

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 27 SEPTEMBER 2023 AT 14:00 HOURS
IN COMMITTEE ROOMS 3 & 4, COUNCIL HOUSE, VICTORIA
SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 NOTICE OF RECORDING/WEBCAST

The Chair to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Public-I microsite ([please click this link](#)) and 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.

3 DECLARATIONS OF INTERESTS

Members are reminded they must declare all relevant pecuniary and other registerable interests arising from any business to be discussed at this meeting.

If a disclosable pecuniary interest is declared a Member must not participate in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If other registerable interests are declared a Member may speak on the matter only if members of the public are allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless they have been granted a dispensation.

If it is a 'sensitive interest', Members do not have to disclose the nature of the interest, just that they have an interest.

Information on the Local Government Association's Model Councillor Code of Conduct is set out via <http://bit.ly/3WtGQnN>. This includes, at Appendix 1, an interests flowchart which provides a simple guide to declaring interests at meetings.

4 **EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 100I of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.

b) If so, to formally pass the following resolution:-

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

5 - 18

5 **MINUTES - EXTRAORDINARY AUDIT COMMITTEE 15 SEPTEMBER 2023**

To confirm and sign the minutes of the last meeting of the Committee held 15 September 2023.

6 **ROLES & RESPONSIBILITIES FOR AUDIT COMMITTEE (FOLLOWING SECTION 114 NOTICE)**

(5 minutes allocated) (1405 – 1410 hours)

Verbal update

19 - 28

7 **RESPONSE FROM INTERIM DIRECTOR OF FINANCE (S151 OFFICER) TO EXTERNAL AUDITORS REPORT**

(30 minutes allocated) (1410 – 1440 hours)

Report of the Chief Executive (Head of Paid Service) & Interim Director of Finance (S151 Officer).

- i) Equal Pay
- ii) Oracle
- iii) Financial Sustainability

8 **UPDATE FROM THE INTERIM DIRECTOR OF FINANCE (S151 OFFICER) TO THE SECTION 114 NOTICE**

(30 minutes allocated) (1440 – 1510 hours)

Update from the Chief Executive (Head of Paid Service) & Interim Director of Finance (S151 Officer) following the Extraordinary Meeting of the Council.

9 **ASSURANCE SESSION - THE LEADER'S PORTFOLIO**

(30 minutes allocated) (1510 – 1540 hours)

Verbal discussion

The Leader and the Chief Executive

10 **UPDATE FROM EXTERNAL AUDIT**

(20 minutes allocated) (1540 – 1600 hours)

Verbal update of the External Auditors

11 **SUMMARY OF CURRENT REVIEWS INTO FINANCIAL SITUATION & GOVERNANCE**

(10 minutes allocated) (1600 – 1610 hours)

Information Update.

29 - 32

12 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

13 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Wednesday, 18 October 2023 at 1400 hours in Committee Room 3 & 4, Council House.

14 **OTHER URGENT BUSINESS**

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

15 **AUTHORITY TO CHAIR AND OFFICERS**

Chair 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'.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 15 SEPTEMBER 2023

**MINUTES OF A MEETING OF THE EXTRAORDINARY AUDIT COMMITTEE
HELD ON FRIDAY, 15 SEPTEMBER 2023 AT 0915 HOURS IN COMMITTEE
ROOM 3 & 4, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1
1BB**

PRESENT:-

Councillor Fred Grindrod in the Chair;

Councillors Shabrana Hussain, Meirion Jenkins, Miranda Perks, Shafique Shah and Paul Tilsley

CHAIRS ANNOUNCEMENT

630

The Chair informed the Committee this meeting had been arranged due to the announcement of the equal pay challenges the Council encountered. There were three key agenda items for discussion.

At this juncture, the Chair informed the Committee that due to the nature of the business, which was being discussed, the meeting may move into a private discussion and the press and public would be excluded from these discussions.

Following the guidance of the City Solicitor and Monitoring Officer, the Chair made Committee members aware the private discussion would be minuted and items that could be placed into the public that were not commercially confidence would be read in the minutes of the 27 September 2023 meeting and placed into the public domain.

The Chair noted the impact of the challenging times however, the Audit Committee will be delivered with dignity and respect to all those attending and reporting to the meeting.

Reference was made to the questions raised at the full council meeting by the Conservative Group in relation to Audit Committee and its experience and what had been shared over the period of concern. Officers have been requested to reflect and review the work of the Committee and what could have been done better and what needs to be improved going forward. It was noted, the Audit Committee would be reviewing and reflecting their ways of working.

