BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 27 MARCH 2018 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

The Chairman 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 **APOLOGIES**

To receive any apologies.

3 - 6 3 **MINUTES - AUDIT COMMITTEE 30 JANUARY 2018**

To note the public part of the Minutes of the last meeting held on 30 January 2018.

7 - 8 4 **BIRMINGHAM INDEPENDENT IMPROVEMENT PANEL**

Councillor Ian Ward, Leader of Birmingham City Council and Frances Done in attendance.

9 - 58 5 **CORPORATE RISK REGISTER UPDATE**

Report of the Assistant Director, Audit & Risk Management

59 - 72 6 **BIRMINGHAM AUDIT - DEVELOPMENT OF 2018/19 INTERNAL AUDIT PLAN**

Report of Assistant Director, Audit & Risk Management

73 - 94 7 **GRANT THORNTON - EXTERNAL AUDIT PLAN**

Report of the External Auditor

95 - 114 8 **GRANT THORNTON - AUDIT PROGESS REPORT AND SECTOR UPDATE**

Report of the External Auditor

115 - 144 9 **GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT**

Report of the External Auditor

145 - 172 10 **ADOPTION OF ACCOUNTING POLICIES FOR 2017/18**

Report of the Corporate Director - Finance & Governance

11 **THE DATE OF THE NEXT MEETING**

The next Meeting is scheduled to take place on Tuesday, 19 June 2018 at 1400 hours in Committee Room 6, Council House.

12 **OTHER URGENT BUSINESS**

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

13 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

'In an urgent situation between meetings, the Chairman jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

14 **EXCLUSION OF THE PUBLIC**

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

Exempt Paragraph 3

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

15 **MINUTES - AUDIT COMMITTEE 30 JANUARY 2018 - PRIVATE**

Item Description

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

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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
30 JANUARY 2018

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 30 JANUARY 2018 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Khan in the Chair;

Councillors Jenkins, Quinnen and Robinson

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NOTICE OF RECORDING/WEBCAST

1 The Chairman advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's Internet site (www.birminghamnewsroom.com) and members of the press/public could record and take photographs. The whole of the meeting would be filmed except where there were confidential or exempt items.

APOLOGIES

2 Apologies were submitted on behalf of Councillors, Spencer, Rice, Shah and Tilsley for their inability to attend the meeting.

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

MINUTES

3 **RESOLVED**:-

That the public part of the Minutes of the last meeting held on 21 November 2017 be noted.

MATTERS ARISING

4 The Chair made reference to the last meeting dated 21 November 2017 and the concerns raised by the Committee regarding the Risk Register and the Improvement Panel.

She stated that as confirmed by the Interim Chief Executive, the Leader and the Chief Executive would be providing a formal response to the concerns raised and that they would converse with the Audit Committee at a future meeting. The Chair highlighted that this would provide an opportunity for the Committee to raise any questions and concerns that they may have.

THE LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW 2016/17

The following report of the Interim Chief Executive was submitted:-

(See document No 1)

Miranda Freeman, Senior Liaison Management Officer, introduced the report and responded to a Member's enquiry relating to two settlement cases. She detailed the complaints and the difficulties that had been encountered in settling the cases, and added that due to the nature of the cases, there was not the expectation that they would arise again.

5 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – PROGRESS REPORT

The following report of the External Auditor was submitted:-

(See document No 2)

Phil Jones, Grant Thornton, introduced the report and responded to Members' comments including an explanation regarding the use of reserves to balance the budget, and the need to ensure there was sufficient capacity with the reserves to protect against liabilities that may have to be faced in the future.

He highlighted that in moving forward, it was important that there was an appropriate balance struck between delivery and balancing the budget through savings delivery and the use of reserves.

6 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – CERTIFICATION OF CLAIMS

The following report of the Corporate Director, Finance and Governance was submitted:-

(See document No 3)

Laura Hinsley, Grant Thornton introduced the report and responded to Members' comments including an explanation on the 'real time information' (RTI) process and the types of cases that did not fall under this process which could potentially be prone to errors. She added that errors found were often through miscalculations or incorrect information fed into the system rather than time delay.

Chris Gibbs, Service Director responded to Members' comments including an explanation on the importance of claimants notifying the local authority immediately when changes of their income incurred, as this may affect their housing benefit, and could prevent overpayments being made and having to be recovered at a later stage. He added the importance of having to verify identification of all adults and their income that were in receipt of housing benefit and the need to check and re-check each time there was a change in circumstances.

He reported that housing benefit was recognised as the most complex of all welfare benefits and that all errors made had to be recognised. He referred to the inevitabilities where errors could occur, and detailed the stringent processes that were in place in order to minimise the number of errors occurring.

7 **RESOLVED**:-

That the outcome of the external audit certificate in respect of the Housing Benefit subsidy claim for 2016/17 be noted.

GROUP COMPANY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT - PUBLIC

The following report of the Corporate Director, Finance and Governance was submitted:-

(See document No 4)

Martin Stevens, Head of City Finance Accounts introduced the report and made reference to the two companies that should no longer be included within the Group Accounts, as it was considered, that the Council did not have control over the entities and had no rights over the assets of the entities.

8 **RESOLVED**:-

That the responses received to inform the audit risk be noted.

OTHER URGENT BUSINESS

9 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

10 **RESOLVED**:-

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

EXCLUSION OF THE PUBLIC

11 **RESOLVED**:-

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

Agenda Item etc	**Paragraph of Exempt Information Under Revised Schedule 12A of the Local Government Act 1972**
Group Company Governance - Informing the Audit Risk Assessment	3 and 4
Equal Pay Update	

Birmingham Independent Improvement Panel

08 March 2018

SENT VIA E-MAIL

The Rt Hon Sajid Javid MP
Secretary of State for Housing, Communities and Local Government
2 Marsham Street
London
SW1P 4DF

Dear Secretary of State,

Birmingham City Council and Birmingham Independent Improvement Panel

Significant changes are continuing to take place in Birmingham. These are set to bring fresh opportunities and some new challenges in the years ahead.

As you will know, a new Council Leader and Deputy Leader were elected in the autumn of last year. Dawn Baxendale (currently Chief Executive at Southampton City Council) has been appointed as the Council's new permanent Chief Executive and will join the Council in April. A new Assistant Chief Executive and a new Corporate Director of Finance and Governance have joined the Corporate Leadership Team. During the summer, permanent leadership appointments will be filled as existing fixed term positions near their end.

These significant leadership changes are taking place in the context of the Children's Trust being established in April following three months of running as a shadow Trust; the Council experiencing its first all-out elections in May 2018; and the number of city councillors reducing to 101, 19 fewer than at present. In addition it has been announced that Birmingham will be the host city for the Commonwealth Games 2022.

In the light of these changes and context, the Council and the Panel have reviewed our position and propose moving to a more collaborative approach. This joint letter from the Panel and the Council reflects this change.

We have started to explore how we might re-shape and strengthen our relationship. Panel members and the Panel's adviser have met with all of the Council's Cabinet members and a range of senior officers. We are working to develop a new and more productive relationship between the Cabinet, Corporate Leadership Team and the Panel.

The Council actively welcomes the challenge and constructive support provided by the Panel and intends to engage with it regularly and in an open and honest way. This will enable us to explore jointly reporting in future to you and the City about the Council's progress, planning and learning.

Our aim now will be to develop a shared understanding about the improvement priorities that the Council will focus on in the months and years ahead and to reassess and reset the baseline position. The Council has recognised that there exist significant aspects of its organisational culture that are inhibiting progress and these will be explicitly addressed to ensure that the Council is well placed to deliver its improvement priorities as effectively as possible. We intend to work together to prepare a progress report for publication in June. This will be an account of the Council's achievements and successes since the Kerslake review. But it will also be an honest account of the position in relation to significant areas where the improvements are yet to be achieved and where the Council acknowledges that more needs to be done if it is to serve its residents well on all fronts.

With support and advice from the Panel, the Council intends to publish a suite of improvement plans. Progress on delivering all of the plans and the impact of the changes they bring about will be rigorously tracked and evaluated.

The Council also recognises that it has not yet brought its day to day expenditure into line with its revenue. Balancing its revenue budget has therefore required, and continues to require, substantial draw down of the Council's reserves. This position is not sustainable and high quality strategic financial management and difficult decisions will be required to achieve financial sustainability.

We understand that if more collaborative working as proposed is to be successful, this will require all elected members and officers of the Council and the Panel to demonstrate high levels of transparency and self-awareness in evaluation and reporting.

Meanwhile, progress is continuing to be made on key priorities including the development of a new community cohesion strategy which will be consulted on soon. Local partners have also responded positively at a recent city partnership summit, contributing to a debate about a vision for the city. Partners from all quarters expressed a strong commitment to build more confident and integrated partnership working in the future. The shared goal of wishing to optimise the benefits of the Commonwealth Games 2022 is helping to bring fresh optimism and pace to local partnership working.

We will welcome any observations you may wish to provide and would like to meet with you to discuss the Council's plans for the future.

Yours sincerely

Cllr Ian Ward
Leader of Birmingham City Council

John Crabtree
Chair, Birmingham Independent Improvement Panel

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**27th March 2018**
Subject:	**Corporate Risk Register Update**
Wards Affected:	**All**

1. Purpose of Report

To update the Audit Committee with information on the management of risks and issues within the Corporate Risk Register (CRR) at Appendix A. Also provided is an Index of the risks showing previous updates and a Risk Heat Map. The information has been compiled using updates received from directorates on all risks.

2. Recommendations

That the Audit Committee reviews the information provided and decide if the risk ratings are reasonable, if action being taken is effective, or if further explanation/information is required. Approval sought for the following:-

2.1 Risk No1 (Equal Pay Claims) has been reworded and re-risked, with risk 4 and 5 amalgamated into it.

2.2 The deletion of the following risks:

- No 4 & No 5 Equal Pay (as above)
- No 14 – Insufficient in-house IT expertise within directorates & inadequate or ineffective corporate control of non-core IT spend – due to the transition from Service Birmingham
- No 19 - Delivery of the Localisation Agenda and commitments made in the Council's Improvement Plan and Leader's Policy Statement – due to the majority of work having substantially progressed.
- No.20 Allowance Payments – due to update provided.

2.3 The inclusion of the following 3 new risks:

- No 35 - GDPR Implementation by May 2018

- No 36 - Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.
- No 37 – Homeless Reduction Act – Insufficient council resources to meet the requirements of the Act fully.

2.4 Risk No.10 - Kerslake Report - has been reworded to reflect the latest letter from the Birmingham Independent Improvement Panel.

3. Background Information

3.1 Members have a key role within the risk management and internal control processes.

3.2 The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:

- providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment,

- whether there is an appropriate culture of risk management and related control throughout the Council,

- to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and

- to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

4. Corporate Risk Register Update

4.1 The CRR is aligned to the corporate objectives of the Council and identifies the key risks to be managed at a corporate level. The CRR is now categorised into sections as follows:

- Safeguarding/Welfare
- Statutory/Compliance
- Financial Resilience
- Political
- Technology
- Transformation

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

4.3 The Corporate Leadership Team (CLT) reviewed the CRR in February 2018, and have agreed to the nominated new risks and those to be deleted. They also requested that risk No.2 – Improvement Agenda for Children be fully refreshed.

5. Embedding Risk Management

5.1 There are directorate risk registers in place supported by individual risk registers for service areas.

5.2 The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet and the risk management Policy, Strategy and Methodology. Documents and web pages are being refreshed to update in terms of leadership changes from April 2018 and a replacement E-learning risk management package.

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

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

6. Legal and Resource Implications

6.1 The work carried out is within approved budgets.

7. Equality Impact Assessment Issues

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

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

8. Compliance Issues

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

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Sarah Dunlavey
Assistant Director, Audit & Risk Management

Telephone No: 675 8714
e-mail address: sarah.dunlavey@birmingham.gov.uk

INDEX OF RISKS – PREVIOUS UPDATES

Safeguarding / Welfare

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk levels in previous updates to Audit Committee				
					Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
2	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	**M/H**	**H/H**	Same	**H/H**	Same	**H/H**	Same	**H/H**
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism.	**M/S**	**S/H**	Same	**S/H**	Same	**S/H**		
33	Failure of the Council to make its contribution to deliver a step change to the Health and Social Care system resulting in an improvement to the health and well-being of Birmingham citizens.	**L/M**	**S/S**	Same	**S/S**	Same	**S/S**		

Birmingham City Council

Statutory Responsibilities / Compliance with Statutory Responsibilities

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk levels in previous updates to Audit Committee				
					Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
1	Management of equal pay claims.	**M/S**	**S/S**	Reduced	**H/H**	Same	**H/H**	Same	**H/H**
26	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.	**M/S**	**H/H**	Same	**H/H**	Same	**H/H**	Same	**H/H**
31	Increased pressure on the statutory homeless service in regards to volume of customers.	**M/M**	**H/H**	Same	**H/H**	Same	**H/H**	Same	**H/H**
4	Defend and settle pre 2008 equal pay claims.	**L/H**	Nominated for Deletion	N/A	**S/H**	Same	**S/H**	Same	**S/H**
5	Risk of Further equal pay claims.	**M/H**	Nominated for Deletion	N/A	**S/H**	Same	**S/H**	Same	**S/H**
34	Risk of fines being passed down to Local Authorities in relation to air quality / ongoing fines related to not meeting air quality compliance.	**M/L**	**H/M**	Same	**H/M**	Same	**H/M**	Same	
12	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	**M/S**	**M/S**	Same	**M/S**	Same	**M/S**	Same	**M/S**

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk levels in previous updates to Audit Committee				
					Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
25	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council.	**M/S**	**M/S**	Same	**M/S**	Reduced	**M/H**	Same	**M/H**
11	a) Risk to individual privacy through the loss of significant personal or other sensitive data. b) Risk of fines from the information commissioner	**L/H**	**L/H**	Same	**L/H**	Reduced	**M/S**	Same	**M/S**
35	Risk of failure to implement GDPR Implementation by May 2018.	**M/M**	**H/H**	New risk					
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known.	**L/L**	**L/M**	New risk					
37	Homeless Reduction Act – Insufficient council resources to meet the requirements of the Act fully.	**M/H**	**M/H**	New risk					

Birmingham City Council

Financial Resilience

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk level in previous updates to Audit Committee				
					Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
3	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability for essential management of the LA schools estate.	**M/S**	**H/S**	Same	**H/S**	Same	**H/S**	Same	**H/S**
6	Failure to achieve all of the services required including delivery of significant investment into the Highway network within the first five years of the contract.	**L/S**	**H/S**	Same	**H/S**	Same	**H/S**	Same	**H/S**
29	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget.	**L/S**	**S/S**	Same	**S/S**	Increased	**M/S**	Same	**M/S**
15	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	**M/L**	**S/M**	Same	**S/M**	Same	**S/M**	Same	**S/M**

Political

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk levels in previous updates to Audit Committee Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
19	Failure to deliver the Council's localisation agenda and commitments made in the Council's improvement Plan and Leader's Policy Statement.	L/M	Nominated for Deletion	N/A	L/M	Same	L/M	Same	L/M

