Members are reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 14 MARCH 2017 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.birminghamnewsroom.com) 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 - 10 3 **MINUTES - AUDIT COMMITTEE 31 JANUARY 2017**

To confirm and sign the Minutes of the last meeting held on 31 January 2017.

11 - 56 4 **CORPORATE RISK REGISTER UPDATE**

Report of Assistant Director, Audit & Risk Management

57 - 70 5 **BIRMINGHAM AUDIT - DEVELOPMENT OF THE 2017/18 INTERNAL AUDIT PLAN**

Report of Assistant Director, Audit & Risk Management

71 - 86 6 **ANNUAL GOVERNANCE STATEMENT - PROGRESS**

Report of the Strategic Director - Finance & Legal

87 - 100 7 **GRANT THORNTON - PROGRESS REPORT**

Report of the External Auditor

101 - 124 8 **GRANT THORNTON - AUDIT PLAN**

Report of the External Auditor

125 - 152 9 **GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT**

Report of the External Auditor

153 - 182 10 **ADOPTION OF ACCOUNTING POLICIES FOR 2016/17**

Report of the Strategic Director - Finance & Legal

11 **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.

12 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
31 JANUARY 2017

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 31 JANUARY 2017 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Chatfield in the Chair;

Councillors Bore, M Jenkins, Shah, Spencer and Tilsley.

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NOTICE OF RECORDING/WEBCAST

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

APOLOGIES

936 Apologies were submitted on behalf of Councillors Burden and Robinson.

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

MINUTES

937 **RESOLVED**:-

That the public part of the Minutes of the last meeting be noted.

THE LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW 2015/16

The following report of the Chief Executive was submitted:-

(See document No 1)

Miranda Freeman, Senior Liaison Management Officer, introduced the report and responded to Members' comments including details of training for officers in how to use the Ombudsman determinations to try to avoid future complaints.

Members suggested that future reports should include information regarding 'lessons learned' and whether issues raised were systemic or 'one-offs'.

938 **RESOLVED**:-

That the report be noted.

EDUCATION AND THE ROLE OF THE LOCAL AUTHORITY

The following report of the Executive Director for Education was submitted:-

(See document No 2)

Colin Diamond, Executive Director for Education, introduced the report. He responded to Members' comments including: details of the role of the Birmingham Education Partnership; examples of the different methods of management, governance and accountability of maintained schools, academies and free schools; an update on the electronic data dashboard; the possible implications and risk rating of the national funding formula for schools.

939 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – PROGRESS REPORT

The following report of the External Auditor was submitted:-

(See document No 3)

Phil Jones and Richard Percival, Grant Thornton, introduced the report and responded to Members' comments including the expected impact of Brexit on existing EU legislation and funding flows.

940 **RESOLVED**:-

That the report be noted.

THE VALUE FOR MONEY PLAN FOR BIRMINGHAM CITY COUNCIL

The following report of the External Auditor was submitted:-

(See document No 4)

In response to Members' comments Phil Jones and Richard Percival, Grant Thornton, highlighted the significant risks identified, including budget delivery and reserves management, and how it was proposed to address those risks as detailed in the report now submitted.

941 **RESOLVED**:-

That the report be noted.

GRANT THORNTON – CERTIFICATION OF CLAIMS AND RETURNS

The following letter from Grant Thornton was submitted:-

(See document No 5)

Richard Percival, Grant Thornton, introduced the letter.

942 **RESOLVED**:-

That the letter be noted.

GROUP COMPANY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT

The following report of the Strategic Director – Finance and Legal was submitted:-

(See document No 6)

Councillor Tilsley declared a non-pecuniary interest as he served on the Birmingham Airport Audit Committee.

Martin Stevens, Head of City Finance Accounts, introduced the report and responded to Members' comments.

943 **RESOLVED**:-

(i) That the processes in place to improve governance of Group entities be noted;

(ii) that the responses received to inform the audit risk assessment be noted.

ANNUAL AUDIT LETTER YEAR ENDED 31/3/2016 – STATUTORY RECOMMENDATION

The following report of the Deputy Leader considered by City Council at its meeting on 10 January 2017 was submitted:-

(See document No 7)

The Chairman introduced the report and advised that he had written to the Chief Executive and was awaiting a response regarding the current budget position and savings plan.

Phil Jones and Richard Percival, Grant Thornton, in response to a question by a Member, expanded on paragraph 3.i – bullet point 3 of the report concerning the removal of 2016/17 savings which were no longer considered deliverable.

944 **RESOLVED**:-

That this Committee notes that the City Council on 10 January 2017 accepted the statutory recommendation of Grant Thornton made under Section 24 of the Audit and Accountability Act 2014 and the responses and actions set out in Section 3 of the report.

DATES OF FUTURE MEETINGS 2017/18

The Chairman proposed and it was:-

945 **RESOLVED**:-

That approval be given to a provisional schedule of dates for 2017/18 for meetings of the Audit Committee on the following Tuesdays at 1400 hours in the Council House:-

2017	**2018**
20 June	30 January
25 July	27 March
5 September	
21 November	

OTHER URGENT BUSINESS

946 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

947 **RESOLVED**:-

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

EXCLUSION OF THE PUBLIC

948 **RESOLVED**:-

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

Agenda Item etc	Paragraph of Exempt Information Under Revised Schedule 12A of the Local Government Act 1972
Minutes	3 and 4

PRIVATE

MINUTES

949 **RESOLVED**:-

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

OTHER URGENT BUSINESS (EXEMPT INFORMATION)

950 No other urgent business (exempt information) was raised.

The meeting ended at 1544 hours.

……..…………………………….
CHAIRMAN

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**14th March 2017**
Subject:	**Corporate Risk Register Update**

Wards Affected: **All**

1. Purpose of Report

To update the Audit Committee with information on the management of risks and issues within the Corporate Risk Register (CRR) (Appendix A). The information in Appendix A has been compiled using updates received from directorates.

To provide the Audit Committee with the refreshed risk management documents (Appendices B & C).

2. Recommendations

2.1 That the Audit Committee reviews the information provided by directorates and decide if the risk ratings are reasonable, if action being taken is effective, or if further explanation / information is required. The level of risk has reduced for five risks:

- Risk 7 - Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence and poor morale due to organisational downsizing and pay freezes.

- Risk 9 - Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters.

- Risk 11 - That the loss of significant personal or other sensitive data may put the Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner.

- Risk 19 - Failure to deliver the Council's Localisation Agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement.

- Risk 24 - That the need to address the updated Pensions Deficit will result in an increase in employer contributions.

2.2 That the Audit Committee approves the deletion of four risks:

- Risk 8 - Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme - The work stream is now closed, and efficiency and savings targets have been transferred to the Maximising Independence of Adults (MIA) Board.

- Risk 9 - Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters - A much improved performance culture and set of arrangements are now in place for the Council's education services.

- Risk 13 - Not planning appropriately for the on-going reduction in government grants – This is an annual risk, but there are processes in place to manage it.

- Risk 24 - That the need to address the updated Pensions Deficit will result in an increase in employer contributions - This risk crystallised in the setting of the 2017/18+ budget. The information received has been fully taken into account in the update of the Council's medium term financial plan, and in the development of savings proposals.

2.3 That the Audit Committee approves the new risks:

- Risk 30 - Risk that email / email archiving IT system fails.

- Risk 31 - Increased pressure on the statutory homeless service in regards to volume of customers, which leads to significant financial pressure on the general fund due to increased use of B&B.

2.4 That the Audit Committee approves the refreshed risk management documents.

3. Background Information

3.1 Members have a key role within the risk management process.

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

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

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

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

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

4. Corporate Risk Register Update

4.1 The CRR is aligned to the corporate objectives of the Council and identifies the key risks to be managed at a corporate level.

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

4.3 A Lead Director has been identified for each risk. Directorates have provided information detailing the management of the risks within their service areas as at January 2017.

4.4 The CRR is attached as Appendix A.

5. Embedding Risk Management

5.1 The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet.

5.2 Information on the Council's approach to risk management is available via the BCC website. Additional information is attached to the risk management page on InLine, to support staff in using risk management in their day to day role. Advice, support and guidance are provided by Birmingham Audit as requested.

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

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

6. Legal and Resource Implications

6.1 The work carried out is within approved budgets.

7. Risk Management & Equality Impact Assessment Issues

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

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

8. Compliance Issues

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

……………………..

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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

BCC Risk Map - March 2017

Likelihood:

	Low	Medium	Significant	High
High			Alternative funding for schools PFI contracts / maintenance of schools estate (R3) Highways PFI - Core Investment deliverables (R6)	Defend / settle post 2008 equal pay claims (R1) Not responding to improvement agenda / improving childrens safeguarding (R2) Compliance re Counter Terrorism & Security Act and Prevent Duty (R26) Claims re pay back of search fees(R27) STP not alleviating the financial position of social care (R28) Financial pressures re statutory homeless service (R31)
Significant		Not divesting of property assets (R15) Malicious attacks on web based services (R16) Ineffective Corporate Risk Marker IT solution (R17)	Employee relations / sickness absence levels (R7)	Defend / settle pre 2008 equal pay claims (R4) Further equal pay claims (R5)
Medium		Evaluation of service deliver options (R18) Unpaid allowances (R20)	Younger Peoples Re-Provision Programme (R8) Responding to Kerslake Report (R10) Compliance to Equality Act 2010 & PSED (R12) Not planning appropriately for ongoing reduction in government grants (R13) Insufficient IT expertise / lack of control of non-core IT spend (R14) Setting / containing net spending within approved budget (R29) E-mail / e-mail archive failure (R30)	Compliance to timescales for DoLS referrals (R25)
Low		Delivery of Localisation Agenda (R19) Pensions deficit - increase in employer contributions (R24)	Fines from HMRC (R22)	Responding to school governance concerns (R9) Loss of personal / sensitive data (R11)
	Low	**Medium**	**Significant**	**High**

Impact

Key:

Severe — Immediate control improvement to be made to enable business goals to be met and service delivery maintained / improved.

Material — Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained.

Tolerable — Regular review, low cost control improvements sought if possible.

Index by Risk / Issue Number

Corporate Risk Register Update for Audit Committee March 2017

Ranking	INDEX OF RISKS / ISSUES (in order of severity of risk)									
	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact March 2017	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: Nov 2016	July 2016	March 2016	Page No.
1	1	1c	Defend and / or settle post 2008 equal pay claims.	Strategic Director, Finance &Legal	Actual: H/H Target: M/S	Same	H/H	H/H	H/H	11
2	2	23 & 61	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	Strategic Director, People Directorate	Actual: H/H Target: M/H	Same	H/H	H/H	H/H	11
3	26	N/A	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.	Strategic Director Place Directorate	Actual: H/H Target: M/S	Same	H/H	H/H		14
4	27	N/A	Risk of claims for payback of search fees charged by the Council.	Strategic Director, Economy	Actual: H/H Target: H/S	Same	H/H			15
5	28	N/A	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care.	Strategic Director, People Directorate	Actual: H/H Target: H/H	Same	H/H			16
6	31	N/A	Increased pressure on the statutory homeless service in regards to volume of customers.	Strategic Director Place Directorate	Actual: H/H Target: M/M	N/A				17
7	4	1a	Defend and settle pre 2008 equal pay claims.	Strategic Director, Finance &Legal	Actual: S/H Target: L/H	Same	S/H	S/H	S/H	17
8	5	1b	Further equal pay claims.	Strategic Director, Finance &Legal	Actual: S/H Target: M/H	Same	S/H	S/H	S/H	18

APPENDIX A

Corporate Risk Register Update for Audit Committee March 2017

	INDEX OF RISKS / ISSUES (in order of severity of risk)									
Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact March 2017	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: Nov 2016	July 2016	March 2016	Page No.
9	3	14b / 50	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability for essential management of the LA schools estate.	Strategic Director, Finance &Legal	**Actual: H/S** **Target: M/S**	Same	**H/S**	**H/S**	**H/H**	18
10	6	46	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case (Highways).	Strategic Director, Economy	**Actual: H/S** **Target: L/S**	Same	**H/S**	**H/S**	**H/S**	19
11	7	30	Lack of capacity and capability to respond to employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.	Strategic Director, Change & Support Services	**Actual: S/S** **Target: L/M**	Reduced	**H/S**	**H/S**	**H/S**	20
12	25	N/A	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council.	Strategic Director, People Directorate	**Actual: M/H** **Target: M/S**	Same	**M/H**	**M/H**		20
13	8	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	Strategic Director, People Directorate	**Actual: M/S** **Target: M/S**	Same	**M/S**	**S/S**	**S/S**	22
14	10	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme.	Chief Executive	**Actual: M/S** **Target: L/S**	Same	**M/S**	**M/S**	**M/H**	22
15	29	NA	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget.	Strategic Director, Finance & Legal	**Actual: M/S** **Target: L/S**	Same	**M/S**			23
16	12	2	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	Strategic Director, Place Directorate	**Actual: M/S** **Target: M/S**	Same	**M/S**	**M/S**	**M/S**	24

Corporate Risk Register Update for Audit Committee March 2017

	INDEX OF RISKS / ISSUES (in order of severity of risk)									
Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact March 2017	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee			Page No.
							Nov 2016	July 2016	March 2016	
17	13	28	Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources and avoid legal challenge.	Strategic Director, Finance & Legal	**Actual: M/S** **Target: L/L**	Same	**M/S**	**M/S**	**M/S**	26
18	14	52	Insufficient in-house IT expertise within Directorates and inadequate or ineffective corporate control of non-core IT spending.	Strategic Director, Change & Support Services	**Actual: M/S** **Target: L/S**	Same	**M/S**	**M/S**	**M/S**	27
19	30	N/A	E-Mail and E-Mail archiving IT systems now out of support.	Strategic Director Change & Support Services	**Actual: M/S** **Target: L/L**	N/A				27
20	15	32	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	Strategic Director, Major Projects	**Actual: S/M** **Target: M/L**	Same	**S/M**	**S/M**	**S/M**	28
21	16	42	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	Strategic Director, Change & Support Services	**Actual: S/M** **Target: L/M**	Same	**S/M**	**S/M**	**S/M**	29
22	17	55	Ineffective Corporate Risk Marker IT solution.	Strategic Director, Change & Support Services	**Actual: S/M** **Target: L/M**	Same	**S/M**	**S/M**	**S/M**	30
23	18	37	Failure to adequately evaluate the costs and benefits of alternative delivery models. Failure to fully implement the decisions made to change policy and service delivery.	Strategic Director, Change & Support Services	**Actual: M/M** **Target: M/M**	Same	**M/M**	**M/M**	**M/M**	31

Corporate Risk Register Update for Audit Committee March 2017

Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact March 2017	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee Nov 2016	July 2016	March 2016	Page No.
	INDEX OF RISKS / ISSUES (in order of severity of risk)									
24	20	44	Unpaid allowances / contractual overtime payments / equality of flex time agreements.	Strategic Director, Change & Support Services	**Actual: M/M** **Target: M/M**	Same	**M/M**	**M/M**	**M/M**	32
25	9	57	Not responding fully and effectively to the issues from recent reviews concerning school governance and related matters.	Strategic Director, People Directorate	**Actual: L/H** **Target L/H**	Reduced	**M/H**	**M/H**	**M/H**	33
26	11	45	The loss of significant personal or other sensitive data.	Strategic Director, Major Projects	**Actual: L/H** **Target: L/H**	Reduced	**M/H**	**M/H**	**M/H**	35
27	22	54	Risk of fines from HMRC for Directorates employing long–term consultants.	Strategic Director Change & Support Services	**Actual: L/S** **Target: L/M**	Same	**L/S**	**L/S**	**L/S**	36
28	19	41	Failure to deliver the Council's localisation agenda and commitments made in the Council's improvement Plan and Leaders Policy Statement.	Strategic Director, Place Directorate	**Actual: L/M** **Target: L/M**	Reduced	**M/M**	**M/M**	**M/M**	37
29	24	N/A	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions.	Strategic Director, Finance & Legal	**Actual: L/M** **Target: L/M**	Reduced	**S/H**	**S/H**		38