NOTICE OF RECORDING/WEBCAST

- 631 The Chair advised and the Committee noted this meeting will be webcast for live or subsequent broadcast via the Council's Public-I microsite ([please click this link](#)) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

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

APOLOGIES

- 632 There were no apologies submitted.
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DECLARATIONS OF INTEREST

- 633 Councillor Tilsley declared his standing declaration. He was a Non-Executive Director for Birmingham Airport (Non-pecuniary).
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair advised there would be a possible private discussion for four of the items on the agenda under Exempt paragraph 3 of schedule 12A of the Local Government Act 1972. These were noted as:

- Item 5 - Private minutes - Audit Committee 19 July 2023
- Item 6 - Report from External Audit
- Item 7 - Report on Equal Pay & Financial Plan
- Item 8 – Report on Oracle

The Chair would be seeking advice from the City Solicitor and Monitoring Officer throughout the meeting.

At this juncture Councillor Jenkins raised his concerns around the lack of transparency which has led to the current situation. On this basis, Councillor Jenkins opposed to the meeting being in private session. Furthermore, he added the Audit Committee had failed to protect the public however this was a result of the lack of information provided to the Committee by the administration.

The Chair noted the comments made by Councillor Jenkins and these would be considered when appropriate throughout the meeting however, the motion was carried by the Committee Members.

Upon consideration, it was:

634 **RESOLVED**

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

MINUTES – AUDIT COMMITTEE 19 JULY 2023

635 That the public and private minutes of the meeting, 19 July 2023 having been circulated, were agreed by the Committee as a full set.
There were no issues raised on the private minutes.

REPORT FROM THE EXTERNAL AUDITOR

636 The following report of the External Auditors was submitted:

(See document No.1 of the agenda pack)

The Key Partner, Grant Thornton, gave an overview to the powers available to the External Auditors.

Additional powers available to the External Auditors was outlined in detail within the report however, a summary of these were noted as:

- Any areas of concern – External Auditors can issue statutory recommendations which require a formal response by full Council.
- Public Interest Report can be issued (Quasi-judicial) – External Auditors would undertake further consultation.
- If the External Auditors was unhappy with the action the Council was undertaking, an Advisory Notice would be issued.
- Judicial Reviews

No progress had been made with the 2020 -21 and 2021-22 Audit since the last meeting. Issues that had been shared by the External Auditors had not been resolved thus the opinions could not be signed off.

The main issue related to Equal Pay. The External Auditors were aware the BCC officers were working on the Financial Model. The effectiveness of the modelling was being looked at by the Auditors. This would then allow the assumptions to be made which in turn would provide assurances that the financial figures are accurate within the accounts.

The External Auditor emphasised this work was urgent and the 2020-21 and 2021-22 accounts should be signed off by the 30 November 2023. A financial position was required on the old accounts to progress further. Other areas of issues within the 2020/21 were pointed out. It was crucial to close these accounts as soon as possible.

2022-23 Accounts – The Council was not yet able to provide an outturn position or set of financial statements for the 2022-23 accounts. The External Auditor was aware BCC Officers were working on both these areas however, there was no clear timescale for completion of this work. These issues arose due to the Oracle Implementation which did not work for the Council.

Areas of concern were noted as:

- i) Original implementation, adaptation of the Oracle system – These adaptations to the system had not worked which resulted in difficulties in financial reporting.
- ii) IT Security System on Oracle was not switched on at the start of the programme/ process. The External Auditors could not confirm that the Council had the IT security control in place as they had no insight to what had happened within core IT security systems as there was no record. This was being looked into with Oracle and the Council as this has significant implications to the audit.
- iii) Financial systems had not operated as planned. Details around the integrated systems was shared. It was noted, this was not in place at the start or had not operated through the year therefore this had significant implications to the Councils main ledger.
- iv) Cash transactions – BCC Officers had to undertake manual work to allocate the cash to the right place. It was noted 30 BCC officers had been working on this area and it was believed to be reasonably accurate. The External Auditors recognised this was tremendous task to undertake.
- v) Other areas highlighted were around;
 - accounts receivables and payables,
 - payroll (no issues raised to the External Auditors by the Council) and;
 - journals – This was a powerful tool within the general ledger and allows the movement of transactions if in error to the correct location. However, there are risks attached to this as financial reporting can be manipulated or used for fraud. Lack of control and authorisation on the journals provides difficulty in assurances on the control.

The External Auditor did not have the key components to undertake the audit i.e. he did not have details of the IT security System; security and operation of journals; and security of posting of the cash. Therefore, this was a different type of audit.

The External Auditors would be looking at the key areas in phases. These were noted as; IT Security, journals, control of the accounts reconciliation in order to determine if assurance can be placed on the control.

- If assurances cannot be obtained, then the External Audits will recommend to the Audit Committee to stop the audit and qualify the accounts as the level of testing for External Auditors and work for officers would be extraordinary and this would cause delays.
- If assurance can be provided via significant testing, then this would require further work by the Auditors.
- Officers had been focussed on the safe and complaint phase of Oracle on resolving the Job Evaluation process. No progress was being made on these accounts.