Technology

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk levels in previous updates to Audit Committee Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
16	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	L/M	S/M	Same	S/M	Same	S/M	Same	S/M
14	Insufficient in-house IT expertise within directorates and inadequate or ineffective corporate control of non-core IT spending.	L/S	Nominated for deletion	N/A	M/S	Same	M/S	Same	M/S
17	Ineffective Corporate Risk Marker IT solution.	L/M	L/M	Same	L/M	Same	L/M	Reduced	L/S

Transformation

Risk No.	Short Description	Target rating Likelihood / Impact March 2018	Actual Risk rating Likelihood / Impact March 2018	Change in residual risk 03/18	Actual risk levels in previous updates to Audit Committee				
					Nov 2017	Change in residual risk	July 2017	Change in residual risk	March 2017
7	Lack of capacity and capability to respond to employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.	**L/M**	**S/S**	Same	**S/S**	Same	**S/S**	Increased	**H/S**
10	Not building on the recently agreed collaborative approach with the Improvement Panel to deliver change following the Kerslake Report	**L/S**	**M/S**	Same	**M/S**	Same	**M/S**	Same	**M/S**
18	Failure to adequately evaluate the costs and benefits of alternative delivery models. Failure to fully implement the decisions made to change policy and service delivery.	**M/M**	**M/M**	Same	**M/M**	Same	**M/M**	Same	**M/M**
20	Allowance payments.	**M/M**	Nominated for Deletion	N/A	**M/M**	Same	**M/M**	Same	**M/M**

Birmingham City Council

Risk Map – March 2018

Likelihood \ Impact	Low	Medium	Significant	High
High	Loss of personal/ sensitive data (R11)		Responding to emergency incidents including acts of terrorism (R32) Defend/settle pre 2008 equal pay claims (R4) Further equal pay claims (R5)	Not responding to improvement agenda/improving children's safeguarding (R2) Defend/settle post 2008 equal pay claims (R1) Compliance re Counter Terrorism & Security Act and Prevent Duty (R26) Financial pressures re statutory homeless service (R31)
Significant		Insufficient IT expertise/lack of control of non-core IT spend (R14) Responding to Kerslake Report (R10) Compliance to Equality Act 2010 & PSED (R12)	Failure of STP to deliver change/improve health & wellbeing (R33) Employee relations/sickness absence levels (R7) Setting/containing net expenditure within approved budget (R29)	Highways PFI – Core Investment deliverables (R6) Alternative funding for schools PFI contracts/maintenance of schools estate (R3)
Medium	Ineffective Corporate Risk Marker IT solution (R17) Delivery of Localisation Agenda (R19)	Evaluation of service deliver options (R18) Allowances payments (R20) Compliance to timescales for DoLS referrals (R25)	Not divesting of property assets (R15) Malicious attacks of web based services (R16)	Risk of fines re air quality (R34)
Low				

Key

Severe	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved.
Material	Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained
Tolerable	Regular review, low cost control improvements sought if possible.

Birmingham City Council

Index by Risk / Issue Number

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No	Short Description of Risk / Issue	Page
20 Nominate to delete	Allowance payments	34

Key:

- Safeguarding / Welfare
- Statutory Responsibilities / Compliance with Statutory Responsibilities
- Financial Resilience - Risk associated with austerity and the financial challenges facing BCC
- Political - Risks driven by the political agenda
- Technology
- Transformation

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
2	Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care. Lead: Corporate Director Children & Young People Owner: Alastair Gibbons	High / High	**Lead Director comment** The Council's key step to deliver improvement was the decision to set up an operationally independent Children's Trust to deliver its social care services for children, young people and families. The Trust is set to 'go live' in April 2018 and its board, chaired by Andrew Christie, and its key staff are in post to enable the transition to happen smoothly and effectively. The service is subject to regular Monitoring Visits by Ofsted. Positive progress was observed in the September and December visits. Further visits are scheduled for March, May and August, after which a full inspection is anticipated. The DfE-appointed Commissioner for Children's Care continues to support and challenge the Council and the Trust to maintain improvement, reporting progress to the DfE. Operationally, the 'front door' is working well, and the workforce is more stable, with reducing reliance on agency SWs and managers Essex CC continues to support practice improvement A LGA peer review of CSE services in Birmingham undertaken in November 2017. Recommendations being taken forward by children's partners through the BSCB	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** April 2018. **Source(s) of assurance regarding progress with mitigating the risk:** These include: • Management assurance, performance management and Practice Evaluation • Peer review • Ofsted visits • Scrutiny Committee monitoring • Quartet Meetings (Children's Improvement Programme Board) • Essex improvement support. The refreshed improvement plan, with the necessary investment is being delivered. Trust Board in place to oversee improvement Service Delivery Contract being finalised detailing all aspects of the Trust's relationship with the Council The outdated Care First system is being replaced. Eclipse has been procured; project plan in place for implementation, with go-live scheduled for July 18	O&S - Schools, Children and Families O&S Cttee: The following discussions, reviews and updates have taken place:- Children Missing from Home and Care on 12/10/16 and April 2017. Children missing from education on 12/1016 and 24/8/17. Safeguarding Improvement Plan at the informal July 2016 meeting. Ofsted visit and improvements to MASH / CASS -12/7/16. Cabinet Member questioned on improvements in July 17. Discussion on the Voluntary Children's Trust - July and September 2016 Scrutinised plans going to Cabinet. - 23rd January 2017 The Inquiry into Corporate Parenting was undertaken to improve the Cllrs role as Corporate Parents for Children in Care. This was agreed at Council on 4th April 2017

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
				Cabinet in January 2017 agreed moving to a shadow Children's Trust from April 2018. Cabinet in July 2017 agreed staff would be TUPE'd to the Trust and which staff groups would move; numbers of staff, overall budget and savings to be delivered in year.	Continued with scrutinising the progress with the improvement journey at the July 2017 committee meeting with the Cabinet member and Corporate Director. A number of briefings and updates on the Children's Trust (11 July 17 briefing, 13th September 2017 item at committee meeting and 22nd November 2017 workshop). In addition the committee have continued to scrutinise arrangements for children missing from home and care and Child Sexual Exploitation (18th October 2017). IA Reviews 2016/17: Child Protection Case Conference - Engagement, Dealing with Excluded Pupils, Children Missing From Education, Effective Social Working with Families, Carefirst, Sexual Health Contract - Identification of Child Sexual Exploitation, Personal Education Plans F/Up, IS Management (iCare Application).

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
					IA Review 2017/18: Carefirst, Direct Payment Workflow, Direct Payments Interim Report, Children With Disabilities Interim Report, Pathways over 18 Care Leavers to Employment, Disabled Children's Social Care.
32	Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism. Lead: Interim Chief Executive Owner: Jacqui Kennedy	Significant / High	**Lead Director comment** Project Argus briefing to CLT undertaken during summer 2017. Major incident exercise (Assured) November 2017. Protect and prepare meetings programmed quarterly for 2017. Action tracker in place. Corporate and LRF emergency plans in place. Working with LRF partners on exercising 24/7 out of hours emergency duty officer service in place including emergency control room. Security awareness briefings held with Council House Staff and elected members. Work progressing with Prevent Community Reference Group to incorporate community responses into wider resilience plans	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Cooperation with WMP CTU on their proposed Birmingham Protect and Prepare Board. Meeting to discuss this and wider issues 14th July 2017. Consolidate BCC and WMP P&P Processes	O&S - None. IA Review - None.

Safeguarding / Welfare					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
33	Failure of the STP to deliver a step change to the Health and Social Care system resulting in an improvement to the health and well-being of Birmingham citizens. Lead: Interim Corporate Director Adults Social Care & Health Owner: Graeme Betts	Significant / Significant	**Lead Director comment** The leadership of the STP has changed. The STP board has agreed a revised purpose which will mitigate this risk. However, the scale of the challenge including meaningful public and staff engagement will mean this process will not be fast. Additionally there are "task" requirements of NHSE which may deflect attention this year. The STP "purpose" is evolving under new leadership. A draft vision and values has been developed and under consideration by the STP Board.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** March 2019. **Source(s) of assurance regarding progress with mitigating the risk:** STP board which is represented by the Leader / Cllr Hamilton, CEO and Graeme Betts.	O&S - Health & Social Care O&S Committee have had regular updates on the STP both in main committee and Joint Birmingham / Solihull Health Scrutiny Committee. On 27th September 2016, Cllr Hamilton and Peter Hay attended HOSC to give an update. Cllr Hamilton highlighted concerns. In response to this the System Lead (Mark Rogers) and Workstream Leads (Dame Julie Moore, Sarah-Jane Marsh, John Short and Les Williams) attended committee on 25th October 2016. On 6th December 2016, a report on the current position regarding the STP was presented to City Council. A further update was presented by Piali Das Gupta on 21st February 2017. In addition, on 8th March 2017, Andrew McKirgan, who was then the Director BSol STP and Judith

Safeguarding / Welfare					
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					Davis, Programme Director, Better Care Fund attended Birmingham / Solihull JHOSC to present a progress report. The new BSOL STP lead Dame Julie Moore, Andrew McKirgan, Director of Partnerships UHB and Graeme Betts attended the 21st November HOSC to update Members. IA Review - None.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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1	Management of Equal Pay Claims Lead: Interim Chief Finance Officer Owner: Kate Charlton	Significant / Significant	**Lead Director comment** Since 2007 to date a significant number of claims have been issued against the Council. The predominance of these claims relate to liability pre implementation of single status, which took place in 2008 and also liability post implementation of single status. The time limit for issuing further claims for both these types of claims has now expired. The Council has also received claims for post implementation of the Birmingham Contract (November 2011); some with limited pleadings.. The recent industrial action in waste management (July – November 2017) has increased the profile of Equal Pay. There remain considerable unknowns as to how many further claims might be brought and what risk or level of liability these claims might attract. Significant progress has been made in terms of defending equal pay claims and managing settlement negotiations, where approved by the Council. The settlement strategy is based on level of assessed risks in relation to the likely success of claims through the tribunal/court process and the availability of financial resources. The validity of all equal pay claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge before any offer to settle is made.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review. With a view to preventing any discriminatory working practices, robust review of processes and checks and balances to mitigate against / prevent further liability where evidence of potential risk(s) is known / identified.	O&S - None. IA - Payroll review work undertaken annually.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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26	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty. Lead: Corporate Director, Place Owner: Jacqui Kennedy	High / High	**Lead Director comment** The threat and vulnerability risk assessment of a terrorist attack in the UK places Birmingham as the most vulnerable city after London. In 2015 the Council and partners reviewed its infrastructure around this risk to take into account the Counter-Terrorism and Security Act 2015, that includes a duty on certain bodies ('specified authorities' listed in Schedule 6 to the Act), in the exercise of their functions to have 'due regard to the need to prevent people from being drawn into terrorism'. The duty does not confer new functions on any specified authority. The term 'due regard' means that the authorities should place an appropriate amount of weight on the need to prevent people being drawn into terrorism when they consider all the other factors relevant to how they carry out their usual functions. The Council has applied a partnership and mainstreaming approach to mitigate the risks associated with the threat. Governance for the Prevent programme has been strengthened with the Prevent coordinator now reporting directly to the Strategic Director and Assistant Chief Executive increasing visibility across the Council.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** Ongoing **Source(s) of assurance regarding progress with mitigating the risk:** Delivery continues to be monitored by the CONTEST Board Chaired by the Deputy Leader. Prevent Delivery Plan in place driven by Counter Terrorism Local Profile, monitored by the Prevent Executive Board, chaired by Jacqui Kennedy. Security briefings to Council House staff & Members. Training for front line staff moved to a 'train the trainer' model - 600 trainers having been trained to deliver future WRAP awareness training to schools alleviating capacity issues within the local authority. Support continues to be provided to schools around Prevent via the Schools Resilience Officer and officer has been recruited. Prevent is embedded within CASS/MASH arrangements and within the Right Services, Right Time safeguarding procedures. A new screening tool has been developed to support the request for	O&S - Waqar Ahmed, Prevent Manager reported to Scrutiny on 26th April 2017 alongside Chief Social Worker Tony Stanley to discuss safeguarding arrangements for Prevent and radicalisation. IA Review 2016/17: Work undertaken during quarters 1&2. Birmingham contributing to the Home Office Audit on national Prevent activity.

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				support form and has been circulated to front line practitioners. CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; and chaired by the DWPs Think Family Lead. Community initiatives in place commissioned by the Home Officer to provide community solutions and are regarded by the Home Office as national best practice with scaling up plans initiated to extend into other regional areas. Funding for a second community engagement worker has been secured, a secondment arrangement with the youth service is being agreed. BCC Resilience Team continues to lead on the Prepare and Protect strand of the counter-terrorism strategy. CTLP for 2018 delivered to the Chief Executive in January 2018 and the Prevent Executive Board in early February.	
31	Increased pressure on the statutory homeless service in regards to volume of customers, which leads to significant financial pressure on the general fund due to increased use of B&B.	High / High	Although the service was forecast to be overspent by over £4.7 million in 2016/17, the final outturn was £2.6 million. To mitigate the financial pressure on the service, several management interventions have been put in place. These include a report to Cabinet in August 2017 to increase the number of homeless centres owned and managed by Birmingham City Council.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with**	O&S -The Housing and Homes O&S Committee inquiry into rough sleeping was presented to City Council in June 2017, and progress on implementation of the recommendations was

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	Lead: Corporate Director, Place Owner: Rob James		Properties are to be refurbished for use as temporary accommodation, which avoids use of Bed and Breakfast (the most expensive). The report sets out: • Proposals for the creation of two additional homeless centres for use as temporary accommodation as part of the Council's statutory duty to provide temporary accommodation; and • The approach and procurement strategy for the refurbishment of two Council owned properties for use as temporary accommodation. In addition, a homeless prevention strategy is currently being consulted on, which aims to prevent people becoming homeless and assisting in sustaining tenancies. The strategy is to be reported to Cabinet in January 2018 and to full Council in February 2018. The Homeless Reduction Act is due to come into force in 2018, which will place additional burdens on the City to prevent homelessness and reduce the use of temporary accommodation. We are currently working with the Department of Communities and Local Government to produce an implementation plan for the City. As of 22 January 2018 Preparatory works remain ongoing at both locations. Tentative timeline has been provided by Acivico for Magnolia House and briefed to the Service Director. Acivico has	**mitigating the risk:** Management assurance - regular reporting to Cabinet Member, monthly meetings with finance, discussions at Housing DMT, 1to1s with Head of Service. Reduce known risks at fortnightly meetings with all partners and manage risk to reduce these through pro-active work	tracked for the first time by the committee at its December 2017 meeting. The Committee will continue to track this until all recommendations are achieved and a further report back is scheduled for February 2018. It is also proposed that at the same meeting the Committee be briefed on the implementation of the Homelessness Reduction Act. Members received an update on the implementation of the new Housing Allocations Scheme at their October 2017 meeting. The Committee has also held an informal meeting to consider the Budget Consultation 2018+ where Members were able to question the Cabinet Member about the proposal to make savings by providing other less costly accommodation options instead of using Bed & Breakfasts. IA Review 2017/18: Allocations.

