Members are reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 15 MARCH 2016 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 **NOTICE OF RECORDING**

Chairman to advise meeting to note that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 **APOLOGIES**

To receive any apologies.

5 - 12 3 **MINUTES - 26 JANUARY 2016 (PUBLIC)**

To note the public part of the Minutes of the last meeting.

4 **MATTERS ARISING**

To discuss matters arising.

13 - 20 5 **SCHOOLS PRIVATE FINANCE INITIATIVE**

Item Description

21 - 80 6 **CORPORATE RISK REGISTER UPDATE**

Report of Acting Assistant Director, Audit & Risk Management

81 - 84 7 **RISK MANAGEMENT PROCESS**

Item Description

85 - 90 8 **BIRMINGHAM AUDIT - PROPOSED INTERNAL AUDIT PLAN 2016/17**

Report of Acting Assistant Director - Audit & Risk Management

91 - 112 9 **ANNUAL GOVERNANCE STATEMENT - PROGRESS**

Report of the Strategic Director - Finance & Legal

113 - 138 10 **GRANT THORNTON - AUDIT PLAN 2015/16**

Report of the External Auditor

139 - 164 11 **INFORMING THE AUDIT RISK ASSESSMENT**

Report of the external auditor

165 - 180 12 **GRANT THORNTON - PROGRESS REPORT AND UPDATE YEAR ENDED 31 MARCH 2016**

Report of the External Auditor.

181 - 208 13 **ADOPTION OF ACCOUNTING POLICIES FOR 2015/16**

Report of the Strategic Director - Finance & Legal

209 - 226 14 **LEARNING FROM COMPLAINTS**

Report of Service Director, Customer Services

227 - 228 15 **RISK BASED VERIFICTION FOR HOUSING BENEFIT AND COUNCIL TAX SUPPORT CLAIMS - PUBLIC**

Report of the Service Director, Customer Services

16 **FUTURE AGENDA ITEMS**

To consider any future agenda items.

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 Chair jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

19 **EXCLUSION OF THE PUBLIC**

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:-

Minutes - Exempt Paragraphs 3 and 7

P R I V A T E   A G E N D A

20 **MINUTES - 26 JANUARY 2016 (PRIVATE)**

Item Description

21 **RISK BASED VERIFICATION FOR HOUSING BENEFIT AND COUNCIL TAX SUPPORT CLAIMS - PRIVATE**

Item Description

22 **OTHER URGENT BUSINESS (EXEMPT INFORMATION)**

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.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
26 JANUARY 2016

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 26 JANUARY 2016 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Burden in the Chair;

Councillors Afzal, Henley, Rice, Robinson, Tilsley and Wood.

****

NOTICE OF RECORDING

846 The Chairman advised, and the Committee noted, that members of the press/ public could record and take photographs except where there were confidential or exempt items.

MINUTES

The Chairman in referring to Minute No 841, advised that the last sentence of the last paragraph should read 'It was felt **that** this point was covered fully in the governance statement.'

847 **RESOLVED**:-

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

MATTERS ARISING

848 The Chairman advised that updates had been circulated to Members on various issues raised at the last meeting.

BIRMINGHAM INDEPENDENT IMPROVEMENT PANEL UPDATE

849 Frances Done, Birmingham Independent Improvement Panel (BIIP), gave a verbal update:-

1. She referred to the recommendations of the Kerslake Report and outlined the role of the BIIP.

2. Regular progress reports were submitted by the BIIP to the Secretary of State for Communities and Local Government, the most recent letter being sent on 11 January 2016.

3. The BIIP had recently met with the Corporate Leadership Team regarding the Council's progress in addressing the issues raised within the Kerslake Report.

4. The BIIP was due to submit an assessment in March 2016 to the Secretary of State for Communities and Local Government.

5. The Kerslake Report had evolved into the Future Council Programme.

6. There was a strong feeling that came across that the Council was 'risk averse'. She referred to risk management and the role of the Audit Committee.

Councillor Tilsley declared an interest as Chairman of the Audit Committee for Birmingham Airport which was detailed in the report on group company governance due to be considered later in the meeting.

The following were amongst the points made by Members:-

1. The Audit Committee should not duplicate the work of other committees.

2. The Committee comprised elected councillors and it was difficult to maintain continuity of Members serving thereon.

3. It was important to ensure that all risks were covered and 'owned' and that there was a sufficiently robust risk register in place.

4. Being 'risk averse' was a cultural issue. There needed to be a move towards a simpler and less bureaucratic way of working. One of the biggest risks at present related to the operation of partnership and contract documents.

5. The Audit Committee provided a formal method of challenging the Executive.

6. A review of governance to look at past successes, the current situation and future proposals was suggested.

7. There was a need for cultural change and the establishment of a Combined Authority was welcomed. It was important to build up a level of trust.

8. There was sometimes a misuse of the word 'partnership' as often the Council had actually 'procured' a service.

9. It would be useful to have a clear idea as to which committees should be challenging certain risks. The Committee was due to receive an update of the corporate risk register in March 2016 and it was suggested that the future role of the Audit Committee could be considered at that meeting.

Frances Done responded to Members' questions and the following were amongst the points made:-

1. The Audit Committee fulfilled a very important role.

2. It was very important for the Council to be open in all matters. The Council had an obligation to be accountable in many different ways.

3. It was important to learn from Kerslake.

4. It was recognised that cross party working on some issues could be advantageous.

5. The previous system had enabled Members to build up a greater understanding and knowledge of a particular subject through serving on the same committee for several years.

6. Phil Jones, Grant Thornton, pointed out that the role and functions of the Audit Committee differed between local authorities. Birmingham City Council was very big and therefore had larger risks than smaller authorities.

The Chairman thanked Frances Done for attending the meeting.

GRANT THORNTON – PROGRESS REPORT

850 Phil Jones and Richard Percival, Grant Thornton, gave a brief update and advised that the audit plan was due to be submitted to the next meeting scheduled to take place on Tuesday, 15 March 2016.

COUNCIL BUSINESS PLAN AND BUDGET 2016+ DELIVERY

The following report was submitted:-

(See document No 1)

Jon Warlow, Strategic Director – Finance and Legal, introduced the report and, in response to Members' questions, the following were amongst the points made:-

1. A large proportion of the budget covered specific services and statutory requirements.

2. With regard to achieving current year savings, it was expected that the Council would come within budget.

3. Further information and progress regarding tracking the budget would be reported to future meetings.

851 **RESOLVED**:-

That the report be noted.

THE LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REPORT 2014/15

The following report of the Chief Executive was submitted:-

(See document No 2)

Miranda Freeman, Senior Liaison Management Officer, introduced the report and, in response to questions, the following were amongst the points made:-

1. With regard to continuous improvement, the Committee was advised that, when an ombudsman complaint resulted in a settlement, the appropriate director was notified of the outcome so that lessons might be learned to avoid a similar case in the future.

2. Any specific issues relating to housing were referred to the strategic director in a quarterly analysis which she shared with her senior management team.

3. With regard to issues that had not been referred to the ombudsman, the Council had a procedure in place, known as 'Your Views', to deal with complaints, comments and compliments. This fell within the remit of the Deputy Leader's portfolio. Craig Price, Acting Assistant Director, Audit and Risk Management, undertook to provide further information on the procedure and monitoring etc.

4. With regard to the number and type of ombudsman cases received, Members requested information on how Birmingham City Council compared with other local authorities. However, it was recognised that Birmingham was the largest local authority in the UK and was therefore likely to receive the most complaints.

The Chairman thanked Miranda Freeman for attending the meeting.

852 **RESOLVED**:-

That the report be noted.

GROUP COMPANY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT

The following report of the Strategic Director – Finance and Legal was submitted:-

(See document No 3)

Sarah Dunlavey, Assistant Director, Financial Services, introduced the report.

Richard Percival, Grant Thornton, drew Members' attention to appendix 1, page 26, which set out Birmingham Airport's response to a question concerning matters and events which occurred during the year that could influence their audit approach or the City Council's consolidated financial statements. He made particular reference to the fact that the airport must adopt FRS102 (new UK GAAP) for its accounting in 2015/16 and restate 2014/15 on the same basis to form the comparative year in the 2015/16 financial statements.

853 **RESOLVED**:-

That the proposed actions set out in the report be noted.

GRANT THORNTON – CERTIFICATION OF CLAIMS AND RETURNS 2014/15

The following letter from Grant Thornton was submitted:-

(See document No 4)

Phil Jones, Grant Thornton, introduced the letter.

854 **RESOLVED**:-

That the letter be noted.

REPORT ON CONTRACT MANAGEMENT INVESTIGATIONS

The following report of the Assistant Director – Corporate Procurement was submitted:-

(See document No 5)

Nigel Kletz, Assistant Director – Corporate Procurement, introduced the report.

855 **RESOLVED**:-

That the progress of the contract management investigations be noted.

FUTURE AGENDA ITEMS

A. Membership of the Audit Committee

The Chairman undertook to write to each of the respective group leaders regarding the composition of the Audit Committee and the importance of trying to maintain continuity of Members serving thereon.

B. Role and Functions of the Audit Committee

Members agreed that a report be submitted to a future meeting outlining the areas currently covered by Overview and Scrutiny Committees and the Audit Committee to identify any gaps that might be included in the future role and functions of this Committee.

C. Mapping Exercise

Members agreed that a mapping exercise be undertaken and a report submitted to a future meeting regarding the risk management process.

856 **RESOLVED**:-

That the points raised in the pre-amble be noted.

DATES OF FUTURE MEETINGS 2016/17

The Chairman proposed and it was:-

857 **RESOLVED**:-

That approval be given to a provisional scheduled of dates for 2016/17 for meetings of the Audit Committee on the following Tuesdays at 1400 hours in the Council House:-

2016	2017
28 June	31 January
26 July	28 March
13 September	
22 November	

OTHER URGENT BUSINESS

858 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

859 **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.

EXCLUSION OF THE PUBLIC

860 **RESOLVED**:-

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

Agenda Item etc	**Paragraph of Exempt Information Under Revised Schedule 12A of the Local Government Act 1972**
Report on Contract Management Investigations	3

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: Audit Committee

Report of: Mike Jones (Head of Contracts Management – Education & Infrastructure)

Date of Meeting: 15 March 2016

Subject: Schools PFI (Private Finance Initiative)

Wards Affected: All

1. Purpose of Report

1.1 To update Audit Committee on the issues facing the Council and its schools, where schools and academies remain in long term Private Finance Initiative (PFI) or Facilities Management contractual arrangements and where the Council remains the client for the contracts.

1.2. Further, to present the financial pressures brought about by long-term contracts, both in relation to schools that continue to be in Council control and in instances where the Council has "ceased to maintain" the building and is thereby no longer funded as a result.

2. Recommendations

2.1 To receive this report outlining the current financial pressures impacting the Council in connection with long-term schools PFI contracts.

2.2. To note the progress being made on addressing the Council's "affordability gap" over the period January 2015 to January 2016.

3. Executive Summary

3.1 The City Council has 4 PFI/FM (Facilities Management) packages servicing 35 schools (see Appendix 1) at an annual revenue cost of £35m. The PFI arrangements have supported £196.6m of investment in Birmingham Schools and the long-term contracts in place which extend up to 30 years are envisaged to cost the Council circa £959m in total over the respective contract terms. The contracts in place are referred to as:

- **PPP1** – Birmingham Schools Partnership Limited (Galliford Try) - contract was signed in February 2000 and there are 16 years remaining of the operate phase.

- **PPP2** – Transform Schools (Balfour Beatty) - contract was signed in March 2006 and there are 18 years remaining of the operate phase.

- **BSF Phase 1a** – Birmingham Lend Lease Partnership (BLLP) - contracts were signed in August 2009 and there are 20 years remaining of the respective operate phases.

- **BSF Phase 1b** – Birmingham Lend Lease Partnership (BLLP) - contracts were signed between 2009 and 2011 and there are between 10 and 23 years remaining of the respective operate phases.

3.2 More recently there has been a heavy focus on PFI deals placing increased financial pressure on the public sector. Whilst the focus has tended to circulate around NHS Trusts and in particular their inability to meet contractual payments, there is now an acceptance that continuing rising costs associated with PFI in a climate of public sector cuts are now extending these pressures to other public sector bodies.

3.3 The report summarises Birmingham's Schools PFI deals and considers the impact of:

- the current annual affordability gap and the continuing and increased financial pressures facing the Council where contractual payments are indexed linked year on year and where in excess of 16 years remain of the respective concession terms;

- the impact of a changing educational landscape where funding moves in a different direction but the Council retains client responsibilities;

- progressing a range of initiatives to reduce the financial burden on the Council.

3.4 With HM Treasury and Central Government expressing a clear desire to drive efficiencies from within PFI there is now a potential opportunity to carry out a much more fundamental review of contracts that examines the scope of services, margins, overheads and profits and lending rates. These areas and a range of other options were captured in HM Treasury guidance issued in early 2012. More recently (June 2013) HM Treasury published a voluntary code of conduct which sets out how public bodies and their private sector partners will work together to make savings from Public Private Partnerships (PPP) contracts, including PFI deals. The Council is signed up to this Code of Conduct.

3.5 The conclusion to this report outlines a range of activities that are currently being undertaken to review arrangements and potentially deliver savings for the Council.

4. Birmingham Schools Affordability

4.1 The costs associated with these contracts (known as the PFI Unitary Charge) are essentially funded from 3 separate sources:

Funding Source	**PFI**	**Non PFI**
Additional Rate Support Grant or PFI Special Grant	✓	
Schools Premises Related Budgets (Relevant Proportion)	✓	✓
Centrally held CYPF budgets (includes the “affordability gap”)	✓	✓

4.2 The Unitary Charge relating to all 4 PFI contracts repays the original bank debt and meets the cost of all operational services to the respective buildings i.e. lifecycle, planned preventative maintenance, caretaking, cleaning and grounds maintenance etc. The amount payable to the company managing the contract (Special Purpose Vehicle or SPV) is indexed annually and is subject to bench-marking / market testing arrangements every 5 years throughout the contract term. Where schools are part of an FM contract (only Building Schools for the Future (BSF) non-PFI) the equivalent to the Unitary Charge is effectively the FM Service Charge. To date the Council has experienced increases in the Unitary Charge and FM Service Charge which have exceeded the available resources from Central Government and schools, this shortfall is recognised as the PFI “affordability gap” and currently stands at circa £6.5m per annum after the application of £3.5m from the Dedicated Schools Grant (DSG) allocation.

4.3 At the inception of PFI it was generally recognised and accepted that the Council would need to invest in the region of £250 per head of pupil per annum during the life of the project, to supplement central government grant and school contributions. This requirement has now risen to the equivalent of £340 per head of pupil factoring in indexation. The Council wide contribution has however increased to a level of circa £560 per head of pupil per annum inclusive of the DSG allocation of £3.5m.

5. Dealing with the “Affordability Gap” in a changing educational climate

5.1 The changing status of schools / academy conversion process does not in any way offer up an opportunity to mitigate the Council’s affordability gap on these contracts. Effectively at the point of conversion all property and financial arrangements must follow the “as is” and as such risks associated with the PFI contract remain with the Council, this is despite the Academy Order (issued by the Secretary of State) which instructs the Council to “cease to maintain”. Given that only a small proportion of the Unitary Charge is met by the school/academy directly any additional gap will be for the Council to manage/pick up, unless there is an increase as a consequence of bench marking or market testing where protections exist in the School Agreement which supports the conversion. Inflationary pressures however must be borne by the Council where they relate to the Council's contribution. This fact alone has resulted in some authorities stalling the conversion of PFI schools to academy status.

5.2 With regards to those schools having converted in BSF FM Contracts there is an unusual situation whereby the academy maintains the benefit of an Asset Replacement Management Strategy through the Council's contractual arrangements even though they can access funding directly through the Education Funding Agency (EFA). As DfE policy guidance effectively ignores the former BSF arrangements the Council retains all risks without any protection should the academy for whatever reason "fall over".

5.3 As the Council's ability to divert funding is becoming increasingly difficult given that more and more schools are being funded directly by the EFA and top-slicing arrangements from the DSG has all but disappeared, the likelihood of additional budget pressures now and long into the future are unavoidable without intervention or mitigation of some kind.

6. Work undertaken and progress made since January 2015

6.1 In light of the above, officers from within Education and Infrastructure (EdSI) supported by a level of technical expertise in PFI and the retained estate, have for the last 12 months focussed on exploring a number of initiatives to drive out savings from these contracts.

6.2 The exercise commenced in January 2015 when the Council agreed to support a "pilot study" being undertaken by Local Partnerships. The study sought to explore the potential for savings from PFI contracts and had the buy-in of HM Treasury, DfE, EFA and the Local Government Association. Following the production of a report in April 2015 the Council has continued to work to implement any "lessons learned" and further provide a far more robust challenge to PFI Providers. Not least in influencing, overseeing, challenging and validating benchmarking exercises on 3 of the 4 Council contracts.

6.3 The more immediate opportunities coming out of the report's findings, the Council's internal review and the work progressed to date can be described as follows:

- the potential removal of Broadway Academy Lifecycle obligations from the Hard FM contract allowing the academy to manage its own arrangements, with a proportion of the school's contribution to the Council being passed back to the academy to support any short and medium term requirements associated with its estate;

- a potential reconfiguration of the Hard and Soft FM contracts for BSF Design and Build Schools with the premises related budgets being passed back to schools/academies to run operational arrangements either themselves or through a 3rd party;

- the carrying out of a comprehensive and thorough exercise in supporting a 5 year benchmarking exercise on the Council's PPP2 and BSF PFI and FM arrangements. Work has extended to undertaking an internal Council led benchmarking exercise with the express intent to ensure value for money from the contracts and effectively diligence the independent advisers findings;

- additional areas being considered are market testing of PPP1 services, re-scoping, re-financing, re-alignment of school/academy contributions with a view to restructuring and increasing the respective schools relevant proportions.

6.4 Whilst work continues in all of these areas early indications are that a reconfiguration/removal of the Broadway Lifecycle and Design and Build FM contracts could realise annual savings of circa £700,000 per annum, with the respective benchmarking exercises carrying a targeted saving of at least £500,000 per annum.

7. Conclusion

7.1 In all aspects the Council cannot at present extricate itself from its contractual obligations and the consequential affordability pressures whilst it remains the client to the PFI contract. Funders have made it clear that the credit status of academies as untried and untested entities prevents novation or assignment and therefore the Council will continue to sit behind a significant level of risk, as well as having a need for a robust Contract Management function.

7.2 Contract Management activities will become increasingly more difficult to manage given that the Council will be expected to consult and liaise with a much wider audience, all with individual needs, aspirations and demands. In light of this and coupled with the work associated with the PFI savings exercise there will need to be a review of the current resourcing to ensure that the Council engages the right interpersonal and management skills to manage both the commercial aspects of the contract as well as relationships on a peer-to-peer basis and at multiple levels in the organisation.

7.3 Those involved in managing the contracts must understand the business fully and know the contract documentation inside out ("intelligent customer" capability). This will be essential if those involved in all aspects of the function are to understand the implications of problems (or opportunities) over the life of the contracts.

Schools PFI

Contact officer: **Mike Jones – Head of Contracts Management (Education and Infrastructure)**

Telephone No: **0121-303-3181**

E-mail Address: **mike.jones@birmingham.gov.uk**

Birmingham City Council

APPENDIX 1

List of Birmingham PFI Schools/Academies (incl BSF FM Contracts)

PPP1 Schools	**PPP2 Schools**	**BSF Schools**
Birches Green Infants	Allens Croft Childrens Centre	***Holte Mayfield Lozells – PFI (Holte and Lozells CONVERTING)***
Calshot Primary	Allens Croft Primary	**Broadway – D&B (NOW ACADEMY)**
Clifton Primary	Arden Primary	**Stockland Green – PFI (NOW ACADEMY)**
Cockshut Hill (CONVERTING)	**Arthur Terry (NOW ACADEMY)**	**George Dixon – D&B (NOW ACADEMY)**
Marsh Hill Primary	Blakesley Hall Primary	International – D&B (FM & ICT Contract)
Perry Beeches Nursery	Chilcote Primary	Moseley – D&B (FM & ICT Contract)
Perry Beeches Infant	**Hobmoor Primary (NOW ACADEMY)**	**Park View – D&B (NOW ACADEMY)**
Perry Beeches Junior	Kingsland Primary	**Waverley – PFI (NOW ACADEMY)**
Perry Beeches Sec (NOW ACADEMY)	St James CE Primary	**Four Dwellings – D&B (NOW ACADEMY)**
Priestley Smith	Wheelers Lane Primary	**Saltley – D&B (FM & ICT Contract) (NOW ACADEMY)**
Yardleys (NOW ACADEMY)	Wheelers Lane Tech	
	Yarnfield Primary (NOW ACADEMY)	

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Acting Assistant Director, Audit & Risk Management**
Date of Meeting:	**15th March 2016**
Subject:	**Corporate Risk Register Update**
Wards Affected:	**All**

1. Purpose of Report

1.1 To update the Audit Committee with information on the management of risks and issues within the Corporate Risk Register (CRR) (Appendix A). The information in Appendix A has been compiled using updates received from directorates.

1.2 This report also includes the updated Risk Management Policy, Strategy and Methodology documents for the Audit Committee's review at Appendices B, C and D respectively.

2. Recommendations

2.1 That the Audit Committee review the information provided by directorates and decide if the risk ratings are reasonable, if action being taken is effective, or if further explanation / information is required. The level of risk has remained static for most risks, but one has increased and five have reduced:

Increased:

- Risk 2015/16.22 - Lack of capacity and capability to respond to the threat of industrial action, employee relations tensions, etc. due to organisational downsizing.

Reduced:

- Risk 2015/16.04 - Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests.
- Risk 2015/16.07 - Not responding fully and effectively to the issues from recent reviews concerning school governance and related matters.
- Risk 2015/16.10a - Resolution of contractual issues in the Highway Maintenance and Management PFI contract.

- Risk 2015/16.20 - Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement.
- Risk 2015/16.29 - Risk of Court deciding against the Council regarding the Homeless Service.

2.2 That the Audit Committee approves the deletion of two risks:

- 2015/16.10a. This is because a commercial settlement signed on 18th December 2015, has resolved a number of contractual issues regarding the Highway Maintenance and Management PFI Contract.
- 2015/16.29. The High Court dismissed the four applications for Judicial Review.

2.3 That the Audit Committee approves the merging of risks 2015/16.02 & 2015/16.09, and rewording of risks 2015/16.03 and 2015/16.23.

2.4 That the Audit Committee approves the proposed changes regarding risk leads / owners.

2.5 That the Audit Committee considers if any new risks, further re-wordings or deletions should be included in the CRR.

2.6 That the Audit Committee considers if it requires further information on the management of any of the risks included in the CRR.

2.7 That the Audit Committee notes that where risks have been subject to overview and scrutiny reviews this has been recorded within the CRR.

2.8 That the Audit Committee approves the revised Risk Management Policy, Strategy and Methodology documents.

3. Background Information

3.1 Members have a key role within the risk management process.

3.2 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.

4. Corporate Risk Register Update

4.1 The CRR is aligned to the corporate objectives of the Council and identifies the key risks to be managed at a corporate level.

4.2 The CRR focuses on the cross-cutting corporate issues.

4.3 A Lead Director has been identified for each risk. Directorates have provided information detailing the management of the risks within their service areas as at January 2016.

4.4 The CRR is attached as Appendix A.

5. Embedding Risk Management

5.1 Presentations, training and facilitated workshops are provided by Birmingham Audit on request to help embed risk management across the Council and in working with our partners. The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet.

5.2 Information on the Council's approach to risk management is available via the BCC website - these are public documents for staff, external partners and anyone else to see. Additional information is attached to the risk management page on InLine, to support staff in using risk management in their day to day role. Advice, support and guidance are provided by Birmingham Audit as requested.

5.3 Service managers are also asked about their risk management arrangements as part of routine audit work. In addition the mandatory Public Sector Internal Audit Standards include a requirement with regard to risk management.

5.4 Risk management is also covered within the Annual Governance Statement.

6. Legal and Resource Implications

6.1 The work carried out is within approved budgets.

7. Risk Management & Equality Impact Assessment Issues

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

7.2 The Council's risk management strategy has been Equality Impact Assessed and was found to have no adverse impacts.

8. Compliance Issues

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

9. Recommendations

9.1 That the Audit Committee review the information provided by directorates and decide if they agree that the risk ratings are reasonable, if action being taken is effective, or if further explanation / information is required.

9.2 That the Audit Committee approves the risk rating changes, and deletion of risks 2015/16.10a and 2015/16.29.

9.4 That the Audit Committee approves the merging, re-wording, and leads / owner changes.

9.4 That the Audit Committee considers if any new risks, further re-wordings or deletions should be included in the CRR.

9.5 That the Audit Committee considers if it requires further information on the management of any of the risks included in the CRR.

9.6 That the Audit Committee approves the revisions to the Council’s Risk Management Policy, Strategy and Methodology documents at Appendices B, C and D respectively.

…………………………………..
Acting Assistant Director, Audit & Risk Management

Contact officer: Cynthia Carran, Principal Business Auditor
Telephone No: 303 2104
e-mail address: cynthia.carran@birmingham.gov.uk

Current / Residual risk (i.e. inherent risk mitigated by controls/actions in place):

Likelihood:

High			**10b, 22**	**1, 2, 3**
Significant		**16, 17, 18,**	**30**	**5, 6**
Medium		**19, 21**	**13, 14, 15**	**7, 11, 12, 29**
Low		**4, 20**	**10a, 23, 24**	
	Low	Medium	Significant	High

Impact

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

Measures of likelihood:

Description	Example Detail Description
High	Almost certain, is expected to occur in most circumstances. Greater than 80% chance.
Significant	Likely, will probably occur in most circumstances. 50% - 80% chance.
Medium	Possible, might occur at some time. 20% - 50% chance.
Low	Unlikely, but could occur at some time. Less than 20% chance.

Measures of impact:

Description	Example Detail Description
High	Critical impact on the achievement of objectives and overall performance. Critical opportunity to innovate / improve performance missed / wasted. Huge impact on costs and/or reputation. Very difficult to recover from and possibly requiring a long term recovery period.
Significant	Major impact on costs and objectives. Substantial opportunity to innovate / improve performance missed / wasted. Serious impact on output and/or quality and reputation. Medium to long term effect and expensive to recover from.
Medium	Waste of time and resources. Good opportunity to innovate / improve performance missed / wasted. Moderate impact on operational efficiency, output and quality. Medium term effect which may be expensive to recover from.
Low	Minor loss, delay, inconvenience or interruption. Opportunity to innovate / make minor improvements to performance missed / wasted. Short to medium term effect.

Index by Risk / Issue Number

APPENDIX A

Corporate Risk Register Update for Audit Committee March 2016

Key: CO - Corporate Objective. AFC - A fair city: where people are safe, healthy and not living in poverty. APC - A prosperous city: where businesses flourish, where people have education and training, and where unemployment is low. ADC - A democratic city: where people have more say in local decision-making.

