

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 27 APRIL 2021 AT 14:00 HOURS
IN ON-LINE MEETING, MICROSOFT TEAMS

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 Internet site (www.civico.net/birmingham) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 DECLARATIONS OF INTERESTS

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

3 APOLOGIES

To receive any apologies.

4 EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

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

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

RESOLVED – That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on

the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

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|----------------|----|---|
| <u>1 - 16</u> | 5 | <u>MINUTES - AUDIT COMMITTEE 30 MARCH 2021</u> |
| | | To confirm and sign the minutes of the last meeting of the Committee held 30 March 2021. |
| <u>17 - 24</u> | 6 | <u>RISK MANAGEMENT UPDATE</u> |
| | | (10 minutes allocated) (1405 – 1415) |
| | | Report of the Assistant Director Audit and Risk Management |
| <u>25 - 48</u> | 7 | <u>BCC APPROACH TO SIGNIFICANT ESTIMATES IN THE 2020/21 STATEMENT OF ACCOUNTS</u> |
| | | (5 minutes allocated) (1415 – 1420) |
| | | Report of the Interim Chief Finance Officer |
| | 8 | <u>EXTERNAL AUDITORS PROGRESS UPDATE</u> |
| | | (10 minutes allocated) (1420 – 1430) |
| | | Verbal update of the External Auditors |
| | 9 | <u>ASSURANCE SESSION - CABINET MEMBER HEALTH & SOCIAL CARE PORTFOLIO</u> |
| | | (45 minutes allocated) (1430 – 1515) |
| | | Verbal discussion |
| | | The Cabinet Member Health & Social Care with the Interim Chief Executive and the Interim Director of Adult Social Care. |
| | 10 | <u>ASSURANCE SESSION - CABINET MEMBER SOCIAL INCLUSION, COMMUNITY SAFETY & EQUALITIES PORTFOLIO</u> |
| | | (45 minutes allocated) (1515 – 1600) |
| | | Verbal discussion |
| | | The Cabinet Member Social Inclusion, Community Safety & Equalities with the Assistant Chief Executive. |
| <u>49 - 50</u> | 11 | <u>SCHEDULE OF OUTSTANDING MINUTES</u> |
| | | Information for noting. |

12 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 29 June 2021 at 1400 hours.

13 **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.

14 **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 30 MARCH 2021
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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 30 MARCH 2021 AT 1400 HOURS - ONLINE MEETING

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Akhtar, Bridle, Jenkins, Morrall and Tilsley

NOTICE OF RECORDING/WEBCAST

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

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

296 **PURDAH**

The Chair shared guidance around purdah to the Committee. This advice had been provided by the Interim City Solicitor & Monitoring Officer. Following this, the Chair gave an overview to the conduct of the meeting.

DECLARATIONS OF INTEREST

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

Councillor Tilsley declared a non-pecuniary interest relating to Birmingham Airport. Reference was made to this appointment under item 9 – Informing the Audit Risk Assessment, Group Company Governance. Councillor Tilsley was Non-Executive Director for Birmingham Airport.

Note: Later in the meeting, the Chair declared he was a Non-Executive Director for Acivico Limited which was also contained within item 9.

APOLOGIES

- 298 Apologies were submitted on behalf of Councillor Hendrina Quinnen and Jon Roberts (External Auditor) for their inability to attend the meeting.
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair notified the Committee there were no items scheduled to discuss in private. However, this item allowed the Committee to move into a private session if required.

Members agreed there were no items on the agenda that contained exempt information.

- 299 **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 – 22 FEBRUARY 2021

- 300 **RESOLVED:-**

That the public minutes of the last meeting having been circulated, were agreed by the Committee.

Councillor Tilsley made an additional comment on page 10, Public Sector Internal Audit Standards. He referred to the assessment of the Core Cities and added subsequent events had vindicated the decision.

Note: Manchester City Council would undertake the Public Sector Internal Audit Standards compliance review.

ASSURANCE SESSION – CABINET MEMBER FOR TRANSPORTATION & ENVIRONMENT PORTFOLIO

The Chair welcomed the Cabinet Member for Transportation and Environment to the Assurance Session of the Committee.

The Committee was notified, Ian Macleod, the Interim Director for Inclusive Growth, Kevin Hicks and Philip Edwards, both Assistant Directors for Inclusive Growth were in attendance to support discussions around the portfolio.

The Cabinet Member for Transportation and Environment highlighted this was a large portfolio which consisted of evolving and developing areas such as; air quality; climate change which were of interest to the City Council.

He noted the Audit Committee were keen to look at effective and efficient ways of delivering the projects within the portfolio. These were related to major transformational engineering projects; operational services and innovative travel initiatives. He noted the key theme was to see how these could be delivered alongside supporting the work of partners. Most of the work within the portfolio impacted other organisations as well as regional and national projects.

The last 12 months were challenging however, it was also an opportunity to work in advance on some of the initiatives. Priorities had been reviewed in response to the pandemic and the Cabinet Member for Transportation and Environment thanked officers, staff within the portfolio who responded to some of the key areas effectively. He recognised officers and staff had gone above and beyond their duty and thanked them all.

Part 1: Portfolio overview

Kevin Hicks, Assistant Director (Inclusive Growth), shared a short presentation on screen and gave an overview of the key projects and initiatives within the portfolio. These were around;

- **Project Delivery** – Major transportation capital schemes; travel change initiatives; local highway schemes
- **Service Delivery** – Highways Services; Parking Services; Flood Risk Management Services
- **Strategic Delivery** – Climate Changes; Air Quality; Green City; Commonwealth Games

He highlighted it was important to ensure major transportation capital projects were supported alongside key partner organisations such as West Midlands Combined Authority and Transport for West Midlands into the delivery.

Members were reminded the External Auditors had highlighted the decision taken on the Highways PFI however, the Assistant Director (Inclusive Growth) had reservations around the basis of this qualification.

Part 2: Matters raised in the Audit Findings Report 2019/20 on Highways PFI

Domenic De Bechi, Highways PFI Contract Manager made the following points;

- The External Auditors indicated the Council were taking commercial decisions on the future of the project without understanding the position on affordability of the project.
- At the time of the Audit report, no decisions had been taken regarding the future project by the Council.

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- The only decision taken on this was by Cabinet on 16th March 2021 in which the affordability position was considered.
- Decisions should be based on appropriate information therefore; engagement was taking place with Birmingham Highways Limited (BHL) to understand the cities highway network.
- Establishing project affordability gap following 2019 Settlement agreement resulted in weakness in proper arrangements and the use of reliable information to support informed decision making at the time.
- There was a slight disagreement with audit findings report from the External Auditors, although the principle was agreed to.
- A response was sent by Birmingham City Council (BCC) to the External Auditors highlighting inconsistencies in their approach.
- This was possibly due to lack of understanding of the complex project.
- Going forward - Seek to engage with external auditor and key BCC finance staff at a greater detail on commercial project issues.

Part 3: Issues raised in the Directorate Assurance Statements

Kevin Hicks, Assistant Director (Inclusive Growth), made the following points;

Recruitment and retention of staff – This continued to be a challenge in certain professions such as engineering, planning and property. The Directorate had a Graduate and Apprentice Programme which had been successful. However, there was a requirement for a broader corporate review of pay, grading and conditions to address the issue of market forces. The pay freeze within BCC (for the past 3 years) was another factor that had impacted on recruitment.

Tame Valley Viaduct Scheme – This was a critical scheme with strategic transport significance. A £90 million-pound scheme to strengthen the A38 Aston Expressway which was largely funded by Department of Transport (DfT). The procurement and commissioning of this work was currently out to tender with a commencement date of January 2022. April 2021 was the deadline for tenders to be submitted.

Highways PFI – 16 March 2021, a report went to Cabinet and authority was given to Officers to agree the position with contract parties. Once a commercial position was identified, a further report (in May/June) would be shared with Cabinet to confirm recommended future structure of services.

Flood Risk Management Service – A Flood Risk Manager role had been embedded into the service. It was highlighted, significant progress had been made towards key projects and delivery of statutory functions as Birmingham was the Lead Local Flood Authority and had placed input into planning proposals.