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			been asked to reconsider this timeline and to bring occupancy dates forward. Risk is being managed by Acivico and the Service at fortnightly meetings. Costs as of 9 January 2018 were on budget. Work continues at Barry Jackson to remove asbestos and prepare the site for refurbishments works to begin this financial year. A detailed timeline will be provided 12 January 2018. Risk is being managed by Capital Investment Team, the Service and contractors at fortnightly meetings. There is considerable pressure from and opposition to the proposal from the local community. A plan has been agreed to address concerns however the risk remains very high that this project may be withdrawn as a result of community activity and pressure. Costs have exceeded agreed budget as a result of additional capital works agreed. The requirement to install sprinklers at both locations, further to the Leaders commitment, will push the full occupancy dates back to yet to be confirmed dates. Targeting of readily available void dwellings suitable for re-housing homeless households and for use as temporary accommodation has been increased to help reduce B&B use.		
4	Failure to successfully defend and / or settle pre 2008 equal pay claims. Lead: Interim Chief Finance Officer	Significant / High	**Lead Director comment** In 2010, the Tribunal determined that the Council had no defence to pre 2008 equal pay claims (Barker v Birmingham City Council). C12,000 early claims without the involvement of solicitors have been settled including a further cohort as part of	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with**	See risk SR01 above.

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	Owner: Kate Charlton Nominated for Deletion		settlement agreements reached in 2011 and 2013. Claims issued since January 2015 are now out of time and are not valid claims. The Council is succeeding in striking out these out of time claims. The validity of claims is constantly challenged by Legal Services. Each claim before any offer to settle is made is subject to robust legal challenge. Any offer of settlement is subject to available financial resources.	**mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review.	
5	Risk of further equal pay claims. Lead: Interim Chief Finance Officer Owner: Kate Charlton Nominated for Deletion	Significant / High	**Lead Director comment** Claimant solicitors are continually 'fishing' for further equal pay liability by issuing further equal pay claims in addition to those referred to in risks 01 and 04. The validity of these types of claims is, and will be subject to robust legal challenge. At the moment, there is no determination as to liability or attainment as to target risk due to the nature of the challenge.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** Not known at current date. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review. With a view to preventing discriminatory working practices, robust review processes and checks and balances have been put in place to mitigate against / prevent further liability post 2011; where evidence of potential risk(s) is known / identified.	See risk SR01 above.
34	With uncertainty on the UK air quality action plan following challenges through the judicial	High / Medium	**Lead Director comment** Weekly teleconference meetings with DEFRA's Joint Air Quality	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk**	O&S - The Health & Social Care O&S Committee have carried out an inquiry into 'The Impact of

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	system and the costs associated with the Government announcing infraction fines being passed down to Local Authorities in relation to air quality there is the potential of an initial £60m fine and then ongoing fines related to Birmingham not meeting air quality compliance. Lead: Interim Corporate Director Adults Social Care & Health Owner: Adrian Phillips		Unit to update mitigation plans. Monthly Air Quality Members Steering Group to provide strategic direction for wider Air Quality Programme including deployment of Clean Air Zone. Feasibility studies to measure air quality impact and assess measures and controls to meet compliance, including level of Clean Air Zone to be deployed. Development of overarching clean air policy for Birmingham for 2018. Positive engagement with WMCA. The Council has been issued with ministerial directions under the Environment Act (1995) to complete key milestones to be compliant for roadside NO_2 by 2020	**rating:** April 2019. **Source(s) of assurance regarding progress with mitigating the risk:** Wider Air Quality Plan that includes: • Traffic management, signalling and signage controls - 12/2018. • Controlled Parking Zones - 12/2018. • BCC Internal & External Fleet transition to low / zero emission full Low / zero re-fuelling infrastructure - 04/2019. • Clean Air Zone strategic business case signed off by Secretary of State by 12/2017 to enable CAZ infrastructure for access restrictions deployed by 04/2019. • Revised Birmingham Taxi Licensing Policy based on air quality compliance emissions - 12/2018. • All BCC procurement frameworks and tendering processes aligned with CAZ compliance -12/2018.	Poor Air Quality on Health'. Evidence gathering took place on 17th January 2017 and 28th March 2017. Witnesses included:- • Public Health England • Friends of the Earth • Birmingham Trees for Life • Transport for West Midlands • Birmingham Children's Hospital • Network Rail The final report was presented to City Council for ratification on 12th September 2017. Further reports tracking the implementation of recommendations will be presented to HOSC on a regular basis beginning in January 2018 with progress report from Cllr Trickett on behalf of the Air Quality Members Steering Group IA Review - None.

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12	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty. Lead: Corporate Director, Place Owner: Jacqui Kennedy	Medium / Significant	**Lead Director comment** The Public Sector Equality Duty (PSED) was created by the Equality Act 2010 and is set out in section 149. It applies to public bodies, such as local authorities listed in Schedule 19 to the Act, and to other organisations when they are carrying out public functions. The PSED contains specific duties (Specific Duties Regulations 2011) which are an important lever for ensuring that public bodies take account of equality when conducting their day-to-day work. When delivering their services and performing their functions, bodies subject to the PSED must have due regard to the need to: • Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act. • Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it. • Foster good relations between people who share a relevant protected characteristic and those who do not share it. Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. All EA are subject to audit by Quality Control Officers and Senior	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk initiatives. • Process of Legal sign off on Cabinet Reports. Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process	O&S - Corporate Resources and Governance O&S Committee to have briefing on HR matters including workforce equality on 2nd November 2017. IA Review - None.

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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			Officers who sign off the completed EA through the Equality Analysis Toolkit in Black Radley. This supports the equalities agenda and compliance to legislation. They should ensure that the EAs produced by the service are capturing evidence of ongoing compliance. Legal Services are advising on high risk EAs and check compliance through the cabinet report clearance system. Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this guidance should help improve the content and standard of EAs submitted for approval. All budget planning paperwork requires equality assessments to be completed at an early stage and throughout. The Equality Analysis Toolkit is available to Directorates to undertake EAs for all new Policies and Procedures, and the EA process includes a quality assurance check alongside a senior officer level sign off and assurance of each EA. Advice and support on completion of the EA is provided by Equality Champions and Legal Services where appropriate. Guidance on undertaking consultation has been updated and integrated within the toolkit. Over 700 staff ranging from GR5 through to JNC have been trained on the EA Toolkit and on undertaking an EA. Corporate consultation and EAs have been undertaken on all relevant corporate savings. Directorates will continue to undertake consultation and EAs for individual initiatives where	and on line guidance to completing an EA and developing an action plan. The online toolkit provides an overview of all EAs undertaken on the system. Project managers are encouraged to take legal advice on high risk initiatives.	

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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			appropriate. This process is overseen by the Directorate Equality Champions. Directorate DMTs will monitor progress on the EAs alongside other performance related issues which are then reported to the CLT Performance Board. A robust approach exists for savings proposals. Corporate Consultation, EAs and all associated consultation are aligned, with emphasis on feedback from the protected groups. In line with the Specific Duties Regulations 2011, the Council must annually publish information relating to (a) people who are affected by our policies and practices who share protected characteristics; and (b) our employees who share protected characteristics. The Regulations also require us to set equality objectives every 4 years. In 2014 the Council published high-level actions identified to deliver the Council's business plan and achieve the Council's vision. In March 2016 the Council approved its vision, priorities and approach set out in the Council Business Plan. This will be reviewed as part of programme for the Council of the Future.		
25	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council. Lead: Interim Corporate Director, Adult Social Care & Health	Medium / Significant	**Lead Director comment** This risk is made of 2 components: **1) DOLS in Care Homes and Hospitals -** DOLS strategy was reviewed in July. ASC&H DLT and the Cabinet Member subsequently adopted the recommendation to adopt an alternative view of the balance of litigation risks v financial risks in this area. In line with the approach taken by the majority of West Midland Local Authorities, it will in future	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** A monthly position report is presented to the Directorate DOLS Project Board. A bi-monthly	O&S - None. IA Review 2016/17: Deprivation of Liberty Standards F/Up. IA Review 2017/18: Deprivation of Liberty 2nd F/Up.

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	Owner: Tapshum Pattni		only undertake DOLS assessments for those adults who meet the ADASS "High" critieria. The significantly enlarged Best Interest Assessor (BIA) team, with increased management and administrative support will remain but expenditure on the external BIA service has ceased. The effect is anticipated to be a reduction in the number of DOLS authorisations, but an increase of those of "High" priority (and existing cases due for renewal) being completed within the legal time limit. The overall position of the number of cases which have not been assessed will steadily increase, but this will be viewed as a lower risk to the Council than previously. **2)** **Community DOLS -** A business process, staff procedure, manager prioritisation guidance and staff training have been established, in conjunction with legal Services, and are now in use. This level of activity seems to be in line with that of **3)** other local authority areas. There has been no change since the last report so there is no update to report. The position remains as previously reported. The Target Risk Rating was achieved in September 2017 and now remains static.	report is presented to the Cabinet Member.	
11	That the loss of significant personal or other sensitive data may put the City Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the	Low / High	**Lead Director comment** Current controls based on encryption of data on mobile devices or copied to removable media; and programme of staff education and training.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:**	O&S - None. IA Reviews 2016/17: Sophos Post Implementation Review, N3 Network, IG - Fostering &

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	Information Commissioner. Lead: Chief Operating Officer Strategic Services Owner: Malkiat Thiarai		Breach management processes have been established with clear lines of responsibility to the Senior Information Risk Owner (SIRO), and the Monitoring Officer. Known data breaches are discussed at the Breach Management Panel and reports and recommendations are presented to the Monitoring Officer for consideration to notify the Information Commissioner's Office. Egress has been deployed and is operational. The e-learning Information Governance modules were launched in October 2016 following approval by the SIRO.	The e-Learning modules have been rolled out to all staff that have access to e-mail. Training uptake as at 30th September 2017 was approximately 58% across the Council. A report is being taken to CLT to discuss next steps. Further controls on assuring that suppliers and partners impose similar controls on Council data in their possession. There is a risk that the low level take up of Information Governance training in the Council will create an information breach across the council CLT support to improve take-up. Consider possible sanctions. Update: 090118: Report being presented to IAB on 10.1.18 to highlight performance and discuss approaches to improving take-up going forward as part of GDPR. Updated Target Closure Date: Apr-18	Adoption F/Up, Third Party Service Provision F/Up, Network Management and Data Quality - DfE Returns. IA Reviews 2017/18: Data Sharing, Third Party Service Provision, Information Assurance Framework, and IG - Planning Application Compliance with DP Guidelines.
35	General Data Protection Regulation Implementation - There is a risk of that our GDPR plan does not enable the authority to meet its obligations ready for	High/High	**Lead Manager's comment** GDPR materials being prepared by CIM and Legal; Legal Services seeking to appoint additional legal support	**Target risk rating:** Medium / medium **Anticipated date of attainment of the target risk rating:** May 2018 **Source(s) of assurance regarding progress with**	O&S – None Internal Audit reviews – 2017/18. A readiness assessment completed which included a high-

Statutory Responsibilities / Compliance with Statutory Responsibilities					
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	the May 2018 implementation date Lead: AD Peter Bishop Strategic Services Owner: Malkiat Thiarai Escalation of risk from Directorate Risk Register		GDPR is being recommended be included on the Corporate Risk Register because of the related new legislation, implementation date of May 2018 and the penalties involved for non-compliance.	**mitigating the risk:** KPMG have been commissioned to conduct a gap analysis to high risk areas for the Council. Feedback on 15.12.17 Head of CIM chairs GDPR project board that is taking forward current known actions. Target Closure date May 18	level action plan to assist the project focus on key deliverables.
36	Failure to respond positively and effectively to the required outcomes of the Grenfell Tower enquiry once known. Lead: Corporate Director, Place Owner: Rob James	Low/ Medium	Project plan produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures. • Programme to fit Sprinkler systems to 213 high rise blocks over a 3 year period starting 1/4/18 • Programme to carry out fire risk assessments to all communal areas annually Programme of work underway to ensure tower block tenants understand fire safety measures and how to respond in the event of an emergency, including: • Fire safety campaign – completion April 2018	**Target risk rating:** Low/Low **Anticipated date of attainment of the target risk rating:** 2019/20 financial year. **Source(s) of assurance regarding progress with mitigating the risk:** Housing/West Midlands Fire Service	O&S - None. IA Review – Proactive work to produce a fire risk index

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			• Fire awareness visits – completion autumn 2018 Other actions include:- a) Resilience processes review – completion autumn 2018 b) Night security service expansion c) Vulnerable persons review – completion autumn 2018 Approached Government for grant funding for the installation of sprinkler systems		
37	Homeless Reduction Act – Insufficient council resources to meet the requirements of the Act fully. Lead Corporate Director, Place Owner: Rob James	Medium/ High	Implementation Plan to ensure compliance has been produced and consists of the following key work streams; • Redesign the Housing Option Service • Awareness and Training (Staff, Trade Unions and Elected Members) • IT systems to be developed with Councils IT Fixture providers. • Accommodation, additional accommodation for staff, communication plan being produced. • Temporary Accommodation Services will require a complete review to reduce the Council's reliance on temporary accommodation moving to preventative measures. Report presented to EMT on 23rd January	**Target risk rating:** Medium/High **Anticipated date of attainment of the target risk rating**: April 2018 for initial implementation but further work over the next 12 months. **Source(s) of assurance regarding progress with mitigating the risk:** MHCLG	O&S: Information briefing will follow Cabinet decision. Audit: 2017/18 Housing Options Service

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			2018. • Cabinet Report proposed – February/March 2018 Ministry of Housing Communities & Local Government (MHCLG) are invited for a two day visit to assess operational plans and preparedness for implementation feedback due by the 12th February 2018.		

