

# **BIRMINGHAM CITY COUNCIL**

## **AUDIT COMMITTEE**

**TUESDAY, 24 MARCH 2020 AT 14:00 HOURS**  
**IN COMMITTEE ROOMS 3 & 4, COUNCIL HOUSE, VICTORIA**  
**SQUARE, BIRMINGHAM, B1 1BB**

## **A G E N D A**

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

The Chairman to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site ([www.civico.net/birmingham](http://www.civico.net/birmingham)) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

### **2 DECLARATIONS OF INTERESTS**

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

### **3 APOLOGIES**

To receive any apologies.

### **4 EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

- a. To highlight reports or appendices which officers have identified as containing exempt information within the meaning of Section 100I of the Local Government Act 1972, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.
- b. To formally pass the following resolution:-

- Agenda Item 14 – Equal Pay Update Exempt Appendix 1

**RESOLVED** – That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to

information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

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|------------------|----|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| <u>5 - 24</u>    | 5  | <b><u>MINUTES - AUDIT COMMITTEE - 28 JANUARY 2020</u></b>          | To confirm and sign the minutes of the last Committee held 28 January 2020.                   |
| <u>25 - 94</u>   | 6  | <b><u>TREASURY RISK MANAGEMENT ARRANGEMENTS</u></b>                | Report of the Head of Capital and Treasury Management                                         |
|                  | 7  | <b><u>AUDIT COMMITTEE - FUTURE WAYS OF WORKING</u></b>             | Verbal discussion                                                                             |
| <u>95 - 162</u>  | 8  | <b><u>STRATEGIC RISK REGISTER UPDATES</u></b>                      | Report of the Assistant Director, Audit & Risk Management                                     |
| <u>163 - 188</u> | 9  | <b><u>ADOPTION OF ACCOUNTING POLICIES 2019/20</u></b>              | Report of the Interim Chief Finance Officer                                                   |
| <u>189 - 200</u> | 10 | <b><u>AUDIT FINDINGS RECOMMENDATIONS - PROGRESS UPDATE</u></b>     | Report of the Interim Chief Finance Officer                                                   |
| <u>201 - 214</u> | 11 | <b><u>BIRMINGHAM AUDIT - INTERNAL AUDIT PLAN 2020/21</u></b>       | Report of the Assistant Director, Audit & Risk Management                                     |
| <u>215 - 254</u> | 12 | <b><u>GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT</u></b> | Report of the External Auditor                                                                |
| <u>255 - 276</u> | 13 | <b><u>GRANT THORNTON - AUDIT PLAN</u></b>                          | Report of the External Auditor                                                                |
| <u>277 - 280</u> | 14 | <b><u>EQUAL PAY UPDATE</u></b>                                     | Report of Corporate Director Finance & Governance and the City Solicitor & Monitoring Officer |

15 **GROUP COMPANY GOVERNANCE ASSURANCE - INFORMING THE  
AUDIT RISK ASSESSMENT**

Report of the Interim Chief Finance Officer

16 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting

17 **SCHEDULE OF MEETINGS FOR THE MUNICIPAL YEAR 2020/21**

To agree the following dates:

- Tuesday 26 May 2020 1400 – 1600 hours
- Tuesday 28 July 2020 1400 – 1600 hours
- Tuesday 29 September 2020 1400 – 1600 hours
- Tuesday 24 November 2020 1400 – 1600 hours
- Tuesday 26 January 2021 1400 – 1600 hours
- Tuesday 30 March 2021 1400 – 1600 hours

18 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 26 May 2020 at 1400 hours in Committee Room 6.

19 **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.

20 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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



## BIRMINGHAM CITY COUNCIL

<p><b>AUDIT COMMITTEE</b>  <b>28 JANUARY 2020</b></p>
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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON  
TUESDAY, 28 JANUARY 2020 AT 1400 HOURS IN COMMITTEE  
ROOM 6, COUNCIL HOUSE, BIRMINGHAM**

**PRESENT:-**

Councillor Grindrod in the Chair;

Councillors Tilsley, Jenkins, Bridle and Quinnen

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**NOTICE OF RECORDING/WEBCAST**

- 189 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.civico.net/birmingham](http://www.civico.net/birmingham)) and members of the press/public could record and take photographs except where there were confidential or exempt items.

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

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**DECLARATIONS OF INTEREST**

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

In relation to agenda item 8, the Chair declared that he was a non-executive Director for Acivico Limited.

At this point in the proceedings, Councillor Jenkins requested considering the seriousness of the matter concerned, to move agenda item 13, Travel Assist (ATG) to be the first item on the agenda for discussion. The Chair and Committee Members agreed to bring this item forward.

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## **APOLOGIES**

- 191 Apologies were submitted on behalf of Councillors Webb, Jones and Akhtar for their inability to attend the meeting.
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## **EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC**

- 192 **RESOLVED:-**

That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

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The Chair highlighted that Councillor Alex Yip will be in attendance as an observer throughout this Committee.

Item number 13 was the new item 5. A script was then read out in 'Public' by the Chairman in relation to Travel Assist.

"The Travel Assist reports contain references to a "serious incident in relation to the DBS process". These references are on pages 2, 3, 4, 6 and 15 of the Audit report, and in paragraph 4.3.13 of the covering report.

The Council have taken legal advice about what we can and cannot say about this and we are advised that we are unable to release any information which we would have known about solely from any DBS check – such a release is a criminal offence under the Police Act 1997.

To avoid this scenario, we must be careful about what we say and how we say it.

I am recommending as a result that to avoid the risk of an unintentional criminal act occurring on the part of a Member or officer, we do not refer to any information which we would have known about following a DBS check, such as names, or individual people's background information.

We should focus on those aspects of the reports which fall within the remit of the Committee – mainly controls, risk management and process issues.

Safeguarding issues in individual cases are the remit of the Birmingham Safeguarding Children Partnership”.

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## **TRAVEL ASSIST**

Councillor Kate Booth, Cabinet Member for Children’s Wellbeing introduced Tim O’Neill and Nichola Jones to deliver a presentation on Travel Assist.

Tim O’Neill, Director for Education and Skills explained that he would be giving an overview to set the context and overarching activities that have taken place over the last 7-8 months. Following the presentation Nichola Jones, Assistant Director for SEND and Inclusion would go through the details depending on questions that would be asked at that point.

Tim O’Neill outlined the audit report was commissioned by him in the Spring of 2019 (April 2019), where he was in post for around 3 months. At that point it was noted there were a range of activities that were not going right. As a result, audit was used in a proactive way to understand why there were gaps.

Reference was made to the second bullet point of the presentation, ‘Turning over stones’ as this was noted as an important phrase. It was important to look everywhere for evidence of where practise could be improved. In addition to this, to ensure that the Education and Skills Directorate was working to ‘at least’ the industries standard. Previous audit reports indicated this was an area of struggle to provide a service that was fit for purpose for all children. As a result, the Director for Education and Skills undertook the decision to carry out an audit on the Service area.

Subsequently, a meeting took place in the summer chaired by the Chief Executive, where the quality of the draft version of the existing audit report came through.

2 issues key issues that were emphasised in the audit report:

- There were a range of cross council issues emerging that were required to be flagged up in the report.
- The quality of the audit practice i.e. how could audit be used to our advantage in the Council to ensure all services were performing to standard.

Additional comments in the audit report that came through which were incorporated to the final October 2019 audit report. The final version referred to the cross-council issues particularly around safeguarding. In addition to this the DBS process was reviewed for which HR colleagues would discuss at Audit Committee.

It was important to highlight there were many areas that could have been worded and written better in the October 2019 report. Some of the actions overlapped, therefore difficult to interpret and unclear. Clarification on those actions would be made to the Committee in order to be clear how to take practise forward.

Committee members were informed there were previous audit reports on Travel Assist in 2017, 2018 which identified a range of poor contract risk and performance management activity.

Tim O'Neill emphasised that he could respond to the actions that were delivered during him being in post however, less confident of what happened prior to his appointment.

The October 2019 audit report clearly identified that the rolling over of the yearly contract took longer to resolve than required.

The quality of the Council's commissioning and management activity across the Education and Skills Directorate as well as across the Council was noted as a critical factor and contributor to these outcomes. The Corporate Leadership Team (CLT) and Cabinet are aware that improvement is required in the Contracts Management area. However, this has been addressed in Education and Skills Directorate in terms of the audit report. The Directorate would continue to ensure this was in place as there was high value and risks associated under this area of the Council. Thus, Commissioning of quality and resources was essential.

19 actions were identified in 2019 Audit report. Some of the actions overlap therefore roll into each other. The following list draws the key deficits together and these were the key deficits in the 2019 audit report:

- Commissioning framework, resources and quality of frontline provision
- Commissioning policy and procedure
- Associated issues around Contract management
- Quality and extent of management information
- Safeguarding checks and DBS information
- Quality assurance of drivers, guides and vehicles
- Budget management

A summary was provided of the activity that had taken place against the issues that were identified.

These were listed as:

- New providers, commissioning and contract arrangements in place
- New SEND leadership recruited and embedded – Started in August 2019.
- Increased resources into commissioning and quality management
- Additional investment into home to school transport (HTST)
- Investigation undertaken regarding identified breach of process (concludes end of January 2020 to which an initial report was completed in November 2019).
- Appropriate managerial action taken regarding breach of process
- New HR leadership, review of DBS policy and practice (including contractors)
- Change of resources in safeguarding team
- Appropriate budget setting
- Weekly monitoring processes established

It was noted that there are fundamental issues identified for the Council and lessons to be learnt around:



- Commissioning – Quality management.
- Contractor management regarding safeguarding, linking to council DBS processes
- Refresher training
- Importance of quality management and business intelligence in the commissioning and contract management sphere – Peter Bishop (Director of Digital & Customer Services) assisting to drive this across the Council rather than just specific Directorates.
- Audit - Made good strides and are currently having very detailed conversations around planning and connecting the 19 recommendations.

Following the initial overview from Tim, the Chair requested the Internal Audit Team to give a summary of the 02 October 2019 Birmingham Audit Report.

Sarah Dunlavey, Assistant Director for Audit and Risk Management referred to the Audit Report.

(See document No. 1) – (Page 179)

All the recommendations were listed in the covering report which indicated the current position and responses to these. The covering report gave a more up to date contemporary position.

In terms of previous audit reports in 2017, 2018, they were purely of a contract nature. Recommendations stated stronger contract management should be in place and that the contract risks should be identified with KPI's set. By incorporating these into the recommendations initially, it may have given early indication of contracts collapsing. Though contracts collapsing can come as a surprise no matter what due diligence arrangements are in place.

Sarah Dunlavey thanked Tim O'Neill for developing a collaborative relationship as now there was close work being undertaken between the Directorate and internal Audit Team. A draft protocol has been drawn with particular input for Education and Skills Directorate.

The Chair invited the Director for Human Resources (HR), Dawn Hewins to add any further comments.

Dawn Hewins, Director for HR emphasised it was important to note that this audit report was in relation to the contractor and not an employee of Birmingham City Council (BCC). There was a set process which was the employer's responsibility. Lessons have been shared between the contractor and BCC which included a review of the process and strengthening of the safeguarding team. The process of checking DBS was currently being reviewed. It was noted that as the DBS status changed for the employee, this in turn triggered the investigation. The Council took immediate action and pursued an investigation.

Members were given the opportunity to raise any questions.

Councillor Meirion Jenkins indicated that he had a few detailed points to make. It was recognised this was a dreadful failure. It was a failure of contract management, a failure of due diligence and financial control and most of all failure to protect some of the most vulnerable people of the City.

The Audit report was commissioned in the Spring of last year (2019), which was nearly a year ago. However, it was ready in July yet taken until the end of January to come into the public domain to be discussed at this Committee. Councillor Jenkins felt there was no substantive change in this report for the last 3-4 months. It is not clear why this was not shared at the Committee in the Autumn. Following this the audit report was then deferred for political convenience using purdah as an excuse though this had nothing to do with purdah. He stated this was about good financial management of the Authority and protection of vulnerable citizens. It was wrong that it had taken since the spring of last year to get to the point that we are discussing one of the most dreadful reports that BCC had seen. He questioned if the Council was being open and honest since the details have not been shared. Rumours that were spread gave light to the situation. Councillor Jenkins questioned if this was not shared via a rumour, would this have been brought to the attention of members.

Discussions on ATG, contracts and financial situation have been talked about for several years. Members have been drawing attention to these issues and problems for a number of years. Issues around the contract and that the automatic renewals were raised, and these should not be taking place. Only until ATG contract fell through that this became a priority.

Councillor Jenkins referred to the audit report reading out: 'A poor understanding (BCC) about the importance of safeguarding, inadequate safeguarding arrangements, poor management control, no real contract management, poor quality management information and an absence of KPIs.' It was felt that BCC was not being open about what was meant by the serious incident that took place. The reader of the report was left to speculate as to what was meant by serious incident.

Some of the children have profound disabilities and the reader could think that had something terrible happened, these children may not have been able to draw it to the attention of others. It was felt that the responsibility had to go right to the top of the political leadership.

This was not an isolated failure of contractual management. Birmingham had failed to follow contractual processes repeatedly. When contracts are up for renewal the correct processes are not adhered to.

The Audit report stated that the contract extension which should have been re-procured was illegal and almost unenforceable. This was not addressed by the Council and nor have the historic issues. The Deputy Leader had overseen Children Services for most of the period. Initially when Councillor Booth was appointed as the Cabinet Member, she stated that this was one of her key

priorities. However, it was felt that these priorities have not been addressed correctly and appropriate action had not taken place.

It was recognised that the ATG contract management takes a substantial amount of the budget area around 80% however, the audit of the expenditure had not been monitored correctly i.e. if the money was spent correctly, the journeys that BCC were invoiced for took place.

There is no timeline of the all incidents, events that have taken place even though an internal investigation is being undertaken. It was felt that if an officer is found responsible then a written warning should be issued.

The Chair supported comments made by Members and though there were several investigations taking place, including from the Safeguarding Board, the Audit Committee expect to see the outcomes of the investigations. Members agreed that an update should be provided to a future Audit Committee.

Councillor Jenkins suggested that the matter be referred to Overview and Scrutiny. He recommended the Chair of Audit Committee write to relevant Overview and Scrutiny Chairs (Resources, Education & Children's Social Care) and state that 'in light of the report that came to Audit Committee on this day, there may be other matters that may need to be brought forward'.

This recommendation was accepted by the Chair.

Councillor Tilsley pointed he had been asking questions about this particular area of work for a considerable amount of time. When the contract started in 2009, he was extremely concerned about this area given the vulnerability of the children. At the time, questions were raised to which the answers were not satisfactory. These questions were continually raised however never responded to appropriately thus lost control. The contract was in place 8/9 years before it collapsed. Councillor Tilsley stated that he had never seen such a damning report with high priorities identified. It was noted as one of the worst audit reports that had been shared at Audit Committee.

Travel Assist had been audited in the past and concerns were raised however these had not been actioned appropriately. If the actions were addressed correctly then the current situation would not have been in place.

Members agreed an urgent response should be made as this had caused a lot of anguish to many families especially since majority of the dates referred to in the audit report were during June, July 2019. There had been no further follow up to this report and we are now in January 2020. Therefore, the City of Birmingham as well as the Council are due an updated report which identifies and reaches a conclusion on all 19 recommendations.

Tim O'Neill agreed that the substance of the audit report should be written in a recent format. The only addition to the report was the cross-council issues as there were wider concerns beyond the Directorate. Work was being taken on these issues and was now coming together.

The following points were noted in response to the questions raised by members:

- The serious incident that was mentioned in the report was a breach of process and openly in the media.
- The language used in the report - 'serious incident' was not the best form of words used.
- Contractual arrangements – The Directorate are accountable however, these issues are being resolved. Majority of these actions are now in place.
- With the support of Audit, the current report can be converted to an up to date report which describes what has been done. Any outstanding issues can be brought back to Audit Committee.
- Contract arrangements with National Express – They are responsible for a third of the assisted routes. The contract with T23 covers the remainder of the routes. Audit Committee would be updated on this.
- Investigation – investigation work being carried out, however it would need to be checked with legal colleagues to ensure what can be shared.
- The activity the Safeguarding Board undertakes on behalf of BCC would be shared with Audit Committee.
- Regular 1:1 with Penny Thompson (Chair of Birmingham Safeguarding Children's Board) takes place.
- KPI's – Information would be shared with Audit Committee and any mitigating actions identified.
- Members were reminded the covering report works in conjunction with the Audit report. The covering report describes all the activities to date that have taken place. This can be brought into an audit report at a future Committee.

Nichola Jones assured the Committee that the Directorate would ensure quality services are delivered to the citizens of Birmingham. Since October 2019, the DBS framework had been implemented. The National Express contract was now fully embedded. There have been no cancelled routes since the take over by National Express in November 2019. The next focus area was the sickness of travel guides and the monitoring of the times of transport. Weekly monitoring takes place on a dashboard and KPI's. This ensured that the Directorate would be driving through performance and using quality information to make well informed decisions. A process was now in place for DBS checks which are held centrally. In addition to this, relationships with procurement had been strengthened as close work is undertaken.

It was noted that intense work with telephony and information management systems was being progressed. Emphasis was given to the number of dependencies in this area which meant the Corporate part of this system was critical i.e. management systems, fleet management, personnel as well as management of DBS. Conversations are currently being undertaken to strengthen relationships. A lot of work has been undertaken despite increased placements to special schools by 500. 48% of children are not within their local area whom are transported which was unusual. As a result, this placed a significant amount of pressure on a group of professionals. Reviews were taking place to see if the current teams in place and are adequate. Undertaking efficiencies and savings at a period where planning

and process are not in place was difficult, therefore it was raised with the Directorate that these cannot be made. Long term planning and systemic work was being undertaken in SEND as well as Home to School Transport Service.

Councillor Marje Bridle emphasised the report was shocking. It was clearly systematic and illustrative of the problems that BCC had. More honesty was required as people were well paid within the Council. They were in post to deliver a service therefore denying problems and issues was not right. Openness and transparency were always required. BCC should be keeping members informed of improvements being made.

It was noted, due to the size of Birmingham this caused a number of issues and problems. Several Councils have improved much faster than Birmingham.

Councillor Bridle questioned around accountability and where does this lie. At a previous Audit Committee, a presentation on CIPFA was delivered which indicated lack of accountability in Birmingham. Systems as well as people were at fault and there was a need for clarity for failures and accountability. Those whom were accountable, what action would be raised against them.

Councillor Booth firstly thanked the auditors for the work placed into the report as well as the update to date work and actions taken. Following this, she thanked Members for their comments and referred to the initial quote in the presentation, 'no stones unturned'. She stated that in her role as the Cabinet Member for Children's Wellbeing, this was what had been actioned i.e. 'no stones unturned'. It was vital that a service that is provided for the most vulnerable young people in the City had to be exemplary. She was delighted that a new contractor was in place and met with them. Additional to this some journeys, routes were undertaken. Councillor Booth was determined that in her role there is a fresh vision and a new direction. It was important to bring this service as well as other services within the Education and Skills Directorate into the 21<sup>st</sup> Century.

An independent report had already been conducted. Another independent report will be brought together at the end of January 2020.

It was felt that an independent report, i.e. not produced from the Council would be recommended to Overview and Scrutiny. The Council had to be reviewed as a whole and not specific to the Education & Skills Directorate.

Councillor Meirion Jenkins indicated several questions. These were noted as;

- In relation to the DBS checks, who signed off the checks? Was it the Council or the contractor as this was not clear in the audit report.
- The report indicated 'serious incident' was this a process failure. Independent readers wouldn't interpret 'serious incident' as a failure of administration but would think of a worse situation. This should be clear.
- Accountability – The person whom is in charge of the Service areas is ultimately the person who should be accountable i.e. the Cabinet Member. However, officers should also be disciplined as a subject of failures.

- In comparison to the private sector, it was noted that written warnings were issued immediately. Written warnings show a sign of accountability and matters are actioned seriously.
- Independent report – this was queried previously via the Chief Executive. However, the response received indicated that internal audit function should be trusted. If an independent audit was explored that would have implied that there was no trust in BCC internal audit. Members disagreed with this view.

Tim O'Neill responded to some of the queries and the outstanding points. Management structure was robust in both Education & Skills and HR Directorates. In reference to the 'serious incident' the language was not clear and open for interpretation. A breach of process was a more appropriate way of describing that incident. Therefore, the language does not reflect what happened.

Dawn Hewins confirmed that responsibility of the contractors was to carry out the DBS. In terms of the City Council process, the information from the contractors to BCC, there were gaps which were being addressed. As a result, this went to a safer recruitment panel and the information produced was being investigated. A disciplinary process was subject to a thorough investigation which would be undertaken by end of January 2020. Actions would be addressed accordingly.

Councillor Meirion Jenkins questioned again if the Council signed off the DBS checks or if the contractors alone signed off the DBS checks. Dawn Hewins clarified there was a process to go through in terms of the DBS checks. DBS checks do not come to BCC as part of that process. All the information was provided to HR was currently being investigated. Due to the statement made at the start of the Committee, Dawn was limited to say any further detail.

Members agreed that the Committee were entitled to know if the Council signed off the DBS checks or was this only the Contractor. A clear response to this query was to be reported back to the Committee after the investigation had taken place.

The Chair supported and echoed all the points raised from members of all political parties.

Questions raised by the Chair;

- This audit report was in relation to two Directorates and in the public domain. The audit report indicated a poor understanding of the safeguarding and its importance. This was shocking and indicates a cultural problem.
- How would this Committee be confident about the improvement of the culture and engagement with every citizen in Birmingham. Safeguarding should be at the centre of everything BCC undertakes.

The Commissioning arrangements of the Council were referred to and how these were managed. It was clear this was an area to make significant improvements. The Audit Committee would be interested in looking at how

improvements in that area was made over time. The process issues in HR were led by Dawn Hewins. This would assist in getting to a position where the confidence can be gained. To be at 'very least' industry standard was crucial as previously there had been very thin client relationship between the Directorate and its providers. The Council's CLT was urgently addressing the matter to which the details would be shared with Audit Committee.

Dawn Hewins stated the Directorate were taking this very seriously. A series of actions had been implemented. The arrangements with the providers had been reviewed including the services on how DBS works, and processes attached to that. The DBS panel had been strengthened internally. Training was provided for staff and reviewed in terms of safeguarding. The audit report was issued in 2019 therefore action was being taken. The Directorate were not waiting for the result of the investigation.

The Chair emphasised to the Members that as a councillor for Birmingham, he would want confidence that safeguarding was right. The response from the Council should be fast and effective so that members and officers can be proud in protecting vulnerable citizens. At present there was nothing to be proud of therefore reassurances need to be delivered.

Nichola Jones reassured the committee by pointing out safeguarding audits are a part of the new DBS framework. Each contractor undergoes a safeguarding audit. Quality assurance, mechanical inspection of the vehicles, routes would be checked. All these checks would be introduced through the framework. Penalty points would be introduced i.e. for late routes and fine drivers. The contract would be ceased if there are numerous penalty points.

At this point, Clive Heaphy, interim Chief Executive joined the Committee.

The Chair queried how committee members can be assured that no child using council services would be at harm. The national context gives a warning picture for what needs to be done in Birmingham.

It was noted that this was one element of vast array of activities for children. Birmingham Children's Trust was key to work into this area. Was the DBS process fit for purpose?

It was felt that you can never say all children are safe as therefore safeguarding boards are in place. Many children are on child protection plans and there is a requirement to review how to deliver services. A possibility would be to explore early matrix. These issues are centre to the Directorate and will be reported back at a future Committee.

Upon consideration, it was:

193

**RESOLVED:-**

- i) That the Committee noted the report.
- ii) The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries.

At this juncture, Councillor Tilsley suggested to move item 12 – Early Years Health and Wellbeing Contract to be the next item for discussion as this was another report delivered by the same Directorate. Therefore, this was noted as the new item 6.

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## **EARLY YEARS HEALTH AND WELLBEING CONTRACT**

The following report of the Director of Education and Skills was submitted:

(See document No. 2) – (Page 145)

Lindsey Trivett, Head of Early Years, Childcare and Children's Centres informed Members the report had been shared prior to Committee meeting. This gave an overview to set the context. In March 2019, another audit report was requested via Directorate officers. The comments of the previous Committee had been taken on board and this had moved forward. Considerable progress had been made to contract management function.

Lindsey Trivett outlined 3 areas:

- 1) Issues - Late introduction to TUPE requirement which had led to additional finances being placed thus delay in staff being transferred over. Lindsey updated members that the TUPE was completed on 01 January 2020. 94 staff transferred to Birmingham Community Healthcare NHS Foundation (BCHCT). Close work had been undertaken with the trade unions over the last 2 years to ensure the transition went smoothly. Lessons were learnt from this experience and applied to the Cabinet report on Council Day Nurseries. As a result, the transfer of Council Day Nurseries progressed smoothly. This evidenced that lessons were being learnt and applied.
- 2) Strengthening of the governance and oversight of the contract – Interim arrangements were now in place where there was a Contract Manager in post. Overall commissioning arrangements in Education and Skills were being reviewed with an Improvement Consultant in post. However, a permanent Contract Manager would be managing the contract on a monthly basis. A Contract Review meeting takes place monthly with a Public Health Fund commitment in place to ensure long term function. Linked into this, a Public Health Outcomes Improvement Board had been developed which brought together key partners to discuss the delivery of the contract. Performance monitoring takes place on a monthly basis and had a revised trajectory for improvement setting out what the plan is to get to a good level of contract delivery. That focused on the areas that were initially weak.
- 3) Reduced from a long list of risks down to 3 risks remaining.
  - i) Capital clawback – Previous investment from Surestart Children Centres delivery. As a result, some of those buildings were no longer in use. A new officer had been appointed and would be linking with the DFE to negotiate how the capital clawback would be mitigated. Therefore, this was not identified as a risk since Corporate cover the budget that may invoke sometime in the future.



- ii) Final sign off all the leases for all the buildings that were in use. there had been some delays due to legal capacity available via BCC. All buildings are being occupied under heads of terms and license to occupy however the final leases were now with the BCHCT legal team in preparation to come back to BCC legal team to get signed off.
- iii) Performance – KPI performance

Councillor Paul Tilsley referred to the previous report where he was the Non-Executive Director for the Chair of the Contracts Committee for BCHCT. At that point there were several issues that were not closed off. Initially there were contracts and leases that were not closed off, survey's outstanding etc. As one of the largest Local Authorities in UK, it would be expected to have these closed off as a matter of course, yet this was not the case. Therefore, as a result that had to be corrected. Unnecessary work across the Directorate and associated areas was caused which could have been avoided first time round. The onus was on BCC and not the Birmingham Children's Trust.

Councillor Tilsley was pleased to hear that lessons had been learnt therefore when entering the new contract, the process was smooth. Concerns were raised as both previous and more recent audit report were very close to having similar outcomes. Since processes were corrected, this avoided a repeat of initial outcome. It was emphasised that BCC should get it right first-time round.

At this juncture, Councillor Alex Yip and Councillor Marje Bridle left the Committee.

Tim O'Neill was delighted at the progress made in the Directorate. Early Years Health and Wellbeing was one of the key priorities upon his appointment. He agreed with Councillor Tilsley's comments as there were a lot of outstanding issues that had to be rectified. This was the testimony of BCC officers and BCHCT delivering positive outcomes. It was now crucial to ensure the contract was working effectively for children and vulnerable adults.

Upon consideration, it was:

194

### **RESOLVED:-**

That the Committee noted the contents of the report.

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### **AUDIT COMMITTEE – FUTURE WAYS OF WORKING**

On reflecting the two audit reports that were presented at this Committee, the Chair emphasised he wanted to ensure effective work on risk and assurance was being delivered at Audit Committees. There are a number of items reported on these agendas which possibly need to be reduced to provide focus onto issues that need to be addressed. A question arose as to whether the Audit Committee was looking at what the Council was doing or whether it was instrumental to driving forward a cultural of good risk management and

supporting ethics, values the Council aspires to. In addition to ensure that the citizens of Birmingham get the best value of service.

The Chair proposed to reformat the Audit Committee where a tighter agenda was set. A request would be made for Cabinet Members and Directorate Leads to inform the Committee of what their areas were. In addition, utilise the available risk registers by making them Directorate specific so that Cabinet Members and Directorate leads were sharing how they are managing the risks. That would enable open discussions on the value for money findings provided by the external auditors. It would assist in seeing how value for money findings were being delivered. The statutory role remains in place however this would enable structure format to schedule items to the Committee. Reports should be flagged up to members of the committee as to why a discussion was required. Directors would report twice a year to provide a follow up so progress can be monitored. Linking this to the risk management report would be essential to see how risk was managed in the Council.

The Chair requested for a relevant officer to draft proposals together to share with the Committee.

Comments made by Members:

- Endorse initial comments made by the Chair
- Lack of accountability by Cabinet Members in the City Council. Crucial to be accountable for actions and failings.
- Referred to previous regime where Cabinet Members reported to City Council once every year and debate would take place on their part of the portfolio. That was disbanded when there was a change of control therefore now there was no accountability in place.
- Audit was the conscience of the City Council effectively to ensure it was well run and addressed all that the external auditors would draw attention to.
- Risk register – Audit Committee should enquire on an annual basis how Cabinet Members and Chief Officers are dealing with the risks identified for their area. That would increase the accountability.
- Further enable an audit trail of outcomes being delivered or not.
- At present the responsibility seems to be shared across departments, Directorates where no one is held to account.
- Accountability in the 'Private' sector would tackle differently as the seriousness would be actioned promptly and the person responsible held to account.
- In the Private sector, members of Audit Committee would be less involved in the 'detail' than Public sector.
- Due to BCC failings, Audit Committee should have more involvement.
- Expect complete honesty from the civil servants of the Council. Honest and transparent answers should be given to questions raised.
- Members are part time representatives therefore rely on officers to draw matters to their attention.
- Names of attendees to be indicated so that viewers on webcasting can clearly see who was speaking to the item and partaking in the discussion.

- It was previously agreed from the work undertaken by the Audit Committee Chairs to have an independent chair to the Committee to give an independent view.
- Revisit the suggestion to have an Independent Advisor to Audit Committee.
- West Midlands Combined Authority Risk and Assurance Committee, there was an independent Chair in place.
- Improve competence and performance of Committee Members to challenge Cabinet Members and officers on their Service areas.
- Essential for members to have a good understanding of the reports within the first 2 pages therefore need to be kept simple.

Jon Roberts, Grant Thornton External Auditor, supported suggestions made by Members. The role of the Audit Committee could get lost in transition and the auditing standards oversaw the governance. It was important to strengthen the role and governance of the framework.

Integration between internal and external audit team's governance system were important to link together. The work from the external auditors would respond to the work on the value for money however the new proposed way of working would also drive the work on value for money.

For example, Travel Assist would be risk focusing on as part of the value for money responsibility.

It was important to not lose sight of the Annual Governance Statement which was a useful document that sets out a range of governance issues for Local Authorities.

At this point Councillor Hendrina Quinnen left the meeting.

The remaining Members were disappointed by the commitment and responsibility received by Councillors to audit committees i.e. shown by their attendance. It was noted there was a challenge within BCC across all Committees and members attendance.

It was suggested that the annual report of the Audit Committee should be shared at City Council for a response to be made. All Council Members could then see the work of Audit Committee with a possibility of including a way of noting differences of opinions from various political parties. There are many Local Government Audit Committees which practice this and enables to gain wider engagement.

It was proposed the annual governance statement and the external auditors report could be used as 'marks up's' for Leader, Chief Executive and Directors to review at least once a year.

There are reports on Audit Committee agendas that can be reports to note or tabled for information.

The Chair specified that he would like to draft a proposal with officers on how to take this forward.

Clive Heaphy, Interim Chief Executive BCC, supported shaping draft proposals of future ways of working for the Audit Committee. He added CIPFA issue the terms of reference for Local Authority Audit Committees. The Audit Committees remit was to provide those charged with governance, independent assurance. In addition to that, adequacy of risk management framework to control internal process with the integrity of financial reporting governance processes. CIPFA are clear that Audit Committee should be independent from the Executive and Scrutiny functions as they have very different roles.

It was emphasised that it was critical Audit Committees were taken seriously and are at the heart of the Councils business. The annual report of the Audit Committee should be shared with City Council, highlighting work undertaken, challenges that have been raised and how the Council would respond to that. By sharing this work in the public domain would be good practice. It was noted to have an independent advisor to improve the journey and way forward.

However, there was a requirement to differentiate roles, as the scrutiny role holds officers to account. The audit role focuses on controls and processes to ensure the control environment was the right environment for services to work across the Council.

Jon Roberts added the Redmond review would be in place soon and focusing on developing the role of the Audit Committee. It was recognised the quality of the local audit could be improved in all areas. Audit Committees would be instrumental to the shaping of that.

It was noted that there is a gap in skills, knowledge and ability of members to serve on Audit Committees and specialised Scrutiny bodies. However, assurances would need to be given to other Councillors in order to show outcomes are being met.

Furthermore, Members added officers need to share all information with the Audit Committee and not to refuse disclosing information. Trust had to be in place in both the role of Audit Committees and its Members. CIPFA guidance would enable this however there are areas under legal privilege that can not be shared at the Committee. Majority of information would be shared openly however the external auditors had already undertaken work therefore assurances should be sought through the external auditor's work. A balance of assurances from internal as well as external auditors work was required.

Upon consideration, it was:

195

**RESOLVED:-**

Following verbal discussions, the Committee agreed a draft proposal on future ways of working of the Audit Committee to be shared at the 24 March Committee.

## **REVISED RISK MANAGEMENT FRAMEWORK**

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

(See document No. 3) – (Page 113)

Sarah Dunlavy, Assistant Director for Audit and Risk Management introduced the report and gave an update on the risk management framework and highlighted there was a very important change. Emphasis was given to consider the strategic risk faced by the Council. The Corporate risk register had a mixture of strategic, operational, financial and contractual risks. These were the risks impacting on the Council's priorities. The report had a strong link to the Council's priorities and resources allocation. The template of the document had been updated to include opportunities and innovation. The Audit Committee role was to oversee that there was a robust process in place to monitor, report and mitigate risk therefore submitted for approval.

The Chair queried how do we get good risk management through the Council? There was the question of risk appetite i.e. which risks do we manage, which was a 'right first-time risk' e.g. Safeguarding should be right first time. Also understand what was best practice of risk management and how does risk strategy look like in other Councils?

Councillor Jenkins added this would be a balance of risk and risk evasion.

Rebecca Hellard, Interim Chief Finance Officer explained that she had been working on the Risk Register with the CLT. In terms of risk appetite, a strategy was being developed that picked up opportunities and risk. Starting with the strategic risks (i.e. potential, economical, legal, environmental, social etc risks). Subject to the strategy being approved, it would be shared with the Committee. The risk appetite would be indicated alongside the strategic risks. The inherent risk would also be indicated as well as mitigating actions. The Strategy would indicate the level where the risk should go down to.

An example referred to was on safeguarding. There would be strategic risk (top), operational risk (bottom) and an operational risk that would be the escalating step (middle). That would be the crucial section and would require a tight overview. This would allow the risk to be visible and actively managed whereas other operational risks could be managed within Directorates. Other examples of Programme risk such as Commonwealth Games are monitored routinely and would become visible if there was a transition in the ratings i.e. amber to red.

Routine risks would be monitored within the Directorates and could be reported on a quarterly basis. It was stated that these were early days in the shift of how risk was managed.

The strategy would be brought to the committee to discuss and to see what the Audit Committee would be comfortable with. The change in culture would take time as the 'proposed' new way of working would be more of a proactive way of managing risk. In terms of governance this was currently being outlined as to where this sat. Risk Champions are already in place and not used to this way of

working. Therefore, there would be a massive cultural shift programme that would need to be rolled out alongside this. This was a beginning of a journey for change across the Council.

The following suggestions were made by Members and officers to consider:

- Possibly hold risk workshops and the agenda is large
- Use of risk heatmaps – a) challenge what risks are on there, b) what was missing c) where do they sit in the heat map d) is the risk appetite right
- List critical operational risks
- Requires dedicated time as this was a new set up
- Deep dive session – to explore responsibility and resilience
- Session on risk appetite
- Resilience – difficult to plan for but would take place to which a plan would need to be in place

The Chair requested to see additional input and shaping of the risk management framework. This would be used as a tool for regular engagement for Cabinet Members and Directors therefore essential to get this right.

Members agreed for the work on development of strategic heat map, critical operational risks to sit alongside the risk management framework and brought back to the Committee.

Upon consideration, it was:

196

**RESOLVED:-**

- (i) That the Risk Management Framework was approved however development of strategic heat map, critical operational risks to sit alongside the document.
- (ii) That the Committee agreed for the risk management to be reported 3 times per annum.