An Annual Flood Report was well received by the Overview and Scrutiny Committee in March 2021 which was a positive position on the Flood Risk Management Service.

Members response

The Committee then asked questions of the Cabinet Member for Transportation

and Environment and the following points were noted:

The Chair noted the comments made around the matters raised via the Audit Findings report 2019/20 and the issues around Highways PFI. He referred to the point around 'evidence of weaknesses in proper understanding of using appropriate and reliable financial performance information to support informed decision making and performance management.' He noted Officers had made comments as to how this would not reappear on future the Audit Findings report however, he queried what was learnt from this experience and if the learning being shared across other areas of work in order to avoid this happening again.

Councillor Tilsley referred to the Highways PFI issue and it was imperative to find a partner as soon as possible in order to avoid being on Block Grant as opposed to PFI credits. He was concerned around the time it could take go to market and to avoid the situation that had occurred with Amey.

In addition, he added the roads were in a poor state. There were potholes across the City and reference was made to a historic project 'Find and Fill'. He noted Kier received reasonable funds therefore, this work should be covered as a matter of urgency.

Councillor Jenkins raised questions around the following; comments raised by Officers around the disagreement with the External Auditors (on the Value for Money Qualification); recruitment and retention of staff – difference in pay between public and private sector (e.g. graduate engineer) and the danger of trained graduates, apprentices moving to new jobs; clarification on - BCC or Kier do the repairs Lichfield Road and to ensure they clean up after the works.

Councillor Morrall raised several questions and comments on; Highways PFI - the contracts should be offered to more than one company; Funds spent during Covid-19 - funds were given to improve transport infrastructure and referred to the Bristol Road bus lane; concerns around the bureaucracy involved around Highways Infrastructure and how the Audit Committee could assist relieving this; previously pooling of resources was allowed however, this year they were unable to do this; Clean Air Zone (CAZ) – Economic Impact Assessment was required as this would affect the car industry too.

Councillor Bridle highlighted there was a lack of parking space around the City which was a major issue. She noted people were being encouraged to use alternative forms of transport than cars however, she questioned what was being done to mitigate the risk when the City becomes more congested. In addition, she queried if City Centre car parks were being used less there was the risk of them becoming disused.

In response to Members questions, the Cabinet Member for Transport and Environment, the Director of Inclusive Growth and the Assistant Directors of Inclusive Growth made the following points;

Lessons learnt from issues raised on Highways PFI - Audit Findings report 2019/20 – A key finding noted by the Cabinet Member was around BCC engagement with Members across the Council. This was not highlighted in any of the decision-making processes. He notified the Committee; Cabinet Members were routinely briefed on developments in this area. In addition, there was a Back Bench - A group of Cross Political Group Councillors. The

Back Bench advised the Cabinet Member with the project and he found this very supportive. In addition, the Opposition Leaders, Scrutiny Chairs were briefed.

Prior to the recent report going to Cabinet (16 March 2021), all Members across the Council were offered a briefing in private. The briefing was held in private for an open conversation to take place. The uptake and level of interest for these briefings was high across the Council. This level of engagement had not been reflected in historical reports however, going forward this would be incorporated.

Kevin Hicks, Assistant Director (Inclusive Growth), noted the Highways PFI was a complex set of arrangements. He added as the External Auditors were involved during a short timescale i.e. towards the end of the year. It was key to ensure in future audits; the External Auditors were involved earlier in order for them to understand the level of detail in this area. Members were notified there was a difference in opinion to this work to the Audit Findings Report as no decision had been made in the June 2019 report that was affected by the affordability work. In future, it was important to ensure issues were addressed once identified as the issue raised in the 19/20 Audit Findings report had no bearing on the affordability.

Other key learnings were around; to avoid having a conflict between the Special Purpose Vehicle (SPV) Board and subcontractor; behaviours to be reflected in contract obligations for the future contract and early engagement with the market to avoid poor behaviours reflected.

The Cabinet Member for Transport and Environment assured Members his priority was to ensure the PFI grant from the Government was protected. He agreed with Councillor Tilsley that a long-term provider had to be in place and to ensure the roads within the City were fit for purpose. The previous provider did not place the right level of investment into the roads therefore this was essential to put into place.

Philip Edwards, Assistant Director for Inclusive Growth referred to Councillor Morrall's comment around the funding and bureaucracy. The Council and the West Midlands Combined Authority was in their last year of a 3-year settlement (as part of the devolution deal created as part of setting up the Combined Authority). Regional discussions on Intracity Settlements were taking place with DfT and how this funding would work going forward. At present, it was not clear what would be included in the settlements.

Recruitment and retention - Ian Macleod, Interim Director for Inclusive Growth notified Members the Directorate had struggled across several professional services to get posts filled. The Council continued to lose staff to the private sector as well as other public organisations who offered better salaries than BCC. The Graduate and Apprentice Programme had been successful and several graduates, apprentices had occupied grade 4/ 5 jobs. Kevin Hicks, the Assistant Director added it was crucial to ensure jobs were available at the end of the Graduate and Apprentice Programme. Over 300 graduates applied for 15 posts which were created for the last intake. Professional and technical areas were impacted the most.

Philip Edwards, Assistant Director confirmed via the MS Teams chat facility, the market rate for graduate engineers was around £30k and the BCC equivalent was £21k. Councillor Jenkins was in support of creating new jobs for graduates however, noted the difference in salaries is why it was hard recruit and retain staff.

Potholes/ Streetlights – The contract with Kier was met on a cost reimbursable basis therefore, they were paid for the work delivered. Permanent PFI Contract had a different risk transfer however, the expectation was for Kier to fulfil the standards and obligations set. The procured contract would be until 2023 which would consist of a refreshed model and a contracting model of obligations.

Officers noted the comment from Councillor Jenkins around Lichfield Road.

Bristol Road Bus & Cycle Lane – The Cabinet Member for Transport and Environment informed the Members, Government allocated funds to deliver projects within 8 weeks. Due to the time constraints, there was limited engagement with communities. However, consultation had taken place with key stakeholders across the City in development of the Emergency Birmingham Transport Plan. Extensive work and consultation took place around cycle routes through the Birmingham Cycle Revolution Project and Birmingham Walking and Cycling Strategy. Therefore, there was a lot of support on projects that had been implemented. It was noted there were concerns around two particular projects; the lower Traffic Neighbourhood in Kings Heath and A38 Bus and Cycle lane. Information would be published from the 3-month extensive review which would assist with the decision going forward. A site visit had taken place and several representations had been made by Councillors.

Philip Edwards, Assistant Director for Inclusive Growth would provide Councillor Morrall the cost around the Bristol Road Bus and Cycle Lane.

Pooling of Local Funds – This was not able to take place anymore however, The Cabinet Member for Transport and Environment suggested for Councillor Morrall to write to him in relation to the project and he would investigate this. He recognised the allocations within the Wards did not always meet the needs for the work to be carried out therefore, contact should be made directly with the Cabinet Member.

Clean Air Zone (Economic Impact Assessment) – Important strategic project which had to be legally compliant. Government Ministers were keen for Birmingham to launch the CAZ this year (June 2021).

Philip Edwards, Assistant Director for Inclusive Growth added the business case and relevant assessments were approved by both the Government and BCC. He reminded Members, extensive engagement with communities had taken place. The Business Improvement District and Chamber of Commerce were in support of this.

Alternative forms of transport – Aiming for more electric cars to have a prominent role in the City however, the Cabinet Member for Transport and Environment felt it was crucial to reset the overall relationship with the citizens and reliance private cars. Walking and cycling for shorter journeys will be encouraged and buses/ transits for longer journeys. The Executive Management Team were having discussions to see how to rebuild the confidence of the citizens to use public transport. The Cabinet Member was

having conversations with a number of national figures on zero emission buses for the City.

Car parking – The draft Birmingham Transport Plan would be adopted soon which reviewed the parking in line with demand. It was noted there were several spaces that were unused and the review would explore how to make better use of these.

Ian Macleod, the Interim Director for Inclusive Growth notified Members the Future City Plan had been launched which set out a number of ambitious plans to reuse car parks within the City Centre.

