

## Annual Audit Letter Year ended 31/3/2016 – Statutory Recommendation

### Report of the Deputy Leader

#### 1. Statutory Recommendation

The Annual Audit Letter for the year ending 31 March 2016 issued by Grant Thornton, the External Auditor, includes the following Statutory Recommendation:-

#### **Recommendation Made Under Section 24 of the Local Audit and Accountability Act 2014**

*The Council needs to:*

*Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17.*

*Demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+ by:*

*Revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and*

*Ensuring that all savings plans are assessed for both lead time to implement and delivery risk.*

*Re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.*

Grant Thornton have made this recommendation because they are concerned that if the Council does not take effective action to bring its savings programme back in line, there will be insufficient balances to manage its financial risks effectively from 2017/18. The Annual Audit Letter refers to the scale of the Council's financial pressure and the savings delivery challenge being unprecedented.

#### 2 Birmingham City Council Response to the Audit Statutory Recommendation

The City Council recognises its responsibility in responding to the Statutory Recommendation under section 24 of the Local Audit and Accountability Act 2014.

The Act requires the Council to:

- consider the recommendation at a meeting held within one month of the recommendation being sent to the Council; and
- at that meeting the Council must decide:
  - (a) whether the recommendation is to be accepted, and
  - (b) what, if any, action to take in response to the recommendation.

The external auditor has some flexibility to vary the timescales in the Act to up to 3 months and is satisfied that this Council meeting is compliant. Prior to the issue of the recommendation the Council had already acknowledged that it needed to plan for and manage the impacts of the non-deliverable savings in 2016/17, and their impact on future years, as well as the further expenditure pressures identified.

### **3. Actions to address specific statutory recommendations:**

#### **i. Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17**

- The City Council recognised that there were major deliverability issues with a number of the savings proposals assumed within the Business Plan 2016+.
- In order to begin mitigations at the earliest possible opportunity the Council carried out a “Mid-Year Budget Review” as part of Month 4 budget monitoring. This identified savings mitigations to begin in 2016/17 to help address the forecast overspend.
- It also removed 2016/17 savings which were no longer considered deliverable
- The Council continues its focus on controlling costs for the remainder of 2016/17.
- The Council has adequate revenue reserves, including an unallocated balance of £60m in the Organisational Transition Reserve, to address the residual year end overspend due to pressures or undelivered savings.

#### **ii. Demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+, by:**

- **revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and**
  - **ensuring that all savings plans are assessed for both lead time to implement and delivery risk**
- The impact of non-delivery of savings and ongoing pressures from 2016/17 is being addressed as part of the 2017+ Budget Planning process
  - The Council’s budget process has included a review of all savings proposals planned to start from 2017/18 and an assessment of whether they were still deliverable as planned.

- In the formulation of the Business Plan and Budget 2017+, saving proposals determined not to be deliverable have been either:
  - Removed as they were determined to no longer be deliverable; or
  - Reprofiled to give a revised savings profile based on the latest assumptions
  
- New potential saving proposals to address both pressures and reductions to savings have been identified with a particular focus on ensuring that each is deliverable.
  
- Delivery of the proposals and monitoring arrangements are being strengthened. The Corporate Leadership Team (CLT) acting in its capacity as Performance and Transformation Board will monitor progress on the delivery of the budget proposals. The new Corporate Programme Management Office (PMO) will expect Senior Responsible Officers (SROs) to produce as a minimum:
  1. Programme/Project Plan for delivery, which provides key deliverables to achieve savings and benefits; showing clear resources and lead in times required to deliver the plan
  2. Risk and Issue Registers
  3. Stakeholder and Communication Plan
  4. Highlight Reports for Governance Board.
  
- The Corporate PMO will offer support and guidance to SROs and their Programme/Project Managers
  
- The Budget 2017+ proposals have been published on our website and they are currently out for public consultation. The table below represents the proposals.

	<b>2017-18 £m</b>	<b>2018-19 £m</b>	<b>2019-20 £m</b>	<b>2020-21 £m</b>
Cross Cutting	(17.929)	(48.587)	(50.007)	(50.007)
Jobs & Skills	(3.365)	(5.365)	(5.665)	(5.665)
Homes & Neighbourhoods	(7.503)	(9.458)	(10.143)	(10.418)
Health & Wellbeing	(21.472)	(28.644)	(27.894)	(27.894)
Children	(0.324)	(2.274)	(2.558)	(2.558)
<b>Subtotal of new savings being consulted upon</b>	<b>(50.593)</b>	<b>(94.328)</b>	<b>(96.267)</b>	<b>(96.542)</b>
Total savings already included in financial plans	(27.810)	(50.535)	(75.829)	(82.072)
<b>Total Savings Requirement</b>	<b>(78.403)</b>	<b>(144.863)</b>	<b>(172.096)</b>	<b>(178.614)</b>

These budget proposals are subject to consultation and subject to further assessment as to delivery, including taking account of commentary from an Independent Financial Review Team; the proposals as a result may need to change.

**iii. Re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.**

- The draft financial strategy (subject to consultation and adoption by Cabinet and Full Council) would utilise reserves to address any budget gap in 2016/17 and provide transition funding for 2017/18 whilst maintaining an appropriate level of reserves to act as a contingency against any potential savings non-delivery in 2017/18 and 2018/19.

The Council's full response will effectively be encapsulated by the Council's ongoing work in managing the 2016/17 budget position, and the Budget 2017+ report which will go to Cabinet on 14 February and then Council on 28 February 2017.

**iv. Motion**

The Council accepts the statutory recommendation of Grant Thornton made under section 24 of the Audit and Accountability Act 2014 and the responses and actions set out in section 3 of this report.