

# **BIRMINGHAM CITY COUNCIL**

## **AUDIT COMMITTEE**

**TUESDAY, 25 SEPTEMBER 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](http://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 DECLARATIONS OF INTERESTS**

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

**3 - 8**

### **4 MINUTES - AUDIT COMMITTEE 30 JULY 2018 - PUBLIC**

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

**9 - 16**

### **5 BIRMINGHAM AUDIT: DATA WAREHOUSE**

Report of Assistant Director, Audit & Risk Management

**17 - 32**

### **6 BIRMINGHAM AUDIT ANNUAL FRAUD REPORT 2017/18**

Report of Assistant Director, Audit & Risk Management

7 **AUDIT FINDINGS REPORT - RESPONSE TO RECOMMENDATIONS**

Report of the Corporate Director, Finance & Governance

8 **AUDIT PROGRESS REPORT AND SECTOR UPDATE**

Report of the External Auditor

9 **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.

10 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 20 November 2018 at 1400 hours in Committee Room 6.

11 **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'.

12 **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**

13 **MINUTES - AUDIT COMMITTEE 30 JULY 2018 - PRIVATE**

Item Description

14 **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

<b>AUDIT COMMITTEE</b> <b>30 JULY 2018</b>
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## **MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON MONDAY, 30 JULY 2018 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM**

### **PRESENT:-**

Councillor John O'Shea in the Chair;

Councillors Afzal, Bridle, Jenkins, Shah, Tilsley and Webb

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### **NOTICE OF RECORDING/WEBCAST**

- 42 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](http://www.birminghamnewsroom.com)) and members of the press/public could record and take photographs except where there were confidential or exempt items.

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

### **APOLOGIES**

- 43 Apologies were submitted on behalf of Councillor Trickett.

### **DECLARATIONS OF INTEREST**

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

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**RESOLVED:-**

That the Minutes of the last meeting be confirmed and signed.

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**CORPORATE RISK REGISTER UPDATE**

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

(See document No 1)

Sarah Dunlavy, Assistant Director, Audit and Risk Management, introduced the report and responded to Members' comments relating to the number of significant risks it now contained. She confirmed that when risks materialised they came off the register and provided a brief explanation of when a risk was also an issue.

In response to comments relating to Risk Nos. 42, 43, 26, 31, 34, 41 – it was requested that reports relating to those risks be submitted to Committee during this municipal year.

The Chair requested that a report be provided early autumn on Risk No. 6 Highway PFI and towards the end of the year Risk No. 40 Commonwealth Games.

Clive Heaphy, Strategic Director, referred to the National Audit Office report on the financial resilience of Local Government and explained how local authorities were becoming more reliant on reserves to balance their books due to the financial cuts and increased demand for services. He added that the problems this local authority was facing were not dissimilar from the sector as a whole and it was how those problems were dealt with which was the issue.

He referred to the re-introduction of the Star Chamber process and subsequently highlighted the merits for this. He stated that with the Cabinet Member for Finance and Resources, there were monthly star chambers with each of the directors and the cabinet member responsible for that portfolio, in order to ensure that all were working to drive the budget home and where there were any areas that were drifting off course, they would be pulled back on track through the process.

He highlighted the fact that there should not be the reliance on reserves to balance the budget, as it was a false economy for any authority to use reserves to support long-term spending rather than seek cuts in spending that have to be made. He confirmed that they would continue to bear down on robust plans in order to ensure there was delivery against the approved budget for this year and subsequently confirmed that work had started on 2019/20 budget process, adding that there had been a lot of political engagement as well as a lot of thinking around various ideas in order to create a balanced budget without the

use of reserves. He added that the principle of setting a budget without the use of reserves was one that he was trying to ensure was adhered to by the local authority, as it was the correct way forward in the long-term.

Clive stated that budgets were monitored monthly and whilst explaining the difficulties in reporting the information on a regular basis due to various cycles, confirmed that they were looking to see whether changes could be made in order that information was more readily available.

The Chair stated that the financial situation needed to be reported regularly to this Committee as it was part of its monitoring role. He suggested that with the information provided by the monthly monitoring reports which would illustrate whether reserves were going to be used for this year that this information was submitted to the Committee in the autumn.

Upon further consideration it was:-

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**RESOLVED:-**

- (i) That the Committee agrees that the information provided by directorates and risk ratings are reasonable and the action being taken is effective, or if further explanation/information is required. Approval was sought for the following:-

Risk 18 – (Alternative Delivery Models) has undergone a thorough review and has been reworded and re-risked;

- (ii) that approval be given to the deletion of the following risk for the reasons set out in the report:-

Risk 3 (Schools PFI) as the immediate concern over PFI gap has been met. Longer term concerns are now being considered which will be managed locally or re-submitted onto the CRR;

- (iii) that approval be given to the following six new risks:-

- a) Risk 38 – Enterprise Zones – to manage in line with its delivery plan.
- b) Risk 39 – HS2 – BCC role to facilitate its delivery.
- c) Risk 40 – Athletes Village – Commonwealth Games.
- d) Risk 41 – School deficits – national funding arrangements have resulted in real term funding reductions and Dedicated Schools Grant – High Needs element.
- e) Risk 42 – Travel Assist – cost of provision and ability to deliver the agreed level of service.
- f) Risk 43 – Early years and Well Being Contract

- (iv) Reinstate removed risk in March 2018 on Allowance Payments – New risk 44.
  - (v) A new category of risk – “Service Delivery” has been added.
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**STATEMENT OF ACCOUNTS 2017/2018**

At this juncture, the Chair proposed the amendment in 2.1 of the recommendation to ‘note the audit letter’ and following a vote of (4) in favour (3) against – the amendment was carried.

Phil Jones, Grant Thornton briefly explained the change of practice that had been adopted this year with the Audit letter and the Audit Findings report being publicised closer together rather than having a gap between them. He added that the letter was a summary of the matters included within the report and that it contained no new material.

The Chair confirmed that the information detailed in the report and letter would not only be discussed today but also at the next City Council meeting.

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

(See document No 2)

Martin Stevens, Head of City Finance Accounts, introduced the report and made particular reference to 4.5 of the report.

The Audit Findings Year Ending 31 March 2018 was submitted:-

(See document No 3)

Phil Jones and Laura Hinsley, Grant Thornton, whilst introducing the report highlighted the recent improvements to the financial reporting that had been made by the City Council and commended the work that had since taken place with the new administration and management team in place.

Sarah Dunlavy, Assistant Director, Audit and Risk Management, responded to Members’ comments by providing a brief explanation of the agile audit plan and the work that had been shared with the external auditor albeit retrospective, highlighting that they would rather be undertaking reviews whereby any emerging issues were stopped at source.

Clive Heaphy made reference to the special piece of audit work that had been undertaken by Sarah relating to Acivico and highlighted that Audit was involved as soon as it was apparent that there were issues. Discussions with both the internal and external auditors had taken place and it was highlighted the good working relationship between Birmingham City Council and Grant Thornton.

Clive Heaphy, responded to Members' comments by confirming action was being taken to recover the payroll debt from an individual and regarding Purchase Orders, stated that the regulations were in place, however, where it was highlighted that there were control weaknesses, they were addressed accordingly with the individual concerned, to ensure that they fully understand the reason for having a matching process in the first place.

Phil Jones introduced the Annual Audit Letter – year ending 31 March 2018 and following Members' comments subsequently explained the appropriate process that was followed previously by the City Council under Section 24 of the Local Audit and Accountability Act 2014.

(See document No 4)

Councillor Tilsley declared a non-pecuniary interest as a trustee of Millennium Point.

Clive Heaphy responded to Members' questions relating to 'compensation for loss of office' and confirmed that due to the confidentiality agreement was unable to speak about this.

The Chair suggested that the item be discussed further in private.

At this juncture, the Chair thanked Phil, Laura and Tess for their reporting and subsequently wished Laura well in her parenting role.