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
3	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate. Lead: Interim Chief Finance Officer Owner: Jaswinder Didially	High / Significant	**Lead Director comment** Major review of PFI contract management arrangements underway following Local Partnerships pilot project. External consultants are engaged and a Lead Officer allocated to fully explore all opportunities to reduce PFI costs. Proposals are being brought forward and while the project more than pays for itself, there are limited opportunities to impact on the major £6m annual affordability gap. The savings proposal, being implemented to meet the current PFI affordability gap from within the funds available to invest in the maintenance of the estate, has not yet impacted on the funding available for emergency repairs. However, there are significant risks of funding shortfall into 2017/18, due to the diminishing annual maintenance grant funds available, particularly as more schools convert to academy status. The current risk rating relates to the PFI affordability gap and subsequent impact on availability of funding to address backlog maintenance across the schools' estate. The opportunities to reduce the PFI costs are limited, and this therefore remains a high risk in terms of management of the education infrastructure and potential impact of asset failure. There is a very substantial Schools Capital Programme in delivery that includes basic need and planned maintenance programmes, with further emergency maintenance projects emerging regularly. Mitigations include:	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** December 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management reporting on PFI savings. Oversight and monitoring of temporary school closures due to asset failure. A report was submitted to the March 2016 Audit Committee meeting outlining some of the initiatives being pursued to reduce the gap and a subsequent report has been considered at Cabinet (20th September 2016), detailing savings associated with the Broadway lifecycle arrangements. Savings associated with the Broadway life cycling arrangements achieved - £1.6m for 2017/18 as a one off payment followed by £330k pa for the duration of the contract. Outcomes of the benchmarking exercise which were implemented in December 2016 - a total net saving of £545,000 per annum for 5 years will be	O&S - None. IA Review - None.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			• Schools capital maintenance programme is successfully levering school spend on essential repairs and maintenance through a dual funding strategy. • Dedicated resource is focusing on maximum savings against current PFI contracts. Current restructure includes specialist resource to implement savings initiative including a review of Facilities Management and life cycling arrangements	achieved. Cabinet report 24th Jan 2018 with a proposal to review current facilities management arrangements. - The report was approved so the proposal to terminate the Facilities Management from the 7 Building Schools For the Future Design and Build (not to be confused with the PFI) schools contract. Restructure to be completed by March 2018	
6	The business case for the Highway Maintenance and Management PFI including delivery of significant investment into the highway network within the first five years of the contract (the Core Investment Period). Risk of failure to achieve all of the services required within the Core Investment Period Lead: Corporate Director, Economy	High / Significant	**Lead Director comment** The council has sought to resolve this issue informally and under various stages of the contractual Dispute Resolution procedure since April 2014. A High Court judgment in September 2016 ruled that the adjudication (which had been in the council's favour) "was wrong", but did not grant the declarations sought by the Service Provider. The Council, has been granted unconditional leave to appeal that decision. To fully resolve this dispute another related dispute will also need to be resolved and the way forward on this is also being considered. The options for an alternative resolution to these disputes (in conjunction with other disputes) continue to be considered. Cabinet authorised an interim agreement in July 2017 to enable this consideration to continue. In December 2017 Cabinet	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** The date of the appeal hearing was 30 January 2018. A judgment is expected one to two months later, but is dependent on the Court. Resolution of the further dispute is not yet known but is likely to take many months. The council remains open to discussion towards a full agreement meeting the council's requirements before the appeal judgement is issued.	O&S - Economy, Skills and Transport OSC discussed with Cabinet Member at Committee on 22nd September 2016. A private session subsequently took place on 3rd November 2016. A further briefing for Members will be scheduled during 2017 subject to the outcome of the appeal. IA Review 2016/17: Highways PFI.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			authorised an acceptable basis for settlement as part of a full agreement. The interim agreement expired on 31 December 2017 and it has not yet been possible to reach a full agreement on a basis which is acceptable to the council.	**Source(s) of assurance regarding progress with mitigating the risk:** External legal advice and representation has been engaged. Cabinet has approved the basis on which an acceptable settlement can be reached in December 2017. Department for Transport (as the sponsoring government department) is also fully engaged.	
29	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget Lead: Corporate Director Finance and Governance. Owner: Steve Powell	Significant / Significant	**Lead Director comment** • Delivery of the budget and savings programme is being closely monitored, by CLT and the Budget Board to review delivery and to identify mitigating actions. This includes the future years' dimension as well as the in-year position • Corporate Directors have clear accountability for the delivery of savings in their directorates. • The Council holds reserves which can be used as part of a risk management strategy to support the implementation of the budget if necessary. • The Council's LTFP is refreshed regularly to take account of latest information, including savings delivery issues. Plans for 2018/19 and later years have been revised accordingly. • Proposals have been subject to corporate public	**Target risk rating*:*** Low / Significant **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Planned activities to further mitigate this risk: • There is close monitoring of the delivery of the Budget and additional governance arrangements have been introduced. • The Council has a risk management strategy to address issues relating to difficulties in the delivery of the savings programme. • There is a clear focus on the development of robust consultation and implementation plans for all savings. There is focus on the project management of	O&S - The Corporate Resources and Governance O&S Committee have set up a Finance Sub-Committee to scrutinise budget matters with the Deputy Leader. O&S Update: Each Scrutiny Committee considered aspects of the budget relevant to their remits (December 2017 to January 2018) and findings will be fed back as part of the budget consultation process. IA Review 2017/18: Financial

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			consultation, in the period December 2017 – January 2018 and more specific engagement and consultation will also take place where appropriate.	the savings programme. The Council maintains a medium term perspective in its financial plans - spending, savings and resources.	Control Review.
15	Risk of not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery; driving out property for disposal, but beyond capital receipt generation, ultimately solutions should deliver innovative and appropriate reductions in future revenue operating costs. Lead: Corporate Director, Economy Owner: Alex Grey No Update required	Significant / Medium	**Lead Director comment** Risk mitigated by: • The Future Council Programme and proposals put out to public consultation, have the potential to drive commitment to property rationalisation, as part of the contributions to future years cost reductions. • To assist with property rationalisation alongside future service planning and development programmes, a Property Services Business Partner role has been established with the Place Directorate. • The Corporate Landlord Service has continued to deliver the facilitation of delivery of further organisation changes. • Accommodation changes across Directorates continue to be dealt with and delivered. • Continued development of the corporate property database (Techforge) - information and systems development	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** April 2018. Ongoing and subject to potentially, significant change driven by BCC corporate business plan (this is currently “continuously changing in the short term”). **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance.	O&S - None. IA Review - None.

Financial Resilience - Risks associated with austerity and the financial challenges facing BCC					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			continues to progress as planned and the additional functionality is being applied in the management of repairs and maintenance costs, provision of information and analysis to inform strategic decision making, etc. • The 'Smarter Working' project is intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will potentially be further rationalisation of the Central Administration Buildings portfolio.		

Political - Risks driven by the political agenda					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
19	Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement. Lead: Corporate Director, Place Owner: Chris Jordan	Low / Medium	**Lead Director comment** The Improvement Panel have assessed progress in relation to the specific prescriptions made on localisation through the independent Lord Kerslake report and commitments made against this in the Council's Improvement Plan in September 2015 and January 2016. The feedback from this has been positive. In particular all direct recommendations have been actioned including the transfer of delegations away from district	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating**: Attained. **Source(s) of assurance regarding progress with mitigating the risk**: Management assurance as detailed in Lead	O&S - The Corporate Resources O&S Committee has completed a piece of work around district and ward arrangements. This includes a review of arrangements put in place in May 2015 and options for the future development of devolution. The Neighbourhood & Community Services O&S

	Nominate Risk for Deletion		committees and the delineation of a new role for district committees. Services are now accountable to cabinet portfolios and management. The remit for district committees around neighbourhood challenge and community planning has been embedded effectively. Policy guidance for this was agreed by cabinet in July 2015 and development undertaken with members in five sessions over July to October, with delivery of outcomes currently live within 2016/17. Delivery against this has been performance managed through the Future Council Local Leadership sub programme board meeting fortnightly. This has now moved to business as usual. The next phase of local leadership / political governance is being shaped through the newly formed Cabinet Committee Local Leadership. Four Assistant Leaders have been given responsibility to review local working with a focus on 'every place matters' and 'delivering differently in neighbourhoods'. A clear timetable has been set out for their work and how this ties into the changing landscape for wards and district committees. Changes were put in place following the Kerslake recommendations. Constitutional changes implemented in May 2015 withdrew service and financial delegations from District Committees replacing these with a greater emphasis on scrutiny of local service delivery. Wards Forums were given a greater emphasis on community engagement. The next phase of local leadership has been overseen by the 4 Assistant Leaders and Cabinet Committee Local Leadership. This work has resulted in proposals to remove District Committees and give further emphasis to the role of wards. Full Council has also supported Scrutiny recommendations regarding the development of a policy around parishes and community governance. The work on Ward Forums and parishes/community governance will continue over	Director comment - Scrutiny Report in January 2013. Cabinet Committee Local Leadership has been meeting monthly since July 2016 and now has accountability for progressing this agenda. The Neighbourhood Operating Model is now one of the formal transformation programmes feeding into the CLT Performance and Transformation Board.	Committee completed a review of the Neighbourhood Challenge. Recommendations were made to the Leader. The Corporate Resources and Governance OSC questioned Assistant Leaders at their meeting in January 2017 and completed a Review of the relationship between the Council and Parish Councils in December 2017. This will be tracked in March 2018. IA Review - None.

			the coming months. The removal of Cabinet Committee Local Leadership means that Cabinet will now oversee policy development in this area.		

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
16	There is a risk that web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services. Lead: Chief Operating Officer Owner: Peter Bishop	Significant / Medium	**Lead Director comment** The following control measures are routinely taken by the Council's Information, Technology and Digital Services Team: • Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. This ensures that SB are aware of all risk posed by different intrusion methods. • Have updated the Councils firewalls and introduced Intrusion Prevention Services as part of the firewall implementation. This means the firewalls are receiving regular updates from the supplier to detect new and evolving types of security attack. The firewalls detect and defeat many thousands of attacks every day. • Have implemented a cloud based Distributed Denial of Service system that defends four of the Council's main websites from high volume attacks where hackers are trying to flood the Council's websites with requests for service. This service regularly defends the Councils web sites from attackers and the contract is currently being renewed. • Have implemented the PSN walled garden which has	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc. **Source(s) of assurance regarding progress with mitigating the risk:** • The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. • BCC has successfully passed its PSN accreditation. • Service Birmingham, on behalf of the Council, are constantly monitoring the information security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Given the nature of this risk these activities are now being kept under constant review.	O&S - Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). IA Review 2016/17: Web Page Security F/Up.

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure secure transmission. The management of cyber risks within BCC will form part of the security strategy and responsibilities clearly defined. The ICF will ensure that the cyber risk investment strategy is aligned to, and supports strategic priorities. There is improved reporting of cyber risks and security incidents which will be presented to the Corporate Information Security Group bi-monthly. This will ensure BCC are fully aware of potential regulatory & legal exposures and can assess the implications for future investment decisions.	• The next health check (a mandatory requirement of PSN) has recently been completed.	
14	Inadequate or ineffective corporate control of non-core IT spend as a result of insufficient in-house IT expertise within Directorates to ensure software / systems changes are adequately specified, that their implementation is adequately managed and that changes are adequately coordinated across the organisation to maximise the benefit to the Council. Lead: Chief Operating Officer Strategic Services	Medium / Significant	**Lead Director comment** New project governance arrangements are in place across the Council and will be further refined to align with the changes to the partnership with Service Birmingham. In addition the transition from Service Birmingham will see the Council rebuilding its in house ICT function to ensure it has the appropriate skills. This work is currently planned but it is anticipated the approach will be phased.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** December 2018. **Source(s) of assurance regarding progress with mitigating the risk:** As described in the ICT& Digital strategy 2016-2021 - Governance Theme; a new governance framework has been implemented. This will be furthered enhanced by the introduction of a design authority / enterprise architecture function that will provide understanding of how the complete organisation operates in terms of its customers, the	O&S - Completed Scrutiny Inquiry ‘Refreshing the Partnership: Service Birmingham’ (presented to Council in June 2015). A progress report on implementation of the recommendations was considered at the April & September 2016 meetings of the Corporate Resources O&S Committee. IA Reviews 2016/17: IT Project Governance F/Up, IT Service Management F/Up, IT

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
	Owner: Peter Bishop Nominated for Deletion			business and how it employs IT&D. Enterprise Architecture is a coherent and complete set of principles, methods and models that are used in the design and a realisation of an enterprise's organisational structure, business processes, information systems, and infrastructure.	Project Governance -2017. IT Project review - ChildView Hub. IA Review 2017/18: IT Procurement.
17	Ineffective Corporate Risk Marker IT solution. Lead: Chief Operating Officer Transformation Owner: Chris Gibbs	Low / Medium	**Lead Director comment** Paper went to CLT on 18th January 2018, explaining how it worked currently and what the issues were around funding the costs of accessing the register, including a suggestion we bring the budget together centrally so people don't feel they can't afford to do it. There were a number of actions from CLT, including that: 1) CLT approve the use of the Data Warehouse as a mandatory requirement to check risk markers prior to any visits being undertaken by BCC employees to both domestic properties and businesses 2) CLT will review the funding of the Data Warehouse as part of the Councils long term financial plan to ensure that the risks associated with failure to comply are minimised and that the data warehouse continues to be available for use across the council 3) CLT will identify the appropriate Director to be the named officer responsible for the risk marker solution (currently this is the director of HR) 4) CLT will require the safety manager to draft the appropriate guidelines for usage of the risk marker solution by employees and managers prior to any visits being undertaken. A further report is to be bought back to CLT.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. Currently the data warehouse pulls in the risk markers from CRM, Housing, MAPSS and CareFirst. Any user of the warehouse that searches a relevant name or address will have the respective risk markers presented to them. The risk markers not only relate to health and safety but child / vulnerable adult safeguarding too. The Audit team are in the process of creating an Intelligence Network across the City for anyone who has an investigative, enforcement or	O&S - None. IA Review - None.

Technology					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
				regulatory element to their role; or are likely to have some contact with the public. Council Tax, Business Rates and Rents have a risk marker on their respective systems; this risk marker is extracted and added to the data warehouse. Monitoring the use of the IT system by Corporate Safety Services.	

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
7	Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes. Lead: Chief Operating Officer Transformation Owner: Claire Ward	Significant / Significant	**Lead Director comment** Collective agreement has been reached on a package of measures that will secure required reduction in the cost of employment for 2017/18, 2018/19 and 2019/20. This has greatly diminished the likelihood of action on a widespread basis. The proposed national pay award is more generous than originally anticipated and unlikely to elicit national action. There are some proposals in the 2017/18 s188 Notice that might generate localised disputes & potential action and poor attendance / performance challenges. There are further proposals for 2018-19 which may create challenge Council wide attendance levels are stable. There are business continuity plans in place in readiness for industrial action. Bespoke HR support is being provided to identify high risk areas. However contingency plans need testing. Monthly meetings taking place so that we have a corporate, unified approach, showing all current and potential industrial action	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Following significant employee engagement and collective consultation and negotiation with the trade unions, we have reached a collective agreement with the trade unions regarding the workforce savings proposals. Therefore there is now a low likelihood of industrial action in relation to these changes. Expert HR support is being provided to areas experiencing significant employee relations challenges relating to service redesign and headcount reduction. There continues to be regular and positive engagement and dialogue with the trade unions at a corporate and regional level as appropriate	O&S - The Corporate Resources OSC received an update from the Deputy Leader and senior HR officers at a briefing in September 2017. IA Review - None.

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
10	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme. Lead: Interim Chief Executive Owner: Angela Probert	Medium / Significant	**Lead Director comment** Decision to pause on Corporate PMO activity in May 2017, but with programmes of work expected to progress in a streamlined way, owned by all directorates. Following recent activity (Nov 17 – Jan 18), which has seen Programme and Project Management resource transfer into Strategic Services Business Improvement, there is appreciation of a strong programme offer from corporate which is fair and equitable based on Council key priorities to add value to the organisation 1) implementation and delivery of budget decision requires to be coordinated and tracked in a visible and coordinated way 2) key programmes of work such as the Commonwealth Games to benefit from programme/ project management approach 3) Complimentary work to develop a more robust performance framework based on insight from our citizens, partners, staff, performance indicators and monitoring visits, linked to a four year political cycle that focuses on council priorities, BAU and key improvement areas	**Target risk rating***:* Low / Significant **Anticipated date of attainment of the target risk rating:** **Source(s) of assurance regarding progress with mitigating the risk:** In November 2016, the Birmingham Independent Improvement Panel recognised that the Council had made progress in addressing many of its own improvement priorities and handled effectively some unexpected external events and challenges. The Panel also noted that focused activity has enabled the Council to further address some of the outstanding recommendations from Lord Kerslake's review. Corporate Programme Management Office (PMO) and governance arrangements established in January 2017 for Council of the Future (Future Council phase 2) to build governance assurance and aid visibility. Corporate Programme / Project templates for day to day management and governance reporting to aid and hold account for implementation of key changes to meet budget savings and improve outcomes and services across the council. This will ensure progress is understood and risk and issue management owned if any barriers. Council to also manage internal and external resources and understand cost of change.	IA Review : None currently at this time, conversations being undertaken.