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**MINUTES – AUDIT COMMITTEE – 16 DECEMBER 2019**

197

**RESOLVED:-**

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

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At this juncture, the Chair requested if there were any items currently on the agenda that was essential to discuss at the Committee.

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## **THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN'S ANNUAL REVIEW 2018/19**

The following report of the Chief Executive was submitted:

(See document No. 4) – (Page 05)

Miranda Freeman, Senior Liaison Management Officer informed Members this was a routine update report to the Committee about the Local Government and Housing Ombudsman reports for 2018/19. The LGSCO figures have gone up by a 1000 and BCC have stayed the same. The LGSCO indicate the largest category of complaints dealt with by the LGSCO's investigators was Education and Children's Services, at 18% followed by Adult Care Services at 16% and then Planning at 12% of all the complaints and enquiries received. Birmingham has never followed the LGSCO's trend as complaints about Housing matters have traditionally been our largest category. The combined complaints determined by both Ombudsmen, this was still the case in 2018/19, 151 cases. This was followed by what the LGSCO calls 'Environment Services', both Regulatory Services and Waste Management fall into this Category. The complaints for waste management increased and now there were 137 complaints, most were about failure to collect waste.

The outcomes were outline, where the Ombudsman deal directly with the complaint and sends these back to BCC to deal with. It was noted that these were the largest category for complaints. 173 cases (40%) complaints were received. The LGSCO closed 112 cases after carrying out initial enquiries and undertook detailed investigations in 100 cases. The LGSCO upheld 77 which was a large amount. This was due to the LGSCO not working on many the previous year therefore were catching up therefore figures were over what would normally be determined.

The Committee preciously requested two reports to be conveyed during 2019 (2019/20 reports). The ombudsman was satisfied with the actions BCC took with respect of Education Transport which was given the clearance. In relation to Waste Management, that was still pending as the Ombudsman requested to monitor the 17 cases and still in progress. Waste management had been held up due to purdah and would come back to Committee in due course.

The Chair suggested that it would be interesting to understand the figures by comparing Birmingham with Leeds. As Birmingham was three times bigger than Leeds, it would give a better overview to compare and see if there was a huge difference in figures or if Birmingham was in line. By illustrating the percentage of figures and factoring in the size of authorities would give a better understanding of where Birmingham was.

198

### **RESOLVED:-**

That the Committee received and noted the Local Government and Social Care Ombudsman's Annual Review report for 2018/19.

At this juncture, the Chair thanked all officers in attendance especially those whom came to present a report and they were not covered at this Committee.

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**DATE AND TIME OF NEXT MEETING**

The next meeting was scheduled to take place on Tuesday 24 March 2020 at 1400 hours in Committee Room 6.

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**OTHER URGENT BUSINESS**

199 No other urgent business was raised.

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

**RESOLVED:-**

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

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The meeting ended at 16:01 hours.

.....  
CHAIR



## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>Audit Committee</b>
<b>Report of:</b>	<b>Head of Capital and Treasury Management</b>
<b>Date of Meeting:</b>	<b>24<sup>th</sup> March 2020</b>
<b>Subject:</b>	<b>Treasury risk management arrangements</b>
<b>Wards Affected: All</b>	
<b>1. Purpose of Report</b>	
1.1	To update members on the Council's treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices.
<b>2. Recommendation</b>	
2.1	That the Audit Committee notes and considers the Council's treasury risk management arrangements as set out in the attached Treasury Management Policy, Strategy and treasury management practices.
<b>3. Detail</b>	
3.1	The functions of Audit Committee include "(d) to review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices".
3.2	Treasury Management is defined in the CIPFA Treasury Management Code ("the CIPFA Code") as "the management of the organisation's borrowing, investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
3.3	Attached at Appendix 1 is a presentation which will be given to the Committee meeting, which outlines the main risk management processes and controls for treasury management in the Council. These processes and controls are set out in further detail in a set of key governing documents, in accordance with the CIPFA Code, which are attached for further reference as follows:

**Appendix 2 The Council's Treasury Management Strategy and Policy:** these form appendixes N and O to the Financial Plan 2020-24 approved by City Council meeting on 25 February.

**Appendix 3 The Council's Treasury Management Practices (TMPs):** these are operational procedures regulating day to day treasury activities, including the management of risk. These are approved by the Director of Finance, and are referenced in the TM Policy paragraph 10.5.

**Appendix 4 Treasury management reporting and monitoring:** this is provided quarterly to Cabinet as part of the financial monitoring report, and a summary dashboard is provided to Resources Overview and Scrutiny in the intervening months. This includes monitoring of the treasury management and other Prudential Indicators (which are required by the CIPFA Prudential and Treasury Codes).

- 3.4 Training on treasury management is provided periodically for City Councillors. The next training has been arranged for 27<sup>th</sup> April, to be provided by Arlingclose (the Council's treasury advisers) together with our own treasury staff. Audit Committee members are asked to consider attending.

**Name of report Author: Martin Easton**

**Title: Head of Capital and Treasury Management, Finance and Governance Directorate**

**Telephone No: 0121 303 2384**

**e-mail address: martin.k.easton@birmingham.gov.uk**

# Birmingham City Council Treasury risk management

## Outline of presentation

- Director of Finance introduction
- TM Regulatory system in local government
- The Council's TM Policy and TM Practices
- How the main risks are managed
- Strategy for 2020-21
- Reporting and Monitoring
- Questions and discussion

# What is treasury management?

CIPFA Code definition:

- management of borrowing, investments, and cashflows
- Banking, money market and capital market transactions
- Control of risks associated with these activities
- Pursuit of optimum performance consistent with the risks

# Headline figures for Birmingham City Council

	number	£m value
Total loan debt outstanding	208	£3,281m
Total treasury investments outstanding	10	£159m
Total transactions made in 2018/19	2,022	£6,936m
Total revenue budget		£270m

# TM Regulatory system in local government

- CIPFA Code for Treasury Management in local authorities (revd 2018):
  - Full Council must approve a Treasury Strategy and a Policy annually, including prudential indicators for treasury
  - Treasury Management Practices must be approved and maintained
  - Risk management is at the centre of the Code
  
- Government Guidance on local authority investments
  - Full Council must approve Investment Strategy (as part of Treasury Strategy)
  - Must set out arrangements for regulating use of investments of high credit quality and lower credit quality
  - Detailed requirements for managing and reporting non-treasury investments

*... more on this in the 27 April training*

# BCC's TM Policy (Appx O to Financial Plan 2020)

- Sets TM objectives and risk appetite

*“To assist the achievement of the City Council’s service objectives by obtaining funding and managing the City Council’s debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested.”*

- Sets framework and controls for interest rate risk; credit risk; liquidity and other risks

see slides on each below

- Describes Treasury delegations and reporting

See slide on reporting and monitoring below

# BCC's Treasury Management Practices

the framework for officer processes and controls, as required by CIPFA Code

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance



# CREDIT RISK

*The risk of default (or accounting write down) of investments*

- Write off would hit revenue account immediately: high impact
- TM Policy section 7 sets risk management framework:
  - Investment grade credit criteria (with investment limits) – next slide
  - Credit Default Swap prices and other information also taken into account
  - Longer term investment subject to further limits
- Controlled in daily dealing by lending list which checks limits and ratings before dealing
- Staff always have discretion not to lend if they have doubts
- Regular team meetings agree tactics and activity

# Investment credit rating criteria (Policy 7.4)

'Specified' short-term loan investments (all in Sterling)	Minimum Short-term rating*	Minimum Long-term rating*	Maximum investment per counterparty
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short-term and Enhanced)	AAA (with rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the collateral or individual investment		

# LIQUIDITY RISK

*The risk that the Council cannot obtain funds when needed*

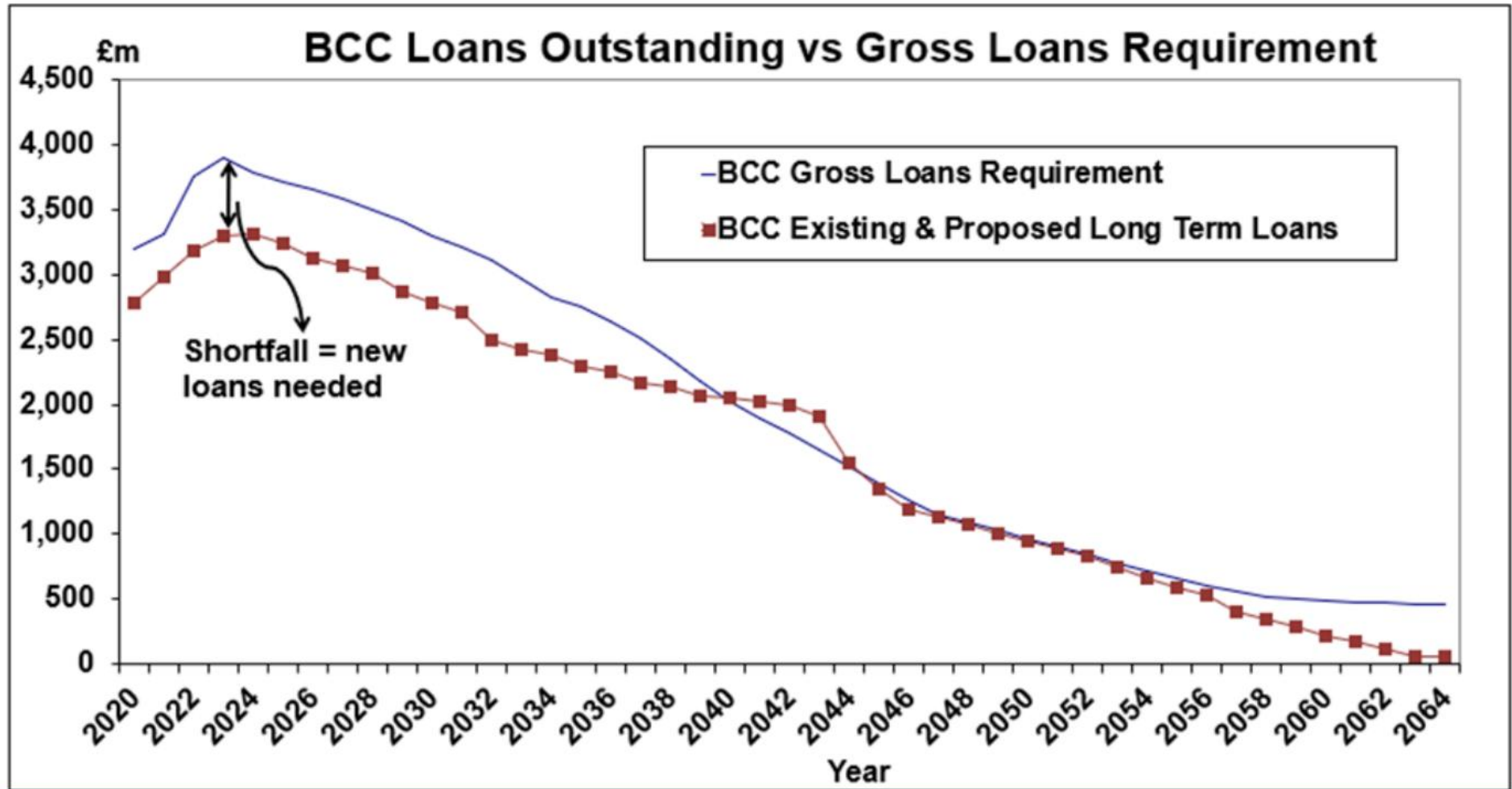
- Daily dealing aims to maintain funds in bank account
- Target deposit balance of £40m at month end, for liquidity
- Prudential limits for maturity structure of borrowing
  - To avoid too many loans maturing in one year creating big refinancing risk
- Keep a variety of borrowing options and sources open
  - Develop options which may never be used - just in case

# INTEREST RATE RISK

*The risk of loss due to future interest rate changes*

- Probably the biggest financial risk, but costs may be slow burn over many years
  
- TM Policy and Strategy set risk management framework:
  - 30% limit on variable rate loan debt
  - Key element of annual Strategy:
  - Target £500m short term loans portfolio closely monitored
  - Prudential limit on maturities (already described above)
  - Spreading loan maturities over long term: next slide

# Spreading maturity risks



## OTHER TREASURY RISKS

- Human error, fraud, and contingency planning
  - Treasury Management Practices set out procedures
  - Internal controls and check built into processes
  - Maintaining a culture of check and supervision
- Exchange rate risk
  - Not significant to BCC – little foreign currency
- Legal and regulatory risks
  - Ensure legal advice is obtained for complex transactions

# BCC's TM Strategy (Appx N to Financial Plan 2020)

Strategy for treasury management activity in the coming year:

- Identifies borrowing need
- Reviews market outlook
- Proposes the types and sources of borrowing for the year
- Subject to change dependent on market conditions

# Strategy for 2020/21

- Continue to maintain a significant short term loans portfolio:
  - Target £500m to £600m
- Borrowing to fund advance pension contribution:
  - £245m up to 3 years maturity
- Longer term borrowing for capital programme
  - Probably Private Placement of bonds rather than PWLB, around £150m
- Maintain £40m target investments for liquidity



# BCC treasury reporting and monitoring

- Quarterly reporting to Cabinet (Appx C to monitoring report)
  - The full Q3 report is in Audit Committee papers
  - includes summary dashboard to Cabinet - see next slide
  - Summary dashboard also taken monthly to Finance O&S Committee
- includes decisions made by officers under delegations
- Prudential indicators reported quarterly
  - Code requirement is only half yearly

# Cabinet summary dashboard: Q3 2019/20

	value	comparator	difference
<b>1 gross loan debt</b>	£m	£m	£m
at month end	<b>3,149</b>		
year end Forecast (vs Plan)	3,201	3,573	-372
year end Forecast (vs Pru Limit for loan debt*)	3,201	3,867	-666
<i>*monitoring of the full set of prudential indicators is reported quarterly to Cabinet</i>			
<b>2 short term borrowing</b>			
at month end (vs Guideline)	<b>236</b>	500	-264
interest rate year to date on outstanding deals (vs assumption)	<b>0.74%</b>	0.85%	-0.11%
<b>3 Treasury investments</b>			
at month end (vs Guideline)	<b>23</b>	40	-17
interest rate year to date on outstanding deals (vs assumption)	<b>0.62%</b>	0.55%	0.07%
<b>4 Long term loans taken</b>			
year to date (vs plan for year)	<b>150</b>	225	-75
ave. interest rate obtained (vs assumption)	<b>1.87%</b>	2.85%	-0.98%
<b>5 Assurance</b>			
were Credit criteria complied with?	<b>yes</b>		
were investment defaults avoided?	<b>yes</b>		
was the TM Code complied with?	<b>yes</b>		
were prudential limits complied with?	<b>yes</b>		

# FINANCIAL PLAN 2020 - 2024

## TREASURY MANAGEMENT EXTRACTS



Making a positive difference



# **APPENDIX N: TREASURY MANAGEMENT STRATEGY**

## **1. Summary**

- 1.1. This appendix sets out the proposed Treasury Management Strategy for 2020/21 given the interest rate outlook and the Council's treasury needs for the year, and in accordance with the Treasury Management Policy at Appendix O.
- 1.2. A balanced strategy is proposed which continues to maintain a significant short-term and variable rate loan debt in order to benefit from low short-term interest rates, whilst taking some fixed rate borrowing to maintain an appropriate balance between the risks of fixed rate and short-term or variable rate borrowing. The balance between short- and long-term funding will be kept under review by the Chief Finance Officer and will be maintained within the prudential limit for variable rate exposures.
- 1.3. Separate loans portfolios are maintained for the General Fund and the HRA. Separate treasury strategies are therefore set out below where relevant.<sup>1</sup>

## **2. Treasury Management Policy and Objectives**

- 2.1. The Treasury Management Policy (Appendix O) sets the Council's objectives and provides a management and control framework for its Treasury Management activities, in accordance with CIPFA's Code of Practice for Treasury Management in the Public Services.
- 2.2. For the Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.
- 2.3. These objectives must be implemented flexibly in the light of changing market circumstances.

## **3. Council Borrowing Requirement**

- 3.1. The Council's forecast of its required gross loan debt is set out in Table 7.1 in Chapter 7 above and is a combination of its new prudential borrowing for capital, reduced by the amounts set aside to repay debt, and short term cashflows. Most of the Council's loan debt is in existing long term loans which mature over periods of up to 40 years or more. The balance of new loans which the Council will need to obtain in each of the next four years is set out in Table N.1:

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<sup>1</sup> This Strategy relates to loan debt only. Other debt liabilities relating to PFI and finance leases are not considered in this Strategy and are managed separately. Throughout this Financial Plan, debt and investments are expressed at nominal value, which may be different from the valuation basis used in the statutory accounts.

**Table N.1 Forecast Borrowing Requirement**

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Forecast gross loan debt	3,831.8	3,913.4	3,750.5	3,653.0
Forecast treasury investments	(40.0)	(40.0)	(40.0)	(40.0)
Forecast net loan debt	3,791.8	3,873.4	3,710.5	3,613.0
of which:				
existing long term loans outstanding	2,856.2	2,831.0	2,781.0	2,761.0
Short term investments working balance	(40.0)	(40.0)	(40.0)	(40.0)
Required new/ replacement loan balance	975.8	1,082.5	969.4	892.0
	3,791.8	3,873.4	3,710.5	3,613.0

- 3.2. This strategy sets out how the Council plans to obtain the required new borrowing shown above, by a combination of short term and long term borrowing.
- 3.3. The forecast debt includes the Council's agreed advance payment of £369.2m in April 2020, to cover its employer's pension contributions to the West Midlands Pension Fund for the next three years. An early payment discount of £25.8m was agreed resulting in significant net savings for the Council. This increases the Council's borrowing need in 2020/21 and reduces it correspondingly in the following two years.
- 3.4. The Council has £71.1m of Lender's Option Borrower's Option (LOBO) loans outstanding. In these loans, the lender has the right to increase the interest rate at certain dates during the loan term, and in this event the Council has the right to repay the loan immediately without penalty. £41.1m of the loans have the potential to be exercised during 2020/21. This would increase the Council's borrowing requirement, but it is considered unlikely that it would happen in the current market environment.
- 3.5. In 2019/20, the Council repaid £30m of its LOBO loans early, funded through a combination of short term and long term borrowing. This resulted in a significant saving for the Council and removed a substantial amount of LOBO loans from its loan portfolio. The Council will consider further loan restructuring opportunities if they become available and where they are considered financially advantageous.

#### **4. Interest Rate and Credit Outlook**

- 4.1. UK Bank Rate is fundamental for the Council's treasury management activity, in terms of expenditure on loan interest where new loans are taken out and on income received from investments. UK Bank Rate is set by the Bank of

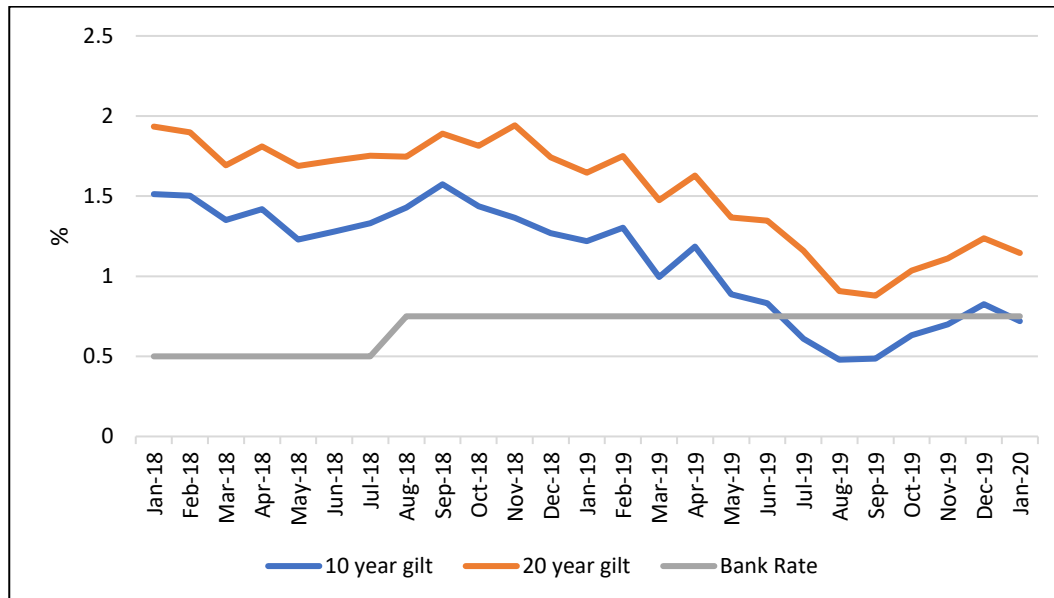
England's Monetary Policy Committee (MPC) and their interest rate outlook is influenced by domestic and international economic and political developments.

- 4.2. The global economy has experienced a slowdown in growth, driven by an increase in trade protectionism. This has prompted the Federal Reserve in the US to cut interest rates in the past year. There has been some degree of optimism recently as global financial markets reached record highs and as the US and China agreed phase one of their trade negotiations; however, the outlook for the global economy still remains uncertain.
- 4.3. UK economic growth is expected to remain slow as influenced by weak global growth and the domestic impact of Brexit. Consumer Price Inflation (CPI) fell to 1.3% in December 2019, below the Bank of England target of 2%. Some commentators have considered this a temporary contraction and have predicted a recovery, with the near-term political certainty generated by the parliamentary majority gained by the Conservative government in the December 2019 General Election.
- 4.4. Arlingclose, the Council's treasury advisor, has forecast the Bank Rate to remain at 0.75% for the foreseeable future with some risks weighted to the downside. Given the level of uncertainty over economic growth and the impact of Brexit trade talks, the Council has taken a prudent view and has assumed a small increase in Bank Rate for the treasury budget by the end of 2020/21.
- 4.5. Upside risks to UK interest rates in 2020/21 include:
  - Higher than expected economic growth
  - Higher than expected inflation rates
  - Indications of a closer than expected relationship with the EU post-Brexit

Downside risks to UK interest rates include:

- World and UK growth falters
  - A no deal Brexit
  - Safe haven investment flows into the UK as a result of geopolitical risk
- 4.6. Longer term interest rates are typically represented by UK Government Gilt yields. The chart at Figure O.2 shows that Gilt yields have risen recently although they remain near historically low levels. Most forecasts for long-term interest rates envisage little change from current levels. However, volatility arising from both economic and political events are likely to continue.

**Figure N.2 Bank Rate and Gilt Yields**



- 4.7. The credit outlook for banks became more significant following the introduction of the 2015 Bank Recovery and Resolution Directive (BRRD). Here a failing bank would need to be 'bailed in' by current investors instead of being 'bailed out' by the government, thus increasing the risk of loss for local authorities holding unsecured bank deposits. The Council will continue to monitor bank credit worthiness and seek the advice of its treasury advisor, Arlingclose.
- 4.8. Credit risk for UK retail banks improved following the adoption of ring-fencing legislation; larger UK banks separated their retail banking activity (ring-fenced) from the rest of their business (non ring-fenced) i.e. investment banking. The aim is to protect retail banking activity from unrelated risks elsewhere in the banking group, as occurred during the global financial crisis. Credit rating agencies have adjusted the ratings of some of the legally separate entities with ringfenced banks generally better rated than their non-ringfenced counterparts.
- 4.9. In December 2019, the Bank of England released its annual bank stress test results; this showed all seven banking groups under review passed the test, and no banks were asked to raise additional capital. The test results indicate major UK banks are able to withstand shocks to the financial sector, including a no-deal Brexit scenario.

## 5. Borrowing strategy

- 5.1. For some years the Council has targeted a short term or variable rate loans balance of around £500m to £600m to take advantage of very low short term borrowing rates. During the first half of 2019/20 there was a substantial fall in long term rates and £120m of new long term borrowing was taken from the

PWLB before the increase in its margins (see paragraph 5.7). This combined with short term cashflow movements helped to reduce the Council's short term loans outstanding to around £250m.

- 5.2. Low short term rates are expected to continue in 2020/21, and it is proposed to resume the short term loans target of £500m to £600m, with the balance of the Council's borrowing needs being met through long-term borrowing (i.e. for periods of one year or more).
- 5.3. Based on this strategy, the following table summarises, for the Council as a whole, the new long-term and short-term borrowing proposed to fund the required new or replacement borrowing each year:

**Table N.3 Proposed borrowing strategy**

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
cumulative new borrowing:				
total long term loans	415.0	502.0	534.0	487.0
new short term loans	560.8	580.5	435.4	405.0
Required new/ replacement loan balance	975.8	1,082.5	969.4	892.0

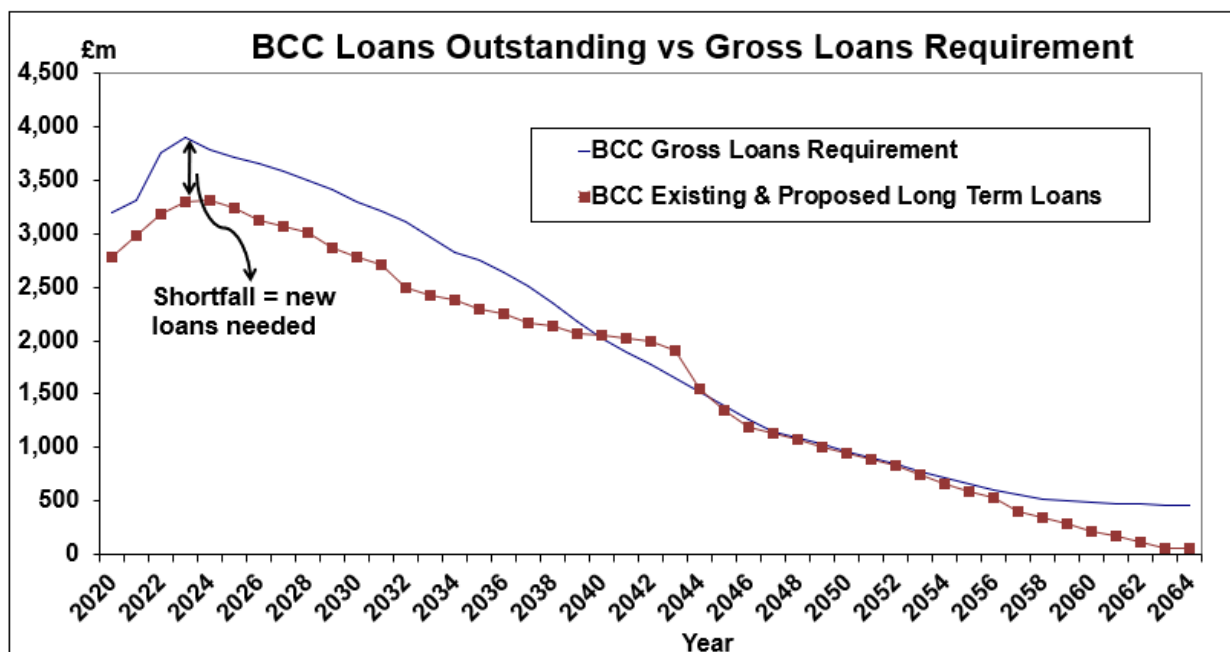
- 5.4. Short-term borrowing is available largely from other local authorities. This may be supplemented with borrowing from other sources such as banks, or in different forms. Short-term and variable rate exposures remain within the 30% prudential limit set out in Appendix U4.
- 5.5. The strategy results in a forecast for new long-term borrowing of £415m in 2020/21. The balance of new long term borrowing required increases to £502m in 2021/22; the increase is relatively small due largely to the three year advance pensions payment in 2020/21 noted in paragraph 3.3 above. In effect, the larger pensions cash outflow in 2020/21 has replaced the previously expected pensions cashflows in the following two years. The borrowing strategy to fund the advance pensions payment will be to take loans for one to three years, to fund the pensions cash payment net increase of £245m in 2020/21.
- 5.6. It should be noted that a possible scenario is that short-term and long-term interest rates may rise (or are expected to rise) more sharply than currently forecast. A higher level of long-term borrowing may be taken if appropriate to protect future years' borrowing costs.



## Long term borrowing

- 5.7. The main source of long term borrowing for local authorities historically has been the Public Works Loans Board (PWLB). However, in October 2019 the PWLB increased its rate to local authorities from 0.8% above gilts to 1.8% above gilts. The Treasury stated that this was due to the substantial increase in borrowing from the PWLB by local authorities in recent months, combined with the significant reduction in the underlying gilt yields which are used to calculate PWLB rates. The consequence of the PWLB increase is that borrowing from market sources is likely to be significantly cheaper than the PWLB, possibly by around 0.75%.
- 5.8. A market funding strategy for the Council's annual long term borrowing requirement is likely to focus on private placements of bonds with capital market investors. A private placement is likely to be arranged by a bank, or by the Council with the support of a financial adviser. Lenders may agree for the bonds to be drawn over a period of time ("deferred start") rather than all up front, which may be beneficial in managing credit risk and interest rate risk for the Council.
- 5.9. A listed bond issue is also an option, but these require a credit rating and are generally in the order of £250m or more (although the Council forecasts £415m for long term borrowing, about £245m of this is expected to come from local authorities for maturities of 1-3 years to cover the advance pensions payment – see paragraph 3.3).
- 5.10. At a smaller scale, long term market borrowing can be arranged bilaterally with single lenders, either direct or through brokers. This is likely to be the least efficient way to borrow from the market, but may represent good value opportunistically or when the size of a private placement is not needed.
- 5.11. The Council actively reviews market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long-term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others, Islamic forms of finance and sale and leaseback arrangements. The Council may also restructure existing loans and other long term liabilities eg by prematurely repayment and replacement with new loans.
- 5.12. The £415m new long-term borrowing forecast for 2020/21 is planned to be taken at a spread of maturities appropriate to the Council's long-term debt liability profile. The Council's loan maturity profile can be compared with the level of loan debt outstanding required by this Financial Plan, as follows:

**Figure N.4 BCC Loans Outstanding vs. Gross Loans Requirement**



- 5.13. The Gross Loans Requirement in Figure O.4 represents the level of outstanding loan debt required by this Financial Plan. It takes account of existing loans outstanding plus planned prudential borrowing; this reduces over time as a result of the Minimum Repayment Provision for debt (MRP). The difference between the Gross Loans Requirement and Existing & Proposed long term loans represents forecast short-term borrowing or investments. The Gross Loans Requirement represents a liability benchmark against which to measure the amount and maturity of required borrowing
- 5.14. The shortfall shown in the chart is planned to be met by a short-term loans portfolio of around £500m in accordance with current strategy (see paragraph 5.1).
- 5.15. The Treasury Management Prudential Limits and Indicators consistent with the above strategy are set out in Appendix U, including a summary loan debt maturity profile.
- 5.16. The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Chief Finance Officer in accordance with treasury management delegations.

## **6. HRA and General Fund treasury strategies**

- 6.1. The HRA inherited a largely long-term fixed rate debt portfolio at the start of the current HRA finance system in 2012. For the Medium Term Financial Plan

period, its debt reduces broadly in line with the current HRA Business Plan. No new long-term borrowing for the HRA is therefore currently planned. The General Fund and HRA exposures to short-term and variable interest rates in accordance with the strategy are as follows:

**Table N.5 Forecast Variable Rate Exposure based on the proposed borrowing strategy**

<i>(taking account of debt maturities and proposed long term borrowing)</i>	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
<b>Housing Revenue Account</b>				
Year end net exposure to variable rates	168.3	179.6	202.0	223.7
Closing HRA net loan debt	1,097.1	1,090.6	1,105.7	1,109.5
Variable exposure % of debt	15.3%	16.5%	18.3%	20.2%
<b>General Fund</b>				
Year end net exposure to variable rates	377.5	410.7	420.4	403.3
Closing General Fund net loan debt	2,694.7	2,782.8	2,604.7	2,503.5
Variable exposure % of debt	14.0%	14.8%	16.1%	16.1%
Year end variable interest rate assumption provided for in the budget	1.50%	2.00%	2.50%	2.75%

Note: the variable rate figures above include long-term loans with less than a year to maturity. Potential repayment option calls on LOBO loans are excluded as none are expected in this period.

- 6.2. The variable rate exposure means that a 1% rise in variable rates at the end of 2020/21 would cost an estimated £3.8m per annum for the General Fund and £1.7m per annum for the HRA. However, the budget provides for a potential increase in variable rates (as shown above), which is considered to be prudent in this context.
- 6.3. This strategy therefore acknowledges the risk that maintaining a significant variable rate loan debt may result in increasing borrowing costs in the longer term, but balances this against the savings arising from cheaper variable interest rates. The Chief Finance Officer will keep the strategy under close review during the year, in the light of the Council's financial position and the outlook for interest rates.

## **7. Treasury Management Revenue Budget**

- 7.1. Based on this strategy the proposed budget figures are as follows:

**Table N.6 Treasury Management Revenue Budget**

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Net interest costs	133.766	138.623	142.818	143.216
Revenue charge for loan debt repayment	136.484	141.008	133.171	143.535
Other charges	(0.238)	(6.026)	(11.932)	(1.044)
Total	270.013	273.605	264.057	285.707
Met by the HRA	63.145	62.230	62.416	61.866
Met by the General Fund	206.868	211.375	201.641	223.841
Total	270.013	273.605	264.057	285.707

- 7.2. The budgeted interest cost in each year reflects a prudent view of borrowing costs and the cost of the additional borrowing in this Financial Plan. Actual interest costs will be affected not only by future interest rates, but also by the Council's cash flows, the level of its revenue reserves and provisions, and any debt restructuring.

## **8. Investment Strategy**

- 8.1. The Council has surplus cash to lend only for short periods, as part of day-to-day cashflow management and to maintain appropriate cash liquidity. A month end investment balance of £40m in deposits, which are close to instant access, is targeted in order to maintain adequate liquidity to meet uncertain cashflows. Any such surplus cash is invested in high credit quality institutions and pooled investment funds. Money Market pooled funds are expected to continue to form a major part of the cash investment portfolio, as they are able to reduce credit risks in a way the Council cannot do independently, by accessing top quality institutions and spreading the risk more widely.
- 8.2. Long-term investments of one year or more are not currently expected to be appropriate for treasury management purposes, as the Council does not expect to have temporary surplus cash to invest for that length of time.

## **9. Other Treasury Management Exposures and Activities**

- 9.1. The Council has guaranteed the £73m loan debt issued by NEC (Developments) Plc, which since the sale of the NEC Group has been a wholly owned subsidiary

of the Council. The value of this liability is reflected in the Council's own debt and is managed as part of treasury activity.

- 9.2. The Council is a constituent member of the West Midlands Combined Authority (WMCA). Participating authorities share an exposure to any unfinanced revenue losses of WMCA, including debt finance costs. The Council and other member authorities support WMCA's capital investment plans, which include substantial prudential borrowing (subject to revenue funding support). This exposure is managed through the authorities' voting rights in WMCA including approval to its annual revenue and capital budget.

## **10. Advisers**

- 10.1. Arlingclose have been appointed to provide treasury management advice to the Council, including the provision of credit rating and other investment information. Advisers are a useful support in view of the size of the Council's transactions and the pressures on staff time.

## **11. Prudential Indicators for Treasury Management**

- 11.1. The Council is required under the Local Government Act 2003 and the CIPFA Treasury Management Code to set Prudential Indicators for treasury management. These are presented in Appendix U4.

## APPENDIX O: TREASURY MANAGEMENT POLICY

### 1. Overview

- 1.1. This appendix sets out the Council's proposed Treasury Management Policy. This sets the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

### 2. Statutory Guidance

- 2.1. This Treasury Management Policy, the Strategy at Appendix N, and the Service and Commercial Investment Strategy at Appendix P, comply with the statutory requirement to have regard to the following Codes and Guidance:
- CIPFA's Code of Practice for Treasury Management in the Public Services (revised December 2017)
  - CIPFA's Prudential Code for Local Authority Capital Finance (revised December 2017)
  - The Government Guidance on Local Authority Investments (revised February 2018)

The Council has adopted the above Codes.

