

Birmingham City Council

Report to Cabinet Committee – Group Company Governance

13 February 2019



Subject: Company Update
Report of: Clive Heaphy, Corporate Director, Finance & Governance
Relevant Cabinet Member: Councillor Brigid Jones
Relevant O &S Chair(s): Councillor Sir Albert Bore
Report author: Martin Stevens

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential :		

1 Executive Summary

- 1.1 This report provides Members with information on charities that have relationships with maintained schools within the City.

2 Recommendations

- 2.1 Members are asked to:
- note the information provided
 - instruct officers to prepare a further report to Committee once the matters set out in Section 3 below have been reviewed by 17 April 2019.

3 Background

- 3.1 In publishing the Council's group financial statements, the Council has to consider the consolidation of a number of entities that it either controls, jointly controls or has significant influence over. The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes guidance on producing financial statements in its *Code of Practice on Local Authority Accounting* (the "Code") and associated guidance. The Code generally follows International Financial Reporting Standards (IFRS) except where adaptations are required for the public sector.
- 3.2 Charities must be treated as separate entities and be managed in accordance with charity law and adhere to relevant Charity Commission guidance. Trustees are responsible for the management of a charity and any decisions made by them must be expedient in the interests of the charity at all times. However, the accountancy test of control can be different to that of legal control and there are instances where a charity's accounts may need to be consolidated into the accounts of another body.
- 3.3 Section 26 of the Charities SORP (*Charity Statement of Recommended Practice*) (FRS102) states:
- a) *"26.1 On occasion, a company or other incorporated body may act as a charity's corporate trustee, or a charity's trustees may be appointed by another entity. In these circumstances, the charity can be viewed for accounting purposes as a subsidiary because it is being 'controlled' by another entity through the trusteeship arrangements. This module applies to charities that are treated as a subsidiary in the accounts of another entity.*
 - b) *26.2 A subsidiary is an entity that is controlled by a parent entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Although a charity is controlled and managed by its trustees, it can be a subsidiary for accounting purposes when the criteria for control is met."*
- 3.4 The Code states that the Council has to consider the consolidation of an entity, including charities if it has all three of the following:
- a) Power over the entity
 - b) Exposure, or rights, to variable returns from its involvement with the entity
 - c) The ability to use its power over the entity to affect the amount of the authority's returns.
- 3.5 It has recently come to light that there are a number of charities within Birmingham that are associated with maintained schools and which have either Governors or Teachers from the school acting as trustees of the charity as detailed in Appendix 1. The Council will need to consider whether control is exercised through the criteria set out in paragraph 3.3 above. Where schools are consolidated into the Council's entity accounts, then consideration would need to be made in the preparation of its group accounts whether associated charities would need to be consolidated even though neither the school nor the Council has entitlement to any of the resources of the charities as they must be used in accordance with the

objects/purposes of the charity. However, one of the purposes of the charity may be to provide support to the school for specific activities/service provision.

- 3.6 The Council will also need to consider what oversight it should exercise over any charities that may fall within its areas of responsibilities, in the same way it currently does, through its Trusts & Charities Committee, particularly if there are any breaches of charity legislation.

4 Options considered and Recommended Proposal

- 4.1 This report provides information to Members on charities within the City associated with schools and the accounting judgements required for production of the Council's group accounts. It is recommended that a further report be brought back to this Committee once the additional investigation of the issues identified in paragraph 3 have been finalised.

5 Consultation

- 5.1 The Chair of the Committee has been consulted in the preparation of this Report..

6 Risk Management

- 6.1 This report sets out information on external organisations associated with the Council and identifies potential implications to the Council.

7 Compliance Issues:

- 7.1 **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**

a) Some schools within the City receive support from closely linked charitable organisations that may have governors and/or teachers acting as trustees of the organisation. The Council needs to consider any potential risks associated with the existing arrangements and how these should be managed.

7.2 Legal Implications

a) The Council's Section 151 Officer has a duty to ensure the proper administration of the Council's financial affairs. The Accounts and Audit Regulations 2015, requires the Council to have effective arrangements for the management of risk.

7.3 Financial Implications

a) The Council needs to consider the extent to which 'control' is exercised over any associated charitable organisations and whether the entities would fall within the Council's group boundary.

7.4 Procurement Implications

a) There are no procurement implications directly arising from this report.

7.5 Human Resources Implications

a) There are no human resources implications directly arising from this report.

7.6 Public Sector Equality Duty

a) There are no equality duty or equality analysis issues relating to the proposals set out in this report.

8 Background Documents

CIPFA Code of Practice on Local Authority Accounting

Charities SORP (*Charity Statement of Recommended Practice*) (FRS102)

Appendix 1

Charities linked with Maintained Schools within the City

School	Type of School	Charity No	Charity
Lindsworth School	Community	1083298	Friends of Lindsworth
Queensbury School	Community	1017351	Queensbury Parents Teachers and Friends Association
Baskerville School	Foundation	1115134	Baskerville Learning Trust
Longwill Special School	Foundation	1081089	Longwill Association
Uffculme School	Community	1097387	Uffculme Trust
Hamilton School	Foundation	1173446	Friends of Hamilton
Victoria School	Community	512758	Friends of Victoria
Hunters Hill Technology College	Community	1091007	Hunters Hill Charitable Trust
Skilts School	Community	1112214	Skilts School Fund
Langley School	Foundation	1014646	Langley School Parent Teacher Association
Braidwood School	Community	1019741	Braidwood School Parent Teachers' Association
Priestley Smith School	Community	513612	Friends of Priestley Smith School
Fox Hollies School and Performing Arts College	Foundation	700913	The Friends of Fox Hollies
The Pines Special School	Foundation	1039382	The Friends of the Pines Association
Selly Oak Special School	Foundation	1120819	The Real Life 4 Me Trust

Note: All the schools highlighted have objects that relate specifically to the school in question.