	INDEX OF RISKS / ISSUES (in order of severity of risk)										
Ranking	**New Ref No.**	**Old Ref No.**	**C. O.**	**Short Description**	**Lead Director**	**Actual Risk rating and Target rating Likelihood / Impact March 2016**	**Change in residual risk**	**Actual risk level in previous 3 updates to Audit Committee Nov 2015**	**July 2015**	**Mar 2015**	**Page No.**
1	1	1c	APC	Defend and settle post 2008 equal pay claims.	Strategic Director, Finance &Legal	**Actual: H/H** **Target: H/H**	Same	**H/H**	**H/H**	**H/H**	11
2	2	23 & 61	AFC	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	Strategic Director, People Directorate	**Actual: H/H** **Target: M/H**	Same	**H/H**	**H/H**	**H/H**	11
3	3	14b / 50	APC	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability for essential management of the LA schools estate.	Strategic Director, Finance &Legal	**Actual: H/H** **Target: M/S**	Same	**H/H**	**H/H**	**H/H**	13
4	5	1a	APC	Defend and settle pre 2008 equal pay claims.	Strategic Director, Finance &Legal	**Actual: S/H** **Target: L/H**	Same	**S/H**	**S/H**	**S/H**	14
5	6	1b	APC	Further equal pay claims.	Strategic Director, Finance &Legal	**Actual: S/H** **Target: M/H**	Same	**S/H**	**S/H**	**S/H**	14
6	10	46	APC	a) Resolution of contractual issues in the Highway Maintenance and Management PFI contract. b) Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case.	Strategic Director, Economy	**Actual: H/S (Relates to part (b) only)** **Target: L/S**	Part Reduced	**H/S**	**H/S**	**M/S**	15
7	22	30	APC	Lack of capacity and capability to respond to employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.	Strategic Director, Change & Support Services	**Actual: H/S** **Target: L/M**	Increased	**M/S**	**L/S**	**L/S**	16

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	New Ref No.	Old Ref No.	C. O.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact March 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: Nov 2015	July 2015	Mar 2015	Page No.
8	30	N/A	A F C	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	Strategic Director, People Directorate	**Actual: S/S** **Target: M/S**	Same	**S/S**	**N/A**	**N/A**	17
9	7	57	A F C	Not responding fully and effectively to the issues from recent reviews concerning school governance and related matters.	Strategic Director, People Directorate	**Actual: M/H** **Target L/H**	Reduced	**S/H**	**S/H**	**S/H**	17
10	11	N/A	A P C	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme (including setting a medium / long term balanced budget).	Chief Executive	**Actual: M/H** **Target: L/H**	Same	**M/H**	**M/H**	**N/A**	19
11	12	45	A P C	The loss of significant personal or other sensitive data.	Strategic Director, Major Projects	**Actual: M/H** **Target: L/H**	Same	**M/H**	**M/H**	**M/H**	20
12	29	N/A	A F C	Risk of Court deciding against the Council regarding the Homeless Service.	Strategic Director, People Directorate	**Actual: M/H** **Target: M/H**	Reduced	**H/H**	**N/A**	**N/A**	21
13	13	2	A D C	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	Strategic Director, Place Directorate	**Actual: M/S** **Target: M/S**	Same	**M/S**	**M/S**	**M/S**	21
14	14	28	A P C	On-going reduction in government grants resulting in a shortfall in resources and avoid legal challenge.	Strategic Director, Finance & Legal	**Actual: M/S** **Target: L/L**	Same	**M/S**	**M/S**	**M/S**	23
15	15	52	A P C	Insufficient in-house IT expertise within Directorates and inadequate or ineffective corporate control of non-core IT spending.	Strategic Director, Change & Support Services	**Actual: M/S** **Target: L/S**	Same	**M/S**	**M/S**	**M/S**	24
16	16	32	A P C	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	Strategic Director, Major Projects	**Actual: S/M** **Target: M/L**	Same	**S/M**	**S/M**	**S/M**	25

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				INDEX OF RISKS / ISSUES (in order of severity of risk)							
17	17	42	A P C	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	Strategic Director, Change & Support Services	**Actual: S/M** **Target: L/M**	Same	**S/M**	**S/M**	**S/M**	25
18	18	55	A F C	Ineffective Corporate Risk Marker IT solution.	Strategic Director, Change & Support Services	**Actual: S/M** **Target: L/M**	Same	**S/M**	**S/M**	**S/M**	27
19	19	37	A P C	Failure to adequately evaluate the costs and benefits of different service delivery options. Failure to fully implement the decisions made to change policy and service delivery.	Strategic Director, Change & Support Services	**Actual: M/M** **Target: M/M**	Same	**M/M**	**S/M**	**M/S**	27
20	21	44	A P C	Unpaid allowances / contractual overtime payments / equality of flex time agreements.	Strategic Director, Change & Support Services	**Actual: M/M** **Target: M/M**	Same	**M/M**	**M/M**	**M/M**	29
21	23	35	A P C	IT Refresh / update.	Strategic Director Change & Support Services	**Actual: L/S** **Target: L/S**	Same	**L/S**	**L/S**	**M/S**	29
22	24	54	A P C	Risk of fines from HMRC for Directorates employing long–term consultants.	Strategic Director Change & Support Services	**Actual: L/S** **Target: L/M**	Same	**L/S**	**L/S**	**L/S**	31
24	4	59	A P C	Risk of enforcement action and fines by the ICO for failure to comply with the 40 day timescale for responding to SARs.	Strategic Director, Major Projects	**Actual: L/M** **Target: L/L**	Reduced	**H/H**	**H/H**	**H/H**	31

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								Nov 2015	**July 2015**	**Mar 2015**	
25	20	41	A D C	Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement.	Strategic Director, Place Directorate	**Actual: L/M** **Target: L/M**	Reduced	**M/M**	**M/M**	**M/M**	32

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Ref No.	Prev Ref No.	Description - risk / issue	Current level of risk: L / I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny Review / Work
2015/16.01	1c	Failure to successfully defend and / or settle post 2008 equal pay claims. (Risk) Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	High / High	**Lead Director comment** A significant number of claims have been issued. A proportion of these have already been settled or are in the process of settlement. A growing proportion are now progressing through the tribunal and civil court process. No win / no fee solicitors are still canvassing for claimants. The validity of claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge. Settlement of claims is subject to financial provision and establishing validity of claims.	**Target risk rating***:* High / High **Anticipated date of attainment of the target risk rating:** October 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - regular separate reporting to Corporate Governance Group, EMCB and the Audit Committee. External & internal audit review.	The subject of equal pay claims has been discussed at meetings of the Corporate Resources O&S Committee and former Governance, Resources and Customer Services, but only in general terms during items relating to the Council's budget and Annual Audit Letter.
2015/16.02	23	Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care. (Risk) Lead: Strategic Director, People Directorate Owner: Alastair Gibbons Risks 2015/16.02 & 2015/16.09 merged	High / High	**Lead Director comment** Lord Warner concluded his work at the end of May 2015. A 2-year refreshed improvement plan has been agreed by Cabinet and includes practice improvement, recruitment and retention, commissioning and partnership working. It reflects a new vision and purpose for Children's Services and focuses on how we will support workers to deliver more direct social work with families, to bring about positive change for children. The DfE have agreed that Essex will be our improvement partner and a plan of activities has been agreed. The first phase of the Essex work involved a diagnostic self-assessment of assessment teams leading to plans for improvement. In early 2016 this will be repeated for safeguarding teams. The Chief Social Worker has been appointed, and with Principal Social Workers for each of the areas and MASH, is reviewing and driving practice improvement underpinned by a new Quality Assurance Framework.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance, Peer review, Ofsted visits, Scrutiny Committee monitoring, Monitoring Board, and Children's Commissioner. Bi-weekly Quartet Board Meetings (Children's Improvement Programme Board). The refreshed improvement plan, with the necessary investment is being delivered. There is still much to do, (for example, about the capacity of HR corporate resources, a credible recruitment and retention strategy and effectiveness of the Safeguarding Board) to ensure the quality of practice and its timeliness. To that end a proposed future operating model is currently being discussed with partners, and we are	Education & Vulnerable Children O&S Committee: • Completed the Scrutiny Inquiry: Children Missing from Home and Care (presented to Council in Jan 2016). Also discussed children missing from education and the safeguarding issues at the Jan 2016 meeting. • Discussed the Children's Social Care and Safeguarding Improvement Plan at the June 2015 meeting. Members

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				We have also recruited a dedicated Head of Service for the Independent Reviewing Service, linked to a much more effective Quality Assurance Framework and a more robust 'Safety Net' for children across the city. The appointment of the Executive Director for Children Social Care also helps mitigate this risk. The Children's Service is now fully staffed. A new Commissioner for Children's Care has been appointed. He will work with the Council to oversee continued implementation of the improvement plan, already agreed with the DfE. Cabinet approved a years 2 and 3 improvement strategy on 20 April 2015. There is now greater clarity on resources and priorities going forward. BCC will be inspected by Ofsted in the Spring, and while the service overall has improved, this risk rating should remain in place until post inspection. An Improvement Plan until April 2017, with necessary investment is in place and is being delivered.	investigating the replacement of the CareFirst case system so that practitioners are freed up to undertake direct social work practice.	had an informal meeting in October 2015 to discuss the improvement plan in more detail. • Held meetings with the Exec Director for Children's Services, Chief Social Worker, adoption and fostering team and visits to 2 children's homes.

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2015/16.03	50 & 14b	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate. Lead: Strategic Director, Finance & Legal Owner: Mike Jones Risk reworded	High / High	**Lead Director comment** Major review of PFI contract management arrangements underway following Local Partnerships pilot project. External consultants are engaged and a Lead Officer allocated to fully explore all opportunities to reduce PFI costs. Proposals are being brought forward and while the project more than pays for itself, there are limited opportunities to impact on the major £6m annual affordability gap. The savings proposal, being implemented to meet the current PFI affordability gap from within the funds available to invest in the maintenance of the estate, has not yet impacted on the funding available for emergency repairs. However, there are significant risks of funding shortfall into 2017/18, due to the diminishing annual maintenance grant funds available, particularly as more schools convert to academy status. The High / High risk rating relates to the PFI affordability gap and subsequent impact on availability of funding to address backlog maintenance across the schools' estate. The opportunities to reduce the PFI costs are limited, and this therefore remains a high risk in terms of management of the education infrastructure and potential impact of asset failure. There is a very substantial Schools Capital Programme in delivery that includes basic need and planned maintenance programmes, with further emergency maintenance projects emerging regularly. Mitigations include: • Schools capital maintenance programme is successfully levering school spend on essential repairs and maintenance through a dual funding strategy. • Dedicated resource is focusing on maximum savings against current PFI contracts although opportunities are limited.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management reporting to Strategic Director Finance & Legal on PFI savings. Oversight and monitoring of temporary school closures due to asset failure.	None.

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				• Lean review of Acivico has potential to reduce overheads associated with planned maintenance programme, releasing those funds for investment into the schools stock. • Options for alternative revenue funding stream for the PFI affordability gap are being explored.		
2015/16.05	1a	Failure to successfully defend and / or settle pre 2008 equal pay claims. (Issue) Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** In 2010, the Tribunal determined that the Council had no defence to pre 2008 equal pay claims (Barker v Birmingham City Council). C12,000 early claims without the involvement of solicitors have been settled including a further cohort as part of settlement agreements reached in 2011 and 2013. Claims issued since January 2015 are now out of time and are not valid claims. The Council is succeeding in striking out these out of time claims. The validity of claims is constantly challenged by Legal Services. Each claim before any offer to settle is made is subject to robust legal challenge. Any offer of settlement is subject to available financial resources.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review.	See risk 2015/16.01 above.
2015/16.06	1b	Risk of further equal pay claims. (Risk) Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** Claimant solicitors are continually 'fishing' for further equal pay liability by issuing further equal pay claims in addition to those referred to in risks 01and 05. The validity of these type of claims is, and will be subject to robust legal challenge. At the moment, there is no determination as to liability or attainment as to target risk due to the nature of the challenge.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** Not known at current date. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review.	See risk 2015/16.01 above.

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2015/16.09	61	Risk that BCC is not able to respond to the improvement agenda for Children's. (Risk) Merged with risk 2015/16.02		**Lead Director comment** See risk 2015/16.02 above.	See risk 2015/16.02 above.	See risk 2015/16.02 above.
2015/16.10	46	a. Failure to resolve performance, contractual and commercial matters in the Highway Maintenance and Management PFI contract. Lead: Strategic Director, Economy Owner: Paul O'Day Risk (a) reduced & nominated for deletion	Low / Significant	**Lead Director comment** A commercial settlement has resolved a number of contractual issues with Amey Birmingham Highways Limited (ABHL) regarding the Highway Maintenance and Management PFI Contract. The settlement was signed on 18th December 2015.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** N/A.	The chair of the Corporate Resources O&S Committee, together with the two opposition leads, received an informal briefing from Highways officers in September 2015 regarding the Amey Contract.
		b. Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case for the Highway Maintenance and Management PFI contract. Lead: Strategic Director, Economy Owner: Paul O'Day	High / Significant	**Lead Director comment** The Council has sought to resolve the issue informally but this has not been possible. The Council referred this matter for adjudication under the contractual Dispute Resolution procedure, the outcome of which was advised favourably to the Council's case in July 2015. The outcome has now been referred to court by the Service Provider.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** A trial date in February 2016 has been confirmed. **Source(s) of assurance regarding progress with mitigating the risk:** External legal advice and representation has been engaged.	

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2015/16.22	30	Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes. (Issue & Risk) Lead: Strategic Director, Change & Support Services Owner: Dawn Hewins Risk increased	High / Significant	**Lead Director comment** The budget proposals for 16/17 and 17/18 include making savings of circa £30m from workforce costs. In addition there will be continuing headcount reductions of over 1,000. We are also reviewing our organisational operating model, organisational structure and the roles & responsibilities of employees. This is a significant and challenging change agenda that will have an impact on the Council's workforce, including support staff in the 170 schools within the City still under the employment of the Council. In this context the likelihood of some form of industrial action is probable. There are business continuity plans in place in readiness for industrial action and they have been effective in reducing the impact of action on service users. Particular areas of risk such as Fleet and Waste management have well progressed contingency plans. Effective workforce planning is required along with clear transition plans from existing to new models. Facilitated sessions will be required with Directorates to develop the workforce strategy and approaches and to provide quality assurance around achievability.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating***:* Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** The Council's workforce strategy is currently in development. This includes; strategic workforce planning aligned to scale and impact of proposed change, robust management of organisational redesign to foresee and manage risks around workload volumes, development and retention of core skills, specialist knowledge, morale and staff engagement. There will be a focussed plan to ensure employees have an opportunity to shape and influence proposals and increase understanding as to why these measures are necessary. HR working with each Directorate on contingency plans.	The Corporate Resources O&S Committee received an update from the Deputy Leader and senior HR officers at its October 2015 committee meeting. In the 2013/14 municipal year, the former Governance, Resources and Customer Services O&S Committee requested the Employment and Human Resources Committee to undertake an inquiry on Performance and Development Reviews. Members received a progress report at their November 2014 meeting and had further discussions with the Chief Exec on this topic at their February 2015 meeting.

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2015/16.30	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme. (Risk) Lead: Strategic Director, People Directorate Owner: Alan Lotinga	Significant / Significant	**Lead Director comment** The Younger Peoples Re-Provision programme is focused on maximising people's independence and moving them to less restrictive accommodation, which has encountered opposition from carers who do not want people to move. There has also been opposition from providers. Legal Services involved in high risk cases. Proposed new team to script and roll out the offer - job descriptions have been written and JQ'd adverts placed in January. Detailed work has taken place re-profiling the target and working with a consultancy Group (Impower). The three year target has been revisited and the remaining 28 million profiled over a five year period in line with Future Council proposals and the Adult Transformation programme. If Future Council proposals proceed then PEPSG will be reviewed.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Ongoing - review end of May 2016. **Source(s) of assurance regarding progress with mitigating the risk:** The Care & Housing Allocation Panel is in operation, and receives all information regarding placement moves. Commissioning are contributing and discussion is taking place regarding the market. The appointment of a Lead Officer, Commissioning has helped. The Personalisation, Empowerment & Placement Strategic Group (PEPSG) has been formed, which has been informed by a 'peer review' led by the Director of Public Health. The work-streams are reporting into PEPSG and Councillor Hamilton now attends on a regular basis.	None.
2015/16.07	57	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters. (Risk) Lead: Strategic Director, People Directorate Owner: Colin Diamond Risk reduced	Medium / High	**Lead Director comment** Sir Mike Tomlinson was appointed as Commissioner to oversee a programme of improvement and his time in Birmingham has been extended to March 2016. Improvement is being driven by the Leader, Cabinet Member, Chief Executive and Strategic Director. The City Council and DfE agreed to the appointment of Colin Diamond, Deputy Commissioner, to the interim post of Executive Director Education, from April 2015. The Education and Schools Strategy Improvement Plan agreed in December 2014 builds on a number of pieces of work including the Clarke and Kershaw reports triggered by	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** September 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance obtained through the usual systems, and checked by the Cabinet Member. There will also be verification through key channels - the Unions, meetings with Heads and Governors etc. Oversight of the Action Plan and checks on implementation.	School governance with regard to safeguarding issues was discussed at the June 2015 meeting of the Education & Vulnerable Children O&S Committee and the informal meeting held in October 2015. Members have been involved in the LGA Peer Review. The Peer Review Findings were due to be discussed at the February 2016

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				Trojan Horse, along with transformation already underway in SEND and Education Services. Progress has been made on a number of issues (for example: a revised recruitment process for LA governors; guidance to schools on the Nolan principles of good governance; improved take up of safeguarding training; a new whistleblowing policy implemented from January 2015; improved communications). The Council commissioned Birmingham Education Partnership to deliver school improvement support and challenge functions from September 2015. An Education Improvement Group comprising BCC, DfE, Regional Schools Commissioner and Ofsted meets monthly to share information on schools causing concern. Systematic school surveys are in place to inform the work of the local authority. Work on civic leadership and community cohesion is being developed given the need to tackle the causal factors underlying Trojan Horse and has been included in the plan as Theme 12. This will complement the city leadership approach to be established in the light of the Kerslake review. A week long peer review, by the LGA in November 2015, confirmed evidence of progress, particularly on safeguarding & governance, and improved relationships with schools but with more to do. By the end of November 2015, the existing plan progress was 91% overall. A new Education Improvement Plan will be drafted for early 2016. This will cover the next phase of improvement. An operating model for the Local Authority's education function is also being designed and consulted on.	Monitor Key Indicators - for example, the extent to which Head Teachers feel complaints / concerns are identified and responded to. Assurance via the Commissioner is an external check.	committee meeting. Governance and related matters were also picked up in the previous Scrutiny Inquiry on Child Sexual Exploitation (presented to Council in December 2014) and the recommendations are currently being tracked.

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2015/16.11	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme (including setting a medium / long term balanced budget). (Risk) Lead: Chief Executive Owner: Gillian Connolly / Steve Powell	Medium / High	**Lead Director comment** The following key activities have been undertaken: Implementation of the Future Council Programme (of which Kerslake is an important sub-set): • Each of the sub programmes has a project plan, risk register and functioning governance arrangements in the form of a sub programme board. In addition they have a group of 'Link Members' who provide guidance and challenge from a member perspective. All current and future activity is being recorded within the project management tool - Verto, which is currently being re-specified to potentially generate a more useful system. The current reporting arrangements are a combination of Verto and Microsoft to make sure that there aren't any gaps in the reporting arrangements. • Programme management has been strengthened. A new programme manager has been appointed along with a programme planner, and there is one overall milestone plan for the programme. • The Programme Board has been reviewed / reconstituted, and includes the senior responsible officers (SROs) for each of the sub programmes. The Board meets weekly and agendas include coverage on key risks as part of the 'highlights report' presented by the Programme Manager. • Risks and issues are being debated / mitigated at each sub programme level, and escalated to the Programme Board if mitigation is not possible at that level. • The Future Council Programme budget has been identified and is being supplemented with funding from	**Target risk rating***:* Low / High **Anticipated date of attainment of the target risk rating:** Ongoing - review April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Planned activities to further mitigate this risk: • Ongoing reporting on progress to the Birmingham Independent Improvement Panel until they finish in March 2016. • That the budget is approved. • That the organisation remains focused on the delivery of the final Kerslake actions regardless of whether the BIIP is still in place or not.	A Future Council Working Group was set up in July 2015 to facilitate cross-party overview of, and engagement with, the FC Programme. The group includes the five O&S chairs. The Corporate Resources O&S Committee received an update on the FC Programme at its September 2015 meeting. The former Governance, Resources and Customer Services O&S Committee continue to oversee the development of the programme and this was discussed at its April 2015 meeting. There is a Member Development Prog in place and the Corporate Resources O&S Committee received an update on the work completed to date at its July 2015 meeting. A further update will be brought to that committee in the near future.

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				the Department for Communities and Local Government. This means that funding is secure for at least the next two years, and additional capacity can be sought to strengthen our work and ensure that implementation is swifter. For example: additional resource to implement the ideas coming from the 'Demand' work. • The Kerslake actions are a sub set of the programme and delivery is being monitored on a monthly basis. Monitoring of the Kerslake actions demonstrates significant delivery. As well as being monitored internally, the report is shared with the Birmingham Independent Improvement Panel every month. For the small number of Kerslake actions that are not on track, effort is being made to mitigate that and progress change at pace. • The proposed budget includes a number of new ideas that were generated from the work undertaken about demand management in the summer of 2015. The budget development process has allowed for the approval of a medium-term balanced budget, which will create the financial environment needed to undertake the change necessary to deliver the revenue savings required.		
2015/16.12	45	That the loss of significant personal or other sensitive data may put the City Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner. (Risk) Lead: Strategic Directorate, Major Projects Owner: Malkiat Thiarai	Medium / High	**Lead Director comment** Current controls based on encryption of data on mobile devices or copied to removable media; and programme of staff education and training. Breach management processes have been established with clear lines of responsibility to the Senior Information Risk Owner, and the Monitoring Officer. Known data breaches are discussed at the Breach Management Panel and reports and recommendations are presented to the Monitoring Officer for consideration to notify the Information Commissioner's Office.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** April 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance via reports to Breach Management Panel. Further controls on assuring that suppliers and partners impose similar controls on City Council data in their possession.	None.

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					A new secure email solution, Egress, is in the process of being implemented and is expected to be available to all staff by March 2016. New IG training modules are in the final draft stage of development and are anticipated to be available to staff in April 2016.	
2015/16.29	N/A	Risk of Court deciding against the Council regarding the Homeless Service. (Risk) Lead: Strategic Director, People Directorate Owner: Alan Lotinga Risk reduced and nominated for deletion	Medium / High	**Lead Director comment** The Homeless Service was subject to a Judicial Review. On the 8th February 2016 the High Court dismissed the four applications for Judicial Review challenging our scheme for assistance under Pt 7, Housing Act 1996, in which it was alleged that Birmingham City Council were guilty of systemic failure in dealing with applications under Pt 7, which amounted to gate-keeping. The Court found that there was no evidence to support such a claim.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** End February 2016. **Source(s) of assurance regarding progress with mitigating the risk:** We have identified some concerns regarding the service and these have been changed in line with legal advice.	The Health and Social Care O&S Committee completed the Scrutiny Inquiry: Homeless Health (presented to Council in July 2015), which focused on the health and housing needs of single homeless people.
2015/16.13	2	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty. (Risk) Lead: Strategic Director, Place Directorate Owner: Mashuq Ally	Medium / Significant	**Lead Director comment** Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. Legal Services are advising on high risk EAs. Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this guidance should help improve the content and standard of EAs submitted for approval.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee	None.

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				The Equality Analysis Toolkit is available to Directorates to undertake EAs for all new Policies and Procedures. Advice and support on completion of the EA is provided from the Equalities, Community Safety and Cohesion Service (ECS&CS) and Legal Services. Guidance on undertaking consultation has been updated and is available on Inline and this is now aligned with the EA process. Over 700 staff ranging from GR5 through to JNC have been trained on the EA Toolkit and on undertaking an EA and this training continues to be available. Corporate consultation and EAs have been undertaken on all relevant corporate savings. Directorates will continue to undertake consultation and EAs for individual initiatives where appropriate. This process is overseen by the Directorate Equality Champions. A robust approach exists for savings proposals. Corporate Consultation, EAs and all associated consultation are aligned, with emphasis on feedback from the protected groups. All EAs and consultation are tracked corporately. A cross directorate steering group chaired by the Service Lead for Equalities, Community Safety and Cohesion has been tasked to oversee compliance to this agenda. The Service Lead for Equalities, Community Safety and Cohesion provides regular update on progress with the EAs to the Corporate Governance Team.	compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk initiatives. • Process of Legal sign off on Cabinet Reports. Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process and on line guidance to completing an EA and developing an action plan. The online toolkit provides an overview of all EAs undertaken on the system. Project managers are encouraged to take legal advice on high risk initiatives.	

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2015/16.14	28	Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources, and avoid legal challenge. (Risk) Lead: Lead: Strategic Director, Finance & Legal Owner: Steve Powell	Medium / Significant	**Lead Director comment** Projections of resources are updated on a regular basis in the light of announcements made by the Government. This is assisted by liaison with the DCLG, LGA, IFS and other authorities to ensure that up-to-date intelligence is used. Formal corporate consultation took place in December 2015 / early January 2016 on medium-term budget plans. These set out a four year financial strategy, including proposals to balance the budget in both 2016/17 and 2017/18. This will be complemented by directorate consultation with stakeholders as appropriate. Budget proposals will be approved at the City Council meeting on 1 March 2016. Proposals are subject to the necessary Equality Analysis, and consideration of mitigations. There has been an increased focus on planning for the delivery of the savings programme, with the production of implementation plans and the identification of both additional support and programme management resources. Monitoring of the necessary management actions for delivery commenced in January 2016. The savings programme continues to be monitored through the savings trackers and the Star Chamber meetings convened by the Deputy Leader, and reported in the monthly revenue budget monitoring reports to Cabinet.	**Target risk rating:** Low / Low **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance as detailed in Lead Director comments also an Internal Audit review.	The subject of reduction in government grants has arisen in general terms at the Corporate Resources O&S Committee in discussions with the Leader and Deputy Leader regarding the budget.

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Ref No.	Prev Ref No.	Description - risk / issue	Current level of risk: L / I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny Review / Work
2015/16.15	52	Inadequate or ineffective corporate control of non-core IT spend as a result of insufficient in-house IT expertise within Directorates to ensure software / systems changes are adequately specified, that their implementation is adequately managed and that changes are adequately coordinated across the organisation to maximise the benefit to the Council. (Issue) Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Medium / Significant	**Lead Director comment** The review of Service Birmingham (SB) has emphasised that SB has an expert role and a duty to BCC to fulfil this role. This includes ensuring BCC making the right choices of software / systems and avoiding duplication of spending. New governance processes are in place to manage the ICT contract and particularly directorate spend, and further additional changes are planned. An ICT Improvement Programme is in place and is reported to the ICT Programme Board Chaired by the Deputy Leader. All spend over £200k will be approved at this Board. A seven year plan for changes to the management and governance of ICT is in place (subject to review and consultation). A critical friend has been appointed to provide the Council with advice and guidance on a range of ICT matters to support the ICT improvement programme and to support the 7 year plans actions. An interim Enterprise Architect has been appointed to support the Councils FCP and will lead on the development of the ICT Strategy. The original Future Operating Model has been delayed whilst more consideration is given to the impact of the Future Council Programme (FCP). However, two additional posts will be recruited by the end of November 2015. These posts have been JEQ, but have been temporarily delayed to ensure they support the FCP and emerging ISS model.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** June 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Governance structure in place and planned actions.	Completed the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). A progress report on implementation of the recommendations is programmed for the April meeting of the Corporate Resources O&S Committee.

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Ref No.	Prev Ref No.	Description - risk / issue	Current level of risk: L / I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny Review / Work
2015/16.16	32	Risk of not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery; driving out property for disposal, but beyond capital receipt generation, ultimately solutions should deliver radical reductions in future revenue operating costs. (Risk) Lead: Strategic Director, Major Projects Owner: Peter Jones	Significant / Medium	**Lead Director comment** Risk mitigated by: • The Future Council Programme and proposals put out to public consultation, have the potential to drive commitment to property rationalisation, as part of the contributions to future years cost reductions. • LoCAL Programme - property information has been provided, a programme formed and a series of outline business cases produced. • Our Corporate Landlord Service has cleared, decommissioned and sold Tamebridge House. Accommodation changes across Directorates are being dealt with including freeing up of space to accommodate Call Centre and Service Birmingham staff to be relocated from B1 in 2016. • Continued development of the corporate property database (Techforge) - information and systems development continues to progress as planned and the additional functionality is being applied in the management of repairs and maintenance costs, etc.	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** April 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance as detailed in Lead Director comment.	None.
2015/16.17	42	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services. (Risk). Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Significant / Medium	**Lead Director comment** Service Birmingham on behalf of the Council: • Have updated the Councils firewalls and introduced Intrusion Prevention Services (IPS) as part of the firewall implementation. This means that the firewalls are receiving regular updates from the supplier to detect new and evolving types of security attack. The firewalls detect and defeat many thousands of attacks every day. • Have implemented a cloud based Distributed Denial of Service (DDoS) system that defends four of the Council's main websites from high volume attacks where hackers are trying to flood the council's websites with requests for service. This service regularly defends	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc. **Source(s) of assurance regarding progress with mitigating the risk:** • The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. • Service Birmingham, on behalf of the Council,	Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015).

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				the Councils web sites from attackers. • Continuously scan the information security landscape with their partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Have implemented the PSN walled garden which has enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure secure transmission. The Council has retained its PSN certification until April 2016. The management of cyber risks within BCC will form part of the security strategy and responsibilities clearly defined. The ICF will ensure that the cyber risk investment strategy is aligned to, and supports strategic priorities. There is improved reporting of cyber risks and security incidents which will be presented to the Corporate Information Security Group (CISG) bi-monthly. This will ensure BCC are fully aware of potential regulatory & legal exposures and can assess the implications for future investment decisions. An annual security statement will also be developed. The annual health check has been carried out and the result are being analysed by SB and BCC, overall the ICT security environment has improved. The health check identified some areas that need resolution. Where these are reliant on BCC decision, application owners were contacted w/c 18th January 2016.	are constantly monitoring the information security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Given the nature of this risk these activities are now being kept under constant review.	

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2015/16.18	55	Ineffective Corporate Risk Marker IT solution. (Issue) Lead: Strategic Director, Change & Support Services Owner: Chris Gibbs	Significant / Medium	**Lead Director comment** The CRM (Corporate Risk Marker) solution went live in May 2013. There are a number of technical issues which have yet to be resolved including data not being shared as required. Further, the designed solution when working will only partially deliver the benefits sought. Consequently, the risk of not sharing information in respect of violence from residents has yet to be adequately mitigated. There is a further risk that there may be a perception that the CRM risks have been fully mitigated with the closure of the CRM project, when this is not the case. It is evident that the technical solution will not be delivered in the foreseeable future. Given this, a paper is being written for consideration at EMCB, including re-visiting the risk assessment to determine the requirement for a corporate risk marker solution, and identify appropriate solutions to mitigate the revised requirements.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** June 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. On-going liaison regarding technical fixes to be made. Monitoring the use of the IT system by Corporate Safety Services. Continued use of existing (previous) systems by service providers. An alternative solution is now being scoped.	None.
2015/16.19	37	Failure to adequately identify the costs and benefits of different service delivery options arising from Service Reviews to enable them to be fully and accurately modelled and ensure they are feasible and the changes proposed can be delivered, before the decision to move forward is made.(Risk) Failure to fully implement the decisions taken to change BCC policy and service delivery to enable delivery of expected	Medium / Medium	**Lead Director comment** Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs and benefits as part of the formulation and evaluation of options in the consideration of the business case. The ADs of Finance will provide support on key projects based on their area of expertise. Those developing new service delivery options need to evaluate the full circumstances on a case-by-case basis, seeking proper advice where necessary, in order to identify the implications of the change in service delivery model. This will include assessing what will be left behind in BCC (e.g.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reports to EMCB, notes and actions from Corporate Commissioning Board agenda. Dialogue with directorate lead commissioners. Finance to be involved in commissioning reviews. Additional resources to support commissioning have been recruited (internally) to support the commissioning approach.	None.

