effective

Quality and innovation

- Quality standards have been defined
- Formal quality reviews are regularly completed to identify improvement opportunities
- Innovation is embedded in the culture of internal audit and is consistently fostered and rewarded

Service culture

- Metrics measure customer satisfaction based on stakeholder expectation
- All services provide balance of objectivity and value

Introducing Contribution

Contribution

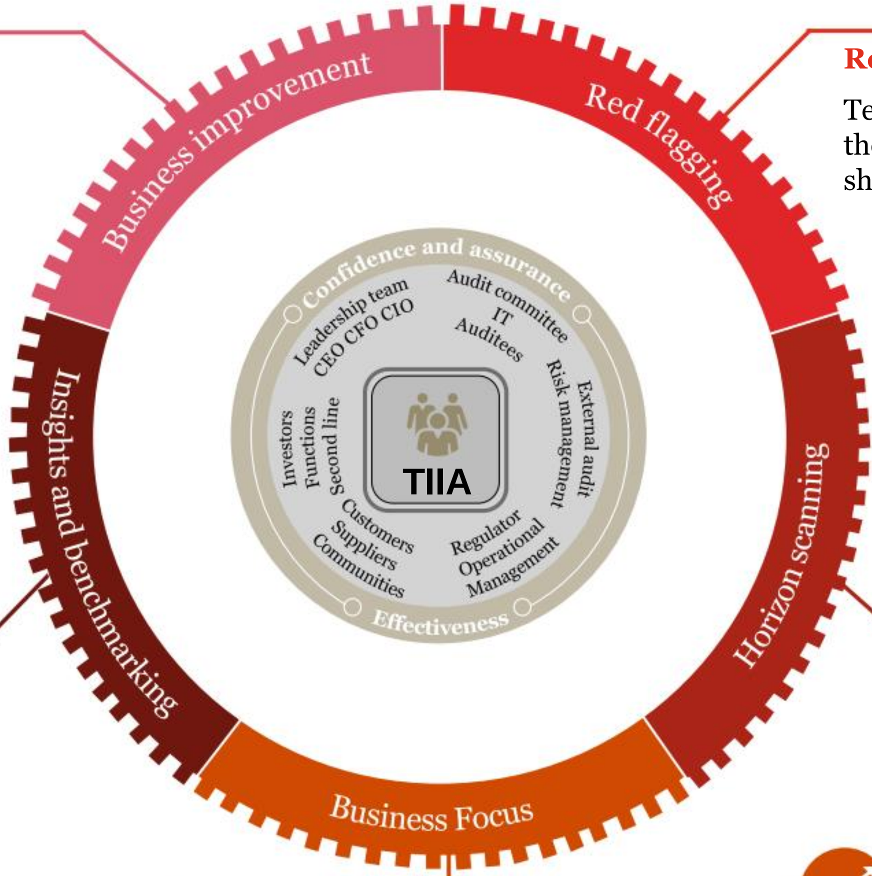
Total Impact = Effectiveness + Contribution

Business improvement

Ensuring that recommendations are practical and deliver business improvement.

Red flagging

Telling the business something that they should be worried about and should act upon.



Insights and benchmarking

Telling the business something that they did not already know and could not find out without internal audit involvement.

Horizon scanning

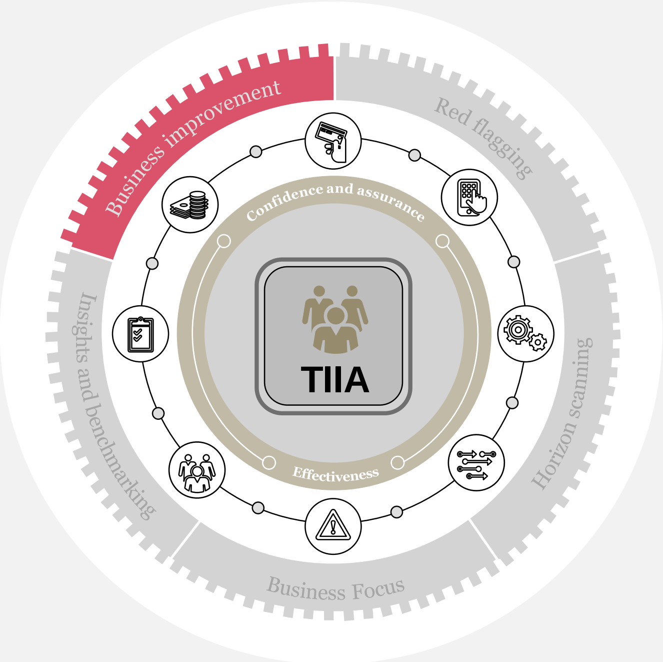
Predicting future areas of risk, concern and non compliance.

Business focus

Ensuring internal audit's activities are focussed on areas that are most important to the organisational strategy

Business improvement

Total impact of Internal Audit



Business improvement

Agree actions that are practical and provide support to deliver business improvement

Measures

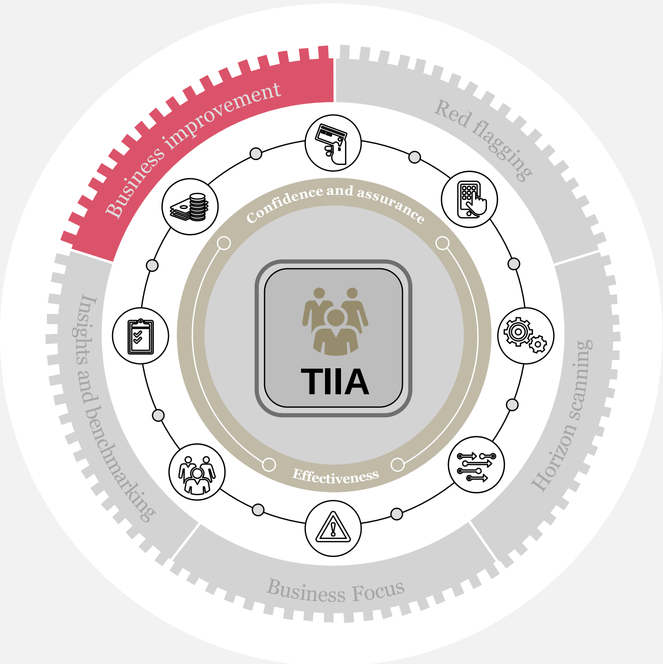
- Protect and improve business value
- Engage successfully
- Impact KPIs
- Qualify and quantify

Types of Evidence

- Engagement scores / feedback
- Visible involvement in improvement initiatives
- Feedback and commentary on business KPIs
- Internal Audit findings which are accepted and actioned by the business
- Use of high quality SME support
- Data analytical / other analytical outputs

Business improvement

Total impact of Internal Audit



Business improvement

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- Engagement scores / feedback
- Visible involvement in improvement initiatives
- Feedback and commentary on business KPIs
- Internal Audit findings which are accepted and actioned by the business
- Use of high quality SME support
- Data analytical / other analytical outputs

Red Flagging

Total impact of Internal Audit

Red flagging

Assessing the current business and telling them in a timely manner something that they should be worried about and should act upon

Measures

- Detect
- Validate
- Support
- Escalate
- Learn

Types of Evidence

- Escalations
- Critical audit findings / red reports
- Data analytical outputs
- Board / AC briefings and papers
- Change initiatives
- GRC technology audit trails
- Remediation support for the implementation of critical findings

Horizon Scanning

Total impact of Internal Audit

Horizon scanning

Forward looking to predict future areas of risk, concern and non compliance

Measures

Predict

Navigate

Equip and prepare

Exploit

Types of Evidence

- Producing discussion papers/white papers
- Audit planning takes account of external megatrends
- Connections with other organisations with similar characteristics
- Attendance/contributions at steering committees / transformation roles

Business focus

Total impact of Internal Audit

Business focus

Aligning Internal Audit activities to the areas that are most important to the business

Measures

- Transformation
- Principal risks
- Coordinated Assurance (3LoD)
- Business partner

Types of Evidence

- Alignment of activities and IA plan to Principal Risks
- Involvement in key strategic activities, such as business planning, deals etc.
- Feedback from stakeholders
- Engagement activities showing dialogue with business stakeholders
- Coordinating work with other lines of defence/ integrated assurance activities
- Transformation / steering committee roles

Insights and benchmarking

Total impact of Internal Audit

Insights and benchmarking

Telling the business something that they did not already know about the organisation and its people to create transparency

Measures

- Discover
- Diagnose
- Illuminate
- Prioritise (Macro focus not micro)

Types of Evidence

- Anecdotal evidence of use of external benchmarks
- Feedback from stakeholders
- Data analytical outputs / technology use
- Discussion papers
- Accepted suggestions
- Comparisons between business units/directorates

Appendix 2: Stakeholder interviews

Stakeholder interviews

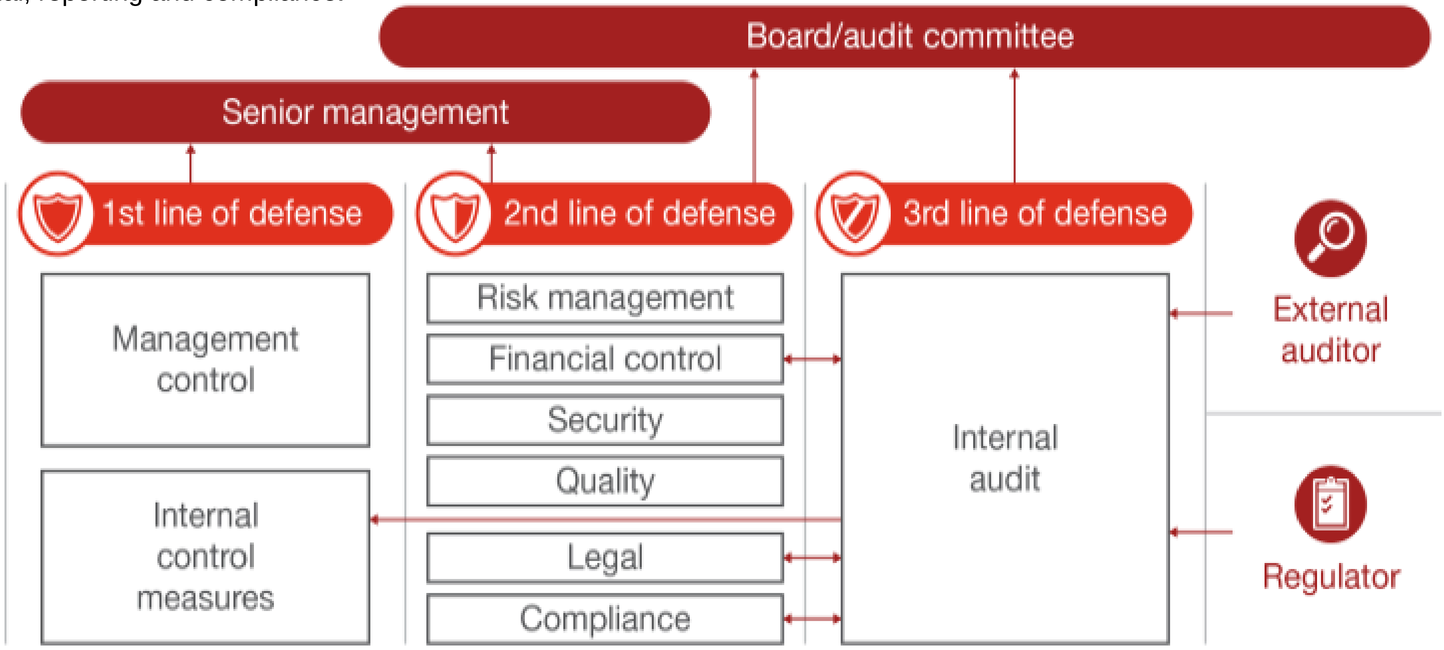
Name of Attendee	Stakeholder	Role
Graham Betts	Council Leadership Team	Acting Chief Executive and Adullt Social Care
Rebecca Hellard	Council Leadership Team	Chief Financial Officer
Tim O'Neil	Council Leadership Team	Director Education and Skills
Peter Bishop	Council Leadership Team	Director, Digital and Customer Services
Ian Macleod	Council Leadership Team	Director, Inclusive growth
Dawn Hewins	Council Leadership Team	Director, Human Resources
Jonathon Tew	Council Leadership Team	Assistant Chief Executive
Robert James/Chris Jordan	Council Leadership Team	Director, Neighbourhoods
Sarah Dunlavey	Other Stakeholders	Assistant Director Audit and Risk Management
Fred Grindrod	Audit Committee	Chairman Audit Committee - Labour
Paul Tilsley	Audit Committee	Audit Committee – Liberal Democrat
Merion Jenkins	Audit Committee	Audit Committee - Conservative
Brigid Jones	Cabinet	Deputy Leader

Appendix 3: The three lines of defence

The Three Lines of Defence (3LoD) summarised

To ensure the effectiveness of an organisation's risk management framework, those charged with governance need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. PwC and the Institute of Internal Auditors endorse the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

1. The first line of defence – functions that own and manage risk. Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and controls.
2. The second line of defence – functions that oversee or specialise in risk management and compliance. The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.
3. The third line of defence – functions that provide independent assurance, above all internal audit. Internal audit (though increasingly other external providers of assurance too) form the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to those charged with governance. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.



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Appendix D

Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Background Information

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment to be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation as part of an ongoing quality assurance and improvement programme.

There are two possible approaches to external assessments outlined in the standard: a full external assessment; or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- possess a recognised professional qualification;
- have appropriate experience of internal audit within the public sector / local government;
- have detailed knowledge of leading practices in internal audit; and
- have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to the provision of service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external peer reviewer. The key benefit to this approach is cost. The Chartered Institute of Public Finance (CIPFA) offer a service to provide external assessments and can undertake a full quality assessment at an approximate cost of £30K. The Chartered Institute of Internal Auditors (CIIA) also offer a similar service at an approximate cost of £14k. They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes around 5 working days and costs approximately £12.5k (costs based on quotes obtained for PSIAS reviews at Birmingham City Council).

There are clear financial savings to members of the Core Cities group by adopting a peer review approach. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

Upon conclusion of the external assessment, the reviewer will offer a 'true and fair' judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process and Indicative Timescales

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain:
    - relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives);
    - details of responsibilities, resources, structure and activities;
    - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required;
    - the completed self-assessment and supporting evidence; and
    - evidence of how quality is maintained, and performance measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.
- Interview key staff and stakeholders to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor.
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should approximately 5 days in total.

Proposed schedule

Liverpool review Birmingham

Bristol review Liverpool

Manchester review Sheffield

Glasgow review Leeds

Leeds review Manchester

Sheffield review Nottingham

Nottingham review Bristol

Birmingham review Glasgow

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Interim Head of Capital and Treasury Management**
Date of Meeting:	**26th January 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 draft 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 Code as "the management of the organisation's borrowing, investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

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

Appendix 2 The Council's Draft Treasury Management Strategy and Policy: these are the key documents that set out the main risk management processes and controls for Treasury Management in the Council. They will form appendices to the Financial Plan 2021-25 to be approved by City Council meeting on 23 February 2021, and for transparency, are in that format.

Appendix 3 The Council's Draft Treasury Management Practices (TMPs): these are operational procedures regulating day to day treasury activities, including the management of risk. They are referenced in the TM Policy paragraph 10.5. These are reviewed annually and are due to be approved by the Director of Finance.

Appendix 4 Treasury management reporting and monitoring (Quarter 2 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. Training was recently arranged on 7 July 2020 and was provided by Arlingclose (the Council's treasury advisers) together with our own treasury staff.

Name of report Author: **Mohammed Sajid**
Title: **Interim Head of Capital and Treasury Management Finance and Governance Directorate**

e-mail address: **mohammed.sajid@birmingham.gov.uk**

Birmingham City Council Treasury risk management 26 January 2021

- Audit Committee’s role
- Treasury and risk management
- The Council’s TM Strategy for 2021-22
- Treasury Reporting and Monitoring

Audit Committee’s role in relation to Treasury Management

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

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

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

Cabinet monitors TM activity in quarterly financial monitoring.

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 or invest prudently;

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

How we manage Treasury :

Statutory requirement to have regard to:

- 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)

We comply with these

External professional advisers appointed

Arlingclose Ltd provide us with regular treasury advice and support.

Key risks and issues we manage:

- **Interest rate risk - the risk that future borrowing costs rise**
  - Key objective for a stable charge to revenue, by having a limit of 30% on variable rate loan debt.

- **Credit risk - the risk of default in a Council investment**
  - Regular review of investment grade credit criteria and investment limits (who we lend to / invest with and how much)

- **Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed**
  - Target a deposit balance of £40m for liquidity
  - Have limits on the maturity profile for borrowing – ensure too many loans do not mature in one year creating a big refinancing risk

Headline figures for Birmingham City Council

	£m value
Total loan debt outstanding As at 31 December 2020	£3.42bn
Total treasury investments outstanding As at 31 December 2020	£265m
Total value of transactions to Q3 2020/21	£10.06bn
Total draft treasury revenue budget 2021/22	£243m

TM Strategy for 2021/22

- Continue to maintain a significant short term loans portfolio:
  - Target £500m to £600m due to interest cost savings

- Longer term borrowing for capital programme
  - Around £130m preferably through lower rates from the PWLB, subject to meeting new conditions of not borrowing to fund assets primarily for yield.

- Aim to maintain £40m target investments for liquidity
  - The Council's cash balances may be higher within the year if COVID funding is received in advance from government.

BCC treasury reporting and monitoring

- Quarterly reporting to Cabinet (Appx C to monitoring report)
  - The full Q2 report is in Audit Committee papers
  - includes summary dashboard to Cabinet - see next slide
  - Summary dashboard also taken monthly to Finance O&S Committee

- includes decisions made by officers under delegations

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

Cabinet summary dashboard: Q2 2020/21

		value	comparator	difference
1	**Gross loan debt**	**£m**	**£m**	**£m**
	at month end	**3,454**		
	year end Forecast (vs Plan)	3,655	3,832	-177
	year end Forecast (vs Pru Limit for loan debt*)	3,655	4,085	-430

**monitoring of the full set of prudential indicators is reported quarterly to Cabinet*

Forecast year end debt is well below the year end plan and prudential limit. This is partly because of increased capital programme slippage due to Covid and Covid grants received in advance. Considerable uncertainty remains about the impact of Covid on cashflows over the coming months.

2	**short term borrowing**			
	at month end (vs Guideline)	505	600	-95
	interest rate year to date on outstanding deals (vs assumption)	0.79%	1.50%	-0.71%

Short term borrowing resumed towards the end of the quarter as the Council utilised more of the COVID grants received in advance. Interest rates achieved for new short term borrowing are lower than anticipated in the Plan.

3	**Treasury investments**			
	at month end (vs Guideline)	153	40	113
	interest rate year to date on outstanding deals (vs assumption)	0.10%	1.01%	-1%

Investments remain significantly higher than the Strategy's guideline of £40m, due to the favourable cashflows noted in 1 above.

4	**Long term loans taken**			
	year to date (vs plan for year)	35	415	-380
	ave. interest rate obtained (vs assumption)	1.66%	4.20%	-2.54%

Very little long term borrowing has been taken in the year to date, due to favourable cashflows deferring the need for long term borrowing. £35m of planned long term borrowing was taken to support the funding of the advance payment of pension contributions in April.

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**

BCC’s TM Policy (Appx to Financial Plan 2021)

- Sets TM objectives and risk appetite

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

- Sets framework and controls for interest rate risk, credit risk, liquidity risk and other risks

- Describes Treasury delegations and reporting

- Outlines the Treasury Management Practices (TMPs)

BCC’s TM Strategy (Appx to Financial Plan 2021)

Strategy for treasury management activity in the coming year:

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

TM Regulatory system in local government

- CIPFA Code for Treasury Management in local authorities (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

Item 10

FINANCIAL PLAN

2021 - 2025

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 2021/22 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]

1.4. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements, will remain a major influence on the Council's treasury management strategy for 2021/22.

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

[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.

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:

Table N.1 Forecast Borrowing Requirement

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Forecast gross loan debt	3,721.8	3,697.2	3,518.1	3,456.7
Forecast treasury investments	(40.0)	(40.0)	(40.0)	(40.0)
Forecast net loan debt	3,681.8	3,657.2	3,478.1	3,416.7
of which:				
forecast long term loans outstanding	3,003.6	2,928.6	2,908.6	2,833.6
Short term investments working balance	(40.0)	(40.0)	(40.0)	(40.0)
Required new/ replacement loan balance	718.3	768.7	609.5	623.1
	3,681.8	3,657.2	3,478.1	3,416.7

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 Council's forecast debt is due to decrease in forthcoming years meaning that its borrowing needs will correspondingly be reduced from 2021/22 onwards. The fall is partly attributable to scheduled debt repayments. If further capital expenditure funded from borrowing is decided on in the future, this will increase the debt levels.

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 2021/22. 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 previous years the Council has repaid some of its LOBO loans early; in May 2019, £30m of LOBO loans held with Commerzbank were repaid. This resulted in a significant saving for the Council and it 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 experienced a significant slowdown in growth driven by the global coronavirus pandemic. The UK's gross domestic product (GDP) shrank by 9.6 % year-on-year in the third quarter of 2020, following a record contraction of 21.5 % in the previous three-month period. Although UK GDP is expected to rise in 2021, there could be further deterioration in other economic measures such as Consumer Price Inflation (CPI), which fell to 0.3% in November 2020, well below the BoE target of 2%. The UK Unemployment Rate, at 4.9% in October 2020, is expected to peak at 7.75% in 2021.

4.3. The UK economy could also be affected by any trade agreements negotiated after its exit from the European Union and the BoE now forecasts the economy will take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. The Bank of England (BoE) has maintained Bank Rate at 0.10% in November 2020, and have retained the option for Bank Rate to go to zero or negative should the economic downturn continue or worsen.

4.4. Arlingclose, the Council's treasury advisor, has forecast the Bank Rate to remain at 0.10% 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 2021/22.

4.5. Upside risks to UK interest rates in 2021/22 include:

- Higher than expected economic growth as the coronavirus pandemic is halted with the rollout of vaccines
- Higher than expected inflation rates
- A free trade agreement with the EU post-Brexit

Downside risks to UK interest rates include:

- World and UK growth falters as the effects of coronavirus and extended lockdown periods remain significant
- Brexit risks to the UK economy
- 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 N.2 shows that Gilt yields fell to record low levels after the onset of the global pandemic at the start of 2020 and 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. As a result of the Covid-19 pandemic and provisions made by banks against coronavirus related loan defaults, bank profitability in 2020 is likely to be lower than in previous years. There is a risk that banks could suffer further losses in

2021 if government and central bank support is removed. This may make them reluctant to lend.

5. Borrowing strategy

5.1. For some years the Council has targeted a short term or variable rate loans balance (less than 12 months) of around £500m to £600m to take advantage of the prevailing low short term borrowing rates. Short term rates turned significantly lower in 2020/21 and low rates are expected to continue into 2021/22; it is proposed to resume the short term loans level of around £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).

5.2. 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

	2021/22	2022/23	2023/24	2024/25
cumulative new borrowing:	£m	£m	£m	£m
total long term loans	130.0	130.0	130.0	130.0
new short term loans	588.3	638.7	479.5	493.1
Required new/ replacement loan balance	718.3	768.7	609.5	623.1

5.3. The strategy results in a forecast for new long-term borrowing of £130m in 2021/22. The balance of new long term borrowing does not increase in the following years as the requirement for new loans starts to decrease. As the requirement for short term loans also decreases below the £500-600m guidance in future years, new long term loans in 2021/22 can be taken out with a shorter maturity.

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. Towards the end of 2019/20, liquidity in the local authority lending market unexpectedly tightened meaning the Council had to pay higher rates to maintain its short term book. These tight conditions were short lived and liquidity resumed from the start of 2020/21. To mitigate such liquidity risk, the Council has opened a Working Capital Facility with its current bankers should it require loans for a short period from an alternative source. Short-term and variable rate exposures remain within the 30% prudential limit set out in Appendix U4.

5.5. In 2020/21, the Council paid a three year advance pensions payment for which it received a discount; this means there are reduced pensions cash outflows in 2021/22 and 2022/23. If the Council is offered a similar discount in 2023/24, it may choose to make an advanced payment which could be funded by further long term loans. The borrowing strategy to fund the advance pensions payment will be to take loans for one to three years. The forecast debt figures at Table N.1 do not include future pensions advanced payments as these are yet to be agreed.

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). In October 2019 the PWLB had 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 PWLB borrowing by local authorities as the cost of borrowing had fallen to record lows. Some local authorities had undertaken significant PWLB borrowing to fund commercial investments for yield. The Council has not undertaken any PWLB borrowing to fund commercial investments for yield.