APPENDIX A

Corporate Risk Register Update for Audit Committee March 2017

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
1	1c	Failure to successfully defend and / or settle post 2008 equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	High / High	**Lead Director comment** A significant number of claims have been issued. A proportion of these has already been settled or is in the process of settlement. A growing proportion are now progressing through the tribunal and civil court process. No win / no fee solicitors are still canvassing for claimants. The validity of claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge. Settlement of claims is subject to financial provision and establishing validity of claims.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - regular separate reporting to Corporate Governance Group and the Audit Committee. External & internal audit review.	O&S - The subject of equal pay claims has been discussed at meetings of the Corporate Resources O&S Committee but only in general terms during items relating to the Council's budget and Annual Audit Letter. IA - Payroll review work undertaken annually.
2	23 & 61	Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care. Lead: Strategic Director, People Directorate Owner: Alastair Gibbons	High / High	**Lead Director comment** A new Commissioner for Children's Care was appointed in November 2016. He is working with the Council to oversee continued implementation of the improvement plan and support for the potential development of a Children's Trust. There is now greater clarity about resources and priorities going forward, including a sustainable 4 year financial plan and a stable operational model was in place in February 2016. We have worked with partners in the Early Help & Safeguarding Partnership to redesign the front door for early help and social work contacts, and referrals to improve referral-taking, advice, screening and decision-making. CASS (Child Advice & Support Service) is the way into family support and social work services including MASH and child protection, and was in place from September 2016. Ofsted conducted a full inspection of Birmingham children's social care in September / October 2016. Ofsted judged that the Council remained inadequate overall but with several areas of improvement.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** April 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance, Peer review, Ofsted visits, Scrutiny Committee monitoring, and Children's Commissioner fortnightly. Quartet Meetings (Children's Improvement Programme Board); Essex improvement support. The refreshed improvement plan, with the necessary investment is being delivered. There is still much to do to ensure the quality of practice and its timeliness. Cabinet approval has been given to the replacement of the CareFirst case system so that practitioners are freed up to undertake direct social work practice.	O&S - Schools, Children and Families O&S Committee: • Scrutinised progress on the Scrutiny Inquiry: Children Missing from Home and Care on 12th October 2016; and discussed children missing from education at the same meeting. The BEP was questioned on school improvement on 21st September 2016. • Members discussed the Children's Social Care and Safeguarding Improvement Plan at the informal July 2016 meeting. On 7th December 2016 the

Corporate Risk Register Update for Audit Committee March 2017

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
				Over 400 cases were looked at and many front-line staff talked with and observed by the inspectors. The inspection focus was very much on practice. The inspection was intense and forensic and provides a good deal of detailed learning to help shape our continuing improvement. Improvement priorities until April 2017, including actions in response to Ofsted's recommendations, are in place and being progressed.	As a proposed move to a Children's Trust, Cabinet will be asked to agree an alternative delivery model for implementation from April 2017 in shadow form and for full implementation from April 2018.	Committee examined changes following the Ofsted visit and improvements to MASH / CASS. • July and September saw Members discussing progress to the Voluntary Children's Trust and met with Andrew Christie on 23rd January 2017 to scrutinise the plans going to Cabinet. In addition, Members have identified Home to School Travel as being a risk to service users, the Council's reputation, legal challenge and budget control. They examined this on 5th December 2016 at an informal meeting, and at the budget discussion meeting on 11th January 2017. Held meetings with the Exec Director for Children's Services, Chief Social Worker, adoption and fostering team and Lifford Lane Social work teams. IA Reviews 2014/15: Corporate Parenting, MASH, Section 11 Safeguarding Return,

Corporate Risk Register Update for Audit Committee March 2017

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
						Excluded Pupils, Child Protection Plans, Quality of Children in Need Plans and CareFirst IT. IA Reviews 2015/16: Integrated Support Plans, S175 Safeguarding Return, Personal Education Plans, Strategy for Supporting Carers, Effective Home Education, Safeguarding Disclosure & Barring Checks and Multi Agency Safeguarding Hub. IA Reviews 2016/17: Child Protection Case Conference - Engagement, Dealing with Excluded Pupils, Children Missing From Education, Effective Social Working with Families, Carefirst, Sexual Health Contract - Identification of Child Sexual Exploitation, Personal Education Plans F/Up, IS Management (iCare Application), Child Permanency Reports and Special Education Needs & Disability - Strategy & Plan.

Corporate Risk Register Update for Audit Committee March 2017

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
26	N/A	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty. Lead: Strategic Director, Place Directorate Owner: Jacqui Kennedy	High / High	**Lead Director comment** The threat and vulnerability risk assessment of a terrorist attack in the UK places Birmingham as the most vulnerable city after London. In 2015 the Council and partners reviewed its infrastructure around this risk to take into account the Counter-Terrorism and Security Act 2015, that includes a duty on certain bodies ('specified authorities' listed in Schedule 6 to the Act), in the exercise of their functions to have 'due regard to the need to prevent people from being drawn into terrorism'. The duty does not confer new functions on any specified authority. The term 'due regard' means that the authorities should place an appropriate amount of weight on the need to prevent people being drawn into terrorism when they consider all the other factors relevant to how they carry out their usual functions. The Council has applied a partnership and mainstreaming approach to mitigate the risks associated with the threat. Governance for the Prevent programme has been strengthened with the Prevent coordinator now reporting directly to the Strategic Director and Assistant Chief Executive increasing visibility across the Council.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** Ongoing **Source(s) of assurance regarding progress with mitigating the risk:** Delivery continues to be monitored by the CONTEST Board Chaired by the Deputy Leader. Prevent Delivery Plan in place driven by Counter Terrorism Local Profile (CTLP), monitored by the Prevent Executive Board, chaired by Jacqui Kennedy / Peter Hay. Consultations undertaken with elected members, District Chairs and communities. 15,000+ front line schools staff have undertaken Workshop to Raise Awareness of Prevent (WRAP) training. Over 600 staff within Adult Safeguarding also trained In WRAP awareness training. Training for front line staff has now moved to a 'train the trainer' model with 450 trainers having been trained to deliver future WRAP awareness training to schools alleviating capacity issues within the local authority. Support continues to be provided to schools around Prevent via the Schools Resilience Officer. Prevent Community Engagement Officer now recruited. Prevent is embedded within MASH arrangements and within the Right Services, Right Time safeguarding procedures.	O&S - Waqar Ahmed, Prevent Manager reported to Scrutiny on 12th October 2016 alongside Chief Social Worker Tony Stanley to discuss safeguarding arrangements for Prevent and radicalisation, and is due to return to Committee in April 2017. Birmingham contributing to the Home Office Audit on national Prevent activity.

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					CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; and is chaired by the DWP's Think Family Lead. Community initiatives in place commissioned by the Home Officer to provide community solutions and are regarded by the Home Office as national best practice with scaling up plans initiated to extend into other regional areas. BCC Resilience Team continues to lead on the Prepare and Protect strand of the counter-terrorism strategy. Security briefings provided to Council House Staff, more briefings anticipated for security staff from Woodcock Street and Lancaster Circus.	
27	N/A	Risk of claims for payback of search fees charged by the Council. Note: Relates to reimbursement of fees deemed to be in breach of Environmental Information Regulations. Claims for costs can be substantially higher than the search fees. Lead: Strategic Director, Economy Owner: Anne Shaw	High / High	**Lead Director comment** Current charges are in line with guidance issued by the European Court of Justice; preventing any other grounds for claims beyond 1st April 2016. Charges prior to 1st April 2016 are subject to challenge. If payback is necessary it will impact the Council's budget. The potential liability to the Council is estimated to be in the region of £0.5m. APPS claims have now been settled following negotiations by Bevan Britton Lawyers acting on behalf of local authorities. However, the APPS companies have made a new burdens application in respect of the sums paid by Councils, including interest and legal fees. The LGA were to meet with Central Government in October 2016 to come to a decision, but the meeting was cancelled	**Target risk rating:** High / Significant **Anticipated date of attainment of the target risk rating:** March 2022. **Source(s) of assurance regarding progress with mitigating the risk:** Legal Services are being consulted.	

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				as further advice from Counsel was required. Until Central government makes a decision, the LGA cannot give a completion date for this work. The LGA anticipate that future legal costs will be limited and continued to be apportioned between local authorities, but are unable at this stage to quantify. Concerns still exist that a further claim for the period April 2009 - April 2016, may be received as £190,192.27 was charged for commercial searches with searchers visiting the office. Following the recent European Court of Justice ruling Councils now have to make this information available for free.		
28	N/A	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care. Lead: Chief Executive Owner: Peter Hay	High / High	**Lead Director comment** To facilitate the STP development, Council resources were utilised. Whilst an STP has been submitted, it is very uncertain whether this will deliver against the required financial savings in the short and medium term.	**Target risk rating:** High / High **Anticipated date of attainment of the target risk rating:** N/A **Source(s) of assurance regarding progress with mitigating the risk:** Further controls will be required to mitigate the risk.	O&S: The Health, Wellbeing & Environment OSC was briefed on the approach to the Plan in June 2016. In September they took evidence from the Cabinet Member for Health and Social Care. As a result of concerns, they devoted the October meeting to scrutinising the Plan, and reported to Full Council in December 2016 highlighting areas of concern. In February 2017 Members were briefed on transition arrangements; new models of care, etc. It was also agreed that an item on Delayed Transfers of Care would be scheduled on the work programme.

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31	N/A	Increased pressure on the statutory homeless service in regards to volume of customers, which leads to significant financial pressure on the general fund due to increased use of B&B. Lead: Strategic Director, Place Directorate Owner: Rob James	High / High	The Housing Options Service has a forecasted overspend of approximately £4 million for 2016/17. This pressure is primarily through increased use of B&B type accommodation due to an increase in demand, both locally and nationally. The service is putting in place a number of mitigations to seek to reduce this year's spend as well as planning for future years. There are a number of issues that will impact on future demand including: Welfare Reform changes, demand for social housing and budgetary reductions in Supporting People funding.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - regular reporting to Cabinet Member, monthly meetings with finance, discussions at Housing DMT, 1to1s with Head of Service.	Housing and Homes Overview & Scrutiny published the Homelessness Review 2016/17 on 14th February 2017.
4	1a	Failure to successfully defend and / or settle pre 2008 equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** In 2010, the Tribunal determined that the Council had no defence to pre 2008 equal pay claims (Barker v Birmingham City Council). C12,000 early claims without the involvement of solicitors have been settled including a further cohort as part of settlement agreements reached in 2011 and 2013. Claims issued since January 2015 are now out of time and are not valid claims. The Council is succeeding in striking out these out of time claims. The validity of claims is constantly challenged by Legal Services. Each claim before any offer to settle is made is subject to robust legal challenge. Any offer of settlement is subject to available financial resources.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review.	See risk 1 above.

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5	1b	Risk of further equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** Claimant solicitors are continually 'fishing' for further equal pay liability by issuing further equal pay claims in addition to those referred to in risks 01and 04. The validity of these type of claims is, and will be subject to robust legal challenge. At the moment, there is no determination as to liability or attainment as to target risk due to the nature of the challenge.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** Not known at current date. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review. With a view to preventing discriminatory working practices, robust review processes and checks and balances have been put in place to mitigate against / prevent further liability post 2011; where evidence of potential risk(s) is known / identified.	See risk 1 above.
3	14b & 50	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate. Lead: Strategic Director, Finance & Legal Owner: Jaswinder Didially	High / Significant	**Lead Director comment** Major review of PFI contract management arrangements underway following Local Partnerships pilot project. External consultants are engaged and a Lead Officer allocated to fully explore all opportunities to reduce PFI costs. Proposals are being brought forward and while the project more than pays for itself, there are limited opportunities to impact on the major £6m annual affordability gap. The savings proposal, being implemented to meet the current PFI affordability gap from within the funds available to invest in the maintenance of the estate, has not yet impacted on the funding available for emergency repairs. However, there are significant risks of funding shortfall into 2017/18, due to the diminishing annual maintenance grant funds available, particularly as more schools convert to academy status. The current risk rating relates to the PFI affordability gap and subsequent impact on availability of funding to address backlog maintenance across the schools' estate. The opportunities to reduce the PFI costs are limited, and this therefore remains a high risk in terms of management of the	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management reporting to Strategic Director Finance & Legal on PFI savings. Oversight and monitoring of temporary school closures due to asset failure. A report was submitted to the March Audit Committee meeting outlining some of the initiatives being pursued to reduce the gap and a subsequent report has been consider at Cabinet (20th September 2016), detailing savings associated with the Broadway lifecycle arrangements. Outcomes of the benchmarking exercise which were implemented in December 2016 - a total net saving of £545,000 per annum for 5 years will be achieved.	O&S - None. IA Review 2015/16: Final Planning Permission Breach - Longmoor Special School.

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				education infrastructure and potential impact of asset failure. There is a very substantial Schools Capital Programme in delivery that includes basic need and planned maintenance programmes, with further emergency maintenance projects emerging regularly. Mitigations include: • Schools capital maintenance programme is successfully levering school spend on essential repairs and maintenance through a dual funding strategy. • Dedicated resource is focusing on maximum savings against current PFI contracts although opportunities are limited. • Lean review of Acivico has potential to reduce overheads associated with planned maintenance programme, releasing those funds for investment into the schools stock. • Options for alternative revenue funding stream for the PFI affordability gap are being explored.		
6	46	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case for the Highway Maintenance and Management PFI contract. Lead: Strategic Director, Economy Owner: Domenic de Bechi	High / Significant	**Lead Director comment** The Council has sought to resolve the issue informally but this was not possible. The Council referred this matter for adjudication under the contractual Dispute Resolution procedure, the outcome of which was advised favourably to the Council's case in July 2015. The outcome was referred to court by the Service Provider, and the trial took place in February 2016. The judgment was handed down on 5th September 2016, which ruled that the adjudication "was wrong", but did not grant the declarations sought by the Service Provider. The Council, based on legal advice, has submitted a request for grounds to appeal. Another related dispute will also need to be resolved and the way forward on this is also being considered.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** The date of permission to appeal the judgement is presently awaited. If granted, the appeal will then need to be considered. Resolution of the further dispute is not yet known but is likely to take many months. **Source(s) of assurance regarding progress with mitigating the risk:** External legal advice and representation has been engaged. The merits of an appeal are being considered.	O&S - Economy, Skills and Transport OSC discussed with Cabinet Member at Committee on 22nd September 2016. A private session subsequently took place on 3rd November 2016. A further briefing for members will be scheduled during 2017 subject to the outcome of the appeal. IA Review 2016/17: Highways PFI.

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7	30	Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes. Lead: Strategic Director, Change & Support Services Owner: Claire Ward	Significant / Significant	**Lead Director comment** Collective agreement has been reached on a package of measures that will secure required reduction in the cost of employment for 2017/18, 2018/19 and 2019/20. This has greatly diminished the likelihood of action on a widespread basis. There are some proposals in the 2017/18 s188 Notice that might generate localised disputes & potential action and poor attendance / performance challenges. Council wide absence levels continue to be above target. There are business continuity plans in place in readiness for industrial action and they have been effective in reducing the impact of action on service users. Particular areas of risk such as Fleet and Waste management have well progressed contingency plans. A workforce planning framework is in place for 2016/17 and its effectiveness will be reviewed during the year.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating***:* Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Following significant employee engagement and collective consultation and negotiation with the trade unions, we have reached a collective agreement with the trade unions regarding the workforce savings proposals. Therefore there is now a low likelihood of industrial action in relation to these changes. Management are also committed to building on the current positive relationships with the trades unions, to move towards a more collaborative approach to the developments of the Council of the Future.	O&S - The Corporate Resources OSC received an update from the Deputy Leader and senior HR officers at its October 2015 committee meeting; and will receive a further report in March 2017. IA Reviews 2015/16: Hardship Grants, Managing Absence, and review of managing absence arrangements in Place Directorate.
25	N/A	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council. Lead: Lead: Strategic Director, People Directorate Owners: Carl Griffiths & Tapshum Pattni	Medium / High	**Lead Director comment** This risk is made of 2 components: **1) DOLS in Care Homes and Hospitals** The combined effect of all the previous planned actions taken resulted in a steadily improving position until the end of October 2016, when the Directorate's worsening financial position led to the laying off of additional agency BIAs and the suspension of further work being given to the externally procured DOLS service. Although the backlog of work had been set to be eradicated by March 2017, this change resulted in an immediate deterioration of the position, and a waiting list started to re-accumulate. The position has been made worse by the anniversary of increased assessment activity, since assessments require renewal within 12 months of approval.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** DOLS in Care Homes and Hospitals - Continue existing actions to achieve removal of assessment backlog by September 2017. Community DOLS: • Continue to train staff and priorities those highest risk cases where the approach would	O&S - None. IA Review 2015/16: Deprivation of Liberty. IA Review 2016/17: Deprivation of Liberty Standards F/Up.

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				It is clear that the substantive BIA team is unable to meet the level of demand now experienced (risen from 150 per month in 2015/16 to 276 in November 2016), without continued external service support. It will continue to triage referrals to Association of Directors of Adult Social Services (ADASS) criteria and focus on meeting timescales in these cases. Between December 2016 and January 2017 a review of the relative risks (DOLS waiting list V unbudgeted expenditure to remove it) was considered at Strategic Director and Cabinet Member level, and direction given that all efforts should be made to continue to work to eradicate the DOLS waiting list through re-continued use of externally procured services to support the substantive service. It is anticipated that the temporary suspension of the external service has made it impossible to achieve the removal of the assessment waiting list by March 2017, so the indicative date of September is now predicted. **2) Community DOLS** A business process, staff procedure, manager prioritisation guidance and staff training have been established, in conjunction with legal Services, and are now in use. 36 cases have so far been identified since March 2014, 14 applications made to the Court of Protections, and 12 decisions received. This level of activity seems to be in line with that of other local authority areas. The outcome of the Children's High Court appeal is anticipated in the period January-February. If lost this decision could result in a significant increase in the number of Community DOLS cases the Council may need to undertake. It is unclear how many of the 100-200 potential 16 and 17 year olds a year will need to be prioritised. If the view is that most should be, the cumulative effect upon adults of the subsequent annual reassessments would create a new and significant risk.	bring significant benefits to the citizen for requesting Court decisions. • Commence training of Children's staff to complete Community DOLS for 16 and 17 year olds.	