At this juncture, the Chair thanked the Cabinet Member for Transport and Environment and the Interim Director and Assistant Directors for Inclusive Growth for their attendance.

Upon consideration, it was:

301

RESOLVED:-

That the Committee noted the updates received on the Cabinet Member for Transport and Environment Portfolio.

BIRMINGHAM AUDIT – INTERNAL AUDIT PLAN 2021/22

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

(See document No.1)

The Assistant Director Audit and Risk Management informed Members to take note of the methodology of the Internal Audit Plan and requested for feedback as to what Members would want Internal Audit to look at.

The Principal Group Auditor gave a comprehensive overview to the methodology and assumptions applied in developing the 2021/22 internal audit plan.

Members commented upon the report.

In response, to Members questions, The Principal Group Auditor made the following points;

- PFI Contract – As part of the risk process, Internal Audit had liaised with the Interim Director for Inclusive Growth and the Management Team to discuss significant areas within the Service. They had sight of the risk assessment and Internal Audit would look at any additional areas that had not been included.
- Fraud during Covid-19 – Grants for businesses created extra work. In this year's plan, Internal Audit were actively engaged in supporting the work around Covid-19 and for the Council's Recovery. This was included in the systems and processes in making the grant payments. In addition, Internal Audit were assisting 'pre and post' grant payments as there had

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been a number of potential attempted fraud cases. These were being referred through Central Government process.

- Support for vulnerable children and children with SEND (Education & Skills) - A significant amount of work taking place in this area through the Commissioning Framework, Home to School, SEND, post and pre careers and NEETS. Internal Audit had liaised with the management team who were supportive of the work.

Upon consideration, it was:

302

RESOLVED:-

- i) That Members of the Audit Committee noted the methodology and assumptions applied in developing the 2021/22 internal audit plan;
- ii) That Members considered the proposed audit coverage and identified additional areas for inclusion in the risking process; and
- iii) Subject to any agreed adjustments, the Members approved the proposed plan.

AUDIT FINDINGS REPORT – UPDATE

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

(See document No.2)

The Interim Chief Finance Officer provided the Committee with a brief introduction to the report. She reminded Members at the 26 January Audit Committee, the updated Audit Findings Recommendations was shared. This report was highlighting the progress to date. Members were notified some of the recommendations were from last year's audit and a few dated from previous years. Members were assured these were compliant with the code.

The Interim Head of Financial Strategy (Capital & Treasury) notified Members there were 13 recommendations from this year's Audit report and 5 (follow up) from previous years. He highlighted the Audit Committee had acknowledged and noted the management responses to the recommendations. He provided the Committee a summary on the recommendations.

Members commented upon the report.

In response, to Members questions, the Interim Head of Financial Strategy (Capital & Treasury) made the following points;

- Commonwealth Games – Noted the comment from Councillor Tilsley around the need to find new partners as there was deficit. This was recognised in the medium-term financial risk.
- Scale of ratings (High/ Medium/ Low) – This could be reviewed in line with comments raised by the Chair (i.e. to capture when ratings are between scales e.g. between Medium – High).

Upon consideration, it was:

303

RESOLVED:-

That the Audit Committee noted the updates on progress in implementing action to meet the recommendations of the External Auditor's Audit Findings Report.

304

At this juncture, the Chair apologised to the Committee as he should have declared a non-pecuniary interest for the next item (item 9 – Informing the Audit Risk Assessment – Group Company Governance). He informed the Committee, he was a Non-Executive Director for Acivico Limited. Councillor Tilsley (Vice Chair) of the Audit Committee had also declared a non-pecuniary interest on this item.

In order, to conduct the meeting, he notified the Committee he would Chair the meeting but would not ask any questions on this item.
Members agreed with Councillor Grindrod to continue as Chair.

INFORMING THE AUDIT RISK ASSESSMENT - GROUP COMPANY GOVERNANCE

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

(See document No.3)

The Interim Chief Finance Officer notified Members the Council had several companies in which they had interest in. These were consolidated the into group company accounts therefore, it was important to have full sight of the accounting policies and governance and management arrangements and to ensure these were being applied correctly. This also gave assurances of any audit risk associated with them to ensure these were adequately mitigated.

The Interim Head of Financial Strategy (Capital & Treasury) informed Members in next few months, the Audit Committee would be asked to approve the Council's Financial Statements in which the numbers from the subsidiaries, joint ventures would be included. The returns from the related companies was reviewed by the Cabinet Committee Group Company Governance on 18th March 2021. The assurance statements were broken down into three main areas:

- Company Environment – looking at the governance arrangements of the company
- The Identification, Mitigation and Reporting of Risk – looking at how the company manages risk
- Financial Statements – looking at factors that may impact on the company's financial health and financial statements.

The Group Company Governance Cabinet Committee highlighted no issues of concern to the Audit Committee.

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Members commented upon the report. Key points were around the scaling for the subsidiary companies i.e. what was turnover, profit/loss and number of employees in order to understand the significance of the company. Reference was made to if the companies had a holding company guarantee from BCC or defector guarantees. Members queried if the Finance Directors a part of BCC reporting structure.

In response, to Members questions, the Interim Head of Financial Strategy (Capital & Treasury) made the following points;

- The current questionnaires did not contain the scaling as suggested by Councillor Jenkins. This could be incorporated for future documents. Following this Committee this information could be provided to Members.
- Information on guarantees with the subsidiaries would be provided to Members.
- The Finance Directors report to their relevant Companies Board. The S151 Officer (or their delegate – Alison Jarrett) were Board Members and attended their Audit Committees.

The Chair noted comments made by Members and Officers and suggested an information briefing to be shared on Group Company Governance to understand the scale of the companies. He recognised some Members of this Committee were Non-Executive Directors for the Companies. In response, the Interim Chief Finance Officer notified the Chair she would come back to this suggestion following discussions with the Deputy Leader.

Upon consideration, it was:

305

RESOLVED:-

- i) That the Audit Committee considered the responses from the Council's group companies through the Cabinet Committee Group Company Governance and noted there were no issues highlighted to this Committee.
- ii) Noted for an information briefing to be arranged on the Group Company Governance. Information on the scale of the BCC subsidiaries and any guarantees given to be provided to Members.

ADOPTION OF ACCOUNTING POLICIES FOR 2020/21

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

(See document No.4)

The Interim Head of Financial Strategy (Capital & Treasury) informed Members the report sought approval to the adoption of accounting policies for the completion of the Council's accounts for 2020/21. Members were notified of the changes in accounting standards that would impact on the Council's Accounts in future years.

In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance 20020/21 had been used as a base position except

where amendments to reflect local circumstances or to enhance the policies was more appropriate. He outlined the policies where some changes to the Guidance Model that had occurred.

Upon consideration, it was:

306

RESOLVED:-

- i) That Audit Committee considered and adopted the accounting policies for the determination of the Council's accounts for 2020/21
- ii) Noted the implications for future years' accounts arising from the changes in Accounting Standards.

EXTERNAL AUDITORS - AUDIT PLAN 2020-21

The following report of the External Auditors was submitted: -

(See document No.5)

The Senior Manager, Grant Thornton notified Members the content of this report was similar to previous years. She gave an overview of the report and provided a summary on the high-level key points.

Pages 178 onwards of the document pack set out the risks of value for money weaknesses the External Auditors had identified to date. Three of which were continuation of work from previous years (work on 19/20 year on Commonwealth Games; Highways PFI Scheme and Waste Service continuity). This year, the External Auditors identified another risk around the change in senior staff over the last few years and the potential lack of stability this would have caused.

Members were notified due to the change in requirements for this year audit, the External Auditors were planning to bring in subject matter experts (Crowe UK LLP). Crowe UK LLP were the auditors of Birmingham Children's Trust and the External Auditors could ask them to perform specific work around the opinion from Grant Thornton on the Council's group accounts. Highways PFI scheme was highlighted as one of those key areas of work. Discussions and early engagement with the Council were taking place. She added the Audit fees for this year had not been confirmed therefore discussions were taking place within the company and Public Sector Audit Appointments Limited (PSAA) with regards to potential variation to the scale fee to this year. Members would be updated accordingly.