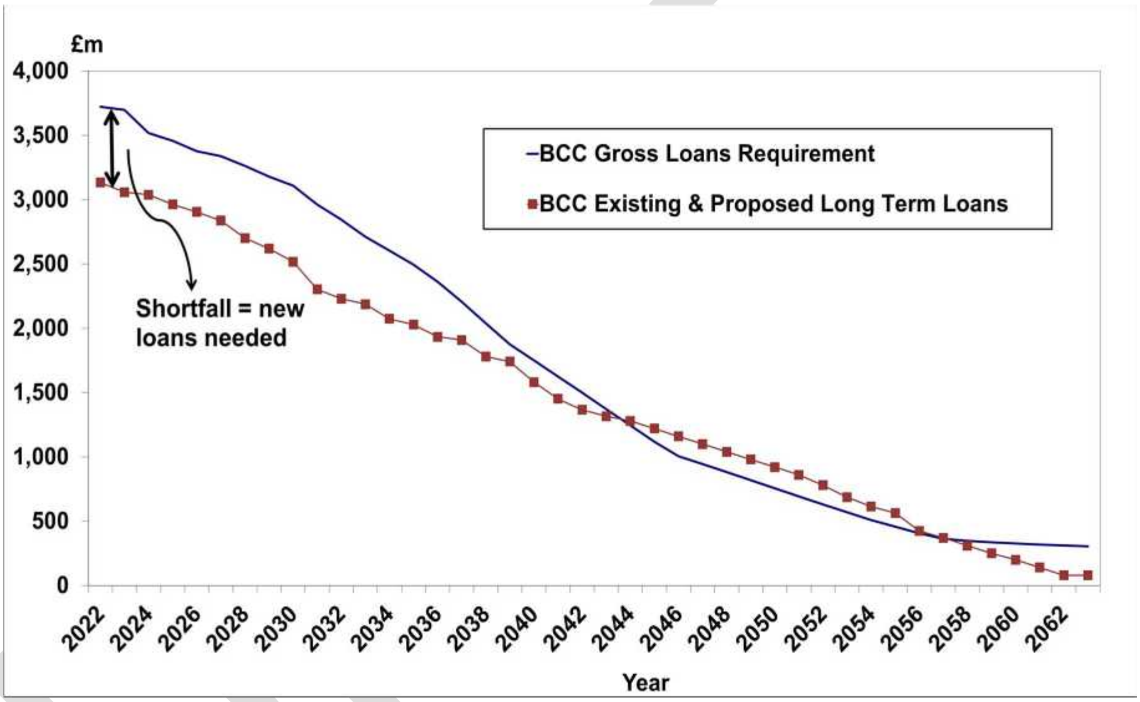
5.8. Following a consultation on PWLB lending terms, the Treasury at the end of November 2020, returned PWLB rates to 0.8% above gilts with the condition that local authorities would not be able to access PWLB loans if their 3 year capital programme included capital expenditure primarily for yield. The Treasury has also stated it will allow local authorities to use PWLB borrowing to refinance debt or externalise internal borrowing even if they have debt for yield projects. However it would not support strategies to temporarily finance debt for yield projects and then refinance through PWLB loans. The Council's current programme has no plans for investing for yield and all investments are linked to Service objectives.

5.9. The consequence of the PWLB rate decrease is that it offers a cheaper and quicker route to borrowing than alternative sources of borrowing, by at least 0.5% based on latest market analysis. The Council would thus aim to use the PWLB for its long-term borrowing needs. In addition it is uncertain how private sector lenders will view lending to councils that were no longer eligible for PWLB loans.

5.10. The Council will continue to monitor 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 e.g. by premature repayment and replacement with new loans.

5.11. The £130m new long-term borrowing forecast for 2021/22 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



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

5.13. The shortfall shown in the chart is planned to be met by a short-term loans portfolio of around £600m in accordance with current strategy (see paragraph 5.1).

5.14. 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.

5.15. 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. No new long-term borrowing for the HRA is currently planned as HRA increases its exposure to short term loans. 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)	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Housing Revenue Account				
Year end net exposure to variable rates	213.2	251.0	281.3	289.6
Closing HRA net loan debt	1,113.4	1,144.0	1,156.4	1,161.7
Variable exposure % of debt	19.2%	21.9%	24.3%	24.9%
General Fund				
Year end net exposure to variable rates	410.0	367.6	233.2	222.4
Closing General Fund net loan debt	2,568.4	2,513.2	2,321.7	2,255.0
Variable exposure % of debt	16.0%	14.6%	10.0%	9.9%
Year end variable interest rate assumption provided for in the budget	0.50%	0.75%	0.75%	1.00%

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 2021/22 would cost an estimated £4.1m per annum for the General Fund and £2.1m 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 increased 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

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Net interest costs	133.618	121.166	126.087	123.796
Revenue charge for loan debt repayment	112.954	116.246	126.603	129.397
Other charges	(3.809)	(9.194)	2.182	2.102
Total	242.763	228.218	254.872	255.294
Met by the HRA	50.596	52.803	50.657	49.578
Met by the General Fund	192.166	175.415	204.215	205.716
Total	242.763	228.218	254.872	255.294

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 used as guidance in order to maintain adequate liquidity to meet uncertain cashflows. Any such surplus cash is invested in high credit quality institutions and pooled investment funds. 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. Due to the coronavirus pandemic, councils experienced increased uncertainty over their cashflows during 2020/21. Central government provided significant grants to the Council as it looked to use local authorities to coordinate the support required by the local population in dealing with the financial impact of the pandemic. As a result, the Council held liquid cash balances that far exceeded the guidance of £40m throughout the year. This is likely to continue if the financial impact of coronavirus continues into 2021/22.

8.3. As the economic consequences of the pandemic and the details of the Brexit trade deal become clearer, there is the risk that the Bank of England will set its Bank Rate at or below zero, which would feed through to negative interest rates on low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

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

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, due to mature in 2027, 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 Limited are appointed to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisers are a useful support in view of the size of the Council's transactions and the pressures on staff time.

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 Treasury 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 the 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):		
	2021/22	**2022/23**	**2023/24**
General Fund impact of an unbudgeted 1% rise in interest rates	£4.1m	£3.7m	£2.3m
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:

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[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; these limits have been set by the Council in consultation with Treasury advisors.

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 and credit limit requirements may change as the circumstances demand: 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 U: PRUDENTIAL INDICATORS

Appendix U1

WHOLE COUNCIL	21/22 Indicators	22/23 Indicators	23/24 Indicators	24/25 Indicators
	£m	£m	£m	£m
Capital Finance				
Capital Expenditure - Capital Programme	549.6	369.9	236.5	236.5
Capital Expenditure - other long term liabilities	37.9	33.2	33.4	34.3
Capital expenditure	587.4	403.1	269.9	270.8
Capital Financing Requirement (CFR)	4,700.9	4,712.4	4,510.5	4,436.4
Planned Debt				
Peak loan debt in year	3,663.8	3,585.9	3,505.9	3,317.4
+ Other long term liabilities (peak in year)	397.3	373.7	348.4	322.1
= Peak debt in year	4,061.1	3,959.6	3,854.3	3,639.5
does peak debt exceed year 3 CFR?	no	no	no	no
Prudential limit for debt				
Gross loan debt	4,002.7	3,926.3	3,751.6	3,677.9
+ other long term liabilities	397.3	373.7	348.4	322.1
= Total debt	4,400.0	4,300.0	4,100.0	4,000.0

Notes

There is a net increase in forecast capital expenditure due mainly to slippage from previous years.

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.

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

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.

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	21/22 Forecast £m	22/23 Forecast £m	23/24 Forecast £m	24/25 Indicators £m
Capital Finance				
Capital expenditure	141.9	157.5	136.5	136.5
HRA Debt				
Capital Financing Requirement (CFR)	1,073.8	1,089.0	1,092.8	1,092.0
Affordability				
HRA financing costs	96.0	96.6	96.9	96.9
HRA revenues	285.7	292.8	300.7	300.7
HRA financing costs as % of revenues	33.6%	33.0%	32.2%	32.2%
HRA debt : revenues	3.8	3.7	3.6	3.6
Forecast Housing debt per dwelling	£18,098	£18,460	£18,597	£18,583

Notes

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

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.

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	21/22 Forecast £m	22/23 Forecast £m	23/24 Forecast £m	24/25 Indicators £m
Capital Finance				
Capital expenditure (including other long term liabilities)	445.5	245.6	133.4	134.3
Capital Financing Requirement (CFR)	3,627.1	3,623.4	3,417.6	3,344.4
General Fund debt				
Peak loan debt in year	2,590.0	2,496.9	2,413.1	2,225.4
+ Other long term liabilities (peak in year)	397.3	373.7	348.4	322.1
= Peak General Fund debt in year	2,987.3	2,870.6	2,761.5	2,547.5
General Fund Affordability				
Total General Fund financing costs	247.0	226.3	255.6	256.6
General Fund net revenues	872.4	890.7	909.8	933.6
General Fund financing costs (% of net revenues)	28.3%	25.4%	28.1%	27.5%
General Fund financing costs (% of gross revenues)	22.5%	22.2%	21.8%	21.4%

Note

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

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

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

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	21/22 Forecast	22/23 Forecast	23/24 Forecast	24/25 Forecast
General Fund impact of an unbudgeted 1% rise in interest rates	£3.7m	£2.7m	£1.2m	£1.1m
Variable rate exposures vs upper limit 30%	18%	15%	15%	12%
Maturity structure of borrowing	**Forecast**	**Forecast**	**Forecast**	**Forecast**
(lower limit and upper limit)	**Year End**	**Year End**	**Year End**	**Year End**
under 12 months	16%	14%	11%	11%
12 months to within 24 months	1%	2%	2%	2%
24 months to within 5 years	6%	7%	9%	10%
5 years to within 10 years	17%	15%	16%	15%
10 years to within 20 years	23%	24%	23%	24%
20 years to within 40 years	36%	35%	37%	36%
40 years and above	2%	2%	2%	2%
Investments longer than 364 days				
upper limit on amounts maturing in:				
	Forecast	**Forecast**	**Forecast**	**Forecast**
1-2 years	0	0	0	0
2-3 years	0	0	0	0
3-5 years	0	0	0	0
later	0	0	0	0

Note

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

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

The limit on variable rate exposures is a local indicator.

BIRMINGHAM CITY COUNCIL

TREASURY MANAGEMENT PRACTICES
December 2020

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 **Schedule to TMP 2**.

TMP 3 Decision-making and analysis

The City Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the **Schedule to TMP 3**.

TMP 4 Approved instruments, methods and techniques

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

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

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

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

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

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

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

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

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

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

TMP 6 Reporting requirements and management information arrangements

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

As a minimum:

The City Council meeting will receive:

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

The Cabinet will receive:

- Regular monitoring reports on treasury management activities and risks. *This encompasses the TM Code requirement for* a mid year review;
- an annual report on the performance of the treasury management function, 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 to TMP 6**.

TMP 7 Budgeting, accounting and audit arrangements

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all 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.

TMP 8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in **Schedule to TMP 8**.

TMP 9 Money laundering

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

TMP 10 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 to TMP 10**.

TMP 11 Use of external service providers

The City Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. 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 to TMP 11**.

TMP 12 Corporate governance

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

The City Council has adopted and has implemented the key 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 ______________________

Item 10

Appendix C1

TREASURY MANAGEMENT MONITORING DASHBOARD: SEPTEMBER 2020

		value	comparator	difference
1	**Gross loan debt**	**£m**	**£m**	**£m**
	at month end	**3,454**		
	year end Forecast (vs Plan)	3,655	3,832	-177
	year end Forecast (vs Pru Limit for loan debt*)	3,655	4,085	-430

**monitoring of the full set of prudential indicators is reported quarterly to Cabinet*

Forecast year end debt is well below the year end plan and prudential limit. This is partly because of increased capital programme slippage due to Covid and Covid grants received in advance. Considerable uncertainty remains about the impact of Covid on cashflows over the coming months.

		value	comparator	difference
2	**short term borrowing**			
	at month end (vs Guideline)	505	600	-95
	interest rate year to date on outstanding deals (vs assumption)	0.79%	1.50%	-0.71%

Short term borrowing resumed towards the end of the quarter as the Council utilised more of the COVID grants received in advance. Interest rates achieved for new short term borrowing are lower than anticipated in the Plan.

		value	comparator	difference
3	**Treasury investments**			
	at month end (vs Guideline)	153	40	113
	interest rate year to date on outstanding deals (vs assumption)	0.10%	1.01%	-1%

Investments remain significantly higher than the Strategy's guideline of £40m, due to the favourable cashflows noted in 1 above.

		value	comparator	difference
4	**Long term loans taken**			
	year to date (vs plan for year)	35	415	-380
	ave. interest rate obtained (vs assumption)	1.66%	4.20%	-2.54%

Very little long term borrowing has been taken in the year to date, due to favourable cashflows deferring the need for long term borrowing. £35m of planned long term borrowing was taken to support the funding of the advance payment of pension contributions in April.

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

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

Appendix C2

Treasury Management: portfolio overview

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

	this quarter		last quarter
	30/09/2020		**30/06/2020**
	£m		**£m**
PWLB	**2,454.2**		**2,454.2**
Bonds	**373.0**		**373.0**
LOBOs	**71.1**		**71.1**
Other long term	**49.9**		**52.2**
Salix	**0.6**		**0.6**
Short term	**504.8**		**423.7**
Gross loan debt	**3,453.6**		**3,374.8**
less treasury investments	**(153.4)**		**(126.1)**
Net loan debt	**3,300.2**		**3,248.7**
Budgeted year end net debt	**3,792.0**		**3,792.0**
Prudential limit (gross loan debt)	4,085.0		4,085.0

Long term loans remained relatively steady during Q2. The Council's short term loans started to increase in the final month of the quarter as the Council utilised COVID grants received in advance.

Treasury investments by source	£m
UK Government	**25**
Money Market Funds	**123**
Banks and Building Societies	**5**
	153

Treasury investments by credit quality	£m
AAA	**25**
AAAmmf	**123**
AA	**5**
A	**0**
	153

In line with the Strategy, the Council holds its treasury investments in liquid funds of high credit quality. The COVID grants received in advanced have been retained in liquid funds due to uncertainty over the timing of needs.

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	AMSCI	Regional Growth Fund	Local Growth Fund	LGF3	LOGRO	NMCL	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
UK Government	**9**	**15**	**5**	**0**	**0**	**10**	**0**	**39**
Birmingham City Council[1]	**0**	**0**	**0**	**10**	**0**	**0**	**0**	**10**
Money Market Funds	**2**	**24**	**10**	**0**	**4**	**51**	**0**	**91**
	11	**39**	**15**	**10**	**4**	**61**	**0**	**140**

[1] These funds have been lent to the Council by agreement at a commercial rate

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	424		-126
new loans/investments	216		-617
loans/investments repaid	-135		590
closing balance	505		-153

These loans and investments are for short periods from one day up to 365 days. There has been a lower turnover in loans than normal due to the take up of new loans being delayed by remaining COVID grants received in advance. The value of transactions for investments has decreased from the first quarter as COVID grants have been utilised.

2. Long term borrowing:				
date	lender	£m	rate	maturity
20/04/2020	Cornwall Council	20	1.70%	20/04/2022
24/04/2020	Lancashire Fire Authority	5	1.45%	25/04/2022
24/04/2020	LB of Barking & Dagenham	10	1.70%	22/04/2022

Planned long term borrowing was taken to support the funding of the advance payment of pension contributions in April.

3. Long term loans prematurely repaid:				
date	lender	£m	rate	maturity

No long term loans were prematurely repaid. In line with treasury management practices, the Council will only repay long term loans prematurely if this provides a financial benefit to the Council.

4. Long term treasury investments made:				
date	borrower	£m	rate	maturity

No long term investments were made. The Council is a substantial net borrower and usually has cash to invest for relatively short periods.

Item 10

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

Appendix C4a

DEBT AND PRUDENTIAL INDICATORS

	WHOLE COUNCIL	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m	22/23 Indicators £m	22/23 Forecast £m	23/24 Indicators £m	23/24 Forecast £m
	Capital Finance								
1	Capital Expenditure - Capital Programme	710.1	723.2	481.9	549.6	327.0	369.9	223.1	236.5
2	Capital Expenditure - other long term liabilities	38.2	38.3	37.8	37.9	33.1	33.2	33.3	33.4
3	Capital expenditure	748.3	761.5	519.7	587.4	360.1	403.1	256.4	269.9
4	Capital Financing Requirement (CFR)	4,839.3	4,717.5	4,941.7	4,788.4	5,135.1	4,725.7	4,834.4	4,523.4
	Planned Debt								
5	Peak loan debt in year	3,849.9	3,673.1	3,932.9	3,751.8	3,852.3	3,670.8	3,719.5	3,519.1
6	+ Other long term liabilities (peak in year)	415.5	416.8	396.7	397.3	373.4	373.7	348.2	348.3
7	= Peak debt in year	4,265.4	4,089.9	4,329.6	4,149.1	4,225.7	4,044.5	4,067.7	3,867.4
8	does peak debt exceed year 3 CFR?	no	no	no	no	no	no	no	no
	Prudential limit for debt								
9	Gross loan debt	4,084.5	3,673.1	4,203.3	3,751.8	4,026.6	3,670.8	3,951.8	3,519.1
10	+ other long term liabilities	415.5	416.8	396.7	397.3	373.4	373.7	348.2	348.3
11	= Total debt	4,500.0	4,089.9	4,600.0	4,149.1	4,400.0	4,044.5	4,300.0	3,867.4

Notes

1 There is a net increase in forecast capital expenditure due mainly to slippage from previous years.

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.

DEBT AND PRUDENTIAL INDICATORS

Appendix C4b

	HOUSING REVENUE ACCOUNT	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m	22/23 Indicators £m	22/23 Forecast £m	23/24 Indicators £m	23/24 Forecast £m
	Capital Finance								
1	Capital expenditure	125.8	109.5	129.4	141.9	145.1	157.5	129.5	136.5
	HRA Debt								
2	Capital Financing Requirement (CFR)	1,097.1	1,080.4	1,090.6	1,073.8	1,105.7	1,089.0	1,109.5	1,092.8
	Affordability								
3	HRA financing costs	97.2	95.1	98.7	96.0	100.5	96.6	101.4	96.9
4	HRA revenues	279.9	278.2	286.2	285.7	293.3	292.8	301.2	300.7
5	HRA financing costs as % of revenues	34.7%	34.2%	34.5%	33.6%	34.3%	33.0%	33.7%	32.2%
6	HRA debt : revenues	3.9	3.9	3.8	3.8	3.8	3.7	3.7	3.6
7	Forecast Housing debt per dwelling	£18,423	£18,015	£18,446	£18,098	£18,785	£18,460	£18,914	£18,597

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.

DEBT AND PRUDENTIAL INDICATORS

Appendix C4c

	GENERAL FUND	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m	22/23 Indicators £m	22/23 Forecast £m	23/24 Indicators £m	23/24 Forecast £m
	Capital Finance								
1	Capital expenditure (including other long term liabilities)	622.5	652.0	390.4	445.5	215.0	245.6	126.8	133.4
2	Capital Financing Requirement (CFR)	3,742.2	3,637.2	3,851.1	3,714.6	4,029.3	3,636.7	3,724.9	3,430.6
	General Fund debt								
3	Peak loan debt in year	2,752.8	2,592.7	2,842.3	2,678.0	2,746.6	2,581.8	2,610.0	2,426.3
4	+ Other long term liabilities (peak in year)	415.5	416.8	396.8	397.3	373.5	373.7	348.2	348.3
5	= Peak General Fund debt in year	3,168.3	3,009.5	3,239.1	3,075.3	3,120.1	2,955.5	2,958.2	2,774.6
	General Fund Affordability								
6	Total General Fund financing costs	255.6	256.0	260.0	250.4	250.2	232.2	272.1	252.8
7	General Fund net revenues	852.9	852.9	872.4	872.4	890.7	890.7	909.8	909.8
8	General Fund financing costs (% of net revenues)	30.0%	30.0%	29.8%	28.7%	28.1%	26.1%	29.9%	27.8%
9	General Fund financing costs (% of gross revenues)	23.0%	22.7%	22.6%	22.7%	21.2%	21.5%	22.5%	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.

PRUDENTIAL INDICATORS

Appendix C4d

	TREASURY MANAGEMENT	20/21 Indicators	20/21 Forecast	21/22 Indicators	21/22 Forecast	22/23 Indicators	22/23 Forecast	23/24 Indicators	23/24 Forecast
1	General Fund impact of an unbudgeted 1% rise in interest rates	£3.8m	£4.5m	£4.1m	£5.9m	£4.2m	£4.1m	£4.0m	£2.6m
2	Variable rate exposures vs upper limit 30%	19%	19%	22%	22%	23%	20%	21%	19%
	Maturity structure of borrowing	Limit	**Forecast**	Limit	**Forecast**	Limit	**Forecast**	Limit	**Forecast**
	(lower limit and upper limit)		**Year End**		**Year End**		**Year End**		**Year End**
3	under 12 months	0% to 30%	18%	0% to 30%	22%	0% to 30%	18%	0% to 30%	16%
4	12 months to within 24 months	0% to 30%	2%	0% to 30%	1%	0% to 30%	2%	0% to 30%	2%
5	24 months to within 5 years	0% to 30%	4%	0% to 30%	5%	0% to 30%	7%	0% to 30%	9%
6	5 years to within 10 years	0% to 30%	16%	0% to 30%	16%	0% to 30%	14%	0% to 30%	16%
7	10 years to within 20 years	5% to 40%	20%	5% to 40%	20%	5% to 40%	21%	5% to 40%	20%
8	20 years to within 40 years	10% to 60%	36%	10% to 60%	34%	10% to 60%	35%	10% to 60%	36%
9	40 years and above	0% to 40%	4%	0% to 40%	2%	0% to 40%	2%	0% to 40%	2%
	Investments longer than 364 days								
	upper limit on amounts maturing in:								
		Limit	**Forecast**	**Limit**	**Forecast**	**Limit**	**Forecast**	**Limit**	**Forecast**
10	1-2 years	400	0	400	0	400	0	400	0
11	2-3 years	100	0	100	0	100	0	100	0
12	3-5 years	100	0	100	0	100	0	100	0
13	later	0	0	0	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 debt.

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

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**26 January 2020**
Subject:	**AUDIT FINDINGS REPORT**
Wards affected: All	

1 Purpose

1.1 At its meeting on 25 November 2020, Members considered the External Auditor's Audit Findings Report (AFR) on the Council's financial statements, which summarised the significant outcomes, conclusions and recommendations from their work to date.

1.2 At that time, whilst the external auditors had completed the substantial proportion of their audit of the financial statements, there remained a number of elements where further work was required. Following the completion of the work, the external has issued a revised Audit Findings Report, attached as appendix 1.

1.3 The revised AFR contains 13 new recommendations and follows up on 5 recommendations from prior years. Management responses, attached at appendix 2, are now submitted for review and approval.

1.4 Progress in implementing action to meet the recommendations has also been identified for the external audit recommendations.

2 Decisions recommended:

Members are recommended to:

2.1 Note the revised Audit Findings Report

2.2 Approve the management responses, attached as Appendix 2, to the recommendations set out in the Audit Findings Report

2.3 Seek reports to future meetings of this committee on progress in implementing the actions proposed in response to the recommendations.

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Contact Officer: Martin Stevens
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3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The coverage of the Audit Findings Report, Annual Audit Letter and actions highlighted in this report 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 as to how the recommendations made will be addressed.

4 Relevant background/chronology of key events:

4.1 The external auditor's Audit Findings Report (AFR) was considered by this committee at its meeting on 25 November 2020. Included within the AFR were details of work that still remained to be completed. This work has now been completed and a revised AFR has been produced.

4.2 The revised AFR includes additional recommendations in respect of:

- Consideration of the impact of assets that are valued at less than £50,000, which are assumed, on the basis of de minimis, to have a nil value
- The disclosure of the Council's capital commitments had been based on business cases and estimated spend rather than on contracted amounts and actual expenditure
- The valuation of the Council's Think Tank heritage asset is based on insurance value rather than on a formal valuation of the asset

4.3 The revised AFR also includes an additional two items in respect of unadjusted errors and uncertainties relating to:

- An uncertainty in respect of asset values based on movement in values between the date of valuation and the balance sheet date. As the auditor has explained, this is not necessarily an error but is an uncertainty in the valuation.

- Extrapolated error in West Midlands Pension Fund asset valuations. The figure identified is an extrapolation of an error based on a sample of asset values.

The uncertainties identified are not material to the Council's accounts.

4.4 Management responses to the recommendations contained with the revised AFR are set out in Appendix 2.

4.5 Further reports will be provided to this committee setting out the progress in implementing the proposed activity in response to the recommendations set out in the AFR.