APPENDIX A

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8	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme. Lead: Strategic Director, People Directorate Owners: Carl Griffiths & Tapshum Pattni Risk nominated for deletion.	Medium / Significant	**Lead Director comment** This work stream is now closed and efficiency and savings targets have been transferred to the MIA Board. As such this should now be removed from Corporate Register.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Targets and Risk are being identified and will be detailed in the project approach for MIA programme. **Source(s) of assurance regarding progress with mitigating the risk:** MIA Programme Board in place as well as MIA Operations Board.	O&S - None. IA Review 2015/16: Young Adults Re-provisioning. IA Review 2016/17: Independent Living F/Up. Young Adults Re-provisioning F/Up.
10	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme. Lead: Chief Executive Owner: Angela Probert	Medium / Significant	**Lead Director comment** In its most recent letter to the Secretary of State, published on 9th November 2016, the Birmingham Independent Improvement Panel recognised that the Council has made progress in addressing many of its own improvement priorities and handled effectively some unexpected external events and challenges. The Panel also noted that focused activity has enabled the Council to further address some of the outstanding recommendations from Lord Kerslake's review. Council of the Future (Future Council phase 2); has 3 'big moves - areas with clear ownership and leads for delivery. 1. Key transformations - for example Children's Trust. 2. 'Budget' - the implementation of our key budget 'high risk' proposals. 3. Service Improvement - for effective organisation. Governance arrangements established in January 2017.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** Review April 2017, following January - April highlight reports which should evidence progress and reduce the risk rating. **Source(s) of assurance regarding progress with mitigating the risk:** There was a report to the Birmingham Independent Improvement Panel in Autumn 2016. Corporate Programme Management Office (PMO) established to build governance assurance and aid visibility. New CLT Performance and Transformation and Budget Boards established to track implementation of key budget proposals. Corporate standard templates introduced. Programme / Project Plan - Gantt chart of key deliverables to achieve savings / benefits and resources required to deliver the plan. Risk and Issue Registers.	O&S - A Future Council Working Group has been set up under the Corporate Resources and Governance O&S Committee to maintain oversight of Future Council programme. The Corporate Resources O&S Committee and Neighbourhood & Community Services O&S Committee completed work on reviewing governance arrangements at district level, including the Neighbourhood Challenge. There is a Member Development Programme in place and the Corporate Resources O&S Committee received an update on the work completed to date at its Sept 2016 meeting. A further update will be brought to that committee.

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					Stakeholder and Communication Plan.	IA Review 2015/16: Customer Service Contact Centre Dashboard.
29	N/A	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget Lead: Strategic Director Finance & Legal Owner: Steve Powell	Medium / Significant	**Lead Director comment** The following key activities have been undertaken: • The Council holds reserves which can be used as part of a risk management strategy to support the implementation of the budget. • Financial support is being provided to address known budget pressures. • Delivery of the budget and savings programme is being closely monitored, including the introduction of a PMO and Budget Board (of CLT and with the Deputy Leader) to monitor delivery of the most significant elements of the savings programme. • The Council's LTFP is being refreshed to take account of latest information, including any areas where savings are no longer considered to be deliverable. Plans have been amended accordingly. Policy choices have been discussed with Cabinet Members, with proposals being developed in the context of the Council's vision and policy priorities. • Robust implantation plans have been produced for all savings.	**Target risk rating***:* Low / Significant **Anticipated date of attainment of the target risk rating:** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** Planned activities to further mitigate this risk: • There is close monitoring of the delivery of the Business Plan and Budget and additional governance arrangements have been introduced. • The Council has a risk management strategy to address issues relating to difficulties in the delivery of the savings programme. • There is a clear focus on the development of robust consultation and implementation plans for all savings. • There is an enhanced focus on the project management of the savings programme, co-ordinated by the PMO. • The Council maintains a medium term perspective in its financial plans - spending, savings and resources.	Each Scrutiny Committee considered aspects of the budget relevant to their remits (December 2016 to January 2017) and findings fed back as part of the budget consultation process. The Corporate Resources and Governance O&S Committee questioned the Deputy Leader on deliverability of the budget.

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12	2	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty. Lead: Strategic Director, Place Directorate Owner: Jacqui Kennedy	Medium / Significant	**Lead Director comment** The Public Sector Equality Duty (PSED) was created by the Equality Act 2010 and is set out in section 149. It applies to public bodies, such as local authorities listed in Schedule 19 to the Act, and to other organisations when they are carrying out public functions. The PSED contains specific duties (Specific Duties Regulations 2011) which are an important lever for ensuring that public bodies take account of equality when conducting their day-to-day work. When delivering their services and performing their functions, bodies subject to the PSED must have due regard to the need to: • Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act. • Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it. • Foster good relations between people who share a relevant protected characteristic and those who do not share it. Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. Directorate Equality Champions are responsible for assuring their SMT that a governance framework is in place across their directorate which supports the equalities agenda and compliance to legislation. They should ensure that the EAs produced by the service are capturing evidence of ongoing compliance. Legal Services are advising on high risk EAs.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk initiatives. • Process of Legal sign off on Cabinet Reports. Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process and on line guidance to completing an EA and developing an action plan. The online toolkit provides an overview of all EAs undertaken on the system. Project managers are encouraged to take legal advice on high risk initiatives.	O&S - None. IA Reviews 2014/15**:** Corporate Review, other work at request of Mashuq Ally re ethnicity monitoring. IA Review 2016/17: Audit planned to review divisional management arrangements, including review of management of the corporate risk.

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				Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this guidance should help improve the content and standard of EAs submitted for approval. The Equality Analysis Toolkit is available to Directorates to undertake EAs for all new Policies and Procedures, and the EA process includes a quality assurance check by the Directorate Equality champion, alongside a senior officer level sign off and assurance of each EA. Advice and support on completion of the EA is provided from the Equalities, Community Safety and Cohesion Service (ECS&CS) and Legal Services. Guidance on undertaking consultation has been updated and is available on Inline and this is now aligned with the EA process. Over 700 staff ranging from GR5 through to JNC have been trained on the EA Toolkit and on undertaking an EA. Corporate consultation and EAs have been undertaken on all relevant corporate savings. Directorates will continue to undertake consultation and EAs for individual initiatives where appropriate. This process is overseen by the Directorate Equality Champions. Directorate DMTs will monitor progress on the EAs alongside other performance related issues which are then reported to the CLT Performance Board. A robust approach exists for savings proposals. Corporate Consultation, EAs and all associated consultation are aligned, with emphasis on feedback from the protected groups. In line with the Specific Duties Regulations 2011, the council must annually publish information relating to (a) people who are affected by our policies and practices who share protected characteristics; and (b) our employees who share protected characteristics. The Regulations also require us to set equality objectives every 4 years. In 2014 the City		

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				Council published high-level actions identified to deliver the council's business plan and achieve the council's vision. In March 2016 the council approved its vision, priorities and approach set out in the Council Business Plan. This will be reviewed as part of programme for the Council of the Future.		
13	28	Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources, including taking the necessary actions to avoid legal challenge. Lead: Strategic Director, Finance & Legal Owner: Steve Powell Risk nominated for deletion.	Medium / Significant	**Lead Director comment** Projections of resources are updated on a regular basis in the light of announcements made by the Government. This is assisted by liaison with the DCLG, LGA, IFS and other authorities to ensure that up-to-date intelligence is used. The Council has accepted the opportunity to benefit from multi-year settlement figures published by DCLG, giving much greater certainty on the future financial position. The Council's Long-Term Financial Plan sets out a financial strategy for delivering a balanced budget over a ten-year period, linked to the Council's strategic priorities. This includes a significant level of contingency funding as a mitigation against delivery difficulties. The Council's business planning process includes appropriate assessments of the equalities impacts of new proposals, and arrangements for the necessary consultation processes. Regular advice is provided by Legal Services and Equalities officers in this regard. The monitoring of the revenue budget, including the savings programme, is reported monthly via directorate management teams to the CLT Performance Board and Budget Board. This has a multi-year perspective. This has a particular focus on problem resolution and the identification of appropriate mitigating actions where necessary. Resources have been identified to provide additional capacity / expertise to facilitate the implementation of the savings programme and the associated organisational change, through the PMO.	**Target risk rating:** Low / Low **Anticipated date of attainment of the target risk rating:** On-going. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance as detailed in Lead Director comments also an Internal Audit review.	O&S - The subject of reduction in government grants has arisen in general terms at the Corporate Resources O&S Committee in discussions with the Leader and Deputy Leader regarding the budget. There has recently been a discussion at the Corporate Resources O&S Committee on the in-year monitoring position. IA Reviews 2014/15: FCRs, Accounting for VAT and Fixed Assets - several areas. IA Review 2015/16: Management and monitoring arrangements for delivery of the Council Savings Plan. IA Review 2016/17: Savings Plan - Progress.

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14	52	Inadequate or ineffective corporate control of non-core IT spend as a result of insufficient in-house IT expertise within Directorates to ensure software / systems changes are adequately specified, that their implementation is adequately managed and that changes are adequately coordinated across the organisation to maximise the benefit to the Council. Lead: Strategic Director, Change & Support Services Owner: Andy Fullard	Medium / Significant	**Lead Director comment** The ICT and D Strategy was approved by Cabinet on 18th October 2016, and provides a stronger framework for ICT&D within the Council. The work is led by the Interim CIO. The Corporate Leadership team (CLT) has requested greater controls for ICT projects, in part to deliver savings, but in addition to ensure that all ICT project spend is aligned with key council priorities and delivers / supports the ICTD strategy. This change in governance will occur progressively commencing in February 2017, with the introduction of the Portfolio Board and Architecture Governance Board. These will provide additional scrutiny on spend through subject matter experts, and will be followed by additional Boards to implement a long term sustainable governance model. The final governance arrangements should be in place by April 2017; with further anticipated improvement between then and 2021.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Governance structure in place and planned actions.	O&S - Completed Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). A progress report on implementation of the recommendations was considered at the April & September 2016 meetings of the Corporate Resources O&S Committee. IA Review 2015/16: IT Project Governance. IA Review 2016/17: IT Project Governance F/Up, IT Service Management F/Up, IT Project Governance -2017, IT Project reviews - ChildView Hub & Agile Working.
30	N/A	The e-Mail and e-Mail archiving IT systems in BCC are now out-of support. Whilst we have a backup connection, this may fail due to one or more of the following conditions: 1. A mandatory upgrade of another component in the system will cause both the connection and backup to cease working.	Medium / Significant	**Lead Director comment** The ICF have gained approval to finance the technical solution to avoid this risk. However; the issue with this is that the solution may be unwanted. The Council has signed a Microsoft Enterprise Agreement (MEA), which enables it to deploy software solutions that will replace the current arrangement. Once this software is deployed, the expenditure would be unnecessary. However given that the deployment of the MEA is some months away the Council needs to investigate the optimum	**Target risk rating:** Low / Low **Anticipated date of attainment of the target risk rating:** End of April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** The current proposed solution is a short-term proposal to replace the existing hardware with up-to-date and supported replacement. At the moment, the long-term solution is to move the BCC e-Mail system to a version of Microsoft	

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		2. The component itself may fail and BCC would be dependent on a single remaining connection for which there is no longer any supplier support If this connection is lost, BCC will no longer be able to archive e-Mails older than two weeks. The potential implication is that the main e-Mail system will fill up in a matter of days and ultimately fail. This situation has been the case since c. 2015 with no issues. Lead: Strategic Director, Change & Support Services Owner: Andy Fullard		solution that minimises the risk and cost. We have a proposal for an intermediate solution that involves moving the existing vault contents to a more modern, supported solution until the Microsoft facility is in place. The risk will exist until a new solution is in place : i.e. until all Council officers' e-Mails have been migrated to the alternative solution. It is estimated that this will take three-to-four months to deliver	Outlook, based in Microsoft's UK data centre (a cloud-based solution). This service will move BCC away from having its own e-Mail system to manage - avoiding the risk.	
15	32	Risk of not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery; driving out property for disposal, but beyond capital receipt generation, ultimately solutions should deliver radical reductions in future revenue operating costs. Lead: Strategic Director, Major Projects Owner: Peter Jones	Significant / Medium	**Lead Director comment** Risk mitigated by: • The Future Council Programme and proposals put out to public consultation, have the potential to drive commitment to property rationalisation, as part of the contributions to future years cost reductions. • To assist with property rationalisation alongside future service planning and development programmes, a Property Services Business Partner role has been established with the Place Directorate. • The Corporate Landlord Service has cleared, decommissioned and sold Tamebridge House.	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance as detailed in Lead Director comment.	O&S -None. IA Review 2014/15: Asset Management Corporate Review.

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				• Accommodation changes across Directorates are being dealt with and the freeing up of space to accommodate the Call Centre, and Service Birmingham staff has been achieved (this has enabled the release of B1). Further 're-stacking' is underway to assist occupants improve their working practices and utilisation of the office space available. • Continued development of the corporate property database (Techforge) - information and systems development continues to progress as planned and the additional functionality is being applied in the management of repairs and maintenance costs, provision of information and analysis to inform strategic decision making, etc. • The 'Smarter Working' project is intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will potentially be further rationalisation of the Central Administration Buildings portfolio.		
16	42	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services. Lead: Strategic Director, Change & Support Services Owner: Andy Fullard	Significant / Medium	**Lead Director comment** Service Birmingham on behalf of the Council: • Have updated the Councils firewalls and introduced Intrusion Prevention Services (IPS) as part of the firewall implementation. This means that the firewalls are receiving regular updates from the supplier to detect new and evolving types of security attack. The firewalls detect and defeat many thousands of attacks every day. • Have implemented a cloud based Distributed Denial of Service (DDoS) system that defends four of the Council's main websites from high volume attacks where hackers are trying to flood the Council's websites with requests for service. This service regularly defends the Councils web sites from attackers and the contract is currently being renewed.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc. **Source(s) of assurance regarding progress with mitigating the risk:** • The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. • BCC has successfully passed its PSN accreditation. • Service Birmingham, on behalf of the Council, are constantly monitoring the information	O&S - Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). IA Reviews 2014/15: Cyber Risk & Firewalls. IA Review 2015/16: Web Page Security. IA Review 2016/17: Web Page Security F/Up.

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				• Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Have implemented the PSN walled garden which has enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure secure transmission. • SB are producing a Lesson Learnt from the PSN process to ensure improved future working. The management of cyber risks within BCC will form part of the security strategy and responsibilities clearly defined. The ICF will ensure that the cyber risk investment strategy is aligned to, and supports strategic priorities. There is improved reporting of cyber risks and security incidents which will be presented to the Corporate Information Security Group bi-monthly. This will ensure BCC are fully aware of potential regulatory & legal exposures and can assess the implications for future investment decisions.	security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Given the nature of this risk these activities are now being kept under constant review. • The next health check (a mandatory requirement of PSN is being scoped; and an independent external body to carry out this check will be appointed).	
17	55	Ineffective Corporate Risk Marker IT solution. Lead: Strategic Director, Change & Support Services Owner: Chris Gibbs	Significant / Medium	**Lead Director comment** The Corporate Risk Marker solution in SAP CRM system is defective and the data harmonisation to service areas is not working as specified. Whilst a more long term solution is investigated as part of the updating of the Councils e-forms package, an interim solution is being investigated to see if the data warehouse held within the Councils Audit Division can offer the required functionality to enable this risk to be at least partially mitigated. Note: Access to the information will only be available to those members of staff who can access the data warehouse.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** July 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. Currently the Data Warehouse pulls in the risk markers from CRM, Housing, MAPSS and CareFirst. Any user of the warehouse that searches a relevant name or address will have the respective risk markers presented to them. The risk markers not only relate to health and safety but child / vulnerable adult safeguarding too.	O&S - None. IA - None.