### 3. The Council's Treasury Management Objectives

- 3.1. The Council's treasury management objectives and activities are defined as:

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

- 3.2. Effective treasury management will provide support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.<sup>2</sup>

#### Attitude to Treasury Management Risks

- 3.3. The Council attaches a high priority to a stable and predictable charge to revenue from treasury management activities, because borrowing costs form a

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<sup>2</sup> Paragraphs 3.1, 3.2, 3.6 and the final sentence of 4.5 are required by the CIPFA Treasury Management Code

significant part of the Council's revenue budget. The Council's objectives in relation to debt and investment can accordingly be stated more specifically as follows:

*“To assist the achievement of the City Council's service objectives by obtaining funding and managing the City Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested.”*

- 3.4. This does not mean that it is possible to avoid all treasury risks, and a balance has to be struck. The main treasury risks which the Council is exposed to include:
- Interest rate risk - the risk that future borrowing costs rise
  - Credit risk - the risk of default in a Council investment
  - Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed
- 3.5. The Treasury Management Team has capability to actively manage treasury risks within this Policy framework. However, staff resources are limited, and this may constrain the Council's ability to respond to market opportunities or take advantage of more highly structured financing arrangements. External advice and support may also be required. The following activities may for example be appropriate based on an assessment at the time, to the extent that skills and resources are available:
- the refinancing of existing debt
  - borrowing in advance of need, and forward-starting loans
  - leasing and hire purchase
  - use of innovative or more complex sources of funding such as listed bond issues, private placements, commercial paper, Islamic finance, and sale and leaseback structures
  - investing surplus cash in institutions or funds with a high level of creditworthiness, rather than placing all deposits with the Government
- 3.6. The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council's treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 3.7. The Council's approach to the management of treasury risks is set out in the rest of this Treasury Management Policy.

## 4. Managing Treasury Risks<sup>3</sup>

### Interest Rate Exposures

- 4.1. It is important for the Council to manage its interest rate exposure due to the risk that changes in the level of interest rates leads to an unexpected burden on the Council's finances. As the Council has and expects to have significant loan balances, rather than investment balances, a rise in interest rates poses greater risks for the Council. As a result, the Council will monitor the impact of a 1% interest rate rise on the General Fund, to ensure that it can adequately protect itself should this or a similar scenario occur.
- 4.2. The stability of the Council's interest costs is affected by the level of borrowing exposed to short-term or variable interest rates. Short-term interest rates are typically lower, so there can be a trade-off between achieving the lowest rates in the short-term and in the long-term, and between short-term savings and long-term budget stability. The Council will therefore limit the amount of the short term debt it holds in order to manage its variable interest rate exposure. The Council will monitor the following amounts for its Interest Rate exposure:

**Table O.1 Prudential Limits - Interest Rate Exposure**

	% of loan debt (net of investments):		
	2020/21	2021/22	2022/23
General Fund impact of an unbudgeted 1% rise in interest rates	£3.8m	£4.1m	£4.2m
Upper limit on net variable rate exposures	30%	30%	30%

- 4.3. The current planned variable rate exposure is set out in the Treasury Management Strategy.

### Maturity Profile

- 4.4. The Council will have regard to forecast Net Loan Debt in managing the maturity profile. This takes account of forecast cashflows and the effect of MRP (minimum revenue provision for debt repayment) to produce a liability benchmark against which the Council's actual debt maturity profile is managed. Taking this into account the proposed limits are as follows:

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<sup>3</sup> Throughout this Financial Plan, debt and investments are expressed at nominal value, which may be different from the amortised cost value required in the statutory accounts.



**Table O.2 Prudential Limits - Maturity Structure of Fixed Rate Borrowing**

	<b>lower and upper limits:</b>
under 12 months	0% to 30% of gross loan debt
12 to 24 months	0% to 30%
24 months to 5 years	0% to 30%
5 to 10 years	0% to 30%
10 to 20 years	5% to 40%
20 to 40 years	10% to 60%
40 years and above	0% to 40%

### **Policy for Borrowing in Advance of Need**

- 4.5. Government investment guidance expects local authorities to have a policy for borrowing in advance of need, in part because of the credit risk of investing the surplus cash. The Council's policy is to borrow to meet its forecast Net Loan Debt, including an allowance (currently of £40m) for liquidity risks. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the forecast capital programme, to replace maturing loans, or to meet other expected cashflows.
- 4.6. The Council is a substantial net borrower and only has cash to invest for relatively short periods as a result of positive cashflow or borrowing in advance of expenditure. The Council considers all its treasury risks together, taking account of the investment risks which arise from decisions to borrow in advance. Such decisions need to weigh the financial implications and risks of deferring borrowing until it is needed (by which time fixed interest rates may have risen), against the cost of carry and financial implications of reinvesting the cash proceeds until required. This will be a matter of treasury judgement at the time, within the constraints of this policy, and treasury management delegations.

## **5. Investment Policy: All Investments**

- 5.1. The revised CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:
- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity

- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return
- Service investments, which are taken mainly to support service outcomes

The Government issued revised investment guidance in February 2018, which strengthens the management and reporting framework relating to commercial and service investments.

- 5.2. The Council seeks to be a responsible investor but makes few if any investments in listed equities or bonds. Within the relatively narrow scope of its investments, it will seek to avoid investment in companies whose business is primarily the generation or supply of fossil fuels.

## **6. Investment Policy: Service and Commercial Investments**

- 6.1. Service and commercial investments are taken out for different reasons from treasury management investments. The Council's strategy for such investments, including commercial property investments, is set out in Appendix P.

## **7. Investment Policy: Treasury Management Investments**

- 7.1. The Council's cashflows and treasury management activity will generally result in temporarily surplus cash to be invested. The following paragraphs set out the Council's policy for these 'treasury management' investments.

- 7.2. The investment of temporarily surplus cash results in credit risk, i.e. the risk of loss if an investment defaults. In accordance with Government investment guidance, the Council distinguishes between:
- 'Specified Investments' which mature within 12 months and have a 'high credit quality' in the opinion of the authority
  - 'Non-specified Investments' which are long-term investments (i.e. maturing in 12 months or more), or which do not have such high credit quality. The Government views these as riskier. Such investments require more care, and are limited to the areas set out in the policy for Non-specified Investments below
- 7.3. Low investment risk is a key treasury objective, and in accordance with Government and CIPFA guidance the Council will seek a balance between investment risk and return that prioritises security and liquidity over achieving a high return. The Council will consider secured forms of lending such as covered bonds, but these instruments are not generally available for short-term and smaller size deposits. The Council will continue to make deposits only with institutions having high credit quality as set out in the Lending Criteria table

below. The main criteria and processes which deliver this are set out in the following paragraphs.

### Specified Investments

- 7.4. The Council will limit risks by applying lending limits and criteria for ‘high credit quality’ as shown in Table O.3:

**Table O.3 Lending Criteria**

<b>‘Specified’ short-term loan investments (all in Sterling)</b>	<b>Minimum Short-term rating*</b>	<b>Minimum Long-term rating*</b>	<b>Maximum investment per counterparty</b>
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short-term and Enhanced)	AAA (with rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the collateral or individual investment		

\* Fitch / S&P / and Moody’s rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

- 7.5. Money may be lent to the Council's own banker, in accordance with the above lending limits. However, if the Council’s banker does not meet the above criteria,

money may only be lent overnight (or over the weekend), and these balances will be minimised.

- 7.6. The Council may also provide short-term supply chain finance where the credit risk is based on the Council's own payment on the invoice due date, and in relation to invoices payable by other bodies meeting the above lending criteria.
- 7.7. Credit ratings are monitored on a real-time basis as provided via the Council's Treasury Management advisers, Arlingclose, and the Council's lending list is updated accordingly, when a rating changes. Other information is taken into account when deciding whether to lend. This may include the ratings of other rating agencies; commentary in the financial press; analysis of country, sector and group exposures; and the portfolio make up of Money Market Funds. The use of particular permitted counterparties may be restricted if this is considered appropriate.
- 7.8. Credit rating methodologies change from time to time, and in this event the Chief Finance Officer may determine revised and practicable criteria seeking similarly high credit quality, pending the next annual review of this treasury management policy.

#### **Non-specified Investments and Limit**

- 7.9. For treasury management investment purposes, the Council will limit non-specified investments to £400m (there are presently none), and will use only the following categories of non-specified investments:
- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years: up to 100% of non-specified investments
  - Covered bonds and repo where the security meets the Council's credit criteria set out above: up to 50% of non-specified investments
  - Unsecured corporate bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to the Lending Criteria in the table above: up to 20% of non-specified investments
- 7.10. Other categories of non-specified investments will not be used for treasury management purposes.

#### **Investments of Group companies**

- 7.11. The Council participates in a range of joint ventures and companies. The Treasury Management team maintains a group Treasury Policy for group entities with significant investment balances, with the objective that the treasury investments of the companies are invested consistently with the Council's own

treasury investment criteria. This is generally achieved by the Council taking deposits at a commercial rate from the companies.

### **Investment Maturity**

- 7.12. Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the Council will plan to have surplus cash for longer than three years. However, where surplus cash for over 12 months is envisaged, it may be appropriate to include some longer term (non-specified) investments within a balanced risk portfolio. The following limits will be applied:

**Table O.4 Prudential limits on investing principal sums for over 364 days:**

1-2 years	£400m
2-3 years	£100m
3-5 years	£100m

- 7.13. In making investments in accordance with the criteria set out in this section, the Chief Finance Officer will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will earn less than riskier ones.
- 7.14. Where the Council deals with financial firms under the MiFID II regulations<sup>4</sup>, it has requested to be opted up to 'professional' status. This means that the Council does not receive the level of investment advice and information which firms are required to provide to retail investors. Professional status is essential to an organisation of the Council's size, to give it access to appropriate low-risk investments available only to investors classed as professional, and to ensure that it is able to act quickly to invest Council funds safely and to earn a good return.
- 7.15. The Council does not currently use investment managers (other than through the use of pooled investment vehicles such as Money Market Funds). However, if appointed, their lending of Council funds would not be subject to the above restrictions, provided that their arrangements for assessing credit quality and exposure limits have been agreed by the Chief Finance Officer.

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<sup>4</sup> The Markets in Financial Instruments Directive 2 (MiFID II) regulates, amongst other things, the way that financial firms provide advice to various categories of client.

## **8. Policy for HRA Loans Accounting**

- 8.1. The Council attributes debt and debt revenue consequences to the HRA using the 'two pool' method set out in the CIPFA Treasury Management Code. This method attributes a share of all pre-April 2012 long-term loans to the HRA. Any new long-term loans for HRA purposes from April 2012 are separately identified. The detailed accounting policy arising from the 'two pool' method is maintained by the Chief Finance Officer.

## **9. The Council Acting as Agent**

- 9.1. The Council acts as intermediary in its role as agent for a number of external bodies. This includes roles as accountable body, trustee, and custodian, and these may require the Council to carry out treasury management operations as agent. The Chief Finance Officer will exercise the Council's treasury responsibilities in accordance with the Council's treasury delegations and relevant legislation, and will apply any specific treasury policies and requirements of the external body. In relation to the short-term cash funds invested as accountable body, the Council expects to apply the investment policy set out above.

## **10. Reporting and Delegation**

- 10.1. A Treasury Management Strategy report is presented as part of the annual Financial Plan to the Council before the start of each financial year. Monitoring reports are prepared monthly, and presented quarterly to Cabinet, including an Annual Report after the year end.
- 10.2. The management of borrowings, loans, debts, investments and other assets has been delegated to the Chief Finance Officer acting in accordance with this Treasury Management Policy Statement. This encompasses the investment of trust funds where the Council is sole trustee, and other investments for which the Council is responsible such as accountable body funds. The Chief Finance Officer reports during the year to Cabinet on the decisions taken under delegated treasury management powers.
- 10.3. In exercising this delegation, the Chief Finance Officer may procure, appoint and dismiss brokers, arranging and dealer banks, investment managers, issuing and paying agents, treasury consultants and other providers in relation to the Council's borrowing, investments, and other treasury instruments and financing arrangements, and in relation to funds and instruments where the Council acts as agent

10.5. The Chief Finance Officer maintains statements of Treasury Management Practices in accordance with the Code:

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Similarly, Investment Management Practices for service and commercial investments are being prepared in accordance with the newly revised Treasury Management Code.

## **11. Training**

- 11.1. Planned and regular training for appropriate treasury management staff is essential to ensure that they have the skills and up to date knowledge to manage treasury activities and risks and achieve good value for the Council. Staff training will be planned primarily through the Council's performance and development review process, and in accordance with Treasury Management Practice 10. Training and briefings for Councillors are also held as appropriate.

## **APPENDIX P: SERVICE & COMMERCIAL INVESTMENT STRATEGY**

*Compliance with the main requirements of the Government's Statutory Guidance on Local Authority Investments is shown by cross reference in square brackets to the relevant paragraph of the Guidance.*

### **1. Scope and Purpose of Strategy**

- 1.1. The word "Investments" in this strategy covers financial investments, including loans and shares, which have been made to support service and commercial objectives. Examples include loans to InReach and Warwickshire County Cricket Club, and the Council's investment in Birmingham Airport. Non-financial investments such as commercial property are included where the main objective is financial return [4]. Investments taken for treasury management reasons are considered in the Treasury Management Strategy and Policy elsewhere in this Financial Plan.
- 1.2. This strategy sets out the Council's approach to such investments, including risk management, appraisal, monitoring, governance and procedures. In doing this it addresses the requirements of the recently expanded Government Guidance on local authority investments.
- 1.3. Investment values provided in this appendix are the book values in the Council's accounts, unless otherwise stated.

### **2. Objectives of the Strategy**

- 2.1. To use investments where appropriate to support the Council's priorities, within prudent financial limits.
- 2.2. To ensure that investment decisions and portfolio management are joined up with the Council's overall business and financial planning.
- 2.3. To deliver value for money (e.g. commercial terms or if less than commercial, social benefits to justify this).
- 2.4. To manage risks in accordance with the Council's risk appetite and financial circumstances (including due diligence when making investment decisions).

### **3. The Existing Financial and Property Investment Portfolios**

- 3.1. The Council's service and commercial investments are extremely diverse, given their very different service motives and applications. The estimated book value of financial investments at 31 December 2019 is £135.0m.



- 3.2. The commercial property portfolio is currently being reorganised in accordance with the Council's Property Investment Strategy. Its gross income in 2020/21 is budgeted at £24.6m.
- 3.3. Table P.3 at the end of this appendix shows the main contribution of the Council's service and commercial investments to Council objectives. [22]

#### **4. Investment Policy and Strategy 2020+**

- 4.1. Joint working, partnerships and joint delivery arrangements are key to the provision of Council and wider public services. Financial and property investments are likely to be an ongoing result of the Council's partnership working.
- 4.2. In the context of the current Council Plan and priorities, investments may feature in arrangements for:
- Supporting specific policy priorities in the Council Plan or policy frameworks, e.g. housing
  - Supporting partnership working, including with the voluntary sector
  - Supporting the commercialism agenda and the Council's savings proposals, by providing financial return.
- 4.3. The Council recognises that all investments carry the risk of financial loss. The risk of losses may seem distant or not be apparent at the time an investment is considered, but an estimate of the risk of loss needs to be accounted for from the outset. Financial gains and losses from investments will be the responsibility of the service to which the investment relates.
- 4.4. The Council will be particularly cautious where investments are funded wholly or partly from borrowing. Debt "gearing" creates additional costs of interest and repayment. It creates a fixed liability and a fixed repayment obligation, whilst the investment's value and income are at risk. The scope for the Council to borrow to fund investments is also limited by the relatively high level of Council debt and low headroom for additional borrowing. The Council will not borrow to invest purely for financial gain, as recommended by Government Guidance [46]. This principle does not prevent the Council from borrowing for the prudent management of its financial affairs or protection of its existing financial and property investment portfolios in its financial best interests.
- 4.5. The Council's risk appetite in relation to new financial investments will therefore be low, given the high level of financial risks the Council is already exposed to, including the need to balance the revenue budget and manage the level of Council debt. Any new investments will therefore be expected to:

- Show a compelling contribution to the Council's core objectives and planned service strategies, and must be prioritised within the Council's available resources
- Evidence a low financial risk with a commensurate financial return, or if returns are below commercial levels, provide clear non-financial benefits to the Council which demonstrate strong value for money, and comply with State Aid requirements.
- Be prioritised within the investment limits set out below, to ensure that investment activity remains proportionate to the Council's finances overall
- Strike a prudent balance between security, liquidity and yield (whilst recognising that the delivery of strong service benefits may sometimes justify a higher financial risk) [29]

New commercial property investments will be managed under the policies and criteria set out in the July 2019 Property Investment Strategy. Investment is expected to be restricted to the reinvestment of sales proceeds rather than growing the portfolio.

- 4.6. The Council is mindful of Government and CIPFA advice that commercial investments including property must be proportionate to the resources of the authority [34]. The Council should avoid becoming over-reliant on risky investment income to support core service obligations, especially given its low investment risk appetite set out in 4.5 above. Budgeted gross income from service and commercial investments (including commercial property) represents 4.2% of the net revenue budget by 2020/21 [44]. This investment income exposure represents a manageable financial risk, and will be monitored as part of the Council's normal revenue monitoring as well as through the investment indicators (section 7 below).
- 4.7. Any shortfall in budgeted net income from service and commercial investments will be managed through the Council's regular budget monitoring and mitigation processes, and through the investment governance arrangements described in Section 7 below [44].
- 4.8. The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy (Appendix T) sets out the arrangements to repay debt without resorting to a sale of the investments [42-43].

## 5. Financial Investment Plans and Limits for 2020+

- 5.1. The main area of additional investment proposed in this Financial Plan, as in last year's, is to expand the Council's investment in InReach, its wholly-owned Housing company. The Council has provided loans and equity of £15.4m to develop the Embankment private rented housing. This development is now complete, fully let, and performing well. Further loans to InReach are in the Council's budgets to develop rented housing at the Brasshouse and Key Hill. The Council's total proposed investment outstanding in InReach including both current arrangements and new proposals amounts to £68.7m. InReach will increase the supply of both private rented and affordable housing in Birmingham, which is a key priority for the Council, as well as generating a net income for the Council. In the longer term, further opportunities for InReach activity will be kept under review.
- 5.2. The main financial risk when investing in loans and equity is that the loan repayments are not made, and that the shares lose value or dividends are less than expected. In order to limit the financial impact of investment risks, an overall limit for the Council's service and commercial investments (excluding the commercial property portfolio) is proposed as follows:

**Table P.1 Service and Commercial Investment Strategy**

<b>Financial Investments</b>	est value at 31.12.19 £m	planned changes £m	total value £m	limit £m
Loans to subsidiaries	33.6	48.3	81.9	
Loans to businesses	43.5	-12.4	31.1	
Other loans	16.5	0.0	16.5	
Shares in subsidiaries	11.5	5.0	16.5	
Shares in businesses	29.6	0.0	29.6	
other shares	0.3	0.0	0.3	
<b>Total</b>	<b>135.0</b>	<b>40.9</b>	<b>175.9</b>	<b>326.0</b>
The figures above are the estimated book value in the Council's accounts				

- 5.3. The planned changes reflect the proposals described above, over the medium term to 2023/24. The limit has been set with a view to allowing scope for some limited further investment of £50m during this period, together with potential for further investment of £100m in InReach to support the potential purchase of part of the Commonwealth Games Village. This would be subject to resource prioritisation and business case approval. Cabinet may approve a reallocation of individual limits within the total limit above. The limit applies to the Council's own

investments and not to investments which it holds as accountable body or on behalf of others [34, 36].

- 5.4. Investments may also carry liquidity risk, which is the risk that funds may be tied up in investments and not available if needed for other purposes. The Council's due diligence procedures for investments review liquidity risk, including how exit routes have been considered and the appropriate maximum period for investments to be committed [42].

## **6. Property Investment Portfolio Plans and Limits for 2020+**

- 6.1. The Council's Strategy for the Property Investment Portfolio was approved by Cabinet in July 2019. This seeks to remove lower value and inefficient property holdings from the portfolio and reinvest into fewer, high quality commercial property assets, with a view to a better risk balanced portfolio and an increase in gross income by 20% in cash terms by the end of 2023/24. In particular,
- An active disposals programme is in progress to fund reinvestment
  - Investment will be primarily in Birmingham and the wider Midlands region
  - An external investment adviser is being commissioned to advise and recommend on opportunities in the market to acquire new assets (which may include property loans as well as direct property holdings)
  - The first strategic investment has been completed, which was the acquisition of the headlease on a Council owned site increasing the income stream by £0.3m.
- 6.2. The strategy envisages that reinvestment into new properties may be funded temporarily from borrowing, pending capital receipts from the portfolio's asset sales, providing that the individual sales are agreed by the time of borrowing. The borrowing is limited to £50m and will be repaid by the end of 2023/24. The Government Investment Guidance recommends authorities not to borrow to invest purely for profit. The purpose of the temporary borrowing is not for additional long term investment, but supports the 'prudent management' of the portfolio by avoiding the risk of being out of the market and losing income for a sustained period while a large number of small properties are progressively sold over the next few years.
- 6.3. The main financial risks of property investment are that rental income or property values may fall as a result of changing economic and market conditions, or due to the condition of the individual properties. New purchases may also show an initial loss due to transaction costs and stamp duty. The risk of loss compared with any borrowing taken to purchase investments is shown by the indicator below for the % of investments financed from borrowing [38-40]. The property risks in this strategy will be managed by the Property Investment Board

in accordance with the parameters and procedures set out in the Property Investment Strategy approved by Cabinet, and within the temporary investment increase of £50m set out above.

- 6.4. Liquidity risk in property investments will be managed by the Commercial Property Board and through the limit of £50m on new investments (6.3 above) [43].

## 7. Investment Indicators

- 7.1. The Council will use the investment indicators set out below to strengthen its investment risk management framework, as recommended by the Government Guidance [23]:

**Table P.2 Service and Commercial Investment Indicators**

Service and commercial investment indicators	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
<b>Financial investments:</b>				
planned value	146.6	144.8	161.8	175.9
investment limit	226.0	280.0	326.0	326.0
(including £100m allowance for potential investment in InReach)				
borrowing to fund investments	71.8	82.4	99.5	113.6
% investments financed by borrowing	49.0%	56.9%	61.5%	64.6%
secured investments	90.2	100.8	117.8	132.0
% investments secured	61.5%	69.6%	72.8%	75.0%
<b>Commercial properties:</b>				
New investment limit (cumulative)	50.0	50.0	50.0	50.0
<b>budgeted gross investment income:</b>				
Investment income (financial and property)	36.1	42.1	47.0	50.6
Council net revenue budget	852.9	872.4	890.7	909.8
Investment income as % of net budget	4.2%	4.8%	5.3%	5.6%

## 8. Governance

- 8.1. The Capital Board will review new investment proposals and programmes prior to approval, and will monitor existing investments and risks. The Development and Commercial Finance Team and the Treasury Management team will exercise Council-wide oversight and co-ordination of service and commercial investments.
- 8.2. Financial and property investment decision making will follow the Council's Business Case governance requirements, with particular attention to expert due diligence, robust financial appraisal and taking external advice in consultation with the Chief Finance Officer. Procedures and checklists for investment

appraisal and management are set out in the Council's financial procedures (My Finance on the Intranet) [41,50]. Market understanding and analysis will be the responsibility of the relevant service supported by their Finance Business Partner and Treasury Management Team, but it is recognised that for complex investments, external advice is likely to be needed, especially where financial return is significant [41]. New investments must reflect the Council's core priorities, and must be agreed by the Chief Finance Officer via the Treasury Management team before presentation of any executive decision report.

- 8.3. Individual investment monitoring is the responsibility of the service holding the income budget, as part of normal budget monitoring, with overall co-ordination and oversight from Finance staff.
- 8.4. Investment Management Practices are required by the CIPFA Treasury Management Code to support strong and sound financial management in this specialist area. These will be maintained for each type of investment by the service budget-holder responsible, with support from Development and Commercial Finance, and will include appropriate income collection and credit control arrangements [41]. Investment Management Practices will be reviewed annually.
- 8.5. Advisers will be used where necessary to achieve sufficient skills and understanding, in particular, the Council's treasury management adviser (Arlingclose) can provide support in relation to financial investments, and the Council also retains a property adviser to support the Property Investment Portfolio. These appointments are monitored and assessed by treasury and property officers [41]. The Council's business loans and investments portfolio is managed by Finance Birmingham, the Council's wholly owned fund management company. Officer and Member training will be available through the Council's treasury advisers, alongside treasury management training opportunities. Information relevant to investment decisions will form part of executive decision reports to members [48]. Cabinet Committee – Group Company Governance and relevant officers also receive training on companies. Due diligence requirements for investments will ensure that officers are aware of the core principles of the prudential framework and local authority regulatory requirements [49].
- 8.6. These arrangements will support the capacity, skills and culture of the Council in making and managing investments for service and commercial purposes [48-49].

**Table P.3 Contribution of Investments to Council Outcomes**

<b>Financial Investments</b>	<b>main contribution</b>	<b>other contribution</b>
<b>Loans</b>		
InReach Ltd - housing developments	housing	profit
InReach Ltd - CWG housing purchase	housing	profit
InReach Ltd - HRA housing purchase	housing	profit
Birmingham Propco (NEC Hotels)	economy	profit
Performances Birmingham Ltd	economy	arts
Birmingham Science Park (Aston) Ltd	economy	profit
iCentrum	economy	
Business loans portfolio	economy	
Warwickshire County Cricket Club	economy	
WM Collective Investment Fund	economy	
BLLP	education	
Kick Start loans	housing	
Other commercial loans	various	
Loans to non-BCC schools	education	
Birmingham Childrens Trust	children	
Other small loans	various	
loans to employees	management	
Wholesale Markets	economy	profit
<b>Shares</b>		
Birmingham Airport Holdings	economy	profit
InReach Ltd	housing	
Birmingham Propco (NEC Hotels)	economy	profit
Business share portfolio	economy	
Financial vehicle shareholdings	financial mgt	economy
Other small share holdings	various	





## APPENDIX U: PRUDENTIAL INDICATORS

### Appendix U1

WHOLE COUNCIL		20/21	21/22	22/23	23/24
		Indicators	Indicators	Indicators	Indicators
		£m	£m	£m	£m
<b>Capital Finance</b>					
1	Capital Expenditure – Capital Programme	710.1	481.9	327.0	223.1
2	Capital Expenditure – other long term liabilities	38.2	37.8	33.1	33.3
3	Capital expenditure	748.3	519.7	360.1	256.4
4	Capital Financing Requirement (CFR)	4,839.3	4,941.7	5,135.1	4,834.4
<b>Planned Debt</b>					
5	Peak loan debt in year	3,849.9	3,932.9	3,852.3	3,719.5
6	+ Other long term liabilities (peak in year)	415.5	396.7	373.4	348.2
7	= Peak debt in year	4,265.4	4,329.6	4,225.7	4,067.7
8	does peak debt exceed year 3 CFR?	no	no	no	no
<b>Prudential limit for debt</b>					
9	Gross loan debt	4,084.5	4,203.3	4,026.6	3,951.8
10	+ other long term liabilities	415.5	396.7	373.4	348.2
11	= Total debt	4,500.0	4,600.0	4,400.0	4,300.0
<b>Notes</b>					
4	The Capital Financing Requirement represents the underlying level of borrowing needed to finance historic capital expenditure (after deducting debt repayment charges). This includes all elements of CFR including Transferred Debt.				
5-7	These figures represent the forecast peak debt (which may not occur at the year end). The Prudential Code calls these indicators the Operational Boundary.				
8	It would be a cause for concern if the City Council's loan debt exceeded the CFR, but this is not the case due to positive cashflows, reserves and balances. The Prudential Code calls this Borrowing and the Capital Financing Requirement.				
11	The Authorised limit for debt is the statutory debt limit. The City Council may not breach the limit it has set, so it includes allowance for uncertain cashflow movements and potential borrowing in advance for future needs.				

## Appendix U2

HOUSING REVENUE ACCOUNT		20/21	21/22	22/23	23/24
		Forecast	Indicators	Indicators	Indicators
		£m	£m	£m	£m
<b>Capital Finance</b>					
1	Capital expenditure	125.8	129.4	145.1	129.5
<b>HRA Debt</b>					
2	Capital Financing Requirement (CFR)	1,097.1	1,090.6	1,105.7	1,109.5
<b>Affordability</b>					
3	HRA financing costs	97.2	98.7	100.5	101.4
4	HRA revenues	279.9	286.2	293.3	301.2
5	HRA financing costs as % of revenues	34.7%	34.5%	34.3%	33.7%
6	HRA debt : revenues	3.9	3.8	3.8	3.7
7	Forecast Housing debt per dwelling	£18,423	£18,446	£18,785	£18,914

### Notes

- 3 Financing costs include interest, and depreciation rather than Minimum Revenue Provision (MRP), in the HRA.
- 6 This indicator is not in the Prudential Code but is a key measure of long term sustainability. This measure is forecast to fall below 2.0 by 2026/27, which is two years later than previously forecast.
- 7 This indicator is not in the Prudential Code but is a key measure of affordability: the HRA debt per dwelling should not rise significantly over time.

## Appendix U3

GENERAL FUND		20/21	21/22	22/23	23/24
		Forecast	Indicators	Indicators	Indicators
		£m	£m	£m	£m
<b>Capital Finance</b>					
1	Capital expenditure (including other long term liabilities)	622.5	390.4	215.0	126.8
2	Capital Financing Requirement (CFR)	3,742.2	3,851.1	4,029.3	3,724.9
<b>General Fund debt</b>					
3	Peak loan debt in year	2,752.8	2,842.3	2,746.6	2,610.0
4	+ Other long term liabilities (peak in year)	415.5	396.8	373.5	348.2
5	= Peak General Fund debt in year	3,168.3	3,239.1	3,120.1	2,958.2
<b>General Fund Affordability</b>					
6	Total General Fund financing costs	255.6	260.0	250.2	272.1
7	General Fund net revenues	852.9	872.4	890.7	909.8
8	General Fund financing costs (% of net revenues)	30.0%	29.8%	28.1%	29.9%
9	General Fund financing costs (% of gross revenues)	23.0%	22.6%	21.2%	22.5%

### Note

- 4 Other long term liabilities include PFI, finance lease liabilities, and transferred debt liabilities.
- 6 Financing costs include interest and MRP (in the General Fund), for loan debt, transferred debt, PFI and finance leases.
- 8 This indicator includes the revenue cost of borrowing and other finance, including borrowing for the Enterprise Zone and other self-supported borrowing.
- 9 This is a local indicator measuring finance costs against relevant gross income including revenues from sales, fees, charges and rents, which are available to support borrowing costs.

## Appendix U4

TREASURY MANAGEMENT		20/21	21/22	22/23	23/24
	Limit	Forecast	Forecast	Forecast	Forecast
<b>Interest rate exposures</b>					
1 General Fund impact of an unbudgeted 1% rise in interest rates		£3.8m	£4.1m	£4.2m	£4m
2 upper limit on variable rate exposures	30%	19%	22%	23%	21%
<b>Maturity structure of borrowing</b> (lower limit and upper limit)		<b>Limit</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
		<b>Year End</b>	<b>Year End</b>	<b>Year End</b>	<b>Year End</b>
3 under 12 months	0% to 30%	16%	17%	16%	17%
4 12 months to within 24 months	0% to 30%	1%	1%	6%	1%
5 24 months to within 5 years	0% to 30%	4%	10%	6%	7%
6 5 years to within 10 years	0% to 30%	16%	15%	12%	12%
7 10 years to within 20 years	5% to 40%	21%	20%	26%	30%
8 20 years to within 40 years	10% to 60%	37%	34%	30%	31%
9 40 years and above	0% to 40%	4%	2%	2%	2%
<b>Investments longer than 364 days</b>					
upper limit on amounts maturing in:					
	<b>Limit</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
10 1-2 years	400	0	0	0	0
11 2-3 years	100	0	0	0	0
12 3-5 years	100	0	0	0	0
13 later	0	0	0	0	0
<b>Note</b>					
1	Based on year end debt borrowing less investments, with less than one year to maturity.				
2-	These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan				
2	The limit on variable rate exposures is a local indicator.				

## Appendix U5

<b>SERVICE AND COMMERCIAL INVESTMENT INDICATORS</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial investments:</b>				
planned value	146.6	144.8	161.8	175.9
investment limit	226.0	280.0	326.0	326.0
(including £100m allowance for potential investment in InReach)				
borrowing to fund investments	71.8	82.4	99.5	113.6
% investments financed by borrowing	49.0%	56.9%	61.5%	64.6%
secured investments	90.2	100.8	117.8	132.0
% investments secured	61.5%	69.6%	72.8%	75.0%
<b>Commercial properties:</b>				
New investment limit (cumulative)	50.0	50.0	50.0	50.0
<b>budgeted gross investment income:</b>				
Investment income (financial and property)	36.1	42.1	47.0	50.6
Council net revenue budget	852.9	872.4	890.7	909.8
Investment income as % of net budget	4.2%	4.8%	5.3%	5.6%



## BIRMINGHAM CITY COUNCIL

### TREASURY MANAGEMENT PRACTICES

December 2019

The Budget Report approved by the City Council every year confirms the Council's adoption of the CIPFA Code of Practice for Treasury Management in the Public Services ("the TM Code"). The TM Code requires Treasury Management Practices (TMPs) to be maintained. The following TMPs have been revised in accordance with the revised TM Code of 2018.

Organisations are permitted by the Code to amend CIPFA's standard text for TMPs "where necessary to reflect the particular circumstances of the organisation". Some amendments have been made to reflect the City Council's circumstances (for example, the TMPs cover a wide range of public bodies and some issues are not so significant for local authorities). For the sake of accountability all departures from the standard text are shown *in italics* or struck through as appropriate.

The TMPs require a number of detailed Schedules to be produced (whose content is not prescribed). They are working documents and are approved by the S151 Officer (they can also be updated for factual changes by TM staff).

The "responsible officer" referred to in the TMPs is the S151 Officer.

### TMP 1 Risk Management

#### **General statement**

The City Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the City Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedules to this document.

#### **TMP 1.1 credit and counterparty risk management**

The City Council will ensure that its counterparty lists and limits reflects a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the **schedules to TMP 1.1**. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

#### **TMP 1.2 Liquidity risk management**

The City Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The City Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the day-to-day cashflows, the current capital programme or to finance future debt maturities.

### **TMP 1.3 Interest rate risk management**

The City Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates. This will be subject to the consideration and, if required, approval of any policy or budgetary implications.

### **TMP 1.4 exchange rate risk management**

The City Council will manage its exposure to fluctuations in exchange rates so as to minimise *taking account of* any detrimental impact on its budgeted income / expenditure levels.

### **TMP 1.5 refinancing risk management**

The City Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

### **TMP 1.6 legal and regulatory risk management**

The City Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1.1 credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.



The City Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

#### **TMP 1.7 fraud, error and corruption, and contingency management**

The City Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

#### **TMP 1.8 Price risk management**

The City Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sum it invests *or borrows*, and will accordingly seek to manage the effects of such fluctuations.

#### **TMP 1.9 Inflation risk**

The City Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures

### **TMP 2 Performance measurement**

The City Council is committed to the pursuit of value for money in its treasury management activities, and to use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the City Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the **Schedule to TMP 2** to this document.

### **TMP 3 Decision-making and analysis**

The City Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the **Schedule to TMP 3** to this document.

### **TMP 4 Approved instruments, methods and techniques**

The City Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in **the Schedule to TMP 1.1**

attached to this document, and within the limits and parameters defined in TMP1 Risk management.

Where the City Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual Treasury Strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products (*note: at March 2017 the City Council's Treasury Strategy does not approve any use of derivatives*).

This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

### **TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The City Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the City Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in **Schedule TMP 5.1** and the *Delegations to Treasury Management staff TMP 5.3*.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in **Schedule TMP 5.1**.

The delegations to the responsible officer in respect of treasury management are set out in **Schedule TMP 5.3**. The responsible officer will fulfil all such responsibilities in accordance with the City Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

## **TMP 6 Reporting requirements and management information arrangements**

The City Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The City Council meeting will receive:

- an annual report on the *treasury management Policy*, Strategy and plan to be pursued in the coming year

The Cabinet will receive:

- Regular monitoring reports on treasury management activities and risks. *This encompasses the TM Code requirement for a mid year review;*
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the City Council's treasury management policy statement and TMPs.

*The City Council's Cabinet is considered to be an appropriate equivalent to the "Full Board" in the Code for receiving these reports.*

The appropriate City Council body responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of Treasury Management policies and practices.

The treasury management *prudential* indicators will be reported as detailed in the Sector-specific Guidance Notes.

The present arrangements and the form of these reports are detailed in **Schedule TMP6** to this document.

## **TMP7 Budgeting, accounting and audit arrangements**

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget *report* will at minimum be those required by statute or regulation, together with such information as will *assist in demonstrating compliance of the budget* with TMP1 Risk management, TMP2 Best value and performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The City Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

#### **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in **Schedule TMP 8** to this document.

#### **TMP9 Money laundering**

The City Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of treasury management counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in **Schedule TMP 9** to this document.

#### **TMP10 Staff training and qualifications**

The City Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance *have an* individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in **Schedule TMP 10** to this document.

#### **TMP11 Use of external service providers**

The City Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where

feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in **Schedule TMP 11** to this document.