The External Auditor provided no date for when the 2022/23 accounts would be signed off.

Equal Pay

A special review on Equal Pay was taking place. The External Auditor was concerned that the Council had not chosen a job evaluation option. It was noted Council Business Management Committee were presented with option 2 on the basis the addendum would be signed by the Trade Unions. The Council was not making progress to closing this liability which was a significant concern for financial future.

Financial Sustainability

There was not sufficient revenue to meet the Equal Pay liability. The Government may have to provide legislation to allow capitalisation of revenue. Significant asset sales may also have to take place to raise the funding, or additional borrowing.

There was significant concerns round affordability of additional borrowing. This was a critical conversation for the Council to have. On this basis, the financial position for 2022-23 is not known and this would affect 2023-24 accounts.

Oracle

The External Auditor recognised BCC Officers had been focused on the Safe and Complaint Phase. The Audit Committee had to ensure this phase was completed. It is important to ensure the vanilla' version of Oracle was in place however, the capability and capacity was currently not available. This was under review and concerns have been raised around programme management, options appraisal etc.

The Committee were advised by the External Auditor to focus on these following 3 areas; Financial Sustainability; Equal Pay and Oracle.

Both Key Partners (External Auditors – Jon Robert and Mark Stocks) would be issuing statutory recommendations relating to the issues and there would be a period of 10 days for the council to respond to.

The Chair recognised the advice provided by the External Audit and the three areas suggested; Financial Sustainability; Equal Pay and Oracle. These would be on a standing items on the Audit Committees agendas. This was agreed by Members of the Committee.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by the External Auditor).

Members raised questions and made the following comments;

- what was the normal timescale for a difficult set of accounts to be signed off;
- Delay of accounts (impact of the pandemic) – if earlier sets of accounts were closed, would the Council understand this position quicker?
- 2020-21, 2021–2022, were not being closed, however, if they were closed how does information found out later i.e. March 2023, have an impact on these previous years?
- How assured was the External Auditors that the Council Equal Pay model was correct?
- An estimate of £760 million pounds for Equal Pay Liability had been indicated, however, until the job evaluation was agreed, the liability would grow by £14 million pounds a month. The Job Evaluation was not likely to be in place until 01 April 2025 (approximately 18 months). This would take the liability to over £1billion which was very concerning – this would mean selling assets, reduce the workforce, increase council tax etc.
- A motion was passed in full council around access to information for Audit Committee and access to information should be readily available to the members.
- IT Security – The access control was not in place therefore any changes made on the system, was not tracked or logged which was concerning.
- The accounts would be reviewed for the last 3 years however, equal pay claims date back to 2017. It was questioned if 6 years of accounts should be looked at.
- Cabinet Members were informed of the equal liability in February 2023 via the HR Director which indicated approximately £300-600 million. The budget was signed off in February with a risk register indicating there was no equal pay risk at the time. Questions arose to the External Auditor around the signoff of the budget at Council despite the apparent awareness of the situation.
- The job evaluation scheme has not been agreed by the trade unions and the liability increases. Questions were raised around if there was any other methodology available to mitigate the liability.
- Questions were asked to the External Auditors if they have had sight of the Cabinet Report and legal advice around this area in 2017 and subsequent years.

- Oracle – original budget was £20 million and the estimate was now around £100 million. Oracle would need to be reimplemented and queries were raised if this figure was realistic?
- £383 million pounds earmarked reserves and unmarked £230 million pounds, Cabinet had approved £40 million pounds in July 2023, to meet the Oracle implementation (from reserves).
- In relation to £760 million pounds, how much savings would need to be found within each year?
- Finance & Resource O&S Committee had tried to get hold of an Asset register which was currently difficult to get hold of. What would be the position especially if the Job Evaluation had not been agreed.
- If the accounts were qualified, what would be the impact on the Council?

In response to members question the External Auditors made the following points:

- Normal set of circumstances, accounts can be signed off within 5 months of receiving them. This set of accounts will take 12 – 18 months.
- The previous accounts were still open due to equal pay to which assurance around equal liability was asked for by officers. In March 2023, the auditors were informed there may be a difference in the equal pay liability. This was the core reason for the accounts remaining open.
- If 2020-21, 2021-2022 accounts were closed, there would be comparative listed, and advice would be given to undertake a prior period adjustment to reflect the true liabilities of the period. Accruals accounting applies to Birmingham (as per CIPFA Code). Assumptions and estimations would also take place.
- The External Auditor had confidence in BCC officers, however the model had to be submitted to audit. Only the 2019-20 model was available and the rest that covered the remainder of the liability period was to be shared. This area could not be answered by the auditor at present.
- The External Auditor agreed with comments made around the impact of the increase Equal Pay liability until the Job Evaluation scheme was in place. This would have an impact on the services the council provided to residents.
- The period of open accounts would be looked at (2021) and restate the comparative, income expenditure for 2019-2020 and restate the balance sheet for March 2020 and March 2019 statements.
- In relation to the sign off of the accounts and Cabinet being aware of the equal pay liability, the External Auditor was not in a position to give a view at present. This would be looked into however, the focus was on the job evaluation option.
- The Council had discounted all the options except option 2 in the Job Evaluation. It was the Council's choice of which option it takes going forward (option 2 with the view of Trade Unions in support at some stage). Council Business Management Committee (CBMC) would now need to consider the position and make a decision on the way forward