4.6 The external auditor has also issued the Annual Audit Letter to the Council which is a statutory report of their activities for the year. The Annual Audit Letter is considered later at this meeting.

Signature:

……………………………………………………………………

Rebecca Hellard, Interim Chief Finance Officer

Appendices

Appendix 1 – Revised Audit Findings Report

Appendix 2 - Management Response to Audit Findings Report Recommendations

Grant Thornton

The Audit Findings for Birmingham City Council

Year ended 31 March 2020

Updated December 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Birmingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines. The impact on the core finance team has been more limited with minimal changes to staff sickness rates. While arrangements for remote working were already in place, the wholesale move to home working has been a significant change for staff. Authorities 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.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan Addendum on 24 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) have been used where necessary. We have been in regular communication with key members of the finance team throughout the period of the pandemic, in order to ensure that the audit process remained as smooth as possible in these new circumstances. The Council provided draft financial statements for audit on 28 August 2020, within the extended deadline, and our audit work commenced in earnest from the beginning of September.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during July to November 2020. Our findings are summarised on pages 5 to 19. We have identified 3 adjustments to the financial statements that have resulted in a £20.8m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters detailed on page 6; We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated financial statements audit opinion will be unqualified, but will include paragraphs highlighting the uncertainties that the Council has disclosed in Note 3 to the financial statements in relation to property valuations and the valuation of the property and infrastructure assets included within the net pension liability, as well as the uncertainties that the Council has disclosed in Note 34 in relation to the volume and timing of any future equal pay claims and the determination of any settlements.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Birmingham City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the specific weaknesses detailed in pages 20 to 38. We have updated our VfM risk assessment, and documented 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. We therefore anticipate issuing a qualified 'except for' value for money conclusion.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion, subject to the completion of the work required on the Council's Whole of Government Accounts return.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management ahead of presentation to the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's and Council's internal controls environment, including its IT systems and controls.
- An evaluation of the components of the group based on a measure of materiality and considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component. This assessment was then used to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for the following balances:
  - Net Pension Liability and Operating Expenditure of Birmingham Children's Trust, with work performed by Crowe UK LLP, as component auditor; and
  - Material transactions and balances within group entities other than the Authority and Birmingham Children's Trust, with procedures completed by the audit team.

  For other non-significant components included in the group financial statements, which make up the remainder of the group's income, expenditure and net assets, analytical procedures were performed to gain assurances for our audit.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 24 April 2020, to reflect our response to the Covid-19 pandemic. In this Addendum, we detailed additional significant risks in relation to Covid-19 for the financial statements.

Our approach to 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.

We have revised our materiality levels from those reported in our Audit Plan to reflect the decrease in the Council's and group's gross expenditure on the provision of services for the 2019/20 year in the published draft financial statements.

Thresholds per our Audit Plan	Group Amount	Council Amount
Materiality for the financial statements	£37,000k	£36,950k
Performance materiality	£25,900k	£25,865k
Trivial matters	£1,800k	£1,800k

Revised thresholds based on draft accounts	Group Amount	Council Amount
Materiality for the financial statements	£34,400k	£34,350k
Performance materiality	£24,080k	£24,045k
Trivial matters	£1,700k	£1,700k

Audit approach

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the approval of the financial statements.

These outstanding items include:

- completion of final quality reviews by senior members of the audit team;
- receipt of management representation letter; and
- review of the final set of financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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 expected current circumstances would 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 have: • worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and pension fund liability valuations; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. The Council's valuer has prepared many of their valuations as at 31 March 2020. In their report, they have confirmed that the Covid-19 pandemic has created an element of uncertainty in determining valuations of non-current assets. As market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value. The valuers' reports are on the basis of 'material uncertainty' in line with the RICS Valuation – Global Standards, effective from 31 January 2020. This does not mean that the valuations cannot be relied upon, merely that there is less certainty, and therefore a higher degree of caution attached to the valuations, than would normally occur. The Council has reflected this uncertainty in Note 4 to the financial statements. The Council has also included disclosures in Note 4 in relation to their pensions assets. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are also reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m. We will refer to these material valuation uncertainties in our audit report. During our testing of a sample of the Council's expenditure transactions, we have selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council have been unable to access the supporting documentation for these transactions, which is kept in their offices. We have determined that the total value of similar transactions during the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements. For the purposes of our audit, we have included this balance as an unadjusted error in Appendix C, as the Council cannot provide evidence to support these transactions. Our work has not identified any other issues or concerns to report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Improper revenue recognition 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, 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. • The culture and ethical frameworks of local authorities, including the Council and Fund, 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.** We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work to date has not identified any issues in respect of improper revenue recognition, although we are currently in the process of finalising our detailed testing of sampled revenue transactions.
Management override of controls 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 have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • reviewed and tested consolidation adjustments and intra-group elimination entries. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings 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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • written to the valuer to confirm the basis on which the valuations were carried out, and challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • engaged 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; • tested, on a sample basis, revaluations of the Council's operational properties and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; • evaluated the assumptions made by management for any assets not revalued at 31 March 2020, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value at year end. Our audit work has identified errors in the valuation of the Council's property, plant and equipment which have been adjusted in the audited financial statements, as follows: – An error within the Council's valuation process for HRA Dwellings led to a beacon property which had been correctly valued as a 3 bed maisonette being incorrectly incorporated into the workings as a 1 bed maisonette. Correcting this error confirmed that the HRA Dwellings valuation was overstated by £23.2m; – Tyseley Energy Recovery Facility, within other land and buildings, was understated by £2.4m due to a transcription error between the valuation report and the fixed asset register; In addition to these, we identified potential differences and uncertainties in the property valuations which have not been adjusted in the audited financial statements, as follows: – A number of the Authority's Other Land and Building assets were valued at 1 April 2019, not 31 March 2020. Using available market data, we have determined that this may have led to an overstatement in the value of these assets of £8.6 million; – A number of the Authority's Other Land and Buildings assets were not valued in the 2019/20 year. Using trends noted from assets that have been valued, we have determined that this may have led to an overstatement in the value of these assets of £5.2 million; and – A number of the Authority's Other Land and Buildings land assets were valued on the same basis as social housing. While we are satisfied that this approach is reasonable due to the nature of the assets, the values have been

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings Continued from previous page	reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. We have not been provided with an explanation for this difference, and so consider that the valuations are overstated by £4.0 million. We note that the financial statements contain a prior period adjustment. The Council disposed of two assets in 2017/18, but did not derecognise these in the accounts. This issue was identified by officers during the 2019/20 financial year, and processed retrospectively. In our view, as the transaction was not material, the disposal should have been transacted within the 2019/20 year, and not as a prior period adjustment. For further detail in respect of these issues, and the adjustments made to the financial statements, see Appendix C. The Council's valuer has confirmed in their report that the Covid-19 pandemic has created an element of uncertainty in determining valuations of non-current assets. As market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value. The valuers' reports are on the basis of 'material uncertainty' in line with the RICS Valuation – Global Standards, effective from 31 January 2020. The Council have reflected this uncertainty in Note 4 to the financial statements, and we will refer to these material valuation uncertainties in our audit report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability 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 have: • updated 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 evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested 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, including consideration of the experience loss recognised in-year following the triennial valuation at 31 March 2019; • undertaken 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 • obtained 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. This assurance included the approach taken to the triennial valuation at 31 March 2019. During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records. This was later corrected by the Council in a subsequent data submission to the actuary. During our work to confirm the consistency of disclosures in the notes to the actuarial report, it was identified that the pensions reserve note had omitted the unfunded teachers pension scheme benefits of £4.8m and contributions of £4.8m. This has no impact on the financial statements outside of this disclosure note. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are also reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m. The Council have reflected this uncertainty in Note 4 to the financial statements. We will refer to this material valuation uncertainty in our audit report.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability Continued from previous page	We have also identified that the auditor of the West Midlands Pension Fund identified an unadjusted error of £33.0 million, being an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements, as opposed to a precise proposed adjustment. The Authority's share of the Pension Fund's asset is 27%, indicating that the valuation of the level 3 investments included in the net pension liability in the Authority's balance sheet is overstated by approximately £8.9 million. No adjustment has been made for this issue in the audited financial statements. Our audit w ork has not identified any other issues in respect of the valuation of the Council's pension fund net liability.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation and completeness of equal pay liability 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 and completeness of the Council's equal pay provision as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place over the estimation of the equal pay liability, and evaluated the design of the controls in place; • evaluated the assumptions on which the estimate was based; • considered whether events or conditions exist that could have changed the basis of estimation; • on a sample basis, reperformed the calculation of the estimate; • assessed the accuracy and completeness of the information used to estimate the liability; • confirmed that the estimate has been determined and recognised in accordance with accounting standards; • determined how management have assessed the estimation uncertainty; and • considered the impact of any subsequent transactions or events. During our work we identified that the draft financial statements disclosed the net movement of the provision reversed unused of £7.0m and the additional provision made of £5.0m, rather than identifying these movements separately. This has been amended and has no impact on the provision value as at 31 March 2020. The Council has disclosed uncertainties in Note 33 in relation to the completeness of the equal pay provision. As in previous years, we will refer to this uncertainty in our audit report. Our audit work has not identified any other issues in respect of the valuation of the Council's equal pay liability.

Group audit

Risks identified in our Audit Plan	Auditor commentary
Along with full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements. We have not identified any significant risks in the group accounts that do not relate solely to the financial statements of the Council.	After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. The accounts have been amended for this, resulting in a reduction in group debtors and creditors of £3.8m, a reduction in group income and expenditure of £37.0m (the net impact of this was £nil), and a corresponding adjustment to the MIRS. In addition, there have been several non-trivial amendments made to the Group Cash Flow Statement. For further detail see Appendix C. As set out in our audit plan, we have performed specified procedures on the following transactions and balances: • Expenditure and the Net Pension Liability of Birmingham Children's Trust CIC. We requested that specific audit procedures be completed by Crowe UK LLP, as component auditor. We have reviewed their findings and relevant audit documentation. No significant issues were noted. • Loan stock held by National Exhibition Centre (Developments) Plc. This work was completed by the audit team, with no issues noted. Upon receipt of the draft financial statements, we confirmed that audit procedures were not required on any specific balances in Acivico Limited's financial statements. For group entities other than Birmingham Children's Trust CIC and National Exhibition Centre (Developments) Plc, analytical procedures have been completed at a group level to give us the assurance required for our opinion on the group financial statements. Our work on the group accounts has not identified any other issues.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings Council Housing Draft: £2,481.3m Final: £2,458.1m	The Council owns 60,106 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged their internal valuer to complete the valuation of these properties, with all valuations being reviewed by Avison Young in order to ensure that the methodology used was reasonable. The year end valuation of Council Housing in the draft financial statements was £2,481.3m, a net increase of £36.3m from 2018/19 (£2,445.0m). Previously, the Council has instructed its valuer to provide valuations as at 1 April each year, and management have then considered the potential change over the course of the year to determine whether there has been a material change in the total value of these properties. For 2019/20, the Council changed this approach and instructed the valuer to provide valuations as at 10 January 2020, and has confirmed that these were materially accurate as at 31 March 2020. In line with RICS guidance, the Council's valuer has disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.	• The assets have been valued on EUV-SH basis with a regional adjustment factor of 40%. This is in line with DCLG (now known as MHCLG) guidance. • The Council Dwellings have been grouped into archetypes which forms the basis of the beacon valuation method. The 28 Archetypes were determined by Savills. Two new Archetypes have been subsequently added in 2010/11 for the Birmingham Municipal Housing Trust (BMHT). • The Council has applied an archetype-specific adjustment to valuations in order to account for the number of bedrooms; • There have been no other changes to the valuation method this year. • We have considered the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. Our consideration is supported by the use of an auditor's expert to review key documentation surrounding the valuation process. • We have considered the indices that the valuer has used in performing the valuation and have noted that the actual indices for February and March 2020 were significantly different to those assumed by the valuer in performing the valuation (extrapolated based on data from earlier in the year). Our work in this area is ongoing, we are actively engaging with the Council's valuer on these matters. • We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.	● (green)

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land and Buildings and Surplus Assets Draft: £2,482.3m Final: £2,484.7m	Other land and buildings comprises £1,294.5m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings and surplus assets (£1,187.8m) are not specialised in nature and are required to be valued at existing use value (EUV) (or Fair Value for surplus assets) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 1 April on a five yearly cyclical basis. 25% of total assets (by value) were revalued during 2019/20. Management have considered the year end value of non-valued properties, and the potential change in assets valued prior to 31 March 2020. Where significant changes may be expected, specific valuations have been completed on these assets at 31 March 2020. Management's assessment identified no material change to the properties' values. The total year end valuation of other land and buildings and surplus assets in the draft financial statements was £2,482.3m, a net decrease of £46.9m from 2018/19 (£2,529.2m). In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 4.	• For those buildings valued on a DRC valuation basis, both those last formally valued in a previous financial year and those valued at 1 April 2019, are uplifted by the BCIS indices to reflect changes in build costs to 31 March 2020. The valuation uplift has been agreed to indices provided by the Royal Institution of Chartered Surveyors (RICS). • Other land and buildings are valued at 1 April 2019 and have been assessed to be not materially different to the current value at 31 March 2020. This has been reviewed in line with market data and we are satisfied this is reasonable. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. At the time of writing this report, we are still discussing the appropriateness of the indices used by the Council's valuer with the valuer. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. Our consideration is supported by the use of an auditor's expert to review key documentation surrounding the valuation process. • There have been no changes to the valuation method this year. • We have considered the completeness and accuracy of the underlying information used to determine the estimate with no issues noted. • We are satisfied that the Council's judgement and estimation in relation to the valuation is adequate and is consistent with the requirements of the CIPFA Code and IAS 16. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report.	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Audit Comments	Assessment

Net pension liability

Draft: £2,591.3m

Final: £2,591.3m

Summary of management's policy

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £444.2m net actuarial gain during 2019/20.

The Council's net pension liability at 31 March 2020 is £2,591.3m (PY £2,552.0m) comprising obligations under the West Midlands Pension Fund Local Government pension scheme.

The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

HM Treasury have undertaken a consultation following the legal ruling around age discrimination (McCloud) in the previous year. This consultation ran to 11 October 2020, and provides an indication of possible remedy. The Council have not amended their financial statements for the impact of this remedy, as a number of uncertainties remain.

During the audit, the Council has added disclosures in Note 4 that as a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m.

Audit Comments

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditor's expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation:

Assumption	Actuary Value	PwC expected range	Assessment
Discount rate	2.35%	2.35%	
Pension increase rate	1.90%	1.85% - 1.95%	
Salary growth	2.90%	2.85% –2.95% scheme-specific	
Life expectancy – Males currently aged 45 and 65	45: 23.8 65: 21.9	22.8 – 24.7 21.4 – 23.3	
Life expectancy – Females currently aged 45 and 65	45: 26.0 65: 24.1	25.2 – 26.2 23.7 – 24.7	

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. The issue that we identified during our early testing was rectified.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- We have considered the Council's treatment of the proposed McCloud remedy, and have no concerns to report.
- The Council's disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainty disclosed in Note 4 in our audit report.

Assessment

(green)

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Equal Pay Provision Draft: £153.2m Final: £153.2m	Note 33 (Provisions) includes a £153.2m provision for the payment of Equal Pay claims. The Council has based its estimate on: • the number of claims received; • historical information on settlement of similar claims; and • the current negotiations of claimants' representatives.	We have challenged the Council on the judgement made to classify this liability as a provision, to ensure it met the definition under the accounting standards. We are satisfied that the Council has provided sufficient evidence to conclude this has been correctly recognised. We are satisfied that the Council's judgement and estimation in relation to Equal Pay is adequate and is consistent w ith the requirements of the CIPFA Code and IAS 37. Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Authority may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements. We consider that this is appropriately disclosed in Note 34 – Contingent Liabilities and Contingent Assets. We w ill refer to this disclosure in our audit report. We have concluded that there is no other risk of material misstatement in relation to the Equal Pay provision.	(green)

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic, with the Council encountering front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.

The Council is facing significant challenges, although it has reported an underspend for the 2019/20 year. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. The Council’s forecasting contains indicative provisional funding gaps in the coming years and may therefore require further use of its financial reserves to pay its expenses. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern commentary	Auditor commentary
Management's assessment process	Management have undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting, which states that “*An authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence forthe foreseeable future*”. We have discussed the assessment with finance staff, and have been provided with the following to support the assessment: • Cash flow forecasts covering a period of 10 years from the end of 2019/20; • The Council’s refreshed Medium Term Financial Plan, as at November 2020, which was a new development this year; • Detailed assessments of the financial viability of other significant entities in the group; and • Narrative commentary regarding the impact of Covid-19 on the Council and its operations. We will review the documentation referred to above, but we are satisfied that the Council’s approach is reasonable.
Work performed	We have reviewed the Council’s financial assessment of the impact of Covid-19 on the group, its future financial plans and cash flow forecasts, and the level of reserves. In its November 2020 refresh of the Medium Term Financial Plan, the Council identified an overall funding gap, largely due to Covid-19 impact, of £10.8m for 20/21 and £93m for 21/22. Proposals have been agreed to cover the £10.8m gap, and work is underway to address the future shortfall. We are satisfied from our review of the Council’s reserves balance that it has sufficiency of usable reserves (i.e. general fund and earmarked reserves) to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once. Whilst the challenges faced by the Council in the next 12 months and beyond are significant, we consider that the Council is taking appropriate actions, and we have not identified any material uncertainties in relation to going concern.
Concluding comments	We conclude that we are satisfied that the Council’s financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which required disclosure in the financial statements but have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the group. Specific representations have been requested from management in respect of the significant assumptions used to make accounting estimates.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to each of the Council's counterparties. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however some of these requests have not yet been received. We will work to gain the assurances that we required, and may undertake alternative procedures.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed at the time of drafting this report, but we plan to finalise this prior to issuing our audit opinion.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Birmingham City Council in the audit report, subject to the completion of the work required on the Council's Whole of Government Accounts return.

Value for Money

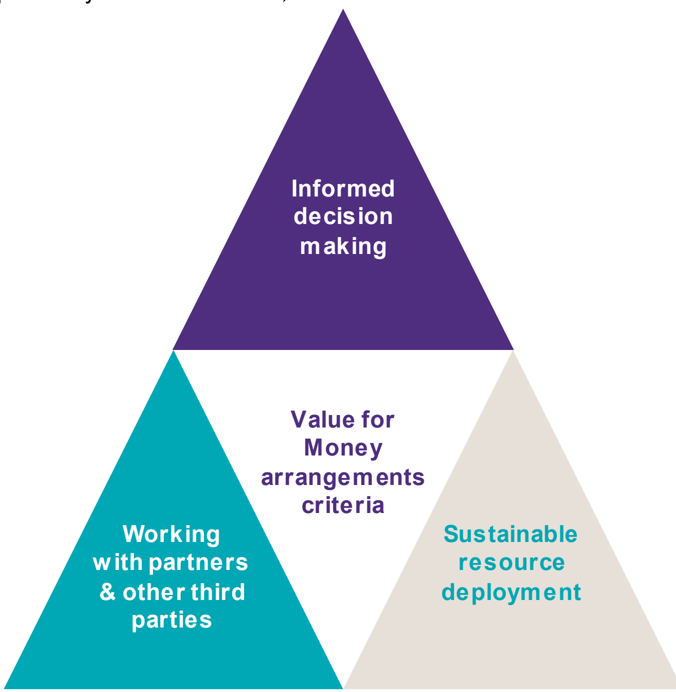
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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:



Risk assessment

We carried out an initial risk assessment in February and March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 38.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work we performed to address the significant risks, we have identified the following matters:

- During 2019/20 the Council has identified cost pressures of over £90m with regard to the Perry Barr Regeneration Scheme which had an original planned capital expenditure cost of £492.6m in June 2019. We have concluded that the projected cost overruns (more than 20% higher than the original planned cost) reported to Cabinet in March 2020, only nine months after the original FBC was approved, are demonstrative of inadequate financial planning in the development of the original FBC for the PBRS, which had been put together over a relatively short time period.

  In accordance with the definitions with the NAO's Code of Audit Practice, we have concluded that these matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

- During 2019/20 the Council has been working with Birmingham Highways Limited to progress the retendering of BHL's subcontract for service delivery relating to the Council's Highways PFI agreement. At the end of the financial year it was confirmed that the affordability gap in the contract was significantly more than had initially been thought. During 2019/20, and until the scale of the affordability gap was confirmed, the Council was making significant decisions regarding this issue knowing that the extent of the full financial challenge facing BHL was uncertain.

  In accordance with the definitions with the NAO's Code of Audit Practice, we have concluded that these matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

We are satisfied that, except for the matters we identified above, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work performed & Findings
Council resilience and financial sustainability	

At the time we completed our planning we considered that there was a risk that the proposed 2019/20 savings plans would not deliver the required recurrent savings, or would take longer to implement than planned. In addition, the Council's medium term financial plan for 2020-21 to 2023-24 needed 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.
	<u>Work performed by the Council to address recommendations from previous years:</u>
	
	We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019. This included three elements which were as follows:
	• continue to reduce the likelihood of non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements.
	• broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks.
	• keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:
	  – continuing to strengthen its level of reserves; and
	  – completing the development of contingency plans to minimise the effects of these risks should they crystalise.
	
	The third point above is considered through our work on other specific VFM risks, detailed in the following pages. We have reviewed the Council's progress in addressing the first two parts of the recommendation during the 2019/20 year, as part of our work on the Council's in-year financial monitoring, and forward planning arrangements, detailed on the following pages.
	
	In addition, we have considered the work that the Council has completed to address the findings of the financial management review that was completed by CIPFA during the latter part of the 2018/19 year. This review graded the Council's financial management arrangements as 1.9 out of 5 stars, where 2 stars equates to an organisation with "basic financial management capability" providing "functional capability in the short term, a minimum level of support in the delivery organisational outcomes but does not support organisational transformational change". Level 2 equates to our expectation of 'adequacy' under the Code.
	
	Following receipt of the draft CIPFA Financial Management Capability Review report in March 2019, the Council began a Finance Improvement Programme (FIP) in June 2019, tasked with addressing the Review findings and improving the Council's financial management capability.
	
	The Council's view is that significant progress was made during the 2019/20 financial year, with revised processes implemented in several key areas. Work on the remaining FIP measures is ongoing with further improvements planned for implementation in the next few months. In addition, the FIP is closely aligned with the Council's ERP Programme, in order to ensure that the issues identified are reflected in the design and implementation of the new ERP system.
	
	This view is supported by that of the Non-Executive Advisor for Financial Resilience, who stated in July 2020 "The Council is successfully delivering the Financial Improvement Plan with a dedicated team to support the implementation of the plan following the one-star rating from the CIPFA review, with a number of the improvements now transferred to Business as Usual"

Value for Money

Significant risk	Work performed & Findings
Council resilience and financial sustainability (continued…)	In-year financial monitoring reports and year-end outturn report: The Council set a net budget of £851.6m for 2019/20 at its meeting on 26 February 2019. This net budget was after assuming savings of £58.3m, which included approving a savings programme of £46.2m and required a further £12.1m savings to be delivered that were previously achieved on a one-off basis in 2018/19. The GF revenue outturn position for 2019/20 showed an underspend of £11.5m, however this included overspends in Neighbourhoods (£19.3m) and Education & Skills (£8.6m), with undelivered savings totalling £17.9m. These overspends were offset by areas of underspend and one-off cost mitigations. The outturn position also included a correction leading to the release of £12.8m from Earmarked Reserves. The Council is aware of Neighbourhoods and Education & Skills as two areas of recurrent overspend, and work is ongoing in the current financial year, and was incorporated into the 2020/21 financial plan, to address this. We have reviewed the Council's savings plans and savings trackers, and have not identified any other areas of concern or any pervasive issues that would indicate wider financial monitoring and management issues during the 2019/20 financial year. 2020/21 budget and 2020-24 Plan: The 2020-24 Financial Plan and 2020/21 budget was approved by Council on 25th Feb 2020, prior to the UK government's actions in response to the Covid-19 pandemic. This approved budget was for net expenditure of £853m for 2020/21 inclusive of a savings requirement of £22m. The Non-Executive Advisor for Financial Resilience stated in July 2020 "The budget process itself has been strengthened with challenge on new and existing savings through Star Chambers. These require services to provide detailed savings implementation plans and remove undeliverable savings as well as the corresponding contingency." The budget for the 2020/21 year has considered the issues and known cost drivers within the Neighbourhoods directorate that resulted in the overspend in 2019/20, and has looked to resolve these by incorporating additional funding into the budget, increasing the planned spend for the 2020/21 year by £23.3m. Within the Education & Skills directorate, Birmingham Children's Trust continues to be a key driver of costs due to a significant increase in the number of children in care requiring support from the Trust (nearly a 7% increase between April 2018 and March 2020), however early reporting (Q2 2020/21) indicates that any areas of potential overspend are being actively managed and mitigated. The impact of Covid-19: Management consider that the Council has been pro-active in assessing and mitigating the impact of Covid-19, a view that was supported by the Non-Executive Advisor for Financial Resilience in July 2020, who said "In the immediate period comprehensive weekly reporting of the financial position with regard to the COVID19 Incident has been in progress from the start of the incident. These include expenditure, loss of income, impact on delivery of savings as well as fully costed financial risks with probability factors attached to these risks."

