

**BIRMINGHAM CITY COUNCIL****PUBLIC REPORT**

|                                 |   |
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| <b>Report to:</b>               | <b>AUDIT COMMITTEE</b>  |
| <b>Report of:</b>               | <b>Interim Chief Finance Officer</b>  |
| <b>Date of Decision:</b>        | <b>20 June 2017</b>   |
| <b>Subject:</b>                 | <b>EXTERNAL AUDITOR'S STATUTORY<br/>RECOMMENDATION – FOLLOW-UP LETTER</b>   |
| <b>Wards affected: All</b>      |   |
| <b>1 Purpose</b>                |   |
| 1.1                             | This report sets out an update in the light of the External Auditor's letter to the Acting Chief Executive on 15 March 2017, which followed on from his statutory recommendation included within his Annual Audit Letter in relation to the 2015/16 accounts. The report summarises the current arrangements for the management of the Council's finances and also describes the actions which have been taken to address the need to ensure that there is sufficient senior management capacity. |
| <b>2 Decisions recommended:</b> |   |
| 2.1                             | To note the letter received from the External Auditor, dated 15 March 2017.   |
| 2.2                             | To note the current arrangements for the management of the City Council's finances, including plans for further reporting.  |

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### **3 Compliance Issues:**

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:  
The effective management of the Council's finances is a critical element in the delivery of the Council's policies and plans, within the resources available.

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:  
The Chief Executive has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):  
The statutory recommendation by the External Auditor was made under section 24 of the Local Audit & Accountability Act 2014. The Council has had a responsibility to consider the recommendation, and decide whether it is to be accepted and what, if any, action to take in response.

Section 151 of the Local Government Act 1972 requires each local authority to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs (the Chief Finance Officer)

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

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):  
The need to balance the Council's budget and, therefore, to deliver the savings programme contained within it, is a key risk which must be managed. This is clearly recognised in the authority's risk register.

### **4 Relevant background/chronology of key events:**

- 4.1 In his Annual Audit Letter for 2015/16, the External Auditor included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014, which stated that the Council needed to:
- *Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17.*
  - *Demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+ by:*
    - *Revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and*
    - *Ensuring that all savings plans are assessed for both lead time to implement and delivery risk.*
  - *Re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.*
- 4.2 In accordance with its responsibilities, the Council considered its response at the City Council meeting on 10 January 2017.

- 4.3 Subsequently, on 15 March 2017, the External Auditor wrote to the Acting Chief Executive in relation to the Council's Financial Capacity and Resilience. A copy of this letter is attached as an Appendix.
- 4.4 Clearly some time has passed since this letter and as the letter noted, the Council took swift action to make substantive appointments to the posts of Corporate Director Place, Corporate Director Economy and Chief Operating Officer and to appoint to a range of senior management posts on an interim basis. This includes the Chief Executive, Chief Finance Officer, Corporate Director Adults & Health and Corporate Director Children & Young People.
- 4.5 In relation to the Auditor's comments on the finance function of the authority, the Chief Finance Officer is considering structural proposals which will, in due course, be the subject of proper consultation.
- 4.6 There is a requirement to deliver savings of £70.895m in the current year, rising to savings of £171.356m by 2020/21. This is summarised as follows:

| <b>Savings Programme</b> |                   |                   |                   |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Status</b>            | <b>2017/18 £m</b> | <b>2018/19 £m</b> | <b>2019/20 £m</b> | <b>2020/21 £m</b> |
| Adults                   | (15.236)          | (21.119)          | (20.374)          | (20.386)          |
| Children                 | (8.463)           | (11.993)          | (25.886)          | (27.039)          |
| Economy                  | (8.024)           | (13.248)          | (12.798)          | (12.808)          |
| Place                    | (12.900)          | (24.266)          | (34.661)          | (35.731)          |
| Transformation           | (10.882)          | (11.088)          | (11.188)          | (12.048)          |
| Cross-cutting            | (15.390)          | (51.891)          | (59.931)          | (63.344)          |
| <b>Total</b>             | <b>(70.895)</b>   | <b>(133.605)</b>  | <b>(164.838)</b>  | <b>(171.356)</b>  |
|                          |                   |                   |                   |                   |
| Existing                 | (27.560)          | (50.535)          | (75.829)          | (82.072)          |
| New                      | (43.335)          | (83.070)          | (89.009)          | (89.284)          |
| <b>Total</b>             | <b>(70.895)</b>   | <b>(133.605)</b>  | <b>(164.838)</b>  | <b>(171.356)</b>  |

- 4.7 The savings programme approved by the City Council in February was re-cast to take account of non-deliverable savings as identified in last year's Mid-Year Review. The savings are in addition to the savings programme of approaching £600m for the period up to 2016/17.
- 4.8 The budgets set out above also reflect the Council's investment in priority services, including providing resources to facilitate the improvement plan for Children's Services, to meet demographic pressures in Adult Social Care, and to recognise the operational costs of waste management services and homelessness services, together also with recognising the budgetary consequences of specific Government grant reductions and to meet the Council's pensions liability.
- 4.9 The Council's ten year financial plan includes removing the reliance on the strategic use of reserves after 2017/18.

- 4.10 The Interim Chief Executive and Interim Chief Financial Officer have worked with Directorate management teams to do a baseline review of progress on delivery of savings.
- 4.11 The baselining exercise found that the council's budget planning had been considerably strengthened compared with previous years with good progress on savings delivery. We are currently working on contingency plans (alternative savings proposals) so as to tackle any risk that there might be unplanned uses of reserves this year, as well as looking forward to the plans for future years. This is part of the process of managing the budget in year.
- 4.12 On some specific issues newly appointed substantive and interim senior officers have jointly reviewed issues which had previously been agreed eg. Support Services Future Operating Model and reductions in grants to the Third Sector, with some resulting repositioning both operational and financial. This has been a necessary adjustment and is likely to lead to making savings in a more realistic way. In some cases it has led to a need to rethink the making of savings but the Corporate Leadership Team is focused on delivering these changes.
- 4.13 The detailed position on individual savings continues to be closely monitored by both CLT and Members (through the Budget Board savings tracker). Work is currently underway on the month two monitoring report (to be reported to Cabinet in July). This report will pull together an updated position on savings delivery, a review of base budget pressures and decisions on additional savings initiatives to deal with any on-going 2017/18 gap.
- 4.14 A further round of budget baselining meetings of Interim Chief Executive and Interim Chief Finance Officer will also be scheduled to look at base budgets and further savings. .
- 4.15 CLT has also been giving some consideration to options for strengthening our financial management arrangements through the development of a Budget Management Framework. As a starting point, a Budget Management Framework could include, for example:
- Strengthening accountability for budget management and delivering within budget through codifying objectives, behaviours, performance management, etc.
  - Greater clarity for the regular monitoring process and, in particular, greater clarity as to the role of budget holders and finance colleagues.
  - Clearer expectations that directorates will manage within budget with an initial expectation that, in cases of overspending and/or non-delivery of agreed savings, that the initial assumption is that compensating savings are found in year by the responsible service or department.
  - A clear but relatively stringent process for pressures/overspends to be accepted as "corporate pressures" – this would be the exception.
  - Where overspends occur at the year end, to be made good by the responsible department in the following year.

- 4.16 A further report will be presented to the next meeting of this Committee on 25 July 2017, setting out the updated position in the light of the actions set out above, and informed by the position, as at Month 2, which will be reported to the Cabinet meeting which will also be held on 25 July 2017.

**Signature:**

Interim Chief Finance Officer: .....

Dated: 19 June 2017