Upon further consideration it was:-

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**RESOLVED:-**

That the Audit Committee:

Noted the Audit Findings Report from Grant Thornton and accept the recommendations in Appendix A of that report;

Noted the written recommendations issued under Section 24 of the Local Audit and Accountability Act 2014;

Noted the Draft Annual Audit Letter;

Approved the Annual Governance Statement included in the Statement of Accounts for 2017/18;

Approved the Letter of Representation from the Corporate Director, Finance & Governance;

Approved the Statement of Accounts for 2017/18.

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**DATE OF THE NEXT MEETING**

- 48 The next meeting is scheduled to take place on Tuesday, 25 September 2018 at 1400 hours in Committee Room 6.
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At 1610 hours, it was agreed by the Committee to exclude the public in order to discuss the item relating to 'compensation for loss of office'.

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**EXCLUSION OF THE PUBLIC**

**RESOLVED:-**

That, in view of the sensitive nature of the discussion due to take place the public be now excluded from the meeting.

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

- 49 **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.

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## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

**Report to:** AUDIT COMMITTEE

**Report of:** Assistant Director, Audit & Risk Management

**Date of Meeting:** 25th September 2018

**Subject:** Birmingham Audit: Data Warehouse

**Wards Affected:** All

#### 1. PURPOSE OF REPORT

- 1.1 To provide an overview of Birmingham Audits Data Warehouse and the range of functions it performs.
- 1.2 To outline 'All City Risking' (ACR), an ongoing development of the Data Warehouse that utilises advanced automated data processing to detect and prevent fraud or error.

#### 2. RECOMMENDATIONS

- 2.1 Members are asked to note this report.

### **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 requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

### **4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES**

- 4.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the Internal Audit plan.
- 4.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

### **5. COMPLIANCE ISSUES**

- 5.1 Council policies, plans and strategies have been complied with.

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**Sarah Dunlavey**  
**Assistant Director, Audit & Risk Management**

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

**Telephone No: 0121 675 8714**

**E-mail address: [sarah\\_dunlavey@birmingham.gov.uk](mailto:sarah_dunlavey@birmingham.gov.uk)**

# Birmingham Audit: Data Warehouse

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## Contents

1. Overview of the Data Warehouse
2. Outline of 'All City Risking'
3. 'All City Risking' – Examples

## **1. Overview**

- 1.1 The Data Warehouse (DW) was originally developed by Birmingham Audit in 2004 in response to the need to streamline and enhance investigation processes. The DW allows audit investigation officers to run a single intelligence search instead of having to access multiple systems or databases, which is time consuming and inefficient. Bringing together this intelligence helps to identify patterns and trends that may not have otherwise been apparent supporting the detection and investigation of fraud and error.
- 1.2 Early in its development the DW held just two sets of data and only a few thousand records. Today, closer to 10 million records are held from more than 40 sources, including; Blue Badges, Debtors, Housing Register, Homelessness, Customer Services, Burials and Cremations, Trading Standards, Animal Welfare, Environmental Health, Council Tax, NNDR, Housing Benefit, Electoral Roll, Housing Tenants / Rents, Market Traders, Occupational Pensions, Payroll, Right to Buy, Personal Alcohol Licences, Private Residential Care Homes, Taxi Drivers, Direct Payments, Council Tax Reduction, Social Care, HMO Licences, Planning Applications, Libraries. These records are refreshed regularly (daily for the most part) in order to keep records up to date and accurate.
- 1.3 In order to maximise value the DW has been embedded as a proactive tool within 20 services across the Council and partner organisations to support service delivery. Users generally access the DW for one of two reasons, either for 'validation', i.e. to proactively verify service entitlement, like discounts in respect of Council Tax or the provision of housing, or 'investigation' e.g. Trading Standards, Licensing, Birmingham Audit and Environmental Health. More recently, the DW has been expanded so that it can be also used to help trace missing pupils as well as help with debt management.
- 1.4 The DW is also used by a number of partner organisations, including West Midlands Police; local Registered Social Landlords and neighbouring Local Authorities. Importantly, this gives them 24/7 access to intelligence and helps in protecting resources and citizens across organisational boundaries.
- 1.5 The DW now has in excess of 300 users, which collectively make around 50,000 enquiries a year. It is estimated that this reduces information gathering overheads by roughly 90%, based on an average user having to access more than one information source. The security of the data held is taken very seriously. User access rights are closely controlled and there is a full audit trail of all enquires. The level of access is determined by a user's job role and activity is monitored by Birmingham Audit directly. It is important to note that users don't have the ability to view all data, only the ability to search across it. Only information relevant to their search terms is returned.

- 1.6 Creating the DW required us to develop in-house routines to extract data from the different systems. This meant gaining detailed knowledge of those systems and service areas. This knowledge has enabled us to enhance our audit processes and produce additional management information, which would not otherwise have been available to service areas.
- 1.7 The DW also gives us a unique global perspective on the information held by the Council; this has enabled us to identify efficiencies that would not otherwise have been seen.

## **2. 'All City Risking' Overview**

- 2.1 The bulk matching of data has been used for many years by Birmingham Audit to identify fraud or error. Likewise the Cabinet Office (National Fraud Initiative) and private enterprise (Credit Reference Agencies amongst others) have also done the same. However, these have tended to be one off exercises run at periodic intervals, which by their very nature only identify fraud or error at a given point in-time. If fraud or error occurs the day after the match, it may go undetected for months or even years.
- 2.2 As the DW holds the necessary data, it has been developed to undertake bulk / intelligence lead data matching far more frequently. When a specific set of parameters or algorithm is met a service alert is raised enabling proactive action to be taken. This is a highly efficient way of preventing fraud or error. We refer to this process as 'All City Risking' (ACR).
- 2.3 The goal of ACR is to identify fraud or error within 1 to 7 days and effectively prevent it, as oppose to it being detected months or even years later. ACR has been designed to continual check eligibility on a rolling basis (daily or weekly), even where a service has been provided appropriately in the first instance. This will help identify changes in circumstances and help keep records up to date and accurate. Whilst the development of ACR is in its early stages, the initial pilot exercises have been extremely encouraging.

### **3. ACR Pilots**

#### **3.1 Care Home Admissions**

- 3.1.1 Failure to take into account a care home admission can result in Council Tax and rent being charged incorrectly and affect entitlement to benefits. Additionally, there may also be cases where property will need to be recovered and re-let, which is especially important with housing being a scarce resource.
- 3.1.2 Care home admissions originally relied upon a manual process of notification, with three service areas having to be individually informed. Work pressures meant that the process was prone to human error and subject to delays. The first ACR routine was created so that any admission or extended care home stay was automatically identified and matched with Council Tax Reductions, Council Tax, Benefits and Housing records. Where a match was found, the ACR routine securely notified the services so that they could take appropriate action. This routine now automatically runs weekly to ensure that prompt action is taken and any impact on the person or service is limited.
- 3.1.3 This exercise initially identified 483 cases involving 100 council properties where records needed to be updated. It is estimated that the value to the Council would be in excess of £500,000 in terms of benefit overpaid, rent not being charged correctly and the value of property that could be returned for re-let.

#### **3.2 Council Tax (Single Persons Discounts [SPD] and Student Exemptions [SE])**

- 3.2.1 Approximately 140,000 people claim a SPD each with a minimum value of £250 (18/19 rates) and 6,000 claim a SE each with an average value of just over £1,000. Whenever an SPD or SE is awarded incorrectly or is no longer applicable, the Council loses valuable income.
- 3.2.2 An ACR routine was created which indicated that potentially anything up to 10,000 SPD's or SE might be incorrectly granted based on conflicting information held elsewhere in the Council. Of these a sample of 300 has been selected for detailed checking to determine the validity of the conflicts. Whilst this validation work is ongoing, testing currently shows that:
- roughly 60% of the cases sampled have arisen due to inconsistencies in data – matching routines are being refined to reduce these false hits;

- of the remaining cases 61 are regarded as a valid match, and of these 44 require detailed investigation; and
- to date SPD with a value of £35,000 (not the final value) have been removed and 22 cases raised for criminal investigation.

If the sample is representative of the whole 10,000 population then charges could be increased by in excess of £1m.

3.2.3 Following the successful completion of these pilot exercises we will be looking to implement additional ACR routines to run on a proactive basis to further improve processes and help eliminate fraud and error.