## **TMP12 Corporate governance**

The City Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The City Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedules to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**Section 151 Officer**



**Date**

3/12/19



## TREASURY MANAGEMENT MONITORING DASHBOARD: PERIOD 9 (DECEMBER 2019)

	value	comparator	difference
<b>1 gross loan debt</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
at month end	<b>3,149</b>		
year end Forecast (vs Plan)	3,201	3,573	-372
year end Forecast (vs Pru Limit for loan debt*)	3,201	3,867	-666
<i>*monitoring of the full set of prudential indicators is reported quarterly to Cabinet</i>			
<b>2 short term borrowing</b>			
at month end (vs Guideline)	<b>236</b>	500	-264
interest rate year to date on outstanding deals (vs assumption)	<b>0.74%</b>	0.85%	-0.11%
<b>3 Treasury investments</b>			
at month end (vs Guideline)	<b>23</b>	40	-17
interest rate year to date on outstanding deals (vs assumption)	<b>0.62%</b>	0.55%	0.07%
<b>4 Long term loans taken</b>			
year to date (vs plan for year)	<b>150</b>	225	-75
ave. interest rate obtained (vs assumption)	<b>1.87%</b>	2.85%	-0.98%
<b>5 Assurance</b>			
were Credit criteria complied with?	<b>yes</b>		
were investment defaults avoided?	<b>yes</b>		
was the TM Code complied with?	<b>yes</b>		
were prudential limits complied with?	<b>yes</b>		

**Treasury Management: portfolio overview**

*This appendix summarises the council's loan debt and treasury management investments*

	this quarter £m 31/12/2019	last quarter £m 30/09/2019
PWLB	2,461	2,461
Bonds	373	373
LOBOs	71	72
Other long term	7	7
Salix	1	1
Short term	236	263
<b>Gross loan debt</b>	<b>3,149</b>	<b>3,177</b>
less treasury investments	- 23	- 39
<b>Net loan debt</b>	<b>3,126</b>	<b>3,138</b>
Budgeted year end net debt	3,532	3,532
Prudential limit (gross loan debt)	3,867	3,867

**Treasury investments by source**

	£m
UK Government	0
Money Market Funds	17
Banks and Building Societies	6
Supply Chain finance	0
	<b>23</b>

**Treasury investments by credit quality**

	£m
AAA	0
AAAmmf	17
AA	5
A	1
	<b>23</b>

**Investments as Accountable Body**

*These are investments made as Accountable Body on behalf of on behalf of others, and are not the Council's own money*

	Growing Places Fund £m	AMSCI <sup>1</sup> £m	Regional Growth Fund £m	Local Growth Fund £m	NMCL <sup>3</sup>	Total £m
UK Government	0	7	10	0		17
Birmingham City Council <sup>2</sup>	0	0	0	0		0
Money Market Funds	15	20	2	43	1	81
Government Money Market Funds	0	0	0	0		0
Banks and Building Societies	0	0	0	0		0
	<b>15</b>	<b>27</b>	<b>12</b>	<b>43</b>	<b>1</b>	<b>98</b>

<sup>1</sup> Advanced Manufacturing Supply Chain Initiative

<sup>2</sup> These funds have been lent to the Council by agreement at a commercial rate

<sup>3</sup> National Manufacturing Competitiveness Levels



**Treasury management: summary of delegated decisions in the quarter**

*This appendix summarises decisions taken under treasury management delegations to the Corporate Director of Finance and Governance during the quarter*

<b>1. Short term (less than 1 year)</b>	<b>borrowing</b>	<b>investments</b>
	£m	£m
opening balance	<b>263</b>	<b>-39</b>
new loans/investments	<b>438</b>	<b>-499</b>
loans/investments repaid	<b>-465</b>	<b>515</b>
closing balance	<b>236</b>	<b>-23</b>

*These loans and investments are for short periods from one day up to 365 days. There is therefore a rapid turnover of new loans.*

<b>2. Long term borrowing:</b>				
date	lender	£m	rate	maturity
28/05/2019	Public Works Loan Board	30	2.31	28/05/2038
17/06/2019	Public Works Loan Board	30	2.14	17/06/2037
09/08/2019	Public Works Loan Board	30	1.63	09/08/2033
20/08/2019	Public Works Loan Board	30	1.72	20/08/2069
05/09/2019	Public Works Loan Board	30	1.57	05/09/2037

<b>3. Long term loans prematurely repaid:</b>				
date	lender	£m	rate	maturity
28/05/2019	Commerzbank	30	4.48%	24/11/2065

<b>4. Long term treasury investments made:</b>				
date	borrower	£m	rate	maturity
no long term investments made				



This appendix provides monitoring against the Council's approved Prudential Indicators

## Appendix C4a

### DEBT AND PRUDENTIAL INDICATORS

WHOLE COUNCIL		19/20 Indicators £m	19/20 Forecast £m	20/21 Indicators £m	20/21 Forecast £m	21/22 Indicators £m	21/22 Forecast £m
<b>Capital Finance</b>							
1	Capital Expenditure - Capital Programme	631.5	502.5	554.2	685.1	377.2	446.7
2	Capital Expenditure - other long term liabilities	36.3	36.3	38.2	38.2	37.8	37.8
3	Capital expenditure	667.8	538.8	592.4	723.2	415.0	484.5
4	Capital Financing Requirement (CFR)	4,731.8	4,607.9	4,909.2	4,822.4	5,069.9	4,903.9
<b>Planned Debt</b>							
5	Peak loan debt in year	3,590.5	3,313.9	3,781.4	3,829.2	3,884.2	3,889.9
6	+ Other long term liabilities (peak in year)	432.5	432.5	415.5	415.5	373.4	396.8
7	= Peak debt in year	4,023.0	3,746.4	4,196.9	4,244.7	4,257.6	4,286.7
8	does peak debt exceed year 3 CFR?	no	no	no	no	no	no
<b>Prudential limit for debt</b>							
9	Gross loan debt	3,867.5	3,313.9	3,984.5	3,829.2	4,103.3	3,889.9
10	+ other long term liabilities	432.5	432.5	415.5	415.5	396.7	396.8
11	= Total debt	4,300.0	3,746.4	4,400.0	4,244.7	4,500.0	4,286.7
<b>Notes</b>							
1	Forecast capital expenditure has increased since the indicator was set due to additions to the capital programme, as reported in the quarterly capital monitoring reports.						
4	The Capital Financing Requirement represents the underlying level of borrowing needed to finance historic capital expenditure (after deducting debt repayment charges). This includes all elements of CFR including Transferred Debt.						
5-7	These figures represent the forecast peak debt (which may not occur at the year end). The Prudential Code calls these indicators the Operational Boundary.						
8	It would be a cause for concern if the City Council's loan debt exceeded the CFR, but this is not the case due to positive cashflows, reserves and balances. The Prudential Code calls this Borrowing and the Capital Financing Requirement.						
11	The Authorised limit for debt is the statutory debt limit. The City Council may not breach the limit it has set, so it includes allowance for uncertain cashflow movements and potential borrowing in advance for future needs.						

## DEBT AND PRUDENTIAL INDICATORS

## Appendix C4b

### HOUSING REVENUE ACCOUNT

	19/20	19/20	20/21	20/21	21/22	21/22
	Indicators	Forecast	Indicators	Forecast	Indicators	Forecast
	£m	£m	£m	£m	£m	£m
<b>Capital Finance</b>						
1 Capital expenditure	134.0	105.4	131.7	125.8	109.7	129.4
<b>HRA Debt</b>						
2 Capital Financing Requirement (CFR)	1,051.9	1,084.5	1,051.0	1,097.1	1,032.7	1,090.6
3 Statutory cap on HRA debt		1,150.4		1,150.4		1,150.4
<b>Affordability</b>						
4 HRA financing costs	96.7	96.3	96.9	97.2	97.5	98.7
5 HRA revenues	273.8	273.8	279.7	279.7	285.8	285.8
6 HRA financing costs as % of revenues	35.3%	35.2%	34.7%	34.7%	34.1%	34.5%
7 HRA debt : revenues	3.8	4.0	3.8	3.9	3.6	3.8
8 Forecast Housing debt per dwelling	£17,446	£18,038	£17,605	£18,423	£17,461	£18,446

### Notes

- 2-3 The HRA Capital Financing Requirement (CFR) is being used by the Government as the measure of HRA debt for the purposes of establishing a cap on HRA borrowing for each English Housing Authority.
- 4 Financing costs include interest, and depreciation rather than Minimum Revenue Provision (MRP), in the HRA.
- 7 This indicator is not in the Prudential Code but is a key measure of long term sustainability. This measure is forecast to fall below 2.0 by 2026/27, which is two years later than previously forecast.
- 8 This indicator is not in the Prudential Code but is a key measure of affordability: the HRA debt per dwelling should not rise significantly over time.

## DEBT AND PRUDENTIAL INDICATORS

## Appendix C4c

### GENERAL FUND

	19/20	19/20	20/21	20/21	21/22	21/22
	Indicators	Forecast	Indicators	Forecast	Indicators	Forecast
	£m	£m	£m	£m	£m	£m
<b>Capital Finance</b>						
1 Capital expenditure (including other long term liabilities)	533.8	433.3	460.7	597.4	305.3	355.1
2 Capital Financing Requirement (CFR)	3,680.0	3,523.4	3,858.2	3,725.3	4,037.2	3,813.4
<b>General Fund debt</b>						
3 Peak loan debt in year	2,538.6	2,229.4	2,730.4	2,732.1	2,898.6	2,799.3
4 + Other long term liabilities (peak in year)	432.5	432.5	415.5	415.5	396.8	396.8
5 = Peak General Fund debt in year	2,971.1	2,661.9	3,145.9	3,147.6	3,295.4	3,196.1
<b>General Fund Affordability</b>						
6 Total General Fund financing costs	249.3	248.6	267.3	259.5	272.4	259.1
7 General Fund net revenues	851.6	851.6	867.5	867.5	892.5	892.5
8 General Fund financing costs (% of net revenues)	29.3%	29.2%	30.8%	29.9%	30.5%	29.0%
9 General Fund financing costs (% of gross revenues)	22.4%	22.4%	23.6%	23.6%	23.6%	23.6%

### Note

- 4 Other long term liabilities include PFI, finance lease liabilities, and transferred debt liabilities.
- 6 Financing costs include interest and MRP (in the General Fund), for loan debt, transferred debt, PFI and finance leases.
- 8 This indicator includes the gross revenue cost of borrowing and other finance, including borrowing for the Enterprise Zone and other self-supported borrowing.
- 9 This is a local indicator measuring finance costs against relevant gross income including revenues from sales, fees, charges and rents, which are available to support borrowing costs.

## PRUDENTIAL INDICATORS

Appendix C4d

### TREASURY MANAGEMENT

	19/20	19/20	20/21	20/21	21/22	
	Indicators	Forecast	Indicators	Forecast	Indicators	
		<b>Forecast Maximum</b>		<b>Forecast Maximum</b>		<b>Forecast Maximum</b>
<b>Interest rate exposures</b>						
1 upper limit on fixed rate exposures		93%		94%		91%
2 upper limit on variable rate exposures	22%	15%	19%	19%	29%	29%
<b>Maturity structure of borrowing</b> (lower limit and upper limit)	<b>Limit</b>	<b>Forecast Year End</b>	<b>Limit</b>	<b>Forecast Year End</b>		<b>Forecast Year End</b>
3 under 12 months	0% to 30%	10%	0% to 30%	14%	0% to 30%	27%
4 12 months to within 24 months	0% to 30%	1%	0% to 30%	14%	0% to 30%	6%
5 24 months to within 5 years	0% to 30%	11%	0% to 30%	4%	0% to 30%	7%
6 5 years to within 10 years	0% to 30%	13%	0% to 30%	15%	0% to 30%	13%
7 10 years to within 20 years	5% to 40%	21%	5% to 40%	14%	5% to 40%	23%
8 20 years to within 40 years	10% to 60%	39%	10% to 60%	35%	10% to 60%	34%
9 40 years and above	0% to 40%	6%	0% to 40%	4%	0% to 40%	2%
<b>Investments longer than 364 days</b> upper limit on amounts maturing in:						
	<b>Limit</b>	<b>Forecast</b>	<b>Limit</b>	<b>Forecast</b>	<b>Limit</b>	<b>Forecast</b>
10 1-2 years	400	0	400	0	400	0
11 2-3 years	100	0	100	0	100	0
12 3-5 years	100	0	100	0	100	0
13 later	0	0	0	0	0	0

### Note

1-9 These indicators assume that LOBO loan options are exercised at the earliest possibility, and are calculated as a % of net loan debt.

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>Audit Committee</b>
<b>Report of:</b>	<b>Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>24<sup>th</sup> March 2020</b>
<b>Subject:</b>	<b>Strategic Risk Register</b>
<b>Wards Affected:</b>	<b>All</b>
<p><b>1. Purpose of Report</b></p> <p>1.1 To update members on the development of a Strategic Risk Register and implementation of the Risk Management Framework.</p> <p><b>2. Recommendation</b></p> <p>2.1 That the Audit Committee:</p> <ul style="list-style-type: none"> <li>i) note the progress in implementing the Risk Management Framework; and</li> <li>ii) review the Strategic Risk Register and assess whether the risk ratings and actions are reasonable / effective or if further explanation / information is required in order to satisfy itself that the Risk Management Framework has been consistently applied.</li> </ul> <p><b>3. Risk Management Framework</b></p> <p>3.1 The Risk Management Framework sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels. The Framework, and supporting documentation, has been reviewed and updated to ensure that sufficient focus is given to the strategic direction of the Council.</p> <p><b>4. Strategic Risk Register</b></p> <p>4.1 Using a 'PESTLE' analysis, the Council Leadership Team (CLT) have undertaken a major review to identify the strategic risks faced by the Council together with potential development opportunities. The management of these risks will help to support the ongoing improvement of the Council and delivery of strategic priorities and outcomes.</p>	

4.2 The previous corporate risks, which had become increasing operational in their nature, have been removed from the corporate register for management at directorate level.

4.3 The profile of the Strategic Risks is summarised below:

	High	Medium	Low	Total
SR1 - Political	1	2		3
SR2 - Economical	3	3		6
SR3 - Social	5	3		8
SR4 - Technological	1	2		3
SR5 - Legal	4	1	1	6
SR6 - Environmental	2	0		2
SR7 - Cross Cutting	1	2		3
<b>Total</b>	<b>17</b>	<b>13</b>	<b>1</b>	<b>31</b>

3.4 The Strategic Risk Register is reviewed on a monthly basis by CLT to strengthen oversight arrangements. CLT have agreed the identified Strategic Risks.

3.5 We are working with Risk Owners to complete the supporting action plans.

#### **4. Directorate Risks**

4.1 A network of Directorate Risk Representative is in place. These representatives facilitate the review of the Strategic Risks and support each Directorate in developing and maintaining appropriate Directorate Risk Registers.

4.2 Directorate Risk Registers contain operational risks, managed at a local level.

4.3 The top 10 Directorate Risks will be used to form a Corporate Operational Risk Register which will be submitted to CLT and the Audit Committee for review.

#### **5. Role of the Audit Committee**

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

5.2 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.

## **6. Legal and Resource Implications**

6.1 The work carried out is within approved budgets.

## **7. Equality Impact Assessment Issues**

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

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

## **8. Compliance Issues**

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

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**Assistant Director, Audit & Risk Management**

**Telephone No: 0121 675 8714**

**e-mail address: [sarah.dunlavey@birmingham.gov.uk](mailto:sarah.dunlavey@birmingham.gov.uk)**

## Risk Heat Map

Strategic Risk Map – March 2020				
Likelihood	High		SR4.1 Loss of personal/sensitive data	SR1.1 Relevance to citizens
	Significant		SR3.3 Equality representation SR2.6 Future Financial Resilience SR3.8 Effective Public Hubs	SR6.2 Health & wellbeing SR3.7 Public Health interventions SR6.1 Climate change / air pollution SR7.2 Rising pressure of demand
	Medium		SR5.3 Brexit impact on legislation SR2.5 Development of local urban centres SR1.2 Officer / Member roles SR7.3 Achieving desired culture change	SR4.2 Harnessing technology opportunities SR2.4 Leading the regional agenda SR1.3 Opportunities of devolution
	Low		SR5.2 Approach to equalities	SR3.6 Preventing crime agenda
Key	Impact			
	Low	Medium	Significant	High
	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.		

## Strategic Risk Register

Category	Risk	Page	Category	Risk	Page
SR1 - Political	SR1.1 - The relevance of the council to citizens	8	SR5 - Legal	SR5.1 - Health & Safety /Working conditions	43
	SR1.2 - Officer Member protocol	8		SR5.2 - Equalities	46
	SR1.3 – Devolution opportunities	10		SR5.3 - Brexit agenda	47
SR2 - Economical	SR2.1 – National politics on jobs SR2.2 - Less affordable housing/Homelessness SR2.3 - Financial insecurity and inequality SR2.4 - Regional agenda SR2.5 - Development of local urban centres SR2.6 – Future Financial Position	11		SR5.4 - Social Care requirements	49
		12		SR5.5 - View of regulators	51
		14		SR5.6 - Safeguarding children	54
		15	SR6 - Environmental	SR6.1 - Climate change agenda	58
		17		SR6.2 - Health & Wellbeing	61
		20			
SR3 - Social	SR3.1 - Quality of Community Leadership	21	SR7 - Cross Cutting	SR7.1 - Service performance	62
	SR3.2 - Localisation and personalisation	22		SR7.2 - Rising demand	63
	SR3.3 - Equality representation	23		SR7.3 - Culture change	66
	SR3.4 - Terrorism	24			
	SR3.5 - Engagement with young/older people	26			
	SR3.6 - Crime agenda	28			
	SR3.7 - Public Health	30			
	SR3.8 - Public hubs	32			
SR4 - Technological	SR4.1 – Loss of personal/sensitive data	34			
	SR4.2 - Technological opportunities	39			
	SR4.3 - Cyber-attack	41			

## SR1 Political

Risk No: SR1.1		Risk Title: The Quality of Services impacting on the relevance of the Council to the Citizens of Birmingham						
Risk Description: There is a risk that if our services are not delivering the outcomes expected, have not been benchmarked against our peers, do not have clear service measures regularly reviewed and monitored, have not been tested against value for money criteria, do not embed learning from our mistakes and improvement plans are not robust and regularly monitored, that citizen dissatisfaction will significantly affect the reputation of the Council. That impact could seriously harm citizen confidence in our Council.								
Risk Owner: Director of Digital & Customer Services			Risk Lead:		Risk Type / Category: Customer / Citizen			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	High	Significant	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Performance measures exist for services Regular multi-layered governance and controls through Directorates to Cabinet Performance Measures and actions to address are regularly monitored published Internal and external Audits are completed on high risk areas Current Business Planning Process (including golden thread linked to Council Plan) Complaints, SAR and FOI performance is regularly monitored and [published Services are subject to a range of Member-led scrutiny activity Audit and Risk management committee			Opportunities: Use data more effectively – Insight Programme Modern Council – looking at new opportunities for standardisation and service delivery with a set of key enablers: Public Hubs – to ensure our face to face services are of a high standard enabled by a quality property portfolio Citizen Access – to ensure that across all available channels our services are designed for the citizen Modern Workplace – tools and techniques to improve employee productivity Insight programme – putting data at the heart of what we do Financial Improvement Programme			Sources of Assurance on Effectiveness of identified Controls:		

Risk No: SR1.1		Risk Title: The Quality of Services impacting on the relevance of the Council to the Citizens of Birmingham			
Other Council governance as dictated by the Councils Constitution Customer Insight via the website and Contact centre contacts		Workforce Strategy & Culture Change Implementation Procurement and Category Management  Link to specific service improvement initiatives across the Council			
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Implementing new processes and systems to support our HR & Finance data to ensure an industry standard approach	Chief Finance Officer			Choose an item.
2	New roles, responsibilities and processes for Financial management and controls are being implemented	Chief Finance Officer			Choose an item.
3	New business planning process	Assistant Chief Executive		A draft is in place and will be shared with Cllr Jones in early March 2020.	Amber.
4	New Members Enquiries and Customer Complaints process	Director Digital & Customer Services	31/03/2020		Green
5	Creation of more dynamic service data via performance dashboards (via our Insights Programme)	Assistant Chief Executive			Choose an item.
6	Public Hubs Programme	Director Inclusive Growth			

Risk No: SR1.1		Risk Title: The Quality of Services impacting on the relevance of the Council to the Citizens of Birmingham			
7	New Citizen Access Strategy	Director Digital & Customer Services	30/06/2020	Initial Customer Access Strategy paper to be taken to CMT in January 2020, this will be followed by workshops in April 2020. Anticipated approval of finalised strategy in June 2020.	Amber
8	Customer Service as a behaviour and way of working as part of the Culture Change Framework	HR Director	On going	Putting customer first is central to new behaviours and levers for change. Training available in customer services through Your Development (relaunched Jan 2020). Work being developed on Inclusive Leadership programme to include focus on customer outcomes. BRUM Methodology relaunch planned for late 2020.	Green
Updated By:		Judith Deeks and Kwabena Osayande, Risk Rep	Date:7/2/20		

Risk No: SR1.2		Risk Title: Officer / Member Roles						
Risk Description: Officer member protocol still stands as a risk BCC needs to arrive at a way of working in terms of its governance that not only has the rules, checks and balances to prevent a re-occurrence of what occurred in relation to the Waste Governance Matter/Review, but more fundamentally addresses the longer term and more deeply ingrained governance issues at BCC, particularly addressing the underlying behaviours and culture.								
Risk Owner: Director of Legal Services			Risk Lead:		Risk Type / Category: Legislative / Regulatory			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	Significant	Severe	Medium	Medium	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: EMT enables the Executive to jointly work and discuss key issues with working with senior officers.			Opportunities: Continue to strengthen the role of Scrutiny.			Sources of Assurance on Effectiveness of identified Controls: The Constitution is regularly reviewed		

Risk No: SR1.2		Risk Title: Officer / Member Roles			
Appointment of the Head of Cabinet Office that significantly assists with the interface between the Executive and senior officers. Role of Scrutiny has been strengthened Effective communication is crucial, whether between officers, between members or between officers and members. That includes the ability to challenge advice or proposed decisions. This now happens in the Corporate Clearance Process which includes members of the Executive and Senior Officers.		Member training and introducing some mandatory training.  The Standard in Life Select Committee has proposed to the Government changes to Standard Regime to give it 'more teeth'.			
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Member Training				Choose an item.
2	EMT meetings				Choose an item.
3	Corporate Clearance				Choose an item.
4	Monitoring Officer and DMO's been robust on governance issues.				Choose an item.
Updated By:		Date:			

Risk No: SR1.3		Risk Title: Failure to realise the opportunities of devolution and the Combined Authority						
Risk Description: Failure to collaborate effectively across the city region and to sufficiently align priorities and ambitions between BCC and the CA/Mayor could lead to BCC and the city region as a whole missing out on investment and service improvement opportunities or to a failure to progress the devolution agenda further.								
Risk Owner: Assistant Chief Executive			Risk Lead:		Risk Type / Category: Reputational			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	Significant	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Engagement of BCC staff in CA policy development Briefing of BCC members for engagement in various Boards Regular meetings of the Mayor and council leaders Regular meetings of the Met. Leaders Regular meetings of the Met. CEOs and engagement in CA Programme Board			Opportunities: BCC leadership on key collaborative agenda – influence and reputation.			Sources of Assurance on Effectiveness of identified Controls:		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG
1	Positive engagement with revised Mayor/Leaders/CEOs meeting cycle and forward plan alignment		Jonathan Tew	December 2019 onwards				Choose an item.
2	Wider Cabinet engagement in regional policy development – regular EMT slots?		Jonathan Tew	2020				Choose an item.
3	Wider officer engagement in key regional policy developments – task groups		Jonathan Tew	December 2019 onwards – initial group on Devolution to meet December 2019				Choose an item.
Updated By:			Date:					



## SR2 Economic

Risk No: SR2.1		Risk Title: Impact of National politics on jobs						
Risk Description: National politics will continue to have an impact on Birmingham in terms of the Local Industrial Strategy and specifically jobs (No Deal: 1 in 10 will be affected, and Deal: 1 in 3 will be affected) – significant management requirement resulting from Brexit								
Risk Owner: Acting Director – Inclusive Growth			Risk Lead:		Risk Type / Category: Legislative / Regulatory			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	High	Severe	Medium	Low	Tolerable
<p>Current Controls Mitigating Inherent Risk:</p> <ul style="list-style-type: none"> <li>- Working with the WMCA and their dedicated team to better understand and estimate the economic impact of Brexit in relation to employment</li> <li>- Exchanging information with the Chambers of Commerce and growth hubs to understand the actions taken for business readiness for Brexit</li> <li>- Working with the teams across the council to better understand and estimate the impact of a potential economic shock and loss of jobs on demand for BCC's services (e.g. benefits, housing, homelessness, etc) and take the necessary actions for the readiness of each service area</li> </ul>			<p>Opportunities:</p> <p>International trade – new economies like India and China</p> <p>Developing a business, trade and investment strategy to open new markets for post-Brexit trade deals</p>			<p>Sources of Assurance on Effectiveness of identified Controls:</p>		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG
1								Choose an item.
Updated By:			Date:					

Risk No: SR2.2		Risk Title: Homelessness and less affordable housing with rising housing requirements							
Risk Description: The sale of affordable housing through the Right to Buy combined with demolition of poor quality homes results in a constant loss of housing. This is not being replaced by newbuild affordable homes at the same rate, giving an overall reduction year on year. The Council’s statutory obligation to maintain a housing register, which currently has c.13,000 households listed. Rising private sector housing costs make affordability is an increasing issue escalating demand on the reducing numbers of affordable homes. The gap between affordable housing availability and demand is creating a greater requirement for Temporary Accommodation, to house people until permanent homes can be found for them, at a significant cost to the Council.									
Risk Owner: Acting Director – Inclusive Growth & Acting Director - Neighbourhoods			Risk Lead: AD Housing Development		Risk Type / Category: Environmental				
Inherent / Gross Risk			Residual / Current Risk			Target Risk			
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	
High	High	Severe	Significant	High	Severe	Medium	Low	Material	
Current Controls Mitigating Inherent Risk: Council’s BMHT newbuild programme developing new homes Consultant reviewing viability challenges on planning S106 to maximise affordable delivery The homeless prevention strategy is now approved by Cabinet which aims to prevent people becoming homeless and assisting in sustaining tenancies.			Opportunities: Increasing investment into affordable housing from partner organisations Work with BPS regional partners and OPE to release land for development with affordable housing delivery required An improved prevention model with holistic support for customers and a fit for purpose TA offer to ensure quick move on for those who do need some short term accommodation. Working with the Private Sector to deliver temporary accommodation solutions.			Sources of Assurance on Effectiveness of identified Controls: Increased affordable housing development starts Increased affordable housing development completions Social and Affordable Rent unit number stabilised Reduction in Temporary Accommodation figures Programme of regular Cabinet Member briefings dedicated to homelessness tracking and a standard dashboard has been developed to aid close monitoring and scrutiny.			
No.	Actions to Reduce Risk to Target		Owner	Date	Progress				RAG

Risk No: SR2.2		Risk Title: Homelessness and less affordable housing with rising housing requirements			
1	Generate stronger partnerships with Registered Providers (RPs) to increase affordable development	AD Housing Development	Ongoing	Liaison with RPs progressing to promote development. Proposals being developed with RP partners. Policy for JVs and site and unit disposals to RPs developing in consultation with Legal, Finance and Procurement, and with RPs.	Amber
2	Increase density of BMHT newbuild to increase unit numbers delivered	AD Housing Development	Ongoing	Urban Centres Framework creating focus for high density development. Design review for high density housing in progress. Citizen Insight survey in development to assess demand for high density options	Amber
3	Review effectiveness of S106 reviews to ensure affordable is maximised	AD Planning	Ongoing	WMCA offer to review viability challenges and support best outcomes. Review of S106 affordable housing delivery in hand to ensure that the best mix, quantum and location of affordable homes are secured.	Amber
4	Increase partnership working with WMCA and HE to access larger sites and maximise affordable housing delivery	AD Housing Development	Ongoing	Discussions initiated to demonstrate the potential for BMHT and RPs to take on sites for mixed tenure delivery	Amber
5	Develop HRA property purchase programme to buy stock for affordable housing	AD Housing Development	Ongoing	Cabinet report in draft to support HRA property purchases	Green
6	Increase supply of suitable temporary accommodation and eradicate the use of bed and breakfast.	Acting AD Housing	March 2020	Additional temporary accommodation, for dispersed and homeless centre units, have been identified including: Clearance Properties Void BCC general need properties Procurement of a private sector TA provider A Capital Funding Bid has been submitted for £15 million.	Amber
7	Review of spending/commissioned provision	Acting AD Housing	April 2020	Mapping of current commissioned provision and an analysis of homeless households' support needs have commenced. Work is ongoing to understand the totality of resources available for	Amber

Risk No: SR2.2	Risk Title: Homelessness and less affordable housing with rising housing requirements				
				prevention and we are developing these as part of the prevention hub and TA move on model.	
Updated By:	Assistant Director Housing and Development	Date:	3/3/20		

Risk No: SR2.3		Risk Title: Increased financial insecurity and inequality for citizens						
Risk Description: There is significant risk of increased financial insecurity due to the current political and economic climate, due to Brexit and political instability there is significant potential for economic shock, and further potential for the economic growth of the city to further exacerbate inequalities for citizens driving greater demand for services and greater costs to the Council and the public sector alongside potential loss of revenue through reduction in business rates and tax.								
Risk Owner: Assistant Chief Executive			Risk Lead: Director, Inclusive Growth			Risk Type / Category: Social		
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Significant	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:			Opportunities:			Sources of Assurance on Effectiveness of identified Controls:		
No.	Actions to Reduce Risk to Target		Owner	Date	Progress			RAG
1	Action to encourage living wage employment as a Living Wage City		DIG					Choose an item.
2	Develop Anchor Network and Social Value Charter		ACEO					Choose an item.
3	Develop economic shock public health response framework		DPH					Choose an item.
4	Strengthen BCC understanding of statutory duty to reduce inequalities		DPH		Integrating socio-economic inequality into Equality Impact Assessment Tool from Jan 2020			Amber
5	Develop work to address child poverty in the city		ACEO					Choose an item.

Risk No: SR2.3		Risk Title: Increased financial insecurity and inequality for citizens			
6	Develop strategic approach to inclusion in inclusive growth to mitigate inequality gap	DIG			
Updated By: Justin Varney		Date: 13/11/2019			

Risk No: SR2.4		Risk Title: Leading on the Regional Agenda						
Risk Description: Birmingham as the second city of UK should be leading on the regional agenda, but Combined Authority and LEPs are more dominant in this arena								
Risk Owner: Acting Director – Inclusive Growth			Risk Lead:		Risk Type / Category: Reputational			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	Significant	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:			Opportunities:			Sources of Assurance on Effectiveness of identified Controls:		
No.	Actions to Reduce Risk to Target		Owner	Date	Progress			RAG
1	Ensure member representation of BCC at WMCA and LEP Boards and briefing of members in advance of meetings		Ian Macleod	Ongoing	Birmingham has led on the West Midlands Local Industrial Strategy, input into discussions relating to the Housing Package and the emerging Affordable Housing Deal and has contributed to the Housing Infrastructure Fund bid.			Amber
2	Ensure officer attendance of WMCA and LEP Steering and Officer Working Groups and input into regional strategies e.g. SEP, Movement for Growth Update, Affordable Housing Deal, Land Action Plans		Ian Macleod	Ongoing	Opportunities have been taken to shape the WMCA Affordable Housing Deal with Government, WMCA Commissioning Framework, Public Sector Investment Programme, Town Centre Programme, sites pipeline work, Spatial Investment and Delivery Plan, Growth Corridors and			Amber

Risk No: SR2.4		Risk Title: Leading on the Regional Agenda			
				strategic opportunities, the Regional Design Charter and the draft WMCA Climate Action Plan.	
3	Continue to work with other authorities through the Duty to Co-operate to address strategic cross boundary issues particularly in relation to housing and employment land	Ian Macleod	Ongoing	BCC leads the Greater Birmingham Housing Market Area Officer Group which meets every 2/3 months to monitor housing requirements, supply and delivery and possible achievable solutions to deliver the levels of housing required. Continue to work with other LAs and WMCA to ensure sufficient housing land and employment supply and delivery.	Amber
4	Collaborative working with TfWM/ LEP/ local authorities to ensure co-ordinated delivery of infrastructure projects and programmes	Phil Edwards	Ongoing	BCC works collaboratively with regional partners including TfWM, GBS LEP and other LA's, on all infrastructure projects and programmes being progressed within Birmingham. Co-ordination is managed at the West Midlands Senior Transport Officers Group (STOG) attended by the AD Transport and Connectivity, which feed up to the WMCA Board and down to the manager level Connected to Growth Steering Group. This joint working is evidenced in the ongoing preparations for the Commonwealth Games which involves significant and time critical infrastructure delivery. This includes delivery of a number of projects in Perry Barr: athletes' village, stadium, highways works, sprint, rail station, bus interchange and BCR cycle route extension. A dedicated cross organisation co-ordination group has been set up to ensure that construction of all of the projects can proceed by 2022 whilst allowing business as usual.	Amber
Updated By:		Risk Representative	Date: 7/2/20		

Risk No: SR2.5		Risk Title: Development of Local Urban Centres						
Risk Description: Failure to deliver the strategy set out in the Urban Centres Framework (UCF) by the target date of 2031. Failure to do so could impact on the delivery of the growth strategy as set out the Birmingham Development Plan (BDP).								
Risk Owner: Acting Director – Inclusive Growth			Risk Lead: Principal Development Planning Officer		Risk Type / Category: Environmental			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Medium	Medium	Material	Medium	Medium	Material	Low	Low	Tolerable
Current Controls Mitigating Inherent Risk: The delivery of the strategy will be monitored as part of the annual monitoring of local centres. This will allow the framework to be revisited should the strategy set out in the framework be proven as undeliverable. A review will be undertaken on a 5 year basis to ensure the strategy remains robust.			Opportunities: As the Framework reflects the spatial delivery for growth set out in the adopted Birmingham Development Plan a number of the centres are covered by other work streams within the department and the success of the UCF will be monitored as part of the existing monitoring arrangements.			Sources of Assurance on Effectiveness of identified Controls: The Annual Monitoring Report is a public document that reports on the delivery of the Birmingham Development Plan.		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG
1	The approval by Cabinet in January 2020 of the Urban Centres Framework will give the strategy more weight in decision making helping to shape investment and unite stakeholders.		Principal Development Planning Officer	21st January 2020		Cabinet Report in the system		Green
2	A online Toolkit has been produced to empower stakeholders to deliver the		Principal Development	21st January 2020		In production		Amber

Risk No: SR2.5		Risk Title: Development of Local Urban Centres			
	transformation of Urban Centres, supporting the delivery of the UCF.	Planning Officer			
3	<p>A number of the centres included in the UCF are reflected in other work streams. For example, Sutton Coldfield Regeneration Partnership as which BCC is a member, has commissioned a masterplan for the Town Centre and this will be a key tool in delivering the strategy set out in the UCF.</p> <p>In Perry Barr the CPO to deliver the Commonwealth Games Athletes' Village, significant transport and connectivity improvements, improvements to the environment and new commercial and residential development has been confirmed.</p> <p>In Bordesley Green a AAP has been produced covering the wider area and includes the local centre. This will be key in delivering the strategy set out in the UCF.</p>	Interim Director Inclusive Growth	Ongoing	Continue to work on individual centres as part of the commitment work programme.	Amber
4	A number of proposals within the UCF are based around improvements to public transport and BCC will continue to work with providers to ensure the	Interim Director	Ongoing	Continue to work with TfWM and other providers to ensure a joined up approach to delivery.	Amber



Risk No: SR2.5		Risk Title: Development of Local Urban Centres			
	delivery of these schemes supports the wider vision for the Urban Centres as set out in the UCF.	Inclusive Growth			
5	Town Centre surveys are undertaken each year to support the Shopping and Local Centres SPD. This will allow the health of the centres within the UCF to be monitored and assessments made on the success of the UCF strategy.	Principal Development Planning Officer	Annual Review	Included in annual work programmes for relevant officers	Amber
6	The Annual Monitoring Report (AMR) produced to report on the delivery of the Birmingham Development Plan (BDP) will reflect the delivery of the spatial strategy for growth. The UCF has been produced to support the delivery of the strategy set out in the BDP and as such the AMR will include indicators that allow assessments to be made of the success of the UCF strategy.	Principal Development Planning Officer	Annual Review	Included in annual work programmes for relevant officers	Amber
7	It is proposed that a 5 year review of the UCF is undertaken to allow the delivery of the strategy to be tested and a review undertaken if necessary.	Principal Development Planning Officer	5 Year Review	This will need to be included in long term work programmes.	Amber
Updated By:		Principal Development Planning Officer No further update	Date:	5/2/20	