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
18	Failure to adequately identify the costs and benefits of alternative delivery models arising from Service Reviews to enable them to be fully and accurately modelled and ensure they are feasible and the changes proposed can be delivered, before the decision to move forward is made. Failure to fully implement the decisions taken to change BCC policy and service delivery to enable delivery of expected benefits / efficiency gains. Lead: Chief Operating Officer Transformation Owner: Mike Smith No update required.	Medium / Medium	**Lead Director comment** Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs and benefits as part of the formulation and evaluation of options in the consideration of the business case. The ADs of Finance will provide support on key projects based on their area of expertise. Those developing new service delivery options need to evaluate the full circumstances on a case-by-case basis, seeking proper advice where necessary, in order to identify the implications of the change in service delivery model. This will include assessing what will be left behind in BCC (e.g. fixed overheads, income targets etc.) as well as ensuring that all of the costs and income of the new model are taken into account - including those which are not applicable to a local authority model of delivery (e.g. taxation), together with some sensitivity and risk analysis. This needs to be done before any commitments are given. The need to evaluate the full circumstances for each delivery option requires a proportionality to it, and due regard for the need for calculated assumptions in order to avoid over-engineering financial modelling based on projected costs. The risk to the transferred service is the possible future loss of the Council as a customer and the risk to the Council is the loss of services provided to the transferred service as a customer, if the transferred service obtains these same services from another	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reports to CLT, notes and actions from Corporate Commissioning Board agenda. Dialogue with directorate lead commissioners. Finance to be involved in commissioning reviews. Additional resources to support commissioning recruited (internally) to support the commissioning approach. Commissioning Toolkit in place. Risk will be managed on a case by case basis through proper use of the Toolkit, and through reviews supported by the ADs of Finance. A checklist developed by AD Finance (Strategy) will continue to be used to ensure proper evaluation and appraisal of decision making reports. Corporate Commissioning Board will provide the governance for new delivery models and commissioning strategies. CPS believes that given the challenges encountered in supporting alternative delivery	O&S - Corporate Resources and Governance O&S Committee undertaking overview of procurement strategy for DCFM services. IA Reviews 2016/17: Acivico Contract Monitoring - Overall delivery of Contract and Contracts & Procurement Summary Report 2015/16. Acivico Contract Monitoring - Final Accounts Process. IA Review 2017/18: Acivico Review of Business Continuity Arrangements.

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			provider. These risks need to be managed by the corporate commissioning hub with peer reviews undertaken by Thematic Centres of Excellence and approval via Cabinet.	models, and the innovative approaches required, the risk remains at Medium / Medium (target met). Only when we have examples of alternative delivery models being successfully implemented should this risk be removed. Mitigations detailed above are now in place with commissioning checklists to CCB ensuring that appropriate resources are in place to manage risk in implementing alternative service delivery models.	
20	Allowance payments. Lead: Chief Operating Officer Strategic Services Owner: Claire Ward Nominated risk for deletion.	Medium / Medium	**Lead Director comment** The bulk of unpaid allowances claims have been successfully managed by Legal Services on a case by case basis, with outstanding claims being considered and managed by Legal Services on the same basis. As new case law is decided challenges to payments have arisen including: • Holiday pay - has now been addressed. • Sleeping in allowance - case law remains ambiguous so at this point all claims are on hold. • Travel time - currently a subject of internal challenge, but may become a matter for Employment Tribunal. • Payment of annual leave on bank holidays – issue of inaccurate payments within a specific service An assessment of claims is made and as appropriate defended or settled dependent on legal advice. There is a clear policy and monitoring framework regarding the application of regular	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. All new claims for allowances are being assessed on their merits and defended wherever practical. Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern. A new universal Flexi scheme part of the new contract of employment was introduced in 1st July 2017.	O&S - None. IA Review - None.

Transformation					
No.	**Description - risk / issue**	**Current level of risk L/I**	**Current actions / Comments**	**Long term aim for the risk - including actions, timescales and target risk rating**	**Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work**
			overtime. A new standard Flexi scheme has been developed as part of the Future Council workforce Contract.	There is a Governance Board monitoring any potential high risk claims.	

Removed Risks:

Ref No.	Risk description	Reason for removal	Date removed
53	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013
5	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013
36	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013
49	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 “On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14”.	March 2014
1d	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014
48	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014

Ref No.	Risk description	Reason for removal	Date removed
20	Demonstration of benefits arising from Customer First.	All of the actions for 2014/15 are being put in place, ie: Launch of the new Housing Repairs functionality which was delayed from last year, re-design of the website, promotion of self service, improvements to online forms, etc.	November 2014
25	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30th June 2014.	November 2014
51	Service Birmingham support provided to the SAP HR and payroll system.	There has been significant progress against an agreed improvement plan and the service is now significantly more stable.	November 2014
2015/16.08	Insufficient resources (finance & people) to agree / deliver the change programme.	Cabinet approved a report on 20th April 2015 that set out the Children's Social Care and Early Help Improvement Plan for 2016-2018, including the appropriate financial envelope for the plan.	July 2015
2015/16.25	Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance.	Following identification of this risk, processes and procedures were developed and rolled out to key contract managers across the organisation with supply chain risk assessments being completed by suppliers. The supply chain risk assessment process is now captured as an annual activity within the supplier annual reviews and the Council's contract management toolkit.	July 2015
2015/16.26	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.	We have made four submissions out of four without issue (and passed an Environment Agency Audit in 2011), giving a 100% success record. The 2014/15 return is progressing normally.	July 2015
2015/16.28	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015
2015/16.10a	Resolution of contractual issues in the Highway Maintenance & Management PFI contract.	A commercial settlement signed on18th December 2015, resolved a number of contractual issues.	March 2016

Ref No.	Risk description	Reason for removal	Date removed
2015/16.29	Risk of Court deciding against the Council regarding the Homeless Service.	The High Court dismissed the four applications for Judicial Review.	March 2016
21 (old 35)	IT refresh / update.	The desktop refresh is progressing as business as usual, and PSN compliance means that we cannot have unsupported applications running on our network.	July 2016
23 (old 59)	Risk of enforcement action and fines of up to £500,000 by the Information Commissioners Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs).	There has been considerable improvement in responding to Subject Access Requests. The Information Commissioner's Office is happy with the progress being made and are no longer monitoring the Council.	November 2016
8 (old N/A)	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	The work stream is now closed, and efficiency and savings targets have been transferred to the Maximising Independence of Adults (MIA) Board.	March 2017
9 (old 57)	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters.	A much improved performance culture and set of arrangements are now in place for the Council's education services.	March 2017
13 (old 28)	Not planning appropriately for the on-going reduction in government grants.	This is an annual risk, but there are processes in place to manage it.	March 2017
24 (old N/A)	That the need to address the updated Pensions Deficit will result in an increase in employer contributions.	This risk crystallised in the setting of the 2017/18+ budget. The information received has been fully taken into account in the update of the Council's medium term financial plan, and in the development of savings proposals.	March 2017
28	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care.	The Council budget from April 2017 does not make assumptions regarding this proposal contained in the previous year's budget; and is no longer a major financial risk to the organisation.	July 2017
22	Risk of fines from HMRC for Directorates employing long term consultants.	There are now processes in place for the engagement of off payroll individuals.	November 2017
27	Risk of claims for payback of search fees charged by the Council.	The potential liability is less than £160k, and this risk will be monitored via the directorate risk register.	November 2017

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit and Risk Management**
Date of Meeting:	**27th March 2018**
Subject:	**Birmingham Audit – Development of 2018/19 Internal Audit plan**
Wards Affected: All	

1. Purpose of report.

1.1 To update members on progress in developing the 2018/19 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note progress made in developing the 2018/19 internal audit plan;

2.1.2 consider the proposed audit coverage and identify any areas they wish to suggest for inclusion in the risking process; and

2.1.3 subject to any agreed adjustments, approve the proposed plan.

3.	Legal and Resource Implications
3.1	The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the Accounts and Audit Regulations 2015. The work is carried out in compliance with Public Sector Internal Audit Standards and within the approved budget.
4.	Risk Management & Equality Analysis Issues
4.1	Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.
4.2	We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.
5.	Compliance Issues
5.1	Decisions are consistent with relevant Council Policies, Plans or Strategies.

…………………………………..
Sarah Dunlavey
Assistant Director, Audit & Risk Management

Contact Officer: **Sarah Dunlavey, Assistant Director, Audit & Risk Management**

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Birmingham Audit – Development of the 2018/19 Internal Audit plan

27th March 2018

Contents

1. Background

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

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

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

1.2 The annual audit plan is prepared using a risk based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.

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

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

1.5 We continue to review, revise and update our working practices and methodologies to ensure we remain in line with recommended best practice. In particular, we are continuing to use technology and the data at our disposal to work ‘smarter’ and ensure the most efficient and effective use of the available resources.

2. Quality Assurance

2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013. Internal quality audits on our ISO processes are undertaken annually.

2.3 Our external PSIAS review was undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. We are currently completing a self-assessment against the PSIAS standards to verify that we continue to comply with requirements. The result of this self-assessment will be reported to Members as part of the Annual Audit report issued to Committee in June 2018.

3. Internal Audit Plan 2018/19

3.1 Our estimated number of audit days available for 2018/19 is 4681. This compares to 5113 in 2017/18 (a decrease of 432 days or 8.5%). This reduction results from the need to decrease resources in order to manage the service within the budget envelope that is available. The reduction in resources has been minimised by maximising income and appointment of an audit apprentice.

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

3.3 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise closely with the Council's external auditors. We have allocated 730 days for the main financial systems work, including the review of IT controls, in 2018/19 the main areas we intend to cover are:

- Payroll
- Accounts Payable
- Accounts Receivable
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR

- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- Rent Collection and Charges
- Non invoiced income / Cashiers
- Income and Expenditure in Schools
- Direct Payments
- Carefirst

3.4 We have also 'ring-fenced' a number of days to support the Corporate Fraud Team, complete the school visiting programme and for undertaking chargeable work.

3.5 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2018/19 plan we have allocated 830 days for this work. We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.

3.6 In July 2015 additional funding was made available to support the establishment of a schools visiting team. The initial objective of this Team was to visit all Birmingham schools to review aspects of governance, financial management and safeguarding. A revised risk based visiting programme will be implemented during 18/19 once all schools have received an initial visit.

3.7 Chargeable work includes audit reviews completed on behalf of Acivico, grant certification, and additional housing repairs compliance testing. Birmingham Audit will also be providing an Internal Audit Service to the Birmingham Children's Trust with effect from 1st April 2018.

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

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

3.9 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities. Contingency time is incorporated to help us 'flex' the plan and respond to emerging issues during the year e.g. any risks arising from hosting the Commonwealth games etc. This ensures we can maintain a focus on the important strategic issues that the Council faces.

3.10 A summary of the 2018/19 audit plan, based on our current assessment of risk is detail in Appendix A, previous year figures are provided for comparative purposes. A detailed draft 2018/19 plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.

3.11 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.

3.12 Any updates to the plan will be reported to the Audit Committee at the next meeting (June 2018). Progress in delivering the plan, together with any significant issues identified, will be provided to the Audit Committee and an annual report produced at the end of the year giving an opinion on the effectiveness of the systems of internal control.

Appendix A

Internal Audit Plan Summary

	16/17		17/18		18/19	
	%	Days	%	Days	%	Days
Number of Audit Days in Annual Plan	**100%**	**5,443**	**100%**	**5113**	**100%**	**4681**
Main Financial Systems	16%	860	18%	905	16%	730
Business Controls Assurance	35%	1875	34%	1735	39%	1830
Investigations	15%	840	16%	830	18%	830
Schools (Non Visits)	4%	195	3%	155	2%	105
Schools (Visits)	17%	950	19%	945	15%	720
Follow up Work	4%	225	4%	200	3%	150
Ad-hoc Work / Contingency	5%	273	3%	178	4%	186
Planning & Reporting	3%	180	2%	125	3%	120
City Initiatives	1%	45	1%	40	0%	10

Birmingham City Council

Appendix B

Draft Internal Audit Plan 2018/19

	Days	Total
Financial Systems (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
Income / Expenditure - Schools	20	
IT Related Financial Systems Work	90	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	**730**
Business Controls Assurance		
Work in Progress b/fwd. from 2017/18	30	
IT Related Non-Financial Systems Work	375	
Data Analysis	200	

	Days	Total
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	920
Adults and Health		
Air Quality	10	
Assessment & Support Planning	25	
Better Care Fund	20	
Carers Strategy	20	
Commissioning	20	
Delayed Transfers of Care	10	
Delivery of Improvement and Business Plan	15	
Enablement	15	
Integrated 3rd Sector funding	15	
Integrated Personal Commissioning	20	
Prevention Agenda	15	
Public Health	30	
Placements	20	
Seven Day Working	15	
Transitions to Adulthood	20	270
Children and Young People		
Contract Monitoring - Birmingham Children's Trust	50	
Children Services (Education)	50	
Pupil Premium - Accountability and Usage	10	
Safeguarding & Development – BCSB	40	
Safeguarding Corporate Overview	40	190

	Days	Total
<u>Economy</u> Accountable Body Car Parking - Civil Enforcement Youth Employment Initiative	 30 20 10	 60
<u>Finance and Governance</u> Ethics Governance New Service Delivery Vehicles Risk Management Self-Assessment - AGS Process	 5 20 10 10 10	 55
<u>Place</u> Equality, Community Safety and Cohesion Homelessness Housing Repairs – Contract Compliance / Assurance (funded through HRA) Housing Improvement - Capital Works Programme Waste Management	 25 20 200 20 30	 295
<u>Strategic Services</u> Improvement Agenda Project Management	 20 20	 40
		1830
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	**830**

	Days	Total
Schools - Non Visits Consortium / Forum Deficits Facilities Management and Repairs Themed Work **Schools - Visits**	 20 20 15 50 720	 **105** **720**
Follow Up Work		**150**
Ad Hoc Work / Contingency		**186**
Planning and Reporting		**120**
City Initiatives		**10**
TOTAL		**4681**

Grant Thornton

External Audit Plan

Year ending 31 March 2018

Birmingham City Council

March 2018

Contents

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

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Birmingham City Council (‘the Council’) for those charged with governance.

Respective responsibilities

The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Birmingham City Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • The non-rebuttable presumed risk under ISA 240 that the risk of management over-ride of controls is present in all entities • Valuation of property, plant and equipment • Valuation of pension fund net liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality for the Group to be £43.8m (2016/17: £43.4m) and for the single entity (the Council) £43.6m (2016/17: £43.2m). This equates to 1.5% of the gross cost of services expenditure for the prior year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ‘Clearly trivial’ has been set at £2.2m (2016/17: £2.2m).