#### **4. Conclusion**

- 4.1 The DW has become a sophisticated and comprehensive intelligence hub that goes beyond the detection and prevention of fraud or error.
- 4.2 The development of automated matching routines will help in delivering future efficiencies and help in driving service improvement.





## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>25<sup>th</sup> September 2018</b>
<b>Subject:</b>	<b>Birmingham Audit Annual Fraud Report 2017/18</b>
<b>Wards Affected:</b>	<b>All</b>

#### **1. Purpose of Report**

- 1.1 The attached report updates the Audit Committee on how the Council has managed the risk of fraud during the period April 2017 to March 2018.

#### **2. Recommendations**

- 2.1 Members note the content of this report.

#### **3. Background**

- 3.1 The annual fraud report is a standalone report to summarise how the risk of fraud is being managed by the Council.

#### **4. Legal and Resource Implications**

- 4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

#### **5. Risk Management and Equality Impact Assessment Issues**

- 5.1 Risk management forms an important part of the internal control framework that the Council has in place.
- 5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

**6. Compliance issues**

6.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

**7. Recommendations**

7.1 Members are asked to note the content of this report.

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**Sarah Dunlavey**

**Assistant Director, Audit & Risk Management**

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

**Telephone No: 0121 675 8714**

**E-mail address: [sarah\\_dunlavey@birmingham.gov.uk](mailto:sarah_dunlavey@birmingham.gov.uk)**

# Birmingham Audit Annual Fraud Report 2017/18

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25<sup>th</sup> September 2018

## Contents

1. Background
2. Audit Committee
3. Resources for Counter-Fraud Work
4. Raising Awareness
5. Levels of Fraud
6. Application Fraud
7. Intelligence
8. National Fraud Initiative (NFI)
9. Management of Staff
10. Conclusions

## **1. Background**

- 1.1 In common with other public bodies the Council has a duty to protect the public purse. The purpose of this report is to update the Audit Committee on national and local fraud issues that arose during 2017/18, and in particular the role played by Birmingham Audit in the investigation, prevention and detection of fraud.
- 1.2 The standards of governance required within the public sector are high, and controls within systems must be effective to minimise the risk of fraud and error. However compliance with these controls can sometimes be an issue. During a period of change internal controls can become unstable and ineffective, so it is important that any increased risk of fraud is identified and appropriately managed. Birmingham Audit is tasked with the investigation of suspected fraud and error and the identification of any system or procedural issues that allow such incidents to occur. We identify how fraud or other irregularity has been committed and make recommendations to management to address weaknesses in controls to reduce the chance of recurrence in the future. We also assist management in taking action against those found to have perpetrated fraud and in the recovery of any losses.
- 1.3 There remains a high level of interest in fraud nationally. This is fuelled in part by publicity around new and emerging fraud risks and the necessity to make scarce resources go as far as possible, particularly during times of austerity. Birmingham Audit is therefore continually looking to enhance its counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

## **2. Audit Committee**

- 2.1 The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the Council to reduce levels of fraud and error. We regularly report on counter-fraud activity as part of our overall reporting on the work of the audit service. The Committee share the view that prevention, detection and deterrence are all important and have probed what actions management can take to prevent fraud entering the systems in the first instance.
- 2.2 Previously, the Audit Committee have received our self-assessment of the Council's performance in countering fraud against the Audit Commission publication 'Protecting the Public Purse'. We were able to report that the Council was performing well against the questions on the checklist, and we have done likewise in a subsequent self-assessment of our performance against the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption (revised

publication produced following the abolition of the Audit Commission). We will continue to assess our performance to ensure that it is in line with expectations and align our resources and processes accordingly.

### **3. Resources for Counter Fraud Work**

- 3.1 The Corporate Fraud Team (CFT) is a dedicated counter-fraud team within Birmingham Audit and is responsible for the investigation of suspected financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The team will also investigate any issues of procedural non-compliance which may have a financial or reputational impact on the Council. A specialist team within CFT was established in 2010 to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax, as well as to provide an intelligence hub. The resources available for counter fraud activities have remained unchanged from 2016/17 which has allowed us to continue with both reactive and proactive investigations as well as exploring new initiatives through increased use of data analytics.
- 3.2 Previously we reported that we had been enhancing our fraud monitoring capability through a process of knowledge transfer arising from a project undertaken with external consultants utilising funding from DCLG. This has enabled us to extract data from Council systems and run our own reports to help flag up any unusual patterns in transactions for further interrogation and investigation. This will also help to inform the routine audit assurance work in these key financial systems.

### **4. Raising Awareness**

- 4.1 The overall stance on fraud by the Council is set by our Anti-Fraud and Corruption Policy, Fraud and Corruption Response Plan, and the Whistle Blowing Code. Revisions to the first two of these were approved by the Audit Committee in 2013/14, whilst a revised Whistleblowing and Serious Misconduct Policy was launched in 2015.
- 4.2 As part of our work in raising the awareness of fraud throughout the Council we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated throughout the City Council via the intranet, and to all schools via the Schools Noticeboard. We are currently exploring the use of other media to maximise its distribution. We also periodically issue alerts whenever we become aware of a fraud threat in a particular area, and review and revise corporate policies and procedures to respond to particular issues. Last year we participated in a working group reviewing the risks within the procurement cycle posed by Serious & Organised Crime.

- 4.3 We have worked closely with the Place Directorate to ensure that staff involved in dealing with housing applications and tenancy issues are aware of the risks of fraud in this area. We have also developed, with the support of senior management, a network of 'Housing Fraud Champions' to help promote greater awareness of social housing fraud and to act as a single point of contact for our Application Fraud Investigators to obtain assistance during the course of their investigations.
- 4.4 We continually look for innovative ways to raise awareness of tenancy fraud and are looking to run a publicity campaign to heighten awareness amongst the public. We also publicise some of our successful prosecution outcomes to highlight the consequences of committing this type of fraud.

## **5. Levels of Fraud**

- 5.1 It is difficult to measure the level of fraud. Not all fraud is formally reported, some will go undetected and some will be prevented. In some cases it is difficult to quantify a value. Similarly, some losses can be attributed to error, misinterpretation or poor management. A good example of this is contract management, where contractors seek to maximise their profits by exploring potential loopholes within contracts, or where a procurement process has been intentionally circumvented, resulting in items being supplied but not necessarily at the best price. The level of identified fraud in any particular year can vary significantly, depending on the nature and outcome of the cases investigated.
- 5.2 In 2016, the UK Fraud Costs Measurement Committee (UKFCMC) estimated that the annual value of fraud across all sectors of the UK economy was £193 billion. This represents a massive increase on previous estimates from the now defunct National Fraud Authority (NFA), who in 2013, put the figure at £73 billion. The UKFCMC report, estimates the level of fraud against the public sector as £37.5 billion, which again represents a significant increase in the previous estimate of £20.1 billion produced by the NFA.
- 5.3 It is difficult to place a monetary value on our anti-fraud activity during 2017/18, particularly in terms of our work in relation to prevention and deterrence. Some quantifiable losses which are identified through investigation may be recovered, and work on the associated system issues may prevent and deter further losses. During 2017/18, the level of fraud/error investigated by CFT totalled just over £0.7m. This excludes application based fraud (Social Housing and Council Tax) which is covered in Section 6 of this report.
- 5.4 During the year CFT received information in respect of 115 potential irregularities (111 in 2016/17) from a variety of sources. Referrals can cover a wide range of issues, some of which lead to major investigations requiring significant resource, whilst others are referred to the directorates to deal with. The Council's Financial Regulations place a responsibility on all employees to report suspicions of financial irregularity, and the revamped whistleblowing

procedures have encouraged more staff to make disclosures. We regularly liaise with Legal Services to discuss the progress on those whistleblowing cases that are referred to us for investigation. We also receive information from various external sources, including members of the public. Additional referrals may arise when we raise awareness of a particular issue, or when we identify a specific issue through data matching exercises such as the National Fraud Initiative (NFI). Last year we received several referrals concerning potential breaches of the Staff Code of Conduct, which may not necessarily constitute fraud, but can nevertheless pose a potentially significant risk to the Council's reputation.