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					The Audit team are in the process of creating an Intelligence Network across the City for anyone who has an investigative, enforcement or regulatory element to their role ; or are likely to have some contact with the public. Council Tax, Business Rates and Rents have a risk marker on their respective systems; It is proposed that this risk marker be extracted and added to the Data Warehouse. Monitoring the use of the IT system by Corporate Safety Services.	
18	37	Failure to adequately identify the costs and benefits of alternative delivery models arising from Service Reviews to enable them to be fully and accurately modelled and ensure they are feasible and the changes proposed can be delivered, before the decision to move forward is made. Failure to fully implement the decisions taken to change BCC policy and service delivery to enable delivery of expected benefits / efficiency gains. Lead: Strategic Director, Change & Support Services Owner: Mike Smith	Medium / Medium	**Lead Director comment** Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs and benefits as part of the formulation and evaluation of options in the consideration of the business case. The ADs of Finance will provide support on key projects based on their area of expertise. Those developing new service delivery options need to evaluate the full circumstances on a case-by-case basis, seeking proper advice where necessary, in order to identify the implications of the change in service delivery model. This will include assessing what will be left behind in BCC (e.g. fixed overheads, income targets etc.) as well as ensuring that all of the costs and income of the new model are taken into account - including those which are not applicable to a local authority model of delivery (e.g. taxation), together with some sensitivity and risk analysis. This needs to be done before any commitments are given. The need to evaluate the full circumstances for each delivery option requires a proportionality to it, and due regard for the need for	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - notes and actions from Corporate Commissioning Board agenda. Dialogue with directorate lead commissioners. Finance to be involved in commissioning reviews. Additional resources to support commissioning recruited (internally) to support the commissioning approach. Commissioning Toolkit in place. Risk will be managed on a case by case basis through proper use of the Toolkit, and through reviews supported by the ADs of Finance. A checklist developed by AD Finance (Strategy) will continue to be used to ensure proper evaluation and appraisal of decision making reports. Corporate Commissioning Board will provide the	O&S - None. IA Reviews 2014/15: Acivico reviews, Museum Management Arrangements, Golf Management Arrangements, Efficiency Agenda and Change Management. IA Reviews 2015/16: Acivico Deferred Services, Governance Review, Acivico Contract Monitoring, Procurement Contracts - Engagement of Individuals and Acivico - Recruitment & Selection Concerns. IA Reviews 2016/17: Acivico Contract Monitoring - Overall delivery of Contract and Contracts &

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				calculated assumptions in order to avoid over-engineering financial modelling based on projected costs. The risk to the transferred service is the possible future loss of the Council as a customer and the risk to the Council is the loss of services provided to the transferred service as a customer, if the transferred service obtains these same services from another provider. These risks need to be managed by the corporate commissioning hub with peer reviews undertaken by Thematic Centres of Excellence and approval via Cabinet.	governance for new commissioning strategies. CPS believes that given the challenges encountered in supporting alternative delivery models, and the innovative approaches required, the risk remains at Medium / Medium (target met). Only when we have examples of alternative delivery models being successfully implemented should this risk be removed. Mitigations detailed above are now in place with commissioning checklists to CCB ensuring that appropriate resources are in place to manage risk in implementing alternative service delivery models.	Procurement Summary Report 2015/16. Acivico Contract Monitoring - Final Accounts Process.
20	44	Unpaid allowances / contractual overtime payments / equality of flex time agreements. Lead: Strategic Director, Change & Support Services Owner: Claire Ward	Medium / Medium	**Lead Director comment** The bulk of unpaid allowances claims have been successfully managed by Legal Services on a case by case basis, with outstanding claims being considered and managed by Legal Services on the same basis. As new case law is decided challenges to payments have arisen including: • Holiday pay • Sleeping in allowance • Travel time An assessment of claims is made and as appropriate defended or settled dependent on legal advice. There is a clear policy and monitoring framework regarding the application of regular overtime. A new standard Flexi scheme has been developed as part of the Future Council workforce Contract.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. All new claims for allowances are being assessed on their merits and defended wherever practical. Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern. A new universal Flexi scheme will be introduced as part of the new contract of employment to be introduced in 1st July 2017. There is a Governance Board monitoring any potential high risk claims.	O&S - None. IA Review 2014/15: Review on overtime -in conjunction with HR. IA Review 2015/16: Overtime F/Up.

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9	57	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters. Lead: Strategic Director, People Directorate Owner: Colin Diamond Risk nominated for deletion.	Low / High	**Lead Director comment** It is now appropriate to remove this risk from the Register given the progress made and mitigations in place. In 2014 Sir Mike Tomlinson was appointed as Commissioner to oversee a programme of improvement. Based on evidence shared and agreed with the DfE, Regional Schools Commissioner, Ofsted and the Commissioner Sir Mike Tomlinson's time in Birmingham ended in July 2016. Continued improvement is being driven by the Leader, Cabinet Member, Chief Executive and Strategic Director and is overseen by a much improved performance culture and set of arrangements within the service. The Council commissioned Birmingham Education Partnership to deliver school improvement support and challenge functions from September 2015, and this is closely monitored, with evidence of a positive early impact. An Education Improvement Group comprising BCC, DfE, Regional Schools Commissioner and Ofsted will continue to meet monthly to share information on schools causing concern, and this will be supported by regular stocktakes of progress. Systematic school surveys are in place to inform the work of the local authority. Work on civic leadership and community cohesion is in place and this will complement the city leadership approach being established in the light of the Kerslake review. A cross-party community cohesion statement for the city was agreed in early September. The existing Birmingham Curriculum Statement has been revised to reflect the above.	**Target risk rating***:* Low / High **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance obtained through the usual systems, and checked by the Cabinet Member. Verification through key channels - the Unions, meetings with Heads and Governors etc. Oversight of the Action Plan and checks on implementation. A much improved performance culture and set of arrangements are now in place for the Council's education services.	Schools, Children and Families O&S Members have been involved in the LGA Peer Review. The Peer Review Findings were discussed at the February 2016 meeting. Governance and related matters were also picked up in the previous Scrutiny Inquiry on Child Sexual Exploitation (presented to Council in December 2014) and tracking of the recommendations concluded on 12 October 2016. IA Reviews 2014/15: Saltley School Visit. School Improvement Strategy. IA Reviews 2015/16: School Governance 2015, numerous school visits and Schools Unannounced Cash Counts. IA Reviews 2016/17: Numerous school visits.

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				An Equality and Cohesion Toolkit was launched at the Birmingham Education Partnership (BEP) Conference in September 2016, and an operational plan for schools is now in place, alongside a wide range of resources available on the BEP Hub to enable schools to challenge inequality and deliver on the cohesion agenda. An Ofsted monitoring visit in June highlighted records of children missing education and visits to children with whom the local authority is working (eg. SEND) as matters needing attention. However, Ofsted's full inspection in September / October 2016 confirmed significant progress in addressing these weaknesses and reducing the numbers of children missing education. Ofsted also acknowledged the quality of personal education plans for children looked after and increases in the number of children in care who attend good or better schools.		

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11	45	That the loss of significant personal or other sensitive data may put the City Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner. Lead: Strategic Directorate, Change & Support Services Owner: Malkiat Thiarai	Low / High	**Lead Director comment** Current controls based on encryption of data on mobile devices or copied to removable media; and programme of staff education and training. Breach management processes have been established with clear lines of responsibility to the Senior Information Risk Owner (SIRO), and the Monitoring Officer. Known data breaches are discussed at the Breach Management Panel and reports and recommendations are presented to the Monitoring Officer for consideration to notify the Information Commissioner's Office. Egress has been deployed and is operational. The e-learning Information Governance modules were launched in October 2016 following approval by the SIRO.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** The e-Learning modules have been rolled out to all staff that have access to e-mail (approximately 15,000). Analysis on completion shows approximately17% of staff had completed the training as at 10th January 2017. Further reports will be presented to the Information Assurance Board at future meetings to identify areas of low take up and non-compliance. Further controls on assuring that suppliers and partners impose similar controls on Council data in their possession.	O&S - None. IA Reviews 2014/15: Third Party Service Provision, Review on SARs, MASH, Family Support - Data Quality, Children's Services - Data Security Breach and IT Standards. IA Reviews 2015/16: Caldicott Guardian, Information Governance (IG) - Data Classification, Third Party Information Security, Data Sharing Review, Sophos Local Self Help, and IG - Fostering & Adoption. IA Reviews 2016/17: Sophos Post Implementation Review, N3 Network, IG - Fostering & Adoption F/Up, Third Party Service Provision F/Up and PCI - Data Security Standard.

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22	54	Risk of fines from HMRC for Directorates employing long term consultants. Lead: : Strategic Director, Change & Support Services Owner: Nigel Kletz	Low / Significant	**Lead Director comment** A revised process has been implemented for the engagement of off payroll 'Individuals' in April 2016 which has resulted in a significant increase in compliance. HR and CPS are working collaboratively to ensure compliance by cascading the process through DMT's and monitoring engagements centrally within the CPS compliance team. No orders are released until the manager has completed all the required approval documentation.	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** The new process has been widely publicised to all Directorates and is available on People Solutions as well as Voyager. It has been embedded in to the procedures within Payroll and CPS. In addition CPS are in the process of arranging information events for officers to attend in order to gain further advice, guidance and support in order to minimise the Council's exposure to risk. HMRC have reviewed the protocol and were satisfied that a robust process is in place and have indicated they will be reviewing the operational effectiveness in the Spring. A review group has been established to review the new proposals being introduced with regard to off payroll engagements by HMRC from April 2017. This requires all off payroll engagements within the public sector to be paid via PAYE by the Council. From 6th April 2017 all interims / consultants engaged directly via their personal services company will be paid by BCC Payroll. Agencies who manage interim / consultancy engagements will be expected to payroll these individuals; and the Council will be seeking assurance from agencies that this is being completed.	O&S - None. IA Review 2014/15: Audit carried out in quarter 3.

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19	41	Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement. Lead: Strategic Director, Place Directorate Owner: Chris Jordan	Low / Medium	**Lead Director comment** The Improvement Panel have assessed progress in relation to the specific prescriptions made on localisation through the independent Lord Kerslake report and commitments made against this in the Council's Improvement Plan in September 2015 and January 2016. The feedback from this has been positive. In particular all direct recommendations have been actioned including the transfer of delegations away from district committees and the delineation of a new role for district committees. Services are now accountable to cabinet portfolios and management. The remit for district committees around neighbourhood challenge and community planning has been embedded effectively. Policy guidance for this was agreed by cabinet in July 2015 and development undertaken with members in five sessions over July to October, with delivery of outcomes currently live within 2016/17. Delivery against this has been performance managed through the Future Council Local Leadership sub programme board meeting fortnightly. This has now moved to business as usual. The next phase of local leadership / political governance is being shaped through the newly formed Cabinet Committee Local Leadership. Four Assistant Leaders have been given responsibility to review local working with a focus on 'every place matters' and 'delivering differently in neighbourhoods'. A clear timetable has been set out for their work and how this ties into the changing landscape for ward and district committees.	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating**: Attained. **Source(s) of assurance regarding progress with mitigating the risk**: Management assurance as detailed in Lead Director comment - Scrutiny Report in January 2013. Cabinet Committee Local Leadership is meeting monthly and now has accountability for progressing this agenda.	O&S - The Corporate Resources O&S Committee has completed a piece of work around district and ward arrangements. This includes a review of arrangements put in place in May 2015 and options for the future development of devolution. The Neighbourhood & Community Services O&S Committee completed a review of the Neighbourhood Challenge. Recommendations were made to the Leader. The Corporate Resources and Governance OSC questioned Assistant Leaders at their meeting in January 2017. IA Reviews 2014/15: Housing Governance Arrangements and watching brief - quarterly progress updates from Place. IA 2015/16: Watching brief - quarterly progress updates from Place.

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24	N/A	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions. Lead: Lead: Strategic Director, Finance & Legal Owner: Steve Powell Risk nominated for deletion.	Low / Medium	**Lead Director comment** The assessment of any pension fund deficit is updated every 3 years. The position as at 31.3.16 will affect employer contribution rates from 2017/18 onwards. The Council has been proactive in working with other councils (particularly through a sub-group of Finance Directors) and in utilising advisors to provide independent advice and expertise. Regular meetings have been held with the Pension Fund (WMPF) and will continue to ensure that there is a shared understanding of the issues facing both parties. The information received has been fully taken into account in the update of the Council's medium-term financial plan and in the development of the savings proposals.	**Target risk rating**: Low / Medium **Anticipated date of review/attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** • Regular updates to WM Finance Directors. • Sub-group continuing to liaise with advisors and WMPF. • Reporting to Leaders.	O&S - None. IA - None. Audit Committee verbal update Nov 16

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Removed Risks:

Ref No.	Risk description	Reason for removal	Date removed
13	Failure to progress with delivering against the Birmingham Prospectus.	Risk flagged for deletion by Development & Culture Directorate, this risk should now be picked up at the Directorate level due both to the progress of individual projects and the engagement which is now in place with public and private sector partners.	November 2008
10	Property Utilisation of Central Admin Buildings – failure to take full advantage of the opportunities arising from the Working for the Future (WFTF) Business Transformation Programme.	Merged with risk 3 regarding WFTF cross portfolio buildings, at request of Business Transformation Steering Group.	July 2008
7	Reduction in non-core budgets e.g. Working Neighbourhoods Fund Comprehensive Spending Review, grant regimes etc.	Risk flagged for deletion by Corporate Director of Resources. Will remain on Directorate Risk Register.	July 2008
19	Failure to deliver on the Executive Management Team's (EMT's) key supporting outcomes.	Risk flagged for deletion by Effectively Managed Corporate Business group – EMT's key supporting outcomes were identified in June 07 and are fully embedded within the Directorate Business Plans and monitoring of the Performance Plan. It is a duplication to have this as an issue in the Corporate Risk Register.	January 2008
22	Failure to meet the code of connection for Government Connect.	Risk flagged for deletion by the Corporate Director of Resources. Will be managed via ICF risk register.	March 2010
8	Failure to co-ordinate / control all of BCC's Accountable Body roles and responsibilities.	This has improved and will continue to be monitored via the Resources risk register.	July 2010
14a	Failure to progress the Highways Public Finance Initiative (PFI).	The PFI contract was signed on 7 May 2010.	July 2010
15	Failure to achieve the efficiencies agreed in the budget round and plan for the efficiencies necessary for the next two years.	This has been incorporated into risk 28.	July 2010
16	Lack of compliance with and appropriateness of, corporate people management policies & procedures and national regulations.	The policies & procedures have been updated on People Solutions with the Excellence in People Management system, and compliance with them is covered in risk 18.	July 2010
17	Failure to act on the sustainability agenda.	This has been included by Directorates as business as usual now. It will continue to be monitored via the Development risk register.	July 2010
21	Adverse impact of the economic downturn.	This has been included by Directorates as business as usual now. It will continue to be monitored via Directorate and Department risk registers.	July 2010

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Ref No.	Risk description	Reason for removal	Date removed
3	Failure to progress the Cross portfolio elements of the Working For The Future (WFTF) programme.	This has been flagged for deletion by the Corporate Director of Resources as progress is being made on this and where there are problems with buildings this is covered in new risk 32 added November 2010.	November 2010
1c	Failure to implement the pay and grading review for **all** non-schools staff.	The pay and grading structure for has now been fully implemented and this is no longer a risk.	March 2011
6a	Failure to adopt the new working practices implemented through the EPM programme which in turn will impact on benefit delivery.	The new working practices have become business as usual. Benefits delivery is being monitored as part of risk 4.	March 2011
6b	Failure to achieve the IT infrastructure which allows all employees to access information electronically.	A full business case is being developed to achieve this. This is no longer a corporate risk and will be monitored through the Corporate Resources Directorate risk register.	March 2011
24	Failure to manage pay progression effectively.	The pay progression framework has been applied to Council managed staff and is no longer a risk. The pay progression issue regarding schools staff is covered in risk 1a and will also be monitored through CYP&F Directorate risk register.	March 2011
12	Failure to engage and inform communities around the Council's approach to improving community cohesion.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and it has been delegated to the Strategic Directorate of Corporate Resources' risk register for continued management.	July 2011
18	Failure to implement recommendations made to improve internal control in the External Audit Annual Letter and by Internal Audit to help prevent fraud and error.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011
29	Failure to achieve progress against local priorities as stated in the Sustainable Community Strategy.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011
27	Failure to put in place action plans and strategies to fully mitigate the effects of reductions in area based grants.	Merged with risk 28 "Need to meet the massive spending reductions over the three years from 2011/12" at request of Strategic Director of Corporate Resources.	December 2011
11	Failure to deliver Achieving Excellence with Communities.	The target risk level has been met. Cabinet Committee Achieving Excellence with Communities receives progress reports. The risk has been delegated to Homes and Neighbourhoods directorate to manage.	March 2012
33	Failure to adapt to Climate Change.	The target risk level has been exceeded and long term planning has now been put in place. This risk will continue to be managed by directorates.	March 2012

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Ref No.	Risk description	Reason for removal	Date removed
9	Need for capacity to react promptly to and manage the significant workforce changes occurring.	The level of risk has reduced to the target level.	July 2012
31	HRA Finance Reforms.	This is no longer a risk - the funding has been agreed and is included in the 2012/13 budgets.	July 2012
34	Independent Care Sector Fees.	The target level of risk has been attained. The risk will continue to be monitored by the Adults & Communities Directorate.	July 2012
38	Failure to maintain infrastructure assets including responsibilities regarding protected listed buildings.	Merged with risk 32 and changed to: Shortage of capital and failure to take appropriate long term decisions to manage the property asset portfolio (by disposals and reinvestment of capital in the residual estate); including responsibilities regarding protected listed buildings, leading to escalating costs.	November 2012
39	Shortfall in resources compared to projections from 2013/14 onwards as a result of the new system of local retention of business rates.	Merged with risk 28 and changed to: Need to plan appropriately for the on-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14, particularly the significant potential reduction in resources from 2014/15, and avoid legal challenge.	November 2012
53	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013
5	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013
36	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013
49	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 "On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14".	March 2014

APPENDIX A

Corporate Risk Register Update for Audit Committee March 2017

Ref No.	Risk description	Reason for removal	Date removed
1d	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014
48	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014
20	Demonstration of benefits arising from Customer First.	All of the actions for 2014/15 are being put in place, ie: Launch of the new Housing Repairs functionality which was delayed from last year, re-design of the website, promotion of self service, improvements to online forms, etc.	November 2014
25	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30th June 2014.	November 2014
51	Service Birmingham support provided to the SAP HR and payroll system.	There has been significant progress against an agreed improvement plan and the service is now significantly more stable.	November 2014
2015/16.08	Insufficient resources (finance & people) to agree / deliver the change programme.	Cabinet approved a report on 20th April 2015 that set out the Children's Social Care and Early Help Improvement Plan for 2016-2018, including the appropriate financial envelope for the plan.	July 2015
2015/16.25	Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance.	Following identification of this risk, processes and procedures were developed and rolled out to key contract managers across the organisation with supply chain risk assessments being completed by suppliers. The supply chain risk assessment process is now captured as an annual activity within the supplier annual reviews and the Council's contract management toolkit.	July 2015
2015/16.26	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.	We have made four submissions out of four without issue (and passed an Environment Agency Audit in 2011), giving a 100% success record. The 2014/15 return is progressing normally.	July 2015
2015/16.28	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015

Corporate Risk Register Update for Audit Committee March 2017

Ref No.	Risk description	Reason for removal	Date removed
2015/16.10a	Resolution of contractual issues in the Highway Maintenance & Management PFI contract.	A commercial settlement signed on18th December 2015, resolved a number of contractual issues.	March 2016
2015/16.29	Risk of Court deciding against the Council regarding the Homeless Service.	The High Court dismissed the four applications for Judicial Review.	March 2016
21 (old 35)	IT refresh / update.	The desktop refresh is progressing as business as usual, and PSN compliance means that we cannot have unsupported applications running on our network.	July 2016
23 (old 59)	Risk of enforcement action and fines of up to £500,000 by the Information Commissioners Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs).	There has been considerable improvement in responding to Subject Access Requests. The Information Commissioner's Office is happy with the progress being made and are no longer monitoring the Council.	November 2016

APPENDIX B

Risk Management Policy Statement 2017

Our Risk Management Policy, Strategy and Methodology support the City Council's vision and priorities which are set out in the Council Business Plan and Budget 2016+. The Council has a vision for Birmingham. This is to make Birmingham a city of growth where every child, citizen and place matters.