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		benefits / efficiency gains. (Risk) Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz		fixed overheads, income targets etc.) as well as ensuring that all of the costs and income of the new model are taken into account - including those which are not applicable to a local authority model of delivery (e.g. taxation), together with some sensitivity and risk analysis. This needs to be done before any commitments are given. The need to evaluate the full circumstances for each delivery option requires a proportionality to it, and due regard for the need for calculated assumptions in order to avoid over-engineering financial modelling based on projected costs. The risk to the transferred service is the possible future loss of the Council as a customer and the risk to the Council is the loss of services provided to the transferred service as a customer, if the transferred service obtains these same services from another provider. These risks need to be managed by the corporate commissioning hub with peer reviews undertaken by Thematic Centres of Excellence and approval via Cabinet.	Commissioning Toolkit in place. Risk will be managed on a case by case basis through proper use of the Toolkit, and through reviews supported by the Assistant Directors of Finance. A checklist developed by AD Finance (Strategy) will continue to be used to ensure proper evaluation and appraisal of decision making reports. Corporate Commissioning Board will provide the governance for new commissioning strategies. CPS believes that given the challenges encountered in supporting alternative delivery models, and the innovative approaches required, the risk remains at Medium / Medium (target met). Only when we have examples of alternative delivery models being successfully implemented should this risk be removed. Mitigations detailed above are now in place with commissioning checklists to CCB ensuring that appropriate resources are in place to manage risk in implementing alternative service delivery models.	

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2015/16.21	44	Unpaid allowances / contractual overtime payments / equality of flex time agreements. (Risk) Lead: Strategic Director, Change & Support Services Owner: Dawn Hewins	Medium / Medium	**Lead Director comment** Whilst significant work has been undertaken to achieve harmonisation of terms and conditions there remains a small number of risks that are currently being addressed. The bulk of unpaid allowances claims have now either been successfully defended or settled. Any remaining claims are being considered and managed by Legal Services on a case by case basis. There also remains the potential of excessive use of overtime across the Council; this could potentially create equal pay risks. The Council ceased the use of all regular overtime with effect from 1st April 2014. Employees have potentially 6 years within which to make claims.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. All new claims for allowances are being assessed on their merits and defended wherever practical. Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern.	None.
2015/16.23	35	Current information technology equipment not being refreshed / up dated to maximise use and obtain full benefit from utilising technology. (Risk) Lead: : Strategic Director, Change & Support Services Owner: Nigel Kletz Risk reworded to delete reference to Windows 7.	Low / Significant	**Lead Director comment** Cabinet agreed in May 2013 that the ICT desktop refresh should be managed centrally as part of the Windows 7 migration project. The reasons for centralisation included; ensuring BCCs desktop estate remains fit for purpose and capable of running supported software operating systems, maintaining the integrity and security of Councils network and ensuring compliance with BCCs five year refresh strategy. The advantages of a centrally controlled programme of desktop refresh include; reducing the requirement for Service Birmingham (SB) refresh projects, providing business areas with an opportunity to update asset management records and ensure best usage of their assets, introducing the potential to reduce contractual charges from SB by better management of the ICT estate. Proactively reviewing future business needs and specifying hardware requirements.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** BCC achieved Public Services Network Certification to 29 April 2016. Any potential risk has been considerably reduced by decommissioning Windows XP devices on the BCC network. A few hundred public network Windows XP devices remain on the BCC estate. However, these are disabled from the BCC network and undergoing a phased replacement as part of the ongoing BAU desktop refresh process. The IT Helpline database has been locked-down to prevent ad hoc purchases outside of the desktop	None.

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				A planned programme of desktop refresh also supports BCC's agility agenda, and enables future financial planning, as payment for desktop refresh is via prudential borrowing rechargeable to directorates over a period of 5 years. In February 2015 Cabinet approval for the 2015/16 programme of refresh was granted. In May 2015 the corporately managed desktop refresh programme, managed by the ICF team & carried out by SB commenced. Partnership working is required to ensure the desktop refresh programme is successful. SB need to consistently achieve the agreed minimum of 120 replacements per month and directorates need to provide their future ICT business requirements to the ICF on a quarterly basis. These risks are being managed by the ICF via monthly meetings with SB and directorate PICTOG groups. From May 2015 to December 2015 SB achieved refresh for 760 desktop devices, with a further 228 replacements for directorates scheduled between January and March 2016, bringing the total achieved for 2015/16 to 988 devices. This shortfall is due to a May start date for the programme and will be addressed by rolling over the shortfall to the 2016/17 programme.	refresh programme. To cover exceptional circumstances users can complete a business case form and send it to the ICF Service Review mailbox for review, approval, rejection. There is now a defined BAU exceptions process. The only exception to this is when the request is for non-standard ICT devices. Non-standard requests will continue to follow the non-standard process. This has been agreed with SB.	

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Ref No.	Prev Ref No.	Description - risk / issue	Current level of risk: L / I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny Review / Work
2015/16.24	54	Risk of fines from HRMC for Directorates employing long term consultants. (Risk) Lead: : Strategic Director, Change & Support Services Owner: Nigel Kletz	Low / Significant	**Lead Director comment:** Where a council appointed Managed Service Company (MSC) fails HMRC tests on employment status, there are potential fines related to tax and National Insurance avoidance. A new process and gateway for the engagement of off payroll 'Individuals' was approved by EMCB on 13th August 2013. In effect there are two gates, one within the Agency Gateway Team and the other within Corporate Procurement Services (CPS) and the Helpdesk, therefore the potential for officers to engage an individual incorrectly has been greatly reduced which in turn ensures compliance. Staff appear to be bypassing the gateway process that was established, exposing the City to the same risk as before. Alternative means of identifying non-compliance need to be established and more effective controls introduced.	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating:** 30th June 2016. **Source(s) of assurance regarding progress with mitigating the risk:** The new process has been widely publicised to all Directorates and is available on People Solutions as well as Voyager. It has been embedded in to the procedures within Payroll and CPS. In addition CPS are in the process of arranging information events for officers to attend in order to gain further advice, guidance and support in order to minimise the Council's exposure to risk. Following a restructure within HR the engagement process is to be reviewed with changes implemented by the end of quarter two 2016.	None.
2015/16.04	59	Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs). (Risk) Lead: Strategic Director, Major Projects Owners: Alastair Gibbons, Adrian Phillips & Dawn Hewins Risk reduced	Low / Medium	**Lead Director comment** The ICO wrote to BCC in December 2014 re an issue with timely responses to SARs. An action plan has subsequently been submitted / accepted by the ICO, and monthly reporting to the ICO will continue until April 2016.	**Target risk rating**: Low / Low **Anticipated date of review/attainment of the target risk rating:** April 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance from HR and Children's Services.	None.

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2015/16.20	41	Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement. (Risk) Lead: Strategic Director, Place Directorate Owner: Lesley Ariss Risk reduced	Low / Medium	**Lead Director comment** The Improvement Panel have assessed progress in relation to the specific prescriptions made on localisation through the independent Lord Kerslake report and commitments made against this in the Council's Improvement Plan in September 2015 and January 2016. The feedback from this has been positive. In particular all direct recommendations have been actioned including the transfer of delegations away from district committees and the delineation of a new role for district committees. Services are now accountable to cabinet portfolios and management, and service redesigns are operating as "business as usual" through delegations to officers within the Place Directorate. The new remit for district committees around neighbourhood challenge and community planning has been embedded effectively. Policy guidance for this was agreed by cabinet in July and development undertaken with members in five sessions over July to October, with delivery of outcomes currently live within 2016/17. Delivery against this is performance managed through the Future Council Local Leadership sub programme board meeting fortnightly.	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating**: Attained. **Source(s) of assurance regarding progress with mitigating the risk**: Management assurance as detailed in Lead Director comment - Scrutiny Report in January 2013, bi-monthly reports on progress of the secondary work streams. Ongoing review of risk through the Future Council political governance sub programme.	The Corporate Resources O&S Committee is undertaking a piece of work around district and ward arrangements and will be gathering evidence at its February committee meeting. This includes a review of arrangements put in place in May 2015 and options for the future development of devolution.

APPENDIX A

Corporate Risk Register Update for Audit Committee March 2016

Removed Risks:

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
13	Succeed economically	Failure to progress with delivering against the Birmingham Prospectus.	Risk flagged for deletion by Development & Culture Directorate, this risk should now be picked up at the Directorate level due both to the progress of individual projects and the engagement which is now in place with public and private sector partners.	November 2008
10	Achieving excellence	Property Utilisation of Central Admin Buildings – failure to take full advantage of the opportunities arising from the Working for the Future (WFTF) Business Transformation Programme.	Merged with risk 3 regarding WFTF cross portfolio buildings, at request of Business Transformation Steering Group.	July 2008
7	Achieving excellence	Reduction in non-core budgets e.g. Working Neighbourhoods Fund Comprehensive Spending Review, grant regimes etc.	Risk flagged for deletion by Corporate Director of Resources. Will remain on Directorate Risk Register.	July 2008
19	Achieving excellence	Failure to deliver on the Executive Management Team's (EMT's) key supporting outcomes.	Risk flagged for deletion by Effectively Managed Corporate Business group – EMT's key supporting outcomes were identified in June 07 and are fully embedded within the Directorate Business Plans and monitoring of the Performance Plan. It is a duplication to have this as an issue in the Corporate Risk Register.	January 2008
22	Achieving excellence	Failure to meet the code of connection for Government Connect.	Risk flagged for deletion by the Corporate Director of Resources. Will be managed via ICF Risk Register.	March 2010
8	Succeed economically	Failure to co-ordinate / control all of BCC's Accountable Body roles and responsibilities.	This has improved and will continue to be monitored via the Resources risk register.	July 2010
14a	Succeed economically	Failure to progress the Highways Public Finance Initiative (PFI).	The PFI contract was signed on 7 May 2010.	July 2010
15	Achieving excellence	Failure to achieve the efficiencies agreed in the budget round and plan for the efficiencies necessary for the next two years.	This has been incorporated into risk 28.	July 2010
16	Achieving excellence	Lack of compliance with and appropriateness of, corporate people management policies & procedures and national regulations.	The policies & procedures have been updated on People Solutions with the Excellence in People Management system, and compliance with them is covered in risk 18.	July 2010

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Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
17	Achieving excellence	Failure to act on the sustainability agenda.	This has been included by Directorates as business as usual now. It will continue to be monitored via the Development risk register.	July 2010
21	Succeed economically	Adverse impact of the economic downturn.	This has been included by Directorates as business as usual now. It will continue to be monitored via Directorate and Department risk registers.	July 2010
3	Succeed economically	Failure to progress the Cross portfolio elements of the Working For The Future (WFTF) programme.	This has been flagged for deletion by the Corporate Director of Resources as progress is being made on this and where there are problems with buildings this is covered in new risk 32 added November 2010.	November 2010
1c	Achieving excellence	Failure to implement the pay and grading review for **all** non-schools staff.	The pay and grading structure for has now been fully implemented and this is no longer a risk.	March 2011
6a	Achieving excellence	Failure to adopt the new working practices implemented through the EPM programme which in turn will impact on benefit delivery.	The new working practices have become business as usual. Benefits delivery is being monitored as part of risk 4.	March 2011
6b	Achieving excellence	Failure to achieve the IT infrastructure which allows all employees to access information electronically.	A full business case is being developed to achieve this. This is no longer a corporate risk and will be monitored through the Corporate Resources Directorate risk register.	March 2011
24	Achieving excellence	Failure to manage pay progression effectively.	The pay progression framework has been applied to Council managed staff and is no longer a risk. The pay progression issue regarding schools staff is covered in risk 1a and will also be monitored through CYP&F Directorate risk register.	March 2011
12	Make a contribution	Failure to engage and inform communities around the Council's approach to improving community cohesion.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and it has been delegated to the Strategic Directorate of Corporate Resources' risk register for continued management.	July 2011
18	Achieving excellence	Failure to implement recommendations made to improve internal control in the External Audit Annual Letter and by Internal Audit to help prevent fraud and error.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011
29	Achieving excellence	Failure to achieve progress against local priorities as stated in the Sustainable Community Strategy.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011

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Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
27	Succeed economically	Failure to put in place action plans and strategies to fully mitigate the effects of reductions in area based grants.	Merged with risk 28 "Need to meet the massive spending reductions over the three years from 2011/12" at request of Strategic Director of Corporate Resources.	December 2011
11	Enjoy a High Quality of Life	Failure to deliver Achieving Excellence with Communities.	The target risk level has been met. Cabinet Committee Achieving Excellence with Communities receives progress reports. The risk has been delegated to Homes and Neighbourhoods directorate to manage.	March 2012
33	Succeed Economically	Failure to adapt to Climate Change.	The target risk level has been exceeded and long term planning has now been put in place. This risk will continue to be managed by directorates.	March 2012
9	Public Service Excellence	Need for capacity to react promptly to and manage the significant workforce changes occurring.	The level of risk has reduced to the target level.	July 2012
31	Public Service Excellence	HRA Finance Reforms.	This is no longer a risk - the funding has been agreed and is included in the 2012/13 budgets.	July 2012
34	Enjoy a High Quality of Life	Independent Care Sector Fees.	The target level of risk has been attained. The risk will continue to be monitored by the Adults & Communities Directorate.	July 2012
38	Public Service Excellence	Failure to maintain infrastructure assets including responsibilities regarding protected listed buildings.	Merged with risk 32 and changed to: Shortage of capital and failure to take appropriate long term decisions to manage the property asset portfolio (by disposals and reinvestment of capital in the residual estate); including responsibilities regarding protected listed buildings, leading to escalating costs.	November 2012
39	Public Service Excellence	Shortfall in resources compared to projections from 2013/14 onwards as a result of the new system of local retention of business rates.	Merged with risk 28 and changed to: Need to plan appropriately for the on-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14, particularly the significant potential reduction in resources from 2014/15, and avoid legal challenge.	November 2012
53	Public Service Excellence	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013

Corporate Risk Register Update for Audit Committee March 2016

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
5	Stay Safe	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013
36	Public Service Excellence	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013
49	Succeed Economically	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Enjoy a High Quality of Life	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Public Service Excellence	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 “On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14”.	March 2014
1d	Public Service Excellence	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Be Healthy	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014
48	Be Healthy	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014
20	A Prosperous City	Demonstration of benefits arising from Customer First.	All of the actions for 2014/15 are being put in place, ie: Launch of the new Housing Repairs functionality which was delayed from last year, re-design of the website, promotion of self service, improvements to online forms, etc.	November 2014

Corporate Risk Register Update for Audit Committee March 2016

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
25	A Prosperous City	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30th June 2014.	November 2014
51	A Prosperous City	Service Birmingham support provided to the SAP HR and payroll system.	There has been significant progress against an agreed improvement plan and the service is now significantly more stable.	November 2014
2015/16.08	A Fair City	Insufficient resources (finance & people) to agree / deliver the change programme.	Cabinet approved a report on 20th April 2015 that set out the Children's Social Care and Early Help Improvement Plan for 2016-2018, including the appropriate financial envelope for the plan.	July 2015
2015/16.25	A Prosperous City	Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance.	Following identification of this risk, processes and procedures were developed and rolled out to key contract managers across the organisation with supply chain risk assessments being completed by suppliers. The supply chain risk assessment process is now captured as an annual activity within the supplier annual reviews and the Council's contract management toolkit.	July 2015
2015/16.26	A Prosperous City	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	A Prosperous City	Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.	We have made four submissions out of four without issue (and passed an Environment Agency Audit in 2011), giving a 100% success record. The 2014/15 return is progressing normally.	July 2015
2015/16.28	A Prosperous City	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015

Birmingham City Council

Risk Management Policy Statement 2016

Reviewed January 2016

This document forms part of a set of policies and procedures for all levels of staff to use to manage risk. The others are:

- The Risk Management Strategy which describes the council's objectives, how these will be met, a definition of risk and the roles and responsibilities of both Members and staff regarding risk management.
- The Risk Management Methodology which describes the practical steps to be taken in managing risk.
- A detailed Risk Management Toolkit, which provides further guidance along with background information, reference material and links to other useful information.

These documents are all available on InLine at Risk Management documents and, with the exception of the Toolkit, are also posted on the Birmingham.gov website.

Our Risk Management Policy, Strategy and Methodology support the City Council's vision and priorities which are set out in the Council Business Plan and Budget 2016+. The Council has a vision for Birmingham. This is to help create a fairer, more prosperous and more democratic city.

The Council has a well established approach to managing risk. It has recognised that risk is an integral part of innovation in order to deliver the key outcomes of the Council. By managing risk proactively we can take full advantage of opportunities and better use the limited resources available.

In particular a clear understanding of the risks and opportunities arising from the changing nature of service delivery is important; partnership working with businesses, academia, the public sector and the community is increasing and more services are being 'commissioned' rather than directly provided by the Council. New types of service providers are being used, or may be used in the future, such as Trusts, Social Enterprises and Co-operatives as well as 3rd Sector organisations, to drive service improvements. There is a greater emphasis on personal choice and the safety and opportunity for all children, the provision of a great future for young people and ensuring thriving local communities. However, these changes in service delivery provide new risks and opportunities to be managed.

Council objectives relate to the whole city and indeed region. As a result they can be influenced by an enormous variety of risks and opportunities. It would be impossible to identify all of these risks and opportunities. It is therefore important to focus on high risks and getting early warning of when they become more imminent, or start to take effect, and to enable us to be in the best position possible to make the most of opportunities.

Advice has been provided to directorates through the Risk Management Strategy and Risk Management Methodology documents, and the publication of the Risk Management Toolkit. There is a regular process of risk assessment at a corporate level. This process identifies and scores key risk factors, and results in the Corporate Risk Register - a public document. This outlines the controls and plans in place to respond to the risks and opportunities identified. Transparency and accountability are key to the process.

As part of the corporate governance agenda the Council includes an Annual Governance Statement (AGS) within the Statement of Accounts. The AGS incorporates a statement on internal control, including risk management. Directors and Heads of Service are also required to produce a governance statement in relation to their Directorate / service to support the AGS.

Birmingham City Council

Risk Management Strategy 2016

Revised January 2016

This document forms part of a set of policies and procedures for all levels of staff to use to manage risk. The others are:

- A short Risk Management Policy Statement.
- The Risk Management Methodology which describes the practical steps to be taken in managing risk.
- A detailed Risk Management Toolkit, which provides further guidance along with background information, reference material and links to other useful information.

These documents are all available on InLine at Risk Management documents and, with the exception of the Toolkit, are also posted on the Birmingham.gov website.

1. Introduction

1.1 The need for a risk management strategy

In the current economic climate with severe pressures on funding for services and the need for greater efficiencies whilst improving services for the most vulnerable means that sound corporate governance and good decision making are paramount. Risk management is an integral part of corporate governance and can be used as a tool which can assist the council in meeting its key outcomes.

Mandatory codes of governance exist in the private sector and other parts of the public sector. The CIPFA/SOLACE document, "Corporate Governance in Local Government – A Keystone for Community Governance", which comprises a framework and guidance notes, was adopted as good practice by Cabinet in July 2002. The framework comprised of five themes, with risk management being one of them.

In July 2014 "Good Governance in the Public Sector" was issued, this describes seven core principles, one of which is "managing risks and performance through robust internal control and strong public financial management". A further update on corporate governance is contained within the revised "Delivering Good Governance in Local Government: Framework which becomes effective from 1st April 2016.

Section 9 of the Council's Financial Regulations places responsibility with all Directors for risk management (this includes identifying, evaluating, recording and managing the risks existing within their service area) and maintaining sound systems of internal control within their area of service delivery. Section 10 of Financial Regulations requires the Directors to make an annual assurance statement on risk management and internal control. These assurance statements from the Directors will form the basis of the Annual Governance Statement which is included in the Council's annual accounts.

1.2 The Council's risk management strategy's objectives are to:

- Integrate risk management into the culture of the Council.
- Manage risk in accordance with good practice.
- Anticipate and respond to changing social, economic, political, environmental, legislative and technological requirements.
- Prevent injury, damage and losses and reduce the cost of risk.
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services.

1.3 These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for risk management - making clear that everyone should take ownership for risk management.
- Incorporating risk management considerations into all levels of business planning.
- Providing opportunities for shared learning on risk management across the Council and with Partner organisations.
- Offering a framework for allocating resources to identified priority risk areas.
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training.
- Monitoring of arrangements, at all levels, on an on-going basis by management.

Using Control Risk Self-Assessment, to provide direct management assurance that managers and staff at all levels are actively evaluating and improving the control framework, to support risk management processes is a way for managers to demonstrate their awareness of risk and that they are embedding controls and actions to manage risk and to take advantage of opportunities within their day to day role.

The Council has a three to five year business planning framework so forward looking risk management, particularly with regard to looking at the risks arising in the medium and long term to the delivery of the Council's key priorities is necessary. Risk management needs to be embedded in our commissioning and partnership arrangements as we are placing increasing reliance on a variety of new and different service delivery models and commissioning services rather than the Council delivering services directly.

Our approach to risk management, which underpins the strategy and provides a vision of what we are aiming for, is summarised below:

Risk management is not simply a compliance issue, but rather a way of viewing our operations with a significant impact on long-term viability. It is critical to success and is a focal point for senior management and Members. It helps us to demonstrate openness, integrity and accountability in all of our dealings.

The emphasis is on sound decision making - being risk aware rather than risk averse; and on taking advantage of opportunities.

1.4 The benefits of having a risk management strategy

- Risk Management will alert the Audit Committee and the Corporate Leadership Team to the main service and financial issues. This will allow early and proportionate management handling.
- It contributes to better decision making, and the process of achieving objectives. When embedded within existing planning, decision taking and option appraisal processes, risk management provides a basis for ensuring implications are thought through, the impact of other decisions, initiatives and projects are considered, and conflicts are balanced. This will influence success and improve service delivery.
- It provides assurance to Members and management on the adequacy of arrangements for the conduct of business and the use of resources. It demonstrates openness and accountability to various inspectorate bodies and stakeholders more widely. This links into the completion of assurance statements where Directors must annually certify as to the effectiveness of the governance arrangements within their service area. Risk management can inform this process as it can be used to demonstrate that senior officers are actively identifying key risks, reviewing the appropriateness and effectiveness of key controls against these risks, and are able to highlight areas of significant control weakness.
- It leads to greater risk awareness and better management of risk, which should mean fewer incidents and other control failures.

These are not all intangible benefits. By identifying risks earlier, by making sure processes are not over engineered and are fit for purpose, and achieving a behavioural shift, risk management will produce a cultural change that will pay for itself many times over.
It is vital that we continue to develop the use of risk management in our dealings with third parties such as through partnerships, contracts, major procurements, and other service

delivery models such as Social Enterprises, Cooperatives, Trusts and Wholly Owned Companies. While these areas contain significant risks for the Council, they also have the potential to provide significant benefits if well managed. The use of risk management to mitigate risks while also exploring opportunities is key to ensuring that these working arrangements contribute positively to service delivery.

The long term aim is for risk management to be carried out at all levels of the organisation with each level feeding up to the next level to ensure that operational risks are not missed, and that strategic risks can be fed down to operational areas, as appropriate, to contribute to their mitigation.

Diagrams showing our approach to risk management are attached at Appendices 1 and 2.

2. The strategy

The strategy sets out:

- a definition of risk and what is meant by risk management
- roles and responsibilities of Members, Officers and reporting lines
- action that needs to be taken

The strategy will be subject to annual review to ensure that it remains up-to-date and continues to reflect the Council's approach to risk management.

2.1 Definitions

Risk can be defined as:

An event / series of events happening or action(s) taken that will prevent the Council from achieving its planned objectives, in part or in full. A risk can also be the failure to take advantage of opportunities to optimise the Council achieving its planned objectives.

A simple view of what risk management is trying to do is:

Risk management is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. This is achieved through transferring risks, controlling risks and living with risks. Risk management is not just about insurance - not least because over 80% of risks faced by organisations are not insurable. Certainly risk transfer is part of risk management, but so is risk retention and control.
Source: Solace/Zurich Municipal

The roles and responsibilities of individuals and groups to implement the strategy are as follows:

- **Cabinet Members** - work with the Corporate Management Team, Assistant Directors and Heads of Service regarding the management of corporate risks / opportunities. Cabinet Members are also involved with risk management within service provision in the directorates as per their portfolio.

- **Members** - involved via Regulatory Committees, the Overview and Scrutiny process and through District Committees. Also involved in other roles such as their membership of project boards and / or accountable bodies.

- **Audit Committee** - The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance.

- **Corporate Leadership Team** - Scans for new risks to the Council and the City of Birmingham. Gives a view of the medium to long term risks to the city, including assumptions in respect of government policy, financing, business change and partnership working.

- **Effectively Managed Corporate Business (EMCB) CMT** - ensures that the people, policies and resources of the Council are utilised efficiently and effectively so that the priorities / corporate objectives of the Council are delivered. The group has the delegated authority to take decisions within its areas of responsibility, which include Corporate Governance and Risk Management. EMCB CMT has the draft Corporate Risk Register update reported to it the month before it goes to the Audit Committee. EMCB CMT challenge the update information provided by directors, nominate new risks / opportunities for inclusion in the Corporate Risk Register and recommend re-wording or deletion of risks as appropriate.

- **Chief Executive** - leads on the wider corporate governance agenda of which risk management is a part. Receives assurance statements on internal control from the Strategic Directors. The Chief Executive is one of the signatories to the Annual Governance Statement (AGS) in the Council's annual accounts.

- **Assistant Chief Executive, Strategic Directors, Directors, Assistant Directors and Heads of Service** - integral to the risk management process, providing leadership for the process. Responsible for feeding key risks into the Corporate Risk Register via their directorate register or EMCB CMT. The risks to be identified include those arising from corporate initiatives, business change, major projects, cross cutting issues, the external environment – including legislative changes, partnership working and from assessing the wider implications of their directorate's service provision. There is a particular duty for the Assistant Chief Executive, Strategic Directors, Directors, Assistant Directors and Heads of Service to reduce the impact of high risks that are likely to occur. They also need to make arrangements for embedding risk management throughout their directorate, which will assist them in providing assurance to the Chief Executive each year.

- **Directorate and Service Management Teams** - carry out service risk assessment as part of business planning and internal / external reviews e.g. External Audit inspections and reviews, Equalities and Human Rights Commission inspections, Commission for Social Care Inspection, Ofsted, the results of Equality Analysis, Health & Safety Inspectorate etc., and taking account of corporate key risks. Have responsibility to put in place actions to take advantage of opportunities / reduce risks. Monitor and review the effectiveness of the actions.

- **Risk Representatives** - nominated by each directorate to assist in embedding risk management. The objectives of risk representatives include implementing a practical and workable approach to risk management within their directorate, embedding risk management into the day to day running of their directorate, the production and maintenance of an up-to-date directorate risk register and co-ordinating responses to corporate risks. They are also a point of contact to provide risk registers and risk management information from the Directorate to Birmingham Audit and receive information from Birmingham Audit with regard to risk management within their directorate.

- **Birmingham Audit** - Assistant Director, Audit and Risk Management facilitates and advises on the corporate risk management process. Develops, in conjunction with colleagues, practical approaches for implementing risk management. Birmingham Audit's internal audit teams may review and report on the directorate and corporate risk management processes and wider corporate governance agenda. Issues guidance and information.

- **All staff** - have a responsibility for identifying opportunities as well as hazards / risks in performing their day to day duties and taking appropriate action to take advantage of opportunities or limit the likelihood and impact of risks. This includes making their manager aware of opportunities or hazards / risks identified.

For this Strategy to be effective there must be commitment to implement it throughout the Council. The Members, Chief Executive, Assistant Chief Executive, Strategic Directors, Directors, Assistant Directors and Heads of Service will be able to demonstrate their commitment to risk management by identifying, profiling and prioritising corporate and cross-cutting risks.

This involvement from the top will set the tone for a cascade down the organisation. This top-down cascade will then meet the day to day operational control of risk by all involved in service delivery from the bottom-up. See the diagrams in Appendices 1 and 2 which demonstrate how risks are identified and managed within the Council.

2.2. Action that needs to be taken

- **Members** to be aware of the key risks within their portfolio services, and within any projects and or partnership working they represent the Councils interests on. Requesting sight of risk registers as appropriate, and challenging the robustness of risk assessments in Committee Reports.

- **Effectively Managed Corporate Business CMT** to receive the updated Corporate Risk Register, and review the effectiveness of actions put in place by Directors, Assistant Directors and Heads of Service to manage corporate risks, three times per annum. Nominate new risks, amendments and deletions to the Corporate Risk Register as appropriate.