The table below summarises the reactive investigations activity of CFT (excluding Application Fraud) during the year:

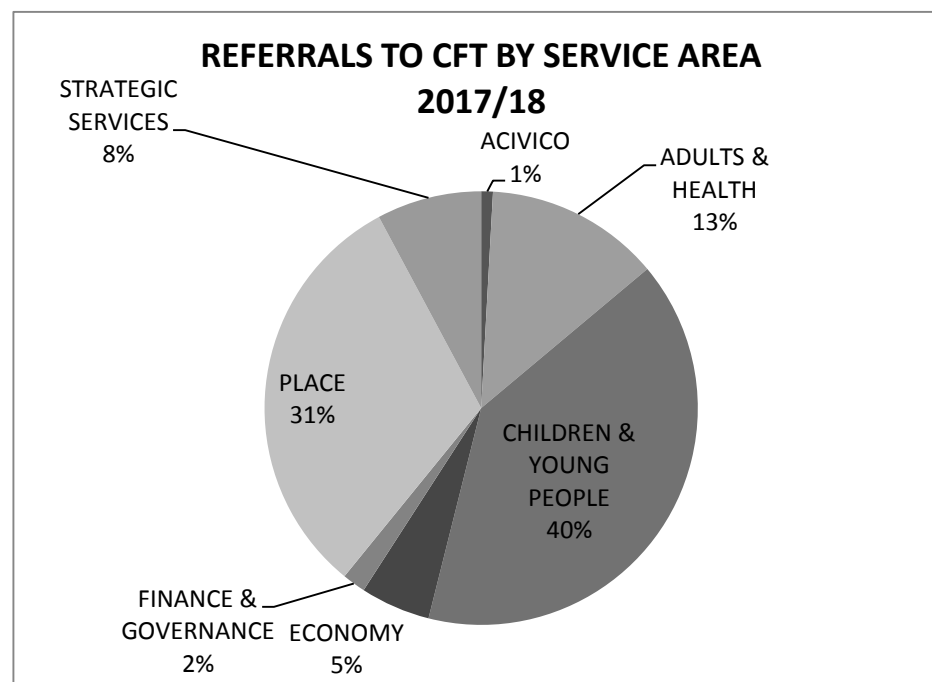
	2016/17	<b>2017/18</b>
Number of outstanding investigations at the beginning of the year	14	<b>10</b>
Number of fraud referrals received during the year	111	<b>115</b>
Number of cases concluded during the year	115	<b>97</b>
Number of investigations outstanding at the end of the year	10	<b>28</b>

The referrals can be categorised by fraud type as follows:

<b>FRAUD TYPE</b>	<b>No. OF REFERRALS RECEIVED - 2017/18</b>
Employee Benefit Related Fraud	1
Employee Revenues Related Fraud, i.e. Council Tax, Rents	4
Procurement Related Fraud, i.e. purchasing, contracts, creditor payments	26
Payroll/Recruitment Related Fraud, i.e. salary overpayments, false absenteeism, overclaimed hours, false employment history	37
Grants to External Organisations	3
Grants or Allowances to the Public, i.e. Direct Social Care Payments	2
Computer Misuse, i.e. password sharing, unauthorised systems access	11
Employee Code of Conduct	8
Theft	9
Other	14
<b>Total</b>	<b>115</b>



The referrals can be categorised by service area as follows;



- 5.5 Each referral is assessed and a decision made as to whether an audit investigation is necessary or whether the matter is best left to local management to deal with. This enables us to concentrate our resources on the most urgent or high profile cases. The split between different types of referral in any year can be affected by a number of factors, such as a particular proactive fraud exercise, fraud awareness initiative or corporate action. Some of the issues that are referred to us are not necessarily fraud, such as those involving Computer Misuse or breaches of the Employee Code of Conduct, but nonetheless, any procedural non-compliance can lead to fraud being committed and therefore we ensure these matters are investigated and dealt with appropriately.

- 5.6 Over the last few years we have received a high number of referrals from Shared Services relating to payroll overpayments. Failures to record absences or other events which affect pay (e.g. reduction in hours worked, accumulated long term sickness absence, maternity leave, contract termination etc.) last year gave rise to 19 salary overpayments of over £3,000, with a combined value of just over £118,000. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been taken, particularly in respect of any Code of Conduct issues where it is established that the employee has failed in their duty to report the fact that they were being overpaid, or where managers have been negligent in their responsibilities. It is disappointing that overpayments are still occurring on such a regular basis, particularly when they arise as a result of managers failing to input a termination date when an employee leaves, as this means payments continuing after the employee has left and requires additional resource in raising a debt to recover the overpayment.
- 5.7 An emerging trend to arise last year was the deliberate manipulation by some employees of attendance recording systems. We investigated an employee who was found to be clocking in/out at a work location other than where they were based to claim additional hours. Arising from this we undertook a proactive analysis of the Borer time recording system to identify any similar patterns of behaviour and this highlighted two other employees who were colluding to claim additional time. We have also investigated two employees who had been recording different types of absence on attendance monitoring systems in order to fraudulently claim additional time off work, and another employee who continued to work to a previous work pattern of hours despite having increased their paid hours several years previously.
- 5.8 Procurement related fraud, which covers everything in the Procure to Pay Cycle, is commonly regarded as high risk. Last year 26 referrals under this category were received, a number of which related to the Housing Repairs and Maintenance Contract, which are being investigated as part of the contract monitoring role within Birmingham Audit. Other referrals involved misuse of purchase cards, allegations of nepotism in the award of contracts and invoicing scams targeted at schools.
- 5.9 Last year we completed investigations in to two significant frauds involving thefts within the same service area. The employees involved in these cases were dismissed and both are currently subject to criminal proceedings.
- 5.10 We have continued to enhance our capability in the use of data analytics to identify potential fraud and error. Last year we carried out proactive exercises looking at Activity on Systems by Leavers, Employees Casual Hours, and Recording of Attendance. These projects not only help to detect fraud/error, but also highlight areas of poor practice and procedural non-compliance. Through our liaison with other local authorities and professional bodies, we

continually look to identify emerging fraud risks for inclusion in our programme of proactive work, and are seeking to enhance this by undertaking a corporate fraud risk assessment.

- 5.11 The team identify how fraud, or other irregularity, has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of reoccurrence in the future. In carrying out our investigations we have regard to the various outcomes available, whether this is internal disciplinary action against a Council employee, recovery of any funds, or referring the matter to the police for possible criminal action. We continue to work with Human Resources and Legal Services colleagues to ensure the best outcome for the Council.

## **6. Application Fraud**

- 6.1 The re-prioritisation of our work in recent years in response to legislative changes and to reflect those areas seen as high risk, has seen more resources being committed to tackling application based fraud such as Social Housing and Council Tax, both of which are commonly acknowledged nationally as being high risk areas. The CIPFA Fraud & Corruption Tracker estimated that in 2016/17, the value of Social Housing fraud across the UK was £263.4 million, and Council Tax related fraud was £25.5 million.
- 6.2 During the year we have continued to work closely with the Place Directorate, as well as local Registered Providers of social housing, to investigate and remedy all aspects of social housing fraud, including illegal sub-letting, non-residency, false applications and Right to Buy. Our primary objectives have always been:
- a) to recover social housing properties where investigations find that they are not being used as intended;
  - b) to protect the gateway for social housing by preventing fraudulent applications entering the system
- 6.3 We continue to advise the Directorate on records management, photo ID's, and the new application system, as well as providing training and support to front line staff in the use of the data warehouse to help them verify details submitted on housing / homeless / Right to Buy applications. Sharing data with partner organisations has enabled us to identify duplicate tenancies, fraudulent housing applications and new addresses for tenants who left our properties with rent arrears.