- The job evaluation process had to be done as soon as possible. Arrangements should be in place to stop Task and finish immediately. Member had a significant role to support officers to finish this.
- The Auditors did not have sight of the Cabinet Report and legal advice given in 2017 and subsequent years. The value for money work would look at this information. The Terms of Reference has been agreed with the Auditor and work would be taking place.
- The costs associated with the re-implementation of Oracle could not be confirmed. Advice would be provided by the additional auditing team to assure the safe and compliant phase was actioned before re-implementation could happen. Budgets would be looked at during these phases.
- The figures outlined for Oracle were based on the drafts accounts for March 2022 hence the financial outturn for 2022-23 was important.
- Details around how much savings to place aside was not available. The position on the 2022-23 outturn was not available, job evaluation process was not identified, no fixed position on 2021/22 accounts – details around the process was shared.
- What could happen - If the Council wishes to remain in control, decisions had to be made. An advisory Notice would be issued by the auditor, followed by a judicial review. Government would intervene. This was a serious point in the council's future.
- If the accounts were qualified and borrowing happened through PWBLB this would not have a significant impact, if there was covenance on other loans this would impact the relationship with the bank. It takes 3-4 years to remove the qualification of the accounts.

The Section 151 officer issued a point of clarification. It was noted in relation to Equal Pay, the £650 - £760 million potential estimated liability was up to 31 March 2025. An increase would occur on any delay that would happen by £5-£14 million on top of this. The additional liability would occur from April 2025.

In summing up, the Chair advised a report from the Section 151 officer and City Solicitor & Monitoring officer would provide a response to this report at the next Audit Committee.

Upon consideration, it was:

637

RESOLVED:-

The Audit Committee noted the report of the External Auditors.

REPORT ON EQUAL PAY & FINANCIAL PLAN

The following report of the Chief Executive was submitted:-

(See document No.2 of the agenda pack)

The Chief Executive thanked the Audit Committee for rescheduling this meeting as she had to meet with the Sectary of State with Leader, Deputy Leader to discuss matters.

A detailed summary was provided by the Chief Executive on three areas;

- (i) Why a Section 114 Notice had been issued; the main trigger from External Auditors.
- (ii) What the section 114 notice means - the legislative framework the Council were operating with and
- (iii) Response to the current situation

All staff and members had been informed what the Section 114 Notice involved including the spending controls.

A meeting of full council would take place on 25 September 2023, the Section 151 Officer would present the case with the Chief Executive to provide a response of how to address the challenges of the Section 114 Notice. In addition, a Financial Recovery Plan would be shared with full council.

An overview of the Financial Recovery Plan and what this would consist of was shared with the Committee. It was important to understand the value of the Assets the Council had. Decisions around the disposal of assets had to have a strategic Overview as selling some assets would not be the correct decision. Clear approach had to be undertaken.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by the officers).

Members raised questions and made the following comments;

- Assurance was sought around Task and Finish methodology and if no employee was working under this at present. How confident was the Chief Executive that the direction of ceasing Task and Finish had been acted upon?
- Members sought assurances that the job evaluation would be completed within the timeframe the External Auditors had indicated.
- Was option 2 shared with CBMC with the confidence this would be agreed? Members were concerned a decision had not been agreed by the trade unions.
- Members requested a response/outline as to why CBMC was taking the decisions and not Cabinet. The City Solicitor and Monitoring Officer explained the functions and responsibility regulations. CBMC was a delegated subcommittee of Council, and this was set out in the Constitution. The Chair requested for a review of the decisions that went into CBMC and this would be discussed outside of the meeting with the City Solicitor.

- Comparing certain job roles would mean services would be less efficient. Comparing incomparable jobs would have further impact.
- Contracting and outsourcing the bin service would enable less issues for the Council.
- Members questioned if there was a hidden agenda from the Trade unions i.e. disputes between the unions and therefore not coming to an agreement.
- How often were meetings taking place with the Trade Unions to ensure matters are being resolved and coming to an agreement?
- Was there an idea of Service areas where efficiencies could be made?
- Internal Audit June 2023 indicated there was a lack of finance capacity i.e. has it the capacity to look at savings?
- Questions were raised if option 3 of the Job Evaluation was considered by the Leader and officers?
- CBMC have to make the decision on the Job Evaluation – would this be in place before the 25 September City Council meeting – what is the deadline?