Value for Money

Conclusion

We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019, and the weaknesses identified by CIPFA in their Financial Management Capability Review, the draft report for which was issued in March 2019.

We have considered the progress made by the Finance Improvement Programme, and are satisfied that progress has been made during the 2019/20 year, and continues to be made beyond the end of the financial year.

We have considered the Council's outturn against its budget for the 2019/20 year, and the actions taken to address key areas of overspend and under-delivery of savings, as well as the impact of these findings on the Council's forward planning.

We have considered how the Council began responding to the impact of Covid-19 at the beginning of the pandemic, and have gained assurance that work in this area commenced as early as was reasonably possible.

We are satisfied that the Council has made sufficient progress in addressing the weaknesses relating to financial management that were the subject of both our Statutory Recommendation and CIPFA's Financial Management Capability Review in March 2019 to mitigate the risk in 2019/20.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

Work on the Finance Improvement Programme is ongoing. Elements of this, in particular those relating to the finance workforce, are being addressed through the implementation of the new Finance Target Operating Model. A delivery partner, KPMG, has recently been appointed to increase capacity to accelerate this work, with the aim of delivering all of the products within the FIP in the early part of 2021. This in turn will allow the Council to commission a further Financial Management Capability reassessment with confidence.

The Council is aware of Neighbourhoods and Education & Skills as two areas of recurrent overspend, which are being addressed as follows:

- Neighbourhoods – CIPFA have been commissioned to complete a review of the directorate's finances, in order to assess where the issues lie, and to enable better financial planning, monitoring and management in future years. The outcome of this review is expected shortly.
- Education & Skills – Overspends in 2019/20 predominantly related to Birmingham Children's Trust, due to its services being demand-led. The Council are looking to strengthen contract management arrangements in this area going forwards, to enable a greater understanding of the financial challenges being faced.

The Council refreshed its medium term financial plan, in light of the pandemic and we understand that this introduction of a mid-year MTFS update will now become an ongoing arrangement at the Council, to provide a valuable control to the Council's financial management and planning functions. The 2020 refresh was reported to Cabinet in November 2020, and identified funding gaps (after emergency government funding) of approximately £100m per year from 2021/22 onwards. The initial assessment of the funding gap in the 2020/21 year was £10.8m, and actions have already been identified to close this gap.

We recommend that the Council continue to plan for future years and proactively identify and mitigate cost pressures and financial risks as they arise.

Value for Money

Significant risk	Work performed & Findings
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 (the 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 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 was ongoing at the time we completed our initial risk assessment. We therefore still considered this to be a significant risk for the purposes of our VFM work in 2019/20.

<u>Governance structure and supporting arrangements:</u>

We have reviewed 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 the related risks.

The Council issued the 2022 Commonwealth Games Cross Partner Governance Framework in February 2019. The framework sets out the reporting lines for the various Boards, Groups and indicative cross partner working groups. These include: the Commonwealth Games Strategic Board (CGSB); the Commonwealth Games Chief Executives Group (CGCEG), which reports to the CGSB; the Security Board, which reports to the CGSB; and the Finance Group, the Budget Oversight Group and the Cross Partner Programme Group (CPPG), which all report to the CGCEG. The 10 indicative cross partner working groups then report to the CPPG, or the CGCEG in the case of escalated issue resolution and setting of operational/tactical direction. We consider that this framework provides the Council with robust governance arrangements for the Games.

The Games Project Director left the role in December 2019 and was replaced by an interim Games Project Director from January 2020 until May 2020 when a permanent replacement took over. In addition, we note that there have been two high profile departures from the CGSB since the year end, but neither of these individuals were executive decision makers. None of these changes have had an adverse impact on the adequacy of the overall governance arrangements during the year.

The Council has continued to further develop its governance arrangements to support the delivery of the Games. This includes a greater focus on internal accountability and ownership across the whole of the Council's Executive team, driven by the terms of reference and Programme Board to ensure a collective sense of prioritisation and greater cohesion across the Council regarding the Games.

Further evidence of the importance placed by Central Government on ensuring effective governance arrangements are in place is that the Secretary of State for the Department for Digital, Culture, Media and Sport (DCMS) is now a member of the CGSB. The Chief Executive of the Commonwealth Games Federation is also a member of the CGSB.

<u>The funding arrangements for the Games:</u>

Substantial work has been undertaken by the Council to secure the required partner contributions of £75.0m, with £50.0m secured to date including £25.0m from West Midlands Combined Authority (agreed at WMCA Board in November 2019) and £20.0m from Greater Birmingham and Solihull LEP (agreed by service-level agreement in April 2020). This funding is attached to the redevelopment of the Alexander Stadium. £5.0m of Community Infrastructure Levy was agreed in February 2020 for use on a suitable Games project, with Public Realm being the natural fit.

The Council is continuing to work with various potential games partners to ensure that the remaining £25.0m of required partner contributions is secured. This includes ongoing discussions with the following: Coventry & Warwickshire LEP, Black Country LEP, Midlands Engine, local Universities and the NEC.

Value for Money

Significant risk	Work performed & Findings
Financial impact of the Commonwealth Games (continued…)	The Council's remaining share of £109.4m, which is built in to its Medium Term Financial Plan, is split: • £39.0m revenue funding, the majority of which (£36.8m) is due in 2022/23 • £70.4m capital funding, of which £13.0m (of existing capital resources) had been incurred by the end of 2019/20 and a further £29.2m is due to be incurred in 2020/21. This is split £22.6m corporately funded prudential borrowing and £6.6m existing capital resources. <u>Identifying, managing and monitoring risks relating to the financial impact of the Games:</u> Our work in this area has focussed upon the proposed Athletes Village for the Games, which was included in the Perry Barr Regeneration Scheme (PBRS). The Outline Business Case (OBC) was approved by Cabinet on 26 June 2018 and the Full Business Case (FBC) was approved through delegated authority by the Cabinet Member for Finance and Resources and Chief Officer on 6 June 2019. This FBC included the provision of 6,500 bed spaces for athletes and officials required by the Birmingham Organising Committee for the 2022 Commonwealth Games Limited (OC). The total of the capital expenditure programme for the PBRS was £492.6m and included the delivery of 1,415 residential units post-Games. In October 2019, the Financial Monitoring Report 2019/20 Quarter 2 flagged to Cabinet an unquantified potential risk of material cost increases to the PBRS. In December 2019, an Emergency Cabinet Report flagged a substantial increase in costs associated with the relocation of the National Express Bus Depot, and that the detailed prices for the construction of individual plots within the PBRS were higher than originally budgeted in the FBC. In February 2020, the Financial Monitoring Report 2019/20 Quarter 3 again highlighted to Cabinet the still unquantified risk of material costs pressures to the PBRS. An update on the PBRS FBC, including a revised FBC, was reported to Cabinet in March 2020 and the revised FBC was approved. Substantial progress had been made with the delivery of the PBRS, with more than 90% of the land required for either accommodation or wider infrastructure improvements under Council control. Contracts were also in place for the construction of 72% of the 6,500 bed spaces. However, cost pressures had emerged as a result of the overheated local market, through construction cost price inflation, the demand for construction workers in the Perry Barr area, and the fixed delivery date. To mitigate this, design changes had been made that would ensure that the scheme would deliver 97% of the bed spaces and the OC had stated that it should be possible to manage this small shortfall in beds through effective scheduling of sporting activities. The funding pressures before mitigation totalled £91.8m which included the increased cost of relocating the National Express bus depot (£15.7m), increased housing costs (£48.4m), increased contingency (£19.7m in addition to the £10.3m in the original FBC) and other minor variations (£8m). This was offset by removing £25m of the preparation for legacy retrofit and demolition / remediation costs from the scope of the PBRS core proposals, and funding this element post-Games from enhanced disposal proceeds. Further mitigation, and the redirection of other Council budgets, totalling £46.8m including de-scoping of plot 11 (£7.0m), funding National Express bus depot overspend from capital contingency (£15.7m), non-funded BCC items (£7.0m), use of contingency (£15.0m) and the consequential reduction in borrowing costs (£2.1m) resulted in a residual gap of £20.0m. The residual funding gap of £20.0m is planned to be covered by windfall capital receipts.

Value for Money

Significant risk	Work performed & Findings
Financial impact of the Commonwealth Games (continued…)	We note that the Council had a significantly shorter time period between the award of the Games to Birmingham and the date of the Games than would normally be the case for the lead time to deliver a project of this size. This resulted in the requirement to put approvals in place to be able to commence the developments for the PBRS, which is why an FBC was approved in June 2019. The revised FBC approved by the Cabinet in March 2020 included fully costed projections for the PBRS and had been subjected to considerable external stakeholder engagement and scrutiny during its development, including the Ministry of Housing, Communities and Local Government (MHCLG) and the DCMS. It also included plans for a reduction of one dwelling from 1,415 to 1,414 residential units post-Games. However, there have been some amendments to the planned development timetable which means that some of the residential units will now be developed later than originally planned. We are informed that currently 1,026 (of 1,414) residential and 4 (of 9) commercial units are planned to be completed to the Council's original timetable, with the remaining units being completed post-Games.

Conclusion

We have reviewed the Council's governance structure and arrangements in place to support the delivery of the Games to assess whether they are adequate. Despite some challenges during the last twelve months the Council has continued to develop its governance arrangements.

We are satisfied that the Council has put in place appropriate governance arrangements to oversee the delivery of the Games.

We have assessed the Council's progress to secure funding from games partners in order to mitigate the financial impact of the Games. The Council has been unable to confirm £25.0m of the total required partner funding of £75.0m. Whilst there is still some way to go to close the partner funding gap, the magnitude of the gap, the length of time available to achieve this and the availability of potential contingencies means we are not concerned at this stage that it will not be achieved. We will, however, continue to keep the matter under review in our subsequent audits, as the Games approach.

We are satisfied that the Council has secured sufficient funding from games partners in order to mitigate the financial impact of the Games.

During our initial risk assessment, we identified that the identification, management and monitoring of the costs of hosting the Games were a risk to the Council's arrangements for securing value for money. The FBC for the PBRS was approved in June 2019 setting out planned capital expenditure of £492.6m, with this FBC having been put together over a relatively short period (based on income and expenditure estimates from professional advisors) to reflect the limited time available to deliver the accommodation in time for the Games. Following the approval of the FBC, commercial negotiation in relation to both construction costs and land values resulted in the emergence of substantial cost pressures (of more than 20% of the original planned costs) that exceeded the level of contingency included within the FBC, resulting in the requirement for a revised FBC to be reported to Cabinet only nine months later, in March 2020. We have concluded that this is demonstrative of inadequate financial planning in the development of the original FBC for the PBRS and, as a result, we are not satisfied that the Council has fully mitigated this risk during 2019/20.

In accordance with the NAO's VFM sub-criteria, we have concluded that these matters are evidence of weaknesses in proper arrangements for "understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management" (IDM2).

We plan to qualify our Value for Money Conclusion in this regard.

Value for Money

Developments in 2020/21 (continued...)

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

The impact of Covid-19 on the PBRS resulted in significant delays to development and meant that only c.2,700 bed spaces could be guaranteed in time for the Games. The OC approached local universities about their ability to provide the required bed spaces for the Games and in August 2020 the OC confirmed that this would be the approach taken. This decision was taken by the OC and supported by Central Government. We recognise the constructive engagement of all parties in securing this solution to the accommodation issue.

The Council inform us that progress with the PBRS has been regularly reported during 2020/21. We are told that the latest reporting framework include a project board with cross-partner representation including MHCLG, DCMS, Homes England and the Council. This meeting is held monthly and reporting includes financial and non-financial information.

The Council is still delivering the PBRS and is currently following the revised FBC agreed in March 2020, but as there are no longer plans to construct an Athletes Village this will not form part of the Games programme. An amended FBC is a work in progress and is planned to be submitted to Cabinet for approval in early 2021. A PBRS update report was presented to the Commonwealth Games, Culture and Physical Activity Overview and Scrutiny Committee in September 2020, including updates on Phase 1a, Phase 1b and Phase 2 of the project and reporting positive progress against the PBRS social value aspirational targets.

We are informed that currently 1,026 (of 1,414) residential and 4 (of 9) commercial units are planned to be completed to the Council's original timetable, with the remaining units being completed post-Games. The Council needs to effectively manage the PBRS construction programme to ensure that it is completed on time and is not detrimental to the delivery of the Games programme, which will be running in parallel.

The Council needs to continue to focus on the effective delivery of the Games by ensuring that it maintains the appropriate governance arrangements.

The Council still needs to take further action to address the current shortfall of £25.0m in partner funding due to fund the capital expenditure budget in the second half of 2021/22 and 2022/23, if it is going to fully mitigate the financial impact of the Games.

Value for Money

Significant risk	Work performed & Findings
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. We therefore still considered this to be a significant risk for the purposes of our VFM work in 2019/20. 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.	<u>Settlement with Amey LG:</u> The Council was proactive in achieving a settlement which represented, in its opinion, the best possible outcome it could expect to receive, and mitigated its risks where possible. The majority of criteria set by Cabinet were achieved, while the remainder were in a position where they could be accepted with manageable risks and control measures. A report went to Cabinet on 25 June 2019 recommending that members approve the Council entering into a settlement agreement with Amey LG and BHL (formerly ABHL). This settlement agreement, for £215m, was accepted by all parties on 29 June 2019, and comprised the following payments from Amey LG to BHL: • £100m on agreement (paid 1 July 2019); • £30m by 30 September 2019; • £30m by 31 December 2019; • £55m deferred, payable on sale of Amey, or otherwise in five instalments between 2020 and 2025. The other key terms of the settlement were that Amey LG would exit the contract by 31 March 2020, and that BHL would procure an interim subcontractor to replace Amey LG as the service provider, while the remainder of the contract was re-tendered. At the end of the 2019/20 financial year, the balance owed by Amey LG to BHL was £55m. As part of the settlement arrangements, the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum, to be repaid over the remaining term of the contract. This loan ranks below BHL's lenders' secured amounts, meaning that if BHL becomes insolvent the other lenders would be repaid first, and the Council would only be repaid if sufficient funds remained. Whilst the risk remains that BHL's other lenders could withdraw their investment upon default, the Council has been working with BHL and these other lenders to reduce the number of ways that BHL could default on its loans, including reducing the amount of cash that BHL is required to maintain. <u>Short term sub-contractor procurement process:</u> We have been informed that the Council's objectives during the period between the settlement with Amey and the appointment of a long-term subcontractor by BHL were to ensure that service delivery continued (to meet statutory obligations) but with a focus on addressing any deterioration on the network, and on the successful procurement of a long-term subcontractor. The Council acknowledges that it is for BHL to procure a subcontractor, as the contract between the Council and BHL remains in place. There were disagreements between the Council and BHL relating to the form that the interim contract should take, but the structure of the resulting short term agreement is that the subcontracting has been split, with Kier taking the operational elements and the delivery of street lighting investment, and priority capital schemes and renewal works being subcontracted to Tarmac with novation of the rates provided for Amey LG.

Value for Money

Significant risk	Work performed & Findings
Contractual arrangements relating to the highways PFI Scheme (continued…)	Kier Highways was appointed in February 2020 and commenced mobilisation. The company took over provision of services on 1 April 2020 as planned, with no significant issues noted in the transfer process. <u>Long term sub-contractor procurement process:</u> No reports have been presented to Cabinet or Council since those relating to the settlement agreement in June 2019. Management's view is that, as the current position remains within the parameters approved by Cabinet at that time, no formal update is required. Initial discussions on the long-term re-procurement commenced in September 2019. Initial market feedback confirmed that BHL would be unable to attract a subcontractor on the same terms as the original contract with Amey. Discussions regarding the nature of the permanent agreement, and the relationship between the Council, BHL and a subcontractor, were in relatively early stages at the end of the 2019/20 financial year. <u>Affordability gap:</u> At the time of the Settlement Agreement in 2019, the estimated Core Investment Period (CIP) cost was considered to be affordable. The Council has explained that all parties knew that this was likely to be an inaccurate estimate, as it was based on a pavement model with known failings, which was the best information available at the time. From June 2019, the Council has continued to work with BHL to improve the accuracy of estimates of key elements of costs. There was a continual process of improving the accuracy of the pavement model through from the autumn of 2019 to the beginning of 2020. Once discussions on the form of the agreement going forward commenced in earnest in January 2020, the Council and BHL were still basing discussions on the original estimated cost. BHL presented the Council with a report dated 30 March 2020, setting out estimated costs that, due to condition information emerging over that period, were significantly higher than had previously been thought, creating an affordability gap. This estimate had been developed independently by BHL. The Council went on to review this estimate with its advisors, who concluded that, while there was disagreement on some assumptions made, the broad issue of the significant amount of work that was required and therefore the considerable increase to the affordability gap was agreed. The scale of the updated affordability gap has meant that the potential changes to the agreement between BCC and BHL are going to be more significant than had previously been thought. The Council has therefore had to move away from diluting the contractual requirements as a starting point for the procurement, as using the existing contractual standards would be unlikely to bridge a gap of that magnitude without resulting in unacceptably low standards and condition of the City's highways. Instead, a "bottom up" approach is being taken.

Value for Money

Conclusion

Overall, as in 2018/19, we are satisfied that the Council's arrangements for managing the PFI contract dispute and for securing the settlement between Amey LG and BHL were adequate. Whilst with any complex PFI contract settlement there will inevitably be financial and non-financial risks, the Council has mitigated these risks where possible and has managed the process effectively and with transparency between Officers and Members. From a financial perspective the Council has built up healthy reserve balances of £194.4m as a contingency plan and is prepared to step in as the interim PFI contractor if necessary under 'step in' rights.

We have noted no weaknesses in the arrangements surrounding the settlement with Amey LG and BHL for the 2019/20 year.

The Council's focus during 2019/20 has been on the continuity of delivery of statutory obligations and on the procurement of a long-term subcontractor. Kier was appointed as interim subcontractor by BHL for 15 months from 1 April 2020. We are not aware of any disruption due to the handover from Amey LG to Kier, and we are satisfied that an appropriate tendering process was followed, and the Council took appropriate advice on this.

The Council was proactive in confirming at an early stage in renegotiations that it would not be possible for BHL to attract a new subcontractor on the same terms as the original agreement with Amey, so discussions have been ongoing to work through the impact of this on the agreements between BCC and BHL and between BHL and a future subcontractor.

We have no concerns around the approach taken to these discussions. Whilst we have some concern regarding the significant length of time that discussions are taking, this is not considered an issue for our conclusion this year. At the end of the 2019/20 financial year, Kier's contract was in place for 15 months, and discussions have predominantly been held during the 2020/21 year.

We have noted no weaknesses in the arrangements in the 2019/20 year surrounding the retendering of the PFI subcontract.

Although the Council consider that issues with affordability of the PFI agreement are the responsibility of BHL, the fact remains that there is a significant financial gap in the contract, the full scale of which was not known to the Council until the very end of the 2019/20 financial year. After these figures were made available, the Council has had to fundamentally change its approach to discussions with BHL and is considering significant changes to the PFI arrangements going forward. In addition, this affordability gap has put additional strain on the finances of BHL, has made the original planned timeline of having a permanent subcontractor in place from July 2021 unachievable, and has contributed to the impairment of the Council's loan to BHL. During 2019/20, and until the scale of the affordability gap was confirmed, the Council was making significant decisions regarding this issue knowing that the extent of the full financial challenge facing BHL was uncertain.

In accordance with the NAO's VFM sub-criteria, we have concluded that these matters are evidence of weaknesses in proper arrangements for "understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management" (IDM2).

We plan to qualify our Value for Money Conclusion in this regard.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

The terms of the contract between the Council and BHL is now (since 1 April 2020) subject to a Supplementary Agreement, which 'switches off' some of the requirements of the original Project Agreement. This means that the focus of all parties to the agreement is on addressing the requirements of the settlement agreement in the short term.

An update taken to Overview and Scrutiny on 8 July 2020 confirms that the Cabinet Member has formed an informal member working group to review changes to the contract arrangements. All members have considerable experience of highway issues and have provided feedback on the priorities that they wish to see addressed in a future contract.

We note that the interim subcontract was completed on a 'cost reimbursable' basis, meaning that the subcontractor takes little risk in relation to the contract, and the risk sits with BHL.

Value for Money

Developments in 2020/21 (continued…)

Subject to BHL agreeing its forecast cashflow and payments with the Council, the Council has agreed to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period. Staff from the Council's corporate finance team are now embedded in the weekly management processes.

We recommend that the Council ensures proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.

Following the report from BHL at the end of March, we understand that the affordability gap continued to increase. A subsequent report issued by BHL in May 2020 showed a further increase to the estimated costs. Discussions between the Council and BHL have continued since this point, working to determine a level of service that is deliverable within affordability envelopes, but which is sufficient for the Council's purposes. Continued liaison with central government will be required.

Due to the extent of discussions still required between the Council and BHL, it looks increasingly unlikely that the subcontract can be re-tendered in June 2021, as originally planned, and so the Council and BHL are considering potential options to extend the interim agreement.

Kier's interim contract is for a 15 month period from 1 April 2020. This contract can be extended, on the same terms, for two 6-month periods. The second extension would require Kier's agreement. In addition, the current lending agreement between BHL and its investors expires on 30 June 2021, at which point the lenders may withdraw their investment. If this were to happen, BHL would fold, and the PFI agreement would cease, causing the Council to lose £51.9m of annual PFI grant. Discussions with the banks over the terms of an extension to their agreement have not yet commenced, neither have discussions with Kier regarding an extension to their contract. As such, there remains considerable risks in this area that we will continue to track as part of our future VFM audits.

Value for Money

Significant risk	Work performed & Findings
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. Our 2018/19 VFM conclusion was qualified on this basis.

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.

<u>Progress against the Statutory Recommendation issued in March 2019:</u>

We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019. This included three elements which were as follows:

- ensure that the terms of reference for the planned review of future options for the delivery of the refuse collection service, provide for the review to be carried out in a timely fashion, and include an examination of all options for delivering the refuse collection service going forward, in order that the service can demonstrate value for money in the delivery of its financial and service objectives; including, for instance:
    - looking to best practice models across the sector
    - examining different staffing and working arrangements
    - combining collection and disposal functions
    - other potential options, such as outsourcing.
- build industrial relations capability within the Council to ensure that it is able to maintain consistent and effective relations with its trade union partners.
- commission a review of the new working practices in place within the refuse service to ensure that they are embedded and monitored robustly to minimise the potential for further Equal Pay claims.

Our findings in each of these areas are reported below.

<u>The independent review of the Waste Service</u>

The Council produced a detailed project specification for an independent review of waste collection and disposal services which included all the points raised in our Statutory Recommendation. This included an indicative timetable for the receipt and evaluation of bids (17 May 2019), the appoint of a contractor to undertake the review (27 May 2019), the delivery period for Phase 1 of the review (27 May – 30 August 2019), the public reporting of Phase 1 deliverables and the Cabinet Approval 'gateway' to commence Phase 2 (September 2019) and the delivery of Phase 2 (October 2019 onwards).

Wood Environment and Infrastructure Solutions UK Ltd (Wood) were appointed to undertake the review on 28 June 2019, with the work to be undertaken and reported in two distinct phases:

- Phase 1 covered the following aspects: Data discovery and current state assessment; Best practice review and benchmarking; Identification of immediate improvements and efficiencies; and Future Strategic Operating Model Options; and
- Phase 2 of the review is focused on modelling (appraising) some potential strategic level changes to overall service delivery in Birmingham.