Members commented upon the report.

In response, to Members questions, The Senior Manager, Grant Thornton made the following points;

- Key changes around the audit was around the baseline work.
- In previous years, the risk assessment was performed and detailed work was undertaken in areas where there was potential risk and weaknesses

in arrangements. This resulted in binary 'qualified or unqualified' conclusion.

- This year onwards, the requirement was for more work to understand the arrangements across the Council as a whole and undertake further work to identify risks and weakness in arrangements. The output would no longer have a binary conclusion but a detailed narrative report setting out the information that had been gathered.
- Members felt the Value for Money assessments were useful for the public.
- Costs for additional subject matter experts – This was set out under the Auditing Standards therefore the External Auditors were required to do this. The alternative would be to audit Crowe UK LLP to obtain the assurances that they need which would be less efficient. The audit fees for this financial year had not been agreed however, the External Auditors were working on the assumption a fee variation would be required across all the clients. The use of subject specialists would form part of the fee variation. It was confirmed the fee set by the External Auditors included the work of Crowe UK LLP.

Upon consideration, it was:

307

RESOLVED:-

- i) That Audit Committee noted the content of the External Auditors Audit Plan 2020-21.
- ii) The External Auditors to provide the Audit Committee details of the fees charged to BCC for 2020-21.

EXTERNAL AUDITORS - INFORMING THE AUDIT RISK ASSESSMENT

The following report of the External Auditors was submitted: -

(See document No.6)

The Senior Manager, Grant Thornton notified Members under the Auditing Standards, there were a series of questions that Management had to respond to. The document outlined the Management responses received and to ensure these were in line with the arrangements of the Council.

The Chair referred to earlier discussions around the disagreement to Audit Findings on the Highways PFI. He queried if there were any thoughts around the discussion and whether this issue could be worked though, be avoided in the future.

In response, the Senior Manager, Grant Thornton noted the information leading to this qualification was received late. In future, it was key to ensure early engagement took place. She added this was a disagreement as to what the qualification meant rather than disagreement on the findings and this would be worked upon going forward.

Upon consideration, it was:

308

RESOLVED:-

That Audit Committee noted the content External Auditors, Informing the Audit Risk Assessment Report.

SCHEDULE OF OUTSTANDING MINUTES

309

Members were provided with updates to the outstanding actions.

**Minute 260 25/11/2020 – Independent Advisor to Audit Committee
Additional Recommendation**

- iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role. This would be provided at a future Committee.

To be shared at a future committee.

**Minute 274 26/01/2021 - Birmingham Audit – Half Year Update Report
2020/21
Additional Recommendation: Public Sector Internal Audit Standard
Compliance review**

- iv) Members agreed the overall approach to a Public Sector Internal Audit Standard Compliance review. However, Members agreed to seek further assurances to the Council undertaking the Peer Review. A further update to be provided to the Committee to reconsider options.

This was presented at the 26/01/2021 meeting. Action completed & discharged.

**Minute 279 26/01/2021 - Assurance Session – Cabinet Member for
Children's Wellbeing Portfolio
Additional Recommendations:**

- ii) To provide the Committee with any outstanding reports, supporting tools related to Travel Assist at a future Committee.
- iii) To provide Members with the cost for Consultancy support, assistance to stabilise the service and the cost to build the framework for ongoing improvement within the Travel Assist Service since September.

Documents were circulated to Members by Nichola Jones on 17 March 2021. Therefore, action ii) and iii) of minute 279 26/01/2021 was completed and discharged.

- iv) The Council's Transformation Programme to be shared at a future Committee.

To be shared at a future committee.

Minute 284 22/02/2021 – Apologies

The Chair to write to Members of the Audit Committee regarding attendance at meetings.

**Letter sent to Members of the Committee on 01 March 2021 by the Chair.
Action completed & discharged.**

DATE AND TIME OF NEXT MEETING

The next meeting is scheduled to take place Tuesday, 27 April 2021 at 1400 hours via MS Teams (on-line).

OTHER URGENT BUSINESS

310 **RESOLVED: -**

No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

311 **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 1554 hours.

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CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	Audit Committee
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	27th April 2021
Subject:	Risk Management Update
Wards Affected:	All

1. Purpose of Report

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

2. Recommendation

Audit Committee Members:

- 2.1 Note the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT).
- 2.2 Review the strategic risks and assess whether further explanation / information is required from risk owners in order to satisfy itself that the Risk Management Framework has been consistently applied.

3. Risk Management Framework

- 3.1 The Risk Management Framework sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels.
- 3.2 The framework is implemented through a network of Directorate Risk Representatives. Risk representatives assist directorate management teams in producing and maintaining up-to-date risk registers and supporting action plans.
- 3.3 Strategic risks are reviewed and challenged through the Corporate Leadership Team.

4. Strategic Risk Register

4.1 Strategic risks have been reviewed and updated on a monthly basis by Directorate Risk Representatives. Risk SR7.1 Service Improvement has been restated and a revised action plan established.

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

Residual Risk Exposure	High	Medium	Low	Total
SR1 - Political	1	1		2
SR2 - Economical	3	3		6
SR3 - Social	5	3		8
SR4 - Technological	1	2		3
SR5 – Legal	4	1	1	6
SR6 - Environmental	2	0		2
SR7 - Cross Cutting	1	4		5
Total	17	14	1	32

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

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

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

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

5. Directorate Risks

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

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

6.	Role of the Audit Committee
6.1	Members have a key role within the risk management and internal control processes.
6.2	<p>The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:</p> <ul style="list-style-type: none"> • providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment; • whether there is an appropriate culture of risk management and related control throughout the Council; • to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and • to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.
7.	Legal and Resource Implications
7.1	The work carried out is within approved budgets.
8.	Equality Impact Assessment Issues
8.1	Risk management forms an important part of the internal control framework within the Council.
8.2	The Council's risk management framework has been Equality Impact Assessed and was found to have no adverse impacts.
9.	Compliance Issues
9.1	Decisions are consistent with relevant Council Policies, Plans and Strategies.

Sarah Dunlavey

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Risk Heat Map

Strategic Risk Map – April 2021

Strategic Risk Map – April 2021					
Likelihood	High			<div>SR1.1 Relevance to citizens</div>	<div>SR4.3 Cyber attacks</div> <div>SR5.1 Health & Safety / Inadequate property portfolio</div> <div>SR3.4 Counter Terrorism / emergency incidents</div>
	Significant	<div>SR2.6 Future Financial Resilience</div> <div>SR3.3 Equality representation</div> <div>SR4.1 Loss of personal/sensitive data</div> <div>S3.8 Effective Public Hubs</div>	<div>SR6.2 Health & wellbeing</div> <div>SR6.1 Climate change / air pollution</div> <div>SR3.7 Public Health interventions</div> <div>SR7.2 Rising pressure of demand</div>	<div>SR2.2 Homelessness & housing</div> <div>SR3.5 Lack of engagement</div> <div>SR2.3 Financial insecurity for citizens</div> <div>SR3.2 Localisation / personalisation</div> <div>SR3.1 Community Leadership quality</div> <div>SR5.6 Safeguarding Children</div>	
	Medium	<div>SR5.3 Brexit impact on legislation</div> <div>SR7.3 Achieving desired culture change</div> <div>SR7.4 CWG Delivery</div>	<div>SR4.2 Harnessing technology opportunities</div> <div>SR2.5 Development of local urban centres</div> <div>SR1.2 Opportunities of devolution</div> <div>SR2.4 Leading the regional agenda</div> <div>SR7.4 CWG Legacy Realisation</div>	<div>SR5.4 Meeting social care requirements</div> <div>SR7.1 Service Improvement</div> <div>SR5.5 View of BCC by regulators</div> <div>SR2.1 National politics</div>	
	Low	<div>SR5.2 Approach to equalities</div>	<div>SR3.6 Preventing crime agenda</div>		
	Key	Low	Medium	Significant	High
	Impact				
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.				