- **Assistant Chief Executive / Strategic Directors / Assistant Directors / Heads of Service** to:

    - Embed risk management throughout their directorate. This includes the process of reporting or nominating risks and opportunities arising from directorate business activities and those identified by divisions and services, up to the directorate risk register.
    - Ensure that risk management has been explicitly considered in framing Business / Service Plans.
    - Review and up-date their directorate risk registers at least quarterly. Directorate registers are to include the corporate risks.
    - Feed new key risks identified and opportunities, such as from projects, partnership working and business change to the Effectively Managed Corporate Business CMT and to update their risks within the Corporate Risk Register at least three times each year.
    - Delete risks which are now longer relevant or are adequately controlled.
    - Report to Corporate Leadership Team regarding progress on their management of corporate risks.
    - Provide an annual assurance statement on risk management and internal control within their service area by 31st March each year by obtaining management assurance and utilising control risk self assessment information from their evaluation of the effectiveness of controls in place and the degree to which they have been consistently applied.

- **Senior Managers** to monitor the effectiveness of risk management actions in place. Providing assurance that systems and controls are consistently applied and are operating effectively to mitigate risk and assist in the achievement of service outcomes using control risk self assessment. Report on progress to the Director, Assistant Director, Head of Service or Directorate Management Team, as relevant, at least quarterly.

3. Embedding risk management

Risk management is an important part of the business planning process. This will enable strategic, operational and cross cutting risks / opportunities, as well as the accumulation of risks / opportunities from a number of areas to be properly considered. The Council continues to embed the process and raise awareness of the importance of good risk management

This strategy and the information contained within the appendices along with the Risk Management Policy Statement and the Risk Management Methodology provide a framework to be used by all levels of staff and Members in the implementation of risk management as an integral part of good management. The Risk Management Toolkit which provides additional information is also available to assist managers.

The milestones to be met in embedding risk management are:

Milestones	Annual target date(s)
Directorate key risks reviewed and new significant risks or opportunities fed into the Corporate Risk Register for reporting to the Audit Committee three times a year. Directorate key risks to be informed by Divisional, Service, business change and project risk registers.	Reports to Audit Committee each July, November and March
Directorates, Divisions, Services, business change and Project Leads to: ▪ clearly identify existing controls regarding the risks identified, and the degree to which they are consistently applied. Evidence of the application of controls to be maintained and cross referenced onto the Action Plans. ▪ evaluate existing controls for the degree of mitigation the controls provide and if further control is desirable. ▪ calculate the cost of improving controls to provide greater mitigation to establish if further control would be cost effective.	April 30th July 31st October 31st January 31st
Assistant Chief Executive and Strategic Directors give assurance to Chief Executive regarding internal control, including the management of key risks, within their area of service delivery.	March 31st
Assistant Chief Executive and Strategic Directors to ensure that risk / opportunity identification is intrinsically linked to service plan objectives.	During annual Business / Service planning process
Assistant Chief Executive and Strategic Directors to include performance on managing risks within performance monitoring of Business / Service Plans and in senior officer's performance contracts / plans and Personal Development Reviews.	Each year
The Annual Governance Statement signed and published in the Council's Annual Accounts.	Signed annually every June

Hierarchy of risk identification and risk management

Corporate Leadership Team

* Sets strategic outcomes and provides leadership regarding risk management.
* Scans horizon for new risks to the Council, and the City of Birmingham, and for new opportunities.
* Gives a view of the medium to long term risks and opportunities, including assumptions regarding Government policy, financing, business change and partnership working.

Directors and Directorate Management Teams

* Identifies directorate and corporate risks arising within their directorate in relation to the delivery of the Leader's Key Priorities.
* Takes ownership for managing these risks and monitoring progress / impact of actions.
* Reports on corporate risks and nominates possible new corporate risks to EMCB (CMT).
* Receives quarterly reports from Assistant Directors and Heads of Service regarding management / mitigation of directorate risks.

Effectively Managed Corporate Business (CMT)

* Identifies corporate risks in relation to the delivery of the Leader's Key Priorities.
* Decides upon top 20 - 25 corporate risks.
* Receives reports three times a year regarding progress in managing the top 20 - 25 corporate risks.
* Advises the Audit Committee on progress / impact of actions to mitigate the top 20 - 25 corporate risks, and nominations of new / amended risks, or the deletion of corporate risks.

Directorate Risk Registers

Corporate Risk Register

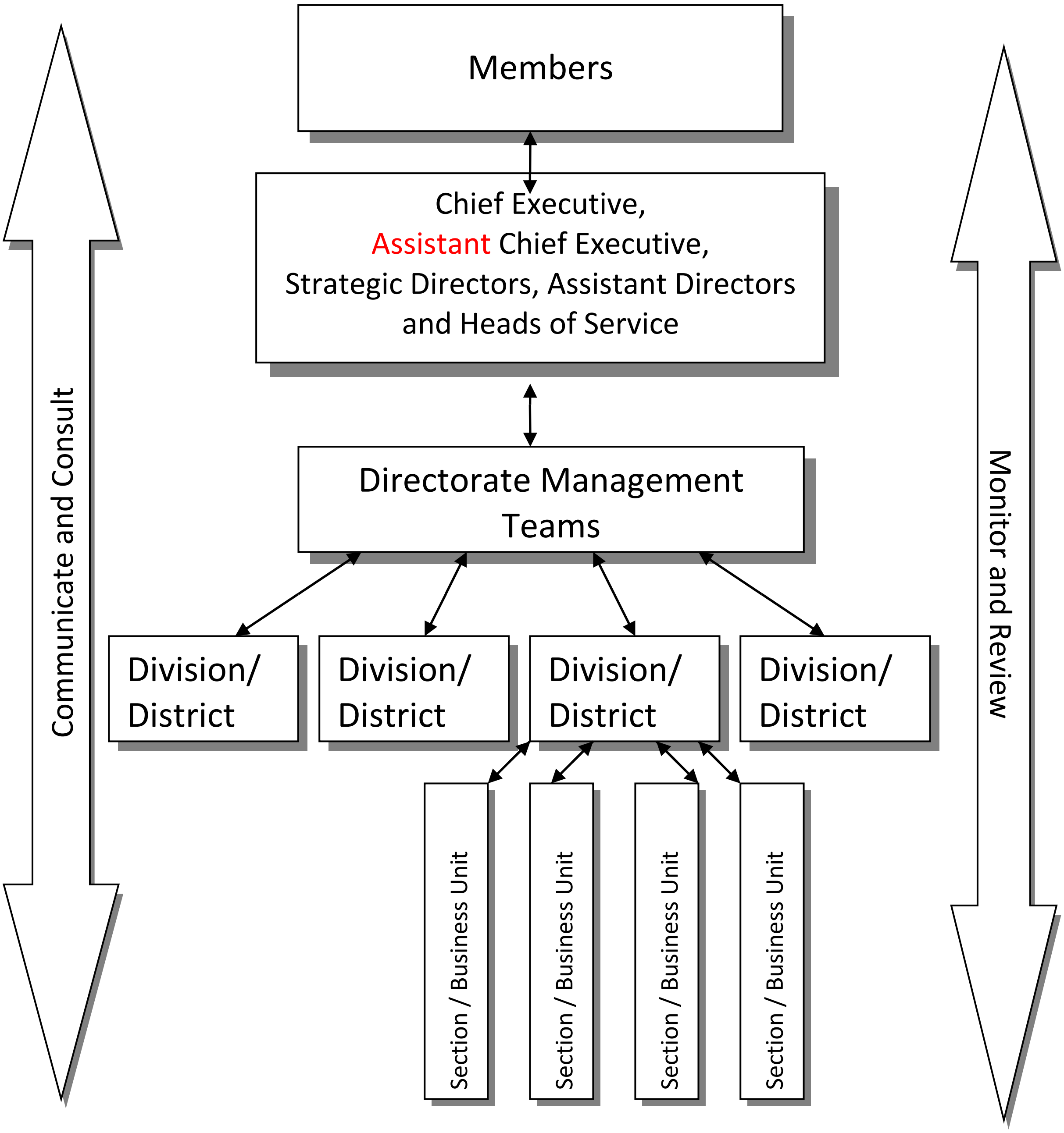
Audit Committee

* Role to promote & embed risk management.
* Receives reports from EMCB (CMT) re top 20 - 25 corporate risks and oversees effectiveness of actions taken to mitigate risks.
* Review AGS.

Contributes to Statement on Internal Control / Annual Governance Statement (AGS)

This process is subject to Scrutiny, External Audit & Internal Audit

Appendix 2


Members
Chief Executive,
Assistant Chief Executive,
Strategic Directors, Assistant Directors
and Heads of Service
Directorate Management
Teams
Division/
District
Division/
District
Division/
District
Division/
District
Section / Business Unit
Section / Business Unit
Section / Business Unit
Section / Business Unit
Communicate and Consult
Monitor and Review

Birmingham City Council

Risk Management Methodology 2016

Reviewed January 2016

This document forms part of a set of policies and procedures for all levels of staff to use to manage risk. The others are:

- A short Risk Management Policy Statement.
- The Risk Management Strategy which describes the council's objectives, how these will be met, a definition of risk and the roles and responsibilities of both Members and staff regarding risk management.
- A detailed Risk Management Toolkit, which provides further guidance along with background information, reference material and links to other useful information.

These documents are all available on InLine, and with the exception of the Toolkit, are also posted on the Birmingham.gov website.

Introduction

This document describes the risk management methodology to be used within Birmingham City Council. There are five elements to be carried out:

- Risk / opportunity identification
- Risk / opportunity analysis
- Risk / opportunity prioritisation
- Management of risks / opportunities
- Monitoring of progress

1. Risk / opportunity identification

This involves identifying potential opportunities and risks relating to the delivery of the Council's corporate objectives. These may arise because of the general environment in which we are operating or in relation to specific decisions being made or options being considered. All types and categories of risk should be considered at this stage.

Risk identification should be carried out using service objectives drawn from the Leader's Key Priorities (or the objectives of the project / partnership) considered against the following list of possible types of risk. This stage should be repeated regularly to ensure that new risks arising are identified and brought into the risk profile as appropriate.

Types / Categories of risk:

There are several ways of categorising risk; these are used as prompts to help people think broadly when identifying risks. More detail and examples can be found in the Risk Management Toolkit for Managers on the Policies, Standards, Procedures and Guidelines database on InLine.

Overarching risks (can be strategic risks and operational risks): Reputational, Partnership / Contractual, Legislative / Regulatory or Financial.

Strategic risk areas: Economic, Technological, Political, Social, Competitive and Environmental.

Operational risk areas: Customer / Citizen, Physical or Managerial / Professional.

2. Risk / opportunity analysis

This is the process of reviewing the risks identified so that similar risks can be grouped and classified according to the likelihood of them occurring and the impact they would have.

Measures of likelihood

Description	Example Detail Description
High	Almost certain, is expected to occur in most circumstances. Greater than 80% chance.
Significant	Likely, will probably occur in most circumstances. 50% - 80% chance.
Medium	Possible, might occur at some time. 20% - 50% chance.
Low	Unlikely, but could occur at some time. Less than 20% chance.

Measures of impact

Description	Example Detail Description
High	Critical impact on the achievement of objectives and overall performance. Critical opportunity to innovate / improve performance missed / wasted. Huge impact on costs and / or reputation. Very difficult to recover from and possibly requiring a long term recovery period.
Significant	Major impact on costs and objectives. Substantial opportunity to innovate / improve performance missed/wasted. Serious impact on output and / or quality and reputation. Medium to long term effect and expensive to recover from.
Medium	Waste of time and resources. Good opportunity to innovate / improve performance missed/wasted. Moderate impact on operational efficiency, output and quality. Medium term effect which may be expensive to recover from.
Low	Minor loss, delay, inconvenience or interruption. Opportunity to innovate / make minor improvements to performance missed / wasted. Short to medium term effect.

The descriptions are applied as follows:

- Firstly the likelihood and impact of the risks identified will need to be considered as if no controls exist - this will give the inherent risk.
- Secondly the likelihood and impact of the risks will then need to be considered based on an evaluation of the effectiveness of existing controls to give the residual risk now.
- Then there will need to be consideration of what the target risk is. This is the level of risk that you are aiming to manage the risk down to, over time.

3. Risk / opportunity prioritisation

Once the inherent risks have been classified they need to be mapped onto the matrix as shown in this example. The colours are a "traffic light" system that denotes the risk appetite of the Council. The mapping will need to be repeated to record the residual risk too as this will show how controls in place have influenced the level of risks. E.g. the inherent risk could place a risk within the red zone as a severe risk, but because controls in place are evaluated as being effective and consistently applied the residual risk could fall within the yellow (material risk) or green (tolerable risk) zone. The mapping can then be repeated to record the target risk to provide a view of how much further it is aimed to reduce the level of risk to.

LIKELIHOOD

High	Material	Severe	Severe	Severe
Significant	Material	Material	Severe	Severe
Medium	Tolerable	Material	Material	Material
Low	Tolerable	Tolerable	Material	Material
	Low	Medium	Significant	High

IMPACT

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

4. Management of risks / opportunities

This aspect of the process involves:

- setting the risk appetite, which requires a decision to be made on the degree to which risks are tolerable. This can vary from risk aversion through to risk taking, and will depend upon the nature of the service. The result of this is to set the level at which risks can be tolerated and therefore accepted. The Council's risk appetite is shown on the risk matrix by the identification of which risks are severe (red zone), material (yellow zone) and tolerable (green zone).

- assessing whether to accept / tolerate, control / treat, modify, transfer or eliminate / terminate the risk, or how to respond to the opportunity, based on the availability of resources;

- documenting the reasons for the decision taken;

- implementing the decision;

- assigning ownership to manage the risks / opportunity to specific officers; and

- the completion of an action plan - this is required for all risks identified as inherently severe and at management's discretion for the others, detailing existing controls, an assessment of their effectiveness and recording where the evidence that the controls are operating can be found. The action plan also has space to record what further controls are needed, along with who is responsible for these and to record the target risk when appropriate.

Controls are the tools that managers use to manage their services. They are the methods used by managers to assure themselves that they are achieving their business aims and service objectives, and that the service is being provided in the most efficient and effective way. The cost and robustness of existing or additional controls is a key consideration at this point and needs to be balanced against the potential consequences (reputational, financial or otherwise) if the event occurred. The cost of implementing and operating a control should not normally exceed the maximum potential benefit.

Using Control Risk Self Assessment, to provide direct management assurance that managers and staff at all levels are actively evaluating and improving the control framework, to support risk management processes is a way for managers to demonstrate their awareness of risk and that they are embedding controls and actions to manage risk and to take advantage of opportunities within their day to day role. A guide with regard to Control Risk Self-Assessment (CRSA) is posted on InLine. Risk management will also help to inform the Directorate, and Business Unit Assurance Statements that are completed each year.

Approaches to managing risks:

Accepting / tolerating risks means that you intend to manage the risk within your existing management routines. Risks should only be accepted where officers believe that the residual risk is tolerable to the service area, i.e. where they fall within the green zone of the matrix.

Controlling / treating risk means that you identify additional action(s) to be taken that will reduce the likelihood and / or impact if the event occurred. Controls can be:

- preventative, such as physically restricting access to hazardous chemicals, insisting on two signatories, ensuring segregation of duties exist within a system, implementing authorisation limits, or restricting levels of access on IT systems. These controls will help reduce risk levels from the outset. Equality Analysis is also an example of a preventative control as they help to highlight the potential risk of discrimination.

- detective, such as quality checks, alarms, exception reports, accident reports, financial reports such as budget monitoring reports, and reviewing insurance claims. These will show when something has gone wrong - perhaps a trigger event that can then alert you that the risk event is becoming more likely to occur.

- directive, such as procedure manuals, guidance notes, instructions, training. These advise on how to carry out processes safely but if they are not adhered to they will not prevent risk events occurring.

It may be however that the risk identified is outside your immediate control. In this case the action you need to take is to ensure that you have a contingency plan in place in case the risk does occur, so that you can deal effectively with the consequences.

Modifying risks means that you change the activity or the way in which it is carried out because adding control mechanisms would not help to reduce likelihood and / or impact.

Transferring risk means using an insurer or other third party to cover the cost or losses should a risk materialise. However, care needs to be taken to accurately specify the risks to be covered. Making arrangements with others such as joint working, partnerships or contracting out to provide services could also be used to transfer risks. However, other risks can arise from these arrangements and the responsibility of providing the service could remain with the Council. When transferring risks to other parties, ensure that risk registers spell out where liability and accountability lie between parties.

Eliminating / terminating risk means ceasing to carry out the activity because modifying it or controlling it would not reduce the risk to an acceptable level.

5. Monitoring progress and reviewing the risk registers

This is a key stage of the risk management process. It is necessary to monitor the action plans developed at stage 4 above and to regularly report on the progress being made in managing risks, or taking advantage of opportunities, so that the achievement of the Leader's key priorities and service objectives is maximised and losses are minimised.

In addition there needs to be an assessment of the effectiveness of risk management actions put in place to reduce the likelihood / impact of adverse risk events occurring. This needs to include consideration of the most cost-effective way to mitigate the risk and if the action taken will effectively reduce the risk to an acceptable level within a reasonable time span based on the severity of the risk. Progress needs to be reviewed and reported on regularly and alternative action will need to be taken if the initial action has proved ineffective.

Obtaining management assurance that controls are in place and are continuing to work effectively to mitigate risk is a key part of the review process. Evidence of the type of management assurance being relied upon needs to be recorded such the dates and cross references to regular reports made to senior managers or an overseeing board from the responsible officer detailing how effective the risk mitigation is proving to be in reducing the risk, another way of providing management assurance is to use Control Risk Self-Assessment. Assurance could also come from an independent assessor body such as Ofsted, External Audit, Internal Audit or from a Scrutiny review.

Reviewing risk registers to ensure they remain up-to-date and relevant should also be done.

- Previously identified risks will change over time; some may become less of a hazard, for example once all the affected staff have been trained. Others may become more likely if a key milestone is approaching, such as the end of a funding stream.
- It may become necessary to escalate a risk up a level if the situation has changed or the initial assessment has proven to be inaccurate. Conversely it may be possible to delegate a risk.
- New risks identified or opportunities arising will need to be added.
- It may be appropriate to delete risks. However, when risks are deleted from a register there should be a record of the reasons for this decision and what has happened to the risk e.g. it has been removed at a Directorate level but has been passed to a Business Unit to manage.

Monitoring progress and reviewing the risk registers should take place on at least a quarterly basis, and more frequently if there are many changes or the project is progressing rapidly. This can be done in a variety of ways, such as scheduling it as a periodic agenda item at a management meeting, arranging a separate meeting to discuss the register, or using a facilitator to run a review session.

Documenting the review of the risk register and action plans is also necessary, but need not be onerous. The fact that the review has been carried out should be minuted along with a brief report of any changes made and this should be fed up to the next level of management for information. This also provides the mechanism for escalating risks or highlighting changes that more senior management needs to be aware of.

Although the exact process used will differ between management teams, the following is an example of how officers may wish to approach the review:

- Go through the risks and opportunities listed in the register to consider whether each is:

a. Still valid.
b. If the situation has changed in the interim period regarding the mitigating actions / controls you already have in place or if it stays the same.
c. Record descriptions of any further mitigating actions that are being carried out.
d. Move any actions from the “further agreed control measures” column if they have been implemented and update this column as necessary.
e. Use the likelihood and impact definitions to determine the amended residual risk if appropriate.
f. Escalate the risk, if in the light of the review it is more serious than was first thought and requires more senior management action.
g. Delegate the risk e.g. to service level, if in the light of the review it is relevant to that particular service and can be managed at a local level.
h. Decide if any risk(s) should be deleted, and if so to minute the reason for this decision and what has happened to the risk(s).

- Identify if any new risks or opportunities have arisen, for example:

a. From an adverse event occurring either within Birmingham or another organisation.
b. By something new happening within the service, project, business unit, etc. e.g. a new partner organisation to work with, a new project starting, a new or different way of delivering services, new funding streams or grants becoming available.
c. As a result of ongoing management review, e.g. budget changes, unexpected demand for a service etc.
d. From changes in legislation.

- Use the likelihood and impact definitions to determine the inherent and residual risk associated to any new risks or opportunities, and capture the mitigating actions / controls currently in place.

6. Formats to be used

The forms to be used to record a summary of the risks identified and the action plan giving more detailed information regarding how they are being managed follow:

Risk Register

Directorate / Division / Project: ………………………………………… ***Date produced: …………………………..***

Risk / opportunity information			Counter Measures		
No.	Description of Risk / Opportunity and Risk / Opportunity owner	Inherent Risk (Likelihood/ Impact)	Description of current controls / mitigation in place and date when controls were last reviewed and reported upon	Residual Risk (Likelihood/ Impact)	Further controls proposed, and date for implementation
	Risk / Opportunity owner:		Date:		Date:
	Risk / Opportunity owner:		Date:		Date:
	Risk / Opportunity owner:		Date:		Date:
	Risk / Opportunity owner:		Date:		Date:

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

Action Plan

<table>
<tr><td colspan="2">Objective influenced by the risk / opportunity</td><td colspan="2"></td><td>Inherent Risk
Likelihood/Impact</td><td colspan="2"></td></tr>
<tr><td colspan="2" rowspan="2">Risk / opportunity description</td><td colspan="2" rowspan="2"></td><td>Residual Risk
Likelihood/Impact</td><td colspan="2"></td></tr>
<tr><td>Residual risk accepted?</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="2" rowspan="2">Consequences
(e.g. effects on service provision, people, money, reputation etc)</td><td colspan="2" rowspan="2"></td><td rowspan="2">If residual risk not accepted what approach has been agreed?</td><td>Transfer risk</td><td>Eliminate risk</td></tr>
<tr><td>Control risk</td><td>Modify risk</td></tr>
<tr><td colspan="2">Risk/opportunity Owner and Reference No.</td><td colspan="2"></td><td>Target risk
Likelihood/Impact</td><td colspan="2"></td></tr>
<tr><td colspan="3">Description of current actions being taken to mitigate the risk, including the responsible officer and date when the controls were last reviewed to assess their effectiveness.</td><td colspan="4">Further agreed control measures to be applied, including responsible officer and deadline for completion.</td></tr>
<tr><td colspan="3"></td><td colspan="4"></td></tr>
</table>

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: **Audit Committee**

Report of: **Acting Assistant Director, Audit & Risk Management**

Date of Meeting: **15th March 2016**

Subject: **Risk Management Process**

Wards Affected: **All**

1. Purpose of Report

1.1 To update the Audit Committee on the risk management process within Birmingham City Council.

2. Recommendations

2.1 That the Audit Committee continues to support the risk management process.

3. Background Information

3.1 Members have a key role within the risk management process.

3.2 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.

4. The Risk Management Process

4.1 The Council has a well-established approach to managing risk, and has recognised that risk is an integral part of innovation in order to deliver the planned outcomes and priorities. The Risk Management Policy, Strategy and Methodology support the Councils vision and priorities.

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In January 2016 it was agreed that the Corporate Leadership Team (CLT) would oversee risk management and:

- set strategic outcomes and provides leadership regarding risk management;
- identify new risks and opportunities; and
- give a view of the medium to long term risks and opportunities.

4.2 The other roles and responsibilities are as follows:

Cabinet - work with the Corporate Management Team, Assistant Directors and Heads of Service regarding the management of corporate risks / opportunities.

Members - involved via regulatory committees, the overview and scrutiny process and through District Committees.

Audit Committee - see 3.2 above.

Effectively Managed Corporate Business (EMCB) CMT - has the draft Corporate Risk Register (CRR) update report the month before it goes to the Audit Committee. EMCB CMT challenge the update, nominate new risks / opportunities and recommend re-wording or deletion of risks as appropriate.

Chief Executive - leads on the wider corporate governance agenda of which risk management is a part.

Assistant Chief Executive, Strategic Directors, Assistant Directors and Heads of Service - responsible for feeding key risks into the CRR via their directorate register or EMCB CMT, and reducing the impact of high risks that are likely to occur.

Directorate & Service Management Teams - carry out service risk assessment as part of business planning. Have responsibility to put in place actions to take advantage of opportunities / reduce risks, and monitor and review the effectiveness of the actions.

Directorate Risk Representatives - assist in embedding risk management. Have responsibility for the production and maintenance of an up-to-date directorate risk register and co-ordinating responses to corporate risks.

Birmingham Audit - facilitates and advises on the corporate risk management process, and maintains the CRR.

All staff - have responsibility for identifying opportunities as well as hazards / risks in performing their day to day duties, and taking appropriate action to take advantage of opportunities or limit the likelihood and impact of risks.

See Appendix A.

5. Legal and Resource Implications

5.1 The work carried out is within approved budgets.

6. Risk Management & Equality Impact Assessment Issues

6.1 The Council's risk management strategy has been Equality Impact Assessed and was found to have no adverse impacts.

7. Compliance Issues

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

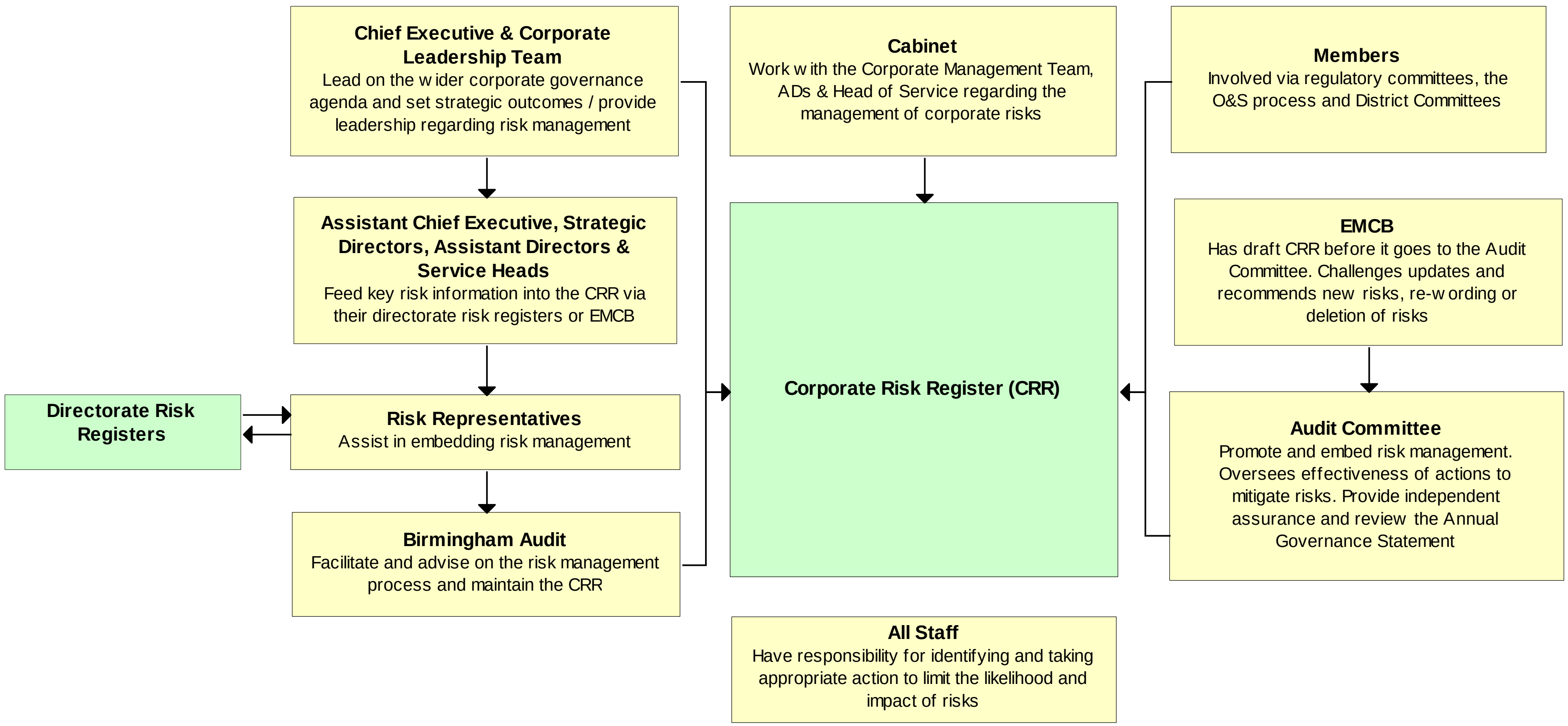
8. Recommendations

8.1 That the Audit Committee continues to support the risk management process.

……………………………………..

Craig Price
Acting Assistant Director, Audit & Risk Management
Contact officer: Cynthia Carran, Principal Business Auditor
Telephone No: 303 2104
e-mail address: cynthia.carran@birmingham.gov.uk

Risk Management Roles & Responsibilities



BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: Audit Committee

Report of: Acting Assistant Director, Audit and Risk Management

Date of Meeting: 15th March 2016

Subject: Birmingham Audit – Proposed Internal Audit Plan 2016/17

Wards Affected: All

1. Purpose of report.

The purpose of the report is to update members on progress in developing the 2016/17 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note the progress being made in the development of the 2016/17 internal audit plan;

2.1.2 consider whether there are any areas they wish to suggest for inclusion in the audit risking process; and

2.1.3 agree to consider and approve the detailed plan at their June 2016 meeting.

3. Background and Introduction

3.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.

3.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include audit reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness and proactive fraud detection work, corporate governance and risk management reviews and compliance reviews to check adherence to Council policies, procedures and systems. The legislative framework and professional standards and guidelines we are required to adhere to include:

- Local Government Act 2002
- Accounts and Audit Regulations 2015
- Fraud Act 2006
- Social Housing Fraud (Power to Require Information) Regulations 2014
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- The Public Sector Internal Audit Standards

3.2 The annual audit plan is prepared using a risk based methodology that enables the provision of an independent opinion, on the adequacy and effectiveness of the systems of internal control in place; (comprising of risk management, corporate governance, financial and operational controls).