Introduction & headlines

Value for Money (VfM) arrangements	In 2016/17 we issued a qualified 'adverse' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The weaknesses in arrangements which we identified, were both significant in terms of their impact and numerous in terms of the number of different aspects, that we were unable to satisfy ourselves that the Council had proper arrangements to secure VfM. Our risk assessment regarding your arrangements to secure value for money for the 2017/18 financial year have identified the following VFM significant risks: • Budget delivery and reserves management, as well as saving proposals (including principles of the Future Operating Model (FOM)) and Equal Pay; • Improvement Panel; • Services for vulnerable children; • Management of schools; and • Commonwealth Games.
Audit logistics	Our interim visit will take place in February and our final visit will take place in between May and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £314,168 (prior year: £314,168) for the Council.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
Audit Report	Birmingham City Council has approximately £214m of debt listed on the London Stock Exchange. Additionally NEC Developments, a subsidiary of the Council consolidated into the group accounts, has approximately £73m of debt listed on the London Stock Exchange. An entity with listed debt is a Public Interest Entity (PIE), which has enhanced audit reporting requirements under ISA (UK) 700. Further details are set out in appendix A.

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. Recent high-profile collapses such as Carillion also point to the need for local authorities to understand the financial resilience of the organisations they contract or partner with.

Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. The Chancellor of the Exchequer agreed and signed a devolution deal with the members of the WMCA in 2015. The first West Midlands Mayor was elected in 2017.

The Budget of 22 November 2017 confirmed a second devolution deal.

Whilst this will not impact the Council directly, it will impact upon the working relationships between the Council and the Combined Authority as well as how the Council implements new joint projects.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA has introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Financial challenges

Financial pressures

Birmingham City Council set its net revenue budget of £821.8m in February 2017. This included a savings programme of £70.9m in 17/18, growing to £171.4m in 20/21. In addition, there were un-delivered savings from 16/17 of £14.4m resulting in total savings to be met in 17/18 of £85.3m.

At M8, forecast projections indicate underspends of £19.0m in base budget delivery and £22.1m of savings that are not fully achieved, totalling a year end overspend of £3.1m. The M8 position has been subsidised by a transfer of £9.6m from reserves to the general fund. We will continue to monitor the Councils use of reserves.

Impacts of Grenfell Tower fire

The Grenfell Tower fire disaster has led to the identification of approximately 150 high rise buildings in local authority ownership that have failed fire safety tests. Local authorities are expected to make these buildings fire safe. DCLG are reviewing the current restrictions on the use of the financial resources that prevent local authorities from making essential fire safety upgrades.

Birmingham City Council has announced its intention to install sprinkler systems and other fire suppression measures in all its residential tower blocks. This will require an additional investment estimated at £31m (approximately £3,000 per property).

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Birmingham City Council.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	We have: • Updated our review of the control environment for the preparation and authorisation of journal entries and perform a walkthrough of the controls. We will: • Test the completeness of the journal listing; • Analyse journals listing to identify any unusual changes in volume or value of journals; • Identify and select journals which we deemed to be high risk or unusual; • Test all high risk journals and obtain managements explanations and corroborating evidence; • If applicable, test all significant adjustments made after the draft accounts have been presented to external audit; and • Review management estimates and critical judgements by challenging assumptions, verifying completeness and accuracy of source date and checking calculations.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	The Council revalues its land and buildings on a rolling five year programme to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.	We have: • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that revaluation measurements are correct. We will: • Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Consider of the competence, expertise and objectivity of any management experts used; • Discuss with the valuer about the basis on which the valuation is carried out and challenge of the key assumption; • Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • Test revaluations made during the year to ensure they are input correctly into the Council's asset register; and • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	We will: • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made; • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary; and • Review the PwC report (as auditor's expert) and perform any additional procedures suggested from this report.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage (approximately 30%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	We will • Evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • Obtain year-end payroll reconciliation, ensure the amount in the accounts can be reconciled to the ledger and through to payroll reports, and investigate significant adjusting items; and • Agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness. • Complete Substantive Analytical Procedures on 12 months of payroll data and investigate any variances outside of our 'acceptable range'
Operating expenses	Non-pay expenses on other goods and services also represents a significant percentage (approximately 50%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	We will • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Document the accruals process and the controls management have put in place. We will challenge any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations; and • Obtain a listing of non-pay payments made in April, and test a non-statistical sample of transactions to ensure that they have been charged to the appropriate year.

Reasonably possible risks identified (continued)

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Property, plant and equipment - additions	The forecast capital spend for 2017/18 as at Q2 is £474.2m which represents a significant level of expenditure for the Council. As additions spend relates to a high number of individual transactions, including some complex projects, there is a risk that additions could be capitalised incorrectly. We have therefore identified valuation of property, plant and equipment additions as a risk requiring particular audit attention.	We will • gain an understanding of the Council's system for accounting for additions to property, plant and equipment and evaluate the design of the associated controls; • obtain a breakdown of additions and review for individually significant or unusual items to be tested; and • if the residual population is above tolerable error, we will select a sample of remaining additions and agree to invoices, certificates or equivalent in order to to confirm that the cost has been accurately recorded, that the asset belongs to the Council and that is has been correctly classified.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Statutory powers and duties

We included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014 (‘Section 24’) in our 2015/16 Annual Audit Letter relating to the adequacy of budgetary arrangements.

A formal response was provided by the Council in January 2017 and we continued to monitor progress on the delivery of the 2017/18 budget and associated saving programmes as well as following up progress made on the section 24 recommendations.

Last year we concluded that, the Council needed to continue to take action to manage the emerging trend of under-delivery of savings against plan to date, specifically to mitigate current directorate plans which are not achieving anticipated savings targets, but also to ensure that further non-delivery of savings does not occur in other planned areas currently shown as on track. This would have the effect of further increasing the overall forecast revenue overspend.

We will continue to monitor progress in 2017/18 as part of our VfM procedures.

Other material balances and transactions

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

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Guarantees

As highlighted in our 2016/17 Audit Finding Report the Council identified a number of contractual arrangements within its Group either in the form of pension guarantees or other contractual obligations. The accounting for these guarantees should then be determined with reference to the nature of the agreement between the parties involved and consideration as to whether these are derivative financial liabilities under IAS39 Financial Instruments: Recognition and Measurement or insurance contracts under IFRS 4 Insurance Contracts, dependent on the risks involved, therefore bringing the liability onto the balance sheet.

We will work with the Council to ensure significant obligations are identified, the nature of each transaction is understood and the accounting treatment adopted is appropriate.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

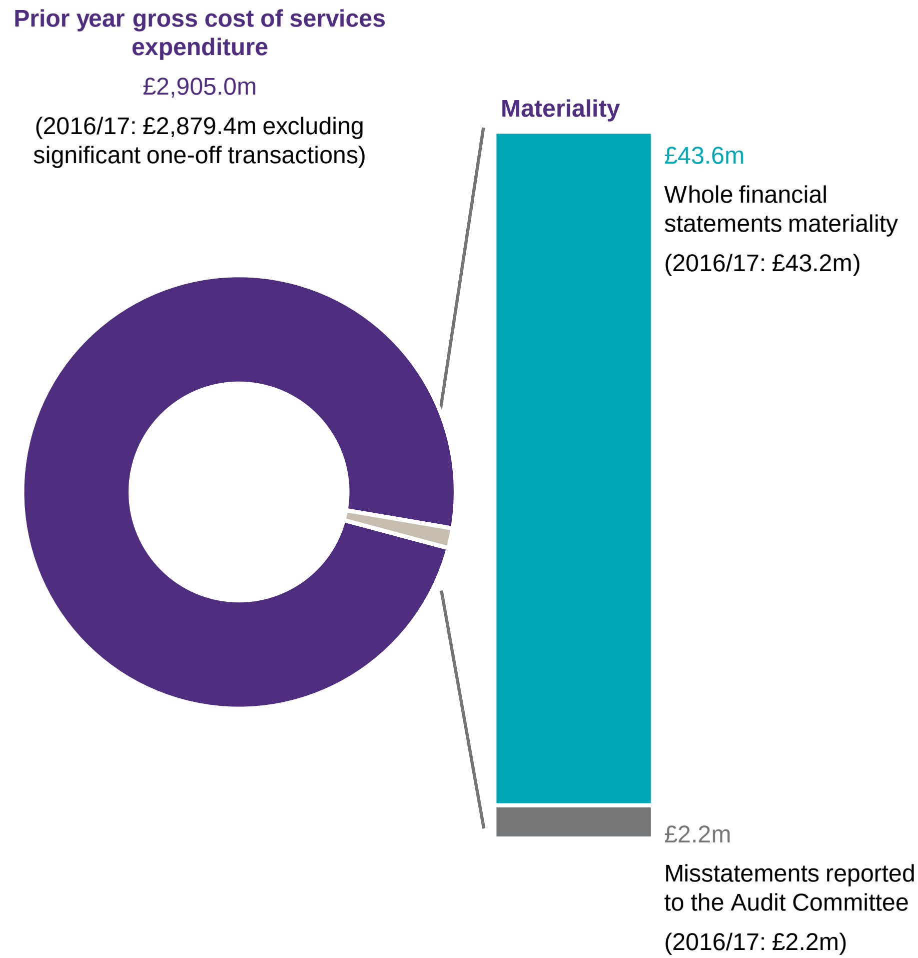
We propose to calculate financial statement materiality based on a proportion of the gross revenue cost of services expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £43.6m (2016/17: £43.2m), which equates to 1.5% of your gross cost of services expenditure for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be 'clearly trivial' if it is less than £2.2m (2016/17: £2.2m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
NEC (Developments) plc	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Innovation Birmingham Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Acivico Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
PETPS (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
InReach (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Performances Birmingham Ltd	No	Analytical	TBC if within group boundary	If deemed to fall within group boundary - agreement of consolidation using audited accounts and analytical approach. If not – review of the Council's assessment that the entity does not meet the definition of a subsidiary.
Birmingham Museums Trust Ltd	No	Analytical	TBC if within group boundary	If deemed to fall within group boundary - agreement of consolidation using audited accounts and analytical approach. If not – review of the Council's assessment that the entity does not meet the definition of a subsidiary.
Birmingham City Propco Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Paradise Circus Limited Partnership	No	Analytical	Joint Venture	Agreement of consolidation using audited accounts and analytical approach
Service Birmingham Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach
Birmingham Airport Holdings Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach

Key changes within the group:

- Disposal of shares in Service Birmingham and planned sale of Innovation Birmingham Limited.
- New entities set up – new PETPS group entities and Birmingham City Propco.
- Consideration of whether Performances Birmingham Limited and Birmingham Museums Trust meet the definition of a subsidiary and the potential need for a prior period adjustment.

Audit scope:
Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Value for Money arrangements

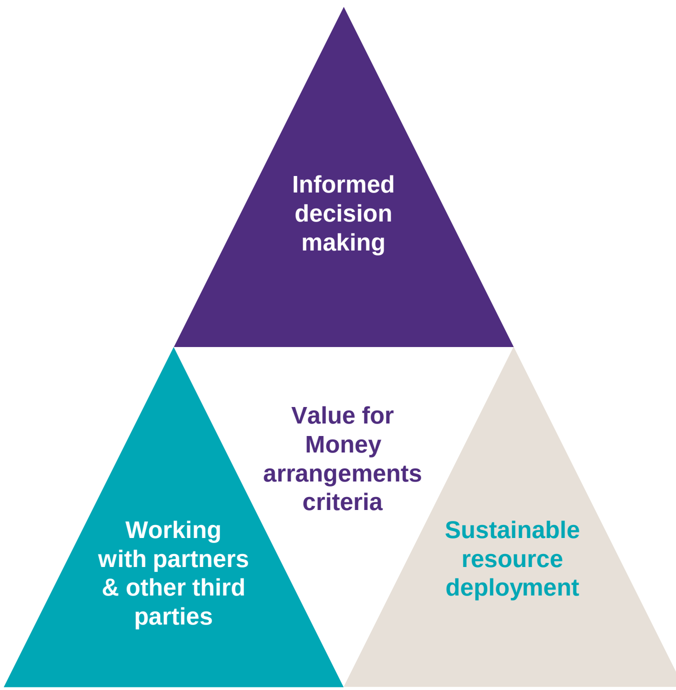
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

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



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay

The key risk is that the proposed savings schemes (including the implementation savings proposals) will not deliver the required recurrent savings, or will take longer to implement than planned.

We will review the Council's latest financial reports including savings plans trackers, to establish how the Council is identifying, managing and monitoring this risk. This will involve considering the adequacy of reserves and their prudent use. We will also consider the transparency of financial reporting.

Improvement Panel

The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.

We will consider the Improvement Panel's reports and discuss the progress made and key issues with the Improvement Panel Vice Chair, to establish how the Council is identifying, managing and monitoring this risk.

Value for Money arrangements (continued)

Services for Vulnerable Children

The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.

We will review the latest findings from Ofsted, to establish how the Council is identifying, managing and monitoring this risk.

Management of Schools

The key risk is that the governance issues identified at schools will not be effectively addressed.

We will review the progress made by Internal Audit within their coverage of schools governance, to establish how the Council is identifying, managing and monitoring this risk.

Commonwealth Games

The key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability.

We will review the Council's latest plans for the delivery of the Commonwealth Games in 2022, to establish how the Council is identifying, managing and monitoring this risk.

Audit logistics, team & audit fees

- Planning and risk assessment
- **Audit committee** January 2018 — Interim Progress report
- **Interim audit** February 2018
- **Audit committee** March 2018 — Audit Plan and Interim Progress Report
- **Year end audit** June/July 2018
- **Audit committee** July 2018 — Audit Findings Report
- Audit opinion
- **Audit committee** TBC — Annual Audit Letter

Phil Jones, Engagement Lead

Laura Hinsley, Audit Senior Manager

Tess Barker, Audit Assistant Manager

Audit fees

The planned audit fees are no less than £314,168 (2016/17: £314,168) for the financial statements audit and £17,594 (2016/17: £22,600) for the Housing Benefit Certification. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 15). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence & non-audit services

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of grant claims (outside PSAA requirements)	92,100	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £92,100 in comparison to the total fee for the audit of £314,168 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The fee for grant certification is higher than in previous years due to the complex and numerous Regional Growth Fund grant certifications. We are currently in the process of undertaking retrospective work to certify six grants over a period of four years. The fee for this work is £68,850.
Non-audit related			
CFOi	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee (subscription based for 3 years) taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £314,168 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
CASS reporting – Finance Birmingham	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £314,168 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services listed above have been approved by management and are presented to the Audit Committee in our Audit Plans and Audit Findings Reports.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Appendices

A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Key Audit Matters (KAM)	We will be required to include matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters will be selected from those matters communicated with those charged with governance. The auditor's report will include a description of the KAM, our response and key observations.
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Other matters which we are required to address	We will be required to include details of who appointed us, date of appointment, period of uninterrupted engagement, non-audit services, and that the audit opinion is consistent with the Audit Findings Report.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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Audit Progress Report and Sector Update

Birmingham City Council
Year ending 31 March 2018

March 2018

Contents

Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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

Progress at March 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in February 2018. Our interim fieldwork visit includes:

- Updated review of the Council’s control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit to date are summarised at page 6 to 8. Our interim audit is planned to take place during February and March 2018 so any additional findings will be reported to the Audit Committee once our work has been completed.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on 4 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

We undertook our initial risk assessment to determine our approach in January and February 2017 and reported this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council’s annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work will be reported to you in our certification letter.