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Strategic Risk Register Summary

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

Appendix B

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

Appendix B

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

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Interim Chief Finance Officer
Date of Decision:	27 April 2021
Subject:	Briefing on BCC approach to significant estimates in the 2020/21 Statement of Accounts
Wards affected: All	
1	Purpose
1.1	To notify Members of a change in international standards on auditing that will impact the approach to auditing of estimates.
1.2	To notify members of the approach planned for significant accounting estimates in the 2020/21 Statement of Account.
1.3	To offer further briefing and training, or further support, to Members regarding the matters contained in this briefing note.
2	Decisions recommended:
	That Audit Committee
2.1	Consider and note the approach to accounting for significant estimates as set out in this paper and the offer of further briefings and training.
2.2	Note the implication on audit work, and the audit timetable as a result of the change in international standards on auditing.

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3 Compliance Issues:

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

Yes

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:

The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

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 (if any):

The Council's financial results include a number of significant estimates. We are required to present a Statement of Account that is true and fair. As such, the main risk is that the estimates included in the Statement of Account are materially inaccurate, and that as a result attract a qualified audit opinion. There are no equality impact issues.

4 Relevant background/chronology of key events:

4.1 The Council is required to prepare its accounts with regard to: a) Relevant accounting standards; and b) The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 published by the Chartered Institute of Public Finance Accountancy (the Code) which is updated annually.

4.2 Whilst accounting standards provide the framework for the preparation of accounts, in a number of areas, they require the preparer of the Statement of Account to use estimates in arriving at balances and/or disclosures to be included. In some instances, these estimates can have a material effect on the amounts recorded or disclosed and are therefore deemed significant.

4.3 This is not new, and the Council have been using estimates and assumptions about future or uncertain events in preparing the statement of account for some time.

4.4 The Financial reporting council (FRC) has issued a revised International standard on auditing (ISA) 540 "Auditing accounting estimates and related

disclosures”, which contains a significant change to the audit risk assessment process for accounting estimates.

4.5 Principally, this change in approach affects:

- a) A need for the external auditor to do more work with regards to the controls in place around accounting estimates; and
- b) A need for the external auditor to better understand the role of those charged with governance in the Council arriving at significant estimates in the statement of account. Principally this is where there is a high level of uncertainty or judgement involved.

4.6 As part of Grant Thornton’s audit planning process, they have requested, and been provided with a summary of our approach to key estimates. These responses can be found in the tables in appendix 1.

4.7 Note that given the nature of accounting standards, there are many sources of estimation and uncertainty that are dealt with in the preparation of the Statement of account. This briefing only deals with those that are deemed to be material, or significant, which requires them to be both of sufficient scale or importance and have a significant degree of uncertainty or Judgement involved in their calculation.

4.8 The areas where we have deemed such material estimates to be included in our statement of account are:

- a) Valuation of land and buildings
- b) Valuation of defined benefit pension fund liabilities
- c) Valuation of the equal pay provision
- d) Credit losses and impairment allowances;
- e) Fair value estimates; and
- f) Depreciation

Note that our assertion that these are the material estimates included in the statement of account is in line with the proposed approach to estimates by Grant Thornton, who have identified the same key estimates in their audit planning approach.

4.9 This paper is to brief the Audit committee on the nature of these estimates and our approach to calculating them. It will be followed up with a paper in June or July 2021 (depending on the timing of receipt of certain external information) confirming the final position on each estimate and concluding our findings.

5 Requirements of those charged with governance

- 5.1 The auditors are required to understand the role of those charged with governance in the oversight of significant estimates, particularly those that have a high degree of estimation uncertainty, or significant judgement.
- 5.2 Specifically, it is expected that Audit committee members:
- a) Understand the characteristics, methods and models used in arriving at estimates, along with the risks associated in the approach;
 - b) Oversee managements process in making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
 - c) Evaluate how management made the estimates.
- 5.3 This paper, and the subsequent paper noting how the process has concluded, aims to provide members with these details, a significant part of the detail for which is included in the appendix.

6 Our general approach to significant estimates

- 6.1 We have an experienced team of qualified accountants in our final accounts team, supported by a wider team of qualified accountants across our finance function. All support the s151 officer in discharging the duty with regards to the preparation of the statement of account.
- 6.2 As part of their role, the individuals in the final accounts team (supported by all finance colleagues as necessary) are tasked with:
- a) Identifying any areas of potentially significant accounting estimates;
 - b) Determining an appropriate approach to use;
 - c) Overseeing the delivery of work in arriving at the estimate; and
 - d) Documenting, and supporting the audit of those estimates.
- 6.3 For the 2020/21 statement of account, the eight areas noted in paragraph 4.8 have been identified as the material areas of estimate.
- 6.4 These are consistent with those identified in 2019/20, and those identified by Grant Thornton in the audit planning process.
- 6.5 The approach that has been taken to each estimate this year is materially consistent with the approaches taken to the same areas in the prior year. Where small changes have been made, it is either to:
- a) Address changes in legislation or accounting standards; and

- b) Improve the process.
- 6.6 Oversight of the process has commenced for a number of the key estimates, and the documentation and audit support for each of them will be in line with the audit plan previously submitted to the Audit committee.

7 A summary of each significant estimate

Valuation of land and buildings

- 7.1 The council recognises a significant value of land and buildings on its balance sheet. At 31 March 2020, there was £2.5bn of Council dwellings and £2.3m of other land and buildings.
- 7.2 Valuation of both types of asset include both uncertainty and judgement.

Approach to valuation

- a) Valuations for non-HRA assets are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. Valuation uncertainty has increased this year due to the Covid-19 pandemic and has been recognised by the Royal Institute for Chartered Surveyors (RICS).

Therefore, any property valuations must be viewed within the context of these unique circumstances. The uncertainty in valuation of property as a result of the covid pandemic was recognised in last year's audit and is expected to be so again this year.

- b) Council Dwellings are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in the intervening years.

A beacon method of valuation is undertaken for the housing stock portfolio based on properties that constitute a representative sample of the Council's properties across the city. The beacon value relates to the sale of a single owner-occupied dwelling and is derived from the sales of similar ex-council or comparable properties, suitably adjusted by the valuer taking into account information from the land registry, changes in income flow and management and maintenance costs for high rise blocks of flats and any relevant regional or national indices.

- c) Valuations are undertaken by RICS accredited valuers, including both internal and externally where necessary. The valuations are commissioned by an experienced member of the final accounts team, who then oversees a process of individual review and challenge on each valuation received. Outliers in particular are focussed on, with additional support obtained as required to challenge assumptions and estimates applied in arriving at any such material outlier.

Valuation uncertainty and estimation

- 7.3 The Covid-19 pandemic has created an element of uncertainty in determining valuations of all non-current assets. As market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value.
- 7.4 The valuers' reports are on the basis of 'material uncertainty' in line with the RICS Valuation – Global Standards, effective from 31 January 2020. This does not mean that the valuations cannot be relied upon, merely that there is less certainty, and therefore a higher degree of caution attached to the valuations, than would normally occur.
- 7.5 There are a number of estimates used during the valuation process. The two most significant are:
- a) Those estimates applied by the professional valuers in arriving at their valuation. They may include inter alia consideration of equivalent values, estimates of replacement cost and estimates of practical usage of buildings; and
 - b) Those estimates applied to revise valuations in the years between full valuations, or to roll forward any valuations that are not completed at 31 March. To do this, indices are applied which are accepted methods for updating such valuations, or reconfirmation from an accredited valuer is received that no such amendment is necessary.
- 7.6 In order to assess the materiality of the risk these estimates and uncertainty present to the financial position of the council, a sensitivity analysis is performed on key elements of the valuation. In the 2019/20 accounts, the valuation sensitivity was described as follows:
- a) For those non-HRA assets not valued in year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the gross carrying value of these assets by £8.3m, with a corresponding increase in the level of unusable reserves. For those non-HRA assets revalued during 2019/20, a 1% variation in these valuations would amount to £17.0m
 - b) The carrying value of Council dwellings has increased by £13.1m since 31 March 2019. A 1% movement in the total value of Council dwellings would be equivalent to a change in carrying value of £24.6m
- 7.7 We expect similar levels of sensitivity to the assumptions for the valuations at 31 March 2021 but will re-run this analysis as part of the final work on completion of the statement of account.