3.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, the directorate assurance statement process, and assurances provided by external sources; such as the External Auditor.

3.4 This assurance feeds into the Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this there is a need to ensure that legislative and regulatory requirements and professional standards are met.

3.5 We are continuing to review, revise and continually update our working practices and methodologies. In particular, we are continuing to use technology and the data at our disposal to work 'smarter' and ensure the most efficient and effective use of the available resources.

4. Internal Audit Plan 2016/17

4.1 Our estimated number of audit days available for 2016/17 is 5443. This compares to 4692 in the 2015/16 plan (an increase of 751 days or 16%). This increase is as a result of additional temporary resources being made available, via the School Improvement Programme, to enable us to visit all maintained schools over a 2 year period and review their governance and finance arrangements together with agreed aspects of safeguarding.

4.2 As part of our planning process we have undertaken an assurance mapping exercise across the whole of the organisation. This involves identifying the key objectives and priorities of the Council, the systems of governance and financial control, together with the risks associated with their achievement / operation. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Strategic Directors.

4.3 The first call on our time is to provide an assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls within the main financial systems. This is less resource intensive and has enabled us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise closely with the Council's External Auditors. We have allocated 920 days for the main financial systems work in 2016/17 the main areas we intend to cover are:

- Payroll
- Accounts Payable
- Accounts Receivable
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR
- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- PFI
- Rent Collection and Charges
- Government Grant Claims
- Non invoiced income
- Income and Expenditure in Schools
- Carefirst
- Direct Payments

4.4 We have also ‘ring-fenced’ a number of days to support the Corporate Fraud Team and complete the school visit programme.

4.5 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and/or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2016/17 plan we have allocated 840 days for this work. We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.

4.6 The Council’s Education Improvement Plan is aimed at implementing significant cultural and procedural change within the management of schools. In July 2015 additional temporary funding was made available to Birmingham Audit to support the establishment of a schools visiting team. 950 days have been allocated within the 2016/17 plan for the completion of these visits. A schedule of the schools to be visited is agreed on a monthly basis in consultation with representative from the Directorate for People.

4.7 The remainder of our available resource will be allocated based on our assessment of risk. We will use our risking model to ‘score’ all potential ‘auditable’ areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:

- assessment of the adequacy of the control environment;
- strategic alignment to organisation priorities;
- materiality;
- sensitivity/reputational risk;
- assessment of management controls;
- management concerns;
- assurance based on internal audit work/knowledge and how recent that was;
- inclusion in the corporate risk register;
- assurance based on scrutiny reviews;
- assurance based on external audit or other inspectorate work and how recent that was; and
- assurance gained from other sources, including that gained from operational and performance management.

4.8 The risk assessment is designed to be dynamic and responsive to changing circumstances. We continually review and update our assessment. The ongoing changes across the organisation may result in in-year changes to the plan if circumstances demand.

4.9 The views of the Audit Committee are important to the internal audit planning process. To further develop engagement on this it is our intention to bring the detailed plan proposals to the June Audit Committee for member's consideration and approval.

5. Legal and Resource Implications

5.1 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.

6. Risk Management & Equality Analysis Issues

6.1 Risk management forms an important part of the internal control framework that the Council has in place.

6.2 We have undertaken Equality Analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

7. Compliance Issues

7.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

…………………………………..
Craig Price
Acting Assistant Director, Audit & Risk Management

Contact officer: Craig Price, Acting Assistant Director, Audit & Risk Management

Telephone No: 0121 303 3475

e-mail address: craig_price@birmingham.gov.uk

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Strategic Director – Finance & Legal

Date of Meeting: 15 March 2016

Subject: ANNUAL GOVERNANCE STATEMENT - PROGRESS

Wards Affected: All

1. Purpose of Report

1.1. The Annual Governance Statement (AGS) was approved at Audit Committee on 28th July 2015 and formed part of the Statement of Accounts for 2014/15, agreed at Audit Committee on 29th September 2015. An update was presented to Audit Committee on 25th November 2015.

1.2. Section 6 of the AGS identified significant governance issues in 2014/15. The section included 7 key issues for the Council which may impact on the organisation's governance arrangements.

1.3. This report advises Audit Committee of the arrangements which are in place for these issues including reference to recent reports which have been made on these matters.

2. Recommendation

2.1. To consider the report.

Contact officer: **Sarah Dunlavey**
Telephone No: **0121 675 8714**
e-mail address: **sarah.dunlavey@birmingham.gov.uk**

3. Background

3.1 The AGS has been developed as part of local government's response to the corporate governance agenda.

3.2 The evaluation and development of Internal Control within the Council forms a core function of Audit Committee. The 2014/15 AGS report was formally approved by Audit Committee on 28th July 2015. The AGS formed part of the Statement of Accounts for 2014/15 approved by Audit Committee on 29th September 2015 and formally published on 30th September 2015. An update to the AGS was reported to Audit Committee on 25th November 2015.

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

3.4 The Schedule at Appendix 1 to this report picks out these key issues and identifies the lead directorate addressing them.

3.5 The Schedule gives Audit Committee an overview of the issues which bear on the AGS and how the Council is managing these. The information contained within the Audit Committee's November update remains within this report; March's update is in addition to the existing information.

4. Legal and Resource Implications

4.1 The AGS is a requirement of Regulation 6 (1) of the Accounts and Audit Regulations 2015 and meets the corporate governance best practice recommendations. There are no direct resource implications arising from this report.

5. Risk Management & Equality Impact Assessment Issues

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

6. Compliance Issues

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

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

7. Recommendations

7.1 To consider the report.

……………………………………..
Jon Warlow – Strategic Director - Finance & Legal

Appendix 1

Governance Statement Issue

1. Safeguarding
Background Information from AGS

Safeguarding children remains a priority.

Work will include implementing action plans as a result of the review by Commissioner Lord Warner, producing a robust Business Plan for 2015/16 and future years and evaluating the strength of Senior Management arrangements.

The Care Act 2014 sets out the legal requirements for adult safeguarding.

Responsible Directorate:
People

Original Proposed Action AGS	Update/Progress
The Council has worked with the Children's Commissioner, Lord Warner, to produce a Children's Social Care Improvement Plan 2014-17 (published 7th July 2014) in order to take forward the key and fundamental changes that are urgently required to improve safeguarding and protection of children. Increased funding of £21.5m has been allocated in the 2015/16 financial year. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.	November Update: The improvement plan has been agreed by Cabinet and includes practice improvement, recruitment and retention, commissioning and partnership working. It reflects a new vision and purpose for Children's Services and focuses on how we will support workers to deliver more direct social work with families to bring about positive change for children. The improvement plan is closely monitored by the Lead Cabinet Member and reports are regularly received by Quartet arrangements and Scrutiny. The Chief Social Worker has been appointed and, with Principal Social Workers for each of the areas and Multi Agency Safeguarding Hub (MASH), will review and drive practice improvement underpinned by a new Quality Assurance Framework. The Council has recruited a dedicated Head of Service for the Independent Reviewing Service, linked to a much more effective Quality Assurance framework and a more robust 'Safety Net' for children across the city.

Discussions in future models for Safeguarding Boards are underway.

Arrangements for conducting Safeguarding Adults Reviews have been established and an officer from within the partnership appointed to lead these.

Adult safeguarding policy and procedures have been reviewed and redrafted to bring them in line with the Care Act, in partnership with the other West Midlands regional leads for adult safeguarding.

All adult social workers and managers have been briefed on the changes to practice required under the Care Act in relation to Adult Safeguarding, in particular the need to always conduct enquiries in a person-centred outcome-focused manner, adopting the principles of Making Safeguarding Personal.

<u>March Update:</u>
In August 'Our Operating Model' was launched, reshaping the service to ensure children get the right response according to need. This involved changes to MASH, which have engendered much debate. The changes happened in February. The debate has revealed the fragility of MASH systems and processes.

Essex, the Council's improvement partners have undertaken diagnostic self-assessment work with Assessment and Safeguarding teams, helping managers and social workers reflect and learn.

The DfE has appointed a new commissioner for Children's Services. A review of progress with DfE was carried out in February which helped shape the Council's plan for 16/17 and beyond.

The budget has been managed well and the service has met the aspiration of having fewer than 1,850 children in care at year end. Caseload average is a reasonable 15 although there is still too much variability.

The process to replace CareFirst has begun.

Governance Statement Issue

2. Financial Resilience
Background Information from AGS

The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council, the potential for significant organisational upheaval as well as workforce reductions and compulsory redundancies.
The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years.
Given the Council is in the fifth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high.

Responsible Directorate:
Economy

Original Proposed Action AGS	Update/Progress
7 Member-led service reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. Recommendations from the reviews were considered as part of the Business Plan 2015+. In its future years' business planning, by focusing on the position at 2020/21 and changes required to meet the budgetary position at this time, the Council is able to ensure that sustainable plans are put in place for its services and its assets, and the full on-going consequences of these taken into account, rather than just concentrating on short-term and, potentially, sub-optimal solutions.	<u>November Update:</u> Extensive work has been undertaken over the Summer period, as part of the Future Council programme, to develop medium-term savings proposals within the context of the Future Operating Model for the Council and its vision for the city of the future. A particular, although not exclusive, focus this year has been on the potential for reducing the demand for services, and in exploring new ways of commissioning improved outcomes for the people of Birmingham. A period of public engagement and formal consultation on specific proposals in the Autumn is followed by formal reporting and the setting of the budget at the City Council meeting on 1st March 2016, in the context of a refreshed medium-term financial strategy. <u>March Update:</u> The Business Plan and Budget 2016+ was approved by Council on 1 March and included the revenue budget for 2016/17, an Indicative Budget for 2017/18 and balanced proposals over a four year period. There is a clear focus on the delivery the budget and savings programme, but with a significant risk contingency being maintained.

Governance Statement Issue

3. **Equal Pay**
Background information from AGS

The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for external auditors and increasing demands to evidence Going Concern.

Responsible Directorate:
Economy

Original Proposed Action AGS	Update/Progress
The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.	November Update: Any equal pay claims issued against the Council continue to be subject to detailed analysis and robust legal challenge. Where payments are justified, the Council has sought to secure settlements that represent the best outcome for the taxpayer. There remain a significant number of claims that are either valid claims suitable for settlement or are claims that are currently subject to legal challenge. The Council has planned its resources proactively in order to seek to ensure that appropriate funding will be in place when needed, and actions are being put in place to generate the required level of capital receipts. March Update: Claims are still being issued against the Council however the level of new claims received each month has reduced compared with comparable periods in previous years. The Council continues to challenge all equal pay claims issued against it. Subject to the availability of financial provision, the Council has been able to settle certain valid claims.

Governance Statement Issue

4. Responding to the Kerslake Review
Background information from AGS

Lord Kerslake reviewed the governance arrangements of the City Council during 2014/15. The recommendations in the report are summarised as follows:

- Appoint an independent improvement panel and draw up an improvement plan
- Clarify roles and responsibilities between officers and members, develop a simplified planning framework, strengthen the corporate centre and introduce a programme of culture change
- Move to all out elections and undergo an Electoral Review
- Develop a robust financial plan up to 2018/19
- Strengthen the HR function
- Establish a new model for devolution
- Facilitate the creation of a new independent leadership group
- Redefine the council's partnership approach
- Complete a combined authority governance review by July 2015
- Creation of a new partnership vehicle focussed on employment and skills

The Independent Improvement Panel signed off the council's Year 1 Improvement Plan on 23 March 2015.

Responsible Directorate:
Council wide

<table>
<tr><th>Original Proposed Action AGS</th><th>Update/Progress</th></tr>
<tr><td>The Council's response is encompassed in the Future Council Programme. The Future Council Programme has six key parts which are referred to in the Independent Improvement Panel June 2015 report. These are:
• Whole Council – this is the key building block for all of the work programmes and identifies the vision and values for the Council of the future – answering the "what are we here for?" and the "how will we change?" questions
• Council Operating Model – this focuses on developing an approach for how the Council will work in the</td><td><u>November Update:</u>

The Future Council Programme is progressing under the sub-programmes listed to the left, alongside delivery against specific actions arising from the Kerslake review. An Evaluation Framework is in place to track progress against actions and outcomes and oversight is provided through the Programme Board chaired by the Chief Executive.

The Improvement Panel's latest letter was issued on 5 November 2015.
<table><tr><td>Appoint an independent improvement panel and draw up an improvement plan</td><td>The Birmingham Independent Improvement Panel (BIIP) meets regularly, with both formal and informal sessions. The next formal, public session is on 14th December.</td></tr><tr><td>Clarify roles and responsibilities between officers and members, develop a simplified planning framework, strengthen the corporate</td><td>A series of member-officer workshops have taken place and a member development programme created. The Protocol on Councillor-Officer Relations has been reissued.</td></tr></table></td></tr>
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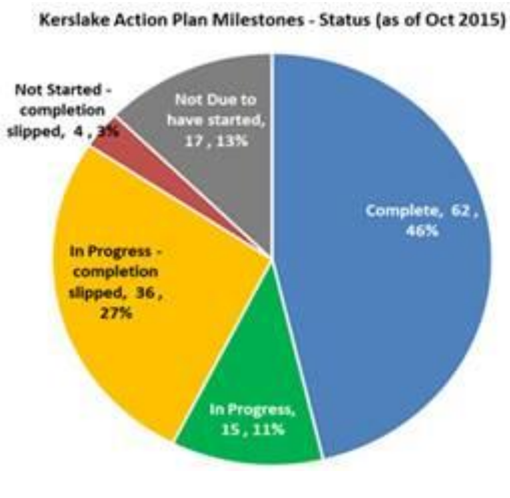
future and the financial planning to underpin it • **Forward the Birmingham Way** – this looks at the changes we need to make to the workforce, and how we can work together better, both internally and with our partners • **Political Governance** - this focuses on the role of elected members in empowering communities and better connecting people to the design and delivery of local services • **Partnerships** - this creates an outward looking, inclusive approach to the way we operate that concentrates on the best interests of the city and those who live and work here • **Integrated Support Services** - this ensures that internal support services (e.g. Human Resources (HR), Finance, Performance, Policy etc.) work in an integrated, efficient way that serves the rest of the organisation and our customers and partners A West Midlands Combined Authority Launch Statement was issued on 6th July 2015.	centre and introduce a programme of culture change	A report from INLOGOV, which is assisting the Council with work on member and officer roles, is due in late November. The planning framework has been simplified and the Leader's Policy Statement aligned with the Business Plan. The corporate centre is being strengthened through the recent appointment of an Assistant Chief Executive and a Strategic Director for Change and Corporate Services. Other key appointments are also in the pipeline. A programme of culture change is being led by the Forward The Birmingham Way sub-programme.
	Move to all out elections and undergo an Electoral Review	The approach and timescales have been agreed with the Boundary Commission and this is being progressed under the Political Governance sub-programme. In June, the Boundary Commission made the decision to reduce the size of the Council to 100 council members, after considering the council's submission setting out scenarios for Birmingham's governance in 2020. Political Party submissions to Boundary Commission on ward boundaries and member numbers for these were completed in September. A second consultation at the end of this year, will invite residents to comment on draft proposals before final recommendations are published. The new wards will come into effect at the local elections in 2018 when all councillors will be up for election.
	Develop a robust financial plan up to 2018/19	The operating model sub-programme led a series of 37 workshops attended by 120 services to first learn about demand management as a way of designing and delivering services and then secondly, develop options for service change and savings. New options for future service delivery were then developed into

		cases for change and presented to Executive Management Team. Budget proposals for the next four years are being developed from these.
	Strengthen the HR function	Senior interim post holders were immediately brought in to strengthen strategic HR capability. Capability issues have been robustly addressed and the permanent post of HR Director is being recruited. Temporary assistance for Organisational Design in the form of a Team Leader for Culture Change and external support are in place and the service is undergoing redesign.
	Establish a new model for devolution	Changes to the devolution model include: • the introduction of neighbourhood challenge at District Committees • community planning framework in draft with agreed plan to work in two pilot areas to develop and support their respective planning approach • community governance (Constitution change and Policy Guidance via Cabinet). New constitutional changes at ward and district level commenced October 2015. Sutton Coldfield Steering Group has been established to lead into the Sutton Coldfield Interim Parish Council on 1st March 2016 and probable Town Council in May 2016. A new cross party member review group has been established to oversee the Sutton Coldfield Steering Group and consider the learning and replicability of the model and other forms of neighbourhood governance.
	Facilitate the creation of a new independent leadership group	The Birmingham Partners steering group has been established. The Future Council Programme is providing practical support and coordination for partnership activities.

Redefine the council's partnership approach	Commitment secured from stakeholders to take forward partnership approach. Existing citywide partnerships have been reviewed to identify and develop shared values for partnerships, including 360º feedback from partners on performance and approach. The Council's values and behaviours towards partners and within partnerships are being developed. A statement to help redefine the Council's role in the city with its partners was written by Cllrs McKay and Bore. Changes in leadership will require a review of this approach once a new Leader is in place.
Complete a combined authority governance review by July 2015	The governance review for the Combined Authority has been completed.
Creation of a new partnership vehicle focused on employment and skills	A plan and proposals have been developed with key partners and stakeholders for creation of partnership initiative for improving employment and skills in most deprived parts of Birmingham.

Most major milestones for the sub-programmes are on target. Work is ongoing to deliver all budget savings required. Embedding and sustaining changed member and officer behaviours remains a challenge.

The status of all Kerslake action plan milestones as of 21st October is shown below. All incomplete actions have owners and are being closely monitored, with updates on a monthly basis.



March Update:

A Kerslake monitoring report is in place to track progress against actions and outcomes and oversight is provided through the new CLT Performance Board chaired by the Chief Executive.

The Improvement Panel's latest letter was issued on 11 January 2016.

Appoint an independent improvement panel and draw up an improvement plan	The BIIP has met regularly, with both formal and informal sessions. The next formal, public session is on 10th March.
Clarify roles and responsibilities between officers and members, develop a simplified planning framework, strengthen the corporate centre and introduce a programme of culture change	Member 360 reviews have been launched and will now be rolled out in phases. Work on the Leader/member/officer capability framework will be delivered in three cohorts. The One Team sub programme has been working with Outward Looking Partnerships to align the values and behaviours of our people in roles with partners. The corporate centre has been strengthened through the appointment of an Assistant Chief Executive and a Strategic Director for Change and Corporate Services. A draft Statement of Culture that describes the ethos required to support the 2020 Vision has been developed, alongside a draft route-map showing the stages to achieve the 2020 Vision. These drafts were discussed with the Corporate Leadership Team in early February. As part of this, the behaviours underpinning our values are being reviewed. A workforce strategy is being developed.
Move to all out elections and undergo an Electoral Review	The approach and timescales have been agreed with the Boundary Commission and this is being progressed under the Political Governance sub-programme. In June, the Boundary Commission made the decision to reduce the size of the Council to 100 council members, after considering the council's submission setting out scenarios for Birmingham's governance in 2020. Political Party submissions to Boundary Commission on ward boundaries and member numbers for these were completed in September.

			A second consultation at the end of this year, invited residents to comment on draft proposals before final recommendations were published. The Boundary Commission have now submitted their ward pattern recommendations: a 77 ward city with 101 councillors, comprising 53 single wards and 24 two member wards. Consultation on these has taken place. The new wards will come into effect at the local elections in 2018 when all councillors will be up for election.
		Develop a robust financial plan up to 2018/19	The operating model sub-programme led a series of 37 workshops attended by 120 services to first learn about demand management as a way of designing and delivering services and then secondly, develop options for service change and savings. In late November the cases for change from the demand management work earlier in the year were progressed and savings targets agreed with strategic directors and EMT. Proposals, as part of the revenue savings element of the budget, were then prepared for consultation which has now taken place with the public and staff.
		Strengthen the HR function	Senior interim post holders were immediately brought in to strengthen strategic HR capability. Capability issues have been robustly addressed and the permanent post of HR Director has now been recruited to. Temporary assistance for Organisational Design in the form of a Team Leader for Culture Change and external support has been in place and the service is undergoing redesign – in addition the new post of AD – Organisational Development has now been recruited to.
		Establish a new model for devolution	Changes to the devolution model include: • The introduction of neighbourhood challenge at District Committees • Community planning framework in draft with agreed plan to work in two pilot areas (Yardley and Erdington) to develop and support their respective planning approach

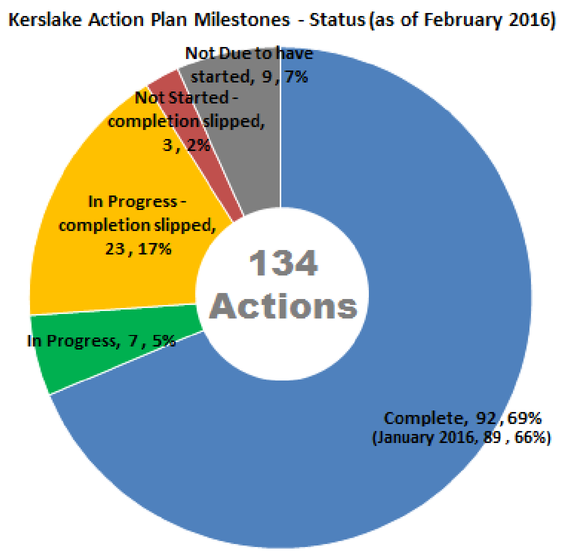
			- Stakeholder interviews for Community Planning have taken place in Yardley and Erdington Districts and the next stage will commence with collaborative workshops. - Community governance (Constitution change and Policy Guidance via Cabinet). Options are currently being explored to utilise community messaging systems, including a joint procurement opportunity with the Police. The Local Leadership Future Council sub programme has outlined proposals to review, through the Leader, arrangements at the neighbourhood level. New constitutional changes at ward and district level commenced October 2015. The draft re-organisation order for Sutton Town Council has been approved by Council Business Management, following public consultation. Sutton Coldfield Steering Group has been established to lead into the Sutton Coldfield Interim Parish Council on 1st March 2016 and probable Town Council in May 2016 A new cross party member review group has been established to oversee the Sutton Coldfield Steering Group and consider the learning and replicability of the model and other forms of neighbourhood governance.
		Facilitate the creation of a new independent leadership group	Birmingham Partners has launched, with support from the Council, as a vehicle for developing a network of networks across the public, private, voluntary and community sectors in the city. This is with a philosophy of "share, learn, do".
		Redefine the council's partnership approach	Commitment secured from stakeholders to take forward partnership approach. Existing citywide partnerships have been reviewed to identify and develop shared values for partnerships, including 360o feedback from partners on performance and approach. The Council is working with the Police and Fire Service to develop a "public services partnership" approach to shared issues, opportunities and work

			programmes. This aims to engage with all sectors in the city and has delivered a joint data and intelligence workshop so far in 2016. Stakeholder and partner conversations, as well as surveys have been brought together to create one shared set of feedback and ideas for developing work on partnerships, behaviour, culture and local leadership. This has also produced a partnership baseline for future reference. Two member engagement activities have taken place during January, which included a cross-party meeting on 27 January to discuss current and future involvement in the sub-programme. This has resulted in the agreement for a cross-party workshop with newly elected members to inform the Future Council work on partnerships, behaviour, culture and local leadership. There was also a presentation to the District Chairs' Forum on 28 January. Work continues to progress well in Yardley and Erdington to develop a collaborative community planning process. In Yardley a joint officer and member workshop has delivered some ideas around partnership roles, as well as a council offer to partners and the community planning process. In Erdington the focus is on reviewing and evaluating the model already in operation. A developing area of focus is answering the question of "what does good look like?" There are a number of examples and case studies of good work across the Council which are being reviewed and evaluated for use of good practice examples, as well as sharing learning across the council. During February and March some significant progress will be made in drafting roles for members and officers in partnerships. Additionally there will be an increase in communication and conversation activity to help raise awareness of some of the key messages emerging from the partnerships work, as well as opportunities for officers and members to contribute.
		Complete a combined authority governance review by July 2015	The governance review for the Combined Authority has been

	completed.
Creation of a new partnership vehicle focused on employment and skills	An East Birmingham Employment and Skills Board was established in early 2015 to agree and oversee the development and delivery of an action plan based on best practice and some targeted intensive support activities on specific areas of Shard End and Washwood Heath, which have the highest numbers of out of work benefits claimants. During the course of last year an audit of local employment and skills provision was also undertaken. Further work is now taking place to develop and pilot new approaches to employment and skills in target areas in East Birmingham. A high level Implementation Group is now being convened to provide leadership and take forward the actions at a local level: the Police, DWP, the Ahead Partnership and South and City College have been asked to take part. Work programme providers will also be engaged.

Most major milestones for the sub-programmes are on target. Work is ongoing to deliver all budget savings required. Embedding and sustaining changed member and officer behaviours remains a challenge.

The status of all Kerslake action plan milestones as of 2 February is shown below. All incomplete actions have owners and are being closely monitored, with updates on a monthly basis.



Governance Statement Issue

5. Alternative Service Delivery Vehicles
Background information from AGS

The Council is increasingly using or considering alternative delivery vehicles and innovative solutions in the delivery of Council services to facilitate the Future Council agenda.

This includes the Council created wholly owned company, Acivico into which services such Building Cleaning, Birmingham City Laboratories and Civic Catering have been transferred.

Other options may include:

- The potential transfer of Specialist Care Services to a Mutually Owned Social Enterprise (MOSE) during 2015/16.
- Outsourcing of services.
- Commissioning services.

Responsible Directorate: Economy/People

Original Proposed Action AGS	Update/Progress
Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases. The business cases are being developed with the full engagement of City Finance, Corporate Procurement, clients and third parties and will seek to address and gain agreement on issues such as income targets, surpluses and cost of transfer. Services should only transfer when there is a mutual benefit to both the Council and the third party.	November Update: Following formal TUPE consultation, employees of Cleaning Services, Civic Catering and Birmingham City Laboratories (BCL) successfully transferred to Acivico on 1st April 2015. The contract requirements include compliance with a set of Key Performance Indicators which are being reported to the Council. With regard to the People Directorate's proposition to transfer its adult care provider services into a MOSE an agreed position has been reached with the Cabinet Member that this is no longer appropriate. The process to externalise the service on a block contract basis became inconsistent with the Council's move to individualised budgets and increasing citizen choice with regards to how their needs are best met. All internal services are going to be evaluated against the outcomes in "A fair deal in times of austerity" policy document approved by Cabinet in April 2014. Proposals have also been fed into the Future Council work around the older and younger

	adults' cohorts. <u>March Update:</u> Following the successful transfer of Cleaning Services, Civic Catering and Birmingham City Laboratories to Acivico in April 2015, all these businesses sit under the umbrella of Total Facilities Management – Soft Services & BCL. The one-stop shop delivers cost savings and ease of contract management through a single point of contact. The KPI's for the 3 businesses have been formally reported from August 2015 and are all green. Performance has been consistent and a review of the KPI's for 2016/17 is currently underway with Procurement's Contract Management & Performance. The 3 service areas have now been integrated into Acivico business processes including: • the Audit Committee which provides an oversight of the financial reporting process; the audit process; the system of internal controls and compliance with laws and regulations. • compliments-complaints • sales tracker to monitor pipelines of new work • scrutinised by BCC's Performance Management & Monitoring Board meetings. • living wage employer Shelforce Acivico commenced managing BCC's Shelforce in November 2015. Shelforce is a supported business dedicated to the support of disabled people looking to enter employment.

Governance Statement Issue

6. **<u>Responding to the Tomlinson Review</u>**
<u>Background information from AGS</u>

Sir Mike Tomlinson was appointed by the Secretary of State as Education Commissioner to oversee the Council's actions to address the fundamental criticisms in the Kershaw and Clarke reports. Sir Mike Tomlinson's review is on-going, however initial discussions and actions were brokered to ensure a strong future in Education.

Responsible Directorate:
People

Original Proposed Action AGS	Update/Progress
Sir Mike Tomlinson's role will continue to 2016. Proposals have been brought forward on the role of the Birmingham Education Partnership (BEP) and how the Council will align with new roles for schools. Action is concentrated on completing the final shape of future partnership arrangements, and setting a commissioning plan showing how resources will be utilised to meet needs.	<u>November Update:</u> The Education and Schools Strategy Improvement Plan agreed in December 2014 built on a number of pieces of work including the Clarke and Kershaw reports. Progress has been made on a number of issues including a revised recruitment process for LA governors; guidance to schools on the Nolan principles of good governance; improved take up of safeguarding training; a new whistleblowing policy implemented from January 2015 and improved communications. The Education Plan is closely monitored through Cabinet Member, Quartet and Scrutiny. The Council has commissioned Birmingham Education Partnership to deliver school improvement support and challenge functions from September 2015. BEP has been established and is drawing new roles and support. The Council is confident in the progress made and looks to sustain this with future improvement staff leadership roles. The City Council and DfE agreed to the appointment of the Deputy Commissioner to the interim post of Executive Director Education, from April 2015.

	An Education Improvement Group (EIG) comprising of the Council, DfE, Regional Schools Commissioner and Ofsted meets monthly to share information on schools causing concern. Systematic school surveys are in place to inform the work of the Council. Work on civic leadership and community cohesion is being developed given the need to tackle the causal factors underlying governance and safeguarding concerns in some Birmingham schools. This will complement the city leadership approach to be established in the light of the Kerslake review. Arrangements are currently in hand for a week long peer review, by the LGA, of progress to date and next key steps. <u>March Update:</u> The LGA Peer Review concluded the Council was making progress on a number of important matters including its relationship with schools and clarification of respective roles around, for example, school improvement. The EIG has revised its Terms of Reference in light of the review to clarify the input of each partner to this unique arrangement. The vast majority of actions in the Education Improvement Plan have been completed. A fresh set of actions is being drafted for inclusion in a "business as usual" plan for the service. Work on the Intelligent Client Function (how the Council ensures BEP is fulfilling its contracted role) is well advanced. BEP is engaging with the majority of schools in the city and is increasingly establishing a clearer set of priority schools, in agreement with the Council, for its focused improvement support.