Meetings

We met with Finance Officers in January and February as part of our monthly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We will also meet with your newly appointed Chief Executive in April to discuss the Council’s strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our last events was the chief accountant’s workshop in February 2018. Further details of publications that may be of interest to the Council are set out in our Sector Update section of this report.

Objections

Work on objections relating to PFI Schemes for Schools and LOBO loans is ongoing and should be completed within the coming months.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	March 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Within this report
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values; • Commitment to competence; • Participation by those charged with governance; • Management's philosophy and operating style; • Organisational structure; • Assignment of authority and responsibility; and • Human resource policies and practices.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Review of information technology controls	Our information systems specialist is due to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. This visit is scheduled for April 2018.	This work is scheduled to take place in April 2018 and we will report any significant findings to the Audit Committee once this has been completed.

	Work performed	Conclusions and recommendations
Walkthrough testing	We have undertaken walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. These areas are; completeness of payroll expenditure, completeness of operating expenditure, valuation of property, plant and equipment, and valuation of the defined benefit pension liability. Our work to date has not identified any issues which we wish to bring to your attention. Internal controls tested to date have been implemented by the Council in accordance with our documented understanding. We are currently in the process of completing our walkthrough procedures on property, plant and equipment and the valuation of the defined benefit pension liability.	Our work to date has not identified any weaknesses which impact on our audit approach. We intend to complete our walkthrough procedures on property, plant and equipment and the valuation of the defined benefit pension liability during our February interim visit, apart from those controls which only take place at year end and which we therefore plan to test at our final accounts visit in June. We will report any significant findings in these areas to the Audit Committee once this work is complete.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. To date we have commenced detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.	Our work to date relating to journal entry policies and procedures has not identified any weaknesses which impact on our audit approach. Our detailed testing on journals posted in months 1-9 is still in progress. We will report any significant findings from our work to the Audit committee once this work is complete. At our final accounts visit we will update this testing to cover the full year.
Early substantive testing	We have commenced early substantive testing in a number of areas, including but not limited to, the following: • Payroll substantive analytical review covering months 1-10 • Testing a sample of operating expenditure from months 1-9 • Testing a sample of fees, charges and other service income from months 1-9 • Updating our understanding of the Council's PFI schemes • Obtaining grant notifications for significant capital and revenue grants • Obtaining relevant documentation relating to substantive analytical reviews for Council Tax income, NNDR income, HRA rental revenues, and depreciation of property, plant and equipment.	Our early substantive testing is still in progress. At our final accounts visit we will update this testing. We will report any significant findings from our work to the Audit Committee once this work is complete. At our final accounts visit we will update this testing to cover the full year.

	Work performed	Conclusions and recommendations
Emerging accounting issues	We have held discussions with management about proposed accounting treatments in a number of key areas. **Pension guarantees and other guarantees.** We understand a review has been undertaken to identify guarantees issued by the Council. We are awaiting further information from management relating to the process used to identify such guarantees and the proposed accounting treatment. **Minimum Revenue Provision** The Council is proposing to change its Minimum Revenue Provision policy in 2017/18. We have reviewed the initial proposals and in our letter to the Council dated 24 January 2018 we set out our initial views on the proposed changes. Based on the documentation we have received, we would not at this stage be minded to challenge the arrangement, but clearly we would not fetter our discretion should information subsequently come to light which affected that conclusion. **Early payment of LGPS pension contributions** The Council has made a payment to the LGPS pension fund relating to pension contributions for 2017/18, 2019/20 and 2020/21. We performed an initial review of the proposed transaction in March 2017 and in our letter to the Council dated 22 March 2017 confirmed that we were not minded to challenge the lawfulness of the transaction or the proposed accounting treatment. We have obtained supporting documentation for the payment, and will review the accounting treatment after year end to ensure the transaction has been accounted for appropriately.	Our work in these areas is still ongoing. We will continue to discuss with management and once we have obtained full details of the proposed transactions we will review the accounting treatment to ensure that this is in line with the CIPFA Code and relevant regulations.
Group accounts	We have held discussions with management about the proposed changes to the entities included within the group boundary and the potential impact on the Council's group accounts. This includes: • Proposed exclusion of Performances Birmingham Ltd and Birmingham Museums Trust Ltd on the basis of the Council not having control or significant influence • New NEC hotels company • New PETPS entities relating to the asset-backed vehicle for the NEC pension scheme • Disposal of shares in Service Birmingham and potential sale of Innovation Birmingham Ltd We have requested further detail on the proposed changes from management in order for us to be able to review the planned accounting treatment.	Our work in this area is still ongoing. We will continue to discuss these proposed changes with management, and once we have obtained full details of the proposed transactions we will review the accounting treatment to ensure that this is in line with the CIPFA Code.

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

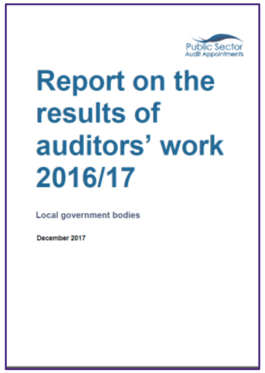
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

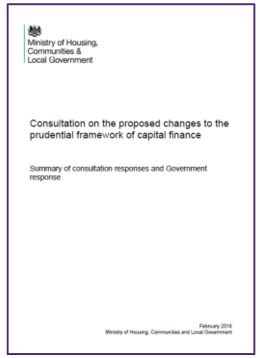
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.


Ministry of Housing,
Communities &
Local Government

Consultation on the proposed changes to the prudential framework of capital finance

Summary of consultation responses and Government response

February 2018
Ministry of Housing, Communities and Local Government

Changes to capital finance framework

Challenge question:

Has your Finance Team briefed members on the impact of the changes to the prudential framework of capital finance**?**

CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.

CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

> The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

.The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your Finance Team briefed members on the impact of the changes to the prudential code?

The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care's role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country's growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

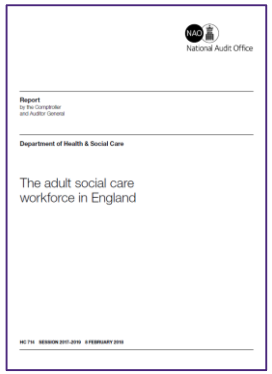
There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7% However, demographic trends suggest that demand for care will continue to increase and people's cares needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities' ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.


National Audit Office

Report

Department of Health & Social Care

The adult social care workforce in England

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?

You can see and hear what delegates thought on our website

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is the not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

Click on the report cover to download and read more

Grant Thornton Publication

Challenge question:

Is your Council considering the risks and governance issues for its commercialisation agenda?

Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."

The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - — organisation and category
  - — service provider
  - — date at a monthly level
- benchmark your spend against your peers
- identify:
  - — organisations buying similar services
  - — differences in pricing
  - — the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Council considered how our Supply Chain Insight tool can help support your supply chain assurance?

Cost Assurance

Did you know….

40
Number of Public Sector engagements to date

£125m
Annual spend analysed

£3.55m
Rebate opportunities identified

£1.1m
Fee income identified

2.84%
Error rate – rebates versus spend volume

55%
Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Council considered the potential for an independent review of telecommunications and utility costs?

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/

http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/

http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/

http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/

http://www.cfoinsights.co.uk/

http://supplychaininsights.grantthornton.co.uk/

PSAA website links

https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/

MHCLG website links

https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance

https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition

https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition

CIPFA website link

http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book

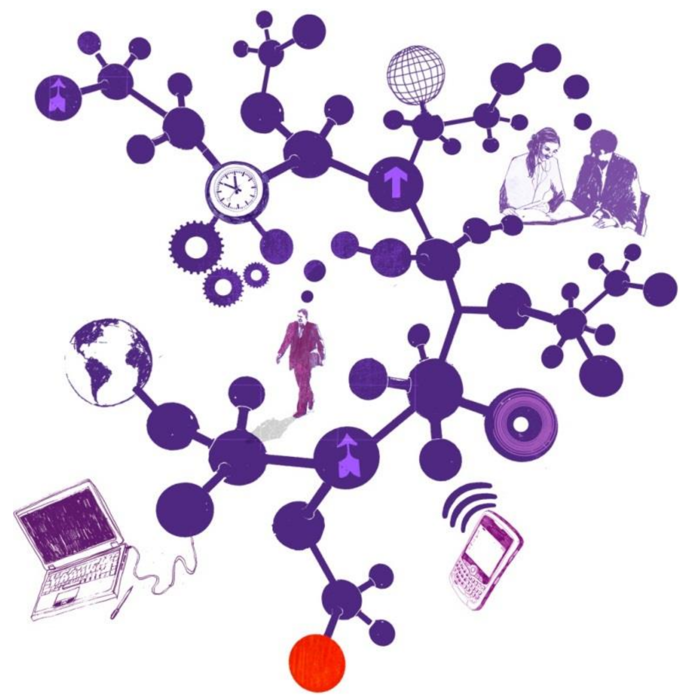
National Audit Office link

https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/

Informing the audit risk assessment for Birmingham City Council

Year ended

31 March 2018



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

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Contents

Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern
- related parties
- estimates
- group accounts

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

Fraud

Issue
Matters in relation to fraud

Matters in relation to fraud

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

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

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

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

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

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas, and a dedicated counter fraud team. The Counter Fraud Team undertake reactive and proactive investigations across the organisation, that includes high risk areas such as Social Housing and Council Tax. The risk of material misstatement of the accounts due to undetected fraud is low.
What processes does the Council have in place to identify and respond to risks of fraud?	The Council has an Anti-Fraud and Corruption Policy and Fraud Response Plan which set out the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit. As well as participating in the bi-annual National Fraud Initiative (NFI), regular data matching exercises are undertaken through Internal Audit's Data Warehouse facility and proactive data analytical routines are run on a periodically basis reports to highlight exceptions in data that may be an indication of fraud or error. Internal Audit participate in the annual surveys of fraud in local government undertaken by both CIPFA and TEICCAF and review the results of these surveys to identify potentially new fraud risks. In response to previous findings, a proactive fraud exercise was undertaken in relation to No Recourse to Public Funds determine the Council's risk exposure and ensure measures to counter that risk are in place. This has led to staff in the service area being granted access to the Data Warehouse to enable them to verify claims for support at the outset. Internal Audit staff participate in various forums to exchange ideas around fraud related issues, as well as working more widely in co-operation with law enforcement agencies to exchange information for the purpose of preventing and detecting crime. Fraud Spotlight, a bi-annual fraud bulletin dealing with general fraud issues is circulated to staff and members. In addition ad-hoc fraud alerts are issued to schools whenever a particular concern arises. The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter, which has been revised this year. Bespoke fraud awareness training for staff can be provided on specific fraud related issues, and there is an intention to develop new in-house e-learning packages covering a range of fraud matters, the first of which on social housing is nearing completion. Procedures are in place for reporting fraud; which includes an on-line referral form, a fraud hotline and a whistle blowing process. Financial Regulations stipulate that all cases of fraud should be reported to Internal Audit. All fraud referrals are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition Internal Audit will refer cases to the Police where there is firm evidence of criminality and will also work with Legal Services if seeking civil remedy.

Fraud risk assessment (continued)

Question	Management response
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Housing Benefit remain a high risk area. However, responsibility for investigating fraud in this area transferred to the Department for Work & Pensions (DWP) as part of the Government's introduction of the Single Fraud Investigation Service (SFIS) on 1st February 2015. The Council no longer has any authority or legal power to investigate in this area. Nevertheless, Internal Audit are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly. The Benefits Service is responsible for re-assessing benefit claims following a notification from Internal Audit, and determining any overpayments. The Council has taken part in NFI data matching exercises to identify fraudulent claims for Housing Benefit. Social housing fraud has been identified as a high risk area and significant counter-fraud resources have been committed to identify illegal sub-lets, non-residency of properties and fraudulent applications for social housing in respect of its own stock and that of Registered Provider partners. Internal Audit have worked with Housing to secure the gateway to obtaining a tenancy through increased use of the Data Warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach has been pursued with applications made under the Right to Buy Scheme. Internal Audit have worked with Housing to provide a network of 'Fraud Champions' within the service area, to provide assistance to investigations and promote the anti-fraud message. An e-learning package is being developed specifically to teach Housing staff about the risk of social housing fraud, and a publicity campaign is being considered to raise awareness of the problem more generally. Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions. Counter fraud resources have been committed to identify and investigate fraud and error in this area.

Fraud risk assessment (continued)

Question	Management response
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks? (continued)	Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions. Counter fraud resources have been committed to identify and investigate fraud and error in this area. The Council has taken part in NFI data matching exercises to identify fraudulent claims for SPD's and Council Tax Support, and the Revenues Division has recently sought to use Credit Reference Agency data to supplement this. In addition Internal Audit has used its Data Warehouse to match Council Tax data with other records to identify potential fraud and error. Social Care fraud is also considered to be a high risk area. Internal Audit have worked closely with the Adults & Health Directorate to combat Direct Payment fraud which has included regular sample checking of claims, a proactive fraud exercise to identify potentially fraudulent claims, and fraud awareness training for staff.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Birmingham Audit as part of delivering the internal audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. Data analytical techniques are used to proactively check compliance and identify exceptions.

Fraud risk assessment (continued)

Question	Management response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts— these staff have a reporting line to the Director of Finance via their Finance Assistant Director. Corporate Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud which includes updates on other initiatives such as NFI.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	In relation to staff there is a Code of Conduct which was updated and issued to staff when contracts were revised. The Code is also available to managers and staff on the Employee Portal. There are guidelines for dealing with employees found to have committed benefit or blue badge fraud, social housing fraud and council tax fraud. Your Weekly News and Fraud Spotlight also provide opportunity to remind staff of the Council's expectations. In relation to contractors, during 2013 the Council's Business Charter for Social Responsibility was published. One of the principles of the charter is ethical procurement, more specifically in relation to fraud, within the standard contract terms and conditions there is a requirement for contractors to protect the Council against fraud.

Fraud risk assessment (continued)

Question	Management response
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. BCC has revised its Whistleblowing policy to include schools, and also introduced a dedicated Whistleblowing Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on the Employee Portal, includes an email address and telephone numbers for fraud reporting. An on-line referral form is in place on the Employee Portal and Birmingham.gov.uk. In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings. Reports provided through NFI are being used to help identify undeclared relationships.
Are you aware of any instances of actual, suspected or alleged, fraud, either within or impacting on the Council as a whole or specific departments since 1 April 2017?	From 1 April 2017 to 11 January 2018, 85 referrals of potential fraud and error had been made to Internal Audit's Corporate Fraud Team. Each referral is risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of the Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition 1,641 cases have been raised in relation to Application Fraud (Social Housing and Council Tax), resulting in 72 properties being recovered for re-letting, 125 applications being cancelled and 1 Right to Buy application being stopped. The investigations completed include a fraud involving the theft of monies by an officer of the Council. This led to a major overhaul of the systems and processes within that service area.