Valuation of defined benefit pension fund liabilities

- 7.8 The council recognises a significant liability with respect to its obligation to fund its defined benefit pension scheme. At 31 March 2020, the net liability was £2.6bn. Although the benefits will not actually be payable until an employee retires, the Council has a commitment to make payments, which needs to be disclosed at the time that employees earn their future entitlement.
- 7.9 A number of other movements related to defined benefit pensions schemes are also recognised in the Statement of account. The net charge against the general fund balance for pensions in the year to 31 March 2020 was £153.9m.
- 7.10 The Council participates in two post-employment retirement benefit schemes accounted for as defined benefit schemes.
- a) The local government pension scheme, administered by the West Midlands Pension fund, which is a funded defined benefit scheme; and
 - b) Separate arrangements for the award of discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised as and when payments are made.
- 7.11 It also has to account for the Teacher's pension scheme, which is an unfunded defined benefit scheme. As a result of employees being members of a range of different schemes, separate identification of assets and liabilities with respect to specific employees is not possible, so the Council takes advantage of an exemption to disclose the impact of this scheme in the statement of account.
- 7.12 The pension schemes are operated under the regulatory framework for the Local Government pension scheme and the governance of the scheme is the responsibility of the pensions committee of Wolverhampton city Council.
- 7.13 From a financial reporting perspective, BCC is required to report the estimated value of the net liability, and costs in year based on a range of assumptions. These assumptions, and the
- 7.14 A key risk is the volatility and longevity of these assumptions, and the extent to which they may vary over time. Based on this, and the number of potential variables applied in calculating the pension values and disclosures, the valuation estimate includes a significant element of uncertainty.

Approach to valuation

- a) Given the complexity of the estimate, the Council commissions a specialist actuarial firm, Barnet Waddingham, to calculate the estimate, and provide full disclosure required in our statement of account. The assessment will be performed on an actuarial basis using the projected unit method, which is an estimate of the pensions that will have to be paid in future years

dependent on assumptions about mortality rates, salary levels and returns on assets, amongst others.

- b) A full list of these assumptions will be disclosed in the Statement of Account.
- c) The valuation is completed by the actuary based on employee details, and costs recorded, from our core systems, which are extracted and provided to the actuary in March, such that the full valuation process can be completed by May.
- d) The extraction, and numerical accuracy of these submissions is checked by a member of the final accounts team.
- e) The valuation and disclosures provided by the actuary are then reviewed by the final accounts team, along with the sensitivity analysis that is separately provided, and any unusual amounts or disclosures are challenged.

Valuation uncertainty and estimation

- 7.15 The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the Statement of account. A sensitivity analysis is separately provided which is determined based on reasonably possible changes to assumptions at the end of the reporting period.
- 7.16 By way of example, the sensitivity analysis at 31 March 2020 on the four key assumptions was:

	Change in assumption	Impact on Council Liability	Impact on Council Deficit
	£m	%	%
Longevity assumptions (increase by 1 year)	294.5	4.5%	11.4%
Pension increase assumptions (increase by 0.1%)	117.8	1.8%	4.5%
Salary increase assumption (increase by 0.1%)	10.3	0.2%	0.4%
Discount scheme liability assumptions (increase by 0.1%)	(125.1)	(1.9%)	(4.8%)

- 7.17 It is not expected that the methods used, or assumptions applied in the sensitivity analysis in 2021 will vary from those used in 2020. However, the impact on the value of the liability may do so.

Valuation of the equal pay provision

- 7.18 The equality act 2010 in Great Britain implemented a principle that men and women should receive equal pay for equal work.
- 7.19 The Council sets aside a provision for potential claims related to this act, which at 31 March 2020 amounted to £153m.
- 7.20 The secretary of state of communities and local Government issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with issued and valid equal pay claims.
- 7.21 The Council has included both the capital and revenue impacts of equal pay claims in the Council's financial plan 2020-2024.
- 7.22 A change in legislation this year means that we can no longer fund new equal pay claims from our capital receipts reserve, and instead, any new claims from 1 April 2020 will need to be charged against our general fund reserve.

Approach to valuation

- 7.23 Estimates are based on a case by case evaluation of the liability against a framework agreement, following legal evaluation of the probability of success of a particular claim.
- 7.24 This approach has been used for several years; no changes have been made for 2020/21.
- 7.25 Source data is obtained from HR, which is predominantly a current staffing list (updated to reflect current staffing profile in 2020/21).
- 7.26 The Data on specific cases is provided by the Equal Pay Unit, which is extracted from a database of cases lodged, and progress is maintained by the EPU.
- 7.27 BCC has developed a central repository for all Equal Pay claims, called Caprelus. There are no changes to the data source.
- 7.28 Barrister/QC and internal legal advice is sought on the probability of success of Equal Pay claims. This is part of the standard approach in relation to equal pay liabilities and estimation.
- 7.29 A management review of the overall provision is undertaken, which includes a reconciliation to identify changes in the estimates compared to the prior year. Any significant change in value is investigated to identify the reason.

Valuation uncertainty and estimation

- 7.30 The principal source of uncertainty and estimation in the equal pay provision is based on two things:
- a) the number and value of expected claims; and
 - b) the probability of success of claims that are made.
- 7.31 Both of these are assessed on a case by case basis, by qualified legal representatives. The Council has based its estimate on the number of claims received, on historical information on settlement and on the current negotiations with claimant's representatives.
- 7.32 A simple sensitivity analysis is performed, which confirms that an increase of 1% in the average level of, or number of claims, would increase the provision by 1%.
- 7.33 The bigger risk to the Council from a financial perspective would be a change in the nature of claims, or of a change in the legislation that could cause more individuals to be eligible to claim. This is in part mitigated through
- a) Ongoing legal scrutiny of the position; and
 - b) Taking a prudent approach in the overall assessment of likely claims and outcomes, supported by full legal diligence.

Credit losses and impairment allowances;

- 7.34 Credit losses and impairment allowances are recognised as estimates based on the Council's assessment of expected recovery of certain of its financial assets (which are predominantly debtors, where individuals or organisations owe us money).
- 7.35 These are recognised in line with IFRS9 either on a 12 month, or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.
- 7.36 Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of a 12 month expected losses.
- 7.37 The two principal areas in which credit losses are recognised in the statement of accounts are:

- a) Credit losses recognised on the value of the Council's debtors. At 31 March 2020, the gross value of these debtors was £565m, against which an expected credit loss of £180m was recognised, leaving a closing value of the debtors of £385m. This included an increase in the provision that was set aside to account for the impact of Covid-19.
 - b) Credit losses recognised on the value of certain "soft loans" made. At 31 March 2020, the gross value of these loans was £32.2m, against which an expected credit loss of £6.9m was recognised, leaving a closing value of the loans recognised at £25.3m; and
- 7.38 The council is expecting to apply a similar approach in the calculation of credit losses in 2021 as it did in the prior year.
- 7.39 Assets are assessed at each year end for any indication that they may be impaired. Where an indication exists, and any potential difference is material, the recoverable amount of the asset is estimated, and where this is less than the carrying value, and impairment loss is recognised for the shortfall.
- 7.40 Such situations will vary from year to year, particularly given the current situation in the Covid-19 pandemic, and as such, this will be assessed, and provided to the Audit committee based on actual amounts booked at 31 March 2021.

Approach to valuation

- 7.41 Estimates for credit losses for debtors are based on a case by case evaluation of each asset. Directorates have been trained on the application of IFRS9, which principally requires a more specific estimate of recovery to be assessed on an asset by asset basis – it requires more evidence of that assessment than just recognising a simple overall provision.
- 7.42 A small proportion of the provision is calculated and based on the debtor level and expected recovery of those debtors, at 31 January. In the prior year, this represented 13% of the total provision. For these amounts, a subsequent step is included at 31 March, to ensure that the underlying assumptions remain sound, based on any change in circumstances, or change in levels of debtors.
- 7.43 The rest of the provision is based on gross debtor balances at 31 March, and the expected recovery, as assessed by the service teams, in consultation with the final accounts team.
- 7.44 The provision for soft loans is calculated by reviewing the facts and circumstances of each loan, and applying the provision in line with required standards.
- 7.45 Impairment losses are recognised based on a review of indicators of impairment by the service finance, and final accounts team for each material

asset class. The value of the loss is the difference between the recoverable amount and the carrying value of the asset.