In response to members question the Chief Executive made the following points:

- Task and Finish – informed the actions that had been undertaken by Craig Cooper and Bill O'Shaughnessy to stem and stop task and finish. Assurances were provided that actions by management were being taken to ensure this was stopped. Work with Internal Audit was taking place.
- In response from Management (Craig Cooper), the Chief Executive was 100% confident actions were taken around Task and Finish and addressed through the department.
- CBMC had been presented with the Job Evaluation. At the last CBMC, option 2 of the recommendations had been shared. This would be agreed on the basis the trade unions would agree the addendum. This would allow the implementation of the job evaluation scheme.
- There was confidence option 2 would occur. The deadline with the Trade Unions response was Monday 11 September however the addendum had not been signed. The CBMC would need to reconvene and a discussion on the next steps must be discussed.
- The job description was important and part of the job evaluation methodology - Equality amongst the staff.
- There were TUPE liabilities with individuals had to be factored as well as other implications of contracting the bin service elsewhere.
- The Chief Executive was not aware of any disputes between the 3 trade unions however, BCC continue to work with them all. An additional Trade Union Consultant had been in place to assist with the current engagement.
- Reassurances were provided as 6 months of engagement had taken place already. Daily conversations were taking place when approaching CBMC meetings.

- 2 of the 3 Trade Unions had indicated that they would not sign the addendum. The Leader would be having another conversation with the unions.
- CBMC would make the decisions on the next steps. The Cabinet report indicates that if there is no decision then the Council reserves the right to make the best decision.
- The Section 114 Notice would stay in place until the areas had been addressed. 25 September Council meeting would have the response from the Chief Executive to the section 114 Notice and the activities and actions that would take place. There will not be an emergency budget or a full recovery plan at that meeting.
- CLT were resolute around their responsibilities on the Section 114 Notice. It was key to maintain the level of service and saving were undertaken correctly. 2 meetings per week were taking place to reach savings targets.
- Option 3 was deemed as unlawful. This was developed as an option to be discussed. Discussions around the various options took place.
- The Leader was keen to place a date for CBMC to look at the Job Evaluation as soon as possible.

There were points during this agenda item discussion where the City Solicitor and Monitoring officer advised certain questions may need to be raised and discussed during a private discussion.

The Section 151 Officer informed the Committee additional capacity would be brought in to assist with the closure of the accounts. Currently there were 20 people undertaking the backlog of the cash allocations. Work would be commissioned to look at the assets/ companies – strategic overview. In addition, a new Deputy 151 Officer would work with Directorate to build the savings plan.

Upon consideration, it was:

638

RESOLVED:-

The Audit Committee;

- (i) Noted the report on Equal Pay & Financial Plan; and
- (ii) A written response to be provided by the City Solicitor & Monitoring Officer as to why Council Business Management Committee were making certain decisions rather than Cabinet.

At this juncture, the Key Partner, External Auditor had to leave the meeting. Other Members of the External Audit Team remained in the room.

REPORT ON ORACLE

The following report of the Chief Executive was submitted:-

(See document No.3 of the agenda pack)

The Chief Executive noted the External Auditor had already provided an assessment of Oracle. The enhanced Audit would be helpful however there were a number of issues that had to be addressed.

A short statement was read by the Chief Executive on Oracle.

The Chief Executive recognised the immense work and effort undertaken by staff. She thanked staff for being agile and assistance to the response of working through the issues.

The Chair noted there were ongoing reviews taking place and requested these were logged and information shared with the Committee.

(Note: Due to the number of questions raised by members, these have been grouped in a section within the minutes followed by responses by the officers).

Members raised questions and made the following comments;

- How was the Chief Executive assured the project was being delivered on time and within budget from the start of the implementation. The City Solicitor advised this would need to be discussed in a private session.
- IT Control - Tracking of changes was not logged therefore this was very concerning.
- Oracle had a fixed price programme of implementation. Queries were raised around the exchange and the advice from the suppliers as this may have been challenged when it came to bespoke work. The Chair suggested this question to be discussed in private.
- Concerns were raised that the Audit Committee had been mis-led as the update to date, accurate and honest information had not been shared.
- Was there a view of Oracle would be stable and when would this provide accurate information?

In response to members question the Chief Executive made the following points:

- Reassurance was given the information shared since the emergency situation had been transparent and honest.
- The focus for BCC was to ensure the Oracle system was stable. Factors such as the enhanced audit would be used to work through, the issues from Oracle. A date of completion could not be determined at present however, reassurances were provided that this work would take place.

- The Chief Executive was confident the Safe and Complaint phase would conclude by end of October 2023.