Risk No: SR2.6		Risk Title: Future Financial Resilience						
Risk Description: Economic factors affect the ability of the Council to deliver its objectives, including Brexit scenarios, property market, treasury management risks, contractor collapse etc. The nature of Government funding results in uncertainty of future income streams e.g. fair funding review and business rates retention; school funding including special education needs								
Risk Owner: Interim Director of Finance			Risk Lead:		Risk Type / Category: Financial			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	Significant	Severe	Significant	Medium	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:  See below – Active Horizon Scanning & Financial Planning including review of assumptions & reserves			Opportunities:  Proactive financial planning leading to more effective deployment of resources			Sources of Assurance on Effectiveness of identified Controls:  Non-exec advisor and Strategic Partnership Board		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG
1	Proactive financial planning		AD Finance	January & July annually		Testing of assumptions in progress		Green
2	Horizon scanning of markets		Head of Finance	Monthly		On course		Choose an item.
3	Treasury Policy and Strategy approved and in delivery		Head of Finance	Monthly		On course		Green
4	Contract Management Escalation of risk areas		Category Managers	As required		Supply chain risk questionnaire’s circulated and available for directorate managed contracts, SCR assessments are undertaken for corporate contracts where the risk of failure is deemed medium\high.		Green
5	Finance Settlement		AD Finance	February 2020		Final settlement in line with budget 2010/21		Green
Updated By:			Date:					

### SR3 Social

Risk No: SR3.1		Risk Title: Quality of Community Leadership, at Member and Officer level						
Risk Description: The City Council has committed to a localised approach to working and a positive approach to partnerships. This is set out in both the Working together in Birmingham’s Neighbourhoods Policy and in the Council Business Plan Update. In order to work productively in partnership officers and members need to facilitate and lead at the community level. Members and Officers need the authority to operate in this way as well as the skills to do so.								
Risk Owner: Director of Neighbourhoods			Risk Lead: Chris Jordan		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Significant	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:  Templates developed to support ward planning			Opportunities:			Sources of Assurance on Effectiveness of identified Controls:		
No.	Actions to Reduce Risk to Target		Owner	Date	Progress			RAG
1	Enhanced support at Ward Forums and for Ward Planning and Priorities 2018-22 process		Chris Jordan	May 2020				Amber
2	Defined local offer bringing clarity to both expectations of local members and			March 2020				Amber
3	Implement the workforce strategy and culture change framework includes a focus on Leadership, use of data and focusing on our customers.		Helen Ward		In progress			Green

Risk No: SR3.1		Risk Title: Quality of Community Leadership, at Member and Officer level			
4	Design of four-year Member Development offer underway, to include sessions on 21st century councillor (currently under discussion)	Emma Williamson			Amber
Updated By:		Chris Jordan No further update at this time	Date:10/2/20		

Risk No: SR3.2		Risk Title: Localisation and personalisation being delivered effectively						
Risk Description: The City Council has committed to a localised approach to working. This is set out in both the Working together in Birmingham’s Neighbourhoods Policy and in the Council Business Plan Update. There is a risk that officers and members across the council do not embed this localised approach in their activity and the agreed outcomes are not delivered.								
Risk Owner: Director of Neighbourhoods			Risk Lead: Assistant Director Neighbourhoods		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Significant	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:  Cross Party Working Group overviewing progress			Opportunities:  Member Priority in 2020/21 budget process will invest in some of areas where gaps are evident			Sources of Assurance on Effectiveness of identified Controls:		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG

Risk No: SR3.2		Risk Title: Localisation and personalisation being delivered effectively			
1	Budget 2020/21 increased by £425k to address key gaps in current localisation commitments	Chris Jordan	February 2020	Accepted as a member priority within budget consultation process	AMBER.
2	Cross Directorate Group (or virtual group) to be established of AD's and Heads of Service contributing to the localisation agenda	Chris Jordan	March 2020		Choose an item.
3	Functional roles to drive forward key aspects of the policy to be established	Chris Jordan	May 2020		Choose an item.
Updated By:		Chris Jordan No further update at this time	Date:10/2/20		

Risk No: SR3.3		Risk Title: Equality representation within the Council does not represent the city						
Risk Description: The staffing within the council does not reflect the demographic make up of the city								
Risk Owner: Director of Human Resources			Risk Lead:		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	Significant	Severe	Significant	Medium	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:			Opportunities			Sources of Assurance on Effectiveness of identified Controls:		
Equality Assessment completed, recommended actions identified.			Engagement within the council and communities			Equality Assessment		
Considerable work being undertaken with regards to Equality Diversity and Inclusion.			Equality Strategy being created along with action plan.			Equality Strategy and action plan		
Business Case developed for staffing and resources currently being considered.			Opportunity to review current working practices and processes			Staff Survey		
						Equality Impact Assessments		
						Staff and member training and awareness		

Council Leadership Team champions for characteristics of the Equality Act			Implementation of new ERP system and associated modules including recruitment		Corporate Dashboards – data and insight Continual monitoring and addressing areas of concern	
No.	Actions to Reduce Risk to Target		Owner	Date	Progress	RAG
1	Undertake Self Assessment and consider recommendations		Joint ACE and OD		Completed	Green
2	Develop Action Plan		Helen Ward		Completed	Green
3	Develop Equalities Strategy and associated action plan		Helen Ward & Suwinder Bains		In Progress	Amber
4	Recruit sufficient resources		Various		Being Considered	Red
5	Increase staff training and awareness		Helen Ward		In Progress	Amber
Updated By:		Dawn Hewins	Date: 21/11/19			

Risk No: SR3.4		Risk Title: Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism						
Risk Description: 40% plus risk of counter terrorism risk within the country								
Risk Owner: Assistant Chief Executive			Risk Lead: Head of Resilience		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	High	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Corporate and Multi-Agency emergency plans in place. Working with partners in all areas			Opportunities: Integrated planning and resource arrangements regarding the Commonwealth Games is an			Sources of Assurance on Effectiveness of identified Controls: Training delivered Test and exercise results		

Risk No: SR3.4		Risk Title: Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, including acts of terrorism			
24/7 out of hours emergency duty officer service in place including emergency control room. Experienced Emergency Planning Professionals in place New Emergency Plan launched New BC Plan Launched and EP & BC Promotion. BC Programme roll out Roles and people identified. Training & Exercising programme established Command team meeting New response and duty process implemented. Further review of wider response arrangements underway. Regular risk reviews eg workshops, risk meetings to assess risk position. Full review of risk to be carried out and plan to be developed		opportunity for even stronger integration across planning, testing and training. The national PREVENT review provides a positive opportunity for Birmingham to position its good practice in this sphere.		Annual exercise Delivery of wider engagement and validate	
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Maintain and review controls	HOR		Ongoing	Amber
Updated By:		Kwabena Osayande	Date:7/2/20		

Risk No: SR3.5		Risk Title: Lack of Engagement						
Risk Description: Lack of effective engagement with young people and older people								
Risk Owner: Directors of Adult Social Care and Education and Skills			Risk Lead:		Risk Type / Category: Customer / Citizen			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Significant	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: <ul style="list-style-type: none"><li>Monthly People for Public Services forum</li><li>Inclusion of Adults (including Older Adults) as user representatives on key boards</li><li>Social care workers day to day work, and drop-in surgeries/clinics.</li><li>Public consultation on service changes (with support from legal services)</li><li>Through the new Neighbourhood Networks (NNS) approach there is regular engagement with older people through co-production and engagement groups.</li><li>Sustainability and Transformation Program Board (STP) / Birmingham Older Adults Program (BOPP)</li><li>Prevention Board (Multiagency)</li></ul>			Opportunities: <ul style="list-style-type: none"><li>Reduce of Isolation and loneliness</li><li>Promote health and wellbeing</li><li>Enhance Community Cohesion</li><li>Better informed service changes leading to improved user satisfaction</li><li>Integrated Commissioning approach with partner agencies.</li></ul>			Sources of Assurance on Effectiveness of identified Controls: <ul style="list-style-type: none"><li>Annual Service User Survey</li><li>Feedback from Citizen Forums</li><li>Consultation Reports</li><li>Program Reports</li><li>Project Reports</li></ul>		
No.	Actions to Reduce Risk to Target		Owner		Date	Progress		RAG



Risk No: SR3.5		Risk Title: Lack of Engagement			
1	Full roll out of NNS approach to remaining areas (Edgbaston, Northfield, Hall Green and Hodge Hill constituencies).	Louise Collett	December 2019	All areas are now mobilised. Local intelligence from the social work teams, older people is starting to inform grant allocations into local assets. A loneliness and isolation plan has also been developed and is being promoted by an elected member lead. (Updated Kalvinder Kohli 19/12/19)  Unchanged Kalvinder Kohli 3/2/20	Green
2	Roll out of Social Worker Locality based drop in surgeries	Balwinder Kaur	February 2020	As part of the roll out of Locality based working, Social Workers in Hall Green are testing the uptake of 'Social Work Drop in surgeries' where members of the local community can speak face to face with a Social Worker for advice, information and guidance on social care. If successful this approach will be rolled out across the City 20/21	Green
3	Development of Internal and External Communications plan around Adult Social Care	Maria Gavin	March 2020	The Adult Social Care Management Team (ASCMT) are reviewing the approach to communications – including how we communicate messages, information and advice to partners and the wider community. A draft Communications plan is due at ASCMT in April 2020, with a view to running a 'gold' corporate public communications campaign in Autumn 2020.	Green
4	Implement a more effective engagement strategy for children and young people	Tim O'Neill			Amber
5	Review and ensure services to support children and young people are sufficiently child focussed and effective	Tim O'Neill			Amber

Risk No: SR3.5	Risk Title: Lack of Engagement		
Updated By:	Maria Gavin, AD Quality and Improvement	Date: 02/03/2020	

Risk No: SR3.6	Risk Title: Inability to effectively influence the preventing crime agenda							
Risk Description: The Crime and Disorder Act 1998 gave local authorities and Police services duties to work together to develop crime and disorder audits and implement reduction strategies and work in partnership with other agencies, to set up a Community Safety Partnership (CSP) – to tackle the identified problems. Risk - Failure to comply with statutory obligations in relation to as set out in section 5 -7 of the Crime and Disorder Act 1998. These being:  Work together to form and implement strategies to prevent and reduce crime and anti-social behaviour, and the harm caused by drug and alcohol misuse. This will include producing an annual plan. Produce plans to reduce reoffending by adults and young people Manage the Community Trigger process Commission Domestic Homicide Reviews Engage and consult with the community and identify their priorities. Serious Violence – this is a new duty and we are waiting for further information from Government on how this will be delivered.								
Risk Owner: Assistant Chief Executive			Risk Lead:		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Low	Significant	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Review the structures and processes within the BCSP ensure that the partnership is meeting all the statutory obligations, monitor and evaluate.			Opportunities: Effect partnership working will ensure the city council can influence the preventing crime agenda.			Sources of Assurance on Effectiveness of identified Controls: Terms of Reference developed and signed by all partnerships within the BCSP.		

Risk No: SR3.6		Risk Title: Inability to effectively influence the preventing crime agenda			
<p>Partnership delivery plan in place (August 2019) which is monitored by an executive partnership board.</p> <p>Terms of Reference agreed and signed off for the BCSP executive board including: BCC, WM Police, WM Fire Service, Probation Services, Children's Trust, CCG, NHS and PCC.</p> <p>Monthly meetings of the BCSP executive board - Monthly meetings have taken place throughout 2019 and dates have been set for 2020</p> <p>Three thematic strategic groups in place to delivery against the BCSP priorities  Victims &amp; Vulnerabilities  Violence &amp; Reoffending  ASB, Crime &amp; Community  A strategic officer within the city council leads each theme. Each group also has an external partner to own and delivery against the agreed priorities.  Progress is being monitored and reported back to BCSP executive board.</p>					
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Annual strategy assessment produced and signed off with all partners.	Pam Powis / Amelia Murray	March 2020	1st draft has been produced and agreed at BCSP on 28/11/2019	Amber

Risk No: SR3.6	Risk Title: Inability to effectively influence the preventing crime agenda				
Updated By:	Kwabena Osayande	Date:7/2/20			

Risk No: SR3.7		Risk Title: Public Health approach to early interventions ineffective						
Risk Description: There is strong evidence that public health interventions do have sustained and long term impacts in reducing the burden of ill health and demands on both health and social care services, however the recurrent national cuts to the ring-fenced public health grant, tensions around the use of the grant resources, reduction in specialist public health capacity within the Council and the instability in the public health leadership within the Council presents a risk that these impacts will not be achieved and ultimately the inequalities in the city will continue to expand and compound leading to higher costs and unsustainable public services.								
Risk Owner: Director of Public Health			Risk Lead: Director, Public Health			Risk Type / Category: Social		
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Significant	Significant	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Substantive strategic leadership of Public Health strengthened. Appointment of substantive DPH and repositioning of PH division as a strategic function within PIP directorate.  DPH full member of CLT and standing officer member of Cabinet and EMT.			Opportunities:			Sources of Assurance on Effectiveness of identified Controls:		

Risk No: SR3.7		Risk Title: Public Health approach to early interventions ineffective				
Significant work undertaken to strengthen Health and Wellbeing Board and introduce action focused sub-groups to develop clear evidence based action plans and partnership frameworks.  Public Health Grant budget rebased over 2019-20 and commissioned activity reviewed to realign to public health priorities, expand the specialist capacity and ensure contracts for mandatory and recommended services are fit for purpose.						
No.	Actions to Reduce Risk to Target	Owner	Date	Progress		RAG
1	Strengthen cross-Council understanding of statutory responsibilities on public health	DPH	Dec 2020	Audit on statutory duty on health inequalities has been completed and this has made a series of recommendations which are being considered for implementation over 2020/21.		Amber
2	Develop Health in all Policies Impact Assessment tool aligned to Equality Impact tool	DPH	Dec 2021	Scoping started on HIAP/HIA tools and potential adaption to BCC context and aligned training and resource requirements.		Amber
3	Undertake local Peer-review with ADPH/LGA	DPH	Dec 2021	Agreed participation with WM ADPH and planning timetable for peer review visits within the region for 20/21		Amber
4	Share learning and good practice with Core City DPH	DPH	Dec 2020	DPH has established CC DPH group reporting into CC CEO group in Nov 2019 and held first conference call.		Amber
Updated By:		Kwabena Osayande	Date: 7/2/20			

Risk No: SR3.8		Risk Title: Creation of effective public hubs in line with local needs						
Risk Description: Risk of not recognising and delivering the need to develop radical new solutions to reframe service delivery, reflecting modern service demand and local need, which would otherwise leave the Council with a costly, effective and inappropriate frontline estate								
Risk Owner: Director of Inclusive Growth			Risk Lead: Assistant Director Birmingham Property Services		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Significant	Medium	Material	Medium	Low	Material
Current Controls Mitigating Inherent Risk:  Still to be obtained			Opportunities  Development of a Public Hub Programme (to include potential with public and third sector partners)			Sources of Assurance on Effectiveness of identified Controls:  Still to be obtained		
No.	Actions to Reduce Risk to Target		Owner	Date	Progress			RAG
1	Formulation of a Public Hub Programme proposal		Assistant Director Birmingham Property Services	Spring 2020	Appointment of external consultancy support. Establishment of project structure and methodology. Establishing best practice eg a “lessons learnt” seminar with other LAs who have undergone similar change. Align to the Modern Council programme. Consultants to report back late Feb 2020 with outcomes to be presented to CLT/EMT in March 2020 followed by an OBC in late Spring 2020			Amber
2	Widespread stakeholder engagement		Assistant Director Birmingham	Ongoing	Engagement sessions with service leads. Engagement with public sector partners (eg Health, Police) and One Public Estate (OPE). Engagement with Community Governance Group.			Amber

Risk No: SR3.8		Risk Title: Creation of effective public hubs in line with local needs			
		Property Services			
3	Delivery of an agreed Public Hub Programme	Assistant Director Birmingham Property Services	Late 2020 onwards	Yet to commence – subject to the above referenced OBC.	Amber
4	Effective management of the estate prior to the implementation of the Public Hub Programme	Head of Operational Property Management	Ongoing	<p>Ensure “in-flight” property and service decisions (including capital investment) are reflective of the opportunities that will arise through the Public Hub Programme. Close liaison with operational services to identify opportunities. Commencement of Asset Management review with property –holding services in March 2020.</p> <p>Commence scoping of a Corporate Landlord model and implementation plan with forthcoming paper to CLT on 24/2/20; aim for new model to be established early 2021 – will also assist with managing SR5.1. To review Terms of Reference of existing forums such as Property &amp; Assets Board</p>	Amber
Updated By:		Head of Operational Property Management	Date: 25/2/20		

## SR4 Technological

Risk No: SR4.1		Risk Title: Risk Title: Loss of personal and sensitive data						
Risk Description: There is a risk 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 up to £20million or 4% of our global turnover (£120 million) (whichever is higher) from the Information Commissioner Office (ICO).								
Risk Owner: CIO & Assistant Director (Interim) – Information , Technology & Digital Services (IT&D)			Risk Lead: Senior Information (SIRO) and Director Digital and Customer Services		Risk Type / Category: Information			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	High	Medium	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: There are a range of technical and information controls currently in place: Mandatory training A set of processes and policies A set of controls related to cyber security Reporting and governance controls New roles and responsibilities implemented for management of our Information Asset Register and Information Asset Owners A secure email solution, Egress, has been deployed and is operational to prevent the accidental loss of data.			Opportunities: The Information Assurance Board (IAB), chaired by the Senior Information Risk Owner (SIRO), have agreed that the Council should achieve level 2 maturity against the Information Assurance Maturity Model (IAMM) framework to support the ongoing implementation of the Council’s Information Assurance Framework. An Information Assurance plan is in place with agreed actions, targets and resource committed to complete this work.			Sources of Assurance on Effectiveness of identified Controls: Maintain clear lines of responsibility to the Senior Information Risk Owner (SIRO) and the Monitoring Officer. Privacy posture for the Council is monitored and forms part of the Information Assurance Board Governance. Security posture for the Council is monitored and has been recently reviewed as part of the Security Strategy as part of the ICT & Digital strategy for the Council.		



Risk No: SR4.1		Risk Title: Risk Title: Loss of personal and sensitive data			
Review Breach management processes to ensure any learning from breaches is adopted to prevent further data loss. The above constitute the Organisational and Technical Measures we are required to have in place in line with its Level 2 maturity target.					
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Data Inventory: BCC will need to meet its Article 30 Record of Processing regulatory requirement under GDPR by capturing the personal data it processes in an Information Asset Register (IAR) as well as needing to look at maintaining the IAR with the location of key personal data storage and the associated flows (including cross-border), with defined classes of personal and special category data.	Steve Halliday (AD & CIO)	31/12/19	An Information Asset Register (IAR) to meet our Article 30 Record of Processing under GDPR has now been baselined for each Directorate with defined classes of personal and special category data. The IAR progress and completion to date was presented to the Information Assurance Board on 28/01/2020. This was subsequently approved. (Rag reduced from red to green)	GREEN
2	Information Security: BCC will need to maintain an information security program based on legal requirements and ongoing risk assessments.	Steve Halliday (AD & CIO)	31/12/19	The Information Security requirements required by the GDPR being introduced are embedded into the Information Assurance Plan which is monitored by Project Board (monthly) and Information Assurance Board (Quarterly). The LGA Stocktake requirements together with the GDPR requirements are now being factored into the BEP Information Security programme.	Amber

Risk No: SR4.1		Risk Title: Risk Title: Loss of personal and sensitive data			
				These have been further developed to meet our requirements to submit our DSP Toolkit to the NHS by 31/03/2020. (Rag reduced from red to amber)	
3	<p>Third Party Management: Data Sharing and Data Processing Agreements in place for all 'in-scope' suppliers whom the Council shares personal and special category data. All agreements to have the required standards and requirements in place for privacy and security to protect our data when working with our third parties.</p> <p>We need to ensure that BCC is maintaining contracts and agreements with third-parties and affiliates consistent with the data privacy policy, legal requirements, and operational risk tolerance.</p>	Alison Jarrett	31/12/19	In terms of maintaining contracts and agreements with third parties, the Information Assurance Project has commenced work on identifying our third parties that are in scope (i.e. whom BCC share personal and special category data with) and working with Procurement and legal to identify a programme of work which involves working with each party to ensure a Data Sharing/Processing Agreement has been sent and agreed with each third party in scope. These agreements will be kept in a Council wide repository. Revised timescales of delivery to be confirmed by the next IAB on 28th January 2020 however this was not delivered. An escalation paper to be produced by 14th February to highlight the issue against plan. (Rag increased to red)	Red
4	Data Protection Impact Assessments (DPIAs): DPIA's to be embedded across all (project related) change management functions and non-project areas for each Directorate across the Council. We will need to	Malkiat Thiarai	31/12/19	The requirement to carry out DPIA's has been fully incorporated into the IBR process for all IT Projects being carried out. All other change management processes together with DPIA's for 'non-IT Projects' within the Council are still required to fully incorporate the DPIA's into their governance processes. The Information	Amber

Risk No: SR4.1		Risk Title: Risk Title: Loss of personal and sensitive data			
	train our identified employees to be able to conduct a DPIA when managing change to personal data.			<p>Assurance Project is currently working on the steps required to embed this into a business as usual practice with each Information Asset Owner for each Directorate. 12 Business Analysts have now been trained on how to conduct a Data Protection Impact Assessments (DPIA) when managing change to personal data. A revised DPIA template has been produced to ensure all GDPR requirements are being met and has been signed off through the Project Board and Information Assurance Board.</p> <p>This needs to be further embedded into Projects and programmes, commissioning practices and cabinet papers. (RAG increased from green to amber)</p>	
5	Training & Awareness: Training and awareness programme is in place and delivered. 100% to be delivered across the Council.	Craig Scriven	31/12/19	HR took a paper to CLT in December to agree mandatory requirements to the Council. The content has been launched in January 2020. HR will report on progress to CLT.	Amber
6	Incident Management & Response: Incident response plans and procedures are in place that manages reported data breaches and communicated on the Intranet.	Malkiat Thiarai	31/12/19	Revised and updated data privacy incident/breach response procedure in place and in the approval process by legal. Once Legal have signed this off the procedure will be communicated on the Intranet. Ability to monitor and report data privacy incident/breach metrics (e.g. nature of breach, risk, root cause) in place. Breach Metrics defined to measure incidents reported (across all directorates) within 72 Hours in place.	Green

Risk No: SR4.1		Risk Title: Risk Title: Loss of personal and sensitive data				
7	Policies, Standards & Guidelines: Policies, procedures and guidelines in place and those policies and procedures are communicated effectively on the Intranet and website	Malkiat Thiarai	31/12/19	<p>A list of IG policies and procedures is currently being reviewed and updated by the Project Team. Ownership of each document and subsequent approval is yet to be confirmed – this will be discussed and agreed at the next IAB in January 2020.</p> <p>A list of IG policies and procedures has been reviewed and updated by the IA Project Team and will be made available on the Intranet.</p> <p>Security policies are currently being reviewed and gaps assessed. All on track. (Rag rediced from Amber to green)</p>		Green
Updated By:		Malkiat Thiarai	Date:31/1/20			

Risk No: SR4.2		Risk Title: Failure to take advantage of new ways of working enabled by technology						
Risk Description: There is a risk that the Council does not take full advantage of how technology could be used to deliver more effective and efficient services leading to a failure to deliver the outcomes our citizens expect. This also covers the role data and technology can play in shaping the place, lives and economic outcomes for the Citizens and Businesses in our City.								
Risk Owner: Assistant Director for IT&D & CIO			Risk Lead: Director of Digital & Customer Services		Risk Type / Category: Technological			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Medium	Significant	Material	Low	Low	Tolerable
Current Controls Mitigating Inherent Risk:			Opportunities			Sources of Assurance on Effectiveness of identified Controls:		

Risk No: SR4.2		Risk Title: Failure to take advantage of new ways of working enabled by technology			
<p>The Council already uses a wide range of technology in the delivery of its services and has already committed £44m to invest in new technology as part of the ICT &amp; Digital Strategy signed off by Cabinet in 2016. This strategy and investment lasts until 2021. There are 6 themes:</p> <p>Integrated ICT and Digital services - we'll deliver an innovative, reliable, flexible, integrated, secure and well managed service.</p> <p>Digital Facilitation - We'll help you to go digital!</p> <p>Insight - boost our capability, to turn data into information and information into insight</p> <p>Commissioning and</p> <p>Procurement - enable the council to deliver excellent ICT services.</p> <p>Governance - Govern and manage ICTD effectively.</p> <p>Innovation - we'll innovate and bring in new methods, ideas and solutions.</p> <p>A new directorate has been formed to lead on the exploitation of new ways of working enabled by technology.</p> <p>Progress is tracked through the ICT &amp; Digital strategy Board chaired by the Deputy Leader</p>		<p>A new service has been created post the transition of Services from Capita, called Information, Technology and Digital Services, whose remit is to "We lead, shape and deliver great digital solutions enabling a positive difference to people's lives". This team will lead on this risk.</p> <p>Our workforce strategy and Culture Change framework includes digital skills &amp; leadership to enable employee and managers to grasp the opportunities that new ways of working enabled by technology could offer.</p> <p>A new "invest to save" fund has been created to enable investment in this area</p> <p>A framework for encouraging innovation is also being developed</p> <p>New vision and goals for the role data and technology can play in shaping the place, lives and economic outcomes for the Citizens and Businesses in our "Digital" City.</p>			
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG

Risk No: SR4.2		Risk Title: Failure to take advantage of new ways of working enabled by technology			
1	Implementation of the ICT & Digital Strategy across the following programmes of work:  Modern Workplace Cyber Security Voice and Data Networks Application Portfolio Modernisation Brum Account ERP Programme Insight Programme New systems for Social Care	Assistant Director for IT&D	March 2021	Progress is tracked through the ICT & Digital strategy Board chaired by the Deputy Leader	Amber
2	New vision and goals for Digital City	Assistant Director for IT&D	March 2020	Work has started; a draft was presented to Cabinet in November 2019	Green
Updated By:		Risk Representative	Date: 03/01/2019		

Risk No: SR4.3		Risk Title: Risk of Cyber Attacks						
Risk Description: There is a risk that our services to customers are disrupted by malicious attacks on our computer systems and/or web services.								
Risk Owner: CIO & Assistant Director (Interim) – Information, Technology & Digital Services (IT&D)			Risk Lead: Director, Digital and Customer Services		Risk Type / Category: Legislative / Regulatory			
Inherent / Gross Risk			Residual / Current Risk			Target Risk (Increased)		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation

Risk No: SR4.3		Risk Title: Risk of Cyber Attacks						
High	High	Severe	High	High	Severe	Medium	High	Material
<p>Current Controls Mitigating Inherent Risk:</p> <p>The following control measures are routinely taken by the Council's Information, Technology and Digital Services Team:</p> <p>Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers.</p> <p>The Council has a suite of protection technologies including firewalls and Intrusion Prevention Services. The firewalls detect and defeat many thousands of attacks every day.</p> <p>The Council has in place a Distributed Denial of Services protection solution. Our system defends six individual websites and 8 sub-websites 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.</p> <p>Our Public Services Network (PSN) has enhanced security for users accessing web based government systems.</p> <p>The majority of external facing applications are managed behind Apache reverse proxy servers which have been hardened in line with best practice</p>			<p>Opportunities:</p> <p>There is a full review of our approach to cyber security being managed as part of the ICT &amp; Digital Strategy implementation covering the end to end of the security systems, people and process and technology.</p> <p>There is improved reporting of cyber risks and security incidents which are presented to the Information Assurance Board. This will ensure BCC are fully aware of potential regulatory &amp; legal exposures and can assess the implications for future investment decisions.</p>			<p>Sources of Assurance on Effectiveness of identified Controls:</p> <p>This risk can only ever be mitigated, and never fully closed due to the nature of cyber threats.</p> <p>IT&amp;D are continuously evaluating the information security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential cyber criminals.</p> <p>Given the nature of this risk these activities are now being kept under constant review.</p> <p>New Corporate Firewalls have been implemented to further improve/enhance our network security.</p>		

Risk No: SR4.3		Risk Title: Risk of Cyber Attacks			
and recommendations from penetration test partners. Manage and run regular penetration tests.					
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	BCC have undertaken a Cyber Security Stocktake and are in the process of developing a combined Cyber Security and Resilience strategy to mitigate risks identified in the stocktake.	AD & CIO	29/2/20	Cyber Security Strategy written and in the process of being approved by the Council Governance Process. There will then be a 3/4 year plan to bring the Council security posture to an acceptable security standard. Strategy to be approved by Feb-2020; will include task plan with agreed milestones, this will be tracked and monitored through internal governance board.	Green
2	Create and implement information security awareness programme	Jill Walker		New action to create a continuous information security awareness programme which includes regular phishing exercises and engagement with the business.	Green
3	Create and implement an effective vulnerability management programme	John Owen		New action to create and maintain an effective vulnerability management programme to stay on top of vulnerabilities in the IT estate.	Choose an item.
4	Create a new Information Security Management System (ISMS)	Ken Bearman		New action to review and update all existing policy sets, conduct gap analysis, create new policies and procedures where necessary, communicate new policies, create a central repository that can be easily accessed for the whole organisation.	Choose an item.
5	Assess and evaluate existing technology tooling for security opportunities and implement capabilities	Jaspal Sagoo		New action to ensure security team understand the existing tools capabilities and leverage for maximum effectiveness. This will result in additional security controls and enhanced metrics/visibility to inform of risks and the state of the security posture of the council.	Green



Risk No: SR4.3		Risk Title: Risk of Cyber Attacks			
6	Review, evaluate and improve BCDR and incident response procedures and controls	Head of Cyber Security		New action to ensure that existing procedures are joined up with the wider BCDR programme, are fit for purpose and work under various attack scenarios.	
Updated By: S Tilley		Date: 3/2/20			

## SR5 Legal

Risk No: SRR5.1		Risk Title: Inadequate Property Portfolio (including Health & Safety and Working conditions)						
Risk Description: A member of staff, member of the public or tenants could be subject to death, serious injury or illness arising from a lack of compliance with health and safety regulations across our property portfolio. The primary focus of the risk relates to gaps within our property and asset portfolio . This also needs to take into consideration changes in legislation and capacity and capability for managing property and working conditions locally within the city council.								
Risk Owner: Kathryn James			Risk Lead: Property Team & Simon Naish		Risk Type / Category: Legislative / Regulatory			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	High	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Statutory Compliance Team has been established. In addition, a fortnightly compliance meeting commenced from January 2020 and will develop and communicate associated performance metrics. The property and asset portfolio has been largely assessed against a number of pieces of legislation			Opportunities Collaborative Working across the various Directorates presents an opportunity to work jointly as the responsibility is council wide.			Sources of Assurance on effectiveness of identified controls: CLT has considered reports outlining recommended approaches which have been contributed to by a number of different internal disciplines. In addition, the main areas of risk have had a corresponding risk register written which provides		

Risk No: SRR5.1		Risk Title: Inadequate Property Portfolio (including Health & Safety and Working conditions)			
over recent years and a body of documentation and assessments exist. Grenfell Enquiry - Project plan produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures.		Specialist providers need to be appointed to develop a better understanding of the profile of risk against a number of the particular risk areas.		further detail and the associated actions required to mitigate that risk.	
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Complete conditions surveys of all buildings	Head of Property Services	2020	Being scoped and commencing. Extent of the property and asset portfolio to be determined in the first instance. Kathryn James looking to appoint a post	Red
2	Resurveys for Asbestos Management; Fire Safety; Electrical Safety; and consideration given to a number of other P&S related risks (RAAC, Legionella etc.)	Property Services / EDI / Housing / Safety Services / Specialist Provider	2020	Being scoped and commencing. As above with regards to the extent of the estate for which BCC is responsible. BCL brought back in house. Discussions taking place with Acivico regarding specialist providers.	Red
3	Responsible Person (RP) – Currently a significant lack of assigned RPs for the properties and assets across the estate. Also a lack of competency. In addition, a lack of assurance around how responsibilities have been assigned to tenants.	Property Services / EdI / Housing / Safety Services /	2020	Current list of RPs under review by Property. Training materials being refreshed. 'Assignment of Duties' document has been written and presented to CMT defining expectations. Annual (self-assessment) return recently launched to fulfil the organisations duty to monitor the effectiveness of it arrangements.	Red

Risk No: SRR5.1		Risk Title: Inadequate Property Portfolio (including Health & Safety and Working conditions)			
4	Information Governance and Monitoring Control of related compliance data related to areas above (and others) on CAFM / Alpha Tracker.	Property Services / EDI / Housing / Safety Services /Specialists	2020	Suite of organisational arrangements and policies formalising the mechanisms behind each process developed and audited. CAFM currently being reviewed and data upload project to be started.	Red
5	Monitoring of accidents/near misses/regular occurrences continuing	Health and Safety team	On-going	Continual monitoring – trends have been analysed along with the opportunity for central intervention.	Amber
6	Health & Well-Being strategy created	OD	2020	Initiatives being delivered as part of the Workforce Strategy working with colleagues in Public Health	Green
7	Programme to fit Sprinkler systems to 213 high rise blocks over a 3 year period starting 1/4/18	Acting AD Housing	2018 - 2021	Installation Programme is underway and being monitored closely to ensure performance targets are met.	Amber
8	Programme to carry out fire risk assessments to all high rise communal areas annually	Acting AD Housing	From 2018 ongoing	These are in place to ensure all communal areas are inspected. Work is ongoing to consider all recommendations from the Building Safer Futures in relation to fire risk assessments	Green
9	Creation of Statutory Working Group	Chief Executive	November 2019	Meeting and invites sent to attendees. 3 Meetings conducted to date.	Green
Updated By:		Health and Safety Manager	Date: Feb 2020		

Risk No: SR5.2	Risk Title: Ineffective approach to Equalities
Risk Description: Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty. Consequences leading to Equal Pay claims.	