- 7.46 Once the valuations are proposed by the service finance teams for both credit losses with respect to debtors and any potential impairment, a review is completed by the final accounts team to identify any anomalies or outliers, which are then investigated.

Valuation uncertainty and estimation

- 7.47 The principal source of uncertainty and estimation in credit losses is the extent to which debtors are likely to be recovered. This is assessed on a case by case basis by the service finance teams.
- 7.48 A very simple sensitivity analysis is completed to assess the degree to which the provision may change. At 31 March 2020, a 1% change in the overall rate of provision would have reduced the value of debtors by a further c£6m.

Fair value estimates;

- 7.49 [Financial assets can be measured in a number of different ways, including “fair value” – the two principal financial assets held at fair value are:
- a) Investment properties – c£45m at 31 March 2020
 - b) Equity holdings in subsidiaries
- 7.50 Investment properties are revalued each year by a qualified surveyor, and given their value, the estimation uncertainty is considered to be insignificant, and so not covered here.
- 7.51 The West Midlands pension fund also holds investment properties as part of its portfolio of assets. These assets were valued at £358m at 31 March 2020, and a material uncertainty in their value due to covid-19 was also disclosed. The BCC approach to identifying and managing the estimate and uncertainty in relation to all DB pension related matters is set out in paragraphs 7.8 to 7.17.
- 7.52 Estimate and uncertainty in equity shareholdings is not considered to be material, and so not covered here]

Depreciation

- 7.53 Depreciation is provided for on all Property, plant and Equipment assets, including components, by the systematic straight line allocation of their depreciable amounts over their useful lives. Assets without a finite life or that are not yet available for use, or held for sale, are not depreciated.
- 7.54 Depreciation is charged in the year of disposal, but not in the year of acquisition.

- 7.55 The total depreciation charge for the year to 31 March 2020 was £147.8m.
- 7.56 At 31 March 2020, there was £291.4m of accumulated depreciation recognised against gross assets at cost of £6,131.1m.
- 7.57 Where assets are revalued, accumulated depreciation is reversed to the revaluation reserve, so the £4.7bn of council dwellings and other land and buildings have only an immaterial accumulated depreciation charge against them.

Approach to valuation

- 7.58 The depreciation estimate is driven by three factors:
- a) The initial value of the asset being depreciated;
 - b) The useful economic life over which the asset is being depreciated; and
 - c) The method of depreciation.
- 7.59 Assets are initially measured at cost, comprising the purchase price and any costs attributable to bring the asset to the location and condition necessary for it to be operated in the manner intended by the council.
- 7.60 The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance.
- 7.61 Assets are subsequently carried in the Balance sheet using the following bases:
- a) infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
 - b) community assets and assets under construction – historical cost;
 - c) dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
 - d) where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
 - e) surplus assets – fair value; assessed in their highest and best use
 - f) all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

- 7.62 Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.
- 7.63 The valuation approach, and its impact on estimates and uncertainty is covered in paragraphs 7.1 to 7.7 above.
- 7.64 Useful economic lives are assessed as follows:
- a) 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;
 - b) Buildings – up to 50 years;
 - c) Vehicles, Plant, Furniture and Equipment – up to 50 years;
 - d) Infrastructure – up to 40 years.
- 7.65 The useful life of each relevant asset is reviewed as part of the Council's five year cycle of revaluation by an appropriately qualified valuer.
- 7.66 Depreciation is charged on a straight line basis, which means that the gross cost is divided by the useful economic life, and that amount is then charged evenly, each year, across the asset's life.

Valuation uncertainty and estimation

- 7.67 The principal causes of uncertainty and estimation in the calculation of depreciation are therefore in relation to the UEL of assets, and the underlying valuation. Both are assessed in line with the approach outlined above, and performed by professional valuers, and then reviewed for consistency by the final accounts team.
- 7.68 A qualified RICs valuer is used to identify the most appropriate UEL, and valuation, and these, alongside the BCC depreciation policy derives the depreciation.
- 7.69 The risk of material misstatement in depreciation is considerably mitigated by the approach of revaluing the Council dwelling and other land and building assets, which largely removes accumulated depreciation against these significant asset classes.

Based on the above, no separate sensitivity analysis is performed specific to depreciation.

8 Recommendations

8.1 It is recommended that Members:

- a) Note and accept the approach outlined above with regards to significant estimates
- b) note the new audit requirements with regards to those charged with governance.
- c) note the offer of further briefing and training, or further support, for any matters set out in this paper.

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Rebecca Hellard, Interim Chief Finance Officer

Appendices

Appendix 1 – Information provided to Grant Thornton as part of their audit planning with regards to significant estimates.

BIRMINGHAM CITY COUNCIL

Appendix 1 - Information provided to Grant Thornton as part of their audit planning with regards to significant estimates

Property, plant, and equipment (other land and buildings, surplus assets and council dwellings) valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>Asset valuations by their nature include a degree of uncertainty. The impact of Covid-19 may add an increased level of uncertainty in our estimates this year.</p> <p>The key mitigations that we have in place are 1) Estimates provided by valuers in line with RICS requirements; and 2) a process of review and challenge, particularly focussed on outliers.</p> <p>Disclosures will be provided in the accounts that set out the basis of valuation, the uncertainties included within that valuation and the judgements made in arriving at them.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Management select the approach based on developing an understanding of the risk presented by the estimate, and its potential to introduce material error into the accounts. Doing so, management take into account past errors identified, the views of our expert valuers, development of the sensitivity of the result to fluctuations in assumptions and through the process of review and challenge by our final accounts team.</p> <p>The OLB balance is split into a number of different “buckets” of assets of equivalent nature, and a valuation approach applied that is applicable to the asset.</p> <p>A five year rolling revaluation programme, supplemented by annual reviews of significant changes in market value is used for all property assets apart from HRA assets. HRA assets are subject to a full revaluation every five years in line with guidance from MHCLG. In intervening years, a desktop review of the valuation is carried out. All assets are carried at current value.</p> <p>No changes are expected to be made with respect to the models, or the methods used in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Management rely on the expert advice of the RICS qualified valuers in providing appropriate assumptions. These are then reviewed, with outliers challenged and adjusted if necessary through a rigorous internal review process.</p> <p>No changes are expected to be made to the major assumptions applied in 2020/21</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The source data is based on existing books and records, alongside any required other sources of information provided by, or sense checked by our valuers – like the indices applied to adjust assets where necessary. The accuracy /completeness of the books and records is controlled through analytical review of the final results and identification of anomalies.</p> <p>No changes are expected to be made to the major sources of data used in 2020/21</p>

<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Yes, the council's own valuer has specialist skills, they are a member of the Royal Institution of chartered surveyors, and all specialist input comes from RICs qualified valuers, which may include specific challenge to assumptions or individual valuations based on any significant fluctuations or outliers identified.</p> <p>Any external support is procured in line with the BCC procurement policy, which is available on request and through doing so we ensure that all external support has the specialised skills and knowledge required for the task.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The valuer is issued with instructions as to the basis of valuation in line with the CIPFA code of practice and RICS guidance. The internal valuations may be supplemented by a number of valuations carried out by external valuers including for any specialist assets – in certain circumstances, there are peer reviews performed within the valuer's team too, where required.</p> <p>All resultant valuations are then reviewed internally, through a specific close processes implemented by the final accounts team, supplemented by review and challenge if required, by an external valuer. A process of identifications of outliers, comparison to prior year, and sense check for reasonableness is also carried out by the final accounts team.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Management consider the estimate uncertainty by developing a sensitivity analysis against key assumptions, allow the extent to which uncertainty in any of these assumptions may result in material error in the accounts. The uncertainty is further reduced by ensuring that valuations are done as close to, or on 31 March as possible.</p> <p>This uncertainty is addressed through the allocation of additional, or specialist resource, or further review steps, including increasing sampling, potentially, if necessary, to reduce any extrapolation error.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>A simple sensitivity analysis will be completed against key assumptions, and used in determining any further review and challenge steps during the process.</p>