The Chair informed the members the private minute would be reviewed and relevant sections would be placed back into the public domain. There were a number of Governance reviews taking place and a regular log would need to be shared with the Committee.

On the 27 September 2023, the Audit Committee start earlier to include a session on the role of the Audit Committee and shaping the way forward. Audit Committee may in future make reports to City Council.

At 1120 hours, the Committee moved to a private session.

(Note: Minute 640 is in private)

RE-ADMITTANCE OF THE PUBLIC

641 At 1147 hours, following discussions on item 8, the report on Oracle, the Committee moved back into the public meeting.

(The Committee moved back to Item 8 on the agenda)

REPORT ON ORACLE

The private minute would be reviewed and relevant sections would be placed back into the public domain.

Upon consideration, it was:

642 **RESOLVED:-**

The Audit Committee;

- (i) Noted the report on Oracle; and
- (ii) A list of ongoing reviews to be logged and shared with the Committee.

643 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Wednesday, 27 September 2023 at 1400 hours in Committee Room 3 & 4, Council House.

AUTHORITY TO CHAIRMAN AND OFFICERS

644

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.

The meeting ended at 1148 hours.

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CHAIR

Public Report

Birmingham City Council

Report to Audit Committee

27 September 2023



Subject: Response to External Auditors Report

Report of: Chief Executive (Head of Paid Service) & Interim Director of Finance (s.151 officer)

Relevant Cabinet Member: Councillor Brigid Jones

Relevant O & S Chair(s): Councillor Jack Deakin – Resources

Report author: Mohammed Sajid, Head of Financial Strategy

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 The attached report presents the Interim Director of Finance's response to the External Auditors Report presented to this Committee at its meeting on Friday 15th September 2023.

2 Recommendations

- 2.1 Members are asked to note and consider the response from the Interim Director of Finance to the External Auditors Report presented to this Committee at its meeting on Friday 15th September 2023.

3 Background

- 3.1 At the meeting of this Committee on Friday 15th September 2023 Grant Thornton presented a report entitled External audit landscape for Birmingham City Council, Audit years 2020-21, 2021-22, 2022-23 and 2023-24. It was agreed that a response to this report would be made at the next Audit Committee.
- 3.2 The attached report highlights the three key thematic areas raised in the External Auditors Report; 1) Equal Pay 2) Financial Sustainability and 3) Oracle.

4 Options considered and Recommended Proposal

- 4.1 This report provides information to Members in response to the External Auditors report.

5 Consultation

- 5.1 Relevant officers across the Council have been consulted in preparation of the attached report.

6 Risk Management

The three areas of this report are key risks facing the council and this report details that actions the Council is taking in response to these risks.

7 Compliance Issues:

- 7.1 **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**
Sound financial management underpins all the Council's priorities, plans and strategies.

7.2 Legal Implications

- a) Section 151 of the Local Government Act requires the Chief Finance Officer (as responsible officer) to ensure proper administration of the Council's financial affairs.

7.3 Financial Implications

- a) These are contained within the body of the report.

7.4 Procurement Implications

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

7.5 Human Resources Implications

- a) There are no human resources implications directly arising from this report or its recommendations.

7.6 Public Sector Equality Duty

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

8 Background Documents

Grant Thornton report entitled 'External audit landscape for Birmingham City Council, Audit years 2020-21, 2021-22, 2022-23 and 2023-24'.

9 **Appendices –**

Response to External Auditor presentation

Response to External Auditor presentation

AUDIT COMMITTEE – 27 SEPTEMBER 2023



BE BOLD BE BIRMINGHAM

1. Equal Pay

The Council has a historic equal pay liability of between £650m-£760m which accrues at a rate of between £5m-£14m per month after 1st April 2025. Putting in place an effective Job Evaluation (JE) methodology will stem the liability following implementation by 1st April 2025. The methodology is to be agreed by Council Business Management Committee (CBMC).

CBMC Position:

Via verbal update to the committee

To address the specific bullets outlined within the paper from External Audit:

- To date we have shared the Equal Pay liability financial model from as at 31 March 2020, and we are in the final stages of completing the models for the 20/21, 21/22 and 22/23 financial years
- Legal colleagues have started to consolidate a timeline of activities, back to 2012, which identified key activities in relation to Equal Pay. This timeline has been shared with DLUHC and will be key to the Equal Pay work completed by External Audit.
- Trade Unions engagement has continued, and will continue, alongside the implementation of the newly agreed Job Evaluation methodology.

As mentioned by the External Auditors, we will need to review our accounts for FY20/21 and FY21/22. As a result, the S151 Officer will need to produce a going concern statement for those years, and be satisfied with the accounts for FY22/23 prior to submission to External Auditors for review.

2. Financial Sustainability

Detailed work around the financial sustainability of the Council has been ongoing for a number of weeks. This has concerns over the value of earmarked reserves, £383m, and unearmarked reserves, £230m. This has always been a concern for the S151 Officer who has to make a statement on the adequacy of reserves on an annual basis.