- 6.4 We continue to receive a high number of notifications relating to potential social housing fraud. Last year we raised 912 cases (900 in 2016/17). Through our investigations, we recovered 87 Council and Registered Provider properties (45 in 2016/17) with a combined indicative value of £8,091,000\*. The properties recovered are returned to the housing stock to enable those with a genuine need for social housing to be provided with a home. We also cancelled 152 housing applications prior to letting (194 in 2016/17). This has been key to preventing scarce social housing being allocated to people that were not entitled. We have also stopped 4 Right to Buy applications (4 in 2016/17), with a combined indicative value of £260,000\*\*. In addition, during the course of our work, we have located former tenants owing rent totalling nearly £30,000 and have identified numerous anomalies in relation to Council Tax and Housing Benefit.

\* Based on an indicative cost of £93,000 per property, source: Cabinet Office

\*\* Based on an indicative saving of £65,000 per property, source: Cabinet Office

- 6.5 A Prosecution & Sanctions Policy was approved by the Audit Committee in 2013 and legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders. Although prosecuting offenders and publicising successful convictions act as a valuable deterrent, and helps raise awareness of the problem of tenancy fraud, it is a time consuming process and is not always possible because of lack of evidence or documentation. Last year we prosecuted six individuals who had made fraudulent applications for housing and cautioned one other. Wherever possible, we attempt to recover any losses under Proceeds of Crime legislation, and last year the courts awarded us compensation of £38,990. More than half of this was in relation to a case involving a former City Council Housing Needs Officer who was jailed in 2016 for making false housing applications. In addition, we have supported the directorate in bringing civil proceedings to regain possession of properties where we have found evidence that the tenants are not using the property as their main home.
- 6.6 There are obvious social benefits in ensuring that only those with the greatest need are allocated social housing, but there is also a real financial saving from preventing and/or stopping social housing fraud, particularly in respect of providing temporary accommodation, and losing valuable housing stock through fraudulent Right to Buy applications. We will continue to work with the directorate to further develop work in this area.
- 6.7 Since April 2013, local authorities have been responsible for administering their own Council Tax Support schemes and need to ensure that safeguards are in place to minimise fraudulent claims. The Council Tax Reduction Schemes - Detection of Fraud & Enforcement (England) Regulations 2013 authorise the investigation of offences in relation to Council Tax Reduction Schemes and also create offences and enable penalties to be imposed in connection with these schemes. These are reflected in our Prosecution & Sanctions Policy which was approved by the Audit Committee in 2013.

- 6.8 Fraud relating to the Council's Council Tax Reduction Scheme, and other Council Tax exemptions are investigated by the team. We have previously encountered some legal and operational obstacles which have largely prevented us from applying sanctions against those who have committed Council Tax related fraud, so our response when fraud is identified is to ensure that the account is corrected and revised Council Tax charges are levied. Last year we prosecuted one individual, issued two fines, and imposed three penalties. We have been working with colleagues in Revenues & Benefits to automate the administration and application of fines and penalties through their systems.
- 6.9 In previous years we have concentrated on identifying fraudulent claims for Single Person Discount, but last year we proactively investigated some of the various Council Tax exemptions, such as those given to students, people in residential care homes, and cases awaiting probate to be granted. As a result of this, a total of £1,077,096 of adjustments in Council Tax liabilities were identified. We have liaised with senior management within Revenues & Benefits to initiate improved mechanisms for reviewing Council Tax exemptions, including use of our data warehouse. Last year we raised 846 cases (305 in 2016/17) relating to Council Tax. In addition, during the course of our work, we identified Housing Benefit overpayments totalling nearly £826,748 (£589,110 in 2016/17).

## **7. Intelligence**

- 7.1 We continue to enhance our capability by developing our data warehouse facility with the addition of more data sets, not only with Council data, but also those of our partners and neighbouring authorities. This provides us with a sophisticated data resource to enhance our intelligence function in assisting our investigations. We have extended access to the facility to a variety of frontline services across the Council as well as to our external partners, including law enforcement agencies, where it provides a comprehensive means of verifying information to help tackle crime and disorder. In Housing it has been embedded into their verification checks on applications and tenancy records, helping to combat social housing fraud. It is also used by Trading Standards, Taxi-licensing and Schools Admissions. By extending access to the data warehouse, we have been able to reduce the reliance on our intelligence function to provide verification checks.

## **8. National Fraud Initiative (NFI)**

- 8.1 In January 2017, we received the results of the 2016/17 NFI data match, a bi-annual exercise undertaken by the Cabinet Office which matches a variety of data across public bodies for the purpose of identifying fraud and error. The Cabinet Office does not expect all of the matches to be checked and provide guidance on which they recommend to be investigated. Whilst the matches may be an indicator of fraud or error, in the vast majority of cases, the match

can be attributed to outdated or incorrect data, but nevertheless still needs to be checked and if necessary, records put right. Due to resourcing, we have to pass the majority of these matches to the relevant service area for them to review, particularly those relating to Housing Benefit, Council Tax Single Person Discounts and Housing Tenancies. With the latter, the majority of matches relate to joint tenancies where one partner has left and not been removed from the tenancy, so technically they could come back and exercise their tenancy rights, such as Right to Buy. Housing have been asked to address this by arranging to get the non-resident tenant removed from the tenancy.

- 8.2 The 2016/17 NFI exercise generated 44,706 matches for the Council. A number of new datasets have been included, such as Companies House data, which has been matched with payroll to help identify any members of staff gaining pecuniary advantage from not declaring a business interest. One of these matches helped identify a procurement issue at a school which is still under investigation. To date fraud and error of £648,376 has been identified from the 13,735 matches reviewed, the majority of which relate to Housing Benefit.
- 8.3 Preparations are underway for the 2018/19 NFI exercise, and we expect the matches to be released to us in January 2019. We have had discussions with the Cabinet Office to seek ways of improving NFI and have made a proposal to them to exclude the majority of our internal matches as we have developed the capability to run our own matches on a more regular basis.

## **9. Management of Staff**

- 9.1 We still receive a high number of referrals which relate to problems which would not have occurred if staff had been more effectively managed, or work processes better controlled. Failure to have in place robust procedures and working practices may result in reduced levels of internal control and place greater reliance on the monitoring of budgets and performance. It is important that managers understand their roles and responsibilities in this and not allow a culture where fraud and corruption can flourish. Similarly, it is important that staff follow procedures and adhere to the Code of Conduct, and when they don't, appropriate management action is taken.
- 9.2 We cannot stress enough the importance of staff following laid down policies and procedures. This helps the Council to minimise the risk of fraud and assists in protecting staff against allegations of impropriety. We continue to see cases where staff appear to be unaware of how their actions will seem when viewed independently. As a result processes for decision making can appear to be flawed and lack transparency.

## **10. Conclusions**

- 10.1 Countering fraud and error remains a priority for the Council. We continue to work on reinforcing the message of 'zero tolerance' through prevention, detection and deterrence.
- 10.2 As part of our investigatory work we continue to highlight weaknesses in systems and procedures and make recommendations to assist management in addressing these issues. We therefore expect management to act decisively and implement our recommendations and if necessary take robust action against employees who chose not to comply.
- 10.3 Whilst it is difficult to assess the Council's overall exposure to the risk of fraud and error, it is safe to say that there will always be an increased risk in those areas where systems are weak, or where controls are allowed to be circumvented. Managers must remain alert to this risk and take responsibility for assessing it within their business area by ensuring that robust procedures are in place, and are followed. This is more important than ever with fewer resources available.
- 10.4 Our continued commitment to tackle social housing fraud has not only delivered financial benefits to the Council, by freeing up scarce housing resources, it also provides huge social benefits by helping to ensure that these resources are allocated to those most in need.
- 10.5 Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error.
- 10.6 The expansion of our data warehouse continues to provide benefits not only in terms of detecting and preventing fraud and error, but also in the effective delivery of Council services and helping to tackle crime and disorder.
- 10.7 We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that everyone knows how to report their concerns.