The Council has a well established approach to managing risk. It has recognised that risk is an integral part of innovation in order to deliver the key outcomes of the Council. By managing risk proactively we can take full advantage of opportunities and better use the limited resources available.

In particular a clear understanding of the risks and opportunities arising from the changing nature of service delivery is important; partnership working with businesses, academia, the public sector and the community is increasing and more services are being 'commissioned' rather than directly provided by the Council. New types of service providers are being used, or may be used in the future, such as Trusts, Social Enterprises and Co-operatives as well as 3rd Sector organisations, to drive service improvements. There is a greater emphasis on personal choice and the safety and opportunity for all children, the provision of a great future for young people and ensuring thriving local communities. However, these changes in service delivery provide new risks and opportunities to be managed.

Council objectives relate to the whole city and indeed region. As a result they can be influenced by an enormous variety of risks and opportunities. It would be impossible to identify all of these risks and opportunities. It is therefore important to focus on high risks and getting early warning of when they become more imminent, or start to take effect, and to enable us to be in the best position possible to make the most of opportunities.

Advice has been provided to directorates through the Risk Management Strategy and the publication of the Risk Management Toolkit. There is a regular process of risk assessment at a corporate level. This process identifies and scores key risk factors, and results in the Corporate Risk Register - a public document. This outlines the controls and plans in place to respond to the risks and opportunities identified. Transparency and accountability are key to the process.

As part of the corporate governance agenda the Council includes an Annual Governance Statement (AGS) within the Statement of Accounts. The AGS incorporates a statement on internal control, including risk management. Directors and Heads of Service are also required to produce a governance statement in relation to their Directorate / service to support the AGS.

Note: The Risk Management Methodology is now included within the Risk Management Toolkit.

APPENDIX C

Risk Management Strategy 2017

1. Introduction

1.1 The Council's risk management strategy's objectives are to:

- Integrate risk management into the culture of the Council.
- Manage risk in accordance with good practice.
- Anticipate and respond to changing social, economic, political, environmental, legislative and technological requirements.
- Prevent injury, damage and losses and reduce the cost of risk.
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services.

1.2 These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for risk management - making clear that everyone should take ownership for risk management.
- Incorporating risk management considerations into all levels of business planning.
- Providing opportunities for shared learning on risk management across the Council and with Partner organisations.
- Offering a framework for allocating resources to identified priority risk areas.
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training.
- Monitoring of arrangements, at all levels, on an on-going basis by management.

Diagrams showing our approach to risk management are included within the Risk Management Toolkit available from the PSPG.

2. Embedding risk management

Risk management is an important part of the business planning process. This will enable strategic, operational and cross cutting risks / opportunities, as well as the accumulation of risks / opportunities from a number of areas to be properly considered. The Council continues to embed the process and raise awareness of the importance of good risk management.

The milestones to be met in embedding risk management are detailed overleaf.

Milestone	Annual Target Date(s)
Directorate key risks reviewed and new significant risks fed into the Corporate Risk Register for reporting to the Audit Committee three times a year. Directorate key risks to be informed by divisional, service, business change and project risk registers.	Reports to Audit Committee each July, November and March
Directorate, divisions, services, business change and project leads to: • clearly identify existing controls regarding the risks identified, and the degree to which they are applied. Evidence of the application of controls to be maintained and cross referenced onto the Action Plans; • evaluate existing controls for the degree of mitigation the controls provide and if further control is desirable.	April 30th July 31st October 31st January 31st
Assistant Chief Executive and Strategic Directors give assurance to Chief Executive regarding internal control, including the management of key risks, within their area of service delivery.	March 31st
Assistant Chief Executive and Strategic Directors to ensure that risk / opportunity identification is intrinsically linked to business / service plan objectives.	During annual business / service planning process
Assistant Chief Executive and Strategic Directors to include performance on managing risks within performance monitoring of business / service plans and in senior officer's performance contracts / plans and 'My Appraisal' reviews.	Each year
Annual Governance Statement signed and published in the Council's Annual Accounts.	Signed annually every June

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit and Risk Management**
Date of Meeting:	**14th March 2017**
Subject:	**Birmingham Audit – Development of the 2017/18 Internal Audit plan**
Wards Affected: All	

1. Purpose of report.

1.1 The purpose of this report is to update members on progress in developing the 2017/18 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note the progress being made in the development of the 2017/18 internal audit plan;

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

2.1.3 agree to approve the final plan at the June 2017 meeting.

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

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

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Birmingham Audit – Development of the 2017/18 Internal Audit plan

14th March 2017

Contents

1. Background

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

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

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

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

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

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

1.5 We are continuing to review, revise and update our working practices and methodologies. In particular, we are continuing to use technology and the data at our disposal to work 'smarter' and ensure the most efficient and effective use of the available resources.

1.6 In July 2016 an independent assessment was undertaken against our level of compliance with the Public Sector Internal Audit Standards. This assessment identified that:

"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards" and that "Our external assessment found that BCC's Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups."

2. Internal Audit Plan 2017/18

2.1 Our estimated number of audit days available for 2017/18 is 5113. This compares to 5443 in 2016/17 (a decrease of 330 days or 6%). This decrease is as a result of the implementation of a revised structure with effect from 1st October 2016 which saw the consolidation of three service based audit teams into a single team and the corresponding reduction in Group Auditor posts.

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

2.3 The first call on our time is to provide an assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise closely with the Council's external auditors. We have allocated 905 days for the main financial systems work, including the review of IT controls, in 2017/18 the main areas we intend to cover are:

- Payroll
- Accounts Payable
- Accounts Receivable
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR
- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- PFI
- Rent Collection and Charges
- Government Grant Claims
- Non invoiced income / Cashiers
- Income and Expenditure in Schools
- Carefirst

2.4 As part of this work we will review changes to process introduced through the creation of the proposed central processing Hub.

2.5 We have also ‘ring-fenced’ a number of days to support the Corporate Fraud Team and to complete the school visit programme.

2.6 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2017/18 plan we have allocated 830 days for this work. We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.

2.7 The Council’s Education Improvement Plan is aimed at implementing significant cultural and procedural change within the management of schools. In July 2015 additional funding was made available to Birmingham Audit to support the establishment of a schools visiting team. 945 days have been allocated within the 2017/18 plan for the completion of these visits. A schedule of the schools to be visited is agreed on a monthly basis in consultation with representative from the Directorate for People.

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

- assessment of the adequacy of the control environment;
- strategic alignment to organisation priorities;
- materiality;

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

2.8 The risk assessment is dynamic and responsive to changing circumstances. We continually review and update our risk assessment; this will include any potential control concerns emerging from the implementation of the Future Operating Model (FOM). The audit plan will, therefore, continue to change and evolve in line with emerging risks and priorities.

2.9 A summary of the 2017/18 audit plan, based on our current assessment of risk is detail in Appendix A, previous year figures are provided for comparative purposes. A detailed draft 2017/18 plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.

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

2.11 The revised plan, taking into account all feedback, will be represented to the Audit Committee at the next meeting (June 2017) for formal approval. Progress in delivering the plan, together with any significant issues identified, will be provided to the Audit Committee and an annual report produced at the end of the year giving an opinion on the effectiveness of the systems of internal control.

Birmingham City Council

Appendix A

Internal Audit Plan Summary

	15/16		16/17		17/18	
	%	Days	%	Days	%	Days
Number of Audit Days in the annual plan	**100%**	**4,692**	**100%**	**5,443**	**100%**	**5113**
Main financial systems	21%	986	16%	860	18%	905
Business controls assurance	44%	2038	35%	1875	34%	1735
Investigations	17%	800	15%	840	16%	830
Schools (Non Visits)	3%	140	4%	195	3%	155
Schools (Visits)	-	-	17%	950	19%	945
Follow up work	5%	250	4%	225	4%	200
Ad-hoc work	4.5%	218	5%	273	3%	178
Planning & reporting	4.5%	215	3%	180	2%	125
City initiatives	1%	45	1%	45	1%	40

Appendix B

Draft Internal Audit Plan 2017/18

	Days	Total
Financial Systems (including computer audits where appropriate)		
Main Accounting	70	
Housing Rents	30	
Accounts Payable	60	
Accounts Receivable	60	
Carefirst	30	
Payroll/HR	60	
Benefits	60	
Revenue (Council Tax and NNDR)	80	
Asset Management	70	
Grants and Contributions	15	
Cash Income / Cashiers	60	
Procurement, Contract Audit and PFI	140	
Direct Payments	40	
Income / Expenditure - Schools	20	
Central transaction Hub	20	
IT related financial systems work	90	**905**
Business Controls Assurance		
Work in progress b/fwd. from 2016/17	40	
IT Related non-financial systems work	500	

Birmingham City Council

	Days	Total
Data Analysis	200	
Corporate Risk Management Facilitation	75	
Contingency	50	
Chargeable work on behalf of Acivico	40	905
People		
Children Services (Social Care)	60	
Children Services (Education)	50	
Corporate Safeguarding	50	
Independent Living	20	
Adoption and Fostering	20	
Public Health	30	
Troubled Families Programme	20	
Prevention Agenda	15	
Assessment & Support Planning	25	
Individual budgets	20	
Residential Placements – Adults	20	
Children with Complex Needs	20	
People Commissioning	25	
Children in Care Placement Services	5	
Safeguarding & Development - BCSB	50	
Better Care Fund	25	455
Place		
Birmingham Resilience	20	
Equality, Community Safety & Cohesion	25	

	Days	Total
Waste Management	30	
Illegal Money Lending	10	
Wellbeing Service	20	
Careline	15	
Homeless - Temporary Accommodation	20	
Allocations	20	160
Economy & Corporate Resources		
Annual Audit Letter	5	
Ethics	15	
Governance	20	
New Service Delivery Vehicles	20	
Project Management	40	
Risk Management - Contribution to Improvement Agenda	15	
ACIVICO - Management Arrangements	40	
Self-Assessment - AGS Process	10	
Accountable Body	50	215
		1735
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	**830**
Schools		
Schools Consortium	20	
Schools Themed Work	100	
Schools Facilities Management	15	

	Days	Total
School Deficits Visits	20 945	**1100**
Follow Up Work		**200**
Ad Hoc Work		**178**
Planning and Reporting		**125**
City Initiatives		**40**
TOTAL		**5113**

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE **Report of: Strategic Director – Finance & Legal** **Date of Meeting: 14 March 2017** **Subject: ANNUAL GOVERNANCE STATEMENT - PROGRESS**
Wards Affected: All
1. Purpose of Report 1.1. The Annual Governance Statement (AGS), approved by Audit Committee on 21 June 2016 identified six key issues which could impact on the Council's governance arrangements. 1.2. The Council seeks to actively address and monitor these matters. This report provides Audit Committee with an update on the arrangements which are in place to mitigate the impact of the issues identified.
2. Recommendation 2.1. Members are asked to consider the report and provide comments.

Contact officer:	**Martin Stevens**
Telephone No:	**0121 303 4667**
e-mail address:	**martin.stevens@birmingham.gov.uk**

3. Background

3.1 The AGS has been developed as part of local government's response to the corporate governance agenda.

3.2 The evaluation and development of internal control within the Council forms a core function of Audit Committee. The 2015/16 AGS report was formally approved by Audit Committee on 21 June 2016. The AGS formed part of the Statement of Accounts for 2015/16, considered at Audit Committee on 12 September 2016, approved by the Chair of Audit Committee on 29 September 2016 and formally published on 30 September 2016. The first update to the AGS was reported to Audit Committee on 22 November 2016.

3.3 The significant issues raised by officers and agreed at Audit Committee were summarised in Section 6 of the original AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

3.4 The Schedule at Appendix 1 to this report picks out these key issues and identifies the lead directorate addressing them.

3.5 The Schedule gives Audit Committee an overview of the issues which bear on the AGS and how the Council is managing these. The information contained within the Audit Committee's November 2016 update remains within this report; the March updates are in addition to this information.

4. Legal and Resource Implications

4.1 The AGS is a requirement of Regulation 6 (1) of the Accounts and Audit Regulations 2015 and meets the corporate governance best practice recommendations. There are no direct resource implications arising from this report.

5. Risk Management & Equality Impact Assessment Issues

5.1 The Statement forms part of the Council's risk management approach and the relevant issues are those considered in the attached schedule.

6. Compliance Issues

6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.

6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of culture change under the Future Council.

7. Recommendations

7.1 Members are asked to consider the report and provide comments.

……………………………………..
Steve Powell, Acting Chief Financial Officer

Appendix 1

Governance Statement Issue

1. <u>Safeguarding</u>
<u>Background Information from AGS</u>

Safeguarding children remains a priority.

Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2016/17 and future years.

The Care Act 2014 sets out the legal requirements for adult safeguarding.

Responsible Directorate: People

Original Proposed Action AGS June 2016	Update/Progress
The Council has launched an operating model which sets out the vision, values, direction and shape of the service. A Practice Evaluation Programme has been introduced. A clear performance framework that provides challenge and	<u>November 2016 Update:</u> <u>Children's Services</u> The operating model is now embedded and supported by a practice evaluation programme which includes systematic monthly auditing of cases informing learning and development. It is a strong platform to improve the quality of social work intervention. Staff like the model and Ofsted has endorsed it. There has been a practice evaluation programme in place since January 2016. Team Managers undertake one practice evaluation per month and learning is shared with the social worker. Themes across the city on relation to practice are collated and learning cascaded to teams through the quarterly practice evaluation bulletins. Using this framework as a learning

accountability at all levels has been introduced. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.	tool is beginning to improve practice and needs to be linked to performance. The performance framework spans political leadership through to frontline/area challenge to practice and improvement. The Council is now exploring new governance arrangements via a children's trust model. <u>Adult Services</u> The Council has met its statutory requirements for safeguarding adults under the 2014 Care Act by: Establishing policy and procedure and working arrangements to recognise the need for, and undertake statutory Safeguarding Adults Enquiries (or cause others to do so). Ensuring arrangements are in place for independent advocates to support adults with care and support needs who have substantial difficulty in participating in their enquiry and have no one else to help them. Reviewing and agreeing with partners the amended membership, governance, operating agreement and strategic ambitions of the existing Safeguarding Adults Board. The present chair has announced his intention that the Board will in future move to adopt the recommendation of the Act's Statutory Guidance to appoint an Independent Chair. The Board has arrangements to undertake Safeguarding Adults Reviews. It has published its strategic plan for 2015-18, and shortly publishes its Annual Report for 2015/16. <u>March 2017 Update:</u> <u>Children's Services</u> The Council is setting up a Children's Trust for early help and children's social care services. Approval was given at Cabinet in January 2017; a chair designate appointed and a shadow

	Trust scheduled to begin in April 2017 with proposals for a full Trust in place by April 2018. Revised improvement plans including Ofsted recommendations have been agreed and developed with partners. The first Ofsted monitoring visit is scheduled in March 2017. Adult Services The Service Director, who held the position of the Chair of the Adults' Safeguarding Board, left the Council at the end of December, before an independent Chair to replace him had been appointed. The existing Deputy Chair has taken on the role temporarily, whilst the process for appointing a replacement is agreed and conducted.

Governance Statement Issue

2. Financial Resilience
Background Information from AGS

The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council.

The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years.

Given the Council is in the sixth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high.

The risk of failure to deliver the necessary actions to achieve savings requires close monitoring.