We are facing a number of financial challenges:

- An Equal Pay liability of between £650-760m;
- An in-year budget gap for FY23/24 of £87m;

- A two-year budget gap to the end of FY24/25 of £164.8m (based on the Q1 MTFP refresh that went to Cabinet in July.

This is addressed by two strands of work:

1) Development of in-year savings:

- There is a FY23/24 in-year saving recovery plan which is being developed by Corporate Leadership Team and Cabinet Members;
- In conjunction with each Director, the 'red' rated savings proposals are being reviewed. If savings are no longer deliverable then each Directorate has to present alternative savings to address the in-year gap;
- Alongside this, budget pressures which are driving additional costs are being reviewed. This results in identifying budget challenges which cannot be managed or mitigated (i.e. rising utility unit costs) to identify alternatives to reduce these costs.

2) Financial Recovery Plan (response to S114 Notice):

- Measures to reduce spending and mitigate budget pressures for 2023/24
- Organisational Redesign work to reshape our services around citizens and within our available resources
- A Capital Strategy and Assets Review
- A review of council-controlled companies and traded services
- An Income Review to maximise sustainable income
- Measures to achieve pay equity and stop the growth of our equal pay liability
- Dialogue with DLUHC to explore options for Exceptional Financial Support

3. Oracle – Progress to date

The council has experienced significant problems from the implementation of the Oracle system, which has incurred additional costs, as outlined. This has significantly impacted on our ability to operate business as usual activities and workarounds and manual interventions have been put in place. Since April 2023 a robust governance process has been implemented:

The Oracle Programme has now in place:

- Approval from Cabinet to the Oracle Implementation Report and approval for funding for the continuation of the Safe & Compliant phase, for the Solution Design work and the first stage of the Optimisation phase.
- Development of Safe and Compliant Plan.
- A single overarching Oracle Plan
- A comprehensive RAID log, with a mechanism for actively managing key, strategic risks.
- An established and effective Design Authority with processes established to work with it.
- Clear collaboration across the services.
- Dedicated communications and Business Change support.
- Work has begun on the 12-week High Level Design, led by DTS.

From October the Oracle Programme governance will be focused on the business processes and move into a Programme Based governance process:

- Hire to Retire
- Order to Cash
- Record to Report
- Procure to Pay
- Development, Support and Maintenance
- Security and Audit
- Integration, Interfaces and data

The Programme will continue to be overseen by the CLT and held to account at weekly Member Oversight Boards. With regular reporting into the Audit Committee and the Finance and Resources O&S Committee.

3. Oracle – Programme remediation & issue resolution

The Design Authority is now in place to oversee the Phase 1 ‘Safe and Compliant’ activity and to work across the council to design the optimised solution, and to learn from the mistakes of the past. In terms of the High-Level Design the following five decisions and guiding principles are as follows:

- i. adopt rather than adapt the Oracle solution, with the appropriate configuration of product, process and workflows to align with our needs.
- ii. change and align our business processes with the capabilities of current and future Oracle functionality.
- iii. ensure the current environment is in an acceptable state to enable the Council to fulfil its existing short and medium-term compliance and regulatory requirements.
- iv. understand current processes and needs to provide insight for informing our business change gap and defining implementation priorities.
- v. plan technical change carefully to minimise impact on users of the system, making use of separate environments where it makes sense to do so.

The proposed workstreams as described by Grant Thornton (Operating Model, Governance and risk Management, Technology Implementation, Programme Management and Change Management) align to our proposed way of working from October and will be informed by outputs of the High Level Design activity currently underway.

Development of the **Safe and Compliant Plan** which has already delivered a number of enhancements, including the implementation of Oracle Risk Management Cloud and increased audit logging.


The **High Level Design** is underway and once implemented will replace current interim/manual solutions for reporting, cash posting and compliance.

BIRMINGHAM CITY COUNCIL**AUDIT COMMITTEE****27 SEPTEMBER 2023****SCHEDULE OF OUTSTANDING MINUTES**

Note: As of 30 September 2021 – Responses to outstanding actions to be made within a 2 month period unless there is an exceptional reason.