Laws and regulations

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

Impact of laws and regulations

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

Impact of laws and regulations (continued)

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2017, or earlier with an on-going impact on the 2017/18 financial statements?	The Council has been found to be in default of process and/or legal requirements through various legal challenges through Judicial Reviews, Health & Safety claims, Information Commissioner and Ombudsman findings.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Claims involving Highest Risk to Council are regularly monitored and reported to the Governance Board.
Is there any actual or potential litigation or claims that would affect the financial statements?	Those disclosed under provisions and contingent liabilities.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	As above – Ombudsman, Information Commissioner and Health & Safety Executive
Have there been made any reports under the Bribery Act?	No

Going concern

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

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	The Council Plan and Budget 2018+ includes an updated medium- and long-term financial plan, and this is reviewed regularly, with changes incorporated into briefings to Members of EMT as part of the on-going business planning process. The Council Plan and Budget 2018+ also includes projections of reserve balances and Prudential Indicators, together with the Treasury Management Policy & Strategy which sets out the framework for the management of loans, investments and cash balances. The Council has rigorous financial monitoring arrangements, including frequent reports to Cabinet, that are supported by the tracking of the implementation of savings initiatives, including scrutiny through the Budget Board. The Council has adopted a medium-term approach to the development of its financial plans, including the savings programme, and has a transition funding strategy in place to take account of phased implementation. This will have regard to the resources that will be available then, service priorities and their cost, and the associated organisational change that will be necessary.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. There is continuing maintenance of a funding strategy involving the realisation of asset sales. Provision is included in the accounts for the expected level of payments in respect of outstanding claims. Government announcements regarding future grant levels are monitored closely and projections are updated regularly. The Council is part of the West Midlands 100% Business Rates Pilot , which will enable it to keep business rates growth in the City.

Going concern considerations (continued)

Question	Management response
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Council Plan and Budget 2018+ includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members. The Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Council Plan and Budget 2018+ includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members. The Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The Council's arrangements for its management of cashflows is set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. Provision is included in the accounts for the expected level of payments in respect of outstanding claims. The Council's arrangements for budget monitoring, including the implementation of the savings programme, ensure that close attention is paid to the need to deliver services within budgets available. This includes frequent reporting to Cabinet. Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.

Going concern considerations (continued)

Question	Management response
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, contingency planning and the maintenance of reserve balances to mitigate any residual risk.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Council Plan and Budget 2018+ explicitly took into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium- and long-term plans.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Audit Committee has been advised of the current position in respect of Equal Pay claims and continues to receive updates as appropriate.

Going concern considerations (continued)

Question	Management response
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The Council's arrangements for its management of cashflows is set out in its Treasury Management Policy and Strategy. Because of its ready access to loan finance (in common with all other local authorities), negative cashflows are not necessarily an adverse financial indicator. The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. Provision is included in the accounts for the expected level of payments in respect of outstanding claims. The Council's arrangements for budget monitoring, including the implementation of the savings programme, ensure that close attention is paid to the need to deliver services within budgets available. This includes frequent reporting to Cabinet. Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, contingency planning and the maintenance of reserve balances to mitigate any residual risk.

Related parties

Issue
Matters in relation to Related Parties For local government bodies the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS24: related party disclosures. The Code identifies the following as related parties: • Subsidiaries; • Associates; • Joint ventures • An entity that has an interest in the authority that gives it significant influence; • Key management personnel and close family members; and • Pension fund for the benefit of employees. A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it. ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We also carry out testing to ensure the related party transaction disclosures in the financial statements are complete an accurate.

Related parties assessment

Question	Management response
Who are the Council's related parties?	In addition to the companies consolidated in the Council's Group Accounts, the Council has had transactions of over £200,000 with the following companies in which it has an interest (as at 28 February 2017): Birmingham & Solihull Mental Health Trust, Birmingham & Solihull Women's Aid Birmingham Community Healthcare NHS Trust, Birmingham Hippodrome Theatre Trust Ltd Birmingham Lend Lease Partnership, Birmingham Museums Trust Limited, Birmingham YMCA, Bloomsbury EMB, Centro, Bournville College, Chinnbrook Family & Community Project, City of Birmingham Symphony Orchestra, Business District Ltd, Dance Exchange Ltd (The), Drum/ Newtown Cultural Project (The), Focus Birmingham, Four Towers TMO, Leigh Trust, Greater Bham & West Midlands Brussels Office, Lench's Trust, Marketing Birmingham, Midlands Arts Centre, Millennium Point Property Ltd, Optima Community Association Paradise Circus General Ltd, Performances Birmingham Limited, Pertemps, Roman Way Estate CIC, Retail Birmingham Limited, S4E Ltd T/A Services for Education, Saint Basils, Sandwell and West Birmingham CCG, South & City College (Birmingham), Southside Business District Ltd, Thompsons Solicitors, St. Paul's Community Development Trust, Stonham (Part of Home Group), West Side BID,Sutton Coldfield Town Centre BID, University Hospital Birmingham Foundation Trust, Veolia Environmental Services Birmingham Ltd, Witton Lodge Community Association Ltd, Yardley Great Trust, Millennium Point Trust, Mutt Motorcycles Ltd, Obillex Ltd, Pure Mobile, PETPS (Birmingham) Ltd, Warwickshire County Cricket Club. The 2017/18 Statement of Accounts will contain details of the nature of the relationships.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	Members and senior officers are required to complete a register of interest. Members are also required to declare any interests relating to matters to be discussed in each meeting. The Members' declarations are published on the Council's website.

Accounting estimates

Issue
Matters in relation to Accounting Estimates Local authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed on the following pages. The audit procedure we conduct on the accounting estimate will demonstrate that: • The estimate is reasonable; and • Estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates

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

Accounting estimates

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

Accounting Estimates

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

Group accounts

Issue

Matters in relation to group accounts

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

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

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

Group accounts considerations

Question	Management response
Management's views on the group's control environment (including group wide controls), the process of reviewing the effectiveness of the system of internal controls and the results of any review.	The components provide audited and signed off accounts to the Council. As a third party professional provides this opinion, reliance is placed on the outcome of this opinion to obtain assurance over the effectiveness of internal control. If there are issues these would be raised by the external auditor of the component.
Management's views on the group's risk assessment process as it is related to financial reporting.	All components produce accounts under a different framework and set of accounting standards namely FRS102 and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Matters and events which occurred during the year that could influence our audit approach or the entity's consolidated financial statements.	The Council continues to review entities to determine whether they meet the criteria for consolidation into the Group accounts. Following the disposal of the NEC Group, the Council took on responsibility for its closed pension schemes through a wholly owned subsidiary, PETPS Limited. An increase in this liability has meant that the Council has set up a number of related companies and a Limited Liability Partnership to enable the additional costs to be spread over the longer term, consistent with the Council's own pension recovery period. The Council has assigned leases related to hotels on the NEC site to a subsidiary company. The Council has disposed of its interests in Service Birmingham Limited in 2017/18. The Council considers that Birmingham Museums Trust Limited and Performances Birmingham Limited should not be consolidated into the Council Group Financial Statements due to their independence as charitable companies.
The appropriateness of the group accounting policies to be used in the period, and whether any changes in the group's activities could require them to be updated.	As most companies are now producing their own accounts on the basis of FRS102, the alignment of accounting policies is less problematic.

Group accounts considerations

Question	Management response
Group management's processes for identifying and responding to risks of fraud.	Each year, those companies that are consolidated into the Council's Group Financial Statements and companies that are close to the level considered for consolidation are required to provide responses to a series of questions regarding the processes that they undertake in satisfying their boards on the effectiveness of their internal control systems and how they identify and report instances of fraud. The results are consolidated into a report for consideration at Audit Committee.
How those charged with governance monitor group management's processes for identifying and responding to risks of fraud.	The Audit Committee approves accounts annually, which includes the group accounts. As detailed above an annual exercise is undertaken with group entities to provide Audit Committee with assurances around risks of fraud.
Fraud risks within the group or any component within the group, including specific accounts or classes of transactions where fraud risks have been identified..	A risk was identified by one company where there had been an increase nationally in attempts to change supplier payment details. However, controls had been increased in this area. This was part of the report to Audit Committee in January 2018. The risk of material misstatement due to fraud is considered to be low.
How group management communicate to those charged with governance regarding business risks (including fraud).	Directors of BCC sit on the boards of components/subsidiaries of BCC. Therefore if there were issues of fraud Directors would communicate this back through BCC channels. The Council has also set up the Cabinet Committee – Group Company Governance that meets regularly and requires Council companies to present details of their business plans and business risks for consideration.

Group accounts considerations

Question	Management response
Management's awareness of any events or changes in circumstances that would cause an impairment of non-current assets.	An impairment review is undertaken by entities. The accounting questionnaire sent by BCC to components/subsidiaries asks questions over impairments to capture this information.
Management's awareness of allegations of fraud, errors or other irregularities during the period.	Group entities report their respective positions each January in a report considered by Audit Committee.
Management's awareness of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	All components produce accounts under a different framework and set of accounting standards namely FRS102 and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Audit Committee's awareness of fraud or suspected fraud within any group component.	The relative size of the components means there is low material fraud risk from components.
Audit Committee's views about the risks of fraud within each business component.	Each individual Group component supplied information about the risk of fraud within their own entity as part of the report taken to Audit Committee in January 2018.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Corporate Director - Finance & Governance**
Date of Decision:	**27 March 2018**
Subject:	**Adoption of Accounting Policies for 2017/18**

1 Purpose of Report

1.1 To seek members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2017/18.

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

2 Decisions recommended

That Audit Committee:

2.1 Consider and adopt the accounting policies for the determination of the Council's accounts for 2017/18.

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

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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. have been consulted on this matter:
The Chair of Audit Committee has been consulted.

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

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

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

4 Background

4.1 The Council is required to prepare its accounts with regard to:
a) Relevant accounting standards
b) The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 published by the Chartered Institute of Public Finance and Accountancy (the Code), which is updated annually
c) Relevant Statutes

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

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

4.4 This is the first year that the Council must produce and publish its draft accounts by 31 May and publish its audited accounts by 31 July.

5 Amendments to Accounting Standards for 2017/18

5.1 Amendments have been made to the following accounting standards and introduced to the 2017/18 Code:

- IFRS 10 – Consolidated Financial Statements
- IFRS 12 – Disclosure of Interests in Other Entities
- IAS 28 – Investments in Associates and Joint Ventures.

5.2 The amendments arising from the above standards have no impacts on local authorities as they are not investment entities.

5.3 There have been amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. The amendments relate to disclosures only and are designed to improve the information provided to readers of financial statements in respect of changes in an entity's debt and related cash flows.

6 Accounting Standards Changes in Future Years

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

This standard may impact significantly on local authorities through changes in treatment of assets held as financial instruments in a number of ways.

For Debtors within the accounts, an assessment of the ability to recover the debt will now have to be undertaken at inception rather than when there is evidence of potential default.

For investments, the accounting arrangements for Available for Sale financial assets will change. Currently, any change in the fair value of this type of asset was accounted for through the Revaluation Reserve and would only have impacted on the Council's General Fund when the asset matured, was sold or was written off. In future years, the changes in fair value will be treated differently according to the categorisation of the asset. In some cases, changes in fair value will impact immediately on the General Fund balance.

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

This standard has a core principle of entities recognising revenue depicting the transfer of promised goods/services that reflects the consideration expected for those goods/services. This may impact on areas such as sales where there are incidental obligations, for example, where there are ongoing maintenance agreements attached to equipment sales. It is not expected to have a material effect on the Council's accounts.

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

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

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

6.4 The other narrow scope amendments and IFRIC included in the consultation on the 2018/19 Code listed below:

- IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle, and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore they have been rolled forward into the development programme for the 2019/20 Code.

7 Accounting Implications

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

8 Recommendations

8.1 It is recommended that members:

a) adopt the accounting policies for 2017/18 as detailed in Appendix 1.

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

…………………………………………………………………………..
Clive Heaphy, Corporate Director – Finance & Governance

Appendix 1

Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Accounts and Audit Regulations 2015, requires the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

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

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

<u>Short Term Benefits</u>

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

<u>Other Long Term Benefits</u>

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

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

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate Directorate at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

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

Post-Employment Benefits

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

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

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

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

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

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

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

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

Service cost comprising:

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

Re-measurements comprising:

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

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

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

Discretionary Benefits

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

vii. Revenue Expenditure Funded from Capital under Statute

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

viii. Charges to Revenue for Non-Current Assets

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

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

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

ix. Government Grants and Contributions

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

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

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

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

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

x. Overheads and Support Services

The costs of overheads and support services are charged to Directorates in accordance with the Council's arrangements for accountability and performance.

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

- Infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- Community assets and assets under construction – historical cost;
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- Where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- All other assets – current value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the Balance Sheet date.

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

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

Where a material asset within Property, Plant and Equipment contains major components whose cost is significant in relation to the total cost of the asset and which has a useful life that is significantly different from that of the asset, the components are evaluated separately.

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. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a Directorate.

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

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

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

Impairment

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

Where impairment losses are identified, the accounting treatment is:

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

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

Useful Life

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

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

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

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

Depreciation

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

Components, where identified, are depreciated on a straight line basis over their useful lives.

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

Disposals and Non-Current Assets Held for Sale

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

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale.

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2017/18, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement. The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

xii. Heritage Assets

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

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

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

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

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

xiii. Intangible Assets

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

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

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

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

xiv. Investment Properties

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

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

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

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

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

xv. Service Concession Arrangements

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

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

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

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

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

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

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

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

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

xvi. Leases

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

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

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

The Council as Lessee

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

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

<u>Operating Leases</u>

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

The Council as Lessor

<u>Finance Leases</u>

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

xvii. Interests in Companies and Other Entities

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

xviii. Accounting for Schools

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

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

- Community schools;
- Voluntary Controlled schools;
- Voluntary Aided schools;
- Foundation schools.

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

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

xix. Financial Instruments

Financial Liabilities

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at cost. Where a fair value of those assets that do not form part of the Group Accounts can be determined, the carrying value of the asset is adjusted to the fair value.

Where a fair value cannot be measured reliably, the asset is carried at cost less any impairment losses. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

xx. Cash and Cash Equivalents

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xxii. Reserves

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

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

xxiii. Council Tax and Business Rates

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

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

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection

Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

xxiv. Business Improvement Districts

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

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

xxv. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the City.

CIL is received without outstanding conditions; it is, therefore, recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with section ix. Government Grants and Contributions of this note. CIL charges will be largely used to fund capital expenditure although an element may be used to support infrastructure maintenance and a small proportion of the charges may be used to fund the costs of administration associated with the CIL.

xxvi. Events After the Reporting Period

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

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

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

xxvii. Joint Operations and Jointly Controlled Assets

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

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

xxviii. Council Acting as Agent

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

xxix. Value Added Tax

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

xxx. Foreign Currency Translation

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

xxxi. Acquired Operations

Acquired operations are identified separately in the Comprehensive Income and Expenditure Statement in the year of transfer. In subsequent years, the acquired services are included in the relevant Directorate in continuing operations for comparative purposes.

Where non-current assets are transferred as part of an acquired operation at less than fair value, historical cost is deemed to be the fair value at the date of acquisition with the financial support recognised as a contribution and included in the Capital Adjustment Account.