Value for Money

Significant risk	Work performed & Findings
Waste service continuity and industrial relations (continued…)	Wood issued a draft report for Phase 1 of the review in November 2019 which was finalised in January 2020 and a report summarising Phase 1 findings, data, and analysis was reported to Cabinet on 11 February 2020. This advised that the Waste Management Services (WMS) current Service Improvement Plan should be updated to include the recommendations that were made in the report, and that progress should be monitored by the Cabinet Member for Street Scene and Parks, and the Assistant Director for Street Scene. The report also clarified that Phase 2 of the review would be undertaken, and that the assessment of strategic level options would be the subject of a further report to Cabinet in Summer 2020, along with the final report. The Council's own report to Cabinet on 11 February 2020 recommended that its Service Improvement Plan was updated to include the recommendations in Wood's Phase 1 report and that Phase 2 of the review be undertaken by Wood to include the modelling of the following recommended options: • model existing baseline services along with the introduction of a separate weekly food waste collection; • weekly food waste collections along with fortnightly residual collections and fortnightly recycling collections; and • weekly food waste collections along with three weekly residual collections and fortnightly recycling collections. Phase 2 of the review was approved by Cabinet and commenced in March 2020. The data for Phase 2 has been produced and the findings need to be tested in consultation with key stakeholders. The consultation stage of key stakeholders has been put on hold due to Covid-19. <u>Update on industrial relations between the Council and its trade union partners</u> We have gained an understanding of the progress made during the 2019/20 financial year, and the current status of industrial relations. We have also considered the work of the Strategic Programme Board, as well as the updates to the Secretary of State from the Non-Executive Advisor for Waste Management and Industrial Relations. The Memorandum of Understanding (MOU) was due to end in November 2019 but it was agreed by all parties to continue to operate under the conditions of the MOU. All parties have continued to work closely together to improve industrial relations culminating in an agreement to relax the conditions of the MOU during March 2020 as result of the impact of Covid-19. The relaxation in conditions relates to the make up of a collection crew and was agreed to support the health and safety of staff whilst ensuring the effective provision of waste services during Covid-19. The MoU states that each collection crew should be made up of a grade 4, 3 and 2 but it was agreed to amend that to a collection crew of a grade 4, 2 and 2 if there were insufficient grade 3 staff available to enable waste collections to take place. The situation will continue to be monitored and, as soon as is practicable, the full principles as set out in the MOU will recommence. There have been a series of depot meetings led by the Assistant Director for Street Scene and the Cabinet Member for Street Scene and Parks. Discussions were held around moving from a four day to five day working week, which was expected to meet with resistance. However, staff were encouraged to embrace the change and have done so accordingly. Shorter working days have been identified by staff as one of the pros of the arrangement.

Value for Money

Significant risk	Work performed & Findings
Waste service continuity and industrial relations (continued…)	There have been significant improvements in the performance of the w aste service, reductions in sickness absence levels and the public confidence in the w aste service during the second half of 2019/20, w hich have continued to be the case throughout 2020/21 to date. The Non-Executive Adviser for Waste Management and Industrial Relations stated in July 2020 “Waste and street cleaning services have benefitted from improved relationships w ith trade unions and improved performance on the ground and in the depots, both before and during the recent Covid-19 crisis. The teams have relaxed the terms of their memorandum of understanding during the Covid-19 response period and this has resulted in much improved feedback from service users and residents. The w ork that has been done to improve relationships has included strong leadership and agility from the cabinet and the portfolio holder. There are, how ever, key decisions that remain to be made. The Council has not yet concluded its review of w aste collection services and the independent review is long overdue. In addition, the Council needs to make decisions around its future capital programme in general and specifically in relation to its future w aste disposal contracts and assets. The Council needs to ensure that the lessons that have been learned from closer collaboration are carried forw ard so that tensions that have been deferred do not reverse the good progress that has been made so far.” These comments reflect the progress made by the Council during 2019/20 w hilst acknow ledging that there still some significant decisions w hich still need to be made in the near future about the provision of the w aste service. <u>Effectiveness of new w orking practices</u> The Council changed its w orking practices in September 2018. Previously the Council operated a 4-day (nine hours and 15 minutes day) structure. The new approach operates a 5-day w orking structure, w hich includes collections being undertaken from Monday to Friday each w eek w ith staff w orking a seven hours and 18 minutes day. The Council also updated the job description for the role of the WRCO in July 2019. Wood’s report for Phase 1 of the independent review concluded that the 4-3-2 staffing arrangement on the collection crew s should not create a fundamental issue and, as a result, did not propose a change to this approach. Adding that the grade 3 member of the crew (WRCO) being responsible for the communications aspects of the rounds appeared to be a reasonable approach to resourcing assuming that: • any communication undertaken by the WRCO does not lead to the undue delay of the collections; • the WRCOs report any issues during the rounds in a timely and consistent manner; and • all collection crew s still have the appropriate H&S training and are aw are that they still retain H&S responsibilities. We consider that these findings coupled w ith the improvements in the performance of the w aste service during the last tw elve months are indicative of effective w orking practices during 2019/20.

Value for Money

Conclusion

We have reviewed the Council's progress in addressing the weaknesses that were the subject of our Statutory Recommendation in March 2019 and the qualified VFM conclusion in 2018/19.

We have assessed the progress made in Phase 1 of the independent review undertaken by Wood and we are satisfied that, as part of the options appraisal, this has taken in to account best practice models across the sector and considered combining collection and disposal functions. Phase 2 of the review, which is in progress, will examine different staffing and working arrangements.

We have considered the relationship between the Council and its trade union partners throughout 2019/20 and have concluded that there has been a significant improvement in the effectiveness of the arrangements. We also note there has been no industrial action during the year and there have been a number of improvements in key performance measures for the waste service.

We have considered the effectiveness of the new working practices implemented by the Council in September and taken in to account the findings of Phase 1 of the independent review by Wood. These findings coupled with the improvements in the performance of the waste service during the last twelve months are indicative of effective working practices during 2019/20.

We are satisfied that the Council has made sufficient progress in addressing the weaknesses relating to waste service continuity and industrial relations that were the subject of our Statutory Recommendation in March 2019 and the qualified VFM conclusion in our previous audit to mitigate the risk in 2019/20.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

Phase 2 of the independent review by Wood commenced in March 2020 and is currently ongoing. The majority of data has been produced but the consultation stage of key stakeholders has been put on hold due to Covid-19. Whilst Covid-19 has been a major contributor for the delay to Phase 2, the consultation stage is essential to inform any changes. Given the importance of getting Phase 2 of the review completed a consultation package is now being developed by Wood. This will be delivered through technology and the meetings are proposed to be held virtually. Wood are looking at making this as interactive as possible and are considering the possibility of having polls and weightings to questions to allow everyone to have an input. The proposal is to schedule these meetings early in the new year.

The other reason for the delay is the lack of information from Central Government with regard to food waste collections. There were indications that food waste collection was going to be mandatory by 2023. If food waste is mandatory then any associated support costs will have a significant impact on predicted models.

We recommend that the Council continues to work closely with Wood to ensure that Phase 2 of the independent review is completed as soon as is practically possible and ensures that it can maintain effective and consistent relations with its trade union partners regardless of any future changes to the waste service delivery model.

Value for Money

Significant risk	Work performed & Findings
Contract monitoring and management During our initial risk assessment, we noted that the Council's internal audit function, Birmingham Audit, issued two separate reports that highlighted substantial issues and weaknesses relating to the management and monitoring of significant contracts.	<u>Work done by the Council to address the findings raised by Birmingham Audit:</u> In July 2019, Birmingham Audit issued (in draft) a 'red rated' report on the Travel Assist programme. This report identified significant issues in relation to the monitoring and management of this contract. Key recommendations from this report were given short implementation dates, with many being prior to the finalisation of the report due to their significance. In the previous financial year, another red rated report had been issued on the Early Years Health and Wellbeing Contract. Through discussion with Birmingham Audit, and review of formal Progress Review documents, we have confirmed that key contract management recommendations from these reports had been addressed by the end of the 2019/20 financial year, but as a result of Covid-19, Birmingham Audit had been unable to verify this for all recommendations. We are therefore satisfied that these findings were addressed in a timely manner. <u>Consideration of any potential wider impacts of the weaknesses identified:</u> We considered that there was a risk that the issues identified were indicative of wider contract management and monitoring issues. We therefore discussed general contract management arrangements with Birmingham Audit and separately with finance staff, and identified no such concerns. We met with members of finance staff and discussed the significant work that was undertaken during the 2019/20 year in relation to contracts and procurement. This has included a thorough review of the Council's contract register, and development of the contract 'pipeline', with procurement officers working more closely with directorates to improve understanding of procurement processes. A review of the procurement practices across the Council was completed, including a maturity assessment of the arrangements in place. This review of efficiency and effectiveness then fed into a piece of work at the beginning of 2020 to identify possible future operating models for the service. We are aware that Birmingham Audit issued a further red rated report in July 2020 in relation to contract extensions, highlighting instances of contracts being extended without evidence of appropriate authorisation. We have considered this report for the purposes of our conclusion as, despite it being issued in the 2020/21 year, it reflects the arrangements that would have been in place during 2019/20.

Conclusion

Through discussions with Birmingham Audit, and review of its progress reporting, we are satisfied that all key contract management and monitoring recommendations in the two reports identified in our initial risk assessment had been addressed by the end of the financial year.

Value for Money

Conclusion (continued…)

The Council is actively working to improve the quality and efficiency of its procurement service, with significant work having been completed during the 2019/20 financial year to improve this going forward. We consider that the work that the Council has undertaken demonstrates a good awareness of the issues in this area.

We note that a further red rated report has been issued by Birmingham Audit in July 2020, in relation to contract extensions, however we consider that the speed at which Birmingham Audit's previous recommendations were addressed, and the proactive attempts to improve these areas, demonstrate adequate mitigation of this risk

We have concluded that the Council has mitigated this risk and has worked proactively to improve both its procurement processes and contract monitoring and management, in order to effectively support informed decision making.

We are satisfied that the arrangements in place during the 2019/20 year were adequate, and are not qualifying our Value for Money Conclusion in this regard.

Developments in 2020/21

We will consider the below, and subsequent developments, as part of our VFM work during the 2020/21 financial year. These developments do not form part of our conclusion for the 2019/20 year.

We are aware that work relating to the possible future operating models for the procurement service was halted due to the Covid-19 pandemic, but has recently recommenced. Management should ensure that unnecessary delays to this review are avoided. We also recommend that the findings of Birmingham Audit's reviews in recent years are taken into consideration when any operational changes are made.

Independence and ethics

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. The firm, its partners, senior managers, managers and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to expressan 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to October 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	£ Fee	Threats	Safeguards
Audit related:			
Certification of 2018/19 Housing Benefits Subsidy claim	29,500	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. 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. 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.
Certification of 2018/19 Teachers' Pension return	7,250		
Certification of 2018/19 Housing capital receipts grant	5,250		
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 its 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.

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Independence and ethics

Service	£ Fee	Threats	Safeguards
Audit related (continued):			
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 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.
Certification of 2019/20 Housing Benefits Subsidy claim	27,500	For these two 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. 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. 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.
Certification of 2019/20 Teachers' Pension return	7,500		
Non-audit related:			
CFO insights subscription (2018/19)	10,000	Self-Interest (because this was 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. This service ceased from March 2020 following the introduction of the 2019 FRC Ethical Standard.
CFO insights subscription (2019/20)	10,000		
CASS reporting 2019 (Finance Birmingham)	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee is lower than the audit fee for this entity. The service is an audit related service which is permitted for the subsidiary of a public interest entity under ES 5.40, and does not cover the same ground as the audit of this entity. Any findings in our report will be agreed with management before we issue it to the FCA.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Action plan

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

We have identified recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (high)	**Council resilience and financial sustainability** The Council's forecasting contains significant indicative provisional funding gaps in the coming years (approximately £100m per year after the 2020/21 year). Although the Council has identified actions to close the funding gap in the 2020/21 year, work in this area is likely to continue as councils across the country adjust to the true impacts of the Covid-19 pandemic.	The Council need to continue to plan for future years and proactively identify and mitigate cost pressures and financial risks as they arise. **Management response** TBC
● (high)	**Independent review of the Council's waste service** The Non-Executive Adviser for Waste Management and Industrial Relations stated in July 2020 "The Council has not yet concluded its review of waste collection services and the independent review is long overdue." Although progress has been made by the Council during 2019/20, there still some significant decisions which still need to be made in the near future about the provision of the waste service.	We recommend that the Council continues to work closely with Wood to ensure that Phase 2 of the independent review is completed as soon as is practically possible and ensures that it can maintain effective and consistent relations with its trade union partners regardless of any future changes to the waste service delivery model. **Management response** TBC
● (high)	**Long term Highways PFI solution** The scale of the affordability gap in the long term PFI arrangements may lead to delays in agreeing revised arrangements between the Council and BHL, and therefore may lead to delays in BHL securing a new, permanent subcontractor. There is a risk that the current arrangements are not delivering the best possible value for money, and that these arrangements may need extending beyond the term of the current agreement.	The Council should work towards completing negotiations with BHL as a matter of priority, in order to ensure that a new, permanent solution can be put in place as soon as reasonably possible to achieve best value for money. **Management response** TBC

Action plan

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Assessment	Issue and risk	Recommendations
(medium)	**Interim Highways PFI subcontracting arrangements** The interim subcontract was completed on a 'cost reimbursable' basis, meaning that the subcontractor takes little risk in relation to the contract, and the risk sits with BHL. Subject to BHL agreeing its forecast cashflow and payments with the Council, the Council has agreed to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.	We recommend that the Council ensures proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period. **Management response** TBC
(medium)	**Partner funding for the Commonwealth Games** Substantial work has been undertaken by the Council to secure the required partner contributions of £75.0m, with £50.0m secured to date. The Council is continuing to work with various potential games partners to ensure that the remaining £25.0m of required partner contributions is secured, but this is not currently in place.	The Council should take further action to address the current shortfall of £25.0m in partner funding due to fund the capital expenditure budget in the second half of 2021/22 and 2022/23, if it is going to fully mitigate the financial impact of the Games. **Management response** TBC
(medium)	**Pensions data provided to the actuary** During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records. There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities.	This was later corrected by the Council in a subsequent data submission to the actuary. We recommend that management put controls in place to ensure that data issues such as this are picked up prior to submission in future. **Management response** TBC
(medium)	**Incorrect capitalisation of revenue expenditure funded by capital under statute (REFCUS)** Our testing of items within Property, Plant and Equipment during 2019/20 identified items of REFCUS spend that had been incorrectly included in Assets Under Construction in the draft financial statements. While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.	Management should ensure that processes are in place to differentiate between spend that can be capitalised and spend that is being treated as REFCUS. **Management response** TBC

Action plan

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Assessment	Issue and risk	Recommendations
(medium)	**Incorrect capitalisation of revenue spend by schools** Our testing of items within Property, Plant and Equipment during 2019/20 identified items of revenue spend that had been incorrectly capitalised by schools in the draft financial statements. While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.	Management should ensure that processes are in place to ensure that the capital spend submitted by schools is reviewed for accuracy before it is incorporated into the Council's financial records. **Management response** TBC
(medium)	**Assets valued at below £50,000** The Council's policy for the revaluation of property plant and equipment states that all assets valued at less than £50,000 will be included in the financial statements at £nil value. There is a risk that in aggregate, these assets could be significantly understating the Council's balance sheet.	Management should keep a high-level record of assets where this de minimis has been applied so that an assessment can be made as to whether there is a risk of material misstatement in the PPE balance in future years. **Management response** TBC
(low)	**Intra-group consolidation adjustments** After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements.	Management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. **Management response** TBC
(low)	**Open purchase orders in the general ledger** During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes.	We recommend that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year. **Management response** TBC

Action plan

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Assessment	Issue and risk	Recommendations
(low)	**Capital commitments** Through performance of our testing, we have noted that the Council's capital commitments note has been prepared based on business cases and on estimated spend to date. While we are satisfied that this does not give rise to a risk of material error in the disclosure note, this disclosure should be prepared based on contracted amounts and actual expenditure against these at the end of the year.	We recommend that in future years management take care to use the correct source information for this disclosure. **Management response** TBC
(low)	**Heritage asset valuations** The Council's Thinktank heritage asset has not been formally valued for a number of years; the figure used in the 2019/20 financial statements is based upon information compiled by the Council's insurance team. There is a risk that this valuation is not reflective of the asset's actual value. This asset is above our clearly trivial threshold but does not exceed our performance materiality.	We recommend that management consider commissioning an external valuation of this asset. **Management response** TBC

Follow up of prior year recommendations

Assessment
- ✓ Action completed
- WIP Action in progress
- X Not yet addressed

We identified the following issues in the audit of Birmingham City Council's 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
WIP	**Under-accrual of expenditure** Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices (inclusive of associated VAT) which relate to 2018/19 but were not accrued. In previous years, similar issues around the completeness of expenditure had been noted.	**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. **Update 2019/20** As part of the Council's closedown process, in advance of preparing the outturn report and the financial statements, a review of outstanding purchase orders and invoice clearance was undertaken to ensure appropriate entry into the accounts. Major payments made in April and May 2020 were reviewed to check the financial year in which the expenditure should be recorded and whether accruals had been made. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing has had to be performed. We will continue to follow up on this recommendation in future years.
✓	**Feeder systems posting into the wrong financial year** 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 was no impact on the 2018/19 or the 2019/20 accounts.	**Recommendation** The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future. **Update 2019/20** The Council has concluded that an automatic solution to prevent this issue from reoccurring isn't viable, as it increases the risk of process failures in other aspects of the feeder file process. Monitoring of files will therefore continue as before. Transactions through the ledger after the year end are monitored to ensure that only journal transactions are recorded. The Council did not identify any such transactions in relation to the 2019/20 year, and no issues have been noted through the completion of our audit.

Follow up of prior year recommendations

Assessment
✓ Action completed
WIP Action in progress
X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
WIP	**Errors noted in property valuations** 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. **Update 2019/20** 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. 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. Our audit work in 2019/20 has again identified issues in relation to the valuations performed for the purposes of the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.
WIP	**Disposals omitted from the prior year** 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 were satisfied that this was an isolated incident due to the unusual nature of the arrangement, and there was 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. **Update 2019/20** The Council informed us that the Legal, Finance and Property teams have met, with a view to tightening procedures and the sharing of information. Processes have been implemented to ensure that completion memos are recorded on IPMS and subsequently reconciled with cash receipts, with any differences 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. All transactions are monitored on a monthly basis by Property Services Officers at each Capital Receipts meeting. Our testing of disposals recorded in the 2019/20 financial statements has again identified an asset that should have been derecognised in the previous financial year. At the time of writing this report, further testing is in progress to assess the potential impact of this on the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.

Follow up of prior year recommendations

Assessment
✓ Action completed
WIP Action in progress
X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Adjustments to Council Dwelling valuations** 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. **Update 2019/20** A full beacon review has been undertaken for 2019/20, including a review of the valuation methodology adopted. Beacon properties for 2019/20 have been identified to ensure a fair representation of the City area, and a more nuanced approach has been taken to adjusting the valuations for the number of bedrooms in a property. Based on our testing of the Council's HRA Dwelling valuations, we are satisfied that this approach is appropriate.
WIP	**Multiple accounts assigned to a single user** We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighter ID purposes, it appears that some are unnecessary.	**Recommendation** Management should consider which users need multiple accounts within SAP and remove access to those where this function where is it not required. **Update 2019/20** The Council's view is that 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.
WIP	**General IT controls** As part of our review of IT controls, we identified an excessive number of users with inappropriate access to high risk T-codes within SAP. Our IT audit identified 109 users 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. 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. **Update 2019/20** The Council's view is that 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.

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m
Valuation of HRA Dwellings		
An error within the Council's valuation process for HRA Dwellings led to a beacon property which had been correctly valued as a 3 bed maisonette being incorrectly incorporated into the workings as a 1 bed maisonette. Correcting this error confirmed that the HRA Dwellings valuation was overstated by £23.2m, and the financial statements have been amended as follows:		
Dr Revaluation decrease recognised in the Revaluation Reserve	23.2	
Cr Gross book value of Council Dwellings		(23.2)
This adjustment has no impact on the Council's general fund balance.		
Valuation of Other Land and Buildings		
Tyseley Energy Recovery Facility, within other land and buildings, was understated by £2.4m due to a transcription error between the valuation report and the fixed asset register. The financial statements have been amended to show the correct valuation, with the impact as follows:		
Dr Gross book value of Other Land and Buildings		2.4
Cr Revaluation increase recognised in the Revaluation Reserve	(2.4)	
This adjustment has no impact on the Council's general fund balance.		
Adjustment to the Financial Outturn		
At its meeting on 10 November 2020, Cabinet agreed an amendment to its previously reported outturn report to reflect the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council's Capital Financing Requirement. This amendment had the following impact on the financial statements:		
Dr Unearmarked Reserves (Usable Reserves)		8.7
Cr Capital Adjustment Account (Unusable Reserves)		(8.7)
Overall impact	**£20.8m**	**(£20.8m)**

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure Reference	Detail	Adjusted?
Balance Sheet	The Council has a net deficit balance of £8.5m on its non-schools Dedicated Schools Grant. Our view is that this balance should form part of the unearmarked general fund balance. The Council has accounted for this balance in line with our expectations, however this amount has then been disclosed separately on the face of the Balance Sheet. We have requested that the reserves be rearranged on the face of the Balance Sheet so that this DSG balance is more clearly linked to the other unearmarked reserves. The balance is not material to the financial statements.	✓
Standards Issued but Not Adopted (Note 3)	Additional information has been added to the narrative around IFRS 16 for clarity. The new standard will come into effect on 1 April 2021 for Local Government bodies, including the Council.	✓
Sources of Estimation Uncertainty (Note 4)	The Council has included disclosures in Note 4 in relation to its pensions assets. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are also reported on the basis of material valuation uncertainty. The Council's share of these assets is £358.2m.	✓
Events after the Reporting Period (Note 5)	Additional disclosures have been added to Note 5 with regards to the following: • The outturn amendment agreed by Cabinet to reflect the replacement of £8.7m of Direct Revenue Financing of Capital by increasing the Council's Capital Financing Requirement; and • The impact of the Covid-19 pandemic on Birmingham Airport Holdings Limited, in which the Council owns a 18.68% share.	✓
Pensions Reserve (Note 20)	In the draft financial statements, the figures for 'reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the provision of services in the CIES' and 'employer's pensions contributions and direct payments to retirees payable in the year' were both understated by £4.8m, due to the omission of the unfunded element of the pension liability. These balances should have been £206.7m and £153.9m respectively. The net impact on the pension reserve is £nil, and this is the only place in the financial statements where these figures are shown separately rather than being shown net.	✓
Property, Plant and Equipment (Note 24)	Due to the identification of an error in the underlying calculations, the valuation timings table has been amended to correctly reflect the Other Land and Buildings assets revalued in 2019/20, which has also changed the totals valued in the other four years. In addition, we noted a number of issues in the Council's Capital Commitments disclosure note, however these have led to minimal overall change to the disclosure.	✓
Provisions (Note 33)	The narrative around Equal Pay claims has been updated to reflect the wording agreed in previous years, and clarify that the position is as at 31 March 2020 rather than 28 February 2020.	✓

Audit adjustments

Disclosure Reference	Detail	Adjusted?
Borrowing (Note 35)	£2.0m of borrowing has been moved from long-term to short-term to correctly reflect the position at 31 March 2020. This adjustment has no impact on the Council's overall borrowing balance.	✓
Financial Instruments (Note 40)	The following amendments have been made to the Council's disclosures: <u>Categories of Financial Instruments:</u> • £8.5m of debtor balances have been reclassified from 'fair value at amortised cost' to 'debtors that are not financial instruments'. This balance relates to housing benefits, and does not meet the definition of a financial instrument. • £22.5m of Money Market Investments required to move to 'Fair Value Through Profit or Loss' line rather than being shown as held at amortised cost • Amendments have been made to the split of short term and long term borrowings to reflect the adjustment included on the previous page of this report. <u>Income, Expenses, Gains and Losses:</u> • The total shown for 2019/20 in the draft accounts was £204.7m but should have been £187.9m to accurately reflect the balances above. <u>Financial Liabilities – Fair Value Hierarchy:</u> • The fair value of the PFI/leasing element of other long term labilities has been decreased by £61.2m to £618.1m. • The fair value of the bonds has been decreased by £13.6m to £496.5m. • The fair value of the PWLB liability has been amended to disclose a fair value of £3,203.8m, instead of the £3,408.4m disclosed in the draft financial statements. <u>Financial Assets – Fair Value Hierarchy:</u> • Balance in relation to long term debtors have been corrected to show a carrying amount of £90.4m and a fair value of £98.6m. These figures were inconsistent with other disclosures in the draft financial statements. None of the above adjustments have any impact on other areas of the financial statements.	✓
Financial Instruments (Note 41)	Disclosure of the sensitivity analysis in relation to the fair value of fixed rate borrowing liabilities has been corrected to show an impact of (£517.7m). This figure was inconsistent with other disclosures in the draft financial statements.	✓
Service Concessions (Note 44)	Disclosure of contingent rentals has been added, as this was omitted from the draft financial statements.	✓
Officers' Remuneration (Note 46)	Additional narrative has been added to Note 46, in order to provide the reader of the accounts with more clarity regarding the disclosures that are being made.	✓

Audit adjustments

Disclosure Reference	Detail	Adjusted?
Related Parties & Pooled Budgets (Note 49)	Disclosure of the contributions made to aligned budgets by both the Council and the CCGs have been updated to reflect more accurate information. The CCGs' contributions in particular were estimated based on data from several years ago.	✓
Collection Fund (Note C1)	The tax base information disclosed in the draft financial statements was the information that is relevant to the 2020/21 financial year, not the 2019/20 financial year. This has been amended to show the tax base at January 2019, on which the Council Tax for 2019/20 was set.	✓
Various	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and user understanding.	✓

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
Incorrect capitalisation of spend Our testing of a sample of assets transferred out of Assets Under Construction and into operational categories of Property, Plant and Equipment identified assets that should never have been recorded as capital spend, as they should have been treated as either revenue expenditure or REFCUS. We have extrapolated the errors that we identified in order to arrive at an estimated impact of similar transactions. The extrapolated error would impact on the financial statements as follows:			Adjustment is an estimate, and was not material to the financial statements.
Dr Expenditure	7.7		
Cr Property, Plant and Equipment		(7.7)	

Continued on next page

Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
Expenditure for which the Council was unable to provide supporting documentation During testing of a sample of the Council's expenditure transactions, we selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council have been unable to access the supporting documentation for these transactions, which is kept in their offices. We have determined that the total value of similar transactions in the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements If all such expenditure did not occur, the resulting adjustment would be			This is not necessarily an error in the financial statements, but instead is documentation that was inaccessible due to Covid-19.
Dr Cash and Cash Equivalents		11.5	
Cr Expenditure	(11.5)		
Unadjusted errors and uncertainties in the Council's Property, Plant and Equipment Valuations As set out on page 9 of this report, we have identified potential differences between the carrying value and the current value of the Council's properties at 31 March 2020, as follows: – Other Land and Building assets valued at 1 April 2019 instead of 31 March 2020. Available market data indicates that this may have led to an overstatement in the value of these assets of £8.6 million; – Other Land and Buildings assets not valued in the 2019/20 year. Trends noted from assets that have been valued indicate that this may have led to an overstatement in the value of these assets of £5.2 million; – Other Land and Buildings land assets valued on a social housing basis. These values have been reduced to 50%, when the social housing factor used for the Council's Dwellings is 40%. We have not been provided with an explanation for this difference, and so consider that this indicates that the valuations are overstated by £4.0 million.			These are not necessarily errors, but are uncertainties in the valuations at 31 March based on the use of indices, and resulting from the Council not valuing all assets at 31 March 2020.
Dr Gain/loss on revaluation of assets	17.8		
Cr Property, plant and equipment		(17.8)	
Extrapolated error noted by the Pension Fund audit team The auditor of the West Midlands Pension Fund identified an unadjusted error of £33.0 million, being an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements, as opposed to a precise proposed adjustment. The Council's share of the Pension Fund's asset is 27%, indicating that the valuation of the level 3 investments included in the net pension liability in the Authority's balance sheet is overstated by approximately £8.9 million.			This is an extrapolation of an error at the pension fund.
Dr Return on assets	8.9		
Cr Net pension assets		(8.9)	
Overall impact	**(£22.9m)**	**£22.9m**	

Audit adjustments

Unadjusted misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have not been made in the final set of financial statements.