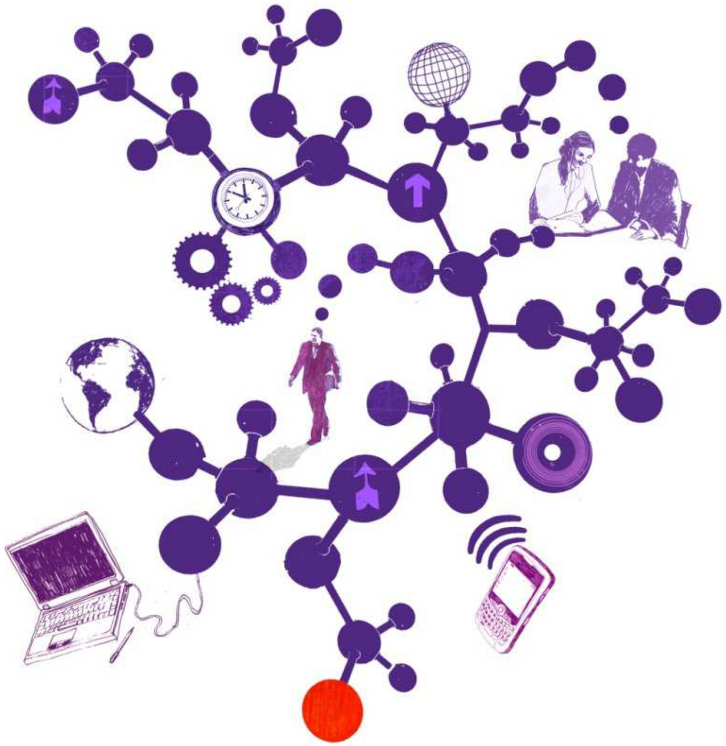
Governance Statement Issue	
7. **Compliance with requests under FOI and DPA Legislation** **Background information from AGS** The risk of the Information Commissioners Office (ICO) imposing financial penalties for failure to comply with statutory obligations in responding to information requests under Freedom of Information (FOI) & Data Protection (DPA) legislation, or loss of significant personal or other sensitive data.	
Responsible Directorate: Economy	
Original Proposed Action AGS	**Update/Progress**
Strengthened procedures. All staff to be aware of their responsibilities to manage data effectively and be appropriately trained. Improved response rates to Subject Access Requests (SARs).	November Update: Human Resources Management Team now considers progress on SARs on a weekly basis, with reports on progress made with ongoing SARs and escalation where necessary. Children's Services consider progress on SARs with ongoing cases and have seen an improvement in performance due to additional resources in the Disclosure Team who now manage all requests in this service area. The monitoring of internal performance has shown an overall improvement in SARs both in Children's Services and the Council as a whole. Monthly reports are provided to ICO on SAR performance. March Update: Position as at 31st December 2015: Council wide: The Council received 371 SAR requests of which 295 have been completed within the 40 day timescale, equating to 79% response rate, which is an improvement on the overall performance for 2014 of 60%. Children's Services have received 213 SAR requests, 46 of these were answered late, and the number of open requests over 100 days is 0. There are 3 requests currently still open over

	50 days. Response rates have increased from 45% in 2014 to 79% currently. Human Resources received 64 requests of these 12 were overdue and 6 were at 50 days or over. There had been an increase in the amount of requests; some are related to equal pay claims, which have been directed to the equal pay team to answer.

The Audit Plan
for Birmingham City Council

Year ending 31 March 2016

15th March 2016



Phil W Jones
Director
T 0121 232 5437
E phil.w.jones@uk.gt.com

Richard Percival
Associate Director
T 0121 232 5434
E richard.d.percival@uk.gt.com

Lorraine Noak
Manager
T 0121 232 5407
E lorraine.noak@uk.gt.com

Helen Edmonds
Manager
T 0121 232 5392
E helen.edmonds@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Birmingham City Council
Council House
Victoria Square
Birmingham
B1 1BB

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
BIRMINGHAM
West Midlands B4 6ATT
+44 (0) 121 212 4000
www.grant-thornton.co.uk

15th March 2016

Dear Members of the Audit Committee

Audit Plan for Birmingham City Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Birmingham City Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

Yours sincerely

Phil W Jones

Engagement Lead

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Autumn Statement highlighted a 24% reduction in local government funding over the next 5 years.
- The financial health of the sector is likely to become increasingly challenging.
- The Council needs to save a further £250m over the next 4 years. It has already made £560m savings since 2010/11

2. Devolution

- The Autumn Statement included proposals to devolve further powers to localities.
- The devolution proposal for West Midlands Combined Authority has been agreed and the new organisation is in the process of being set up.

3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.

4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- The Council has entered into Better Care Fund agreements with three local Clinical Commissioning Groups.

5. The Future Council

- The Council are working towards fully addressing the recommendations of the Kerslake report through the 'Future Council'.
- The 'Future Council' is an ambitious and extensive programme to reshape the Council across five key areas.

Our response

1. Autumn Statement 2015 and financial health

- We will consider the Council's plans for addressing its financial challenge as part of our work to support our VFM conclusion.
- We will report our findings to the Strategic Director – Finance and Legal Services and the Audit Committee.

2. Devolution

- We will consider how the Council is working with its partners to develop the WMCA as part of our regular update meetings with Strategic Directors.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

3. Housing

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

4. Integration with health sector

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our VfM conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements where this is significant to the accounts.

5. The Future Council

- We will review the plans and progress made with the Future Council work streams as part of our VfM conclusion work.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- The Council has pooled budget arrangements with 3 local CCGs amounting to in excess of £100m

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

Our response

1. Fair value accounting

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

2. Corporate governance

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

3. Highways Network Assets

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

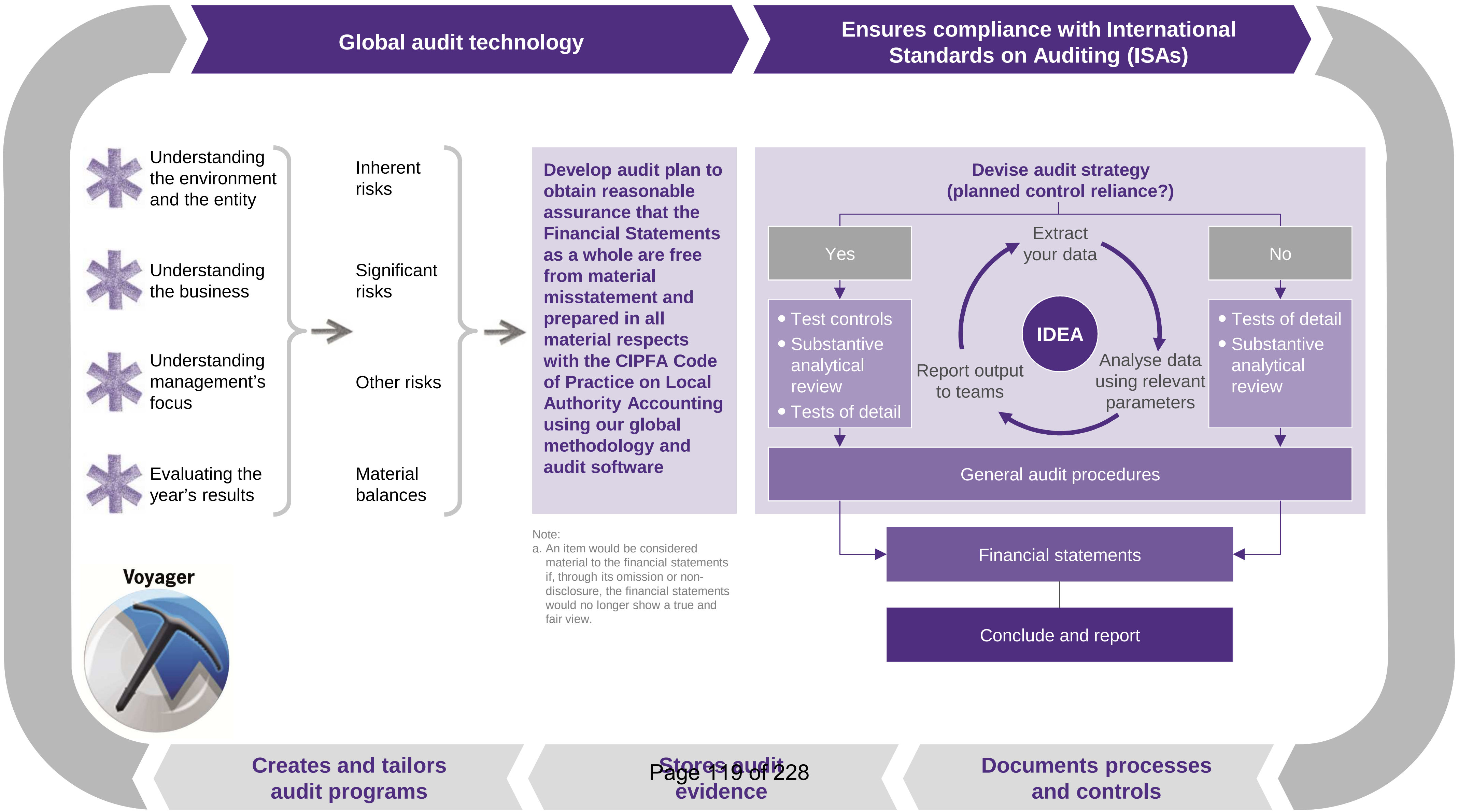
4. Joint arrangements

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

5. Earlier closedown of accounts

- We will Continue to work with you to identify efficiency improvements in your accounts production and audit support. We will look for areas where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 as a 'dry run'.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue (Cost of Services) expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £45.126 million (being 1.5 per cent of gross Cost of Services expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £50.982 million (being 1.5 per cent of gross Cost of Services expenditure).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2.256 million.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents may not be material at year end, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	This is treated as a sensitive item although no specific materiality value is set.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2.256 million
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2.256 million

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. At the time of drafting this plan our interim work is in progress. We will inform the Audit Committee if we decide to modify our audit approach on completion of our interim audit work.

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Birmingham City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Interim work:** • Review of the control environment for preparation and authorisation of journal entries **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Sale of the NEC and Grand Central	Risk that complex accounting entries requirements are not correctly posted in the accounts	**Work planned:** • Review of accounting treatment of sale proceeds • Substantive testing to ensure the lease/investment arrangements have been correctly eliminated from the accounts • Substantive testing of sales proceeds
Actuarial valuation of LGPS pension 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 estimates with a high degree of estimation uncertainty give rise to a significant risk.	**Work planned:** • Document the processes and controls in place. • Use the work of an auditor's expert (PwC report on LGPS actuaries) to gain assurance that methods and assumptions used in the valuation are reasonable and appropriate. • Review the data submitted to the actuary

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Equal Pay Provision	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 estimates with a high degree of estimation uncertainty give rise to a significant risk.	**Interim work:** • Review of the assumptions on which the estimate is based • Consider events or conditions that could change the basis of estimation • Check the calculation of the estimate • Check that the estimate has been determined and recognised in accordance with accounting standards • Determine how management have assessed estimation uncertainty • Consider the impact of subsequent transactions
Property, Plant and Equipment	Risk that revaluation measurement is not correct	**Interim work:** • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that revaluation measurements are correct **Further work planned:** • Undertake testing of revaluations, including instructions to the valuer and valuer's report • Evaluate compliance with revised requirements of the Code for revaluation • Test of revaluation when assets brought into use • Review of the procedures used to ensure that assets not revalued in year (due to the council's rolling 5-year revaluation programme) are not materially misstated
Better Care Fund	Risk that transactions are not accounted for correctly	**Interim work:** • Obtain an understanding of the nature of any Better Care Fund agreements in place, and document the control environment. **Further work planned:** • Review of accounting treatment of significant agreements • Agreement of accounting entries and disclosures in the financial statements

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. At the time of drafting this plan our interim work is in progress. We will inform the Audit Committee if we decide to modify our audit approach on completion of our interim audit work.

Other risks	Description	Audit approach
Property, Plant and Equipment	Risk that property, plant and equipment activity is not valid	**Interim work:** • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid **Further work planned:** • Test agreement of the fixed asset register to the accounts and supporting notes • Test a sample of PPE additions and disposals including compliance with capitalisation requirements
Property, Plant and Equipment	Risk that property, plant and equipment allowance for depreciation is not adequate	**Interim work:** • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that depreciation is adequate **Further work planned:** • Test depreciation and impairments, including evidence of review of useful economic lives and mathematical accuracy • Test of surplus or deficit on disposal

Other risks identified (continued)

Other risks	Description	Audit approach
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	**Interim work:** • Updated our documentation of the payroll system • Undertaken a walkthrough of the controls in place to ensure payroll expenses are not understated and are recorded in the correct period **Further work planned:** • Reconcile the annual payroll to the ledger and to the segmental analysis note in the accounts • Complete trend analysis of monthly and weekly payroll payments covering 2015/16 and comparing to 2014/15 to determine whether substantive testing required • Review of payroll accrual processes and determine whether substantive testing required • Substantive testing of the completeness of IAS19 pension liabilities • Agreement of employee remuneration disclosures in the financial statements to supporting evidence
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	**Interim work:** • Updated our documentation of the operating expenditure system • Undertaken a walkthrough of the controls in place to ensure operating expenses are not understated and are recorded in the correct period **Further work planned:** • Review the application of the year end closedown process for capturing creditor accruals • Undertake substantive testing of year end creditors including after date payments • Test Goods Received not Invoiced listing to confirm appropriate accruals • Review control account reconciliations covering the agreement of creditor payments to the ledger

Other risks identified (continued)

Other risks	Description	Audit approach
Early closure of the accounts	Risk that issues may arise due to the earlier closure of the accounts compared to prior years, an increased use of estimations, and a potential reduction in quality assurance capacity due to senior staff secondments.	**Interim work:** • Continued discussions with council officers to identify any potential issues that may arise due to the earlier closure of the accounts • Documentation of the use of estimates in the accounts including any changes from prior year • Specific testing of significant estimates

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include :

- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other risks identified (continued)

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Our proposed approach is summarised below. We will inform the Audit Committee if we decide to change this approach.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
NEC (Developments) PLC	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Innovation Birmingham Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Performances (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Acivico Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Birmingham Museums Trust	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Paradise Circus Limited Partnership	No	Analytical	Joint Venture	Agreement of consolidation using audited accounts and analytical approach
Service Birmingham Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach
Birmingham Airport Holdings Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted and the Improvement Panel.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

> *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report which we will present to the Audit Committee on 12 September 2016.

We will include our value for money conclusion as part of our audit report on your financial statements which we will issue by the statutory deadline of 30 September 2016.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Future Council The programme is ambitious and extensive. It has five work streams and it is essential that delivery is effectively managed. The key risk is that deliverables are not clearly identified, project and risk management arrangements are not effective, and as a result changes are not implemented as intended.	This links primarily to the sustainable resource deployment sub criteria and relates to all three detailed elements of this sub criteria. It also links to the working with third parties and commissioning services effectively related to working with partners and other third parties sub-criteria.	Review programme structure to gain an understanding of the key deliverables and milestones for each of the work streams. Consider the project management arrangements in place and the overall governance and reporting arrangements.
Savings challenge The Council has identified an overall savings challenge of over £215 million to be delivered in the four years to 2019/20. The five largest savings schemes proposed over the period account for just under half of the savings target. They are challenging and include health and social care service redesign, efficiency improvements and workforce changes. The key risk is that these schemes will not deliver the required recurrent savings, or will take longer to implement than planned.	This links primarily to the sustainable resource deployment sub criteria, in particular planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. It also links to the managing assets effectively and planning, organising and developing the workforce under this sub-criteria.	We will focus on the five highest value savings schemes and identify the actions being taken to secure delivery. This includes considering the results of public consultation; project management arrangements, including savings delivery tracking; and risk management and any contingency plans for delayed delivery.
Health and Social Care funding The Council has a good track record of controlling health and social care spend and has extensive partnership arrangements with Health bodies. Delivery of service outcomes is dependent on effective partnership working with Clinical Commissioning Groups. The key risk is that partnership arrangements do not fully deliver service outcomes and improvements.	This links primarily to the working with partners and other third parties sub criteria, in particular working with third parties effectively to deliver strategic priorities and commissioning services effectively to support the delivery of strategic priorities.	We will consider the governance arrangements for Better Care Fund and other pooling agreements. In particular the clarity of lines of accountability to the Council. We will also consider risk sharing arrangements in place.

Value for money (continued)

Significant risk	Link to sub-criteria	Work proposed to address
Services for vulnerable children The Council's services for vulnerable children are assessed as inadequate by Ofsted and subject to an Improvement Notice. The Secretary of State has appointed a second Children's Commissioner. The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention.	This links primarily to the informed decision making sub criteria, in particular understanding and using appropriate cost and performance information to support informed decision making and performance management. It also relates to the resource deployment sub criteria, in particular planning, organising and developing the workforce effectively to deliver strategic priorities	We will focus on the progress made against the improvement plan and how this is reported. We will discuss the progress made with the Children's Commissioner.
Management of schools The Council's management of the governance of schools was found to be weak and an Education Commissioner was appointed by the Secretary of State. This appointment is continuing and the Birmingham Education Partnership (BEP) has responsibility for implementing the improvement plan. The key risk is that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed.	This links primarily to the informed decision making sub criteria, in particular acting in the public interest, through demonstrating and applying the principles and values of good governance, and managing risks effectively and maintaining a sound system of internal control.	We will focus on the BEP's management and reporting of the Single Integrated Plan. We will discuss the progress made with the Education Commissioner.
Improvement Panel The Improvement Panel has been in place since January 2015, following the publication of Lord Kerslake's report on the Council's governance. The Panel has reported to the Secretary of State on the progress made by the Council, but has also noted its concerns. The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.	This links primarily to the informed decision making sub criteria, in particular acting in the public interest, through demonstrating and applying the principles and values of good governance. It also links to the sustainable resource deployment sub criteria, in particular financial planning and workforce development.	We will consider the Improvement Panels reports and discuss the progress made and key issues with the Improvement Panel Vice Chair.
Equal Pay The Council has a settlement plan for Equal Pay claims that is dependent on utilising capital receipts. The key risk is that there will be insufficient resources available to meet these commitments.	This links primarily to the related to sustainable resource deployment sub criteria, in particular managing assets effectively to support the delivery of strategic priorities	We will consider the progress made with the settlement of equal pay claims and the plans in place to ensure that the settlement programme is delivered.

Results of interim audit work to date

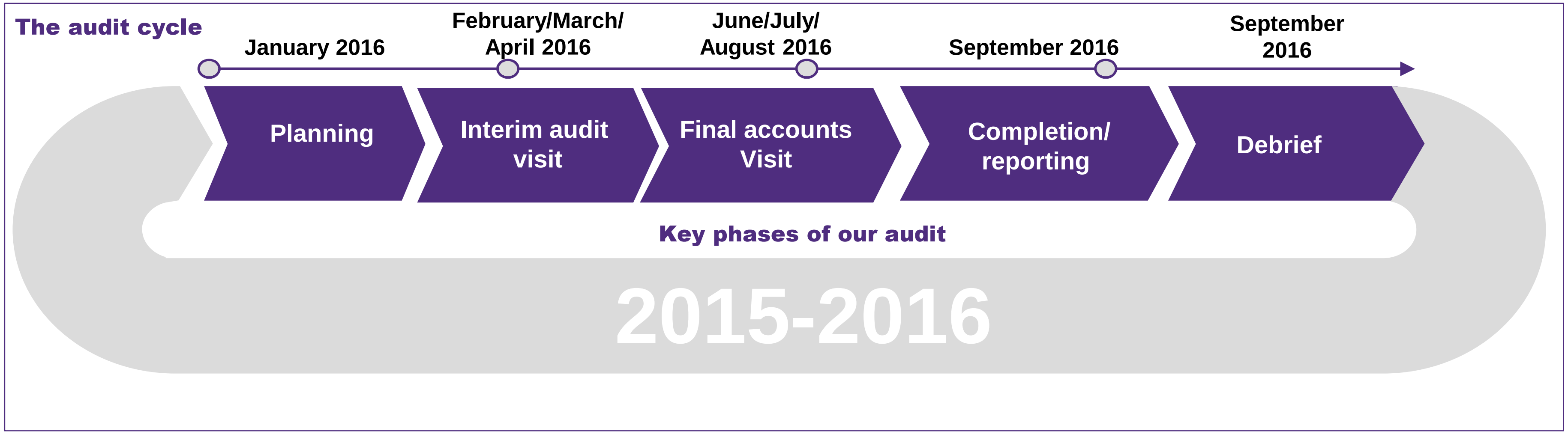
The findings of our interim audit work to date, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have reviewed internal audit's work on the Council's key financial systems to January 2016.	Our review of internal audit's work on key financial systems up to January 2016 has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work on entity level controls has not identified material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.	Our high level review of the IT control environment has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements. One recommendation has been identified, relating to a automated notifications about leavers as this is currently a manual process. IT service management have agree to take action on this.
Walkthrough testing	We have completed most of out walkthrough tests of the controls operating in areas where we consider there is a risk of material misstatement to the financial statements.	Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding. We will update our walkthrough of property, plant and equipment after year end to confirm that year end controls in this area are operating as expected.

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	We have not identified any material weaknesses in the journal control environment which are likely to adversely impact on the Council's control environment or financial statements. We will undertake detailed testing of journals later in the year.
Opening Balances	We have confirmed that the 2015/16 ledger opening balances agree to the 2014/15 audited closing balances. We await evidence of a journal adjustment to move the NEC investments to a specific ledger code, but are satisfied this does not have an impact on our work as the adjustment is within short term investments codes.	Our work has not identified any issues relating to the opening balance for 2015/16. We will review the adjustment relating to the NEC investments when this has been posted.

Key dates



Date	Activity
January 2016	Planning
February/March/April 2016	Interim site visit
15 March 2016	Presentation of audit plan to Audit Committee
June/July/August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Assistant Director - Financial Services
12 September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	314,168
Grant certification	17,594
Total audit fees (excluding VAT)	**331,762**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Certification of grant claims (outside Audit Commission/PSAA requirements)	**16,700**
Finance Birmingham (agreed upon procedures)	**22,125**
Total non-audit services (excluding VAT)	**38,825**

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

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. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

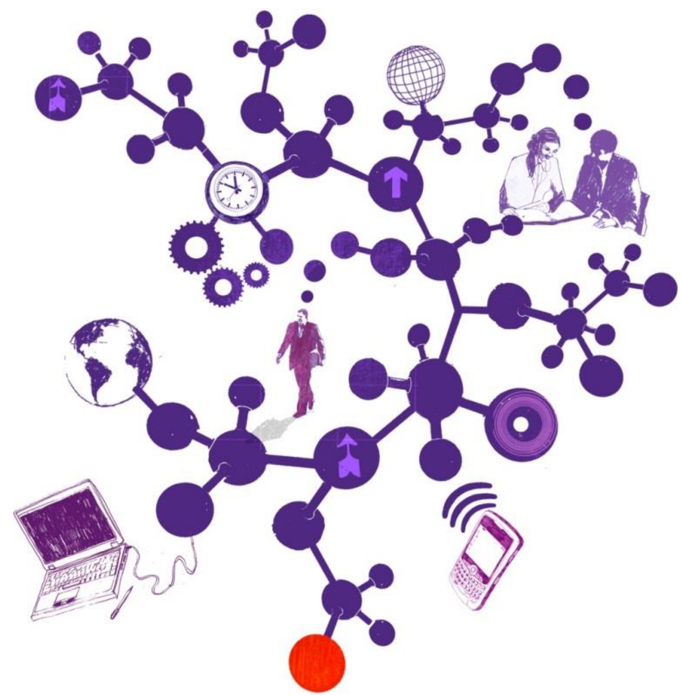
It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Informing the audit risk assessment for Birmingham City Council

Year ended

31 March 2016



Phil W Jones
Director
T +44 (0) 121 232 5437
E phil.w.jones@uk.gt.com

Richard Percival
Audit Manager
T +44 (0)121 232 5434
E richard.d.percival@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- Related parties
- Estimates
- Group accounts

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.
As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas. There is also a dedicated counter fraud team which undertakes reactive and proactive investigations as well as tackling the high risk areas of Social Housing and Council Tax fraud. The risk of material misstatement of the accounts due to undetected fraud is low.
What processes does the Council have in place to identify and respond to risks of fraud?	The Council has an Anti-Fraud and Corruption Policy and Fraud Response Plan which set out the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit. As well as participating in the bi-annual National Fraud Initiative, regular data matching exercises are undertaken through Internal Audit's Data Warehouse facilities. The Council was successful in bidding for funds from the DCLG Counter Fraud Fund and is developing a process of continuous fraud and error monitoring across its main financial systems. Fraud Spotlight, a bi-annual fraud bulletin dealing with general fraud issues is circulated to staff and members. In addition ad-hoc fraud alerts are issued to schools. The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter. e-Learning training material is available specifically targeted at managers. In addition bespoke training can be provided on specific fraud related issues. Procedures are in place for reporting fraud; this includes an on-line referral form, a fraud hotline and a revamped whistle blowing process. All cases of fraud are reported to Internal Audit. All fraud referral are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations.

Fraud risk assessment

Question	Management response
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Housing Benefits remain a high risk area however responsibility for investigating fraud in this area transferred to the Department for Work & Pensions (DWP) as part of the Government's introduction of a Single Fraud Investigation Service on 1st February 2015. The Council no longer has any authority or legal power to investigate in this area. Social housing fraud has been identified as a high risk area and significant counter-fraud resources have been committed to identify illegal sub-lets and non-residency of properties within both its own housing stock and that of Registered Provider partners. Internal Audit have worked with Housing to secure the gateway to obtaining a tenancy through increased use of the data warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach is being pursued with applications made under the Right to Buy Scheme. Changes in Council Tax legislation have increased the Council's exposure to the risk posed by fraud in respect of Council Tax Support (which replaces Council Tax Benefit), single person discounts and student exemptions. Counter fraud resources have been committed to identify and investigate Council Tax related fraud, and the Council has taken part in NFI data matching exercises to identify fraudulent claims for single person discounts and Council Tax Support. Direct Payments for social care have also been identified as a high risk area. Internal Audit undertake two monthly sample checking and have also recently undertaken a proactive fraud exercise to identify potentially fraudulent claims. There has been an increase in the number of potentially fraudulent applications for business improvement grants, so Internal Audit have delivered fraud awareness training to staff in this area.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Birmingham Audit as part of delivering the internal audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts— these staff have a reporting line to the Strategic Director of Finance & Legal via their Finance Assistant Director. Strategic Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.

Fraud risk assessment

Question	Management response
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud and updates on other initiatives e.g. National Fraud Initiative or Protecting the Public Purse.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	In relation to staff there is a Code of Conduct which was updated and issued to staff when contracts were revised. The Code is also available to managers and staff on the People Solutions database. There are guidelines for dealing with employees found to have committed benefit or blue badge fraud, social housing fraud and council tax fraud. Core Brief and Fraud Spotlight also provide opportunity to remind staff of our expectations. In relation to contractors, during 2013 the Council's Business Charter for Social Responsibility was published. One of the principles of the charter is ethical procurement, more specifically in relation to fraud, within the standard contract terms and conditions there is a requirement for contractors to protect the Council against fraud.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	There is a requirement within Financial Regulations that staff report suspected financial irregularities. BCC has recently revised its whistle blowing policy to include schools, and also introduced a dedicated Whistleblowing Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on Inline, includes an e mail address and telephone numbers for fraud reporting. An on-line referral form is in place on Inline and birmingham.gov.uk . In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.

Fraud risk assessment

Question	Management response
Are you aware of any instances of actual, suspected or alleged, fraud, either within or impacting on the Council as a whole or specific departments since 1 April 2014?	A significant internal fraud was identified in April 2014 involving the processing of fraudulent refunds through the one time vendor payments process. Internal Audit undertook an investigation to quantify the extent of the fraud so that a claim could be made against the City Council's Fidelity Guarantee Insurance. In addition, work was undertaken by Internal Audit to identify other areas where such a fraud could be perpetrated, and a review of the one-time vendor process has led to the introduction of significant control improvements. In the year to date since April 2015, 105 referrals of potential fraud and error had been made to the Birmingham Audit Corporate Fraud Team. Each referral is risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of the Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. Investigations completed during this period have identified non-benefit related fraud/error with a value of £523,149. In the year to date since April 2015, nearly 800 allegations of social housing fraud were received, resulting in 82 properties being returned for re-letting, 277 applications being cancelled and 6 right to buy applications being stopped.

Laws and regulations

Issue
Matters in relation to laws and regulations ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements. Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements. Risk assessment questions have been set out below together with responses from management.