Risk No: SR5.2		Risk Title: Ineffective approach to Equalities						
Risk Owner: Assistant Chief Executive			Risk Lead: Director, Public Health		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Low	Medium	Tolerable	Low	Low	Tolerable
<p>Current Controls Mitigating Inherent Risk:</p> <p>Draft equality objectives approved by CMT in July 2019 and currently consulting with legal on whether public consultation needed.</p> <p>CMT &amp; ELT diversity champions appointed and provide quarterly updates on the protected characteristics of equality.</p> <p>Service review proposal to expand Equalities and Cohesion team developed.</p> <p>Service review proposal to establish a specific incident response capacity. Proposal approved in principle and were presented to EMT as part of budget preparation.</p> <p>Member equalities training programme. The member equality training is in train and two sessions have been held.</p> <p>Briefings commissioned from the core reports - Autumn 2019.</p>			<p>Opportunities:</p> <p>The Council's new workforce strategy provides an excellent opportunity to promote equality objectives, co-ordinate actions and ensure alignment between HR policy review and the actions against equalities self-assessment.</p>			<p>Sources of Assurance on Effectiveness of identified Controls:</p> <p>'Star Chamber' process on equalities have been agreed by EMT and will provide evidence of thematic and directorate challenge; CMT minutes, Sharepoint</p>		
No.	Actions to Reduce Risk to Target		Owner	Date	Progress			RAG
1	. Working with Cabinet member to develop 'star chamber' type review of equalities work within directorates.		Partnership Manager	December 2019	Proposals have been approved in principle and were presented to EMT. Review to be fully developed once Equalities and Cohesion Team recruited in 2020.			Amber

Risk No: SR5.2		Risk Title: Ineffective approach to Equalities				
2	a. Improve understanding of protected characteristics through Public Health and Equalities & Cohesion team working together on developing core briefings to improve quality of Equality Impact Assessments b. EIA training programme rolled out across BCC to senior and middle managers.	Director of Public Health	October 2019	The EIA training is being continually reviewed and developed based on feedback from users. There is further work needed to map the core staff who need the training to ensure full coverage. EIA Toolkit to be updated to make it more user friendly. Equalities lead officer integral part of the budget planning process. Providing Advice and guidance on cumulative Equalities impact.		Amber
Updated By:		Kwabena Osayande	Date:7/2/20			

Risk No: SR5.3		Risk Title: Future Brexit agenda and impact on legislation						
Risk Description: Significant uncertainties regarding Brexit and potential impact on legislation. EUROPEAN UNION (WITHDRAWAL) ACT 2018 (EUWA 2018) prepares the UK’s legislative framework after its withdrawal from the UK upon exit day (11.00pm on 31 January 2020 per EUWA section 20(1)), following requisite notification under Article 50 of the Treaty on European Union (TEU) of the UK’s intention to withdraw from the EU and the European Atomic Energy Community (Euratom). Much of the no deal legislation passed so far is designed to ensure UK law continues to function once the UK has left the EU. But the Government is reliant on other pieces of Brexit legislation to make policy changes, such as adopting an independent agriculture, fisheries or immigration policy outside the EU. Many of these bills have not yet been passed – potentially limiting or delaying the Government’s ability to make policy changes after no deal. Risk areas being monitored by Legal Services include: Commercial (e.g. passing down contractual risk to the Council), Procurement (e.g. Changes to Public Contract Regs 2015), Environmental (e.g. EU derived environmental legislation), Education (e.g. impact on provision of school meals, school trips, supply teacher), Adults and Human Rights Law (e.g. pharmaceutical supply, workforce impact), Regulatory (Criminal, e.g. safety standards on imported goods), Privacy and Information law (e.g. GDPR/Data) and Employment (e.g. Working Time Regulations).								
Risk Owner: Director of Legal Services			Risk Lead:		Risk Type / Category: Legislative / Regulatory			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	Significant	Severe	Medium	Medium	Material	Medium	Low	Material

Risk No: SR5.3		Risk Title: Future Brexit agenda and impact on legislation				
Current Controls Mitigating Inherent Risks Ongoing monitoring of legislative developments. Close working with directorates and wider West Midlands Commissioning Group. Advising the Brexit Contingency Commissioning Groups.			Opportunities Funding for Brexit legal work will enable Legal Services to expeditiously access specialist support and advice as necessary.		Sources of Assurance on Effectiveness of identified Controls: Legal subject matter leads have good understanding of the issues. Utilising external government or other resources to provide assurance.	
No.	Actions to Reduce Risk to Target		Owner	Date	Progress	RAG
1	Continued attendance at Brexit Contingency and Commissioning Groups.		MO	Ongoing	Ongoing	Amber
2	Updating Brexit legal briefing note to support the above meetings.		MO	Ongoing	Ongoing	Amber
3	Obtaining Brexit Funding to support the provision of external legal advice for the Council where necessary.		MO	Imminent	Imminent	Amber
Updated By:			Date:			

Risk No: SR5.4		Risk Title: Inability to fully meet social care requirements						
Risk Description: To include Safeguarding Adults								
Risk Owner: Director of Adult Social Care			Risk Lead:		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	High	Severe	Medium	Low	Tolerable

Risk No: SR5.4		Risk Title: Inability to fully meet social care requirements			
<b>Current Controls Mitigating Inherent Risk:</b> <ul style="list-style-type: none"> <li>• Ongoing monitoring of safeguarding requests via AD and Head of Service.</li> <li>• Monthly review of Performance</li> <li>• Bi monthly review of risks and issues at Adult Social Care Management Team (ASCMT)</li> <li>• Quarterly Risk and Audit Board</li> <li>• Safeguarding Adults Board (multiagency board) and sub boards</li> <li>• Safeguarding Practitioners Forum and Safeguarding Adults Partnership</li> </ul>		<b>Opportunities:</b> <p>Improve multiagency working</p> <p>Learning to inform Service Development and improve practitioners' skills</p>		<b>Sources of Assurance on Effectiveness of identified Controls:</b> <p>Performance Measures</p> <p>Risk Register and Issues Logs</p> <p>Audits</p> <p>Safeguarding Adult Reviews (SARs)</p> <p>Safeguarding Assurance Reports</p>	
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Adult Social Care has a backlog of safeguarding concerns awaiting review. Plans are in place to monitor and close cases on the register and assign community teams for follow up and action.	Balwinder Kaur	April 2020	<p>As of the 26th February 2020 there were 430 pieces of work held across Duty Teams and Constituency Teams.(Balwinder Kaur 28/02/2020)</p> <p>Where required, Heads of Service will be developing Action Plans to reduce the awaiting allocation work in their respective areas in preparation for our new Customer Journey. This will be closely monitored in the new structure post April 2020 by the Assistant Director and Head of Service for Safeguarding. Updated Balwinder Kaur 13/12/19)</p> <p>Permanent Head of Service is expected to transition into his new role from Mid-February and this is very much on his radar and I will be meeting with him on a weekly basis to support this work along with other Heads in Constituencies. (Updated Balwinder Kaur 31/01/20)</p>	Amber

Risk No: SR5.4		Risk Title: Inability to fully meet social care requirements			
2	Adult Social care are reviewing the Performance Reports to management team; with a proposal that future reports will include reporting on Safeguarding.	Balvinder Kaur Rebecca Bowley	April 2020	The performance reporting for the Adult Social Care Management Team for this measure was reviewed and updated during 2019. The new Performance Framework is reported through a monthly Performance Board Meeting (Adult Social Care Management Team - ASCMT). A monthly scorecard includes key governance information relating to workforce, complaints, enquiries and Audit Reports. A monthly Performance Scorecard now includes information regarding core Adult Social Care service delivery. This includes percentage of concluded Safeguarding enquiries where the individual or representative was asked what their desired outcomes were, and the number of completed Safeguarding enquires, which involved concerns about domestic abuse. We will ensure regular updates around the Centralised Safeguarding Team is operationalised in April 2020 and any feedback around this service redesign will be communicated to BSAB [Birmingham Safeguarding Adults Board] and ASCMT colleagues and relevant stakeholders. (Updated Rebecca Bowley and Balwinder Kaur 21/02/20)	Green
3	Introduction of Customer Journey. The new model for social care includes a dedicated operational Safeguarding Team that will facilitate the directorate responding to concerns in a timely manner.	Balvinder Kaur	April 2020	The new model for Social Care (Customer Journey) is due to commence on 1st April 2020. (Updated Balwinder Kaur 13/12/19) On track – Balwinder Kaur 31/1/20 / Maria Gavin 17/2/20	Amber
Updated By:		Maria Gavin, AD Quality and Improvement	Date: 2/3/2020		



Risk No: SR5.5		Risk Title: View of BCC by Regulators						
Risk Description: The Care Quality Commission (CQC) regulated Adult Social Care services, run by BCC, are the three care centres and the home care enablement services. DfE and Ofsted assessment of children services.								
Risk Owner: Directors of Adult Social Care and Education and Skills			Risk Lead:		Risk Type / Category: Reputational			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	High	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Improvement Board Ongoing monitoring of performance by AD and Head of Service Audit and risk reporting to Adult Social Care management team Ad Hoc (as required) reports and updates to Adult Social Care Management Team			Opportunities: Enhance the reputation of BCC through delivery of ‘outstanding’ care services To develop care centres into community hubs with facilities to improve the wellbeing of adults in the community Encourage intergenerational services to build local community partnerships			Sources of Assurance on Effectiveness of identified Controls: CQC Reports Audit Reports Improvement Plan		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG
1	There are issues with quality in some of the BCC CQC registered services. A revised improvement plan has been developed to address areas of concern.		John Williams	Post April 2020		Action plans implemented in Kendrick Service CQC have reviewed the Service in November 2019 and the service is now rated as requires improvement, the Action Plan has been refreshed to reflect the change in service delivery.  Shared Lives Service and Enablement (North) has been rated as good, following CQC inspections.  Quality across registered services continues to be a priority and is reported to the Assistant Director (JW) monthly.		Amber

Risk No: SR5.5		Risk Title: View of BCC by Regulators			
				<p>Due to the Adult Social Care Customer Journey implementation – next stage of Audit reviews will be post April 2020, as the new structure for Adult Social Care is implemented January to April 2020. (Updated John Williams 17/12/19)</p> <p>Unchanged John Williams 28/1/20</p>	
2	Adult Social Care Management team will receive regular quarterly updates on progress with implementation of the improvement plan to monitor progress.	John Williams	April 2020	<p>Performance metrics are currently under review with a new dashboard that focuses on service impact and citizen outcomes being developed and implemented from April 2020. (Updated John Williams 17/12/19)</p> <p>Unchanged John Williams 28/1/20</p>	Green
3	Cross-council work on policy risks (eg SRE)	Tim O'Neill		<p>A Strategic Life Board has been implemented in December 2019- chair is Professor Graeme Betts and deputy chair Dr Tim O'Neill, membership includes Andy Couldrick (Children's Trust). Terms of Reference have been provided to Audit Team to support the Transition Audit late 2020.</p> <p>The Strategic Life Course Board, will continue to provide governance and leadership as partners develop policies and procedures.</p>	Amber

Risk No: SR5.5		Risk Title: View of BCC by Regulators			
				<p>The Preparing for Adulthood service (transition) are currently (February 2020) recruiting to a number of posts that will provide operational capacity to complement existing services across the partnership.</p> <p>(Updated John Williams 27/02/20)</p>	
4	Regular liaison with DfE, Ofsted etc	Assistant Director – Education and Early Years		<p>Continue to meet regularly with Ofsted, RSC and BEP through EIG meetings: met with RSC in mid-December.</p> <p>Updated by Risk Rep – 6/1/2020</p> <p>No further update as at 30/1/20 – Lisa Fraser</p>	Amber
5	Work with schools and education providers to ensure effective safeguarding and best inspection outcomes	Assistant Director – Education and Early Years & Interim Head of Service - Education Early Help and Safeguarding		<p>LA participated in the review of BEP led by former HNCI Christine Gilbert. Review to be shared in Spring 2020 and will inform future work on school improvement with BEP. Service improvements 2019/20 include: -</p> <p>New database to collate strategic data per school to enable early identification and support for “at risk “ schools.</p> <p>Webpage redesign and content improvements to enable schools to access relevant advice, guidance and training with ease.</p> <p>Development of comprehensive safeguarding audit tool – pilot in place for peer to peer audit.</p> <p>Conference delivered Nov 2019 “ The new OFSTED framework and implications for safeguarding”.</p>	Amber
Updated By:		Maria Gavin, AD Quality and Improvement	Date: 2/3/20		

Risk No: SR5.6		Risk Title: Safeguarding Children						
Risk Description: Not responding fully and effectively to the improvement agenda for Children. Failure to improve children’s safeguarding and children’s social care								
Risk Owner: Directors of Education and Skills			Risk Lead:		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Significant	High	Severe	Medium	Medium	Tolerable
<p>Current Controls Mitigating Inherent Risk:</p> <p>Service Delivery Contract is in place and Commissioning arrangements are being developed to manage the Contract with the Trust.</p> <p>A monthly Operational Commissioning Group meets to consider performance and contract issues; this will also include risk updates and will be chaired by Tim O’Neill.</p> <p>Annual contract review.</p> <p>Regular meetings set up between BCT Corporate parent Manager and Headteacher of BVS to agree new partnership working for academic year 2019-20.</p>			<p>Opportunities:</p>			<p>Sources of Assurance on Effectiveness of identified Controls:</p> <p>Noting the positive steps from the recent Ofsted Safeguarding Inspection carried out in December 2018 and that Birmingham now is rated as “Requires Improvement to be Good”</p> <p>Birmingham Children’s Trust Adoption Agency received a positive outcome from their first adoption inspection, held in February this year. The service was judged to be ‘good’ overall and leadership and management was judged to be ‘outstanding’.</p> <p>The Lead Member for Children’s Services will meet regularly with the Chief Executive of the Trust to be briefed on progress.</p> <p>KPI’S agreed with Trust at OCG in April. Throughout the next year a review of the contract will be carried out to take effect from 1 April 2020.</p> <p>Internal Audit completed reviewing audit compliance of BCT</p>		
No.	Actions to Reduce Risk to Target		Owner	Date		Progress		RAG

Risk No: SR5.6		Risk Title: Safeguarding Children			
1	Remodel the Virtual School's procedures, to ensure educational progress is reviewed and supportive interventions implemented, to enable all looked after children to make good progress.	Assistant Director Inclusion and SEND & Head of Virtual School	January 2020	Currently due to jury service, ill health, injury and not being able to recruit during service redesign the Virtual School staffing is currently working at 50% of its staffing. The Virtual School Headteacher has made contact with Hayes to recruit a third temp for 2 months and is contacting HOS SENAR and Inclusion to ask if any members of staff currently not on full time contracts would like some additional hours for two months. In the meantime all urgent cases of young people where education placement is not stable have been redistributed across the VS staff. (Updated Lisa Smith 26/01/20). The Virtual school staff are paid for from DSG which is a static core budget amount. This has meant that the rising cost of the current staff with add on costs of pensions means that the current core budget does not cover the cost of the current staff structure by £ 160, 522 going forward. This year there is a reported underspend due to 3 posts remaining vacant under previous Headteacher; and a further member of staff retiring in October this year to which there has not been recruitment. The service will now go through redesign with HR & pay and gradings involvement. There will need to be a business risk analysis and business plan created in Jan 2020 to maintain the same staffing levels as current staff structure.	Amber
2	Failure to share data leads to sub-optimal decisions being made. Develop data sharing across agencies	Assistant Director Inclusion and SEND & Head	On-going	Whilst attendance reports are being tested by project lead for attendance data development to see what can be reported and the accuracy of the data output, the virtual school are trailing an in city attendance data collection as	Amber

Risk No: SR5.6		Risk Title: Safeguarding Children			
		of Virtual School		<p>a free trail through their PEP provider from Feb18th 2020 to May 31st 2020, to enable in city attendance data collection to fit alongside the welfare call data set. (Updated Lisa Smith 26/01/20).</p> <p>Attendance data collation for in city Birmingham children is not currently obtainable for 25% of Birmingham schools, so the Virtual School cannot collect a full CIC cohort attendance data collection. Attendance reports are being tested currently by project lead for attendance data development to see what can be reported and the accuracy of the data output. This means there is currently no data reporting for any in city Birmingham children. Data reporting on attainment is collected through the PEP and can be reported on. The Virtual School head has met with data information officer to share the new reporting requirements. There are actions agreed to move towards the development of that but timelines now need to be agreed. Data routines slip on delivery timescales. This has been raised with the line manager of information manager. Volume of workload and capacity has been discussed. The VS are moving some tasks into BSS and two more larger task are being reviewed by BSS line manager to agree movement back to BSS. If further staffing is required to provide routine timely data this will require further staff resourcing. This will need to be considered as part of business redesign and future business planning as a risk factor.</p>	

Risk No: SR5.6		Risk Title: Safeguarding Children			
				<p>Data for BCT ofsted planning is being shared, BCT have reciprocated data sharing. The migration of data from care first to eclipse which enables the VS to identify CIC cohort has been problematic (1/4 of CIC cases did not migrate over) this has led to further delay in reporting and more human resource time spent matching and validating data accuracy.</p> <p>The VS will create a data performance dashboard that will be agreed and shared at corporate parent board in spring term 2020.</p>	
Updated By:		Baljit Jandu	Date: Jan 2020		

## SR6 Environmental

Risk No: SR6.1		Risk Title: Ability to address air pollution and full delivery of the climate change agenda		
Risk Description:				
Risk Owner: Acting Director, Inclusive Growth		Risk Lead:	Risk Type / Category: Environmental	
Inherent / Gross Risk		Residual / Current Risk		Target Risk

Risk No: SR6.1		Risk Title: Ability to address air pollution and full delivery of the climate change agenda						
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
High	High	Severe	Significant	Significant	Severe	Medium	Medium	Material
<p>Current Controls Mitigating Inherent Risk:</p> <p>The Council has been issued with ministerial directions under the Environment Act (1995) to complete key milestones to be compliant for roadside NO2 by 2021.</p> <p>This Business Case fully complies with the Ministerial Direction, with the required Charging Order approved by Cabinet- but yet to be approved by Government. Government have indicated a number of delays in their CAZ IT framework, which subsequently will impact on the CAZ start date, now anticipated to be in the summer of 2020. The Joint Air Quality Unit has now (Dec 2020) indicated that all LAs will need to agree and sign an Operational Licensing Agreement (OLA) prior to start of end to end testing and launch of CAZ.</p> <p>These headline mitigations are supported by: -</p> <p>Weekly teleconference meetings with DEFRA's Joint Air Quality Unit to update mitigation plans.</p> <p>SRO meetings with DERA/JAQU.</p> <p>Development of overarching clean air policy for Birmingham for 2019.</p> <p>Ongoing joint development work and positive engagement with WMCA.</p> <p>Key progress comprises the completion of a Preferred Clean Air Zone Option Business Case and</p>			<p>Opportunities:</p> <p>The Council declared a Climate Emergency in June 2019 with an ambition to achieve net zero carbon emissions in Birmingham by 2030.</p> <p>Opportunities and options for delivering this ambition will be fully explored through Climate Emergency Taskforce which has been set up to develop an action plan setting out how Birmingham will tackle climate change and become carbon neutral by 2030.</p> <p>Strategies, projects and policies which support the city's climate objectives include:</p> <p>Adopted Birmingham Development Plan and emerging detailed guidance such as the Parking SPD and Birmingham Design Guide</p> <p>Emerging Birmingham Transport Plan</p> <p>Birmingham Walking and Cycling Strategy and Infrastructure Plan</p> <p>Birmingham CAZ</p> <p>Birmingham Clean Air Strategy</p> <p>Ultra-low and zero emission refuelling infrastructure development</p> <p>Car Club Schemes</p> <p>Birmingham District Energy Company</p>			<p>Sources of Assurance on Effectiveness of identified Controls: Wider Air Quality Plan that includes:</p> <p>Traffic management, signalling and signage controls - 12/2018.</p> <p>Controlled Parking Zones - 12/2018.</p> <p>BCC Internal &amp; External Fleet transition to low / zero emission full Low / zero re-fuelling infrastructure - 04/2020.</p> <p>Clean Air Zone strategic business case signed off by Secretary of State by 12/ 2018 to enable CAZ infrastructure for access restrictions deployed by 04/2019.</p> <p>Revised Birmingham Taxi Licensing Policy based on air quality compliance emissions - 12/ 2019</p> <p>All BCC procurement frameworks and tendering processes aligned with CAZ compliance -12/ 2019.</p>		



Risk No: SR6.1		Risk Title: Ability to address air pollution and full delivery of the climate change agenda			
<p>Cabinet report approval and Government approval, as required by the Ministerial Direction. The report follows the largest ever response of circa 11,000 to the CAZ consultation.</p> <p>The Charging Order that legally authorises the Council to implement a CAZ charging scheme (and the level of exemptions to be applied) was approved by Cabinet in June 2019.</p>		<p>Development of an Energy Strategy</p> <p>Continue to work with regional partners on regional programmes and projects including major public transport projects including bus and Sprint priority routes, Metro extensions and new railway stations.</p> <p>Continue to work with regional academic experts, businesses and industry through Energy Capital to understand how the transition to a decarbonised system through 'Energy Innovation Zones' can work for the West Midlands.</p>			
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	CAZ implementation of cameras and programmed support measures will still commence as planned ahead of scheduled launch in the summer of 2020.	SRO- Assistant Director for Transport & Connectivity.	04/2020	First signs and cameras due for installation in January/February 2020. Will provide early notice of planned launch in the 'summer' of 2020. Installation of first camera will also allow suppliers/partners to test system integration ahead of planned end to end testing (April to June 2020).	Choose an item.
2	Development of mitigation support measures to support transition to compliant, low/zero emission vehicles for businesses, CAZ workers and residents.	Head of Clean Air Zone (CAZ)	02/2020	Cabinet report for three of the grants approved at December 2019 cabinet. HDV Fund approved by cabinet in Feb 20. Procurement of supplier for scrappage scheme (includes mobility credit) due to start March 2020. Procurement of supplier for electric taxi rental scheme	Choose an item.

Risk No: SR6.1		Risk Title: Ability to address air pollution and full delivery of the climate change agenda			
				due for launch in March 2020. Development of mitigation application postponed due to call-in of cabinet member report. Due to be reviewed by Cabinet in March 2020.	
3	Development of back office systems and processes to support application process for exemptions and mitigations	Head of Caz	02/2020	Agreement to proceed to launch (exemption) received from the Clean Air Zone exec board in December 2019. Full launch of applications for exemptions to start in March 2020 following successful completion of testing and the launch of the government's vehicle checker in Feb 2020.	Choose an item.
Updated By:		Stephen Arnold	Date: 4/3/20		

Risk No: SR6.2		Risk Title: Health & Wellbeing						
Risk Description: Health & Wellbeing of employees impacts on performance and morale of workforce								
Risk Owner: Director HR			Risk Lead:		Risk Type / Category: Social			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation

High	High	Severe	Significant	Significant	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Workforce Strategy developed, implementation plan in place. Resources recruited to deliver action plan. Mental Health First Aiders trained Health & Safety and Occupational Health merging into one team to avoid any duplication			Opportunities Collaborative working with partners internal at BCC e.g. Public Health, Occupational Health, specialists in other Directorates and external e.g. NHS, other LAs, private and voluntary sectors. Staff network groups, employee engagement, workshops, working with others.			Sources of Assurance on Effectiveness of identified Controls: Occupational Health referrals Usage of Employee Assistance Programme Increase in referrals for CBT and specialist support Sickness absences and other leave Staff survey feedback		
No.	Actions to Reduce Risk to Target		Owner	Date	Progress			RAG
1	Health and wellbeing strategy created		Helen Ward		In Progress			Amber
2	Achieve Thrive at Work standard.		Helen Ward		Work in progress			Red
3	Work with diversity networks to ensure workforce are supported appropriately.		Helen Ward		Scoping			Red
4	Develop Family Friendly Policies as supportive employer		Tim Normanton		Completed			Green
5	Mental Health First Aiders trained		Occupational Health		Completed			Green
Updated By:		Dawn Hewins		Date:				

## SR7 Cross Cutting

Risk No: SR7.1		Risk Title: Service Improvement						
Risk Description: Failure to improve could result in a risk to the continued existence of a single democratic organisation: Failing to make sufficient progress in key areas of improvement activity identified as; waste management and industrial relations, outcomes for vulnerable adults and children, financial resilience, risk management, good governance, cultural change and organisational development.								
Risk Owner: Assistant Chief Executive			Risk Lead:		Risk Type / Category: Reputational			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	High	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk:  Birmingham Independent Improvement Panel (BIIP) stepped down in March 2019 alongside the publication of a 2019 stock take report.  There has been ongoing work with MHCLG regarding the Council’s own improvement governance arrangements and proposals were agreed by Cabinet in July to activate an improvement framework for 2019-20 alongside an innovative model of ‘progressive assurance’ through a Strategic Programme Board (SPB). This Cabinet decision was accompanied by a letter of support from the Secretary of State endorsing this model.  Key areas of future improvement activity have been identified as stated in the risk description above.			Opportunities:  Prioritisation changed from severe to material			Sources of Assurance on Effectiveness of identified Controls:		

Risk No: SR7.1		Risk Title: Service Improvement			
Non-Executive Advisors in place and support the Council with advice in relation to specific risks to provide additional reassurance.					
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Three reports to Cabinet (and subsequently the Secretary of State) will be forthcoming in autumn 2019, spring and summer 2020 to provide updates on the Council's improvement framework.	Assistant Chief Executive (in concert with CMT leads)		To follow	Amber
Updated By:		Kwabena Osayande	Date:7/2/20		

Risk No: SR7.2		Risk Title: Rising pressure of demand						
Risk Description: Rising demand for services negatively impacts on the Council’s priority outcomes								
Risk Owner: Directors of Adults Social Care / Education and Skills				Risk Lead:		Risk Type / Category: Customer / Citizen		
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Significant	Significant	Severe	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Program Board Project Boards Sustainability and Transformation Program Board (STP) / Birmingham Older Adults Program (BOPP) Early Intervention Board (Multiagency) Prevention Board (Multiagency)			Opportunities: Reducing Isolation and loneliness Promoting health and wellbeing Community Cohesion Joint delivery with partners			Sources of Assurance on Effectiveness of identified Controls: Program Reports Project highlight reports Finance Reports Benefit Tracking Performance Reports		

Risk No: SR7.2		Risk Title: Rising pressure of demand			
Service Management Teams Adult Social Care Management Team Risk and Audit Board					Audits Risk Register and Issues Logs
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Roll out of 3 conversations model of Social Care and new 'Customer Journey'	Balvinder Kaur	April 2020	3 Conversations continues to be rolled out; the model has seen a significant impact on the Citizens using services.  A review of the impact of 3 Conversations across the Adult Social Care service will continue to be reviewed by the new Principle Social Worker from January 2020. (Updated John Williams 17/12/19)	Amber
2	Full roll out of NNS approach to remaining areas (Edgbaston, Northfield, Hall Green and Hodge Hill constituencies).	Louise Collett	December 2019	All areas are now mobilised. The coordination between the Social Work Teams and the NNS leads is focused upon connecting citizens to assets as part of the 3 conversations approach to social work (support to risk no 1 above). There is a need to identify ongoing budget provision to mitigate the current reliance on one off funding totalling from iBCF [Improved Better Care Fund] reserves to support this service. (Updated Kalvinder Kohli 19/12/19 and unchanged Kalvinder Kohli 03/02/20)	Green
3	Implementation of Early Intervention Model with system partners (part of Older Adults Program in Sustainability and Transformation Program (STP))	Graeme Betts	Autumn 2020	No further update as at 16/12/19 (Response from Graeme Betts 16/12/19)  It was agreed that implementation would be paused over winter because of the pressure on hospital social work services. Work will pick up in February with the intention to have fully implemented by the end of July 2020. (Updated Graeme Betts 30/01/20)	Amber

Risk No: SR7.2		Risk Title: Rising pressure of demand			
4	Prediction Analytics work	Louise Collett/Mike Walsh/Mark Ashby	April 2020	We have commissioned an external Provider - Affinity – to supply a Predictive Demand Management tool. Colleagues in Finance and Commissioning are working with the provider to input and validate activity and cost data. A version of the tool is now available, but utility is limited until financial data is validated. (Updated Mike Walsh 28/02/20)	
5	Develop a coherent Early Help system	Assistant Director – Education and Early Years		There have been 2 new employees appointed to review this area, an Early Help consultant and a Transformation consultant. They are working on a review of the service area and a report will be available in the new year to support the development of the new Early help system.  Updated by Baljit Jandi, Risk Rep 6/1/20	Amber
6	Continue to improve attainment in Birmingham's schools	Assistant Director – Education and Early Years		Links formed with Education Endowment Foundation: proposal to launch a targeted programme with schools in Spring 2020.  Updated by Baljit Jandi, Risk Rep 6/1/20	Amber
7	Prioritise effective safeguarding	Assistant Director – Education and Early Years		Immediate action taken where concerns have been raised about safeguarding. Over 200 schools have participated in the LA Safeguarding conferences with updates from James Mcneillie, senior HMI Ofsted.  Updated by Baljit Jandi, Risk Rep 6/1/20	Amber
Updated By:		Maria Gavin, AD Quality and Improvement	Date: 2/3/2020		

Risk No: SR7.3		Risk Title: The organisational culture change needed to become a modern council is not achieved						
Risk Description: The council does not meet its financial, statutory or performance outcomes because the council fails to develop a progressive and proactive, customer-focused organisational culture. There includes the risk of potential increased industrial dispute and reputational damage.								
Risk Owner: Chief Executive re organisational culture			Risk Lead: Assistant Director, Organisational Development		Risk Type / Category: Managerial / Professional			
Inherent / Gross Risk			Residual / Current Risk			Target Risk		
Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation	Likelihood	Impact	Prioritisation
Significant	High	Severe	Medium	Medium	Material	Medium	Low	Tolerable
Current Controls Mitigating Inherent Risk: Detailed engagement and consultation arrangements are in place to ensure early dialogue with unions through any planned and active business change.  At a corporate, directorate and divisional level, HR support is being provided to identify any high risk areas through business partnering and regular engagement around planned and active changes. Areas where there is a high risk of industrial action will have increased employee engagement arrangements such as the Joint Service Improvement Board – Waste Management.			Opportunities Implementation of the workforce strategy and culture change framework to drive culture change within the council.  Creation of an Employee Relations Strategy and Industrial Relations Unit will assist in ensuring that there is sufficient capacity to support the organisation as it goes through change and transformation activities.			Sources of Assurance on Effectiveness of identified Controls: Monitoring of feedback at the various union engagement meetings. Feedback at DMTs and CLT in relation to the implementation of business changes and any associated issues. Monitoring of HR dashboards and relevant HR data to identify any flags in data that may indicate a shift in behaviours. Monitoring of workforce strategy outcomes and culture change measures to track culture change implementation.		



Risk No: SR7.3		Risk Title: The organisational culture change needed to become a modern council is not achieved			
HR/managers monitoring and taking action to minimise sickness absence as a result of organisational changes.					
No.	Actions to Reduce Risk to Target	Owner	Date	Progress	RAG
1	Set up Industrial Relations Unit	Director HR	31/12/19	Funding has recently been released and recruitment to the agreed scope has commenced.	Green
2	Managers to monitor employee well-being	All Managers	On-going	In progress and on-going, localised HR support for managers in place. ER training programme for managers being scoped. Staff well being survey to be conducted early 2020 to support development of the Health and Well Being strategy. Mental Health first aiders group being co-ordinated with action plan. Support for staff networks being increased.	Green
3	Additional HR Support provided as needed	Director HR	21/11/19	On-going as required to specific disputes/programmes/service redesigns and restructures. Additional posts being proactively recruited to provide additional support in advance of upcoming major restructures	Green
4	Council wide and Directorate dashboards provided monthly to monitor organisational health	Director HR	Monthly	Delivered monthly and on-going development to ensure the proactive action is taken using leading indicators rather than reacting to lagging indicators	Green
5	Continue consultation of key business changes through agreed TU protocols	Director of HR	On-going	Key union meetings continue as planned.	Green

Risk No: SR7.3		Risk Title: The organisational culture change needed to become a modern council is not achieved			
6	Implementation of workforce strategy and culture change framework	Director of HR and All Managers	As per plan	<p>Culture change framework being agreed at CLT and EMT, with further engagement at the relevant TU meetings through December 2019 and January 2020.</p> <p>Launch of updated behaviour statements from staff engagement, as well as the staff survey results being co-ordinated with action plan to address key issues ahead of annual appraisal process.</p>	Green
Updated By:		Helen Ward	Date:31/1/20		

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Interim Chief Finance Officer</b>
<b>Date of Decision:</b>	<b>24 March 2020</b>
<b>Subject:</b>	<b>Adoption of Accounting Policies for 2019/20</b>
<b>1</b>	<b>Purpose of Report</b>
1.1	To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2019/20.
1.2	To notify Members of the changes in accounting standards that will impact on the Council's accounts in future years.
<b>2</b>	<b>Decisions recommended</b>
	That Audit Committee:
2.1	Consider and adopt the accounting policies for the determination of the Council's accounts for 2019/20.
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 2019/20 published by the Chartered Institute of Public Finance and Accountancy (the Code), which is updated annually
  - c) Relevant Statutes
- 4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.
- 4.3 In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance has been used as a base position except where amendments to reflect local circumstances or to enhance the policies is more appropriate. The policies where there is some change to the Code guidance model are:
- iv – Exception Items – policy has been added for clarification
  - xviii – Accounting for Schools – additional clarification has been added to set out the Council's approach to accounting for land and building assets associated with Voluntary Aided, Voluntary Controlled and

## Foundation Schools

- xx – Cash and Cash Equivalents – the Council policy is to recognise cash and cash equivalents as those assets where the asset can be used or recovered immediately for use. All other deposits are accounted for as investments
- xxi - Provisions, Contingent Liabilities and Contingent Assets – sections added to cover the accounting arrangements for equal pay and onerous contracts.
- xxviii – Council Acting as Agent - policy has been added for clarification
- xxxi – Acquired Operations - policy has been added for clarification
- xxxii – Discontinued Operations - policy has been added for clarification

- 4.4 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report. When the financial statements are produced, only those accounting policies that have an impact on the financial statements for the years under consideration will be included in the final document.

## 5 New Accounting Standards

- 5.1 There are no new major standards that are applicable for the 2019/20 financial statements for the first time.
- 5.2 There is one accounting standard, IFRS 16, Leases which will impact on the 2020/21 financial statements and will be referenced in the 2019/20 financial statements as “An Accounting Standard Issued but not yet Adopted”.
- 5.3 The implementation of this standard was deferred for a year as whilst it has no impact on balances for local authorities it was considered to do so for other organisations that form part of the Whole of Government Accounts (WGA). As a result of the impact on the bottom line for certain organisations, it was decided that implementation would be deferred for part of the public sector for one year. This would have meant that local authorities would have had to produce their accounts under the new accounting standard and then provide information for the WGA on the old accounting basis. Therefore, it was agreed that implementation would be deferred for local authorities until the 2020/21 financial year.
- 5.4 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 assets, other than low value assets, by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet.

Effectively operating leases would be treated in the same way as finance leases are at present.

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

## **6 Accounting Implications**

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

## **7 Recommendations**

- 7.1 It is recommended that Members:
- a) adopt the accounting policies for 2019/20 as detailed in Appendix 1.
  - b) note the implications for future years of the introduction of new accounting standards.

.....  
Rebecca Hellard, Interim Chief Finance Officer

### Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Accounts and Audit Regulations 2015, require 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 2019/20 (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.

#### iii. Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus and 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**

#### **Short Term Benefits**

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.

#### **Other Long Term Benefits**

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.

### The Local Government Pension Scheme

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  $x.x\%$  based on the indicative rate of return on high quality 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 – debited to the Surplus/Deficit on the Provision of Services 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; not accounted for as an expense.

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

### Discretionary Benefits

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

### **vii. Revenue Expenditure Funded from Capital under Statute**

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

### **viii. Charges to Revenue for Non-Current Assets**

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

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

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

### **ix. Government Grants and Contributions**

Government grants, 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.

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

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- surplus assets – fair value; assessed in their highest and best use
- all other assets – current value, determined as the price that would be received to sell an asset in its existing use. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of 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 asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. 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. Upon revaluation, where the current value of a property has been assessed by the value as being below £50k, the Council applies a de minimis approach and determines the asset as having a nil current value on the basis of materiality.

### 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 revaluation and impairment losses are identified, and where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction in value is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains, the loss is charged 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 relevant asset is reviewed 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, including components, 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.

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.

### Componentisation

Where an asset is material (over £5m) and has major components whose cost is significant to the total cost of the asset, and which have markedly different useful lives, components are separately identified and depreciated. Also, additions are considered for components, whereby as components are added, any component being replaced is derecognised. 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.

### 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 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 2019/20, x% 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.

## **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.

For the Museum, Library and Civic Plate Collections, insurance valuations are used due to the unique nature, diversity and quantity of the assets, and lack of historical cost information. For other types of Heritage Assets, historical cost information is used where available when compiling the balance sheet. In some cases, neither reliable valuation information nor historical cost information is available, in which case the asset has been excluded from 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 and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charges to the relevant Directorate 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.

#### **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 carried at current value, 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, or on disposal, are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement.

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.

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.

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.

#### **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

#### Finance Leases

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. Property, Plant and Equipment recognised under finance leases are accounted for using the policies generally applied to such assets (see section xi above).

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.

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.

### Operating Leases

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

#### Finance Leases

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.

## Operating Leases

Where the Council grants an operating lease for an asset, it 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 joint operations and proper accounting practices require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **xviii. Accounting for Schools**

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

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

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

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

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

### **xix. Financial Instruments**

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They 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.

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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not currently have any financial assets designated at FVOCI.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (that is, where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that 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 CIES to the net gain 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.

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

#### Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL 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 fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Where it is possible to determine a fair value, measurement of the financial assets is based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

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 authority 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.

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

#### Instruments Entered Into Before 1 April 2006

The Council has 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 the section 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.

#### Onerous Contracts

An onerous contract is a contract for the exchange of assets or service in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Onerous Contracts are accounted for under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. A provision will be recognised for the unavoidable costs.

#### 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.

### **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 2019/20.

### **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 ballots of local businesses within specific areas of the City have resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the Business Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

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

#### **xxv. Community Infrastructure Levy**

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

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

#### **xxvi. Events After the Reporting Period**

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

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

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

#### **xxvii. Joint Operations and Jointly Controlled Assets**

Joint operations are activities undertaken by the Council in conjunction with other 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.

#### **xxxii. Discontinued operations**

A discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale.

Discontinued operations are accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, except where adaptations to fit the public sector are detailed in the CIPFA Code of Practice.

Discontinued operations are identified separately in the Comprehensive Income and Expenditure Statement in the year of transfer.

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Interim Chief Finance Officer</b>
<b>Date of Decision:</b>	<b>24 March 2020</b>
<b>Subject:</b>	<b>AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT</b>
<b>Wards affected: All</b>	
<b>1</b>	<b>Purpose</b>
1.1	At its meeting on 24 September 2019, Members considered the External Auditor's Audit Findings Report following the audit of the Council's financial statements for 2018/19 which included six recommendations for management to consider.
1.2	The management responses to the External Auditor's recommendations were considered by this committee at that meeting and progress updates have been brought to previous meetings of this Committee. This report provides a 3 <sup>rd</sup> progress update on the implementation of management actions.
<b>2</b>	<b>Decisions recommended:</b>
	Members are recommended to:
2.1	Note the progress in implementing management actions, attached as Appendix 1, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in September 2019
2.2	Seek updated reports to future meetings of this committee on the continued progress in implementing the management actions proposed.