Disclosure Reference	Detail	Reason for not adjusting
Material IAS 19 entries (Note 10)	The CIPFA Code requires expenditure to be allocated to service segments. The Council has made a judgment that material one-off changes to pension costs in 2018/19, mainly due to settlements and the impact of the McCloud judgement, should be shown separately on the face of the Comprehensive Income and Expenditure Statement as a 'superannuation adjustment'. The Council has included additional disclosures within Note 10 to explain the nature of this entry and ensure that the judgement regarding presentation has been made clear to the reader of the accounts. Our view is that the past service cost should be allocated to the Council's individual service segments, as presented in the Comprehensive Income and Expenditure Statement, however we are satisfied that the Council's judgement does not result in a material misstatement to the accounts.	The Council is of view that this is a material item that should be reported separately.
Trading Operations (Note 14)	The Council has completed a retrospective adjustment to the financial statements, to correct values in the 2018/19 disclosure. In our view, this adjustment was not necessary, as the accounting standards only require the correction of material errors in prior periods.	The Council feel that reflecting the correct values is appropriate
Prior Period Restatement (Note 23)	The Council has completed a retrospective adjustment to the financial statements, to incorporate the disposal of two assets during 2017/18 which had not previously been processed. In our view, this adjustment was not necessary, as the accounting standards only require the correction of material errors in prior periods. We therefore consider that the correct treatment would be to dispose of these items in the year in which the issue was noted, being the 2019/20 financial year. The treatment has no impact on the Council's balances as at 31 March 2020.	Restatement is material to the Council using its own internal materiality threshold
Debtors (Note 30) and Creditors (Note 32)	There was a change in the Code from 2018/19 to remove the requirement to disclose debtors and creditors by type of counterparty, but the Council has adopted the previous format based on a judgement that an analysis by customer is most appropriate for the nature of the Council's balances. This does not strictly meet the IAS 1 requirement to disclose based on size, nature and function. We are satisfied this would not make a material difference to the reader of the accounts.	The Council's view is that their presentation provides the best information for readers to draw judgements on the recoverability of debt.
Provisions (Note 33)	The Council has assessed its pension guarantees under IAS 37, IFRS 4 and IFRS 9. The Council has made a judgement that its current pension guarantees relating to contribution rates should be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and have recognised a provision of £8.9m, as well as a related contingent liability. We are satisfied that the valuation basis is reasonable, but in our view IAS 37 is not applicable to these contractual guarantees and so they would be more appropriately disclosed as an 'other liability' within the Balance Sheet. This is a presentation issue only and is immaterial to the financial statements.	The Council's view is that these guarantees are onerous elements of a contract and therefore covered by IAS 37.

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
Equal Pay Provision The differential used in an element of the calculation was incorrect, so the provision was overstated. Correcting this would have had the following impact:			Adjustment was not material to the financial statements.
Dr Provisions		4.3	
Cr Unusable Reserves		(4.3)	
Completeness of expenditure (capital and revenue) Following errors identified in sample testing, the Council reviewed payments made between 1 April 2019 and 22 August 2019, and identified £5.2m of capital expenditure and £4.6m of revenue expenditure which related to 2018/19 but was not appropriately accrued. Linked to this the council also identified £1.3m of income which related to some of these invoices and was also not accrued. Note that these figures include associated VAT so the actual impact on the Council's accounts is likely to be lower, but the impact was assessed as follows:			Adjustment was not accurate, and was not material to the financial statements.
Dr Debtors		1.3	
Cr Cost of Services	(1.3)		
Dr Property, plant and equipment		5.2	
Dr Cost of Services	4.4		
Cr Creditors		(9.6)	
Overall impact	**£3.1m**	**(£3.1m)**	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services:

Audit fees	Proposed fee	Final fee
Council Audit	333,659	*TBC*
Audit of subsidiary companies:		
• Acivico Limited	35,000	35,000
• NEC (Developments) plc	35,000	35,000
• PETPS subsidiaries	37,500	37,500
Total audit fees (excluding VAT)	**£404,909**	***TBC***

We have given consideration to additional fees for the impact of Covid-19 on our audit processes, and have determined that an additional fee of £36,250 is appropriate.

Note that at the time of writing this report, neither this, nor the additional audit fees of £55,500 initially proposed for the 2019/20 year (per our Audit Plan) have been agreed. All fee variations are subject to approval by PSAA in line with the Terms of Appointment.

The Council does not separately disclose group audit fees in the notes to the group accounts. The fees for the Council as a single entity reconcile to the financial statements as follows:

- **Fees disclosed per financial statements** **£289k** (rounded to £0.2m)
- Less fee variation in relation to 2018/19 (£47k)
- **2019/20 fees per financial statements** **£242k** **(PSAA Scale Fee)**
- Additional fees for 2019/20 per our Audit Plan £56k
- Additional fees for 2019/20 due to Covid-19 £36k
- **Total Council fees per table to the left** **£334k**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Certification of 2018/19 Housing Benefits Subsidy claim (undertaken June-November 2019)	22,000	29,500
• Certification of 2018/19 Teachers' Pension return (undertaken October-November 2019)	7,250	7,250
• Certification of 2018/19 Housing capital receipts grant (undertaken January 2020)	5,250	5,250
• Education Skills Funding Agency agreed upon procedures 2018-19 (undertaken July 2019)	5,000	5,000
• AMSCI reasonable assurance engagements (undertaken in August and December 2019)	15,800	15,800
• Certification of 2019/20 Housing Benefits Subsidy claim (commenced August 2020)	27,500	*TBC*
• Certification of 2019/20 Teachers' Pension return (commenced October 2020)	7,500	*TBC*
Non-Audit Related Services:		
• CFO insights subscription (2018/19)	10,000	10,000
• CFO insights subscription (2019/20 - to 31 March 2020 only)	10,000	10,000
• CASS reporting for Finance Birmingham 2019 (undertaken April-July 2019)	7,000	7,000
Total non-audit fees (excluding VAT)	**£117,300**	***£TBC***

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Appendix 1

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/01	**Council's Resilience and Financial Sustainability**				
	Residual Risk	Low			
	Impact	Medium			
	The Council's forecasting contains significant indicative provisional funding gaps in the coming years (approximately £100m per year after the 2020/21 year). Although the Council has identified actions to close the funding gap in the 2020/21 year, work in this area is likely to continue as councils across the country adjust to the true impacts of the Covid-19 pandemic. **Recommendation** The Council need to continue to plan for future years and proactively identify and mitigate cost pressures and financial risks as they arise.		The Council has already taken unprecedented action by undertaking a comprehensive mid-year assessment of its Medium-Term Financial Plan which has been formally reported to Cabinet in November 2020 as well as being scruitnised by O&S Resources and this has been the baseline for developing budget proposals for both 21/22 and 22/23. The work on the underlying base budget is ongoing with DMT challenge processes which have taken place over January to test all assumptions, pressures and deliverablity of savings using the mid year update of the MTFP. Further to this Star Chambers have and are taking place on both a service and issues basis to ensure completeness and robustness of estimates. The overall approach to balancing the medium term budget is through the implementation of the Delivery Plan which has been approved by Cabinet alongside the refresh of the Medium Term Financial Plan in November 2020. The Delivery Plan is leading the budget strategy	February 21 and ongoing	Interim Chief Finance Officer

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer
		and strategic resource allocation over the period of the Medium Term Financial Plan. Proposals will be put forward to balance the budget for 2021/22 and an indicative position presented to balance 2022/23 based around the Outline Business Cases work underpinning he Delivery Plan. It should be recognised that medium and long term financial planning is extremely difficult in the context of the 1-year finance settlement from Government,the uncertainty of the pandemic and Brexit’s impact on Birmingham. To reflect this, the Council increased its General Fund Reserve to 4.5% of its net budget and will not need to draw on these reserves to balance the budget. Further to this, the Finance Resilience Reserve remains intact at £75m (check figure) Additionally, £60m has been identified from other reserves that is available to be used to invest to ensure that the Final Business Cases which will be complete by 31 March 2020in the Delivery Plan are fully funded. The Final Business Cases are required to balance the budget in 2022/23. To date the Covid tranche 4 grant from 2020/21 and the recently announced Covid tranche 5 grant for 2021/22 have been set		

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
			aside in a specific Covid Reserve to mitigate cost pressures and financial risks relevant to Covid. They provide a significant level of additional financial resilience.		
20/02	**Independent Review of the Council's Waste Service**				
	Residual Risk	Low			
	Impact	Low			
	The Non-Executive Adviser for Waste Management and Industrial Relations stated in July 2020 "The Council has not yet concluded its review of waste collection services and the independent review is long overdue." Although progress has been made by the Council during 2019/20, there still some significant decisions which still need to be made in the near future about the provision of the waste service. **Recommendation** We recommend that the Council continues to work closely with Wood to ensure that Phase 2 of the independent review is completed as soon as is practically possible and ensures that it can maintain effective and consistent relations with its trade union partners regardless of any future		There has been significant progress following Wood's initial review of the service. Performance has improved and there is a good working relationship with the Trade Unions. There are regular meetings chaired by the Cabinet Member to discuss the future of the service. Modelling work has taken place but we are waiting to see what the implications of the Governments review are, especially on food waste, before we can finalise recommendations for the City Regular meetings will be held with the Cabinet Member to discuss progress and the future of the service Progress on phase 2 of the report has been more difficult as it links to the Governments	September 2021	Director of Neighbourhoods (Acting)

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
	changes to the waste service delivery model.		plans to standardise items collected across England. Finalise the final delivery model taking on board any changes in requirements.		
20/03	**Long term Highways PFI Solution**				
	Residual Risk	Medium			
	Impact	Medium			
	The scale of the affordability gap in the long term PFI arrangements may lead to delays in agreeing revised arrangements between the Council and BHL, and therefore may lead to delays in BHL securing a new, permanent subcontractor. There is a risk that the current arrangements are not delivering the best possible value for money, and that these arrangements may need extending beyond the term of the current agreement. **Recommendation** The Council should work towards completing negotiations with BHL as a matter of priority, in order to ensure that a new, permanent solution can be put in place as soon as reasonably possible to achieve best value for money.		The Council is fully cognisant of this risk and already places a high priority on putting in a place a long-term replacement subcontract that will deliver the best outcomes for the city within available resources. Solutions will continue to be explored that provide the opportunity to ensure the best possible value in delivering these services in the long term. Structural changes as well as financing options are subject to extensive assessment between BCC and BHL supported by the DfT,expert consultants and lawyers. These negotiations are progressing positively		Assistant Director – Highways & Infrastructure

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/04	**Interim Highways PFI subcontracting arrangements**				
	Residual Risk	Medium			
	Impact	Medium			
	The interim subcontract was completed on a 'cost reimbursable' basis, meaning that the subcontractor takes little risk in relation to the contract, and the risk sits with BHL. Subject to BHL agreeing its forecast cashflow and payments with the Council, the Council has agreed to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period. **Recommendation** We recommend that the Council ensures proactive monitoring and management of the contract between BHL and Kier is taking place, in order to mitigate the financial risk to the Council created by their agreement to ensure that BHL remains solvent by paying its reasonable operational costs during the interim period.		This recommendation is accepted and acknowledged. A 'cost reimbursable' basis was not the Council's preferred option but has ensured continuity of service and a smooth transition from the previous subcontractor. These were critical elements in enabling this service to move forward. The Council is in the process of putting in place arrangements to support the management of the subcontract through this interim period to provide a satisfactory level of assurance.		Assistant Director – Highways & Infrastructure

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/05	**Partner funding for the Commonwealth Games**				
	Residual Risk	**Low**			
	Impact	**Medium**			
	Substantial work has been undertaken by the Council to secure the required partner contributions of £75.0m, with £50.0m secured to date. The Council is continuing to work with various potential games partners to ensure that the remaining £25.0m of required partner contributions is secured, but this is not currently in place. **Recommendation** The Council should take further action to address the current shortfall of £25.0m in partner funding due to fund the capital expenditure budget in the second half of 2021/22 and 2022/23, if it is going to fully mitigate the financial impact of the Games.		The Council is continuing to work to secure further contributions, whether from existing planned Partners or other funding bodies. Engagement is being undertaken with Government and other Games partners to agree optimal and deliverable funding solutions. £19m of secured contributions now received by the Council. Discussion paper presented to CWG Programme Board on 14 January to agree approach to ensure that the remaining £25m of funding is secured.	Ongoing	Commonwealth Games Programme Director

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/06	**Pensions Data Provided to the Actuary**				
	Residual Risk	Low			
	Impact	Low			
	During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records. There is a risk that providing incorrect information to the actuary will impact on the actuarial valuation provided for the financial statements, and lead to a misstatement of the Council's liabilities. **Recommendation** This was later corrected by the Council in a subsequent data submission to the actuary. We recommend that management put controls in place to ensure that data issues such as this are picked up prior to submission in future.		The reports used to provide the information are currently being reviewed to ensure that the relevant information is available in the correct format. Management review will be undertaken to ensure that the information provided is accurate.	22 February 2021	Pensions Manager and Finance Manager – Financial Accounting

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/07	**Incorrect Capitalisation of revenue expenditure funded by capital under statute (REFCUS)**				
	Residual Risk	Low			
	Impact	Low			
	Our testing of items within Property, Plant and Equipment during 2019/20 identified items of REFCUS spend that had been incorrectly included in Assets Under Construction in the draft financial statements. While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate. **Recommendation** Management should ensure that processes are in place to differentiate between spend that can be capitalised and spend that is being treated as REFCUS.		The recommendation is accepted and acknowledged. 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 differentiate between spend that can be capitalised and spend that is treated as REFCUS. For the 2020/21 financial statements, meetings have been scheduled to understand the impact of the recommendation and determine actions to review the activity within the current year. For 2021/22 financial year an internal monitoring framework will be established to assist in sample checking. It will be the responsibility of the Finance Manager to implement procedure with regular monthly sample checking throughout the financial year. Proposed timeframe as follows; **<u>February 2021</u>** Team briefing on the need to ensure clear differentiation between spend that can be	May 2021	Finance Manager - Capital

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
			capitalised and spend that is treated as REFCUS. **<u>March 2021</u>** Establish an internal monitoring framework to sample check items settled to Assets Under Construction (AUC) and REFCUS. **<u>May 2021</u>** Implement internal monitoring framework and commence sample checking of items settled to AUC and REFCUS on a monthly basis.		
20/08	**Incorrect capitalisation of revenue spend by schools**				
	Residual Risk	Low			
	Impact	Low			
	Our testing of items within Property, Plant and Equipment during 2019/20 identified items of revenue spend that had been incorrectly capitalised by schools in the draft financial statements. While we have gained assurance that this does not represent a material risk to the financial statements in for 2019/20, incorrect treatment of the Council's spend will have a knock-on impact on budget monitoring activity if it is inaccurate.		The recommendation is accepted and acknowledged. Feedback will be provided to the team and relevant managers in the areas where the issues have occurred. A review of the current process for monitoring school capitalisation will be undertaken. Proposed timeframe as follows; **<u>January 2021</u>**	31 March 2021	Finance Manager – Capital

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
	Recommendation Management should ensure that processes are in place to ensure that the capital spend submitted by schools is reviewed for accuracy before it is incorporated into the Council's financial records.		Establish a meeting with finance team to discuss the background to the issues which have occurred. Meetings scheduled and preparation for the closedown of the 2020/21 accounts has started Review of current processes for monitoring school capitalisation. **<u>March 2021</u>** Feedback and training to service colleagues ahead of the closure of accounts for 2020/21.		
20/09	**Assets valued at below £50,000**				
	Residual Risk	**Low**			
	Impact	**Low**			
	The Council's policy for the revaluation of Property, Plant and Equipment states that all assets valued at less than £50,000 will be included in the financial statements at £nil value. There is a risk that in aggregate, these assets could be significantly understating the Council's Balance Sheet. **Recommendation** Management should keep a high-level record of assets where this de minimis		The number of items that are classed as de minimis because they are valued at less than £50,000 results in a maximum risk to the Council that is significantly below materiality. For valuations carried out in 2020/21 and future years, information will be maintained for assets valued below the de minimis value of £50,000, identifying the value that has been calculated for the particular assets in question. Valuers will maintain a record of actual values for all assets and those below the de minimis value will be recorded to identify any potential	30 April 2021	Assistant Director of Property

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
	has been applied so that an assessment can be made as to whether there is a risk of material misstatement in the PPE balance in future years.		risk to the carrying value of non-current assets on the Council's Balance Sheet.		
20/10	**Intra-group consolidation adjustments**				
	Residual Risk	Low			
	Impact	Low			
	After preparation of the financial statements, the finance team identified that they had treated VAT amounts incorrectly within the intra-group adjustments in the consolidation process. This led to material misstatement of the group financial statements. **Recommendation** Management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit.		A peer review process will be enhanced to ensure that VAT is understood and excluded from the intercompany elimination process. Written procedures and checklist will be completed to aid review. Preparation for closedown has started and this will form part of the procedures.	28 February 2021	Finance Manager – Financial Accounts

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/11	**Open purchase orders in the general ledger**				
	Residual Risk	Low			
	Impact	Low			
	During our work on the completeness of the Council's expenditure in the 2019/20 year, we have identified that there are a significant number of open purchase orders in the general ledger that relate to previous years. Some of these date back to prior to the implementation of the current ledger system. The volume of open orders on the system means that management cannot glean any useful information from this data for their monitoring purposes. **Recommendation** We recommend that management look to reduce the number of historic purchase orders still open in the general ledger system, in order to make this a useful report for their consideration of the completeness of expenditure within the financial year.		A review is being undertaken of open purchases orders so that those that are no longer required can be closed. This will greatly aid the migration of appropriate activity to Oracle Fusion when it is implemented. Progress will be monitored through the 1B programme. Unfortunately, the closure of open purchase orders can be time consuming as it requires closed codes or vendors to be reopened where necessary to then close the purchase order. Reports have been run to review the level of open purchase orders so that progress can be monitored during the year. Progress will be monitored during the year to ensure that final migration to Oracle will be as efficient as possible.	Continuous	Interim Chief Finance Officer

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
20/12	**Capital Commitments**				
	Residual Risk	**Low**			
	Impact	**Low**			
	Through performance of our testing, we have noted that the Council's capital commitments note has been prepared based on business cases and on estimated spend to date. While we are satisfied that this does not give rise to a risk of material error in the disclosure note, this disclosure should be prepared based on contracted amounts and actual expenditure against these at the end of the year. **Recommendation** We recommend that in future years management take care to use the correct source information for this disclosure.		The recommendation is accepted and acknowledged. The commitments working papers will be reviewed more stringently as part of the 2020/21 closure of accounts. Feedback will be provided to the team and relevant managers in the areas where the issues have occurred. Proposed timeframe as follows; **January 2021** Meeting to be arranged as part of preparation for 2020/21 closedown **February 2021** A review of the working papers will be undertaken within the finance team. Correct source information and working papers will be identified to assist in the calculation of contracted commitments. **March – April 2021** Stringent reconciliation of the relevant closedown working papers and the source	30 April 2021	Finance Manager – Capital

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer
		information will be incorporated as part of the closedown process for 2020/21. **<u>Ongoing</u>** The above practice will be imbedded as ‘business as usual’ for future years.		
20/13	**Heritage Asset Valuations**			
	Residual Risk — Low			
	Impact — Low			
	The Council’s Thinktank heritage asset has not been formally valued for a number of years; the figure used in the 2019/20 financial statements is based upon information compiled by the Council’s insurance team. There is a risk that this valuation is not reflective of the asset’s actual value. This asset is above our clearly trivial threshold but does not exceed our performance materiality. **Recommendation** We recommend that management consider commissioning an external valuation of this asset.	The Councils approach to valuation of heritage assets complies with the Code for production of financial statements. Paragraph 4.10.2.9 of the Code of Practice on Local Authority Accounting (the Code) states, respect of Heritage Assets “Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current” The Council will continue to keep its insurance coverage under review.	**31 March 2021**	**Head of City Finance – Financial Accounts**

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer
		Heritage assets contained within Thinktank have not been formally valued, as consistent with the remainder of the Council's Museum and Library collections. As identified within the accounting policies Heritage assets are carried at insurance value as it is not practicable to obtain formal valuations at a cost that is commensurate with the benefits to users of the financial statements. Once a formal valuation is undertaken, the Council would be required to undertake further valuations to ensure that the carrying value remains current. Whilst a formal valuation of the Heritage asset collection is impracticable, given the scale and complexity, the insurance valuations used within the statement of accounts are regularly considered to ensure that insurance coverage remains relevant to the needs of the Council.		
19/04	**Under accrual of expenditure**			
	Residual Risk — **Low**			
	Impact — **Low**			
	Our testing of the completeness of expenditure in 2018/19 identified several items which were paid after 31 March 2019 but should have been accrued into the 2018/19 financial year. The Council performed extended analysis covering payments made during the period to 22 August 2019 which identified £9.6m of invoices	Regular reports are run on the level of procurement activity to identify those areas where there are delays in the payment of invoices or where procurement activities are not in line with Council processes. These reports are shared with Directorates so that appropriate action can be taken.	Continuous	Interim Chief Finance Officer

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer
	(inclusive of associated VAT) which relate to 2018/19 but were not accrued. In previous years, similar issues around the completeness of expenditure had been noted. **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. **Update 2019/20** As part of the Council's closedown process, in advance of preparing the outturn report and the financial statements, a review of outstanding purchase orders and invoice clearance was undertaken to ensure appropriate entry into the accounts. Major payments made in April and May 2020 were reviewed to check the financial year in which the expenditure should be recorded and whether accruals had been made. As part of our testing in the 2019/20 year, we again identified transactions that had not been recorded in the correct year, and additional testing has had to be performed. We will continue	The outcomes from the Audit Findings Report and its recommendations have been shared with the Council Leadership Team to highlight the issue. Finance Business Partners will also brief Directorate Management Teams on the issues identified and the action required and procedures to be followed to meet appropriate accounting requirements. 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. Reports on procurement activity will be run regularly at the year end to try and capture activity within the appropriate financial year. The preparation for the closure of the 2020/21 accounts has started and reports are being run on procurement activity to identify issues and problem areas so that action can be taken at an early stage.		