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover: • Report on contraventions or likely contraventions of any enactment or rule of law. • Report on any maladministration or injustice where Ombudsman has carried out an investigation. • Receive copies of whistleblowing allegations of misconduct. • Investigate and report on any misconduct in compliance with Regulations. • Advice on vires issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members. The Monitoring Officer has access to all Council committee reports and also raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific legal issues, the Monitoring Officer would get involved at an early stage, including vetting reports for legal issues. Senior Lawyers in Legal Services undertake corporate governance review of reports to Cabinet and Cabinet Members
How does management gain assurance that all relevant laws and regulations have been complied with?	Assurance is provided through the work of governance meetings, the Governance Board chaired by the Strategic Director of Finance & Legal and the Corporate Governance Group chaired by the Monitoring Officer/Chief Finance Officer, and reports are given by the Monitoring Officer as necessary to the Effectively Managed Corporate Business Management Group (EMCB). There are also a range of governance meetings to review draft reports such as Procurement Officer Pre Agenda meetings and Delegated Procurement Reports meetings attended by senior lawyers.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Reports regarding all maladministration are presented on a regular cycle. Reports regarding significant financial liability arising from legal challenges are made periodically, for example; Equal Pay. Contingent liabilities are included in the Statement of Accounts.

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015, or earlier with an on-going impact on the 2015/16 financial statements?	The Council has been found to be in default of process and/or legal requirements through various legal challenges through Judicial Reviews, Health & Safety claims, Information Commissioner and Ombudsman findings. These will not have a material impact on the Accounts.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Claims involving Highest Risk to Council are regularly monitored and reported to the Governance Board.
Is there any actual or potential litigation or claims that would affect the financial statements?	None other than those disclosed under provisions and contingent liabilities.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	As above – Ombudsman, Information Commissioner and Health & Safety Executive

Going Concern

Issue
Matters in relation to laws and regulations ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements. The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern assumption provides an indication of the Council's financial resilience. As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	The Business Plan 2016+ (Budget Report & Resource Plan) included an updated medium- and long-term financial plan, and this is reviewed regularly, with changes incorporated into briefings to Members of EMT as part of the on-going business planning process. This includes the financial implications of Equal Pay settlements, with the availability of resources informing the Council's settlement strategy. The Business Plan & Budget also includes projections of reserve balances and Prudential Indicators, together with the Treasury Management Policy & Strategy which sets out the framework for the management of loans, investments and cash balances. The Council has rigorous financial monitoring arrangements, including frequent reports to Cabinet, and this is supported by the tracking of the implementation of savings initiatives, including scrutiny by the Deputy Leader through Star Chamber meetings. Work has started in developing plans for the transition of the Council to its "steady state" financial position by 2020/21. This will have regard to the resources that will be available then, service priorities and their cost, and the associated organisational change that will be necessary.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. The Deputy Leader chairs a project board which is continuing to develop a funding strategy involving the realisation of asset sales. Provision is included in the accounts for the expected level of payments in respect of outstanding claims. Government announcements regarding future grant levels are monitored closely and projections are updated regularly.
Are arrangements in place to report the going concern assessment to the Audit Committee?	There are arrangements to report the impact of Equal Pay claims to the Audit Committee. The Statement of Accounts which contains specific disclosures around going concern is approved by Audit Committee.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Business Plan 2016+ (Budget Report & Resource Plan) includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members.

Going Concern Considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The integrated Budget Report & Resource Plan explicitly took into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium- and long-term plans.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	There have been issues raised by external and internal audit relating to matters of internal control. Significant work has been undertaken in respect of the production of the accounts. Neither of these issues cast doubt on the assumptions made in the Business Plan 2016+.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The Council's arrangements for its management of cashflows is set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. Provision is included in the accounts for the expected level of payments in respect of outstanding claims. The Council's arrangements for budget monitoring, including the implementation of the savings programme, ensure that close attention is paid to the need to deliver services within budgets available. This includes frequent reporting to Cabinet.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council’s objectives? If not, what action is being taken to obtain those skills?	Workforce planning is an integrated part of business planning. Voluntary and compulsory redundancies are forecast. Directorate Moderation Panels maintain an overview of recruitment activity, vacancies and applications for redundancy. The Council has a My Appraisal process which reflects the Council's objectives at an individual level. Page 153 of 228

Related Parties

Issue

Matters in relation to Related Parties

For local government bodies the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS24: related party disclosures. The Code identifies the following as related parties:

- Subsidiaries;
- Associates;
- Joint ventures
- An entity that has an interest in the authority that gives it significant influence;
- Key management personnel and close family members; and
- Pension fund for the benefit of employees

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We also carry out testing to ensure the related party transaction disclosures in the financial statements are complete an accurate.

Related Parties Assessment

Question	Management response
Who are the Council's related parties?	In addition to the companies included in the Council's Group Accounts the Council has had transactions of over £100,000 with the following companies in which it has an interest: Auctus, Birmingham LEP Company (Birmingham Lend Lease Partnership), Birmingham Research Park Limited, Paradise Circus General Ltd, Pure Mobile, Chinnbrook Family and Community Project, Evenbrook, MEL Research Ltd, Stonham (part of Home Group), The Review Business, Veolia Environmental Services Birmingham Ltd, Birmingham Schools SPC, Centro, Finance Birmingham, Jewellery Quarter Development Trust, Marketing Birmingham, Millennium Point Trust, Birmingham Conservation Trust, Birmingham Disability Resource Centre, Birmingham Opera Company, Birmingham Royal Ballet, Birmingham Settlement Ltd, Birmingham Voluntary Services Council, City of Birmingham Symphony Orchestra, Dance Xchange, Erdington Town Centre Partnership, Midland Arts Centre, Retail Birmingham Ltd, St Basils, St Paul's Community Development Trust, The Birmingham Repertory Theatre, The Drum / Newton Cultural Project, Warwickshire County Cricket Club, Witton Lodge Community Association Ltd, INReach Birmingham Ltd The 2015/16 Statement of Accounts will contain details of the nature of the relationships.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	Members and senior officers are required to complete a register of interest. Members are also required to declare any interests relating to matters to be discussed in each meeting. The Members' declarations are published on the Council's website.

Accounting Estimates

Issue

Matters in relation to Accounting Estimates

Local authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.
Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed on the following pages.

The audit procedure we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable; and
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Revenue Outturn for the year	To accelerate the closure of accounts, the revenue outturn will be based on the year end forecasts that have been determined as a result of monitoring undertaken during the year.	Management review of monitoring throughout the year comparing budget to forecast outturn and linked to savings trackers.	Forecast outturn will be determined by budget holders in liaison with finance support and reviewed by senior management.	Uncertainty should be low as the majority of expenditure/income will be recorded in financial ledgers and the uncertainty will relate to the activity in the final month of the year. The high use of purchase and sales orders will minimise the level of accruals required.	Yes.
Heritage Asset Valuations. (Museum and Art Gallery Collections, Archives).	Insurance valuations have been used for Museum and Art Gallery collections.	Management review of reasonableness and compliance with accounting requirements.	Insurance experts.	The insurance valuation is a reasonable proxy. .	No.
Measure of financial instrument fair values.	Fair value of investments assessed by using the present value of future cash flows discounted at market rates. For service concessions the fair value is based on financial models provided by external consultants.	Management review of reasonableness and compliance with accounting requirements.	External expert provided the financial models for service concessions. Treasury Management advisers are used as appropriate.	Uncertainty is high due to complexity of underlying assumptions. For longer term investments there is increased uncertainty about future market rates.	No.

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Long term obligations under, for example, PFI schemes.	For service concessions the fair value is based on financial models provided by external consultants.	Management review of reasonableness and compliance with accounting requirements..	An external expert provided the financial models for service concessions.	Uncertainty is high due to the complexity of underlying assumptions..	No.
Equal Pay.	Estimates have been based on historic information on settlements of similar claims, current negotiations with claimants' representative and with reference to legal advice on outcomes.	Review of information by Legal, Finance and Human Resources for reasonableness..	Support of Queen's Counsel for opinion on Equal Pay Liability.	There is a reasonably high level of uncertainty due to the volume, materiality and complexity of claims. The final sum due and the timing of payments is uncertain and will be influenced by court judgements, claim numbers, outcomes of negotiations and associated on costs.	No.

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Defined benefit pension liability	The estimates for the Local Government Pension Scheme are assessed on the latest full valuation and transaction information.	All major transfers of staff are identified and reported to the Actuary. Management review the information supplied for reasonableness	Actuary	There is a high level of estimation uncertainty in estimating the Council's future pension liabilities. The actuary is used to ensure that the estimate is produced on a consistent and appropriate basis.	No
Property Plant and Equipment valuations	A five year rolling revaluation programme, supplemented by annual reviews of significant changes in market values, is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years following DCLG guidance. In the intervening years a desk top review of the valuation is carried out. All assets are valued on an existing use basis.	Management issue instructions to the valuer and review the reasonableness and compliance with Code of Practice requirements of the valuations provided.	Internal Valuer	Asset valuations are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer taking into account market conditions and the RICS requirements.	No.

Group Accounts

Issue
Matters in relation to Group Accounts

Matters in relation to Group Accounts

ISA(UK&I) 600 summarises the special considerations the auditors of groups need to take into account, including the work of the auditors of component entities making up the group. For the group the audit risk incudes the risk that material misstatement will not be detected by a component auditor.

The extent of the group auditor's work on component entities is determined by how financially significant each entity is. The group auditor is required to obtain an understanding of the group and its environment, including the operation of group wide controls and of the consolidation process, including the instructions issued by group management to components.

We need to understand how the Audit Committee oversees the activities of the group, the group's risk management processes, the accounting policies of the component entities and considers fraud risk. We also need to be aware of matters and events that could impact on our audit. These include allegations of frauds, errors or other irregularities, potential impairment of assets and transactions, and events and conditions that involve significant accounting estimates and accounting judgements

Group accounts considerations

Question	Management response
Management's views on the group's control environment (including group wide controls), the process of reviewing the effectiveness of the system of internal controls and the results of any review.	The components provide audited and signed off accounts to the Council. As a third party professional provides this opinion, reliance is placed on the outcome of this opinion to obtain assurance over the effectiveness of internal control. If there are issues these would be raised by the external auditor of the component.
Management's views on the group's risk assessment process as it is related to financial reporting.	All components produce accounts under a different framework and set of accounting standards namely UK GAAP and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Matters and events which occurred during the year that could influence our audit approach or the entity's consolidated financial statements.	On 16th January 2015 the Council announced it had entered into a binding agreement for the sale of the NEC Group. The sale completed in the 2015/16 financial year. The sale encompasses all NEC Group businesses, with the Council providing a 125 year leasehold interest in the NEC site and 25 year leasehold interests in the International Convention Centre and Barclaycard Arena. Birmingham City Council is retaining the freehold of all the NEC sites.
The appropriateness of the group accounting policies to be used in the period, and whether any changes in the group's activities could require them to be updated.	Changes to IFRS 10 (Consolidated Financial Statements) and IFRS 12 (Disclosure of Interests in Other Entities) will require significant additional disclosures.

Group accounts considerations

Question	Management response
Group management's processes for identifying and responding to risks of fraud.	Audit Committee considers the single entity in their risk assessment and identification of fraud. In addition, a report was taken to Audit Committee in January 2016 regarding each Group components' view of their fraud risk.
How those charged with governance monitor group management's processes for identifying and responding to risks of fraud.	The Audit Committee approves accounts annually, which includes the group accounts. An annual exercise is now undertaken with group entities to provide Audit Committee with assurances around risks of fraud.
Fraud risks within the group or any component within the group, including specific accounts or classes of transactions where fraud risks have been identified..	A number of fraud risks were identified by Group Finance Directors, mainly around transaction processing, and reported to Audit Committee in January 2016. The risk of material misstatement due to fraud is low.
How group management communicate to those charged with governance regarding business risks (including fraud).	Directors of BCC sit on the boards of components/subsidiaries of BCC. Therefore if there were issues of fraud Directors would communicate this back to BCC channels.

Group accounts considerations

Question	Management response
Management's awareness of any events or changes in circumstances that would cause an impairment of non-current assets.	An impairment review is done by entities. The accounting questionnaire sent by BCC to components/subsidiaries asks questions over impairments to capture this information.
Management's awareness of allegations of fraud, errors or other irregularities during the period.	Group entities report their respective positions each January in a report considered by Audit Committee. One fraud was investigated and found not to have initiated within the group entity.
Management's awareness of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	All components produce accounts under a different framework and set of accounting standards namely UK GAAP and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Audit Committee's awareness of fraud or suspected fraud within any group component.	The relative size of the components means there is low material fraud risk from components, However, an exercise was undertaken for 15/16 to assess this more formally and was reported to Audit Committee in January 2016.
Audit Committee's views about the risks of fraud within each business component.	Each individual Group component supplied information about the risk of fraud within their own entity as part of the report taken to Audit Committee in January 2016.

Grant Thornton

Audit Committee
Birmingham City Council
Progress Report and Update
Year ended 31 March 2016

March 2016

Phil Jones
Director
T 0121 232 5232
E phil.jones@uk.gt.com

Richard Percival
Associate Director
T 0121 232 5434
E richard.d.percival@uk.gt.com

Lorraine Noak
Manager
T 0121 232 5407
E lorraine.noak@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Assurance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Innovation in public financial management (December 2015);
  www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015);
  www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015)
  www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 4th March 2016

2015/16 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015		Yes	The 2015/16 fee letter was issued on 13th April 2015
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.	March	In progress	Our audit plan has been drafted and is included as a separate agenda item for the Audit Committee to consider.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	February – March	In progress	Our interim audit work is in progress. This includes early audit testing where practical to support a more efficient final accounts audit. We are having fortnightly meetings with the Financial Accounts Team to ensure that we are briefed on emerging accounting issues and that the team is aware of the progress we are making.
Final accounts audit Including: • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	June - August	Not started	We are planning to complete our audit by 31st August. as part of the transition to the earlier closedown and audit cycle from 2018. We are working with the Financial Accounts Team to support improvements in accounts production efficiency and the project management of the audit visit.

Progress at 4th March 2016

2015/16 work	Planned Date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	March - July	In progress	We have considered the potential significant risks for our VfM conclusion and identified the following issues. - Future Council - Savings challenge - Health and social care funding - Services for vulnerable children - Management of Schools - Improvement Panel - Equal pay We will carry out key document reviews and interviews to inform our conclusion.
Other areas of work Meetings with Members, Officers and others	On-going		We are continuing to hold regular meetings with key members, the Chief Executive and Strategic Directors. We also have meetings planned with the Children's Commissioner and the Vice Chair of the Improvement Panel.

Local Government accounting and audit issues

IFRS 13 'Fair value' measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become availablerequirements.

Better Care Fund

The Better Care Fund was launched on 1 April 2015 to '…drive closer integration and improve outcomes for patients and service users and carers'. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

Although the local government timetable is moving forward, the NHS timetable is still significantly earlier so local authorities will need to include dates in their closedown plan to give NHS colleagues the information they need to prepare their accounts in good time for these deadlines.

Unlodged non-domestic rate appeals

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Grant Thornton Publications

Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

Our report is available at http://www.grantthornton.co.uk/en/insights/reforging-local-government/, or in hard copy from your Engagement Lead or Engagement Manager.

CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

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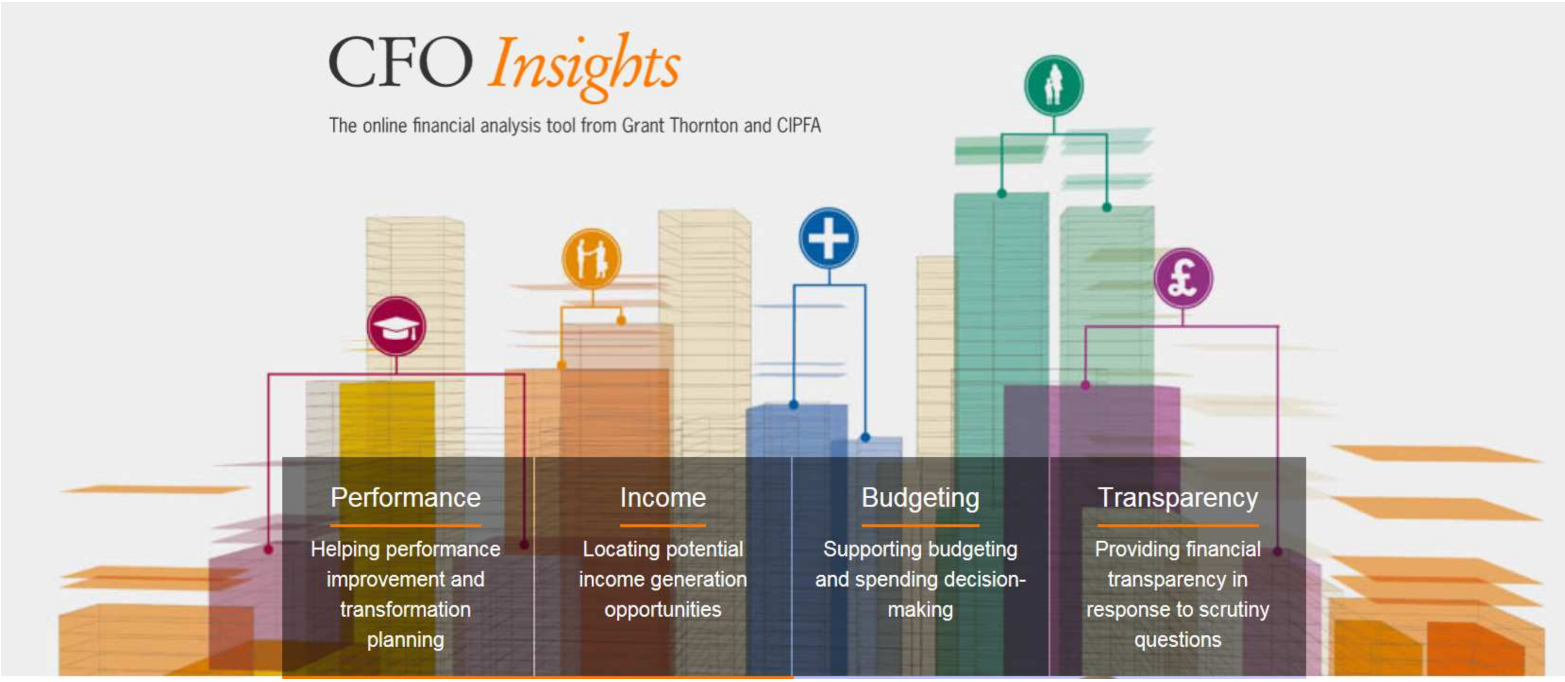
The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

Innovation in public financial management

Grant Thornton reports

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

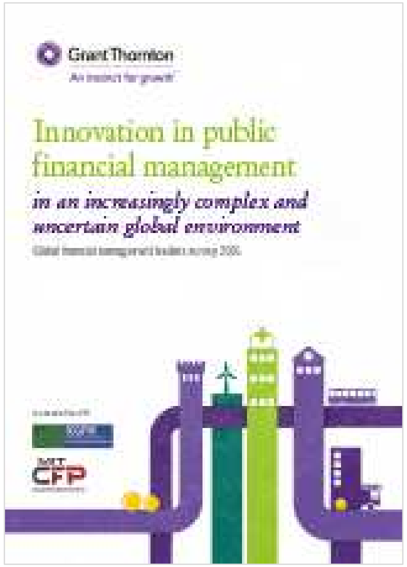
Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website: http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/



2016 Transparency Report

Grant Thornton reports

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets our most recent financial information.

The report can be downloaded from our website:

www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Strategic Director - Finance & Legal**
Date of Decision:	**15 March 2016**
Subject:	**Adoption of Accounting Policies for 2015/16**

1 Purpose of Report

1.1 To seek members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2015/16.

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

2 **Decisions recommended**

That Audit Committee:

2.1 Consider and adopt the accounting policies for the determination of the Council's accounts for 2015/16.

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

Contact Officers:
Jon Warlow
Telephone No: 0121-303-2950
E-mail address: jon.warlow@birmingham.gov.uk

Martin Stevens
Telephone No: 0121-303-4667
E-mail address: martin.stevens@birmingham.gov.uk

3 Compliance Issues

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

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

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

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

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

4 Background

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

a) Relevant accounting standards
b) The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 published by the Chartered Institute of Public Finance and Accountancy, which is updated annually
c) Relevant Statutes

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

4.3 The major change in accounting standards for 2015/16 is the implementation of IFRS 13, *Fair Value Measurement*, which sets out a consistent definition for the determination of fair value across accounting standards and requires additional disclosure within the financial statements.

4.4 The proposed accounting policies for consideration by members are set out in annex 1 to this report.

5 Future Years

Change in Accounting Policy

5.1 In 2016/17, the Council will be required to change its accounting policy to reflect the change in the basis of valuation of its Highways Network Asset (HNA). HNA consists of:

- Roads
- Bridges and tunnels
- Footpaths
- Street lighting
- Street furniture

5.2 For accounts up to 2015/16, the Council has included HNA on the basis of depreciated historical cost. From 2016/17, the Council will have to include its HNA on the basis of depreciated replacement cost. This will increase the value of HNA on the balance sheet from £430m to approximately £10,300m.

5.3 As part of its 2015/16 accounts the Council will have to include, as a disclosure note, the impact of the change in accounting policy in 2016/17.

5.4 When signing off accounts, the external auditors state that the accounts reflect a true and fair view of the Council's financial activities. In 2016/17 the change in valuation of HNA will be under close audit scrutiny as a small error, of say 1%, would have a material impact on the Council's net assets, of around £100m.

Accounting Standards for Future Years

5.5 IFRS 15 - Revenue from Contracts with Customers – effective date 1 January 2018, impact on the accounts in 2018/19.

This standard has a core principle of entities recognising revenue depicting the transfer of promised goods/services that reflects the consideration expected for those goods/services. This may impact on areas such as sales where there are incidental obligations, for example, where there are ongoing maintenance agreements attached to equipment sales.

5.6 IFRS 9 – Financial Instruments – effective date 1 January 2018, impact on the accounts in 2018/19.

This standard may impact on the accounting arrangements for available for sale financial assets, for example, shares in a company. At present any change in the fair value of such an asset is accounted for through a revaluation reserve and only impacts on the Comprehensive Income and Expenditure Statement (CIES) when the asset either matures or is sold. Under the new standard, any changes in valuation may be posted to the CIES as they arise, which would impact on the General Fund immediately.

5.7 IFRS 16 – Leases – effective date 1 January 2019, impact on the accounts in 2019/20.

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

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

6 Accounting Implications

6.1 The implementation of IFRS 13, Fair Value Measurement, will result in additional disclosures within the financial statements.

6.2 The change in accounting policy in respect of the Highways Network Asset will have no direct financial implications to the Council. However, the recording of those assets on a depreciated replacement cost basis will increase the risks of delivering an unqualified set of financial statements as a very small error on recording those assets is likely to have a material impact on the Council's balance sheet.

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

7 Recommendations

7.1 It is recommended that members:

a) adopt the accounting policies for 2015/16 as detailed in annex 1.

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

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Jon Warlow, Strategic Director – Finance & Legal

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Accounts and Audit Regulations 2015, requires the Council to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

The Council has based its general accruals on the difference between the forecast revenue outturn for the year and the actual income/expenditure recorded by 31 March. Specific accruals are included for material items and for items relating to:

- Statutory accounts, for example, the Collection Fund, Precepts;
- Grants received by the Council that are conditional on expenditure within the year.

This is intended to improve the efficiency of the final accounts process in order that earlier close down deadlines can be achieved.

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

<u>Short Term Benefits</u>

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

<u>Other Long Term Benefits</u>

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

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

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Cost line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

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

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

The arrangements for the Teachers' Pension Scheme and the NHS Pensions Scheme mean liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are, therefore, accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. Within the Comprehensive Income and Expenditure Statement, the Children's and Education Services and the Public Health lines are charged with the employer's contributions payable to the Teachers' Pension Scheme and NHS Pensions Scheme in the year.

<u>The Local Government Pension Scheme</u>

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% based on the indicative rate of return on AA rated corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price,
    - unquoted securities – professional estimate,
    - unitised securities – current bid price,
    - property – market value.

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

  Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked,
  - past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure as part of Non Distributed Costs,
  - net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

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

  Contributions paid to the West Midlands Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

vii. Revenue Expenditure Funded from Capital under Statute

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

viii. Charges to revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 7, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or HRA Balance to the Capital Adjustment Account.

ix. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

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

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

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

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

x. Overheads and Support Services

The costs of overheads and support services are charged to those activities that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure of Services.

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

From 1 April 2010 all additions and all material assets revalued (over £5m) are accounted for on a component basis. As components are added, any component being replaced is derecognised. On derecognising components where the component is within a non separated component bundle, the depreciation is apportioned on a straight line basis and derecognised accordingly. In addition, where the historic cost of the old component is not readily determinable, it has been estimated by comparing the remaining useful economic life of the component to the original useful economic life and the cost of the replacement component. A pro rata of both the depreciation and any applicable Revaluation Reserve is also derecognised.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. The Council has not reviewed the deeds of all of its land and property to determine the categorisation of these assets.

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

- infrastructure assets – depreciated historical cost
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- all other assets – current value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the Balance Sheet date.

Where a material item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are evaluated separately.

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, the accounting treatment is:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance;
- where there is insufficient balance, the carrying amount of the asset is written down firstly against the Revaluation Reserve and the remaining amount against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end for any indication that an asset may be impaired. Where indications exist and any possible difference is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, the accounting treatment is:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance;
- where there is insufficient balance, the carrying amount of the asset is written down firstly against the Revaluation Reserve and the remaining amount against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for the depreciation that would have been charged if the loss had not been recognised.

Useful Life

The Council estimates that assets, at new, have remaining useful lives within the parameters as detailed below:

- Council Dwellings – separated into the key components
  - Land – indefinite life
  - Kitchens – 20 years
  - Bathrooms – 40 years
  - Doors/Windows/Rainwater, Soffits and Facias – 35 years
  - Central Heating/Boilers – 15 to 30 years
  - Roofs – 25 to 60 years
  - Remaining components (Host) – 30 to 60 years
- Buildings – up to 50 years
- Vehicles, Plant, Furniture and Equipment – 3 to 51 years
- Infrastructure – 10 to 40 years

The useful life of each asset is reviewed annually by the Directorate user through their service review and as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.

Where a school is proposing to transfer to Academy School Trust status after the year end, the Council maintains the useful life of the school's assets on the basis of the last valuation undertaken.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Assets without a determinable finite useful life, and assets that are not yet available for use, are not depreciated. Depreciation is charged in the year of disposal. Depreciation is not charged in the year of purchase.

Depreciation is calculated on the following bases:

- dwellings and other buildings and components therein – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation over their useful lives
- infrastructure – straight line allocation over their useful lives

Where an item of Property, Plant and Equipment asset has major components whose cost and life are significant in relation to the total cost and life of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less the cost of sale. Where there is a subsequent decrease to fair value less the cost of sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale. The Council currently has no surplus assets that would fall within the classification as defined in the Code.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2015/16, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

xii. Heritage Assets

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the historic environment, public works of art and civic regalia and plate.

Where assets of a heritage nature are used in the ongoing delivery of the Council's services, such as historically interesting buildings, and parks and open space, they have not been categorised as heritage assets but remain as other land and buildings, or community assets within Property, Plant and Equipment.

Where historic cost information is available, the Council has used this when compiling the balance sheet; otherwise insurance valuations have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered. In some cases, reliable valuation information is not available due to a lack of comparable market data and the diverse nature of the individual items, and where the historical cost information cannot be obtained, the asset has been excluded from the balance sheet.

The Council is custodian of a number of scheduled monuments, including burial mounds and archaeological remains, and owns a significant number of public art works, including statues, sculpture and fountains. With a couple of minor exceptions, historic cost information is not available; for the majority, there is no insurance valuation available and the Council does not consider that reliable information can be obtained at a cost that is commensurate with the benefits to users of the financial statements. Consequently the Council does not recognise these assets in the balance sheet.

The Council considers that the heritage assets will have indeterminate lives and a high residual value; and therefore does not consider it appropriate to charge depreciation on the assets. Any impairment or disposal of heritage assets is recognised and measured in accordance with the Council's relevant policies (see x. Property, Plant and Equipment in this note on Accounting Policies).

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are, therefore, carried at amortised cost. The depreciable amount of an intangible asset is amortised on a straight line basis over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement (CIES). An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Investment Properties

Investment properties are those that are held by the Council solely to earn rentals and/or for capital appreciation. An asset does not meet the definition of being an investment property if it is used in any way to facilitate the delivery of services, for the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to Financing Investment Income in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains/losses are not permitted by statutory arrangements on the General Fund Balance and are therefore reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, to the Capital Receipts Reserve.

Whilst discharging its role the Council works to ensure that the stewardship of all property assets is such that they are managed in a way that is economic, efficient and effective. The Council has a site that meets the definition of ‘Investment Properties’.

The Council has a number of lease arrangements with subsidiary companies that are not treated as investment properties in line with *IAS 40, Investment Property*.

xv. Service Concession Arrangements

Service concession arrangements (formerly classed as PFI and similar contracts) are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the arrangement, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Council includes the cost of establishing Special Purpose Vehicles in the calculation of the liabilities.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contractor each year are analysed into five elements:

- fair value of the services procured during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;

- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- payment towards liability – applied to write down the Balance Sheet liability towards the contractor;

- lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

xvi. Leases

Leases are classified as either finance or operating leases at the inception of the lease. Classification as a finance lease occurs where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the asset from lessor to lessee and where the lease term is for the major part of the economic life of the asset in question, whether or not title is eventually transferred. Those leases not classified as finance leases are deemed to be operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant or equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premia paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

<u>Operating Leases</u>

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

The Council as Lessor

<u>Finance Leases</u>

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council’s net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to impact the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

<u>Operating Leases</u>

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and proper accounting practices require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xviii. Accounting for Schools

Local authority maintained schools, in line with relevant accounting standards and the Code, are considered to be separate entities with the balance of control lying with the Council. As such the Council should consolidate the activities of schools into its group accounts. However, the Code requires that the income, expenditure, assets and liabilities of maintained schools be accounted for in local authority entity accounts rather than requiring the preparation of group accounts.