**Neil Farquharson**  
**Group Auditor – Corporate Fraud Team**  
**Birmingham Audit**





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

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Corporate Director – Finance &amp; Governance</b>
<b>Date of Decision:</b>	<b>25 September 2018</b>
<b>Subject:</b>	<b>AUDIT FINDINGS REPORT – RESPONSE TO RECOMMENDATIONS</b>
<b>Wards affected: All</b>	
<b>1 Purpose</b>	
1.1	At its meeting on 30 July 2018, Members considered the External Auditor's Audit Findings Report and the draft Annual Audit Letter following the audit of the Council's financial statements for 2017/18.
1.2	The External Auditor made a number of recommendations within the Audit Findings Report for management to consider. These recommendations are in addition to the recommendations made under Section 24 of The Local Audit and Accountability Act 2014 that were considered by Council at its meeting on 11 September 2018.
1.3	The timescale that the Audit Findings Report was produced to in July precluded a detailed response to the recommendations made by the External Auditor in that report. These are now concluded and submitted for review and approval.
1.4	The External Auditor issued his final Annual Audit Letter on 16 August.
<b>2 Decisions recommended:</b>	
	Members are recommended to:
2.1	Approve the management responses, attached as Appendix 1, to the recommendations set out in the Audit Findings Report issued in July 2018
2.2	Seek reports to future meetings of this committee on the progress in implementing the actions proposed in response to the recommendations set out in the Audit Findings Report.

**Contact Officer:** Clive Heaphy  
**Telephone No:** 0121 303 2950  
**E-mail address:** [clive.heapy@birmingham.gov.uk](mailto:clive.heapy@birmingham.gov.uk)

**Contact Officer:** Martin Stevens  
**Telephone No:** 0121 303 4667  
**E-mail address:** [martin.stevens@birmingham.gov.uk](mailto:martin.stevens@birmingham.gov.uk)

### **3 Compliance Issues:**

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:  
The coverage of the Audit Findings Report, Annual Audit Letter and actions highlighted in this report are consistent with the policy framework and budget.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:  
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):  
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.
- 3.4 Will decisions be carried out within existing finances and resources?  
Yes
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):  
The Audit Findings Report includes details on activities where the External Auditor has identified that the Council can make improvements or reduce risks in its operations. This report provides a response as to how the recommendations made will be addressed.

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

- 4.1 The Audit Findings Report was considered by this committee on 30 July 2018. At the time of reporting to this committee, there had been no time to consider the management responses to the recommendations set out in the Audit Findings Report. These are now included as Appendix 1 to this report for approval. These recommendations are in addition to the Section 24 recommendations considered by Council at its meeting on 11 September 2018.
- 4.2 The Annual Audit Letter is the statutory report by the Council's external auditor, Grant Thornton, of its activities for the year. The only changes between the draft provided to this Committee at its meeting on 30 July 2018 and the final version issued are that the word draft has been taken out of the report and the additional agreed fees included on page 22 of the letter, attached at Appendix 2 for information.
- 4.3 Further reports will be provided to this committee setting out the progress in implementing the proposed activity in response to the recommendations set out in the Audit Findings Report.

**Signature:**

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

**Appendices**

Appendix 1 – Management Response to Audit Findings Report Recommendations

Appendix 2 – Extract from Annual Audit Letter



## Management Response to Audit Findings Report Recommendations

## Appendix 1

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	<b>Accounts</b>			
1	<p><b>Control weakness – payroll leavers</b></p> <p>As part of our payroll testing we identified one individual who resigned from the Council in June 2017. However, their resignation form was not authorised until October 2017. Salary overpayments were identified in February 2018 and payments to the individual were suspended. This has been recognised as a debtor.</p> <p>Although we are satisfied that this error was identified by the Council, there is a risk that salary overpayments could occur if resignation documents are not authorised and actioned on a timely basis.</p>		<p>The overpayment related to a failure by management to comply with Council processes for the timely recording when a person leaves the Council. A review by internal audit has identified a further 18 cases of a similar nature. Whilst this is a very small number of incidents given a monthly payroll of circa 14,000 payments further investigations have been undertaken. The Council seeks to recover any overpayments.</p> <p>Many of the issues identified are due to management not taking proactive action in line with the processes available on the Intranet/People Solution, examples include:</p> <ul style="list-style-type: none"> <li>○ Late notification or not completing the termination form when employees have left employment of BCC, whether that be via online or offline process</li> <li>○ Late notification or not completing changes in hours via offline or online process for temporary/permanent changes</li> <li>○ Sick leave absence end dates not updated which results in employees being overpaid as they should be in half/nil pay</li> <li>○ Late or no notification of maternity/paternity/adoption/unpaid/parental leave causing overpayments</li> </ul>	

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	<p><b>Recommendation</b></p> <p>We recommend that management consider the adequacy of controls in place to ensure authorisation of leaver documents does not lead to payments being made to individuals once they have ceased employment.</p>		<p>To improve managerial compliance HR services will undertake the following:</p> <p>a) half yearly communication reminders to managers to remind them of their obligations where there are pay related requirements</p> <p>b) Monthly audit check of 'non-completed' actions which are items awaiting approval in a manager's worklist.</p> <p>c) Where there are repeat offenders the relevant Director will be notified and formal disciplinary action may be taken. Targeted training to be offered to those repeat offenders.</p> <p>d) Ensure People Solutions training in respect of 'Self-service' is completed as part of the induction.</p> <p>e) HR Services proactively chase managers where we have cause to believe an overpayment may arise</p>	<p><b>Implementation Date:</b></p> <p>a) October 2018 and then every 6 months</p> <p>b) Monthly</p> <p>c) Quarterly identification and reporting</p> <p>d) December 2018</p> <p>e) Ongoing</p> <p><b>Responsible Officer:</b></p> <p>Assistant Director Human Resources</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
2	<p><b>Control issue – heritage asset valuations</b> From our work performed on heritage assets and through further discussions with management we consider that the value of Heritage assets recognised on the balance sheet, whilst the accounting treatment is compliant with the Code based on insurance valuations, may not be a true reflection of the value of such assets.</p> <p><b>Recommendation</b> We recommend that management consider the appropriateness of these insurance valuations.</p>		<p>The Code requires that Heritage assets should normally be carried at valuation. However, where it is not practical to obtain a valuation at a cost that is commensurate with the benefits to users of the financial statements, Heritage Assets may be carried at cost where that information is available. Where information on cost or value is not available then the Code does not require the asset to be recognised on the balance sheet.</p> <p>Valuations may be made by any method that is appropriate and relevant and need not be carried out by external valuers.</p> <p>For the heritage collections held within the Museums, the Council has decided to use the insurance valuation of maximum exposure to loss, which equates to £150m. That value is unlikely to represent the full value of the collection, but with the extensive collection within the service a full valuation is likely to take a significant time to complete, give a significant range of possible values for the collection and be at such a cost as to make it uneconomical to commission and of limited benefit to the readership of the accounts.</p> <p>The appropriateness of valuations will be kept under review.</p>	<p><b>Implementation Date:</b> March 2019</p> <p><b>Responsible Officer:</b>  Finance Manager, Financial Accounts</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
3	<p><b>SAP – User access</b>  We identified a higher than expected number of system accounts and service accounts with SAP_ALL access. SAP_ALL access provides access to all IT functions within the ledger system. We also noted one member of staff who was given this access in error. We can confirm no manual journals have been processed by this user in 2017/18.</p> <p><b>Recommendation</b>  We recommend that management considers which users need SAP_ALL access and removes access to this function where it is not required.</p>		<p>SAP Business Support Centre (BSC) response:  The process to grant SAP_ALL to users has been agreed with Internal Audit and has been checked by them periodically. Access to SAP_ALL is only granted following application from Capita ICTDS to nominated representatives of SAP BSC and is limited to a maximum of 5 days. SAP BSC carries out daily checks to monitor who has access to SAP_ALL and any errant users are dealt with immediately with access being revoked. Capita ICTDS have explained this below.</p> <p>Capita ICTDS response:  The system and service user IDs are required for system and communication activities and are set up as per the requirements of the software vendor. The SAP landscape is heavily integrated and any change to these IDs is a very high risk activity. We review these IDs and any that are out of use are/will be removed including those generic users that do not have SAP_ALL.</p> <p>At the time of the Grant Thornton audit it was explained that the specific id queried was not set up in error but was assigned SAP_ALL on 04/03/2018 during the exceptional circumstance of a project go live. An error was made by one of our security consultants who did not remove it. There is an existing BSC process to monitor SAP_ALL and they would have identified and asked for this to be removed.</p>	<p><b>Implementation Date:</b>  Immediate and ongoing</p> <p><b>Responsible Officer:</b>  Finance Manager, SAP BSC</p>



Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
4	<p><b>Multiple accounts assigned to a single user</b> We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for Firefighter ID purposes, it appears that some are unnecessary.</p> <p><b>Recommendation</b>  We recommend that management considers which users need multiple accounts within SAP and removes access to those where this function where is it not required.</p>		<p>The process to grant Firefighter ID's to users has been agreed with Birmingham Audit and is checked by them periodically. In addition SAP BSC carries out a monthly check to ensure that all Firefighters are valid. Where access is no longer required it is revoked.</p>	<p><b>Implementation Date:</b> Immediate and ongoing</p> <p><b>Responsible Officer:</b> Finance Manager, SAP BSC</p>
5	<p><b>Under-accrual of waste invoices</b> Management made us aware of a number of waste invoices relating to services provided 2017 which had not been correctly recorded in the financial statement. Whilst the</p>		<p>The invoices referred to all relate to services provided during the refuse collection dispute during 2017/18, but that were not recognised in the ledger until 2018/19, and for which no accrual was made.</p> <p>For clarity, it should be noted that whilst costs were not properly recorded in the ledger for 2017/18 either</p>	<p><b>Implementation Date:</b> To be implemented immediately and ongoing</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	<p>values involved are immaterial to our audit we have identified two weaknesses in the control environment.</p> <p>Firstly, one purchase order (PO) created in the system became 'stuck' and could not be authorised. This meant that invoices received could not be matched to the PO.</p> <p>Secondly, a number of payments were processed in relation to invoices which had not yet been recorded in the system.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council considers its controls in place to ensure other invoices are not paid before they are recognised within the ledger system.</p>		<p>through purchase orders or otherwise, payments were not issued to the service provider until such a time as the point at which the invoices were recorded on the system in 2018/19.</p> <p>The Council's preferred approach is for invoices to be paid through matching with appropriately raised and authorised purchase orders, although it is possible for invoices to be processed outside of this route subject to the appropriate approvals (which still results in invoices being properly recorded on the system).</p> <p>The invoices identified in this instance were processed through this "non-purchase order" route, but were still recorded on the ledger when identified as set out above. The costs were not however accrued into the year to which the costs related.</p> <p>The requirements for Service Directorates to comply with accounts payable policies and procedures will be reinforced through management team meetings, and reviews of significant unmatched purchase orders reviewed as a part of the year-end closedown of accounts process to identify required accruals.</p>	<p><b>Responsible Officer:</b> Business Partner – Place Directorate</p>

<b>Rec No.</b>	<b>Issue and Recommendation</b>	<b>Priority</b>	<b>Management Response</b>	<b>Implementation Date &amp; Responsibility</b>
6	<p><b>Control weakness - HRA revaluation</b></p> <p>From completing our testing on HRA revaluation, we noted a £97.1m error within council dwellings which resulted an understatement of net book value. This occurred due to a formula error and has now been corrected.</p> <p><b>Recommendation</b></p> <p>We recommend that a reconciliation control is put in place to ensure the prevention of similar errors in the future.</p>		<p>Agreed.</p> <p>Given the substantial overall value of HRA dwellings, a small percentage change in market values can have a material effect on the net book value to be included in the accounts. In order to ensure that the valuation in the accounts is materially correct, it is therefore necessary for the valuation to be undertaken as close to the year-end as possible. Notwithstanding this, the timeline for the provision of HRA asset valuations will be reviewed with a view to allowing more time for effective reconciliation and consistency checks to be applied to the calculation of revaluation adjustments, whilst still ensuring that the valuations are materially correct as at the year-end date.</p>	<p><b>Implementation Date:</b> March 2019</p> <p><b>Responsible Officer:</b> Business Partner - Place Directorate/ Valuer</p>
7	<p><b>Control weakness – Business Rates Appeals</b></p> <p>Classification of additional provisions made in year and amounts used in year are incorrect. However, we are satisfied that the year end provision value is correct.</p>		<p>The vast majority of the provision calculation was deemed to be classified correctly as brought forward amounts used. There was only a small, less significant, net value that was identified as potentially being a combination of additional provisions made and used in year and therefore classified incorrectly. It was concluded, therefore, that further analysis was not</p>	<p><b>Implementation Date:</b> 31 March 2019</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	<p><b>Recommendation</b></p> <p>We recommended that the Council accurately calculate out the amount of business rate appeals used in year which will result in an accurate figure for additional provisions to be made in year.</p>		<p>warranted in this instance. The volume of individual transactions involved with the provision calculation would require an extensive piece of analysis in order to correctly classify each item. However the figures will be analysed further in future to determine if the potential figure that could be re-classified as additional provision used in year is significant, which would then be considered as part of the final accounts process if necessary.</p>	<p><b>Responsible Officer:</b> Senior Business Analyst – Collection Fund</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	<b>Value for Money</b>			
1	<p><b>Budget Delivery and Reserves Management, as well as savings proposals</b></p> <p>The key risk is that the proposed savings schemes (including the implementation of savings proposals) will not deliver the required recurrent savings, or will take longer to implement than planned.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council deliver the elements of the statutory recommendation that relate to finance and transparency and governance (see page 5).</p>		<p>The Council has taken a number of steps to ensure that financial and performance monitoring information provided is timely to enable decisions to be made at the earliest opportunity. These have included:</p> <ul style="list-style-type: none"> <li>• Improvements in the quality and timing of the monthly budget monitoring reports to allow for early reporting and discussions with budget holders enabling corrective action to be taken more quickly. This includes the future years' dimension as well as the in-year position.</li> <li>• The introduction of a star chamber for relevant Service Directors and Cabinet Members to meet the Cabinet Member for Finance and Resources and the Chief Finance Officer to enable an understanding of the financial position and any appropriate corrective action to be taken</li> <li>• A tightening on the use of reserves through Cabinet approval to ensure that recovery plans are considered before the use of reserves, which is a last resort to meet budget pressures. Reserves will be kept under review to ensure their adequacy.</li> </ul>	<p><b>Implementation Date:</b> Immediate and ongoing</p> <p><b>Responsible Officer:</b> Corporate Director, Finance &amp; Governance</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
			<ul style="list-style-type: none"> <li>• More formal scrutiny arrangements for the Council's finances have been put in place in addition to the creation of a Capital Board chaired by the Leader</li> <li>• More robust arrangements are being introduced for the programme and project management of the delivery of savings initiatives.</li> </ul> <p>The process for the development of future years' budgets has been started considerably earlier than in previous years.</p>	
2	<p><b>The Panel</b> The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.</p> <p><b>Recommendation</b>  We recommend that the Council implement the actions identified in its Improvement Stocktake Report and demonstrate measurable</p>		<p>The stock-take report published in June 2018 represented the Council's self-assessment of progress against the Kerslake recommendations and subsequent Birmingham Independent Improvement Panel (BIIP) concerns. The Council has also developed a Corporate Governance Improvement Plan.</p> <p>From July 2018, the Council has provided regular reports on progress against its self-assessment and improvement plans through monthly meetings with MHCLG and the BIIP. This has involved the sharing of monthly finance summaries, performance management and Corporate Governance Plan documents.</p>	<p><b>Implementation Date:</b> Immediate and ongoing</p> <p><b>Responsible Officer:</b> Chief Executive</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	outcomes to the Panel		Collaboration workshops have been put in place between the Council and the BIIP that will cover development issues such as performance management, homelessness and skills.	
3	<p><b>Services for Vulnerable Children</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council continue to demonstrate measurable improvements in services for vulnerable children through the Children's Trust</p>		<p>Birmingham Children's Trust (the Trust) was set up to provide Children's Social Care services. By being an independent children's trust there can be a more focused and flexible approach to improving services for vulnerable children.</p> <p>The Council manages the contract with the Trust with an agreed set of performance measures. Monthly meetings of the Operational Commissioning Group include reports on 15 key indicators which collectively form one of the measures in the 2018-22 Council Plan. As of the end of July, all monthly indicators were on track or within the agreed level of tolerance</p> <p>Preparations are underway for an expected local authority children's services inspection in the next few months which will assess on going improvement.</p>	<p><b>Implementation Date:</b> Through ongoing monthly reviews and by December 2018</p> <p><b>Responsible Officers:</b> For the Council: Corporate Director of Children &amp; Young People</p> <p>Assistant Director for Commissioning</p> <p>For Birmingham Children's Trust: Chief Executive</p>