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
	to follow up on this recommendation in future years.				
19/03	**Errors noted in property 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. **Update 2019/20** 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. 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. Our audit work in 2019/20 has again identified issues in relation to the		Whilst the review in 2019/20 concentrated on the appropriateness of the valuations carried out, this will now be extended to include the administration of the transfer of information from valuation to database.	Immediate	Head of Property Valuation and Sales

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
	valuations performed for the purposes of the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.				
19/02	**Disposals omitted from the prior year**				
	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 were satisfied that this was an isolated incident due to the unusual nature of the arrangement, and there was 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. **Update 2019/20** The Council informed us that the Legal, Finance and Property teams		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 identify any mismatches in information. The error identified in 2019/20 was an isolated incidence and resulted from human error. Further checking will be put in place to ensure movements are reconciled.	Immediate	Assistant Director, Property Services

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer
	have met, with a view to tightening procedures and the sharing of information. Processes have been implemented to ensure that completion memos are recorded on IPMS and subsequently reconciled with cash receipts, with any differences 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. All transactions are monitored on a monthly basis by Property Services Officers at each Capital Receipts meeting. Our testing of disposals recorded in the 2019/20 financial statements has again identified an asset that should have been derecognised in the previous financial year. At the time of writing this report, further testing is in progress to assess the potential impact of this on the financial statements. We will continue to follow up on this recommendation in future years, as the steps that the Council has taken to address this risk have not been completely effective.	All disposal transactions will continue to be monitored by Property Services Officers at each Capital Receipts monthly meeting with confirmation completion memos raised and actioned.		

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
19/06	**Multiple Accounts assigned to a single user**				
	Residual Risk	Low			
	Impact	Low			
	We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for FireFighterID purposes, it appears that some are unnecessary. **Recommendation** Management should consider which users need multiple accounts within SAP and remove access to those where this function where is it not required. **Update 2019/20** The Council's view is that 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.		The "Firefighter" role is required to ensure the integrity of SAP SAP Business Support Centre will carry out a monthly check to ensure that all Firefighters are valid. Access for Firefighters will be revoked where they are no longer required Birmingham audit has been asked to undertake a review and report on the matter and identify if any additional checks are required.	Continuous	Finance Manager – SAP BSC

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer
18/03	**General IT controls**				
	Residual Risk	**Low**			
	Impact	**Low**			
	As part of our review of IT controls, we identified an excessive number of users with inappropriate access to high risk T-codes within SAP. Our IT audit identified 109 users 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. 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. **Update 2019/20** The Council's view is that the level of access identified in the recommendation is required to ensure that system functionality can be maintained. Regular reviews of access		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 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. Birmingham audit has been asked to undertake a review and report on the matter	Immediate	Finance Manager - SAP BSC

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer
	are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.	and identify if any additional checks are required.		

Item 12

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**26 January 2021**
Subject:	**ANNUAL AUDIT LETTER**
Wards affected: All	

1 Purpose

1.1 Each year, the Council's external auditor, Grant Thornton UK LLP (Grant Thornton), is required to produce an Annual Audit Letter. This letter will be circulated to all members of the Council following this meeting.

1.2 Members are asked to consider the Annual Audit Letter and note the conclusions of the external auditor

2 Decisions recommended:

2.1 To receive and consider the Annual Audit Letter, attached as appendix 1 to this report.

Contact Officer: Rebecca Hellard
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Contact Officer: Martin Stevens
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3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The coverage of the Annual Audit Letter and actions highlighted in this report are consistent with the policy framework and budget. The preparation and approval of the Annual Audit Letter are statutory requirements.

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. The Code identifies the Annual Audit Letter as one of the means by which the auditor will discharge its responsibilities. The Annual Audit Letter is concerned with the Council's management of all of its resources.

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):
These are set out in the Annual Audit Letter, which emphasises areas where the external auditor feels significant risks to the Council exist.

4 Relevant background/chronology of key events:

4.1 The Annual Audit Letter is the statutory report by the Council's external auditor, Grant Thornton, of its activities for the year. The Annual Audit Letter covers the external audit of the Council's financial affairs, the Council's financial standing, value for money and overall performance. A copy of the Annual Audit Letter to Members is attached as appendix 1 to this report.

4.2 The Annual Audit Letter includes the findings of the external auditor in respect of the financial statements and value for money considerations.

4.3 The financial statements received an unqualified audit opinion but included an emphasis of matter paragraph in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of the pension fund given the Coronavirus pandemic.

4.4 The external auditor gave a qualified conclusion in respect of two risks considered in respect of value for money. These qualifications, which have been considered previously by this Committee as part of the Audit Findings Report provided to members at its meeting on 25 November 2020, related to risks related to:

- Financial Impact of the Commonwealth Games
- Contractual Arrangements relating to the Highways PFI scheme

Signature:

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

Appendix 1, The Annual Audit Letter for Birmingham City Council – Year ended 31 March 2020

Grant Thornton

The Annual Audit Letter for Birmingham City Council

Year ended 31 March 2020

January 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Birmingham City Council (the Council) and its subsidiaries and associates (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 25 November 2020 and 22 December 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £34,400,000, which is 1.2% of the group's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 8 January 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We are in the process of completing work on the Council’s consolidation return following guidance issued by the NAO. This work is substantially complete, and we will issue our assurance statement once we have confirmed that the required changes have been made.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for specific weaknesses identified in the arrangements relating to the Commonwealth Games and the Council’s Highways PFI agreement. We therefore qualified our value for money conclusion in our audit report to the Council on 8 January 2021.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Birmingham City Council until we complete our work on the Council’s WGA consolidation return.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff in these unprecedented times.

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £34,400,000, which is 1.2% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £34,350,000, which is 1.2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £1,700,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment	The Council's valuer reported their valuations as at 31 March 2020 on the basis of 'material valuation uncertainty'. Similarly, the valuation of the Pension Fund's investment properties are also reported on the basis of 'material valuation uncertainty'. We referred to these material valuation uncertainties in our audit report. During our testing of a sample of the Council's expenditure transactions, we have selected several items relating to the Council's use of purchase cards. Due to the pandemic, the Council have been unable to access the supporting documentation for these transactions, which is kept in their offices. We have determined that the total value of similar transactions during the 2019/20 year was £11.5m, and so we do not consider that this gives rise to a risk of material misstatement in the financial statements. We did not identify any other issues or concerns to report.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council revalues its land and buildings, including council housing, on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved 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.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • engaged 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; • tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; and • evaluated the assumptions made by management for any assets not revalued at 31 March 2020, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value at year end.	Our audit work identified two non-material errors in the valuation of the Council's property, plant and equipment which were adjusted in the audited financial statements. In addition to these, we identified potential differences and uncertainties in property valuations which have not been adjusted in the audited financial statements, primarily due to assets being valued prior to the financial year-end and therefore not taking into account market movements to 31 March 2020. We note that the financial statements contain a prior period adjustment. The Council disposed of two assets in 2017/18, but did not derecognise these in the accounts. This issue was identified by officers during the 2019/20 financial year, and processed retrospectively. In our view, as the transaction was not material, the disposal should have been transacted within the 2019/20 year, and not as a prior period adjustment. The Council's valuer reported their valuations as at 31 March 2020 on the basis of 'material valuation uncertainty'. We referred to this material valuation uncertainty in our audit report. Our audit work has not identified any other issues in respect of the valuation of the Council's land and buildings.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved 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.	As part of our audit work we have: • updated 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; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested 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, including consideration of the experience loss recognised in-year following the triennial valuation at 31 March 2019; • undertaken 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 • obtained 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. This assurance included the approach taken to the triennial valuation at 31 March 2019.	During our work to assess the accuracy and completeness of the information provided to the actuary, we identified that the data initially submitted for April 2019 did not agree to payroll records. This was later corrected by the Council in a subsequent data submission to the actuary. The valuation of the Pension Fund's investment properties are also reported on the basis of 'material valuation uncertainty'. We referred to this material valuation uncertainty in our audit report Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls 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. 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.	As part of our audit work we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • reviewed and tested consolidation adjustments and intra-group elimination entries.	Our audit work did not identify any issues in respect of management override of controls.
Valuation and completeness of equal pay liability 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 and completeness of the Council's equal pay provision as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	As part of our audit work we have: • updated our understanding of the processes and controls put in place over the estimation of the equal pay liability, and evaluated the design of the controls in place; • evaluated the assumptions on which the estimate was based; • considered whether events or conditions exist that could have changed the basis of estimation; • on a sample basis, reperformed the calculation of the estimate; • assessed the accuracy and completeness of the information used to estimate the liability; • confirmed that the estimate has been determined and recognised in accordance with accounting standards; • determined how management have assessed the estimation uncertainty; and • considered the impact of any subsequent transactions or events.	The Council disclosed uncertainties in Note 33 in relation to the completeness of the equal pay provision. As in previous years, we referred to this uncertainty in our audit report. Our work did not identify any significant issues with the calculation of the appeals provision balance.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 8 January 2021.

Preparation of the financial statements

Management presented us with draft financial statements in August 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit Committee on 25 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in August 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We are in the process of carrying out work in line with instructions provided by the NAO. We have yet to complete this work and issue our assurance statement.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Birmingham City Council until we complete our work on the Council's WGA consolidation return.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matters we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Council resilience and financial sustainability At the time we completed our planning we considered that there was a risk that the proposed 2019/20 savings plans would not deliver the required recurrent savings, or would take longer to implement than planned. In addition, the Council's medium term financial plan for 2020-21 to 2023-24 needed 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.	As part of our work we have: • Gained an understanding of the progress made by the Council against previous recommendations, made by Grant Thornton and other bodies, and the work of the Strategic Programme Board and the Non-Executive Advisor for Financial Resilience; • Reviewed the Council's latest financial reports, monitoring report and savings plans trackers to establish how the Council is identifying, managing and monitoring these risks; • Evaluated the adequacy of reserves and the prudency of their use, as well as the transparency of financial reporting; • Challenged 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; • Assessed the Council's approval routes and their appropriateness and effectiveness; and • Gained an understanding of the work that the Council has done to assess and mitigate the impact of Covid-19 on its financial planning and resilience.	The Council has made progress in addressing our Statutory Recommendations, and the recommendations arising from CIPFA's financial management review. Actions have been taken to address key areas of overspend and under-delivery of savings, and the Council's outturn position was an underspend in 2019/20.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 (the 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 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 was ongoing at the time we completed our initial risk assessment. We therefore still considered this to be a significant risk for the purposes of our VFM work in 2019/20.	As part of our work we have: • Evaluated the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and assessing their reasonableness; • Gained an understanding of the associated funding arrangements; and • Gained an understanding of how the Council is identifying, managing and monitoring risks.	We have concluded that the projected cost overruns (more than 20% higher than the original planned cost) reported to Cabinet in March 2020, only nine months after the original Full Business Case was approved, are demonstrative of inadequate financial planning in the development of the original Full Business Case for the PBRS, which had been put together over a relatively short time period and, as a result, we are not satisfied that the Council has fully mitigated this risk during 2019/20. We have qualified our conclusion in respect of this.
Contractual arrangements relating to the highways PFI Scheme 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. We therefore still considered this to be a significant risk for the purposes of our VFM work in 2019/20. In February 2020, 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.	As part of our work we have: • Assessed the key risks faced by the Council, and established how the Council is identifying, managing and monitoring risks; • Gained an understanding of the procurement process undertaken by the Council for the interim service provision, and assessed its appropriateness; and • Gained an understanding of the procurement process underway for long-term service provision, and assessed its appropriateness.	There is a significant financial gap in the highways PFI contract over the remainder of its term, the full scale of which was not known to the Council until the end of the 2019/20 financial year. As a result of this, the Council has had to fundamentally change its approach to discussions with Birmingham Highways Limited regarding the subcontracting of the remainder of the agreement, and is considering significant changes to the PFI arrangements going forward. We have qualified our conclusion in respect of this.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Waste service continuity and industrial relations 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. Our 2018/19 VFM conclusion was qualified on this basis. 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.	As part of our work we have: • Gained an understanding of the progress made by the Council against previous recommendations, made by Grant Thornton and other bodies, and the work of the Strategic Programme Board and the Non-Executive Advisor for Waste Management and Industrial Relations; and • Evaluated the governance arrangements in place for the Waste Service	The Council has made progress in addressing our Statutory Recommendations, with phase 1 of the independent review reported to Cabinet in February 2020. There has been a significant improvement in the relationship between the Council and its trade union partners, as well as improvements in the performance of the waste service.
Contract monitoring and management The Council's internal audit function, Birmingham Audit, issued two separate reports during the 2019/20 year that highlight substantial issues and weaknesses relating to the management and monitoring of significant contracts. We therefore considered that these reports might be indicative of wider weaknesses in the Council's arrangements for contract monitoring and management, and considered this to be a significant risk for the purposes of our VFM work in 2019/20.	As part of our work we have: • Established and assessed the work done by the relevant directorates to address the findings contained in the reports issued by Birmingham Audit; • Challenged the Council over any potential wider impacts of the weaknesses; • Gained an understanding of the work being completed by the Council to improve the procurement service; and • Obtained copies of reports prepared through the use of external advisors, and evaluating the significance of their findings.	The Council is actively working to improve the quality and efficiency of its procurement service. Issues that were raised by Birmingham Audit have been addressed rapidly, and there are clear, proactive attempts being made to improve these areas. We have found no evidence of wider, systematic weaknesses in the Council's arrangements.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

Fees

	Planned £	Actual fees £
Council audit	297,409	333,659
Audit of subsidiary companies:		
• Acivico Limited	35,000	35,000
• NEC (Developments) plc	35,000	35,000
• PETPS subsidiaries	37,500	37,500
Total fees	**404,909**	**441,159**

Fees for non-audit services

Service	Fees £
Audit Related Services:	
• Certification of 2018/19 Housing Benefits Subsidy claim	29,500
• Certification of 2018/19 Teachers' Pension return	7,250
• Certification of 2018/19 Housing capital receipts grant	5,250
• ESFA agreed upon procedures 2018-19	5,000
• AMSCI reasonable assurance engagements	15,800
• Certification of 2019/20 Housing Benefits Subsidy claim	27,500
• Certification of 2019/20 Teachers' Pension return	7,500
Non-Audit Related Services:	
• CFO insights subscription (2018/19)	10,000
• CFO insights subscription (2019/20 - to 31 March 2020)	10,000
• CASS reporting for Finance Birmingham 2019	7,000

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £241,909 for the Council assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table on the next page.

Fee variations are subject to PSAA approval.

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor

B. Fee variations

Area	Reason	Fee proposed
Scale fee	Assuming that the scope of the audit does not significantly change	**£241,909**
Raising the bar	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 has entailed increased scoping and sampling.	£13,000
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	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.	£4,500
PPE Valuation – work of experts	We have engaged our own auditor 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.	£10,000
New standards and developments	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust.	£4,000
Local issues	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.	£20,000
Enhanced Audit Report	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.	£4,000
Impact of Covid-19 on the audit	Restrictions for non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit visit, which has led to the audit taking more time to complete than previous years.	£36,250
Total	Subject to PSAA approval	**£333,659**

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: The Chief Executive of Birmingham Children's Trust

Date of Meeting: 26 January 2021

Subject: Ombudsman Report concerning a complaint about Birmingham Children's Trust

Wards Affected: All

1. Purpose of Report

a) **In December 2006, the Audit Committee endorsed a framework for informing and involving Members of the Council when the Local Government and Social Care Ombudsman issues a report.**

b) **The aim of this report is to inform members about the Ombudsman's report, issued on 2 November 2020, concerning the Councils failure to recognise the Complainant and her partner as family and friend carers when a private fostering arrangement for Child C ended.**

c) **As the Ombudsman has found fault causing injustice and have made recommendations to remedy the injustice caused, it should be considered by this Committee on behalf of the City Council.**

**** Where the report refers to "the Council" it means the Council acting via commissioned Child Safeguarding Partner, Birmingham Children's Trust.***

2. Recommendations

That the Audit Committee notes Andy Couldrick, the Chief Executive of the Children's Trust response to the Local Government and Social Care Ombudsman's recommendations.

3. Background Information

3.1 A copy of the Local Government and Social Care Ombudsman's report dated 2 November 2020 is appended to this report. All Ombudsman reports are anonymous, so, whilst the events described are real, the names of those involved are not included.

3.2 The essence of the complaint is that the Council:

- Ms X complains the Council failed to recognise her and her partner as family and friends carers when a private fostering arrangement for Child C ended. As a result, she says they did not receive the protection of being recognised as family and friends carers. They also did not receive any financial support from the Council to care for C.

- The Councils failed to recognise the Complainant and her partner as family and friend carers when a private fostering arrangement for Child C ended.

4. The Key Events

4.1 In September 2016, C's mother approached a local children's centre for support. She had recently been diagnosed with a terminal illness. She had no family in the country to care for her child and was worried about what might happen to her. C's father lived abroad and had little contact with C or her mother. The children's centre made a referral to the Council for support. C was 9 at the time. Though she was born in the UK, she was not a British citizen. She had leave to remain in the country until December 2018.

A social worker visited C's mother in early October. Ms X was there. The social worker noted Ms X would consider caring for C with the support of children's services but was not sure if she could provide permanent care. The social worker noted C was not being cared for in a private fostering arrangement because she remained in her mother's care.

The Council carried out an assessment, which it completed in December 2016. The assessment recommended the case should be closed to children's social care. A family support worker continued to support C into the new year.

C began spending more time with Ms X and her family. In February 2017, Ms X became aware that C's father was named on her birth certificate and so held parental responsibility. At Ms X's request, C's father confirmed to her mother in writing that he supported Ms X and her family caring for C. Ms X became concerned C's father would return to the UK to seek custody and did not want to become involved in such proceedings. She told the Council it would need to find another placement for C.

Following a home visit in March, the social worker noted Ms X and her partner had agreed to support C under a private fostering arrangement while the Council made further enquiries. Social work records at the end of March note, "Carers are happy to care for [C] under a private fostering arrangement for the interim time and would then like to be assessed as connected persons [family and friends carers] in the event that mother passes away."

C's mother died in early April. The Council carried out a private fostering assessment in May. The assessment noted:

- Ms X and her partner agreed to be private foster carers while C's mother was alive but did not agree to remain private foster carers long-term;
- Ms X and her partner wished to care for C as family and friends foster carers with support from the Council;
- the Council did not propose to seek a care order for C and her father had agreed to the private fostering placement continuing;
- C's mother had asked her father to care for C and he had said no;
- C did not wish to live with her father;

The Council advised Ms X to apply for a child arrangement order for C so she could share parental responsibility with C's father. Ms X declined as she did not want to continue caring for C on a private arrangement. She kept this position throughout. The assessment decided the placement was a private fostering arrangement and recommended it continue.

In July, C's father raised concerns with the Council about a lack of contact with his daughter. The social worker emailed C's father and Ms X, advising them to arrange contact between themselves. C repeated her request for contact in September.

In October, the social worker overseeing the private fostering arrangement discussed the case with her manager. The manager's view was that Ms X should apply for a child arrangement order.

In December, the Council held a legal planning meeting. It decided C was not at risk of significant harm. The Council decided to support Ms X with an application for a special guardianship order and to commission an assessment of C's father. C's father underwent an assessment, and he expressed a wish for C to live with him and his family abroad.

4.2 At the start of 2018, Ms X told the Council she could not continue to care for C under the current arrangements. C's father withdrew his agreement to the private fostering arrangement. The Council said it needed to consider whether C could return to her father's care.

In February and April, C's father raised concerns about the lack of contact with his daughter. The Council told him to seek legal advice.

By April the Council still believed that C's case did not meet the threshold to apply for a care order because she was receiving a good standard of care. The Council had decided not to continue an assessment of the person put forward by C's father to care for her because of concerns about them. The Council decided to tell C's father to seek legal advice to return his child to his care.

In May, C said she was not sure if she wanted to have contact with her father. By August, she told her social worker she did not want contact with him.

Ms X engaged a solicitor to apply for citizenship for C so she could remain in the UK, costing almost £3,000. The money came from a trust fund C's mother had set up for her before she died.

By October, C's father had not sought further legal advice. He had agreed to a DNA test to confirm his paternity but Ms X said there was nobody with parental responsibility to consent to the test.

By November, C had not had contact with her father for almost a year. She told her social worker again that she no longer wanted to have contact with him.

In December, the Council decided to make an application to make C a ward of court. This would allow the court to share parental responsibility for her and consent to the DNA test taking place. In the same month, Ms X completed the application for C's citizenship, which was granted in March the following year.

4.3 At a planning meeting Ms X attended in January 2019, the Council noted "[team manager] said that as far as [the Family and Friend Care Team] is concerned this is not a private fostering arrangement as [Ms X and partner] are not in agreement with it and it has not been arranged with a parent either but it was agreed that they should continue their monitoring visits for the time being."

In March 2019, C was made a ward of court, enabling the court to make decisions about her welfare. Ms X was not advised of the first court hearing at which this decision was made. The court consented to a DNA test which confirmed C's father's paternity. However, during these proceedings Ms X told the Council it had disclosed personal data about her family to C's father's solicitor. Ms X and her partner felt the risk posed by C's father meant they could no longer safely care for C. The Council applied for an interim care order and C moved into another foster placement in May.

Ms X's complaint was investigated at all stages of the children's statutory complaints procedure. In its response following the stage three review panel, the Council said it would consider any request to pay back spending from C's trust fund.

5. The Ombudsman's Findings - Fault found causing injustice

5.1 A private fostering arrangement can only continue if both the private foster carers and a person holding parental responsibility for the child agree to it. Ms X was clear with the Council that her agreement to privately foster C lasted only until C's mother died. The Council later accepted the placement could not be considered private fostering. The placement therefore ceased to be a private fostering arrangement from April 2017.

5.2 From this point, C was an unaccompanied child. The Council decided C's case did not meet the threshold to act to safeguard her. C was vulnerable in several ways. This included her age; no one having parental responsibility in the UK; no further action being taken by her carers or her father to secure her legal status; her traumatic past; and her uncertain immigration status.

5.3 The Council failed to secure specialist legal advice for C despite knowing her leave to remain was ending. This was fault and resulted in Ms X having to use significant sums of money from a trust fund left by C's mother to resolve her immigration status.

5.4 As a result of the Council's actions, C spent over two years in a placement that was legally insecure.

5.5 The Council's failure to recognise Ms X and her partner as family and friends foster carers means they missed out on the financial and practical support which they would have been entitled to. They have experienced prolonged frustration at the Council's refusal to consider them as anything other than private foster carers. They have also dealt with the stress of meeting C's needs, securing her residence and citizenship, and pursuing their complaint.

6. The Ombudsman's Recommendations

6.1 Within one month of the date of the final report, to remedy the injustice caused the LGSCO have recommend that the Council carry the following out:

• apologise to C for not acting sooner to secure her legal status and address the issues with contact, and pay her £1,000 for the uncertainty and distress this caused;

• apologise to Ms X and her partner for failing to assess them as family and friends carers, and pay them £1,000 for the frustration caused by this. This payment also recognises the stress caused by having to secure C's immigration status, and pursuing their complaint;

• pay Ms X and her partner the allowances they would have received as family and friends carers, minus any benefits they received to care for C. Ms X should provide evidence of benefits received before the payment is made. This should cover the period from April 2017 when C's mother died to May 2019 when C moved to another placement;

• on the production of evidence of costs by Ms X, make a payment to C's trust fund to cover the cost of her application for leave to remain and citizenship;

• add copies of the stage two investigation report and adjudication, the stage three panel report and adjudication, and this decision to C's records for her reference in the future;

• remind social workers that private fostering arrangements are voluntary and subject to the agreement of a person with parental responsibility and the willingness of the private foster carer;

• remind social workers of their responsibility to promote contact between children in private fostering arrangements and their parents.