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### **3 Compliance Issues:**

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

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

- 4.1 The Audit Findings Report was considered by this committee at its meeting on 24 September 2019 as part of the process for approving the Council's financial statements for 2018/19. Management responses to the recommendations made by the external auditor were also considered at that meeting.
- 4.2 This report sets out the current progress in addressing the issues raised in the external auditor's recommendations identified in the Audit Findings Report.
- 4.3 Further reports will be provided to future meetings of this committee setting out the additional progress in implementing management actions.

### **Signature:**

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Rebecca Hellard, Interim Chief Finance Officer

### **Appendices**

Appendix 1 – Progress update on Response to Audit Findings Report Recommendations

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<b>Accounts</b>				
1	<b>System Control – Feeder Files</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>The Council identified that eight separate feeder files from two subsidiary systems relating to 2019/20 were posted in period 16 of the 2018/19 general ledger in error.</p> <p>These entries were not reflected in the accounts and have been appropriately reversed out of the ledger, so there is no impact on the 2018/19 accounts.</p> <p><b>Recommendation</b> The Council should investigate this incident and implement appropriate controls to ensure a similar situation cannot occur again in the future</p>	<p>An investigation into why the role that prevents users posting into the year-end period does not cover feeders will be conducted and appropriate action taken. This will start immediately.</p> <p>Feedback will be provided to the team and relevant managers in the areas where the issues have occurred and reminders given on the requirement to enter data on a timely and accurate basis.</p> <p>Feeder owners will be reminded of their responsibility:</p> <ul style="list-style-type: none"> <li>to ensure that files are submitted in a timely manner and</li> <li>that they reconcile their system to the ledger to ensure that all entries are recorded</li> <li>that they notify Finance of any files that cannot be processed to ensure these are reflected in the accounts.</li> </ul>	Immediate	Finance Manager, Financial Accounts	<p><b><u>November 2019</u></b></p> <p>The chapter in the Financial Management Tool has been reviewed and will be published shortly.</p> <p>Information, Technology and Digital Services (IT&amp;D) are currently looking at a solution to the matter. A progress update will be provided at the next meeting.</p> <p><b><u>January 2020</u></b></p> <p>The chapter for the Financial Management Tool has been reviewed and is awaiting publication.</p> <p>Information, Technology and Digital Services (IT&amp;D) are still looking at a solution for this matter and a progress update will be provided at the next meeting.</p> <p><b><u>March 2020</u></b></p> <p>IT&amp;D have concluded that a solution to automatically prevent this recurring isn't viable as it increases the risk of process failure to other aspects of the</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>The chapter in the Financial Management Tool will be reviewed to include feeder owner responsibilities and guidance in their use.</p> <p>During the closure of accounts, regular Trial Balance reports by document type will be run to ensure that feeder files are not posted retrospectively in the old financial year.</p>			feeder file process. Monitoring of files will continue as before.
2	<b>Control Weakness - Asset Disposals</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>An asset with a net book value of £9.4m was disposed of in 2017/18 but this was not accounted for until 2018/19.</p> <p>We are satisfied this appears to be an isolated incident due to the unusual nature of the arrangement, so there is no material risk to the 2018/19 accounts.</p> <p><b>Recommendation</b> The Council should ensure there are appropriate controls in place to ensure all disposals are accounted for in the correct year</p>	<p>Property Services will ensure that clear instructions are sent to Legal &amp; Democratic Services, Property Records Team and relevant stake holders to facilitate the disposal of assets in an appropriate manner.</p> <p>Legal, Property and Finance staff will meet to share information on property transactions and ensure that processes are in place to capture relevant information and are being followed.</p> <p>Reconciliations will be undertaken during the year of disposals to</p>	March 2019	Assistant Director, Property Services	<p><b><u>November 2019</u></b></p> <p>The particular issue identified related to a CPO undertaken at the behest of a third party. Usually there is a back to back agreement to then transfer the asset on to the third party once the purchase has completed. However, in this case the purchaser did not want the asset immediately which led to the confusion. Going forward, the legal agreements will be amended to ensure that back to back agreements are entered into.</p> <p>The Legal, Finance and Property sections have met to look at tightening up procedures and share information. Appropriate processes will be</p>



## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		identify any mismatches in information.			<p>completed to ensure that completion memo's are recorded on IPMS and subsequently reconciled with cash receipts. Any differences will be highlighted at the earliest opportunity.</p> <p>Where external legal support is used the agreement will include the requirement to provide a completion memo for ensuring property records are maintained appropriately.</p> <p><b><u>January 2020</u></b></p> <p>Guidance to be sent to Property Services Heads of Service and Project Officers detailing processes to be followed.</p> <p><b><u>March 2020</u></b></p> <p>Guidance has been issued to Heads of Service and project officers to provide clarity on the process to be followed.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
3	<b>Control Weakness – Asset Valuations</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>We identified errors in the work of the valuer relating to the valuation of secondary schools, and a valuation where expenditure was used instead of profit as the basis of the valuation.</p> <p><b>Recommendation</b> Appropriate review should be included as part of the valuation process to ensure that any errors in valuation are identified and resolved</p>	Property services officer valuations will be independently checked by an appropriate qualified valuer with immediate effect.	Immediate	Assistant Director, Property Services	<p><b><u>November 2019</u></b></p> <p>A two tier checking system has been put in place with a peer review by an appropriately qualified surveyor followed by a management review by the Head of Service.</p> <p><b><u>January 2020</u></b></p> <p>Details of valuation sign off process to be followed sent out in week of 15 January 2019.</p> <p><b><u>March 2020</u></b></p> <p>An independent professional review of all cyclical valuations undertaken by in-house valuers has been carried out by Avison Young's valuation team who specialise in valuations of this nature.</p>

## Appendix 1

Rec No	Recommendation		Proposed Actions	Due Date	Responsible Officer	Progress in implementation
4	<b>Control Weakness – Completeness of Expenditure</b>					
	Residual Risk	Low				
	Impact	Medium				
	<p>Our testing of the completeness of expenditure identified several items which were paid after 31 March 2019 but should have been accrued into 2018/19. The Council has performed extended analysis covering payments made during the period to 22 August 2019 which has identified £9.8m of invoices which relate to 2018/19 but were not accrued.</p> <p><b>Recommendation</b> The Council should investigate why these invoices were not appropriately accrued and implement additional controls to reduce the risk of such omissions in the future.</p>		<p>The current audit and follow up investigation has identified a number of areas where the Council process for procurement and receipting of goods and services and payment of invoices are not being followed appropriately. An analysis of the data will be undertaken to identify those areas where there are significant numbers or value of invoices that have not been accounted for appropriately. Meetings will be held with those teams identified to set out the implications to the Council of not following relevant processes.</p> <p>Finance Business Partners will brief Directorate Management Teams on the issues identified and the action required and procedures to be followed to meet appropriate accounting requirements.</p> <p>The Council has organised a number of mandatory “Finance for Non-Financial Managers” training sessions which has covered the need for accounting for activities in</p>	Immediate	Chief Finance Officer	<p><b><u>November 2019</u></b></p> <p>Directorates have been provided with monthly reports for a number of years detailing areas where:</p> <ul style="list-style-type: none"> <li>• overdue invoices which have not been authorised within 3 working days</li> <li>• services have been supplied without a purchase order</li> <li>• purchase orders have been raised retrospectively.</li> </ul> <p>Whilst the reports have been provided issues have still occurred with the timeliness of invoice payments.</p> <p>Greater emphasis will be placed on this reporting and will be driven through the Corporate Leadership Team and followed up through Directorate Management Teams with Finance Business Partners.</p> <p>In addition, further reports will be run to identify specific hot spots for delays and individuals offered advice and support in clearing invoices on a timely basis.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
		<p>the year that the goods/services are provided. This will be followed up with additional training for managers.</p> <p>The Voyager Newsletter sent out to staff will include articles on the issues identified and the actions that will be required to ensure future compliance.</p> <p>During the year, regular reports will be run to identify where invoices, purchase orders and goods receipts are not being recorded on a timely basis which will be followed up with the appropriate team and Directorate management team.</p> <p>There will be a hard close at a month end prior to the end of the financial year so that a check can be run on ensuring that appropriate procedures are being followed.</p> <p>At year end reports will be run to check those invoices paid early in the new year have been accounted for correctly and goods receipting of purchase orders is appropriate.</p>			<p>Guidance on the processes and procedures to be followed will be republished.</p> <p>Areas of continued non-compliance will be visited to determine the reasons for any issues.</p> <p><b><u>January 2020</u></b></p> <p>Suppliers to be written to to ensure that invoices are sent into the central point as per processes.</p> <p>Guidance being drafted as a reminder to all BCC and BCT services of processes to be followed in procurement and payment to minimise payment delays.</p> <p>Closedown guidance drafted to advise service and finance teams of processes and deadlines for year end, including requirement for appropriate accounting for goods and services delivered.</p> <p>Monitoring reports continuing to be produced and analysed to identify any hot spots in service or system performance.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
					<p><b><u>March 2020</u></b></p> <p>Budget Holders have been written to regarding the need for invoices to be paid promptly.</p> <p>Suppliers have been written to requesting that all invoices are sent to a central point to allow faster uploading and capture of information into the finance system.</p>
5	<b>Asset Valuation – Determination of appropriate rates</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>As part of the valuation of Council Dwellings we identified that the valuer applied a £5k adjustment rate for bedrooms to the majority of archetypes</p> <p>On further review, the £5k was based on the approach taken in previous years and it was not clear that a review had been carried out to check if this value was still appropriate.</p> <p><b>Recommendation</b> The Council should ensure that assumptions used in the valuation</p>	<p>Agreed. A review will be undertaken on the impact of the number of rooms on property prices for relevant archetypes to ensure the robustness of valuations.</p>	Immediate	Assistant Director, Property Services	<p><b><u>November 2019</u></b></p> <p>A full beacon review is being undertaken for 2019/20 which will include a review of the valuation methodology to be adopted with an option to move to a £ per m<sup>2</sup> basis rather than a room differential basis.</p> <p>Beacon properties will be identified to ensure a fair representation of the City area. There will be discussions with an external valuer to support the market intelligence gathering.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>of property, plant and equipment, including council dwellings, are reviewed for appropriateness each year and updated where appropriate.</p> <p>In particular a review of the actual impact of the number of bedrooms on the valuation of council dwellings should be carried out in order to support the value of the adjustment.</p>				<p><b><u>January 2020</u></b></p> <p>Process implemented with effect from January 2020 and will be followed through the closure of the 2019/20 accounts.</p> <p><b><u>March 2020</u></b></p> <p>Inspections are being conducted by external experts to provide additional resource support to the in-house team. Savills are undertaking a peer review of the valuation once completed.</p>
6	<b>SAP – User Access</b>				
	Residual Risk	Low			
	Impact	Low			
	<p>As part of our review of IT controls, we identified an excessive number of users with access to critical T-codes within SAP. Our IT audit identified 109 users with potentially inappropriate access out of 668 users tested due their higher risk nature.</p> <p>The risk is that an excessive number of users have access to critical transactions at high level of authorisation, which we would normally expect to be restricted to system administrators.</p>	<p>Capita ICTDS have responded to the GT IT Audit on this point which is summarised below</p> <p>The majority of the transactions listed here will be assigned to BASIS only (the team who deal with the core of the system – these transactions are appropriate for this team to use) and most within their firefighter id. The rest have been reviewed after previous audits and deemed appropriate All users with access to any of these transactions will either be support personnel, or in the case of SM37, users within the</p>	Commencing September 2019	Finance Manager SAP BSC	<p><b><u>November 2019</u></b></p> <p>The level of access identified in the recommendation is required to ensure that the system functionality can be maintained.</p> <p>Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support monitoring of access.</p>

## Appendix 1

Rec No	Recommendation	Proposed Actions	Due Date	Responsible Officer	Progress in implementation
	<p>We noted this is primarily due to the current Firefighter setup and the fact that 8 users have SAP ALL access.</p> <p><b>Recommendation</b></p> <p>Management should review all access and reassign the relevant transactions in accordance with business need and current job duties only.</p>	<p>business. (SM37 monitors jobs run in the background in SAP. Due to the size and complexity of BCC's ledger, it's recommended that large reports are run in the background to reduce stresses on BAU processing).</p> <p><u>Response from BCC</u></p> <p>User access to critical transactions is reviewed regularly with access to areas such as SAP_ALL reviewed daily. Appropriate action is taken to remove or amend as required.</p> <p>In August an upgraded Governance, Risk and Compliance tool was implemented in SAP which will assist with user access administration and monitoring.</p>			<p><b><u>January 2020</u></b></p> <p>The level of access identified in the recommendation is required to ensure that system functionality can be maintained.</p> <p>Regular reviews of access are undertaken and the new Governance, Risk and Compliance tool is being used to support the monitoring of access.</p> <p>This recommendation can be closed.</p>





## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

**Report to:** Audit Committee

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

**Date of Meeting:** 24th March 2020

**Subject:** Birmingham Audit – Internal Audit Plan 2020/21

**Wards Affected:** All

**1. Purpose of report.**

1.1 To update members on progress in developing the 2020/21 internal audit plan.

1.2 To gain approval of the 2020/21 proposed plan.

**2. Recommendations**

2.1 That members of the Audit Committee:

2.1.1 note progress and the methodology and assumptions applied in developing the 2020/21 internal audit plan;

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

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

**3. Summary of Key Issues**

3.1 The estimated number of audit days available for 2020/21 is 4664.

3.2 The 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.

3.3	The plan is dynamic and is constantly reviewed and updated, based on discussions and feedback received, to reflect the changing risks faced by the Council.
3.4	The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
3.5	Progress in delivering the audit plan, together with any key issues identified, will be reported to future Audit Committee meetings.
<b>4.</b>	<b>Legal and Resource Implications</b>
4.1	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.
<b>5.</b>	<b>Risk Management &amp; Equality Analysis Issues</b>
5.1	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.
5.2	We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.
<b>6.</b>	<b>Compliance Issues</b>
6.1	Decisions are consistent with relevant Council Policies, Plans or Strategies.

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

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# **Birmingham Audit –Internal Audit Plan 2020/21**

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24th March 2020

## **Contents**

- 1. Background**
- 2. Quality Assurance**
- 3. Internal Audit Plan**

**Appendix A: Internal Audit Plan Summary**

**Appendix B: Internal Audit Plan 2020/21**

## **1. Background**

- 1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.
- 1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:
  - Accounts and Audit Regulations 2015;
  - Fraud Act 2006;
  - Social Housing Fraud (Power to Require Information) Regulations 2014;
  - Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
  - Public Sector Internal Audit Standards (PSIAS).
- 1.2 The annual audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.
- 1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources, such as the Council's external auditor.

- 1.4 The independent audit opinion feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.
- 1.5 We continue to review, revise and update our working practices and methodologies to ensure we remain in line with recommended best practice. During the year we are looking to complete a Total Impact Review. The objective of the review will be to measure the holistic contribution of the Internal Audit function and identify a development plan to maximise the value provided by the service.

## **2. Quality Assurance**

- 2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.
- 2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013.
- 2.3 Our external PSIAS review was last undertaken in July 2016. This independent assessment confirmed that the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. We are currently completing a self-assessment against the PSIAS standards to verify that we continue to comply with requirements. The result of this self-assessment will be reported to Members as part of the Annual Audit report issued to Committee in June 2019. Our next external review is due by July 2021.

### **3. Internal Audit Plan**

- 3.1 Our estimated number of audit days available for 2020/21 is 4664 (including a vacancy on the Schools Audit Team). This compares to 4691 in 2019/20.
- 3.2 As part of our planning process we have undertaken an assurance mapping exercise across the whole of the organisation. This involves identifying the key objectives and priorities of the Council, the systems of governance and financial control, together with the risks associated with their achievement / operation. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Directors / Assistant Directors.
- 3.3 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise with the Council's external auditors. We have allocated 705 days for the main financial systems work, including the review of IT controls, in 2020/21 the main areas we intend to cover are:
- Payroll
  - Accounts Payable
  - Accounts Receivable
  - BACS
  - Procurement - incorporating Contract Auditing
  - Council Tax
  - NNDR
  - Benefits
  - Financial Management/Control
  - Asset Management/Fixed Assets

- Rent Collection and Charges
- Non invoiced income / Cashiers
- Direct Payments
- Carefirst / Eclipse

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

3.4.1 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 2020/21 plan we have allocated 830 days for this work (this excludes work on application based fraud e.g. Social Housing, Council Tax, NNDR etc.). 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 provide support and guidance to managers to ensure the necessary action is completed.

3.4.2 720 days have been allocated for the completion of school visits during 20/21. This includes one vacant post; which we are currently recruiting to. The school visiting programme is risk based to ensure we target our resources effectively.

3.4.3 Chargeable work includes audit reviews completed on behalf of the Birmingham Children's Trust, Acivico, and grant certification.

- 3.5 The remainder of our available resource is allocated based on our assessment of risk. We use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:
- assessment of the adequacy of the control environment;
  - strategic alignment to organisation priorities;
  - materiality;
  - sensitivity/reputational risk;
  - assessment of management controls;
  - management concerns;
  - assurance based on internal audit work / knowledge and how recent that was;
  - inclusion in the corporate risk register;
  - assurance based on scrutiny reviews;
  - assurance based on external audit or other inspectorate work and how recent that was; and
  - assurance gained from other sources, including that gained from operational and performance management.
- 3.6 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities.
- 3.7 The plan also includes a proportion of time that has been set aside to cover contingencies and follow-up work. This helps us 'flex' the plan and respond to emerging issues during the year and ensure that significant audit issues are actioned.
- 3.8 A summary of the 2020/21 audit plan, based on our current assessment of risk is detailed in Appendix A, previous year figures are provided for comparative purposes. A detailed plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.



- 3.9 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.
- 3.10 Any significant updates to the plan will be reported to the Audit Committee at the next meeting (June 2020). Progress in delivering the plan, together with any significant issues identified, will be reported to Audit Committee. Audit report schedules, detailing the final reports issued during the month and their assurance and risk ratings, will be issued to Committee Members throughout the year. Members can request a copy of any report.

## Appendix A

### Internal Audit Plan Summary

	18/19		19/20		20/21	
	%	Days	%	Day	%	Day
<b>Number of Audit Days in Annual Plan</b>	<b>100%</b>	<b>4681</b>	<b>100%</b>	<b>4691</b>	<b>100%</b>	<b>4664</b>
Main Financial Systems	16%	730	15%	725	15%	705
Business Controls Assurance	39%	1830	38%	1770	38%	1780
Investigations	18%	830	18%	830	18%	830
Schools (Non Visits)	2%	105	1%	60	1%	30
Schools (Visits)	15%	720	15%	720	15%	720
Follow up Work	3%	150	4%	175	4%	175
Ad-hoc Work / Contingency	4%	186	6%	286	6%	299
Planning & Reporting	3%	120	3%	120	3%	120
City Initiatives	0%	10	0%	5	0%	5

**Appendix B**
**Internal Audit Plan 2020/21**

	Days	Total
<b>Financial Systems (including computer audits where appropriate)</b>		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	<b>705</b>
<b>Business Controls Assurance</b>		
Work in Progress b/fwd. from 2018/19	50	
IT Related Non-Financial Systems Work	360	
Data Analysis	200	
Corporate Risk Management Facilitation	50	

	Days	Total
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	925
<u>Adults Social Care</u>		
Assessment & Support Planning	25	
Transition to Adulthood	20	
Day Centres	15	
Section 117	15	
Specialist Care Services	25	
Independent Living	20	
Placements	20	
Commissioning	20	160
<u>Education and Skills</u>		
Safeguarding Corporate Overview	30	
Home to School Transport	15	
Commissioning & Contract Management Framework	20	
SEND - Transition from Commissioning Independent	6	
Provision to LA School based Provision		
Birmingham Children's Trust – Annual Review	5	
Birmingham Children's Trust – Contract Management	20	
Not in Education Employment or Training (NEETS)	10	
Health & Safety in Community Libraries	12	
Safeguarding and Statutory Education Entitlement for children in temporary accommodation	12	
Youth Employment Initiative – Implications post 2021	20	
Responding to the Challenge of Improving Financial Management in Schools	20	

	Days	Total
Elected Home Education	10	
Safeguarding & Development – BCSB	30	210
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		
Highways Management Contract	20	
Accountable Body	30	50
<u>Neighbourhoods</u>		
Homelessness	20	
Waste Management	25	
The Active Wellbeing Society	15	
Housing Repairs – Contract Compliance / Assurance	200	260
<u>Partnerships, Insight and Prevention</u>		
Public Health	30	
Resilience	20	
Project Management	30	80
		<b>1780</b>
<b>Investigations</b>		
Reactive investigations	430	
Proactive work	200	
Fraud Awareness	200	<b>830</b>

	Days	Total
<b>Schools - Non Visits</b>		
Themed Work	30	<b>30</b>
<b>Schools - Visits</b>	720	<b>720</b>
<b>Follow Up Work</b>		<b>175</b>
<b>Ad Hoc Work / Contingency</b>		<b>299</b>
<b>Planning and Reporting</b>		<b>120</b>
<b>City Initiatives</b>		<b>5</b>
<b>TOTAL</b>		<b>4664</b>

# Informing the audit risk assessment for Birmingham City Council

**Year ended 31 March 2020**

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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.





# Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	5
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	17
Impact of Laws and Regulations	18
Going Concern	20
Going Concern Considerations	21
Related Parties	26
Accounting Estimates	28
Appendix A Accounting Estimates	30



## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority'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:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

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



## General Enquiries of Management

Question	Management response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>The agreement entered into between Birmingham Highways Limited and the Council in June 2019 for the future delivery of the Highways PFI contract. The agreement required the retendering, both for a short term and long delivery by a new sub contractor of BHL, and the impact of this on the activity during the year will be fully assessed for the impact on the accounts.</p> <p>The Council uses experts to provide estimates for non-current asset and pension liability valuations. A marginal change in assumptions can have a significant impact on outcomes. The Council has used external experts to supplement and provide challenge where internal experts have been used to determine estimates.</p> <p>Actions taken to limit the spread of the Coronavirus or the virus spreading widely may be a threat to the delivery of the accounts by the due deadline given the tight timescales required.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The Council bases its accounting policies on the example accounting policies included in the CIPFA Code Guidance. The Audit Committee of the Council considers and approves the accounting policies each year.</p> <p>The accounting policies have been reviewed and only minor changes have been identified.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>Yes as part of the normal treasury management activity with the policy set out in the Council's Financial Plan approved annually.</p> <p>There is no use of derivatives.</p>



## General Enquiries of Management

Question	Management response
<p>Are you aware of any significant transactions outside the normal course of business?</p>	<p>The agreement in respect of the Highways PFI contract, as detailed above, being a change to the 25 year arrangement.</p> <p>The preparation for the delivery of the Commonwealth Games in 2022 involves a number of different activities that would not form part of the Council's normal course of business.</p>



## General Enquiries of Management

Question	Management response
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	There is nothing generally that the Council is aware of but the impact of the Coronavirus, either through its rapid spread or the action being taken to limit its spread, may have an impact. This will be kept under review in the preparation of the accounts.
Are you aware of any guarantee contracts?	Yes. The Council recognises, as part of agreements involving TUPE of staff to external organisations, guarantees to the pension fund for default by the external provider and generally to the external provider for increases over and above initial contribution rates payable.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The Council has provided a letter of comfort to a subsidiary company as part of the company's going concern assessment to ensure that it can continue to meet its liabilities as they fall due.
Other than in house solicitors, please provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years.	<p>The Council may use a range of external solicitors to supplement internal provision depending on caseload and the nature of the case under consideration. The external firms used for prior year activities are Bevan Brittan, Browne Jacobson, DWF, Pinsent Masons and Veale Wasbrough Vizards. For current year activity the external firms used are Anthony Collins, APC Solicitors, Berryman's Lace Mawer, Bevan Brittan, Browne Jacobson, DLA Piper, DWF, Gowling WLG, Pinsent Masons and Veale Wasbrough Vizards.</p> <p>The cases cover a range of activities from litigation, HR matters, development projects and contract matters.</p>
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations, or uncorrected misstatements which would affect the financial statements?	No fraud referrals were of a magnitude to have any impact on the financial statements.



## General Enquiries of Management

Question	Management response
<p>Please you provide details of other advisors consulted during the year and the issue on which they were consulted.</p>	<p>Non-Executive Advisors – Support to Council Leadership Team and consulted on budget process  Commonwealth Games - Savills, White Young Green, DWF (lawyers), CBRE, PwC, Gerald Eve, Arcadis, Mace  ERP implementation – SOCITM  Highways PFI contract – DLA Piper and Duff and Phelps  Treasury Management - Arlingclose  Integrating Health &amp; Social Care – Newton  Community Partnership Project Ltd - Schools PFI Saving  Waste Strategy - Wood Environment and &amp; Infrastructure Solutions UK Limited , Fichtner Consulting Engineers  Smithfield Project – Bevan Britten, Deloitte, Cushman &amp; Wakefield, Amion  Paradise Project – Cushman &amp; Wakefield, Amion, KPMG, Gardner and Theobold, Browne Jacobson (State Aid)  Ladywood – Avison Young, Amion, Cushman &amp; Wakefield  Enterprise Zone model – Montagu Evans  Asset valuations – support from Avison Young in completion of some valuations and review of internal valuations.  Valuation Office Agency undertaking valuation of Tyseley Waste site.  PWC – Procurement assessment, Tax Advice, Tourism Levy Assessment, company liquidation  CIPFA – Financial Management, Debt Policy/Strategy  Finance Birmingham – external company support and investment</p>



# Fraud

## Matters in relation to fraud

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

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

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

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

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



## Fraud risk assessment

Question	Management response
<p>Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the Authority's risk management processes link to financial reporting?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on high risk areas, and a dedicated Counter Fraud Team to investigate allegations of fraud. The Counter Fraud Team undertake reactive and proactive investigations across the organisation, which includes high risk areas such as Social Housing and Council Tax. The risk of material misstatement of the accounts due to undetected fraud is low.</p> <p>A Fraud Risk Assessment was undertaken in 2019, highlighting potential areas for proactive fraud exercises. This is based on the Council's experience of known fraud risk areas, taking in to account previous instances of fraud, and areas which have been identified nationally by the CIPFA Fraud &amp; Corruption Tracker as representing either a high, or emerging, fraud risk. This year Internal Audit have delivered a programme of Fraud Awareness Training to managers in the Adults Social Care Directorate, in direct response to previous frauds within this area.</p> <p>Strategic risks have been taken into account in resource allocation and in the identification of issues highlighted in the AGS.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The CIPFA Fraud &amp; Corruption Tracker has identified Social Housing, Council Tax and Blue Badges as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. In recent years the Council has committed significant resources to tackling Social Housing and Council Tax related fraud, and a programme of Fraud Awareness Training has been delivered to Adult Social Care managers to address the risk of fraud in that area. Internal Audit are also working with Corporate Procurement Services to address the perceived risk posed by Serious &amp; Organised Crime in accessing public sector contracts. Housing Benefit also remains a high risk area however responsibility for investigating fraud in this area was transferred to the Department for Work &amp; Pensions (DWP) in 2015 and the Council no longer has any authority or legal power to investigate benefit fraud. Nevertheless, the Counter Fraud Team are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly.</p>





## Fraud risk assessment

Question	Management response
<p>Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Internal Audit log all cases of suspected fraud, error and procedural non-compliance, and since 1.4.19, 94 cases (as at 21.2.20) had been recorded (excluding Social Housing and Council Tax). Other than the misappropriation of around £30,000 from a school by one of its employees, no other significant instances of fraud or irregularity have been identified during the year. Salary overpayments in excess of £3,000 continue to be investigated by Internal Audit, and during the year 15 cases have been referred.</p> <p>Details of all Internal Audit investigations are circulated each month to the relevant Directors, who also receive the Audit Reports on the conclusion of an investigation. An Annual Fraud Report covering Internal Audit's work on fraud is presented annually to the Audit Committee.</p>



# Fraud risk assessment

Question	Management response
<p>Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>The CIPFA Fraud &amp; Corruption Tracker has identified Social Housing, Council Tax and Blue Badges as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. In recent years the Council has committed significant resources to tackling Social Housing and Council Tax related fraud, and a programme of Fraud Awareness Training has been delivered to Adult Social Care managers to address the risk of fraud in that area. Internal Audit are also working with Corporate Procurement Services to address the perceived risk posed by Serious &amp; Organised Crime in accessing public sector contracts. Housing Benefit also remains a high risk area however responsibility for investigating fraud in this area was transferred to the Department for Work &amp; Pensions (DWP) in 2015 and the Council no longer has any authority or legal power to investigate benefit fraud. Nevertheless, the Counter Fraud Team are proactive in identifying potential fraud and overpayments during the course of its other investigations and notify the Benefits Service and DWP accordingly.</p> <p>The Counter Fraud Team actively investigate allegations of social housing fraud such as illegal sub-lets, non-residency of properties and fraudulent applications for social housing in respect of the Council's own stock and that of Registered Provider partners. During the year they have also sought to raise general awareness of the problem of tenancy fraud through the media. Internal Audit have also worked with Housing to secure the gateway to obtaining a tenancy through increased use of the Data Warehouse to validate applications, and by embedding this facility in to the frontline housing application processes. A similar approach has been pursued with applications made under the Right to Buy Scheme. Council Tax is also considered to be a high risk area, particularly in respect of Council Tax Support, Single Person Discounts (SPD's) and the various exemptions, so counter fraud resources have been committed to identify and investigate fraud and error in this area. The Council has traditionally taken part in the bi-annual National Fraud Initiative (NFI) data matching exercises to identify fraudulent claims for SPD's and Council Tax Support. However Internal Audit has now developed an automated programme of data matching, which allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. In time it is expected that the process will reduce the amount of fraud or error that needs a formal investigation as it will have been prevented or stopped almost as soon as it began. Social Care fraud is also considered to be a high risk area and Internal Audit continue to work closely with the Adults Social Care Directorate to combat Direct Payment fraud.</p>



# Fraud risk assessment

Question	Management response
<p>What processes does the Authority have in place to identify and respond to risks of fraud?</p>	<p>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.</p> <p>As well as participating in NFI, regular data matching exercises are undertaken through Internal Audit's Data Warehouse facility and proactive data analytical routines are run on a periodic basis to highlight exceptions in data that may be an indication of fraud or error.</p> <p>Internal Audit participate in CIPFA's Fraud &amp; Corruption Tracker, the annual survey of fraud in local government, and review the results of the survey to identify potentially new fraud risks.</p> <p>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.</p> <p>Fraud Spotlight, a bulletin covering fraud related topics, is published bi-annually on the Intranet, and similar material is distributed termly to schools through The Auditor bulletin, and to Adults Social Care through their staff bulletin. In addition ad-hoc fraud alerts are issued to schools through the Schools Noticeboard whenever a particular concern arises. The Policies Standards Procedures and Guidelines (PSPG) database includes a Fraud Awareness chapter, which has been recently revised. Bespoke fraud awareness training for staff can be provided on specific fraud related issues, and during the year a programme of general fraud awareness training was rolled out to Adults Social Care managers.</p> <p>Procedures are in place for reporting fraud; which includes an on-line referral form, a fraud hotline and a whistle blowing process. Financial Regulations stipulate that all cases of fraud should be reported to Internal Audit. All fraud referrals are risk assessed to determine whether the matter should be investigated by Internal Audit or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition Internal Audit will refer cases to the Police where there is firm evidence of criminality and will also work with Legal Services if seeking civil remedy.</p>



## Fraud risk assessment

Question	Management response
<p>How would you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> <li>- does the process for reviewing the effectiveness the system of internal control exist and work effectively?</li> <li>- do internal controls exist and work effectively, including segregation of duties?</li> </ul> <p>If not, where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>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)?</p>	<p>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 Internal Audit as part of delivering its audit plan. Whilst occasional compliance failures are identified, in general controls are applied and are effective in practice. Data analytical techniques are used to proactively check compliance and identify exceptions.</p> <p>Financial reporting 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 and these staff have a reporting line to the Chief Finance Officer. 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.</p>
<p>Are there any areas where there is potential for misreporting?</p>	<p>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 Chief Finance Officer. 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.</p>



## Fraud risk assessment

Question	Management response
<p>How does the Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Staff Code of Conduct forms part of the contract of employment. The Code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow. There are specific guidelines for dealing with employee fraud relating to benefits, social housing, Council Tax and Blue Badges. Business practices are laid out in the Policies Standards Procedures and Guidelines (PSPG) database.</p> <p>There is a requirement within Financial Regulations that staff report suspected financial irregularities. This should be included within the induction for all staff. There is a Whistleblowing Policy in place, which includes schools, and a dedicated Whistleblowing Reporting Mailbox. All recorded disclosures are administered through a senior member of staff in Legal Services. All fraud awareness literature, including that available on the Employee Portal, includes an email address and telephone numbers for fraud reporting. An on-line referral form is in place on the Employee Portal and Birmingham.gov.uk. In addition, Fraud Spotlight deals with general fraud issues, and encourages staff to be alert to fraud and to report any suspicions to Internal Audit. No significant issues have been reported by staff during the last financial year.</p>
<p>From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Those involved in the procurement of goods and services and managing contracts, those involved in the planning process, those involved in processing high value transactions.</p> <p>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 Internal Audit as part of delivering its audit plan.</p>



## Fraud risk assessment

Question	Management response
<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Members and senior officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings. Reports provided through NFI are being used by Internal Audit to help identify undeclared relationships, along with proactive exercises analysing data from the main financial systems.</p>
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>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 &amp; Corruption Policy, Fraud Response Plan and Prosecution &amp; Sanctions Policies. The Committee receives an annual report on fraud which includes updates on other initiatives such as NFI.</p> <p>The Audit Committee will seek explanations from management as it sees fit where it is felt that failings have led to instances of fraud and error. During the year, the Audit Committee requested further information about the occurrence of salary overpayments and has sought assurance as to how this problem is being addressed.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Whistleblowing allegations can be reported to Legal Services who will determine whether the matters are to be treated as protected disclosures as defined under the BCC Whistleblowing Policy. Allegations of fraud and corruption will invariably be referred to Internal Audit to investigate. No significant issues have been reported during the last financial year.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>No</p>



# Law and regulations

## 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 Authority'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
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>This is dealt with in the Annual Governance Statement.</p> <p>All reports to Committees contain a section covering the legislation on the matter under consideration, which are reviewed by legal staff for Decision reports.</p> <p>The Monitoring officer is responsible for ensuring the Council is compliant with laws and regulations. The Council's constitution notes that these responsibilities cover:</p> <ul style="list-style-type: none"> <li>Report on contraventions or likely contraventions of any enactment or rule of law.</li> <li>Report on any maladministration or injustice where Ombudsman has carried out an investigation.</li> <li>Receive copies of whistleblowing allegations of misconduct.</li> <li>Investigate and report any misconduct in compliance with Regulations.</li> <li>Advices on vires issues, maladministration, financial impropriety, probity and policy framework and budget issues to all members.</li> </ul> <p>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 I 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.</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the Annual Governance Statement process that is approved separately by Audit Committee and forms part of the annual financial statements.</p> <p>Regular updates of the Council's Risk Register are considered by CMT and Audit Committee. The financial and legal implications are set out in committee reports.</p> <p>Reassurance to the Resources Overview and Scrutiny Committee would be through reports to the committee where they were appropriate.</p>





## Impact of laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No
Is there any actual or potential litigation or claims that would affect the financial statements?	None that have not been already included in current outturn forecasts.
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	Claims involving the Highest Risk to the Council are regularly monitored by the Legal and Governance Management team and reported to the Council Corporate Management Team. Where appropriate the impact of litigation or claims is recognised either in creditors/provisions or contingent liabilities where there is uncertainty about any payment.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None received



# Going Concern

## Matters in relation to going concern

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.

Going concern considerations have been set out below and management has provided its response.