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
4	<p><b>Management of Schools</b> The key risk is that the governance issues identified at schools will not be effectively addressed.</p> <p><b>Recommendation</b> We recommend that the Council increase the pace of improvement in schools governance arrangements to ensure that it can demonstrate to Ofsted that it has addressed the issues that it raised.</p>		<ol style="list-style-type: none"> <li>1. A new school improvement contract has been agreed with Birmingham Education Partnership to run from 1 Sept 2018 for two years and a set of priorities and performance framework is being agreed. Provisional results for children's performance at Key Stage 2 are showing a narrowing of the gap between Birmingham and the national average.</li> <li>2. Stronger guidance has been provided to schools to ensure appropriate governance around finance to avoid the risks of schools moving into deficit. Where schools are demonstrating financial concerns a cross directorate group made up of School Financial Services, HR, Audit, Governor Support and Infrastructure works together to address wider concerns and co-ordinate support.</li> <li>3. A more focused programme of work has been agreed with Internal Audit to consider financial risks within schools. The Directorate Management team will review on a termly basis the work of Internal Audit with high risk reports acted upon.</li> <li>4. In addition to this, a monthly Schools Causing Concern meeting takes place and there are regular conversations with Ofsted and the Regional Schools Commissioner.</li> <li>5. There is an ongoing focus on addressing resilience in schools through providing support, advice and training on safeguarding and extremism. This is overseen through the Education Safeguarding Board.</li> </ol>	<p><b>Implementation Date:</b> Immediate and Ongoing</p> <p><b>Responsible Officers:</b> Corporate Director of Children &amp; Young People  Assistant Director for Education - Safeguarding</p>



## A. Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

### Reports issued

Report	Date issued
Audit Plan	27 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	1 August 2018

### Audit Fees

	Proposed fee	*Final fee
Council Audit *final fee includes £5k for statutory recommendation	314,168	319,168
Objections from 2016/17		24,000
Grant Certification	17,594	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£331,762</b>	<b>£TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification covers only Housing Benefit subsidy certification, which falls under the remit of PSAA. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Note 47 of the financial statements shows £0.3m for 'fees payable with regards to external audit services'. This agrees to our disclosed audit fees table above.

Note 47 also shows £0.1m for 'fees payable for the certification of grant claims and returns'. This is comparable to our non-audit fees paid by BCC below. The Council have rounded this up so as not to show as NIL in the financial statements.

### Non Audit Fees

Fees for other services	Fees £
<b>Audit related services:</b>	
• Certification of grant claims excluding Housing Benefits (BCC element only)	23,250
<b>Non-audit services</b>	
• CFOi insights 2017/18	10,000
<b>Total</b>	<b>23,250</b>

### Subsidiaries audit fees

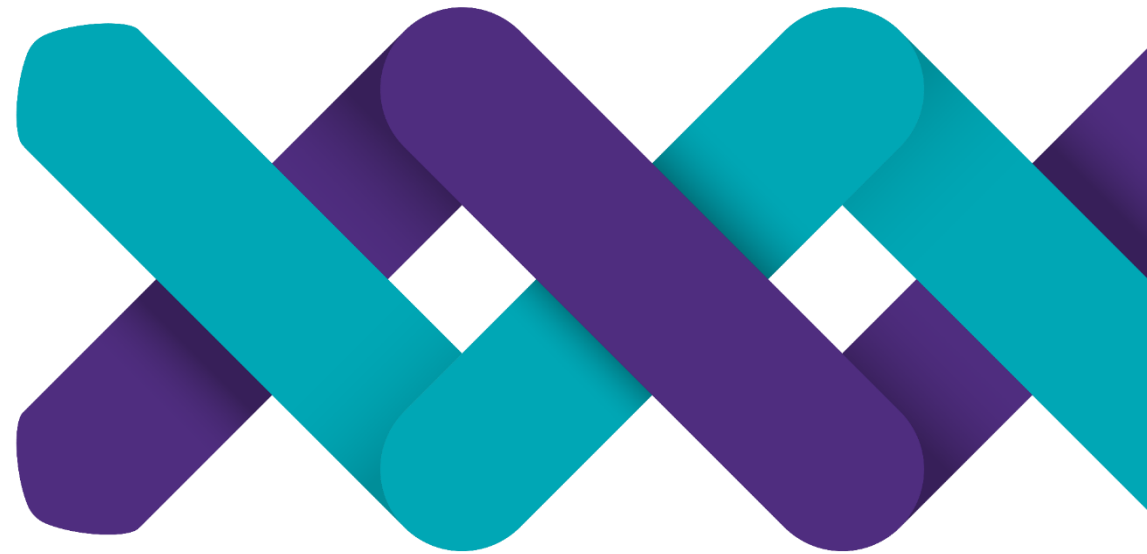
Fees for other subsidiaries	Fees £
Acivico Limited	38,000
Innovation Birmingham Limited	22,800
West Midlands Growth Company Limited	13,900
Finance Birmingham Limited	7,000
NEC (Developments) PLC	35,000
PETPS (Birmingham) Limited	7,500
PETPS subsidiaries	20,000
<b>Total</b>	<b>144,200</b>



# Audit Progress Report and Sector Update

Birmingham City Council  
Year ending 31 March 2019

September 2018



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# Introduction



**Phil Jones**

**Engagement Lead**

T 0121 232 5232  
M 07824 343631  
E phil.w.jones@uk.gt.com

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)



**Tess Barker-Phillips**

**Engagement Manager**

T 0121 232 5428  
M 07899 965193  
E tess.s.barker-phillips@uk.gt.com

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.grantthornton.co.uk](http://www.grantthornton.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 September 2018

## 2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on 31 July 2018. Our certificate of audit closure was issued on 16 August 2018.

We issued:

- An unqualified opinion on the Council's financial statements;
- A qualified (adverse) value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- A Statutory Recommendation under section 24 of the Local Audit and Accountability Act 2014.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

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## 2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

## 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 2018/19 claim will be concluded by November 2018.

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

### Meetings

We met with Finance Officers in August as part of our regular 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 also met with your Monitoring Officer in August to discuss areas relevant to our audit.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Accounts Audit Plan</b> 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 2018-19 financial statements.	January 2019	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

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# Sector Update

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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



# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

## CIPFA Consultation

### Challenge question:

Has your Corporate Director Finance & Governance briefed members on the Council's response to the Financial Resilience Index consultation?



# MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:  
<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

## Social Housing Green Paper Consultation

### Challenge question:

What does the Social Housing Green Paper mean for your local authority?



# Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

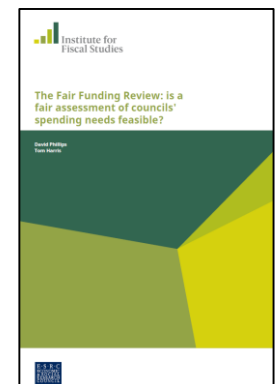
Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

**Strategic issues** – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

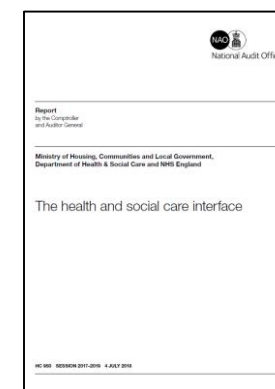
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:  
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## The health and social care interface

### Challenge question:

Has the Audit Committee considered the 16 challenges to joint working and what can be done to mitigate these?



# The Vibrant Economy Index

## a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website ([www.granthornton.co.uk](http://www.granthornton.co.uk)) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

### Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



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# Links

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## Grant Thornton website links

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

<https://www.grantthornton.co.uk/en/industries/public-sector/>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>