Responsible Directorate: Corporate Resources

Original Proposed Action AGS June 2016	Update/Progress
Service Reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. By focussing on its Future Council 2020 vision, the Council has agreed its 2016/17 budget and a multi-year financial strategy to deliver the vision	November 2016 Update: The Council continues to have robust systems for monitoring its budget with regular reporting to Corporate Leadership Team (CLT) and Cabinet. A Mid-Year Review included a realistic assessment of difficulties in delivering the savings programme, and this is being taken into account in planning for future years. It also obtained approval for a number of new savings initiatives as part of the Council's ''live budgeting'' approach. The Council recognises the scale of the challenge represented by the savings still necessary to be made and this is the primary focus of the administration and senior management.

Budget Monitoring will be undertaken by budget holders and reported to Cabinet and the Corporate Leadership Team on a regular basis.	The development of new savings options is being informed by the Council's policy priorities, and robust implementation and consultation plans will be put in place. The Council continues to take a medium-term view in its financial planning. Comprehensive consultation on budget proposals will take place as usual. <u>March 2017 Update:</u> Implementation plans have been developed and quality assurance and new monitoring and governance arrangements have been put in place, facilitated by a Programme Management Office. Corporate budget consultation took place during December/January and this will be complemented by directorate led consultation on specific proposals, where appropriate. Budget proposals have been reviewed in the light of consultation responses and implementation planning. The Council is developing contingency plans to provide some mitigation against delivery difficulties, by taking forward further potential savings initiatives for further evaluation and by continuing to pursue opportunities for efficiency improvements. In addition, the Council holds an Organisational Transition Reserve, which provides some contingency funding.

Governance Statement Issue

3. Equal Pay Claims
Background Information from AGS

The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources.

Financial resilience continues to be a focus for the external auditors and increasing demands to evidence Going Concern.

Responsible Directorate: Corporate Resources

Original Proposed Action AGS June 2016	Update/Progress
The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.	November 2016 Update: Settlement of valid claims is subject to availability of financial resources and relevant governance approval in line with delegated authority. Claims are robustly challenged prior to any settlement. March 2017 Update: Claims are still being issued against the Council. However, the level of new claims received each month has reduced compared with comparable periods in previous years. The Council continues to challenge all equal pay claims issued against it.

Governance Statement Issue	
4. <u>Governance Arrangements</u> **<u>Background Information from AGS</u>** From the review of governance arrangements made by Lord Kerslake and following the Birmingham Independent Improvement Panel's (BIIP) review, work on the Future Council Programme continues. This includes: • Clear values, purpose and vision for the future Council, along with its future operating model; • A medium term outcomes-driven council and financial plan to take the Council to 2020/21; • Strategic alignment of outcomes, resources, policy-making, service delivery, governance and roles and responsibilities; and • Sufficient senior leadership capacity to transform the organisation and deliver sustainable change.	
Responsible Directorate: Corporate Resources	
Original Proposed Action AGS June 2016	**Update/Progress**
Develop the Future Council Programme to: • Define the vision for the Council. • Deliver the changes required in workforce, organisation and infrastructure to achieve a financially sustainable and resilient operating model. • Create an agile and adaptive organisation.	<u>November 2016 Update:</u> During the summer 2016 Executive Management Team worked to agree a clear vision and set of priorities for the Council which was released in a Council Plan document in October 2016. Working with trades unions has progressed to enable the Council to reach a point of negotiating a collective agreement on workforce terms and conditions. Agile working has now been established as a stand-alone project in the People Strategy; working with Property and IT the project group is working through key milestone dates to initiate the project. The development of the improvement hub will include a change academy to develop individuals' skill sets in change, to ensure the organisation has the capability and capacity to change in the future.

• Deliver the actions set out in the Organisation Improvement Plan, developed in response to the Kerslake review and BIIP. • Budget Monitoring will be undertaken by budget holders and reported to Cabinet and the Corporate Leadership Team on a regular basis.	The Gap Analysis assessment has enabled the Council to stay on top of its improvement plan. Each action has clear milestones and targets associated with it, which is reported into CLT Quarterly Performance Board. Budget monitoring is reported as part of regular Cabinet, Portfolio Holder and CLT briefings to ensure knowledge of the forecast outturn position is as accurate as possible. This enables immediate action to be taken to address budget pressures. March 2017 Update: Vision and Priorities, alongside a future operating model were launched to staff at an all staff conference at the end of November. The Vision and Priorities have been subject to public consultation and will be considered by Council. This will put in place a clear political mandate for the priorities, outcomes and activities the organisation needs to deliver. Consultation on the future operating model commenced in January/ February 2017. The Improvement Hub has been fully operational from December 2016 and is delivering interventions across 5 key service areas. The focus of the future operating model on developing a clear skillset for managers and leaders in the organisation will be supported by the work of the Improvement Hub and the Change Academy.

Governance Statement Issue

5. <u>Partnership Working</u>
<u>Background Information from AGS</u>

The Council is seeking ways to improve effective partnership working, such as working with neighbouring authorities through establishing the combined authority and taking forward the devolution deal.

The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs.

Options may include:

- Using or considering alternative delivery vehicles.
- Outsourcing of services.
- Commissioning services.

Responsible Directorate: Corporate Resources, People

Original Proposed Action AGS June 2016	Update/Progress
The partnership with neighbouring authorities and the devolution deal the Council signed with the Chancellor of the Exchequer in November 2015 are major steps forward for Birmingham and the West Midlands. The Council must continue to work closely together through the next vital stages as it establishes the Combined Authority	<u>November 2016 Update:</u> The West Midlands Combined Authority (WMCA) was formally established in July 2016. Work continues on the implementation of the Devolution Agreement. The Mayoral Order (creating the post of elected mayor and the election in May 2017) was approved in Parliament in September. The Mayoral CA Order (putting in place the devolved powers) will be presented to the Council for approval on 6 December. The Council continues to play a prominent role in the work of the WMCA and is leading the work on devolution strategy and the current negotiations for a second devolution deal. Officers

and begins to implement devolution - making sure that work leads to permanent benefits for the region. The Future Council Sub programme Outward Looking Partnerships is reviewing the way the Council works with its partners - working equally to a common shared purpose. Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.	are also leading on housing policy and the Leader of the Council has been given the key Cabinet Portfolio of Economic Growth. During the Autumn, work has been undertaken with partners to develop a vision for the City. <u>Children's Services</u> The Council is exploring new governance arrangements via a children's trust model. The children's trust model has progressed to the scoping/consultation phase after a paper was presented to Cabinet in September 2016. There are currently 2 models being considered and a board is to be set up to oversee this. <u>March 2017 Update:</u> An "Organisational Development" (OD) approach is being used with partners to support the long term building of effective relationships and to ensure the skills of the workforce are developed in the partnership context. This includes the launch of a new module on effective partnership working that has been trailed with staff from February 2017. Work is also under development on more effective collaboration at neighbourhood level amongst public sector partners. <u>Children's Services</u> A model for the proposed Children's Trust was approved at Cabinet on 24 January 2017. A shadow Trust will begin in April 2017 with a full Trust in place by April 2018.

Governance Statement Issue

6. <u>Organisational Changes</u>
<u>Background Information from AGS</u>

The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies.

These organisational changes can impact on the productivity and efficiency of the organisation through the loss of experienced staff; impacts on the morale of the workforce, with the potential negative consequences on employee relations and increased the potential for industrial action.

Responsible Directorate: Corporate Resources

Original Proposed Action AGS June 2016	Update/Progress
Through the Future Council Programme: Forward the Birmingham Way, a new employee engagement programme is focused on redefining organisational and employee expectations and requirements. In the forthcoming year the significant budget reductions including the proposals for the new workforce contract may strain industrial relations. However,	<u>November 2016 Update:</u> The Council has developed a clear approach and programme of work to enable the development of the Future Council. The priorities and objectives of the Council are established along with the design principles to inform the future operating model. Employee engagement networks; Forward Champions, CLT and Managers' Voice have been used to frame the operating model for the organisation to ensure employee ownership, buy-in and understanding. Alongside this, a project has started to define the role of the Birmingham Manager which will be used to inform a number of projects including spans and layers project, to define organisational requirements. Despite the extremely challenging context in relation to reductions in headcount and terms and conditions industrial relations are strong. Consequently in the short term the likelihood of

positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.	industrial action is low. <u>March 2017 Update:</u> An all staff conference was held in December which around 1,600 staff attended either in person or via webcast. The webcast is still available to watch and has been cascaded at frontline sites (e.g. waste) to ensure every member of staff had the opportunity to hear key messages from the Leader and Chief Executive. Feedback from the conference is being collated. Corporate Leadership Team (CLT) Forum continues to run on a monthly basis on a variety of topics to involve CLT in the development of key strategic stands and has also invited in external speakers to highlight different practices and ways of doing things as well as providing opportunities for members of staff to showcase the work they have been doing (including Chamberlain's team of the year). The role of the Forward Champions has been re launched and will now form part of the talent identification strand of the Improvement Hub to ensure the Council is using the engagement forum to harness talent and ideas from across the organisation. The Future Operating Model (FOM) will be the vehicle for applying the work on the Birmingham Manager and 'Spans and Layers'. The FOM is aiming to reset the expectations and focus of the organisation and is being led through OD to ensure that the operating model focuses on identifying the right people with the right skills to fill the right roles. Consultation on the budget savings proposals including the FOM has commenced and an agreed process and timeline to ensure that meaningful consultation is achieved is in place.

Audit Committee
Birmingham City Council
Progress Report and Update
Year ended 31 March 2017

March 2017

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Introduction

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

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

- CFO Insights – reviewing council's 2015/16 spend (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- New laws to prevent fraud may affect the public sector (November 2016); http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/
- Brexit: local government – transitioning successfully (December 2016) http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

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.

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

Progress at March 2017

2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	Yes	The 2016/17 scale audit fee is £314,168. This is set by Public Sector Audit Appointments.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	March 2017	Yes	Our Accounts Audit Plan is included as a separate agenda item. Our Value for Money Conclusion Plan, identifying the significant risks was presented to the January Audit Committee.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	January – March 2017	In Progress	Our interim audit work is currently underway. We are working closely with the Finance Team and there are no matters that we wish to bring to your attention at this time.
Final accounts audit Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	June – August 2017	No	Early testing will be completed at interim visits to provide efficiencies to the final accounts visit. We are planning to start our final accounts audit in early June.

Progress at January 2017

2016/17 work	Planned Date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	January – March 2017	In Progress	We have completed an initial risk assessment and our VfM Conclusion plan was presented to the January Audit Committee. We have included a risk update in the Audit Plan that is listed as a separate agenda item We qualified our 2015/16 conclusion in relation to the following risks: • Savings challenge – due to the impact of non-recurrent savings in 2015/16 and the weaknesses in the People Directorate's savings plan delivery • Services for vulnerable children – due to the concerns reported by Ofsted following their monitoring visit and the continuing need for the Council to have external oversight of its arrangement by the Children's Commissioner • Management of schools – due to Ofsted feedback indicating that there are significant governance issues in some schools and concerns reported by Ofsted on the pace of change • Improvement Panel – due to continuation of the Panel's appointment We are required to bring these matters forward as part of our 2016/17 audit work.
Other areas of work Statutory recommendations under s24 of the Local Audit and Accountability Act 2014	Ongoing	Ongoing	We included a statutory recommendation in our 2015/16 Annual Audit Letter. This recommendation and the Council's formal response was considered at the Council meeting on 10 January 2017.

Sector issues and developments

Local Government Finance Settlement

National developments

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey ***2017 State of Local Government Finance*** have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax. "

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

Links:
https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018

http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/

http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/

Pooling of LGPS

National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation
- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

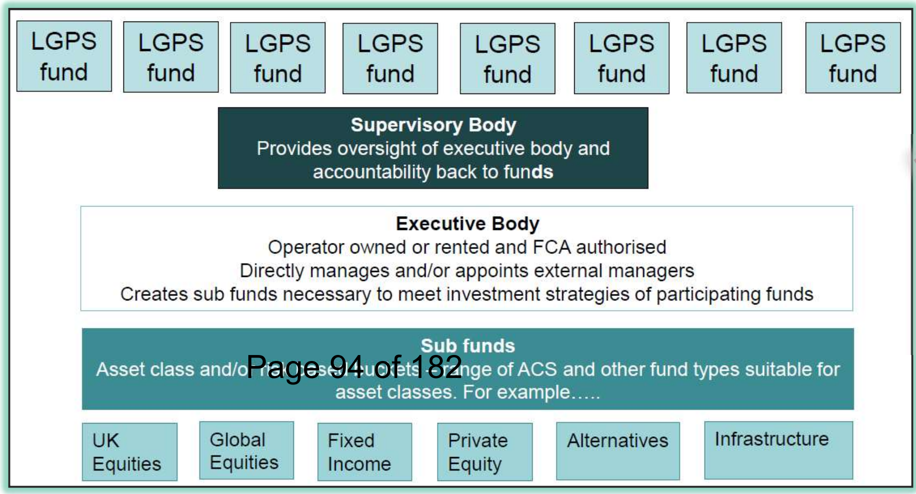
There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling,. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

Challenge question:

- Is your CFO keeping you up to date on devloping arrangments in your area?

Link: http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?



typical structure of LGPS Pool

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

"The housing market in this country is broken, and the cause is very simple: for too long, we haven't built enough homes."

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they're behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

Challenge questions:

- Have you been briefed on the White Paper and the implications for your statutory housing function?
- Is the Council planning to respond to the consulatation?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

Grant Thornton

Apprentice Levy-Are you prepared?

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Grant Thornton update

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Grant Thornton update

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of "*consistency, certainty and simplicity*".

When the proposals were originally made, the public sector was defined as "those bodies that are subject to the Freedom of Information rules". It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Grant Thornton

An instinct for growth™

Grant Thornton

The Audit Plan for Birmingham City Council

Year ended 31 March 2017

14 March 2017

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14 March 2017

Dear Members of the Audit Committee

Audit Plan for Birmingham City Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance in the case of Birmingham City Council, the Audit Committee, an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

-give an opinion on the Council's financial statements

-satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Phil W Jones

Engagement Lead

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Developments

West Midlands Combined Authority

WMCA's objectives are to make an annual contribution to the region worth £40 million for 30 years, to support an overall investment package that will unlock £8 billion, alongside the creation of up to half a million jobs.

The Royal Assent for HS2 is a key development for WMCA and the region, improving transport links with London and the South East and generating employment in the West Midlands.

Sustainability and Transformation Plan

Local government and Health partners continue to face enormous challenges. There has been no indication that the social care funding crisis will be addressed centrally, generating financial pressures to ensure planned care strategies and partnership working outcomes are delivered.

The Greater Birmingham and Solihull STP covers a population of 1.8 million people. It maps a collaborative path between Birmingham City Council, Solihull MBC and NHS partner organisations to deliver better health and social care. The Plan focuses on three 'drivers' for change:

- Insufficient system wide focus on use of resources
- Too much care that can be delivered elsewhere is provided in a hospital setting
- Variation in clinical services

Key challenges

Leadership

The retirement of Mark Rogers, the Chief Executive was announced on 19 February 2017. This followed the announcement of the retirement of Peter Hay, the Strategic Director for Place on 25 January 2017.

The Council has an ambitious change programme which is essential to it delivering its financial and operational challenges. Effective leadership is essential to achieving this.

Financial Challenge

We issued a statutory recommendation due to the under delivery of savings plans in 2016/17 that stresses the need to effectively plan and manage savings and the impact on the Council's reserves.

The draft Business Plan 2017+ shows a savings requirement of £71 million in 2017/18 and a planned use of reserves of £41 million. Financial Plans have been scrutinised by an independent financial review team. The Council has strengthened its implementation planning for the delivery of the savings programme, and has introduced more robust monitoring and governance arrangements.

The Improvement Panel's latest letter to the Secretary of State comments on both the credibility and deliverability of the Council's financial plans. It concludes that credible plans are in place, but some plans are ambitious and there are high risks to their deliverability.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect the aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes effect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement as well as the segmental reporting disclosures and new expenditure and funding analysis note. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

As the earlier closedown of the accounts is managed the preparation of the financial statements will include a greater reliance on estimation.

The Council's Financial Reporting Team have delivered significant improvements in both the timeliness and quality of accounts delivery. We are continuing to support them in making further improvements to achieve the new deadline.