 Completed & discharged

 Approaching 2 months

 2 months +

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
529 22/11/2022	<p><u>ASSURANCE SESSION - CABINET MEMBER SOCIAL JUSTICE, COMMUNITY, SAFETY & EQUALITIES PORTFOLIO</u></p> <p><u>Additional actions:</u></p> <p>That the Audit Committee:</p> <p>(iii) Agreed for officers to provide further details on the eligibility for the School meals during the holidays, details on the Ukraine Response Programme and the outstanding queries raised at the meeting.</p>	<p>Richard Brooks Director - Strategy, Equality & Partnerships to respond (Awaiting response)</p> <p>Update provided by Janie Berry at 28 March meeting. Link to O&S papers circulated 30/05/2023</p> <p>COMPLETED & DISCHARGED</p>
544 31/01/2022	<p><u>ASSURANCE SESSION - CABINET MEMBER SOCIAL JUSTICE, COMMUNITY, SAFETY & EQUALITIES PORTFOLIO (PART 2)</u></p> <p><u>Additional actions:</u></p> <p>That the Audit Committee:</p> <p>(ii) Requested for regular updates on the progress and developments around Job Evaluation to be shared with the Committee.</p>	<p>Email was circulated to Members on 27/03/2023 with the response to this action.</p> <p>Darren Hockaday offered to present an update on JE at the next Audit Committee (if required)</p> <p>Darren Hockaday – Director of HR & Organisation Development COMPLETED & DISCHARGED</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
	(iii) Further details around flexible working, policy, performance of hybrid homeworking (new ways of working) data to be shared with the Committee.	Email was circulated to Members on 27/03/2023 with the response to this action. COMPLETED & DISCHARGED
560 14/02/2023	<p><u>THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN AND THE HOUSING OMBUDSMAN ANNUAL REVIEW 2021/22</u></p> <p><u>Additional Actions:</u></p> <p>(iii) Agreed for a representative from both the Local Government and Social Care Ombudsman's (LGSCO) and Housing Ombudsman's (HO) to provide a briefing session to Audit Committee Members to understand the role of the Ombudsman.</p> <p>(iv) Details of the number of complaints for 2022-23 across the organisation to be shared with Committee Members.</p>	<p>LGSCO representatives attending 19 July meeting to provide a briefing.</p> <p>Email was circulated to Members on 11/07/2023 with a response to this action.</p> <p>Dawanna Campbell & Janie Berry</p> <p>COMPLETED & DISCHARGED</p>
562 14/02/2023	<p><u>RISK MANAGEMENT UPDATE</u></p> <p><u>Additional Action:</u></p> <p>(iii) A report to be discussed at the next meeting on an audit investigation in the media that resulted in a custodial sentence.</p>	<p>Email circulated by Sarah on 27/06/2023 with a briefing note.</p> <p>Sarah Dunlavey</p>
575 28/03/2023	<p><u>GROUP COMPANY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT</u></p> <p><u>Additional Action:</u></p> <p>(ii) An offline briefing session to be arranged for Committee Members to understand the work undertaken by Cabinet Committee Group Company Governance.</p>	<p>Alison Jarrett/ Mohammed Sajid/ Committee Services</p>

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
576 28/03/2023	<u>AUDIT FINDINGS REPORT 2020/21 AND 2021/22</u> <u>Additional Action:</u> (ii) Suggested for officers to compile a dashboard indicating recruitment across the organisation indicating targets, workforce planning across service areas.	Email was circulated to Members on 19/06/2023 with the response to this action. COMPLETED & DISCHARGED
577 28/03/2023	<u>APPROVAL OF THE STATEMENT OF ACCOUNTS 2020/21 AND 2021/22</u> <u>Additional Action:</u> (vi) Officers to arrange an offline briefing via the Treasury Advisor for committee members to gain a better understanding on affordable borrowing.	Contact made to David Green on 08.06.2023. Dates to be explored before sharing with Committee Members. Mohammed Sajid/ Committee Services
603 28/06/2023	<u>UPDATE FROM THE EXTERNAL AUDITORS</u> <u>Additional Action:</u> (ii) Agreed for a report on Equal Pay to be provided at the next meeting 19 July 2023. (iii) Noted a briefing session to be delivered by the External Auditors on Equal Pay and Oracle.	Committee Services External Auditors
617 19/07/2023	<u>UPDATE REPORT ON ORACLE SINCE THE LAST MEETING 28 JUNE 2023</u> <u>Additional Actions:</u> (ii) Noted an update on the Management Review would be reported back to the Committee. (iii) Noted the new Head of Compliance and Vetting would attend the next meeting and provide assurances on the work he was undertaking around Oracle. (iv) Agreed for the updated timetable 2022-23 accounts to be shared with the Committee.	Nic Fell/ Meena Kishinani Jeremy Holt Fiona Greenway/ Finance Team

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
638 15/09/2023	<p><u>REPORT ON EQUAL PAY & FINANCIAL PLAN</u></p> <p><u>Additional Action:</u></p> <p>(ii) A written response to be provided by the City Solicitor & Monitoring Officer as to why Council Business Management Committee were making certain decisions rather than Cabinet.</p>	Janie Berry
642 15/09/2023	<p><u>REPORT ON ORACLE</u></p> <p>(ii) A list of ongoing reviews to be logged and shared with the Committee</p>	Janie Berry/ Fiona Greenway