6.2 Within three months of the date of this report, we recommend the Council:

• review all open private fostering cases to ensure it has documented: the readiness of the carer to continue caring; the expected duration of the placement; the arrangements to support the child financially; and that arrangements for contact are satisfactory;

• review open cases of unaccompanied children to ensure it is offering the support outlined in the statutory guidance, 'Care of unaccompanied migrant children and child victims of modern slavery,' especially regarding the child's immigration status.

• share the outcome of both reviews with the LGSCO.

7. The Council's View

7.1 The Council accepted the Ombudsman's recommendations at the draft report stage.

7.2 While this case identified a number of practice issues, the pivotal issue concerned the legal status of the placement of the young person with the complainant. In the Trust's responses to the Ombudsman, it was acknowledged that the placement was incorrectly treated as a private fostering arrangement. Steps should have been taken to ensure that there was somebody who could exercise parental responsibility for the young person, given that her mother had passed away in April 2017 and her father was overseas (and unable to return to the country).

7.3 Practice regarding private fostering arrangements has evolved significantly since the creation of the Trust in April 2018. A review of private fostering cases was undertaken in December 2018 as part of the preparation for an Ofsted inspection, which found all cases to be lawful and appropriate. However, it is recognised that other children and young people may potentially be in the same or a similar situation to the young person in this case.

7.4 In addition to undertaking a review of all current/open private fostering cases (see 10.2 below), steps will be taken to ensure that all future complaints concerning private fostering arrangements are immediately brought to the attention of the Trust's Executive Group. This will ensure there is appropriate senior scrutiny of private fostering complaints, which should in turn minimise the likelihood of any similar complaints in the future.

8. Legal and Resource Implications

The agreed payments will be made from an appropriate budget.

9. Risk Management & Equality Impact Assessment Issues

9.1 It is crucial that practice with regard to private fostering arrangements complies with case law (and relevant local/national guidance). The failure to comply invites the possibility of further complaints to the Local Government Ombudsman and the potential for litigation against the Trust. While both of these possibilities present an obvious financial risk, there is also a reputational risk due to negative media coverage associated with a maladministration report.

9.2 In addition, this case has identified a young person who should have been – but was not – taken into care. The consequence of this is that the young person did not receive the support and protections which any "looked after child" could reasonably expect to receive. This is also a key risk. As an organisation, the Trust is committed to ensuring the best possible outcomes for children and young people, and that they receive all of the support which they are entitled to.

9.3 It is anticipated that the steps that Trust has taken or is in the process of taking will mitigate the risks which have been identified.

10. Compliance Issues

10.1 Following the receipt of the Ombudsman's final report, The Trust has taken prompt action to comply with the recommendations made by the Ombudsman. These actions include:

- Letters of apology have been issued to the complainant and the young person by the Chief Executive of Birmingham Children's Trust, Andy Couldrick.
- The compensation payments have been made or are currently being processed.
- A briefing has been issued to all Heads of Service in relation to the Ombudsman's investigation. Heads of Service have been directed to remind their respective teams that private fostering arrangements are voluntary and subject to the agreement of a person with parental responsibility and the willingness of the private foster carer;
- All relevant documents from the complaint file have been added to the young person's social work file so she may be able to access the details of the complaint in the future.

10.2 In addition, the Trust has commenced the following further actions as a result of this complaint:

- A review of all open private fostering cases to ensure that the arrangement is appropriate and all pertinent information relating to the arrangement is clearly documented on the case file;

- A review of all open unaccompanied children cases to ensure that The Trust is offering support in accordance with statutory guidance.

11. Recommendations

That the Audit Committee notes the actions being taken in response to the Local Government and Social Care Ombudsman's report.

Contact officer:	**Dawanna Campbell, Acting Assistant Practice Manger, Legal and Governance**
e-mail address:	**Dawanna.Campbell@birmingham.gov.uk**
Trust representative:	**Andy Couldrick, Chief Executive of Birmingham Children's Trust**
e-mail address:	**Andy.Couldrick@Birminghamchildrenstrust.co.uk**

Item 13

Local Government &
Social Care
OMBUDSMAN

Report by the Local Government and Social Care Ombudsman

Investigation into a complaint against Birmingham City Council (reference number: 19 005 305)

2 November 2020

The Ombudsman's role

For more than 40 years the Ombudsman has independently and impartially investigated complaints. We effectively resolve disputes about councils and other bodies in our jurisdiction by recommending redress which is proportionate, appropriate and reasonable based on all the facts of the complaint. Our service is free of charge.

Each case which comes to the Ombudsman is different and we take the individual needs and circumstances of the person complaining to us into account when we make recommendations to remedy injustice caused by fault.

We have no legal power to force councils to follow our recommendations, but they almost always do. Some of the things we might ask a council to do are:

> apologise

> pay a financial remedy

> improve its procedures so similar problems don't happen again.

Section 30 of the 1974 Local Government Act says that a report should not normally name or identify any person. The people involved in this complaint are referred to by a letter or job role.

Key to names used

Ms X	The complainant
C	Child Ms X cared for

Report summary

Family and friends carers

Ms X complains the Council failed to recognise her and her partner as family and friends carers when a private fostering arrangement for Child C ended.

Finding

Fault found causing injustice and recommendations made.

Recommendations

To remedy the injustice caused, we recommend the Council:

- apologise to C for not acting sooner to secure her legal status and address the issues with contact, and pay her £1,000 for the uncertainty and distress this caused;
- apologise to Ms X and her partner for failing to assess them as family and friends carers, and pay them £1,000 for the frustration caused by this. This payment also recognises the stress caused by having to secure C’s immigration status, and pursuing their complaint;
- pay Ms X and her partner the allowances they would have received as family and friends carers, minus any benefits they received to care for C. Ms X should provide evidence of benefits received before the payment is made. This should cover from April 2017 when C’s mother died to May 2019 when C moved to another placement;
- on the production of evidence of costs by Ms X, make a payment to C’s trust fund to cover the cost of her application for leave to remain and citizenship;
- add copies of the stage two investigation report and adjudication, the stage three panel report and adjudication, and this decision to C’s records for her reference in the future;
- remind social workers that private fostering arrangements are voluntary and subject to the agreement of a person with parental responsibility and the willingness of the private foster carer;
- remind social workers of their responsibility to promote contact between children in private fostering arrangements and their parents;
- review all open private fostering cases to ensure it has documented: the readiness of the carer to continue caring; the expected duration of the placement; the arrangements to support the child financially; and that arrangements for contact are satisfactory; and
- review open cases of unaccompanied children to ensure it is offering the support outlined in the statutory guidance, ‘Care of unaccompanied migrant children and child victims of modern slavery,’ especially regarding the child’s immigration status.
- share the outcome of both reviews with us.

The complaint

1. Ms X complains the Council failed to recognise her and her partner as family and friends carers when a private fostering arrangement for Child C ended. As a result, she says they did not receive the protection of being recognised as family and friends carers. They also did not receive any financial support from the Council to care for C. Ms X is looking for an apology, recognition and payment as family and friends carers for the period they cared for C after her mother died, and an improvement in the Council's procedures.

Legal and administrative background

The Ombudsman's role and powers

2. We investigate complaints about 'maladministration' and 'service failure'. In this report, we have used the word 'fault' to refer to these. We must also consider whether any fault has had an adverse impact on the person making the complaint. We refer to this as 'injustice'. If there has been fault which has caused an injustice, we may suggest a remedy. ***(Local Government Act 1974, sections 26(1) and 26A(1), as amended)***

3. We may investigate matters coming to our attention during an investigation, if we consider that a member of the public who has not complained may have suffered an injustice as a result. ***(Local Government Act 1974, section 26D and 34E, as amended)***

4. Under the information sharing agreement between the Local Government and Social Care Ombudsman and the Office for Standards in Education, Children's Services and Skills (Ofsted), we will share this report with Ofsted.

Private fostering

5. A private fostering arrangement is made without involving a council. A child is privately fostered if they are cared for by someone other than a parent or close relative for 28 days or more.

6. Private foster carers are responsible for the day-to-day care of a child. Responsibility for safeguarding and promoting the welfare of the child remains with the parent.

7. The Department for Education has published statutory guidance on private fostering, 'Replacement Children Act 1989 Guidance on Private Fostering,' which outlines councils' responsibilities to privately fostered children, their parents and their carers.

8. Councils have a duty to satisfy themselves the welfare of children who are or will be privately fostered is safeguarded and promoted.

9. Councils also have a duty to find out the arrangements for contact between the child and its parents. If arrangements for contact are not satisfactory for the child, councils should discuss this with the private foster carer and birth parent where possible.

10. Councils must check the private foster carer and the parents have agreed financial arrangements for the care and maintenance of the child. They must also ensure the parents and the proposed carer understand and agree the intended duration of the private fostering arrangement. Statutory guidance about family and friends care says the duration of a private fostering arrangement is "subject to the

discretion of a person with parental responsibility and the readiness of the private foster carer."

11. Councils should visit every privately fostered child at least every six weeks for the first year of the arrangement, then at least every 12 weeks in the following years.

Family and friends carers

12. Section 20 of the Children Act 1989 says councils should provide accommodation to any child in need within their area who needs it, because:

- there is nobody with parental responsibility to care for them;
- they have been lost or abandoned; or
- the person who has been caring for them being prevented from providing suitable accommodation or care.

13. Councils cannot accommodate a child under section 20 if a person holding parental responsibility objects and is willing and able to care for the child or arrange care for the child.

14. Councils need to distinguish between private arrangements made between parents and carers, and arrangements in which the child is accommodated under the Children Act 1989 and so is a looked after child.

15. When a child needs to be accommodated, the law says councils should consider placing them with family or friends first. Family and friends foster carers can receive a fostering allowance and other practical support from the council.

16. The courts have considered whether arrangements for a child to live with a relative or friend are truly a private arrangement. In a key case (London Borough of Southwark v D [2007] EWCA Civ 182), the Court said where a council has taken a major role in arranging for the friend or relative to care for the child, it is likely to have been acting under its duties to provide the child with accommodation.

17. The Court considered a private fostering arrangement might allow a council (otherwise likely to have had to provide accommodation for a child), to 'side-step' that duty. For a council to side-step its duty, it must have given the carer enough information to allow them to give their 'informed consent' to accepting a child under a private fostering arrangement. To do this the carer must have known, because of what the council told them, that the child's parent would continue to be financially responsible. Without that informed consent, the council could not side-step its duty.

18. In 2013, we published a focus report, 'Family Values: Council services to family and friends who care for others' children'. The report highlighted common faults in councils' handling of cases where children were living with family and friends. This included councils failing to recognise they had a duty to accommodate a child and gaining agreement to an informal family and friends care arrangement under duress.

Unaccompanied migrant children

19. Councils have a duty to protect and support unaccompanied migrant children. This includes children who may have begun life in the UK with family and those who may have parents and family members abroad. The Department for Education has published statutory guidance, 'Care of unaccompanied migrant children and child victims of modern slavery,' which sets out these responsibilities in more detail.

20. All those involved in the care of unaccompanied children should be able to recognise and understand the particular issues they face. The child may be affected by their experiences, vulnerabilities and immigration status. This may also have an impact on their assessment, care planning and delivery.

21. Social workers should access specialist immigration legal advice and representation for all unaccompanied children to ensure the child can fully present their case for asylum or leave to remain.

How we considered this complaint

22. We produced this report after considering the complaint made by Ms X and the documents she provided; and the Council's comments about the complaint and the documents it provided in response to our enquiries.

23. We gave the complainant and the Council a confidential draft of this report and invited their comments. We took any comments received into account before the report was finalised.

What we found

What happened

2016

24. In September 2016, C's mother approached a local children's centre for support. She had recently been diagnosed with a terminal illness. She had no family in the country to care for her child and was worried about what might happen to her. C's father lived abroad and had little contact with C or her mother. The children's centre made a referral to the Council for support.

25. C was 9. Though she was born in the UK, she was not a British citizen. She had leave to remain in the country until December 2018. According to Ms X and others who knew her, C's mother had shared information which suggested C's father was a dangerous man. Ms X's parents had known C and her mother for several years.

26. The Council assigned a family support worker and arranged a professionals meeting. Ms X attended the meeting. Ms X had been introduced to C and her mother as a potential carer for C by her parents, who had been asked to care for C but felt unable to due to their age. Ms X said she may be able to care for C permanently but needed to discuss this more with her family. She approached a local fostering agency to express her interest in fostering C.

27. A few days later, C's school told the Council that C was being cared for under a private fostering arrangement with somebody else. It was unclear when her mother might be well enough to resume caring for her.

28. The records show the Council decided to carry out a family assessment to "ensure that a clear private care plan is in place to ensure that C's day-to-day needs are met." The Council noted that if the assessment could not identify someone to care for C, it would need to take further action to safeguard and promote C's welfare.

29. A social worker visited C's mother in early October. Ms X was there. The social worker noted Ms X would consider caring for C with the support of children's services but was not sure if she could provide permanent care. The social worker

noted C was not being cared for in a private fostering arrangement because she remained in her mother's care.

30. The Council carried out an assessment, which it completed in December. The assessment noted:

- C had not seen her father since she was a baby but had some recent contact with him over Skype;
- C's mother was seeking support in making arrangements for C before she died;
- C's father had been refused permission to enter the UK; and
- Ms X had agreed to be C's legal guardian when her mother died.

The assessment recommended the case should be closed to children's social care.

31. A family support worker continued to support C into the new year and her school arranged some therapeutic support for her. Her mother received continuing support from adult social care and the local hospice.

2017

32. C began spending more time with Ms X and her family. In February 2017, Ms X became aware that C's father was named on her birth certificate and so held parental responsibility. Ms X sought legal advice which said she could not be C's legal guardian. At Ms X's request, C's father confirmed to her mother in writing that he supported Ms X and her family caring for C. He cited her mother's ill health and his inability to travel to the UK. However, Ms X became concerned C's father would return to the UK to seek custody and did not want to become involved in such proceedings. She told the Council it would need to find another placement for C.

33. Following a home visit in March, the social worker noted Ms X and her partner had agreed to support C under a private fostering arrangement while the Council made further enquiries. C's mother signed an agreement to allow Ms X to arrange some medical and dental treatment for C and completed a written notice that C was privately fostered. The written notice did not include any decision about the duration of the placement. Social work records at the end of March note, "Carers are happy to care for [C] under a private fostering arrangement for the interim time and would then like to be assessed as connected persons [family and friends carers] in the event that mother passes away."

34. C's mother died in early April.

35. The Council carried out a private fostering assessment in May. The assessment noted:

- Ms X and her partner agreed to be private foster carers while C's mother was alive but did not agree to remain private foster carers long-term;
- Ms X and her partner wished to care for C as family and friends foster carers with support from the Council;
- the Council did not propose to seek a care order for C and her father had agreed to the private fostering placement continuing;
- C's mother had asked her father to care for C and he had said no;
- C did not wish to live with her father;

- there was nobody in the country with parental responsibility;
- Ms X and her partner could meet C's needs;
- a permanent plan for C's long-term care needed to be agreed.

36. The Council advised Ms X to apply for a child arrangement order for C so she could share parental responsibility with C's father. Ms X declined as she did not want to continue caring for C on a private arrangement. She kept this position throughout. The assessment decided the placement was a private fostering arrangement and recommended it continue.

37. In July, C's father raised concerns with the Council about a lack of contact with his daughter. C told her social worker during a home visit that she had not spoken to her father because her carers had changed their telephone number, but she would like to speak to him. The social worker emailed C's father and Ms X, advising them to arrange contact between themselves. C repeated her request for contact in September.

38. In October, the social worker overseeing the private fostering arrangement discussed the case with her manager. Ms X had recently complained about the Council's decision not to seek a care order for C. Ms X said C's father was not in support of her applying for any order and had put forward an alternative carer for assessment. The manager's view was that Ms X should apply for a child arrangement order. They told the social worker to contact C's father to send him information about private fostering and his responsibilities.

39. In December, the Council held a legal planning meeting. It decided C was not at risk of significant harm. The Council decided to support Ms X with an application for a special guardianship order and to commission an assessment of C's father.

40. C's father underwent an assessment, and he expressed a wish for C to live with him and his family abroad.

2018

41. At the start of 2018, Ms X told the Council she could not continue to care for C under the current arrangements. C's father withdrew his agreement to the private fostering arrangement. The Council said it needed to consider whether C could return to her father's care.

42. In February and April, C's father raised concerns about a lack of contact with his daughter. The last telephone contact took place in December, and the carers said they had emailed him in January with no response. The Council told him to seek legal advice.

43. By April the Council still believed that C's case did not meet the threshold to apply for a care order because she was receiving a good standard of care. The Council had decided not to continue an assessment of the person put forward by C's father to care for her because of concerns about them. The Council decided to tell C's father to seek legal advice to return his child to his care.

44. In May, C said she was not sure if she wanted to have contact with her father. By August, she told her social worker she did not want contact with him.

45. Ms X engaged a solicitor to apply for citizenship for C so she could remain in the UK, costing almost £3,000. The money came from a trust fund C's mother had set up for her before she died.

46. By October, C's father had not sought further legal advice. He had agreed to a DNA test to confirm his paternity but Ms X said there was nobody with parental

responsibility to consent to the test. At another legal planning meeting, the Council suggested telling the carers if they did not allow the DNA testing to go ahead, they needed to seek a private court order to keep C in their care. Alternatively, she would be deported when her visa expired the following month. C was 11 years old at the time. The Council noted neither the carers nor C's father were taking responsibility for resolving the matter despite being offered funding to secure independent legal advice.

47. By November, C had not had contact with her father for almost a year. She told her social worker again that she no longer wanted to have contact with him.

48. In December, the Council decided to make an application to make C a ward of court. This would allow the court to share parental responsibility for her and consent to the DNA test taking place. In the same month, Ms X completed the application for C's citizenship, which was granted in March the following year.

2019

49. At a planning meeting Ms X attended in January, the Council noted "[team manager] said that as far as [the Family and Friend Care Team] is concerned this is not a private fostering arrangement as [Ms X and partner] are not in agreement with it and it has not been arranged with a parent either but it was agreed that they should continue their monitoring visits for the time being."

50. In March 2019, C was made a ward of court, enabling the court to make decisions about her welfare. Ms X was not advised of the first court hearing at which this decision was made. The court consented to a DNA test which confirmed C's father's paternity. However, during these proceedings Ms X told the Council it had disclosed personal data about her family to C's father's solicitor. Ms X and her partner felt the risk posed by C's father meant they could no longer safely care for C. The Council applied for an interim care order and C moved into another foster placement in May.

51. Ms X's complaint was investigated at all stages of the children's statutory complaints procedure. In its response following the stage three review panel, the Council said it would consider any request to pay back spending from C's trust fund. In response to our enquiries, the Council said it had not yet received this information from Ms X. The Council did not agree to make any backdated payments for the period Ms X and her family cared for C.

52. In its response to our enquiries, the Council recognised it could have done more to promote contact between C and her father. It also accepts it could have acted sooner to resolve the dispute about C's father's paternity.

Conclusions

53. A private fostering arrangement can only continue if both the private foster carers and a person holding parental responsibility for the child agree to it. Ms X was clear with the Council that her agreement to privately foster C lasted only until C's mother died. The Council later accepted the placement could not be considered private fostering. The placement therefore ceased to be a private fostering arrangement from April 2017.

54. From this point, C was an unaccompanied child. The Council decided C's case did not meet the threshold to act to safeguard her. But C was vulnerable in several ways. This included her age; no one having parental responsibility in the

UK; no further action being taken by her carers or her father to secure her legal status; her traumatic past; and her uncertain immigration status.

55. C’s placement with Ms X was at risk of breaking down throughout this period. This was because Ms X no longer agreed to privately foster, and C’s father withdrew his own consent to the placement in early 2018. The Council did not consider its legal options to secure C’s status in a timely way and this was fault.

56. The Council failed to secure specialist legal advice for C despite knowing her leave to remain was ending. It discussed using the threat of deportation to coerce Ms X into seeking a court order and allowing C to have a DNA test. This was fault and resulted in Ms X having to use significant sums of money from a trust fund left by C’s mother to resolve her immigration status.

57. The Council carried out one assessment of C’s needs before her mother died. It did not carry out any further assessments despite the significant change in C’s circumstances and the uncertainty over her living arrangements which began in February 2017. Given C’s mother was still alive then, she could have contributed her views on C’s future and arrangements for C’s care after her death. This was a missed opportunity to assess C’s wellbeing and make informed decisions about meeting her needs and was fault. The situation continued for a further two years with no certainty or long-term plan for C.

58. The Council was aware of difficulties over contact with C’s father. It did not act to address this with him or with Ms X, or to look for ways to overcome these difficulties. This was fault and resulted in long periods in which C had no contact with her father despite them both expressing a wish to do so.

Injustice

59. As a result of the Council’s actions, C spent over two years in a placement that was legally insecure. She was not recognised as a looked after child and therefore missed out on the additional support and protections that come with this. She lost contact with her only remaining relatives and was at risk of being deported due to her fragile immigration status. She lost significant sums from the trust fund provided by her mother. Despite her vulnerabilities and the significant upheaval in her life following her mother’s death, her needs remained unassessed and potentially unmet.

60. The Council’s failure to recognise Ms X and her partner as family and friends foster carers means they missed out on the financial and practical support which they would have been entitled to. They have experienced prolonged frustration at the Council’s refusal to consider them as anything other than private foster carers. They have also dealt with the stress of meeting C’s needs, securing her residence and citizenship, and pursuing their complaint.

Recommendations

61. Within one month of the date of this report, to remedy the injustice caused we recommend the Council:

- apologise to C for not acting sooner to secure her legal status and address the issues with contact, and pay her £1,000 for the uncertainty and distress this caused;
- apologise to Ms X and her partner for failing to assess them as family and friends carers, and pay them £1,000 for the frustration caused by this. This

payment also recognises the stress caused by having to secure C's immigration status, and pursuing their complaint;

- pay Ms X and her partner the allowances they would have received as family and friends carers, minus any benefits they received to care for C. Ms X should provide evidence of benefits received before the payment is made. This should cover the period from April 2017 when C's mother died to May 2019 when C moved to another placement;
- on the production of evidence of costs by Ms X, make a payment to C's trust fund to cover the cost of her application for leave to remain and citizenship;
- add copies of the stage two investigation report and adjudication, the stage three panel report and adjudication, and this decision to C's records for her reference in the future;
- remind social workers that private fostering arrangements are voluntary and subject to the agreement of a person with parental responsibility and the willingness of the private foster carer;
- remind social workers of their responsibility to promote contact between children in private fostering arrangements and their parents.

62. Within three months of the date of this report, we recommend the Council:

- review all open private fostering cases to ensure it has documented: the readiness of the carer to continue caring; the expected duration of the placement; the arrangements to support the child financially; and that arrangements for contact are satisfactory;
- review open cases of unaccompanied children to ensure it is offering the support outlined in the statutory guidance, 'Care of unaccompanied migrant children and child victims of modern slavery,' especially regarding the child's immigration status.
- share the outcome of both reviews with us.

63. The Council must consider the report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this. ***(Local Government Act 1974, section 31(2), as amended)***

Decision

64. We have completed our investigation into this complaint. There was fault by the Council which caused injustice to Ms X and to C. The Council should take the action identified in paragraphs 61 to 63 to remedy that injustice.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

26 JANUARY 2021

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.
246 20/10/2020	**Assurance Session – Deputy Leader's Portfolio** Additional recommendation added following discussions. ii) That the committee be provided with the total cost so far for the work to make the Council GDPR compliant.	Response provided by the Director for Digital & Customer Services shared at the 25 November 2020 Committee. **Completed & discharged**
257 25/11/2020	**STATEMENT OF ACCOUNTS 2019/20** **Additional Recommendations:** iii) Approved the Statement of Accounts for 2019/20 subject to external audit clearance of any outstanding issues. In addition, agreed the following process for the Committee to approve the Statement of Accounts 2019/2020; • The External Auditors clearance of any outstanding issues will be notified to Members via email. • Members will be given the opportunity to study the External Audit clearance. • Members to notify the Chair if any of the issues have been identified from the External Auditor that requires an emergency Audit Committee to be held. • Otherwise, the delegation of the sign off the accounts to the Chair of the Audit Committee and S151 Finance Officer.	Briefing was arranged on 7th January 2021 for Committee Members. Members agreed for the Statement of Accounts 2019/20 to be signed by the S151 Officer and Chair of the Audit Committee under delegated authority.

	iv) Noted that officers will arrange a briefing for Councillor Morrall to discuss Senior Officers' Remuneration table within the Statement of Accounts – (Non- disclosure of names and GDPR related concerns).	Briefing was arranged for Councillor Morrall on 4th December 2020 with legal officers.
260 25/11/2020	**<u>Independent Advisor to Audit Committee</u>** **<u>Additional Recommendation:</u>** iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role.	 Sarah Dunlavey to advise.