Our response

- We aim to complete all our substantive audit work of your financial statements by 31 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will review the Council's progress in managing its responsibilities for public health and how it is working with partners, as part of our work in reaching our VFM conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £43.19 million(being 1.5 per cent of gross revenue expenditure excluding significant one-off transactions). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2.16 million.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
Related party transactions	Due to public interest in these disclosures	Materiality is set at £100,000 however errors will be assessed individually, with due regard given to the nature of the error and its potential impact on the materiality of the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Birmingham City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; • The culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Birmingham City Council.
Management over-ride of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of the control environment for preparation and authorisation of journal entries. **Further work planned:** • Review of accounting estimates, judgments and decisions made by management. • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation. • Review of unusual significant transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Going concern	You are facing significant financial challenges and have forecast a significant deficit position for 2016/17. This raises doubts over the completeness and adequacy of the going concern disclosures in the accounts, particularly in relation to material uncertainty.	**Work to be completed:** • Review of management's assessment of going concern assumptions and supporting information, e.g. 2016/17and 2017/18 budgets and cash flow forecasts and associated sensitivity analysis. • Review of completeness and accuracy of disclosures on material uncertainties in the financial statements.
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	**Work completed to date:** • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that revaluation measurements are correct. **Further work planned:** • Undertake testing of revaluations, including instructions to the valuer and valuer's report. • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Test of revaluation when assets brought into use. • Review of the procedures used to ensure that assets not revalued in year (due to the council's rolling 5-year revaluation programme) are not materially misstated.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Significant risks identified (continued)

Significant risk	Description	Audit procedures
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	**Work planned:** • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	**Work planned:** • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified

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

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	**Interim work:** • Updated our documentation of the operating expenditure system. • Undertaken a walkthrough of the controls in place to ensure operating expenses are not understated and are recorded in the correct period. **Further work planned:** • Review the application of the year end closedown process for capturing creditor accruals. • Undertake substantive testing of year end creditors including after date payments. • Test Goods Received not Invoiced listing to confirm appropriate accruals. • Review control account reconciliations covering the agreement of creditor payments to the ledger.
Property, plant and equipment	Risk that property, plant and equipment activity is not valid	**Interim work:** • Updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid. **Further work planned:** • Test agreement of the fixed asset register to the accounts and supporting notes. • Test a sample of PPE additions and disposals including compliance with capitalisation requirements.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

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

Reasonably possible risks	Description of risk	Audit procedures
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	**Interim work:** • Updated our documentation of the payroll system. • Undertaken a walkthrough of the controls in place to ensure payroll expenses are not understated and are recorded in the correct period. **Further work planned:** • Reconcile the annual payroll to the ledger and to the segmental analysis note in the accounts. • Complete trend analysis of monthly and weekly payroll payments covering 2016/17 and comparing to 2015/16 to determine whether substantive testing required. • Review payroll accrual processes and determine whether substantive testing required. • Substantive testing of the completeness of IAS19 pension liabilities. • Agreement of employee remuneration disclosures in the financial statements to supporting evidence.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other material balances and transactions

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

- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Group audit scope and risk assessment

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

Component[/s]	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
NEC (Developments) PLC	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Innovation Birmingham Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Performances (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Acivico Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Birmingham Museums Trust	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
PETPS	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
InReach (Birmingham) Ltd	No	Analytical	Subsidiary	Agreement of consolidation using audited accounts and analytical approach
Paradise Circus Limited Partnership	No	Analytical	Joint Venture	Agreement of consolidation using audited accounts and analytical approach
Service Birmingham Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach
Birmingham Airport Holdings Ltd	No	Analytical	Associate	Agreement of consolidation using audited accounts and analytical approach

Value for Money - Update

The Value for Money plan was presented to Audit Committee in January 2017. This identifies six risk areas that we will carry out further work on: Budget Delivery and Reserves Management, Services for Vulnerable Children, Improvement Panel, Management of Schools, Working with Health Partners and the Future Operating Model.

Since completing our initial risk assessment the draft Business Plan 2017+ has been published. The Plan is based on delivering changes to the way services are delivered. The programme includes a number of key projects which are significant in both scale and financial terms. A preliminary review of the plan has identified some risk areas which have also been considered in the report of the Independent Financial Review Team.

This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.

We will review the project management and risk assurance frameworks established by the Council in respect of the more significant savings projects, to establish how the Council is identifying, managing and monitoring these risks.

We have identified the following schemes for further review of proposals and project delivery.

- Corporate Resource Directorate -Reduction in ICT Spend
- People Directorate – Integrated Community Social Work
- People Directorate – Joint Working with the NHS
- Economy Directorate – Highway's Maintenance Savings
- Place Directorate – Support to the Arts and Borrowing from Reserves
- Corporate Directorate – Future Operating Model
- Corporate Directorate – Workforce Proposals

Responding to our Statutory Recommendations

Our 2015/16 Annual Audit Letter included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014. The Council considered this recommendation, and their response, at the Council meeting on 10 January 2017. The Council is in a challenging position and we have made it clear in our statutory recommendation the actions needed. We will review your progress with delivering these and report on progress to the Audit Committee. We will continue to meet frequently with senior management, members and the Improvement Panel to ensure that we understand the key issues you are tackling and the progress you are making.

We summarise below the Council's response to date.

Recommendation	Audit Update
Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17.	The Council have recognised and reacted to the problems identified in relation to the major deliverability issues of a number of savings in the 2016+ Business Plan. Revised governance in relation to budget monitoring has been implemented with a monthly meeting of the Budget Board made up of the Corporate Leadership team and jointly chaired by the Chief Executive and the Deputy Leader. The Council is in a challenging position and we have made it clear in our statutory recommendation the actions needed. Action also needs to be taken as a priority to reinforce senior management capacity following recent changes subsequent to the issue of our recommendations. The departure of the Chief Executive is an immediate concern for the effectiveness of these arrangements. We will review these arrangements as part of our value for money conclusion work.
Demonstrate that the Council is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+, by: revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and ensuring that all savings plans are assessed for both lead time to implement and delivery risk.	The impact of non delivery of savings and increasing pressures are being addressed as part of the 2017+ Business Planning process. An independent review was undertaken and the plan has been further amended in light of the comments received. However we will continue to monitor the revised savings plan to ensure that the deliverability of projects is in line with evidence of project planning.

Responding to our Statutory Recommendations (continued)

Recommendation	Audit Update
Re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.	The Council have revised and planned for the impact of the 2016/17 budget pressures. There is a planned use of reserves in 2016/17 of £35m. This will come from Capital Fund (£32m) [Earmarked Reserve "Sums set aside to finance Capital Expenditure" (balance of £81m at 31 March 2016] and Organisational Transformation Reserve (£3m) [Part of overall General Fund balance (balance of £111m at 31 March 2016)]. The planned use of reserves in 2017/18 is £46m, £28m from Capital Fund, £13m from Organisational Transformation Reserve, and £5m from capital receipts. We will continue to monitor and review these plans to ensure pressures from the 2017/18 budget savings are being achieved.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

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

Results of interim audit work

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

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	We have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. IT (information technology) controls were observed and we are awaiting responses to the issues raised.	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – namely Operating Expenses, Employee Remuneration, and Property, Plant and Equipment. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach. We will update our walkthrough of Property, Plant and Equipment after year end as a number of controls are year end controls.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach.

The audit cycle

The audit timeline

Key dates:

- Year end: 31 Mar 2017
- Close out: June 2017
- Audit committee: September 2017
- Sign off: September 2017

Audit phases:

- Planning Jan 2017
- Interim March 2017
- Final w/c 5 June 2017
- Completion Aug 2017
- Debrief September 2017

Planning Jan 2017 — Key elements

- Planning meeting with management to inform audit planning and agree audit timetable
- Discussions with those charged with governance and internal audit to inform audit planning
- Document design effectiveness of key accounting systems and processes

Interim March 2017 — Key elements

- Review of key judgements and estimates
- Early substantive audit testing
- Review of Value for Money arrangements
- Discuss draft Audit Plan with management
- Issue the Audit Plan to management and Audit Committee
- Meeting with Audit Committee to discuss the Audit Plan
- Issue audit working paper requirements to management

Final w/c 5 June 2017 — Key elements

- Audit teams onsite to complete detailed audit testing
- Weekly update meetings with management
- Review of Value for Money arrangements
- Audit of group reporting consolidation schedule
- Review of financial statement disclosures

Completion Aug 2017 — Key elements

- Issue draft Audit Findings to management
- Meeting with management to discuss Audit Findings
- Issue draft Audit Findings to Audit Committee
- Audit Findings presentation to Audit Committee
- Finalise approval and signing of financial statements and audit report
- Submission of WGA assurance statement
- Annual Audit Letter

Audit fees

Fees

	£
Council audit (as per PSAA scale fee)	314,168
Audit of subsidiaries	
Acivico Limited	38,000
Innovation Birmingham Limited	22,800
NEC (Developments) PLC	35,000
PETPS (Birmingham) Limited	7,600
Finance Birmingham Limited	6,900
Marketing Birmingham Limited	13,900
Subsidiaries total	**124,200**
Housing Benefit Grant Certification (as per PSAA indicative fee schedule)	17,594
Total fees (excluding VAT)	**455,962**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Audit fees (continued)

Fees for other services

Fees for other services detailed below, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Proposed fees for other services

Service	Fees £
Audit related services:	
Certification of grant claims (outside PSAA requirements)	16,700
Non audit related services:	
Finance Birmingham – tax advice	1,200
Innovation Birmingham – tax advice	6,400
Marketing Birmingham – tax advice	1,315

Note – tax advice work will only proceed if we are able to confirm that the requirements of National Audit Office guidance on non audit work are met.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and non-audit services

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

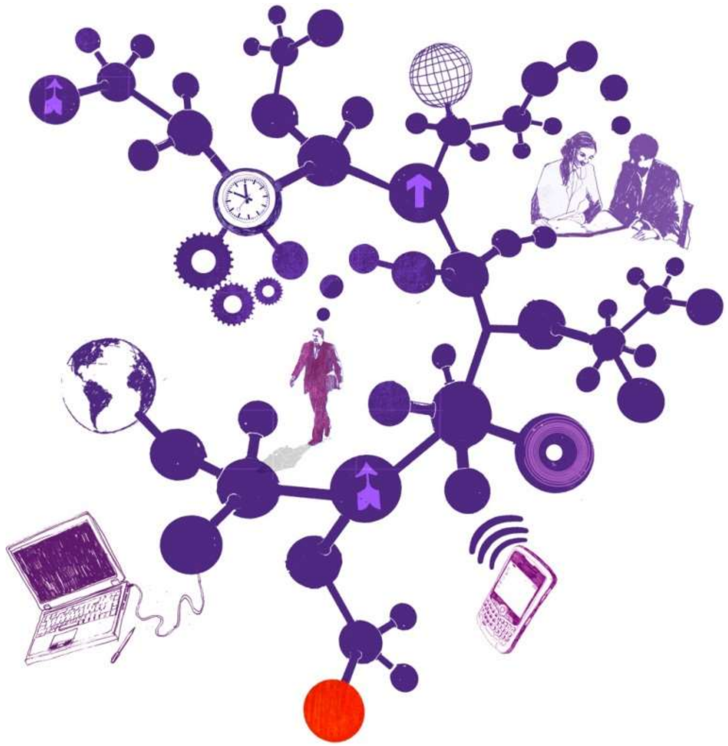
It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Informing the audit risk assessment for Birmingham City Council

Year ended

31 March 2017



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

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Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern
- Related parties
- Estimates
- Group accounts

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas. There is also a dedicated counter fraud team which undertakes reactive and proactive investigations as well as tackling the high risk areas of Social Housing and Council Tax fraud.. The risk of material misstatement of the accounts due to undetected fraud is low.
What processes does the Council have in place to identify and respond to risks of fraud?	The Council has an Anti-Fraud and Corruption Policy and Fraud Response Plan which set out the 'zero tolerance' stance to fraud. This is supported by Financial Regulations which require all suspicions of financial irregularity to be reported to Internal Audit. As well as participating in the bi-annual National Fraud Initiative, regular data matching exercises are undertaken through Internal Audit's Data Warehouse facilities. Internal Audit have sought to develop their data analytics capability. A project working with consultants to provide continuous fraud and error monitoring across the Council's main financial systems, included a provision for the transfer of knowledge to allow Internal Audit staff to run interrogation reports to highlight exceptions in data that may be an indication of fraud or error. Internal Audit participate in the annual surveys of fraud in local government undertaken by both CIPFA and TEICCAF and review the results of these surveys to identify potentially new fraud risks. In response to recent findings of an increase in No Recourse to Public Funds fraud , a proactive fraud exercise has been initiated to determine whether the Council has been the victim of such fraud. Internal Audit staff participate in various forums to exchange ideas around fraud related issues, as well as working more widely in co-operation with law enforcement agencies to exchange information for the purpose of preventing and detecting crime.. Fraud Spotlight, a bi-annual fraud bulletin dealing with general fraud issues is circulated to staff and members. In addition ad-hoc fraud alerts are issued to schools. The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter. e-Learning training material is available specifically targeted at managers. In addition bespoke training can be provided on specific fraud related issues. Procedures are in place for reporting fraud; this includes an on-line referral form, a fraud hotline and a revamped whistle blowing process. All cases of fraud should be reported to Internal Audit. All fraud referral s are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations.

Fraud risk assessment

Question	Management response
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Housing Benefits remain a high risk area however responsibility for investigating fraud in this area transferred to the Department for Work & Pensions (DWP) as part of the Government's introduction of a Single Fraud Investigation Service on 1st February 2015. The Council no longer has any authority or legal power to investigate in this area. Nevertheless, Internal Audit are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the DWP and Benefits Service accordingly. An issue has come to light where it has transpired that changes made to Council Tax liabilities do not automatically update Housing Benefit records, and as a consequence a number of benefit overpayments have occurred. Social housing fraud has been identified as a high risk area and significant counter-fraud resources have been committed to identify illegal sub-lets and non-residency of properties within both its own housing stock and that of Registered Provider partners. Internal Audit have worked with Housing to secure the gateway to obtaining a tenancy through increased use of the data warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach is being pursued with applications made under the Right to Buy Scheme. Internal Audit have worked with Housing to provide a network of 'Fraud Champions' within the service area, to provide assistance to investigations and promote the anti-fraud message. An e-learning package is being developed specifically to teach Housing staff about the risk of social housing fraud, and various campaigns have taken place to raise awareness of the problem more generally. Changes in Council Tax legislation have increased the Council's exposure to the risk posed by fraud in respect of Council Tax Support (which replaces Council Tax Benefit), single person discounts and student exemptions. Counter fraud resources have been committed to identify and investigate Council Tax related fraud, and the Council has taken part in NFI data matching exercises to identify fraudulent claims for single person discounts and Council Tax Support. In addition Internal Audit has used its Data Warehouse to match Council Tax data with other records to identify potential fraud. Direct Payments for social care have also been identified as a high risk area. Internal Audit undertake two monthly sample checking and have also recently undertaken a proactive fraud exercise to identify potentially fraudulent claims. This was followed up with fraud awareness training for staff administering Direct Payments. There has previously been an increase in the number of potentially fraudulent applications for business improvement grants, so Internal Audit have delivered fraud awareness training to staff in this area.

Fraud risk assessment

Question	Management response
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	There are adequate internal controls within systems to help prevent, deter and detect fraud. Compliance with controls is monitored by management as part of day to day governance arrangements and is reviewed by Birmingham Audit as part of delivering the internal audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. A system of continuous auditing across the main financial systems is also being introduced to help detect fraud.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The financial reporting process is a robust and precise process with numerous controls in place. Budget managers are ultimately responsible for managing their budget targets. City Finance staff challenge their assumptions and input the forecasts— these staff have a reporting line to the Director of Finance via their Finance Assistant Director. Strategic Directors sign off the forecasts at a directorate level. Corporate revenue and capital monitoring reports undergo various levels of quality control before publication and public reporting. Data from Voyager is used as part of the reports.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	Internal Audit provides the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. The Committee approves the Anti-Fraud & Corruption Policy, Fraud Response Plan and Prosecution & Sanctions Policies. The Committee receives an annual report on fraud and updates on other initiatives e.g. National Fraud Initiative or Protecting the Public Purse.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	In relation to staff there is a Code of Conduct which was updated and issued to staff when contracts were revised. The Code is also available to managers and staff on the People Solutions database. There are guidelines for dealing with employees found to have committed benefit or blue badge fraud, social housing fraud and council tax fraud. Your Weekly News and Fraud Spotlight also provide opportunity to remind staff of the Council's expectations. In relation to contractors, during 2013 the Council's Business Charter for Social Responsibility was published. One of the principles of the charter is ethical procurement, more specifically in relation to fraud, within the standard contract terms and conditions there is a requirement for contractors to protect the Council against fraud.

Fraud risk assessment

Question	Management response
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. BCC has recently revised its whistle blowing policy to include schools, and also introduced a dedicated Whistleblowing Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on Inline, includes an e mail address and telephone numbers for fraud reporting. An on-line referral form is in place on Inline and birmingham.gov.uk . In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.
Are you aware of any instances of actual, suspected or alleged, fraud, either within or impacting on the Council as a whole or specific departments since 1 April 2016?	No significant frauds have been identified in the year to date. Since April 2016, 87 referrals of potential fraud and error had been made to the Birmingham Audit Corporate Fraud Team. Each referral is risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of the Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition 1,437 cases have been raised in relation to Application Fraud (Social Housing and Council Tax), resulting in 43 properties being returned for re-letting, 182 applications being cancelled and 4 Right to Buy applications being stopped. Changes in the amount of Council Tax debit of nearly £300,000 have been identified along with Housing Benefit overpayments of just over £500,000.