The Council has the following types of maintained schools under its control:

- Community schools
- Voluntary Controlled schools
- Voluntary Aided schools
- Foundation schools

Given the nature of the control of the entities and the control of the service potential from the non-current assets of the maintained schools, the Council has recognised buildings and other non-current assets on its balance sheet. The Council has recognised all land for Community Schools on its balance sheet and recognised that land for Voluntary Aided, Voluntary Controlled and Foundation Schools where it can be demonstrated that the Council has control over the land through restrictive covenants within site deeds or where there is reasonable evidence that restrictive covenants are in place.

The Code includes transitional provisions where non-current assets are recognised for the first time as a result of a change in accounting policy arising from a revision to accounting for schools. Under the transitional rules, non-current assets recognised for the first time should be accounted for at their 1 April 2014 valuation at "deemed cost" with the credit entry recognised in the Capital Adjustment Account. The Code does not recognise the need for identification of any historic valuation movements prior to 1 April 2014.

Academies and Free Schools are not considered to be controlled by the Council and are not consolidated into the entity or group accounts.

xix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Non-borrowing creditors are carried at contract amount. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments to the instrument over the life of the instrument to the amount at which it was originally recognised.

For most of the Council's borrowings, this means the amount presented in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium/discount is respectively deducted from/added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was repayable or discount received when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means the amount presented in the Balance Sheet is the outstanding principal receivable, plus accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to third parties at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement, charged to the appropriate service, for the present value of the interest that will be foregone over the life of the instrument, resulting in a lowered amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the third parties, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to/from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service, for receivables specific to that service, or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains/losses that arise on the derecognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at cost. Where a fair value of those assets that do not form part of the Group Accounts can be determined, the carrying value of the asset is adjusted to the fair value. Where a fair value cannot be measured reliably, the asset is carried at cost less any impairment losses. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Where it is possible to determine a fair value of an asset, they are based on:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market price – appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserves and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains/losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

xx. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty. Any deposits with financial institutions that may be repaid after the immediate day are considered to be investments, not cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand, where there are pooling arrangements across the accounts with the same institution, and form an integral part of the Council's cash management.

xxi. Inventories and Long Term Contracts

Inventories are included on the balance sheet at the latest price. This valuation method does not comply with 'IAS 2 Inventories' which requires stocks to be valued at the lower of cost and net realisable value. However the effect of this is not considered material to the accounts. For trading activities the amount recognised in the appropriate revenue accounts for contract work in progress is the payments received and receivable, less related costs. The amount at which contract work in progress is included in the balance sheet is cost plus any attributable profit, less any foreseeable losses.

xxii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Provisions are not discounted to their value at current prices unless material.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example, from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

<u>Provision for Back Pay Arising from Equal Pay Claims</u>

The Council has made a provision for the costs of back pay arising from claims made under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003. The Council bases the estimate of its provision on the expected costs of settlement for claims received up to the point of production of its financial statements.

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund and HRA balances in the year that the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund and Housing Revenue Account balances through the Movement in Reserves Statement in future financial years as payments are made.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation that will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 33 to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in Note 33 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance through the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Contributions from Developers, paid under section 106 of the Town and Country Planning Acts 1990, are shown on the Balance Sheet as either Grant Reserves or Capital Grants Unapplied. Where these monies are invested externally, the sums invested are shown under short term investments.

xxiv. Council Tax and National Non-Domestic Rates

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The Fund's key features relevant to the accounting for Council Tax and NNDR in the core financial statements are:

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;

- While the Council Tax and NNDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council’s General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council’s demand on the Fund for that year, plus/(less) the Council’s share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Comprehensive Income and Expenditure Statement

The Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. In addition, that part of NNDR retained as the cost of collection allowance under regulation is treated as the Council's income and appears in the Comprehensive and Income Expenditure Statement as are any costs added to NNDR in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and NNDR are in substance agency arrangements, any year end balances relating to arrears, impairment allowances for doubtful debts, overpayment and prepayments are apportioned between the major preceptors and the Council by the creation of a debtor/creditor relationship. Similarly, the cash collected by the Council belongs proportionately to itself and the major preceptors. There will therefore be a debtor/creditor position between the Council and the major preceptors since the cash paid to the latter in the year will not be equal to their share of the total cash collected. If the net cash paid to the major preceptors in the year is more than their proportionate share of the cash collected the Council will recognise a debit adjustment for the amount overpaid. Conversely, if the cash paid to the major preceptors in the year is less than their proportionate share of the amount collected then the Council will recognise a credit adjustment for the amount underpaid.

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and NNDR collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition that part of NNDR retained as the cost of collection allowance under regulation appears in the Council's Cash Flow Statement. The difference between the major preceptors' share of the cash collected and that paid to them as precepts and settlement of the previous year's surplus or deficit on the Collection Fund, is included as a net increase/decrease in cash and cash equivalents.

xxv. Business Improvement Districts

In accordance with the provisions of the Business Improvement District (BID) Regulations 2004 a ballot of local businesses within specific areas of the City has resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the National Non Domestic Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

In line with Code guidance the Council has determined that it acts as agent to the BID authorities and therefore neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts.

xxvi. Events After the Reporting Period

Events after the Balance Sheet date are those material events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of Audit Committee adoption of the accounts are not reflected in the Statement of Accounts.

xxvii. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets it controls and the liabilities it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and the expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xxviii. Council Acting as Agent

The Council does not include transactions which relate to its role in acting as an agent on behalf of other bodies. In such cases the Council is acting as an intermediary and does not have exposure to significant risks and rewards from the activities being undertaken.

xxvix. Value Added Tax

Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxx. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effected. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Customer Services**
Date:	**3 March 2016**
SUBJECT:	**LEARNING FROM COMPLAINTS**
Wards Affected:	**All**

1. Purpose of Report

1.1 The purpose of this report is to inform the Audit Committee on how the Council and its Directorates respond to complaints and uses them as learning and insight when implementing service improvements.

2. Decisions Recommended

2.1 That the Audit Committee notes the content of this report.

3. Contact Officer Details

Chris Gibbs, Customer Services
Tel: 0121 464 6387
Email: chris.gibbs@birmingham.gov.uk

Evelyn Bingham, Customer Services
Tel: 07823 534961
Email: evelyn.bingham@birmingham.gov.uk

4. Capturing Key Learning From Complaints

4.1 Each Directorate is required to provide a quarterly report to Customer Services providing details of the Top 3 reasons for complaints received in the previous quarter and what actions they have taken/or are planning to take to address these. They are also required to provide an update on the previous actions from the preceding quarter. Following the interrogation and resolution of complaints from the Your Views corporate system, quarterly reports are produced which identify by service the nature of complaints, the issues and actions taken/recommended by the service to improve the service. All recommendations are tracked and reviewed each quarter and provide any associated timelines.

4.2 Learning from complaints is also discussed at the quarterly Your Views Coordinators meetings with a view to reducing repeat complaints or developing lessons learned into future activities that are known to generate an increase in complaints e.g. wheelie bin roll-outs; Green Waste renewal.

4.3 The quarterly learnings are incorporated into wider Action Plans by the Relationship Managers in Customer Services to take to the relevant Management teams in order to ensure that actions can be assigned and monitored.

4.4 The process identifies the top three key complaints/themes for each service, which in terms of the diversity of each service are catalogued against the following generic complaint types to enable analysis of overall performance improvement.

4.5 Nature of Complaint :

- Appropriateness of Service Provided
- Customer Comments created by Web
- Customer Complaint Created by Web
- Damage to Property
- Disagreement with Policy or Decision
- Efficiency of Service
- Hazard or Potential Risk
- None Delivery of Service
- Not assigned
- Quality of Work
- Staff Attitude

5. Understanding The Customer Journey

5.1 For the purposes of this report we will review Waste Management and Benefits complaints management.

5.2 In the example from Waste Management (see appendix 2) understanding the customer journey is a method of categorising complaints in terms of identifying where in the journey the service failed to deliver. And in doing so, the service area can identify process, policy or operational issues.

5.3 Whereas in the example from Benefits (see Appendix 3) which is heavily dependent on a number of customer transactions, the customer journey also relates complaints to key performance indicators, volumes of transactions and the impact on the service's ability to deliver improvements.

5.4 Customer Services Relationship Managers, working with Services Areas track the progress of complaints and are able to assess if the Customer Journey is improving compared to the last quarter and also analyse the overall customer experience year on year.

6. **How Learning Is Translated To Improvements**

6.1 In the case of the Waste Management (Appendix 2) we are able to understand how Learning from Citizen complaints has informed the future activity which has a similar or same impact on the customer experience.

6.2 Below we can see a number of examples taken from the Lessons Learnt document for the Perry Barr Wheelie Bin roll out. The examples show how the actions taken from these lessons learnt have a direct impact on citizens:

6.2.1 ISSUE The red card collateral was posted in envelopes. This was seen as positive and there were a lot fewer returns than previous roll outs. ACTION Repeat for Lifford Roll Out.

6.2.2 ISSUE Poly wrap clearly marked “important information”. It was felt that this had made residents more aware to read the contained info. ACTION Repeat for Lifford Roll Out

6.2.3 ISSUE Residents putting out sacks on their first week of collection on their old day and their bins out on their new day. ACTION Make clear for Lifford Roll Out on the citizen calendar when the last sack collections will take place.

6.3 In the example of the Benefits Service (Appendix 3) we are able to see how complaints have led to a permanent change in process leading to a long-term permanent improvement ‘Introduction of Risk Based Verification, approx.50% of caseload will no longer require evidence to be submitted as part of the claim. This will reduce volumes of work coming in and speed up time to process claims’.

7. Citizen Satisfaction

7.1 Learning from complaints have also enabled Customer Services working with Service Areas to identify where service improvements are required and before implementing corrective actions, the insight from complaints have been used at citizen panels before the improvement to understand the customer journey and help to shape the solution and after improvements to understand where the customer experience has improved.

7.2 Citizen satisfaction has improved significantly in the last 12 months to surpass the national average for satisfaction in local authorities reaching a high of 63.5%.

8. Outcomes For Citizens

8.1 Through the management of complaints, the council across all services are able to be citizen focussed.

8.2 Service areas, through this process, are able to make long-term improvements and immediately react to the needs of citizens in the short term.

8.3	As an organisation our learning and ability to adapt is key to improving the council's objectives to make savings and efficiencies within services.
8.4	Quarterly Learning for Benefits and Lessons Learnt Report for Waste Management is provided at Appendix 1, 2, 3.

APPENDIX 1 – QUARTERLY LEARNINGS REPORT

Service	Top 3 - Nature of Complaint	Actions taken to address issues	Actions to be taken to resolve/improve services in 2015/2016	Implementation timescales	Review actions from last quarter
Fleet and Waste Mgt	1,954 complaints recorded: top 3 complaints are: 1. None Delivery of Service (711) 2. Appropriateness of Service (292) 3. Efficiency of Service (275) 4. Disagreement with Policy or Decision (238)	Root cause of the top complaints received relates to missed collections and is as a result of the wheelie bin rollout in the North of the city. The rollout began on 1 June 2015 and a period of 6 weeks was identified for stablisation allowing new routes, vehicles and working practices to become embedded into business as usual. The majority of the complaints related to missed collections because of the operational stabilisation period where assistance had to be provided on routes that could not be completed	End to end processes/procedures being developed to encompass best practice. Review of productivity levels using 'in-cab' technology to drive efficiencies and effectiveness	Next Quarter	Using Management information to identify missed collections at Redfern depot in respect of green waste has improved service significantly.

Service	Top 3 - Nature of Complaint	Actions taken to address issues	Actions to be taken to resolve/improve services in 2015/2016	Implementation timescales	Review actions from last quarter
		resulting in delays of up to 2 days for collection of residual, recycling and garden waste. The management information is currently being monitored daily to ensure that the service failure trend is moving in the right direction.			

APPENDIX 2: Lessons Learnt – Perry Barr Wheelie Bin Roll Out

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Back Office	GIS mapping – Earlier sign off required as was close to go live for Perry Barr	GIS have started this work earlier and will run iterations until there is a suitable split.		A
Back Office	Cross matching customer enquiries with missing RFIDs - Doing this had helped to quickly identify those residents that required bins.	Repeat for Lifford	27/07/15 - This is planned in for Lifford stabilisation	A
Back Office	Quality checks - Carried out late for Perry Barr.	Timeline for quality check to be added to the plan. Extra checks to be carried out for Lifford due to the complexities of the pilot wards and the student pilot.	01/09/15 – Commence 7/9/15	A
Back Office	Some uncertainty on processes and procedures for jobs.	Processes to be developed for all for each type of job. E.g. Wrong number of bins, damage bins etc. Some of these may have already been done.	01/09/15 – Discussed with KV. KV drafting processes for each job type once bins start to be delivered.	A
Back Office	Garden waste cycle changes.	There will be no changes to the cycle for garden waste collections as there will only be one collection left. Recommended that garden waste collections are removed from the calendar, as per the Redfern roll out.	01/09/15 – remaining garden collection for 2015 has been removed from Lifford calendars which will be issued to residents.	G
Comms	The red card collateral was posted in envelopes. This was seen as positive and there were a lot fewer returns than previous roll outs.	Repeat for Lifford	01/09/15 – complete – larger number of returns received for Lifford, but this is due to larger number of properties which have been demolished since property assessments completed.	G

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Comms	Pollywrap clearly marked "important information". It was felt that this had made residents more aware to read the contained info.	Repeat for Lifford	01/09/15 – completed will be included in polywrap pack	G
Comms	Reminder campaign via social media etc. Not sure of the success of this. However, it is simple to do.	Repeat for Lifford		G
Comms	Residents putting out sacks on their first week of collection on their old day and their bins out on their new day.	Make clear on the calendar when the last sack collections will take place.	01/09/15 – calendar amended – with sentence which says "there will be no further collections of sacks or recycling boxes from your property after 16th November 2015".	G
Comms	Schools competition - Fitting of the artwork was very close to go live.	This has been started earlier due to the summer holidays. An undercover location is required for the fitting of vinyls.	01/09/15 – winners chosen, with Get It Sorted to produce the artwork.	G
Comms	White labels - Issues with the label order due to company ceasing trading.	a. Contingency plan to be put in place in the event of the company going bust. b. DG to carry out a stocktake of labels at Small Heath. c. Stronger label stock control to be put in place at Small Heath d. Check delivery amount matches order amount before signing for deliveries.	b. 27/07/15 - Done & new order placed 01/09/15 – order placed for 170,000. A&D already have 25,000 in stock. c. 27/07/15 - Planned (plus better communication with all involved to ensure deliveries ordered are received) d. 27/07/15 - As above 01/09/15 – DG has been reminded that when delivery is made numbers delivered are confirmed against order before drivers is allowed to leave.	G

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Comms	Promotion of the roll out through community groups.	Consideration to be given to the groups that will be communicated through e.g. religious groups, student guild, landlords etc. for Lifford.	01/09/15 – Completed 31/7/15. Poster issued to Depot and distributed to equality and community engagement team for distribution.	G
Comms	Pilot ward communications - Consideration to be given to comms for pilot wards to advise of change in collection day	Suggested that these areas have a pack delivered as part of the roll out by Driveline.	01/09/15 – student roads – liaison through student union. Day not changing. Brandwood and Harborne – will receive information pack / calendar through post.	A
Contact Centre	Go live of Garden waste service at the same time - This had an impact on wait times due to the high level of calls for the garden waste service.	First collections commence on the 16th November in Lifford. Sales for the 2016 garden waste service will commence on the 1st December. Staffing levels to be taken into consideration for this time.	24.07.15 - The Contact Centre Resource & Planning team have been provided with go live date to schedule against. A key confirmation needed at the Contact Centre concerns any intention to run a December early bird for Green Waste. The early bird drives an increased volume of calls over a short period of time. An essential consideration is the current room capacity at the council house. Currently the maximum advisor positions available would be 18, the peak of early bird requires 22 advisor positions. We require confirmation on this by mid-September. 01/09/15 –Decision paper going to Programme Board in September.	A
Contact Centre	Faster flagging of issues by advisors e.g. problems with wrong calendars delivered. This issue was quickly flagged by advisors and quickly resolved by the service as a result.	Repeat for Lifford.	24.07.15 - Resolution Champions are embedded in the Contact Centre operation and will identify such issues on a day 2 day basis	G

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Contact Centre	Resolution champions - Helpful central point for advisors to flag issues to and communicate messages from. Proved to be successful	Repeat for Lifford.	24.07.15 - Resolution Champions are embedded in the Contact Centre operation and will identify such issues on a day 2 day basis	G
Contact Centre	Delivery schedule provided to advisors – very helpful for advisors when dealing with queries	Repeat for Lifford.	31.07.15 – Delivery schedules will become available in September	A
Contact Centre	IVR / website messages - Messages to be pre-prepared and website to be reviewed for clarity.	D Wood and B Hogg to meet to take forward. FAQs to be developed for Brandwood and Harborne pilot areas and the student area.	24.07.15 - Currently work in progress, amendment shave been made for August to reflect assessment cards. Meeting with BH / DW to take place on 28th July to discuss post August. Briefing being issued to Contact Centre on 27th July to cover assessment cards and differential points for Brandwood & Harborne. 31.07.15 – Meeting took place with Dawn on 28th July. A walkthrough of key roll out dates / events was undertaken in order to plan updates and refreshes to the web pages. BH will now meet with the Customer Services web team to scope out the requirements / plan. There needs to be further consideration in the use of IVR to defect high demand in relation to compliance with the Birmingham Promise. 14.08.2015 – Agreed in the via the Customer Services Monthly Meeting on the 3rd August. Future IVR use should not inform customers when we will be round to collect. Instead it should take an approach to say – “We are experiencing high demand at present, if you are	A

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
			reporting a missed collection please go online"	

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Delivery	Recording of Postcodes - Some issues with legibility of handwriting meant that the wrong postcode was recorded as completed.	Clearer recording of completed postcodes required	27/07/15 - Planned as part of agency training pre-Lifford	A
Delivery	Presentation point letters - These are to be posted out in the Lifford roll out.	There were concerns that there may be an increase in calls as pilots were not door knocking with the delivery of presentation point letters to answer any queries.	31.07.15 – Letter due to be sent out W/C 7th September 01/09/15 – On track.	A
Delivery	Scanner errors - Better training for driveline staff was put in place. Deliveries were completed ahead of schedule due to better scanners and the support of A Bright and A Brown.	Continue for Lifford. Also spend time with Driveline staff before roll out to carry out training and stress that errors should be rectified, such as bins scanned as the wrong type. It should be made clear that they will not be paid for missing RFIDs.	27/07/15 - Planned pre roll-out	A
Delivery	Anomalies – properties incorrectly recorded as demolished.	Checks could be carried out in advance on google earth to see whether correctly recorded.	27/07/15 - Planned as part of the A&D training	A
Delivery	Tranches not completed before starting the next - Calendar shortage had required some pilots to start the next tranche before it had been completed.	Numbers of calendars increased by 12% to prevent this for Lifford.	27/07/15 - Done – 12% ordered	G

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Delivery	Pilots unable to find properties	a. Recommended that pilots call the office when they are unable to find a property as office based staff may be able to locate it easier and advise them. b. Maps to be provided to those properties with names as they are often more difficult to find.	a. 27/07/15 – Planned as part of the A&D training b. 27/07/15 - Planned	A
Delivery	Delivery sheets not displaying properties in numerical order. E.g. Property number 24b displays at the end of the list on that road but property number will be in the correct place in the sequence.	To be explored whether these can be in numerical order.		A
Ops	Flats above shops - Any work on this will be carried out after completion of the citywide roll out. A large number of the enquiries that are being received as due to these types of residents not receiving comms and they are not aware of any changes to the day of collection.	Messages to be made clear to the crews that they are to continue to pick up sacks in these areas.		A
Stores	Traffic Management at Small Heath - Traffic management arrangements on the site were reviewed during the Perry Barr roll out.	The changes were felt to have been positive and will be put in place again for Lifford.	23.07.15 - Concur with the view that changes made a positive difference and will carry on 13.08.15 – New traffic management plan developed for Brinklow Rd. Changes to entrance gate has determined the need for an interim plan. Will revert to original plan when new entrance gate is available to be used.	G
Stores	Control of damaged bins - A number of bins were reported as damaged during the Perry Barr roll out before delivery.	Deliveries of damaged bins need to be flagged sooner. Having MGB (R Evans) on site had been helpful to quickly resolve issues during	23.07.15 - Yes to that but also there needs to be a weekly meeting with BCC / Driveline and MGB / Straights so that the suppliers can review the production schedules to meet the distribution	A

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
		the Redfern roll out. It was requested that was put in place again for Lifford.	progress. We do not have spare stock like we did for the Perry Barr roll out 13.08.15 – No meeting to date but needs to happen asap to control numbers of bins and axles going into Brinklow Rd	

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
Stores	Flats transition - There were issues with the numbers of bins delivered. Confusion for residents when the bins were taken away.	a. Flats spreadsheet to be revised so that any revisions are made clearer. b. It was recommended that any 1100 containers were left in place if appropriate and clearly labelled that they are for residential use. c. Recycling to be clearly labelled as contamination had been high. d. Crew knowledge about the location of bin stores needs to be recorded and passed on. e. It is not possible to record the exact location of bin stores on the slab in the cab system. However, the number of stores at a location can be recorded.	b. 23.07.15 - Yes, agree with leaving 1100's and 660's in place c. 23.07.15 - Question, do we need to rethink the logo on the blue lidded bin before they go into production? 01/09/15 – Blue and green lidded recycling bins will have stickers put on them to inform residents what goes into each bin.	A
Stores	MGB deliveries - MGB deliveries need to be properly scheduled and deliveries made as promised.	Better communication required between BCC stores and MGB. This will be supported by having MGB on site. See S02		A
Stores	Thefts - Attempted theft of axels from Small Heath.	During quiet times the axels are being brought into the building and the gates are kept closed. At the Brinklow Road site, axels will be	23.07.15 - Yes to both of those. I understand that the sheds have been cleared at Brinklow Road a. 27/07/15 - Done/Continuing 13.08.15 – All gates locked when Depot not in use.	A

Area	Lesson Learnt – Successes and areas for improvement	Action	Current Status	RAG
		kept in the shed and forklifts will be secured in the container.		
Stores	Reject sticker - This was found to be useful during the Perry Barr roll out to label bins that were not suitable for delivery to residents and the reason why	Repeat for Lifford roll out		**A**
Vehicles	Due to a number of breakdowns on the first week of go live in Perry Barr the contingency put in place had not been enough.	A stronger contingency plan is required in case of similar issues in Lifford.		**A**
WPT	Weekend working feedback had been positive.	Repeat for Lifford.	01/09/15 – need to check this is in hand to happen. Advert for staff needs to be issued.	**A**
WPT	Roadshows - These were seen as positive. It was felt that there would not be the issues with language as had been experienced in other areas.	There are concerns with the capacity of the team to deliver these for Lifford. A plan is being developed.	01/09/15 –complete roadshows held and feedback received from Emma.	**G**

APPENDIX 3 – Q3 COMPLAINTS FOR BENEFITS

Service Area	Area of Complaint	Further background	Actions submitted in Quarter Two and Outcomes
Benefits	Delay in Processing claims, responding to email or correspondence	<u>Delays in Processing</u> This is where customers believe we have taken too long to process New Claims or Change Events, replied to correspondence or email. Any delays lead to inappropriate recovery action both with Rents and Revenues Service Areas (and Private/Social Landlords). The number of complaints relating to delays in processing shows that in comparison to the number of transactions undertaken by the Benefit Service, only 0.05% generated a complaint of which 0.01% of these was found to be justified. In Quarter Two, the number of complaints received in relation to delays was 40 of which 17 were deemed justified. In Quarter three this number has shown a reduction of 6 (15%), and the number of justified cases has reduced from 17 to 15.	Introduction of Risk Based Verification, approx.50% of caseload will no longer require evidence to be submitted as part of the claim. This will reduce volumes of work coming in and speed up time to process claims. <u>Measure of above</u> Number of transactions in Q3 has reduced by 25,332 (showing an overall reduction 27%), and an increase in the speed of processing for New Claims from 21.25 to 20.97days. Performance is reported to Benefits Service Management Team on a monthly basis The Service is maintaining the Customer Promise of responding to all complaints within 20 calendar days, this is monitored daily. <u>Measure of above</u> Customer Promise analysis shows 100% compliance within 20 days, and is reported to Benefit Service Management Team monthly. The new IEG4 form (self-service form) has now been introduced, this confirms with customers of any

Service Area	Area of Complaint	Further background	Actions submitted in Quarter Two and Outcomes
			evidence (if appropriate) to support claims, which contributes to an audit trail of claims submitted, and is more efficient and cost effective for the both the Service and the Customer. Compliance Team targeted quality control in place to pick up errors within the processes and provide feedback to appropriate staff. These errors form part of individual performance monitoring with Managers <u>Measure of Above</u> Benefit Service conduct a 4% check of all work completed each week, for this quarter, the number of checks completed by the Compliance was 14,366 items. The error rate reported for this quarter was reduced from 4% in quarter two to 2% in quarter three. A number of these checks were targeted to the work done under Risk Based Verification and the use of the IEG4 form, to evidence for Auditors that the processes have been embedded in to the Service effectively and correctly applied to claims.
	Reconsideration	<u>Reconsideration</u> Periodically customers will use the complaints process when as evidenced in previous quarters a request for service would have sufficed. Against the number of transactions completed, only	Introduction of both Risk Based Verification and Real Time Information continues to assist with ensuring the data held to evidence claims is up to date, and customers only need to submit evidence dependant on the Risk Group (low risk means claims can be submitted with minimal evidence - which in turn will

Service Area	Area of Complaint	Further background	Actions submitted in Quarter Two and Outcomes
		0.02% of these transactions generated a justified complaint. In Quarter Two, the number of complaints received in relation to reconsiderations was 37 of which 13 were deemed justified. In Quarter three this number has shown a reduction of 2 (11%), and the number of justified cases has reduced from 15 to 13.	speed up processing times) Measure of Above ## Need details of numbers of RBV at each level to substantiate the number of items processed being reduced## Data Matching records with DWP information ensures all income used in benefit calculations are up to date and correct. Measure of Above ## Need details of numbers of Data Matches that were completed (I know all data matches were brought up to date before Christmas, Sarah to provide stats) to substantiate the number of items processed ## Self Employed Intervention schedule has just been completed, giving customers opportunity to ensure all income used in assessments is up to date and correct. Measure of Above ## Need details of numbers of cases to substantiate the number of items processed ##

Service Area	Area of Complaint	Further background	Actions submitted in Quarter Two and Outcomes
			Again as above, Compliance and Quality control checks are conducted to ensure errors are detected rectified and individual's performance managed. (including any training needs identified) Measure of Above See notes for delays, regarding compliance checks and the reduction in error detected.
	Request for Clarification Explanation	Request for Clarification/Explanation This is where customers believe we haven't got their benefit details correctly updated , linked to updating of DWP passported benefits which customers don't associate as changes to entitlement or customers not aware of need to report changes In Quarter Two, the number of complaints received in relation to requests for clarification was 34 of which 8 were deemed justified. In Quarter three this number has shown a reduction of 7 (21%), but the number of justified cases has seen an increase from 8 to 9.	The reasons for these complaints were all captured in actions above Measure of Above As above, but also an exercise was conducted to review Pension Credit cases to ensure Benefit awards were correct, this generated an additional number of enquiries.

Birmingham City Council

Public Report

Report to: **AUDIT COMMITTEE**

Report of: **SERVICE DIRECTOR CUSTOMER SERVCES**

Subject: **RISK BASED VERIFICATION FOR HOUSING BENEFIT AND COUNCIL TAX SUPPORT CLAIMS**

Wards Affected: All

1. PURPOSE OF REPORT

1.1 To consider the recommendation that the Council continues with the Risk Based Verification (RBV) framework. This stipulates the level of information that is required to support new claims for Housing Benefit and Council Tax Support and also changes in circumstance.

1.2 To consider the recommendation that the Council extends the framework to allow for the electronic submission of evidence for .

2. RECOMMENDATIONS

2.1 The purpose is that Birmingham continues with risk based verification in 2016/17 but enhances the policy to allow for the electronic submission of evidence for medium risk claims.

2.2 Resultant recommendations are also included with in the private report.

3. LEGAL AND RESOURCE IMPLICATIONS

3.1 Legal and resource implications are included in the private report.

4. RISK MANAGEMENT AND EQUALITY ANALYSIS ISSUES

4.1 Risk management issues are included in the private report.

4.2 There are no equality issues to report.

5. COMPLIANCE ISSUES

5.1 There are no compliance issues to report

6. REASONS FOR RECOMMENDATIONS

6.1 Included in the private report.

…………………………………………………………………………………………….

Chris Gibbs

Service Director Customer Services

Contact Officer: Sian Peters – Interim Head of Welfare Reform

Telephone No – 07736454544

Email; Sian.Peters@birmingham.gov.uk

List of Appendices accompanying this report: None