Net defined benefit pension liability valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>No new risks were identified.</p> <p>By their nature, a small change in one of the key assumptions, like the discount rate, could materially affect a number of the outcomes from this estimation.</p> <p>The main way that BCC addresses the risk of material error arising from uncertainties in the pension valuation is through engaging a qualified actuary, Barnet Waddingham, to produce a detailed report in their role as actuary to the West Midlands Pension fund.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>As above, the main method is the utilisation of a specialist actuary.</p> <p>The final accounts team will also review all assumptions applied, and resulting impact on the accounts, including through the sensitivity analysis performed by the actuary, and challenge any areas of significant change or inconsistency with the prior year.</p> <p>There is no change expected to be made to these methods or the model in 2020/21</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Management rely on the assumptions provided by the qualified actuary.</p> <p>We have not yet had sight of the anticipated assumptions to be applied across the calculation of the estimate – but we have been in regular dialogue with the actuary around the timetable to provide their output, and ensure that it meets our planned close timetable.</p> <p>We have not been made aware of any significant changes to the assumptions that the actuary is expecting to apply, or the model being used. However, as noted above, particularly given the length of the liabilities, a very small change in specific assumptions could have a material impact on the size of the estimate.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The main source data is employee data, which is taken from our HR and finance systems. The final accounts team extract the data in a specific format, in line with all prior year years and provide it to the actuary.</p> <p>A review is undertaken within the final accounts team of the data extracted this year, compared to the prior year, to highlight any potential outliers or unusual events – if any are identified, they are challenged prior to submission.</p> <p>There are no changes expected in the sources of data being used for this year's process.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Yes, a qualified actuary whose services are procured in line with BCC procurement policies.</p>

6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The output of the process is reviewed by the final accounts team, to ensure that they are in line with standard sector parameters, our expectations and not materially different from prior years. Where a material change is identified, the actuary is challenged to support it.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The estimation uncertainty is primarily assessed by the qualified actuary. They also provide a sensitivity analysis that allows us to consider the quantum of the estimation uncertainty, and where the point estimate falls within that spectrum of potential results.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	As above, a sensitivity analysis is provided by the actuary. Material changes in key outputs are also reviewed, and challenged as required.

Equal Pay provision estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No specific risks identified this year that would affect the material accuracy of the provision.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Estimates are based on a case by case evaluation of the liability against a framework agreement, following legal evaluation of the probability of success of a particular claim. This approach has been used for several years; no changes have been made for 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The assumptions are applied on a case by case basis as set out in the answer to question 2. No changes were made to assumptions for the estimation in 2020/21 with a consistent approach being applied to that of previous years.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Source data is obtained from HR, which is predominantly a current staffing list (updated to reflect current staffing profile in 2020/21). The Data on specific cases is provided by the Equal Pay Unit, which is extracted from a database of cases lodged, and progress is maintained by the EPU.

	<p>BCC has a developed a central repository for all Equal Pay claims, called Caprelus.</p> <p>There are no changes to the data source.</p>
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Barrister/QC and internal legal advice have been sought on the probability of success for Equal Pay claims. This is part of the standard approach in relation to Equal Pay liabilities and estimation. Services of the barrister procured in line with standard BCC procurement policy.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	<p>A management review of the overall provision is undertaken, which is documented in our working papers, provided during the audit.</p> <p>Additionally, there is a reconciliation undertaken to identify changes in the estimates compared to the prior year. Any significant change in value is investigated to identify the reason.</p>
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Sensitivity analysis undertaken to determine any areas of material uncertainty
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Sensitivity analysis undertaken on the variable elements that may affect the estimates. This is provided as part of the annual working papers.

Expected credit losses and impairment allowances estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	<p>The impact of COVID 19 is considered to be a specific risk in the likelihood of expected credit losses.</p> <p>These have been addressed through the service teams reviewing each of their debtor position, with regards to the repayment profile of invoices in the year, their expectation of likely recovery and any specific, expected bad debt.</p> <p>This has then been used to inform their judgement as to the expected level of credit losses.</p>

<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>The method applied is consistent with the prior year, utilising service team specific knowledge of the debtor balances they are managing and applying a provisioning methodology in line with IFRS9.</p> <p>We are currently reviewing the approach to arriving at the Council bad debt provision but are not expecting a material change in approach or method this year at this point.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The key assumption is the level of expected credit loss against any individual debtor. The service team staff apply their knowledge of each situation and apply that knowledge to arrive at an overall level of expected credit loss.</p> <p>There are no changes to these assumptions expected in the current year.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The principal source of data used is the underlying ledgers of BCC. No change is expected to the source of this data in the current year.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>Finance staff consult service staff on the front line where appropriate to understand the debtors and likelihood of repayment – this knowledge of the credit risk in each debtor is the key skill required. Training has been delivered where required on the application of IFRS 9, but no specialist resources have been consulted.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The overall level of provision is monitored by the final accounts team – it is compared with levels provided in the prior year, and any significant changes in value or % are highlighted and investigated.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>A very simple sensitivity analysis is performed on the outcome of the bad debt provision calculation, which is used to put the size of the estimation uncertainty into context with regards to the size of the balance, and its materiality to the accounts.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>See above, a simple sensitivity analysis is performed as part of the review completed by the final accounts team.</p>

Depreciation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The only two risks identified in relation to the depreciation estimate are the UEL of assets, and the underlying valuation. Both are assessed in line with the approach outlined above, and performed by professional valuers, and then reviewed for consistency by the final accounts team. A qualified RICs valuer is used to identify the most appropriate UEL, and valuation, and these, alongside the BCC depreciation policy derives the depreciation.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The method used in calculating depreciation is to do so in line with the BCC accounting policies, which have not changed this year. We will charge depreciation on a straight line basis over the remaining UEL of the asset. Depreciation is not charged in the year of acquisition, but a charged in full in the year of disposal. There are a number of potential methods for calculating and charging depreciation. The council has determined that doing so on a straight line basis over the UEL is the most appropriate method. There are no changes proposed to this approach in the current year.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	For valuations and UEL, see notes above re the approach to valuing assets. No changes are expected to be made to these assumptions in the current year.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The source data is from the Council's fixed asset registers, which maintain records for all assets held. There are no changes expected to be made to the sources of data used in the current year.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes, see above for notes on approach to valuation.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	In addition to the approaches outlined above in relation to the valuation of assets, the final accounts team also perform simple analytical reviews on depreciation balances charged, and investigate any usual, or outlying charges.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes.
8. Were any changes made to the key control activities this year? If so please provide details.	No

9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	See above for approach to valuation and UEL.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	See above for approach to valuation and UEL.

BIRMINGHAM CITY COUNCIL**AUDIT COMMITTEE****27 APRIL 2021****SCHEDULE OF OUTSTANDING MINUTES**

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
260 25/11/2020	<p><u>Independent Advisor to Audit Committee</u></p> <p><u>Additional Recommendation:</u></p> <p>iii) Agreed to receive further updates on the progress of the work on the Independent Advisor role.</p>	Update to be provided at a future Committee.
279 26/01/2021	<p><u>Assurance Session – Cabinet Member for Children’s Wellbeing Portfolio</u></p> <p><u>Additional Recommendation:</u></p> <p>iv) The Council's Transformation Programme to be shared at a future Committee.</p>	Scheduled for 29 June 2021 Committee.
305 30/03/2021	<p><u>INFORMING THE AUDIT RISK ASSESSMENT - GROUP COMPANY GOVERNANCE</u></p> <p><u>Additional Recommendation:</u></p> <p>ii) Noted for an information briefing to be arranged on the Group Company Governance. Information on the scale of the BCC subsidiaries and any guarantees given to be provided to Members.</p>	Rebecca Hellard/ Mohammed Sajid to confirm once completed.
307 30/03/2021	<p><u>EXTERNAL AUDITORS - AUDIT PLAN 2020-21</u></p> <p><u>Additional Recommendation:</u></p> <p>ii) The External Auditors to provide the Audit Committee details of the fees charged to BCC for 2020-21.</p>	Update to be provided at a future Committee.