Laws and regulations

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

Impact of Laws and regulations

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

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016, or earlier with an on-going impact on the 2016/17 financial statements?	The Council has been found to be in default of process and/or legal requirements through various legal challenges through Judicial Reviews, Health & Safety claims, Information Commissioner and Ombudsman findings.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Claims involving Highest Risk to Council are regularly monitored and reported to the Governance Board.
Is there any actual or potential litigation or claims that would affect the financial statements?	Those disclosed under provisions and contingent liabilities.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	As above – Ombudsman, Information Commissioner and Health & Safety Executive

Going Concern

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

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	The Financial Plan 2017+ includes an updated medium- and long-term financial plan, and this is reviewed regularly, with changes incorporated into briefings to Members of EMT as part of the on-going business planning process. This includes the financial implications of Equal Pay settlements, with the availability of resources informing the Council's settlement strategy. The Business Plan & Budget also includes projections of reserve balances and Prudential Indicators, together with the Treasury Management Policy & Strategy which sets out the framework for the management of loans, investments and cash balances. The Council has rigorous financial monitoring arrangements, including frequent reports to Cabinet, and this is supported by the tracking of the implementation of savings initiatives, including scrutiny by the Deputy Leader through Star Chamber meetings. The Council has adopted a medium-term approach to the development of its financial plans, including the savings programme, and has a transition funding strategy in place to take account of phased implementation. This will have regard to the resources that will be available then, service priorities and their cost, and the associated organisational change that will be necessary.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	The Council pays close attention to the financial implications of Equal Pay settlements, with the expected level of payments and resources both being updated regularly. The anticipated availability of resources informs the Council's negotiation and settlement strategy. There is continuing maintenance of a funding strategy involving the realisation of asset sales. Provision is included in the accounts for the expected level of payments in respect of outstanding claims. Government announcements regarding future grant levels are monitored closely and projections are updated regularly. The Council is part of the West Midlands 100% Business Rates Pilot , which will enable it to keep business rates growth in the City.

Going Concern Considerations

Question	Management response
Are arrangements in place to report the going concern assessment to the Audit Committee?	There are arrangements to report the impact of Equal Pay claims to the Audit Committee. The Statement of Accounts which contains specific disclosures around going concern is approved by Audit Committee.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Financial Plan 2017+ includes financial assumptions in relation to all Council commitments and liabilities, and is consistent with the reports taken to Audit Committee and the briefings given to its members.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Plan 2017+ explicitly took into account the changes in Government grants. The financial figures were also derived from the policies and priorities for the Council as a whole and in each directorate's plans. Expenditure pressures are also built into the medium- and long-term plans.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	There have been issues raised by external and internal audit relating to matters of internal control. Significant work has been undertaken in respect of the production of the accounts. Neither of these issues cast doubt on the assumptions made in the Financial Plan 2017+. Audit Committee reviewed the Council's response to the Section 24 statutory recommendation issued by the external auditor. (Please see comments below regarding the management of the savings programme.)

Going Concern Considerations

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

Related Parties

Issue

Matters in relation to Related Parties

For local government bodies the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS24: related party disclosures. The Code identifies the following as related parties:

- Subsidiaries;
- Associates;
- Joint ventures
- An entity that has an interest in the authority that gives it significant influence;
- Key management personnel and close family members; and
- Pension fund for the benefit of employees

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We also carry out testing to ensure the related party transaction disclosures in the financial statements are complete an accurate.

Related Parties Assessment

Question	Management response
Who are the Council's related parties?	In addition to the companies consolidated in the Council's Group Accounts, the Council has had transactions of over £200,000 with the following companies in which it has an interest (as at 28 February 2017): Birmingham & Solihull Mental Health Trust, Birmingham & Solihull Women's Aid Birmingham Community Healthcare NHS Trust, Birmingham Hippodrome Theatre Trust Ltd Birmingham Lend Lease Partnership, Birmingham YMCA, Bloomsbury EMB, Centro Bournville College, Chinnbrook Family & Community Project, City of Birmingham Symphony Orchestra, Business District Ltd, Dance Exchange Ltd (The), Drum/ Newtown Cultural Project (The), Focus Birmingham, Four Towers TMO, Leigh Trust Greater Bham & West Midlands Brussels Office, Lench's Trust, Marketing Birmingham, Midlands Arts Centre, Millennium Point Property Ltd, Optima Community Association Paradise Circus General Ltd, Pertemps, Roman Way Estate CIC, Retail Birmingham Limited, S4E Ltd T/A Services for Education, Saint Basils, Sandwell and West Birmingham CCG, South & City College (Birmingham), Southside Business District Ltd, Thompsons Solicitors, St. Paul's Community Development Trust, Stonham (Part of Home Group), West Side BID, Sutton Coldfield Town Centre BID, University Hospital Birmingham Foundation Trust, Veolia Environmental Services Birmingham Ltd, Witton Lodge Community Association Ltd, Yardley Great Trust, Millennium Point Trust, Mutt Motorcycles Ltd, Obillex Ltd, Pure Mobile. PETPS (Birmingham) Ltd, Warwickshire County Cricket Club. The 2016/17 Statement of Accounts will contain details of the nature of the relationships.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	Members and senior officers are required to complete a register of interest. Members are also required to declare any interests relating to matters to be discussed in each meeting. The Members' declarations are published on the Council's website.

Accounting Estimates

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

Accounting Estimates

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

Accounting Estimates

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

Accounting Estimates

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

Group Accounts

Issue
Matters in relation to Group Accounts

Matters in relation to Group Accounts

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

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

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

Group accounts considerations

Question	Management response
Management's views on the group's control environment (including group wide controls), the process of reviewing the effectiveness of the system of internal controls and the results of any review.	The components provide audited and signed off accounts to the Council. As a third party professional provides this opinion, reliance is placed on the outcome of this opinion to obtain assurance over the effectiveness of internal control. If there are issues these would be raised by the external auditor of the component.
Management's views on the group's risk assessment process as it is related to financial reporting.	All components produce accounts under a different framework and set of accounting standards namely FRS102 and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Matters and events which occurred during the year that could influence our audit approach or the entity's consolidated financial statements.	The Council continues to review entities to determine whether they meet the criteria for consolidation into the Group accounts. This year it is anticipated that InReach will be of sufficient value to be consolidated. Following the disposal of the NEC Group, the Council took on responsibility for its closed pension schemes through a wholly owned subsidiary, PETPS Limited. An increase in this liability has meant that the Council has explored options to mitigate the impact through the creation of additional companies.
The appropriateness of the group accounting policies to be used in the period, and whether any changes in the group's activities could require them to be updated.	As most companies are now producing their own accounts on the basis of FRS102, the alignment of accounting policies is less problematic.

Group accounts considerations

Question	Management response
Group management's processes for identifying and responding to risks of fraud.	Audit Committee considers the single entity in their risk assessment and identification of fraud. In addition, a report was taken to Audit Committee in January 2017 regarding each Group components' view of their fraud risk.
How those charged with governance monitor group management's processes for identifying and responding to risks of fraud.	The Audit Committee approves accounts annually, which includes the group accounts. An annual exercise is now undertaken with group entities to provide Audit Committee with assurances around risks of fraud.
Fraud risks within the group or any component within the group, including specific accounts or classes of transactions where fraud risks have been identified..	A number of fraud risks were identified by Group Finance Directors, mainly around transaction processing, and reported to Audit Committee in January 2017. The risk of material misstatement due to fraud is low.
How group management communicate to those charged with governance regarding business risks (including fraud).	Directors of BCC sit on the boards of components/subsidiaries of BCC. Therefore if there were issues of fraud Directors would communicate this back to BCC channels. The Council approved the establishment of an Executive Committee to oversee Group Company Governance in September 2016.

Group accounts considerations

Question	Management response
Management's awareness of any events or changes in circumstances that would cause an impairment of non-current assets.	An impairment review is done by entities. The accounting questionnaire sent by BCC to components/subsidiaries asks questions over impairments to capture this information.
Management's awareness of allegations of fraud, errors or other irregularities during the period.	Group entities report their respective positions each January in a report considered by Audit Committee. One fraud was investigated and found not to have initiated within the group entity.
Management's awareness of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	All components produce accounts under a different framework and set of accounting standards namely FRS102 and IFRS for Private Sectors. Therefore the Council is required to report the components' position on material aspects on an IFRS compliant basis for consolidation into the Group Accounts.
Audit Committee's awareness of fraud or suspected fraud within any group component.	The relative size of the components means there is low material fraud risk from components.
Audit Committee's views about the risks of fraud within each business component.	Each individual Group component supplied information about the risk of fraud within their own entity as part of the report taken to Audit Committee in January 2017.

GrantThornton

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BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

	Report to:	**AUDIT COMMITTEE**
	Report of:	**Strategic Director - Finance & Legal Services**
	Date of Decision:	**14 March 2017**
	Subject:	**Adoption of Accounting Policies for 2016/17**
1	**Purpose of Report**	
1.1	To seek members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2016/17.	
1.2	To notify members of the changes in accounting standards that will impact on the Council's accounts in future years.	
2	**Decisions recommended**	
	That Audit Committee:	
2.1	Consider and adopt the accounting policies for the determination of the Council's accounts for 2016/17.	
2.2	Note the implications for future years' accounts arising from the changes in accounting standards.	

Contact Officers:
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3 Compliance Issues

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

3.2 Relevant Ward and other Members/Officers etc. have been consulted on this matter:
The Chair of Audit Committee has been consulted.

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

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

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

4 Background

4.1 The Council is required to prepare its accounts with regard to:
a) Relevant accounting standards
b) The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 published by the Chartered Institute of Public Finance and Accountancy, which is updated annually
c) Relevant Statutes

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

4.3 There have been no new accounting standards issued that will impact on the Council's financial statements for 2016/17.

4.4 The proposed change in accounting policies that was planned for 2016/17, in respect of the change in basis of valuation of the Highways Network Asset (HNA), has been postponed. This is discussed in more detail in Section 5 below.

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

5 Changes for 2016/17

5.1 The statement of accounting policies has been amended from previous years in respect of:

- Inventories – which has been excluded on the basis that the balances at year end are not material

- Community Infrastructure Levy (CIL) – which has been added to the statement as the Council is levying a charge for the first time

5.2 There are also changes to the presentation of the main financial statements, most notably in the Comprehensive Income and Expenditure Statement (CIES).

5.3 To improve the clarity of financial statements, the CIES and the new Expenditure and Funding Analysis will be structured on the basis of the Council's operating structure rather than on the basis of individual service lines as previously. This will mean that councils are likely to have different elements of income and expenditure shown in their main financial statements which may make comparison more difficult. However, government returns will still be completed on the same basis as before. Examples of the new financial statements are shown in Appendix 2 to this report.

6 Future Years

<u>Change in Accounting Policy</u>

6.1 It was originally planned that local authorities would amend their accounting policies in 2016/17 to reflect a change in the basis of valuation of its HNA. HNA consists of:

- Roads
- Bridges and tunnels
- Footpaths
- Street lighting
- Street furniture

6.2 The amendment to accounting policies was to change the basis of valuation of the HNA from depreciated historical cost to depreciated replacement cost. The impact of this change would have been to increase the carrying value of the HNA on the Council's balance sheet from £430m to approximately £10,300m.

6.3 The change in accounting policy has been deferred following a decision of the Chartered Institute of Public Finance and Accountancy and the Local Authority

(Scotland) Accounts Advisory Committee Local Authority Accounting Code Board (CIPFA/LASAAC). The deferral is because the central gross replacement cost rates that would be used for the determination of asset values would not be ready in time for the production of 2016/17 financial statements.

6.4 A decision will be made by CIPFA/LASAAC in March 2017 on the proposed implementation of the change in accounting policy for the HNA for the 2017/18 financial statements.

6.5 When signing off accounts, external auditors are required to consider whether the statements reflect a true and fair view of the Council's financial activities. In 2017/18 the change in valuation of HNA will be under close audit scrutiny as a small error, of say 1% which would be equal to £100m, would have a material impact on the Council's net assets.

Accounting Standards for Future Years

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

This standard has a core principle of entities recognising revenue depicting the transfer of promised goods/services that reflects the consideration expected for those goods/services. This may impact on areas such as sales where there are incidental obligations, for example, where there are ongoing maintenance agreements attached to equipment sales.

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

This standard may impact on the accounting arrangements of Available for Sale financial assets, for example, shares in a company. At present any change in the fair value of such an asset is accounted for through a revaluation reserve and only impacts on the CIES when the asset either matures or is sold. Under the new standard, any changes in valuation may be posted to the CIES as they arise, which would impact on the General Fund immediately.

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

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

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

7 Accounting Implications

7.1 The change in accounting policy in respect of the HNA will have no direct financial implications to the Council. However, the recording of those assets on a depreciated replacement cost basis will increase the risks to the delivery of an unqualified set of financial statements as a very small error in recording those assets is likely to have a material impact on the Council's balance sheet.

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

8 Recommendations

8.1 It is recommended that members:

a) adopt the accounting policies for 2016/17 as detailed in Appendix 1.

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

…………………………………………………………………………..
Steve Powell, Acting Chief Financial Officer

Appendix 1

Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Accounts and Audit Regulations 2015, requires the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

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

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

<u>Short Term Benefits</u>

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

<u>Other Long Term Benefits</u>

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

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

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

Termination Benefits

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

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

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

Post-Employment Benefits

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

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

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

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

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

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

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

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

Service cost comprising:

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

Re-measurements comprising:

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

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

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

Discretionary Benefits

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

vii. Revenue Expenditure Funded from Capital under Statute

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

viii. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 6, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

ix. Government Grants and Contributions

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

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

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

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

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

x. Overheads and Support Services

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

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a Directorate.

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

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

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

Impairment

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

Where impairment losses are identified, the accounting treatment is:

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

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

Useful Life

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

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

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

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

Depreciation

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2016/17, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

xii. Heritage Assets

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

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

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

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

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

xiii. Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are, therefore, carried at amortised cost. The depreciable amount of an intangible asset is amortised on a straight line basis over its useful life to the relevant Directorate in the

Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant Directorate in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement.

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

xiv. Investment Properties

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

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

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

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

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

xv. Service Concession Arrangements

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

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

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

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

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

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

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

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

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

xvi. Leases

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

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

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

The Council as Lessee

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

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

<u>Operating Leases</u>

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

The Council as Lessor

<u>Finance Leases</u>

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Interests in Companies and Other Entities

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

xviii. Accounting for Schools

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

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

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

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

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

xix. Financial Instruments

Financial Liabilities

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at cost. Where a fair value of those assets that do not form part of the Group Accounts can be determined, the carrying value of the asset is adjusted to the fair value. Where a fair value cannot be measured reliably, the asset is carried at cost less any impairment losses. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

xx. Cash and Cash Equivalents

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

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

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Provision for Back Pay Arising from Equal Pay Claims

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xxii. Reserves

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

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

Contributions from developers, paid under section 106 of the Town and Country Planning Act 1990, are shown on the Balance Sheet as either Grant Reserves or Capital Grants Unapplied. Where these monies are invested externally, the sums invested are shown under short term investments.

xxiii. Council Tax and Business Rates

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

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

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

xxiv. Business Improvement Districts

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

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

xxv. Community Infrastructure Levy

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

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

xxvi. Events After the Reporting Period

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

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

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

xxvii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

xxviii. Council Acting as Agent

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

xxix. Value Added Tax

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

xxx. Foreign Currency Translation

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

xxxi. Acquired Operations

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

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

Appendix 2

New Financial Statements

Expenditure and Funding Analysis

2015/16				2016/17		
Net Expenditure Chargeable to the General Fund and HRA Balances	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the CIES**		**Net Expenditure Chargeable to the General Fund and HRA Balances**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the CIES**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
x	x	x	Economy	x	x	x
x	x	x	People	x	x	x
x	x	x	Place	x	x	x
x	x	x	Corporate Resources	x	x	x
x	**x**	**x**	**Net Cost of Services**	**x**	**x**	**x**
x	x	x	Other Income and Expenditure	x	x	x
x	**x**	**x**	**(Surplus)/Deficit**	**x**	**x**	**x**
x			**Opening General Fund and HRA Balance**	x		
x			(Surplus)/Deficit on General Fund HRA Balance in Year	x		
x			**Closing General Fund and HRA Balance at 31 March**	**x**		

Comprehensive Income and Expenditure Statement

2015/16 Gross Expenditure £m	2015/16 Gross Income £m	2015/16 Net Expenditure £m		2016/17 Gross Expenditure £m	2016/17 Gross Income £m	2016/17 Net Expenditure £m
x	x	x	Economy	x	x	x
x	x	x	People	x	x	x
x	x	x	Place	x	x	x
x	x	x	Corporate Resources	x	x	x
x	**x**	**x**	**Cost of Services**	**x**	**x**	**x**
x	x	x	Other operating expenditure	x	x	x
x	x	x	Financing and investment income and expenditure	x	x	x
x	x	x	(Surplus)/Deficit on discontinued operations	x	x	x
x	x	x	Taxation and non-specific grant income and expenditure	x	x	x
		x	**(Surplus)/Deficit on Provision of Services**			**x**
		x	(Surplus)/Deficit on revaluation of property, plant and equipment			x
		x	Impairment losses on non-current assets charged to the Revaluation Reserve			x
		x	(Surplus)/Deficit on revaluation of available for sale financial assets			x
		x	Remeasurement of the net defined benefit liability/(asset)			x
		x	**Other Comprehensive Income and Expenditure**			**x**
		x	**Total Comprehensive Income and Expenditure**			**x**