## Going Concern Considerations

Question	Management response
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>The Financial Plan 2020-2024 is a robust basis for identifying the Council as a going concern in 2020/21. Please see in particular Chapter 1 (p. 7 to p. 8) and Appendix E (p.102 to p.106), which includes a detailed discussion and tabular summary of the strategic and financial risks which management are aware of. This analysis informs the level of reserves and balances included in the Plan (p.42 to p.47), and supports the S151 officer's S25 Reports of the robustness of budget estimates (Chapter 8, p.73 – p. 81) and the Assessment of Reserves (Chapter 9, p. 82 – p. 85).</p>
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>The Financial Plan 2020 - 2024 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.</p> <p>The Statement of Accounts includes details of the reported outturn for the year under review and sets out the issues considered to determine that the Council continues as a Going Concern.</p>



## Going Concern Considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>The Financial Plan 2020 - 2024 explicitly takes 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. The Council declared a Climate Emergency in June 2019 and introduced a sixth priority for the city to take a leading role in tackling climate change. The Chapter 3 of the Financial Plan 2020 – 2024 includes a section (p. 34 – p. 36) on how it intends to use resources generated from the Clean Air Zone (starting in June 2020) to begin to tackle climate change.</p>
<p>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)</p>	<p>Audit Committee has received, and continues to receive, reports on significant issues facing the Council. During the last year, Audit Committee has received updates on matters relating to the Highways PFI contract, Paradise Circus redevelopment and Equal Pay. Regular update reports are provided by Birmingham Audit to Audit Committee.</p>



## Going Concern Considerations

Question	Management response
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>The Council's arrangements for its management of cashflows are 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. Ultimately, negative cashflow is controlled by the balanced budget requirement and the prudential limit and indicators.</p> <p>The Council's arrangements for budget monitoring, including the implementation of the savings programme, monitoring of the Capital Programme, including the Commonwealth Games, ensure that close attention is paid to the need to deliver services and projects within allocated budgets Activity is reported through CLT, EMT and Resources Scrutiny on a monthly basis, and considered further at Capital Board, and ultimately at Cabinet on a quarterly basis.</p> <p>Experience of the delivery of the previous savings programme has been taken into account in re-shaping the revised programme.</p> <p>A fundamental review of Directorates budgets was carried out in December 2019 and January 2020 resulting in savings not considered to be deliverable and a significant number of base budget pressures being identified and funded as part of the 2020/21 budget setting process</p>



## Going Concern Considerations

Question	Management response
<p>Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>The Council has in place management arrangements in respect of any risk of the non-delivery of its savings programme, including more robust monitoring and governance arrangements, and the maintenance of reserve balances to mitigate any residual risk.</p> <p>Potential financial risks are identified at Appendix E of the Financial Plan 2020 – 2024 and the value of this is broadly the same as the forecast level of general reserves. These are medium term financial risks so the Council would also have a number of budget cycles to address these if they materialise.</p>
<p>Does the Authority have procedures in place to assess its ability to continue as a going concern?</p>	<p>The Council has developed a 10 year cashflow monitoring model to enable it to assess its ability to meet its liabilities as they fall due.</p>
<p>Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?</p>	<p>No</p>



## Going Concern Considerations

Question	Management response
<p>Are arrangements in place to report the going concern assessment to the Audit Committee?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes. Quarterly monitoring reports, including statements on revenue, capital, reserves and treasury management positions, are considered at Cabinet. Monthly monitoring reports (months 2 – 10) are also considered by Scrutiny.</p> <p>Audit Committee receives reports on matter that may have a significant impact on the financial position of the Council.</p>



## Related Parties

### Matters in relation to related parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

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 Authority's perspective but material from a related party viewpoint then the Authority 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 will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.





## Related Parties

Question	Management response
<p>What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>Members and Senior Officers are required to complete an annual register of interests. Members and officers are also required to declare any interests relating to matters to be discussed in each meeting.</p> <p>The Council nominates representatives to organisations which are approved via Cabinet and other committees. Reports on representation on organisations boards are reported to Cabinet Committee –Group Company Governance (CC-GCG).</p> <p>The Council also has relationships with organisations where it is a shareholder or member of that organisation. These relationships are reported to CC-GCG on a regular basis.</p>



# Accounting Estimates

## Matters in relation to accounting estimates

Local Authorities 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 Authority 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 Authority is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures 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.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.



## Accounting Estimates

Question	Management response
<p>Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>Yes. Experts in particular fields are used to provide estimates and there is a reasonableness check on the advice given. Also our external auditors have reviewed the basis of estimates in previous years and confirmed that the council's financial statements are materially correct.</p>
<p>Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Where issues have been identified previously with respect to estimates, additional challenge and review, including external challenge, has been built into processes to ensure that estimates are robust.</p>
<p>How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>Regular monitoring reports are considered by Cabinet and are subject to call in by scrutiny for further review. Reports on specific areas are considered by Audit Committee, for example, on equal pay, highways PFI and Paradise redevelopment.</p>



## Appendix A 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?
Property plant & 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 in line with guidance from the Ministry of Health, Communities and Local Government. In intervening years a desktop review of the valuation is carried out. All assets are valued at current value.	<p>The valuer is issued with instructions as to the basis of valuation in line with the CIPFA Code of Practice and RICS guidance. The internal valuations have been supplemented by a number of valuations carried out by external valuers including for the specialist asset of Tyseley Waste.</p> <p>The resultant valuations are then reviewed internally and then through suitably qualified external advisors who provide a challenge process.</p> <p>The resultant valuations are reviewed by Finance as to their reasonableness compared with previous years.</p>	Valuations are carried out by the Council's own valuer, who is a member of the Royal Institution of Chartered Surveyors. Where external valuers for either the challenge process, for specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by valuers in line with RICS requirements and taking into account prevailing market conditions.	No



## Appendix A Accounting Estimates (continued)

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?
Estimated remaining useful lives of PPE	The estimated Useful Economic Life (UEL) of an asset is considered as part of the five year rolling valuation process undertaken by RICS qualified surveyors. Their judgement is included in the report provided to support the carrying values within the financial statements. Each year, an internal asset review is undertaken by services to determine whether there have been any changes to assets, part of which would focus on the UEL of the asset. Where there are significant changes, this information is provided to the valuer.	By its nature the UEL is an estimate but the use of an expert will provide comfort that on average assets will be able to meet service requirements over their UEL	UEL is considered by the RICS qualified valuer as part of the annual report.	The Council uses standard parameters for the UEL of assets and if the valuer were to identify a UEL outside the usual range then additional information would be sought to determine the reason for the variance.	No



## Appendix A Accounting Estimates (continued)

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?
Depreciation	Depreciation is charged on a straight line basis over the remaining UEL of an asset. Depreciation is not charged in the year of the asset purchase/creation but charged in full in the year of disposal. The level of annual depreciation will also be affected by any assessment of a residual value of an asset at the end of its UEL. This can only be an estimate based on the professional knowledge of the value. Depreciation is the outcome from two estimates, the valuation and the UEL.	Given that the constituent parts of the determination of depreciation are estimates then depreciation will be an estimate.	A qualified RICS valuer has identified the most appropriate valuation and UEL of an asset and these have been used to determine depreciation.	Depreciation can be determined on a number of differing bases. The Council feels that the charge to revenue for depreciation is best met by charging on a straight line basis over the UEL.	No



## Appendix A Accounting Estimates (continued)

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?
Impairments - property	Property –impairment is considered through two methods. The first is as part of the cyclical valuation undertaken by qualified valuers and the second is through an asset review undertaken by services in respect of their own properties. Once an asset has been identified as being impaired, the qualified valuers then undertake an assessment of the impact of that impairment.	The resultant impairments are reviewed by a qualified RICS surveyor.	Valuations are carried out by appropriately qualified valuers, that is a member of the Royal Institution of Chartered Surveyors. Where it is necessary to use external valuers for either specialist assets or for managing fluctuations in demand, it is a requirement that the valuations are carried out by a RICS qualified valuer.	Asset valuations, by their very nature, are subject to uncertainty due to market fluctuations. Estimates are provided by the valuer in line with RICS requirements and taking into account prevailing market conditions.	No
Impairments – financial assets	Financial Assets –impairment is considered through two methods. From the investments made by the Council as non-treasury investments advice is sought from experts within Finance Birmingham who have appropriate experience whilst with Treasury investments advice is sought from Arlingclose.	Any resultant impairments are reviewed and challenged where the Council has relevant information	Yes.	As knowledge can only ever be partial in considering the financial position of external organisations, the Council has to rely on guidance from its external advisors with a check back for reasonableness on the basis of local knowledge.	No



## Appendix A Accounting Estimates (continued)

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?
Measurement of Financial Instruments	As above in the consideration of impairment in investments, advice is sought from external partners on the value of financial instruments.	As above in the consideration of impairment of investments.	Yes	As above in the consideration of impairment of investments.	As above in the consideration of impairment of investments.
Expected Credit Losses	An analysis has been made of the repayment profile of invoices raised in a single financial year, broken down by the type of service being provided. This has then been used to inform the judgement as to the level of expected credit losses required taking into account the nature of the debtors and whether there is any security over the debt.	The estimates determined from the exercise have been compared to the amount of debt written off in prior years to ensure that estimates remained reasonable. Assumptions have been challenged on the robustness of provisions proposed.	A range of relevant Council staff have been consulted where appropriate. Training has been provided on the methodologies required under IFRS 9.	There is a general consistency in the nature of services provided from year to year. The information gained from one year is used to refine estimates to ensure that they are as robust as can be.	No





## Appendix A Accounting Estimates (continued)

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?
Accruals	<p>Accruals are based on the best knowledge available at the year end. Items that have been delivered should be goods receipted and will appear automatically as creditors. However, reviews will be undertaken of open purchase orders, invoices not yet authorised plus a check of new year invoices paid to ensure that activity is recorded in the appropriate year. A team has also been put in place specifically to clear late invoices.</p> <p>Budget holders will also be asked to provide details of activity that has been undertaken and not yet invoiced to ensure that information is up to date.</p> <p>Where estimates have to be used to determine accruals, for example, in areas of high volume, low value activities, the accruals will be based on robust evidence of activity being undertaken.</p>	<p>As well as linking back to the robust forecasting undertaken, checks are made to ensure that there are no significant items that should also be accrued for that were not known at the time of the forecast.</p> <p>Budget holders will also be involved in identifying activity undertaken but not yet accounted for.</p>	Recognition of income and expenditure is undertaken with services who have detailed knowledge on the level of activity committed in the financial year.	As with all estimates, knowledge can never be perfect but checks are undertaken on the anticipated level of activity compared to trends in spend and by checking activity undertaken in the new year to ensure that any significant items have not been excluded.	<p>Given the issues identified in the previous financial year, more rigorous checks have been put in place in advance to raise the awareness of the need to account for activity in the correct financial year and to identify items where processes are not being actioned within appropriate timelines.</p> <p>As part of the evidence presented to audit, more focus is being placed on the provision of evidence supporting accruals and the analysis of recording activity is being undertaken.</p>



## Appendix A Accounting Estimates (continued)

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?
Non Adjusting events – events after the balance sheet date	Activity within the Council is reviewed to identify matters that may be material, both on a quantity and a quality basis, that happen after the year-end which may be of import to readers of the accounts.	Activity in the new year is reviewed to assess any implications that may affect views of the Council. This may be through committee reports, spend activity or general briefings.	Internal review	If matters are non-adjusting then there are no changes to numbers in the accounts. However, impacts are assessed to determine whether an item meets the criteria to be an adjusting event.	No



## Appendix A Accounting Estimates (continued)

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?
Pension Fund (LGPS) Actuarial gains/losses	The estimates of actuarial movements in the pension fund liabilities are undertaken by a qualified actuary. The actuary uses estimates based on their professional knowledge within accepted parameters used by the sector and as reviewed by the Council.	The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable.	A qualified actuary from Barnett Waddingham LLP, actuary to the West Midlands Pension Fund, is used to provide the information.	The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis.	No



## Appendix A Accounting Estimates (continued)

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?
Overhead allocation	A review of recharges has been undertaken in 2019/20 with a view to streamline existing processes and eliminate unnecessary recharging within the General Fund. In the next phase of the improvement process it is proposed to centralise 4 key areas, namely Procurement, IT, Legal and Property Services.	The estimates are produced from a download of the draft budget and as such reflect the controls and assumptions within BCC's financial planning process at that point. The process for recharging and reallocation have been strengthened with training given to finance teams.	CIPFA/CCAB qualified accountant.	The basis of allocation across the Council will be net nil in total. However, the next phase of the project will include a review of the bases of allocation.	The accounting method has not yet changed as current budgets are based on existing allocations but any mismatches between sender and receiver have been identified and cleared.





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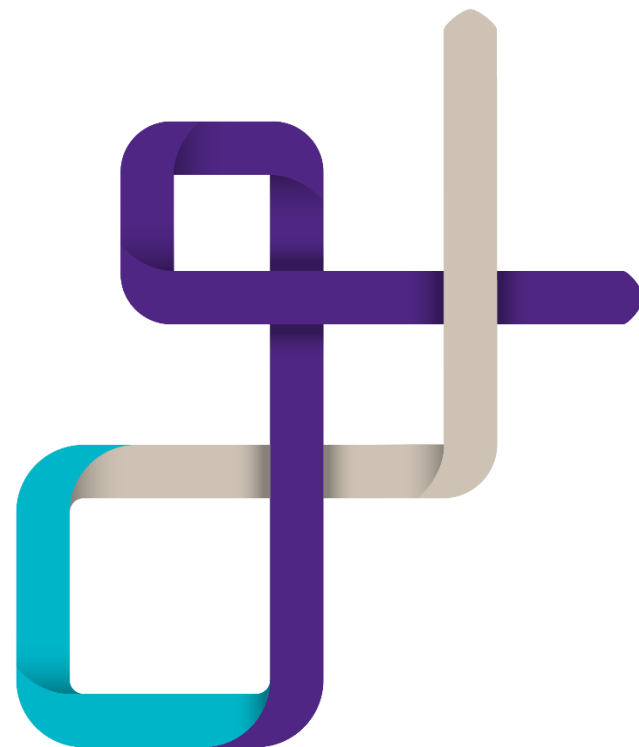
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# External Audit Plan

*Year ending 31 March 2020*

Birmingham City Council  
March 2020



# Contents



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Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	5
3. Group audit scope and risk assessment	6
4. Significant risks identified	7
5. Other risks identified	10
6. Other matters	11
7. Materiality	12
8. Value for Money arrangements	13
9. Audit logistics & team	15
10. Audit fees	16
11. Independence & non-audit services	18

## Appendix

Audit quality – national context

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all 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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# 1. Introduction & headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

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

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

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

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

## Group Accounts

The Council is required to prepare group financial statements that consolidate the financial information of:

- Birmingham Children's Trust CIC
- National Exhibition Centre (Developments) Plc
- Acivico Limited
- Birmingham City Propco Limited
- InReach (Birmingham) Limited
- PETPS (Birmingham) Limited
- PETPS (Birmingham) Pension Fund SLP
- Birmingham Airport Holdings Limited (Associate)
- Paradise Circus General Partner Limited (Joint Venture)

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls (non-rebuttable presumption under ISA 240)
- Valuation of land and buildings
- Valuation of net pension fund liability
- Valuation of equal pay provision

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

<b>Materiality</b>	<p>We have determined planning materiality to be £37.0m for the group (PY £44.5m) and £36.95m for the Council (PY £43.8m), which equates to approximately 1.2% of your prior year gross expenditure.</p> <p>We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.8m (PY £2.2m).</p> <p>Further information is included on page 12 of this report.</p>
<b>Value for Money arrangements</b>	<p>Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Council resilience and financial sustainability</li> <li>• Contract monitoring and management</li> <li>• Financial impact of the Commonwealth Games</li> <li>• Waste service continuity and industrial relations</li> <li>• Contractual arrangements relating to the highways PFI Scheme</li> </ul> <p>Our risk assessment is a continuous process, and we will consider whether events or conditions give rise to additional risks up until the time that we give our conclusion.</p>
<b>Audit logistics</b>	<p>Our interim visits are taking place in February and March and our final visit will commence in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £297,409 (PY £288,609), subject to the Council meeting our requirements set out on page 15.</p>
<b>Independence</b>	<p>We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.</p>

## 2. Key matters impacting our audit

### Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Birmingham City Council, financial plans include savings of £56 million over the next four years, including £22 million for 2020/21.

At a national level, the UK has now left the EU, with a transition period now running until the end of 2020 while the UK and EU negotiate additional arrangements. Future arrangements remain uncertain. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in the Appendix to this report.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### Local issues

There are a number of matters specific to the Council which we will consider as part of our work, including the publication of the independent review into the Council's waste service, the appointment of Kier as interim services provider for the Birmingham highways contract, the Council's ongoing preparation for the Commonwealth Games in 2022, the development of a new strategic risk strategy, and implementation of the finance improvement plan.

#### Implementation of IFRS 16 – Leases

From 1 April 2020 the Council will need to implement the new leases accounting standard (IFRS16).

This has the potential for more assets and associated liabilities to be bought onto the Council's balance sheet.

### Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Our proposed work and fee, as set further in this Audit Plan, has been agreed with the Interim Chief Finance Officer and any fee variations are subject to PSAA agreement.

We have considered the above issues as part of our Value for Money conclusion risk assessment, and have identified related significant risks as set out in part 8 of this Audit Plan.

We will assess the adequacy of your process to determine the financial impact of implementing the new standard from 1 April 2020.

### 3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Birmingham City Council	Yes	Audit of the financial information of the component	Risks set out in section 4 of this report	Full scope UK statutory audit performed by Grant Thornton UK LLP
Birmingham Children's Trust CIC	No	Specified audit procedures	We have not identified any significant risks of misstatement of the group financial statements, however the following balances are expected to be material to the group: <ul style="list-style-type: none"> <li>Expenditure</li> <li>Net pension liability</li> </ul>	We will request specific procedures from the component auditor, Crowe UK LLP, on these balances.  The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks and guidance on designing procedures, followed by the review of relevant aspects of their audit documentation.
National Exhibition Centre (Developments) Plc	No	Specified audit procedures	We have not identified any significant risks of misstatement of the group financial statements, however the company's loan stock is expected to be material to the group.	Specific procedures will be completed on these balances by Grant Thornton UK LLP.
Acivico Limited	No	Specified audit procedures (TBC)	We have not identified any significant risks of misstatement of the group financial statements, however the company's expenditure may be material to the group.	If expenditure is material, specific procedures will be completed on these balances by Grant Thornton UK LLP.  If not, analytical procedures will be performed, as below.
Other entities as set out on page 3	No	Analytical procedures	None	Analytical procedures at group level performed by Grant Thornton UK LLP.

From the completion of our planning procedures, we are not aware of any changes within the group during the 2019/20 financial year.

#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement 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.

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit, with you in our Audit Findings Report in September 2020.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	Group and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for Birmingham City Council.</p>
<b>Management over-ride of controls</b>	Group and Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of the pension fund net liability</b>	Group and Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Significant risks continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings</b>	Group and Council	<p>The Council revalues its land and buildings, including council housing, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions</p> <p>Additionally, where a rolling programme is used, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation experts;</li> <li>• confirm the basis on which the valuation was carried out, through discussions and correspondence with the Council's valuers;</li> <li>• challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding;</li> <li>• engage our own valuer to assess the instructions issued by the Council to their valuers, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluate the assumptions made by management for those assets not revalued at the balance sheet date and how management has satisfied themselves that the carrying values of these assets are not materially different to current value at year end.</li> </ul>
<b>Valuation of equal pay liability</b>	Group and Council	<p>Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.</p> <p>We identified the valuation of the equal pay provision as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of management's process and controls in place to estimate the equal pay provision;</li> <li>• review the assumptions on which the estimate was based;</li> <li>• consider events or conditions that could have changed the basis of estimation;</li> <li>• on a sample basis, reperform the calculation of the estimate;</li> <li>• confirm that the estimate has been determined and recognised in accordance with accounting standards;</li> <li>• determine how management have assessed the estimation uncertainty; and</li> <li>• consider the impact of any subsequent transactions or events.</li> </ul>

## 5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>International Financial Reporting Standard (IFRS) 16 Leases</b> (issued but not adopted)	Group and Council	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).</p> <p>Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code, disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements.</p> <p>The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements;</li> <li>• evaluate whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements;</li> <li>• assess the completeness and accuracy of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul>



## 6. Other matters

### Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

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

### Going concern

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

## 7. Materiality

### The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark.

Materiality at the planning stage of our audit is £37.0m for the group (PY £44.5m) and £36.95m for the Council (PY £43.8m), which equates to approximately 1.2% of your prior year gross expenditure. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

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

### Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.8m (PY £2.2m).

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

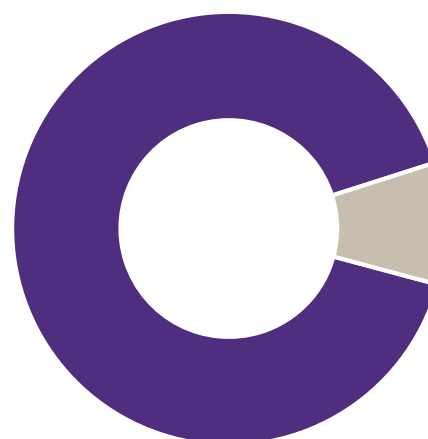
### Prior year gross expenditure

£3,118m group

(PY: £2,964m)

£3,048m Council

(PY: £2,957m)



■ Prior year gross expenditure

■ Materiality

£37.0m

group financial  
statements materiality  
(PY: £44.5m)

£36.95m

Council financial  
statements materiality  
(PY: £43.8m)

£1.8m

Misstatements above  
this level will be  
reported to the Audit  
Committee  
(PY: £2.2m)

## 8. Value for Money arrangements

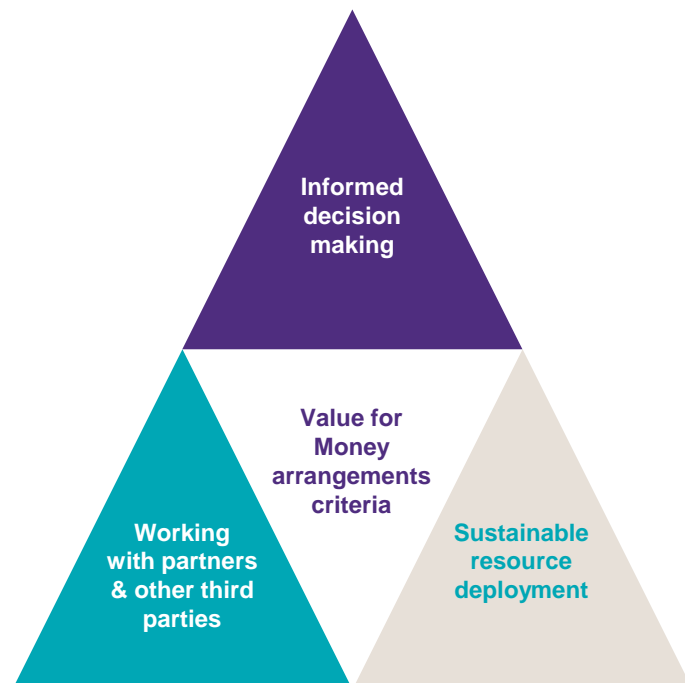
### Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



### Significant VFM risks

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

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, and update our risk assessment as necessary up to the date that we issue our auditor's report.



#### Council resilience and financial sustainability

There is a risk is that the proposed 2019/20 savings plans will not deliver the required recurrent savings, or will take longer to implement than planned. In addition, the Council's medium term financial plan for 2020-21 to 2023-24 needs to incorporate realistic and detailed savings plans, while at the same time maintaining an adequate level of reserves to mitigate the impact of risks including the PFI contract, Commonwealth Games, Equal Pay and Paradise Circus.

Following years of budget restrictions and limited investment, many of the Council's operational assets are in poor condition. The Council's strategy to address this is key, and should link in to its capital plan. We also note that the Council has undergone a significant level of change in senior leadership positions in recent years. There is a risk that the governance arrangements in place have not kept up with the changes in management structure, and are no longer suitable.

We will review the Council's latest financial reports, monitoring report and savings plans trackers to establish how the Council is identifying, managing and monitoring these risks. We will consider the adequacy of reserves and the prudence of their use, as well as the transparency of financial reporting.

We will review the work that the Council has done to re-base its financial budgeting and planning, including the reprofiling of capital projects and the resulting slippage in the capital plan. We will consider the Council's approval routes and their appropriateness and effectiveness.

# Value for Money arrangements continued



## Waste service continuity and industrial relations

In our 2018-19 VFM work, we identified the VFM risk that the Council would fail to implement adequate governance arrangements in relation to the waste dispute. This had been the subject of previous Statutory Recommendations issued by Grant Thornton in July 2018 and March 2019.

At the time of giving our VFM conclusion in September 2019, the Council had commissioned an independent review of the Waste Service, but this had not concluded. The Council intended to wait for that report before making decisions about future options for the service.

This report has since been received by the Council, and the previous Memorandum of Understanding ended in November 2019. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

We will review the governance arrangements in place for the Waste Service, and consider the progress made by the Council in this area.



## Contractual arrangements relating to the highways PFI Scheme

In our 2018-19 VFM work, we identified the risk that ongoing contractual disputes with Amey Local Government (Amey LG) (and other involved parties) in respect of the Highways PFI contract could have a significant impact on the Council's financial sustainability.

At the time of giving our VFM conclusion in September 2019, a settlement agreement had been made between Birmingham Highways Ltd (BHL) and Amey LG, with financial risk to the Council. However, preparations were ongoing for Amey LG's exiting of the PFI contract.

In February, the Council announced the appointment of Kier as interim services provider, with work ongoing to identify a long-term maintenance and management partner to replace Amey LG. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

We will review the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.



## Contract monitoring and management

We note that the Council's internal audit function, Birmingham Audit, has issued two separate reports that highlight substantial issues and weaknesses relating to the management and monitoring of significant contracts.

We will consider the work done by the relevant directorates to address the findings contained in the reports issued by Birmingham Audit, as well as considering any potential wider impacts of the weaknesses.



## Financial impact of the Commonwealth Games

In our 2018-19 VFM work, we identified the VFM risk that the cost of hosting the Commonwealth Games could impact on the Council's future financial sustainability.

At the time of giving our VFM conclusion in September 2019, we noted that the Council had strengthened its governance arrangements relating to the delivery of the Commonwealth Games over the previous 12 months, and had clarified the governance framework under which partner bodies would report and work.

Work to identify sources of funding for the Council's share of the costs is ongoing. We therefore still consider this to be a significant risk for the purposes of our VFM work in 2019/20.

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

# 9. Audit logistics & team



## Jon Roberts, Key Audit Partner

Jon will be the main point of contact for the Chief Executive, statutory officers and Members. Jon will share his wealth of knowledge and experience across the sector, providing challenge. Jon will ensure our audit is tailored specifically to the Council, focussing his time on the key audit risks



## Laurelin Griffiths, Engagement Manager

Laurelin will work with members of the finance and executive teams, ensuring that work is completed as smoothly as possible and on a timely basis. She will attend Audit Committee meetings, undertake reviews of the team's work and draft reports, ensuring that they remain clear, concise and understandable to all.



## Zak Francis, Support Manager

Zak will support Laurelin in her work to oversee the delivery of audit testing. He will share responsibility for considering any complex accounting issues that arise in the year, and will complete preliminary reviews of the team's work while providing on-site support.



## Kirsty Lees, Audit Incharge

Kirsty will be the day to day contact for the Council's finance team. She will monitor deliverables, highlight any significant issues and adjustments to management, and maintain an awareness of the detail of the rest of the team's work.

## The Council's responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to a body not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a body not meeting its obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

respond promptly and adequately to audit queries.

# 10. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2a or above rating (the highest two ratings of their four point scale) this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Interim Chief Finance Officer and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Council Audit</b>	£322,903	£288,609	£297,409

## Assumptions:

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
<b>Scale fee</b>	<b>£241,909</b>	
<b>Raising the bar</b>	£13,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
<b>Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19</b>	£4,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
<b>PPE Valuation – work of experts</b>	£10,000	We have engaged our own audit expert – Wilks Head & Eve LLP – and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This increase includes an estimate for the fee payable to the auditor's expert, which we estimate will be in the region of £5,000.
<b>New standards and developments</b>	£4,000	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16.
<b>Local issues</b>	£20,000	There are a number of local issues specific to the Council and its audit which will require additional inputs to complete our work, including: monitoring the impact of the Strategic Programme Board; the increased level of work we anticipate will be required to support our audit opinion and VFM conclusion, including preparations for the Commonwealth Games, the new strategic risk strategy and implementation of the finance improvement plan; work on the Council's PFI model and the retendered Highways arrangements; and additional testing to gain assurance around the completeness of the Council's expenditure, following issues noted in the 2018/19 year.
<b>Enhanced Audit Report</b>	£4,000	As the Council holds listed debt, it meets the FRC definition of a Public Interest Entity. Certain additional Ethical and Quality standards apply, including the need for us to produce an Enhanced Audit Report.
<b>Revised scale fee (to be approved by PSAA)</b>	<b>£297,409</b>	



# 11. Independence & non-audit services

## Auditor independence

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

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you.

The following other services were identified:

Service	£ Fee	Threats	Safeguards
<b>Audit related:</b>			
Certification of 2018/19 Housing capital receipts grant	5,250	For these three audit-related services, we consider that the following perceived threats may apply:	The level of recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2018/19 Teachers' Pension return	7,250	<ul style="list-style-type: none"> <li>Self-Interest (because this is a recurring fee)</li> </ul>	Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.
Certification of 2018/19 Housing Benefits Subsidy claim	29,500	<ul style="list-style-type: none"> <li>Self Review</li> <li>Management</li> </ul>	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.

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# Independence & non-audit services continued

Service	£ Fee	Threats	Safeguards
<b>Audit related (continued):</b>			
Education Skills Funding Agency agreed upon procedures 2018-19	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on their own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
AMSCI reasonable assurance engagements (undertaken in August and December 2019)	15,800	Self-Interest (because this is a recurring fee)	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £15,800 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related:</b>			
CFO insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
CASS reporting 2019 (Finance Birmingham)	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the confirmed scale fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

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# Appendices

Audit Quality – national context

# Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



**Public Report**  
**Birmingham City Council**  
**Report to Audit Committee**  
**24 March 2020**



**Subject:** Equal Pay Update – January 2020

**Report of:** Corporate Director of Finance and Governance and the City Solicitor and Monitoring Officer

**Relevant Cabinet Member:** N/A

**Relevant O &S Chair(s):** N/A

**Report author:** Suzanne Dodd                      07892786390  
 Suzanne.Dodd@birmingham.gov.uk

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :		
Exempt Appendix 1 is exempt from public disclosure under paragraphs 4 and 5 of Schedule 12A of the Local Government Act 1972.		

## **1 Executive Summary**

- 1.1 The purpose of this report is to provide an update to the Committee as at January 2020 in relation to the ongoing liability of the Council in respect of equal pay claims brought under the Equality Act 2010. Equal pay continues to present a challenge for the Council. It should be noted that significant progress has been made in terms of managing claims and their resolution by way of agreement and settlement.

- 1.2 Exempt Appendix 1 is exempt from public disclosure under paragraphs 4 and 5 of Schedule 12A of the Local Government Act 1972. The exemptions relied on are as follows:
- 1.2.1 Sch. 12A para. 4 – ‘Information relating to any consultations or negotiations, or contemplated negotiations, in connection with any labour relations matter arising between the authority or Minister of the Crown and employees of, or office holders under, the authority’; and
- 1.2.2 Sch. 12A para. 5 – ‘Information in respect of which legal professional privilege could be maintained in legal proceedings.’
- 1.3 These provisions apply because the equal pay claims, and the reasons for them, are subject to legal proceedings and/or are subject to negotiations with solicitors acting for the claimants.

## **2 Recommendations**

- 2.1 That the Committee note the contents of the Report and Exempt Appendix 1.

## **3 Background**

- 3.1 The Equal Pay Act 1970 (now superseded by the Equality Act 2010) was an under-utilised piece of legislation, with few claims for many years. Following the National Single Status Agreement in 1997, attention was focused on pay structures within Local Authorities and NHS Trusts. ‘No win no fee’ lawyers started issuing claims for equal pay in the late 1990s and brought equal pay into the public arena.
- 3.2 During the last 13 years, there have been significant developments as a result of decided cases, which dramatically changed the scope of the Equal Pay Act and Equality Act, and the ability of local authorities to deal with the resultant litigation.
- 3.3 The Council’s intention has always been to provide a fair salary structure. Indeed, the process of producing and implementing a fair salary structure disclosed the inequalities and inconsistencies of the pay arrangements that existed prior to the implementation of the Council’s pay and grading scheme. Equal pay claims have been issued despite the Council actively pursuing a ‘Single Status’ agenda for its employees. The Council’s pay and grading scheme was intended to prevent any further claims, as all employees were to be fairly and equally remunerated for equal work.
- 3.4 Authority for the settlement of validly pleaded equal pay claims was first granted by Cabinet on 25 July 2011. Cabinet approved the proposed decision of the Chief Executive to settle all equal pay claims issued in the Employment Tribunal by employees of the Council subject to adequate financial provision.
- 3.5 Since that time, Cabinet has supported the decision of the Chief Executive to make certain pay settlements taken under delegated authority granted by the Cabinet Report dated 25 July 2011. Further approval to an updated equal pay

strategy was granted by Cabinet in July 2014, to include the establishment of the Cabinet Equal Pay Sub-Group comprising the Leader, Deputy Leader and Chief Executive, and again in July 2015, August 2017, February 2018 and December 2018. The Chief Executive has continued to authorise certain equal pay settlements in line with the strategy approved by Cabinet and the Cabinet Equal Pay Sub-Group.

3.6 Further background information is set out in Exempt Appendix 1.

## **4 Options considered and Recommended Proposal**

4.1 This Report is for noting.

## **5 Consultation**

5.1 The Leader of the Council, Councillor Ian Ward, and the Chief Executive, Dawn Baxendale, are aware of the matters raised in this report.

## **6 Risk Management**

6.1 Please see Exempt Appendix 1.

## **7 Compliance Issues:**

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

7.1.1 This Report is for noting only.

### **7.2 Legal Implications**

7.2.1 The power conferred by section 222 of the Local Government Act 1972, 'Power of local authorities to prosecute or defend legal proceedings', enables the Council to seek to settle equal pay claims.

### **7.3 Financial Implications**

7.3.1 The Council has made provision in its 2019/20 Statement of Accounts for the settlement of, and litigation costs associated with, any outstanding, validly pleaded equal pay claims. The cost of meeting equal pay liabilities will be predominantly funded from capital receipts under the flexibilities granted by Central Government. The provision and adequacy of planned funding are kept under regular review.

7.3.2 The revenue implications of equal pay settlements have been reflected in both the budget and the Council's Financial Plan in relation to later years. This includes capital financing costs arising from previous years' capital expenditure, loss of income and other costs arising from asset sales and the repayment of any temporary borrowing from reserves.

#### **7.4 Procurement Implications (if required)**

7.4.1 N/A

#### **7.5 Human Resources Implications (if required)**

7.5.1 N/A

#### **7.6 Public Sector Equality Duty**

7.6.1 All settlement strategies to date have endeavoured to limit any adverse equality impact.

### **8 Appendices**

8.1 Exempt Appendix 1

### **9 Background Documents**

9.1 Reports to Cabinet dated July 2011, July 2014 and 2015, August 2017, February 2018 and December 2018

9.2 Reports to Audit Committee dated September 2012, November 2013, November 2016, January 2018, and, June 2019



## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Interim Chief Finance Officer</b>
<b>Date of Decision:</b>	<b>24 March 2020</b>
<b>SUBJECT:</b>	<b>GROUP COMPANY GOVERNANCE – INFORMING THE AUDIT RISK ASSESSMENT</b>
<b>Wards Affected: All</b>	
<b>1. Purpose of Report</b> <p>1.1 The Council has created a number of companies that fall within its sphere of control, either as wholly owned subsidiaries, associates where the Council has significant influence, Joint Ventures or other arrangement. Where activity in companies is considered material to the overall entity, the Council has to prepare group accounts in addition to its own financial statements. The Council has to consider whether there are risks to the Council either through misuse of funds or misstatement of activities.</p> <p>1.2 The larger entities within the overall Council group boundary have been asked to provide information through the completion of a questionnaire to allow Members to gain assurance that funds are being used efficiently and effectively and that information provided in respect of their financial statements may be relied on. The responses provided are attached at Appendix 1.</p>	
<b>2. Decisions recommended:</b> <p>2.1 Members are asked to:</p> <ul style="list-style-type: none"> <li>a) note the responses received to inform the audit risk assessment.</li> <li>b) note the recommendation of Cabinet Committee – Group Company Governance that this committee should review any issues that would impact on the returns from any company prior to signing off the Council's financial statements</li> <li>c) consider any further information required.</li> </ul>	

**Contact Officers:****Rebecca Hellard****Telephone No:** 0121 303 2950**E-mail address:** [rebecca.hellard@birmingham.gov.uk](mailto:rebecca.hellard@birmingham.gov.uk)**Martin Stevens****Telephone No:** 0121 303 4667**E-mail address:** [martin.stevens@birmingham.gov.uk](mailto:martin.stevens@birmingham.gov.uk)

### **3. Compliance Issues:**

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies:  
The production of annual group accounts is a statutory requirement to consolidate entities that are controlled by the Council and which are material to its activities.
- 3.2 Relevant Ward and other Members /Officers etc. consulted on this matter:  
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):  
Section 151 of the Local Government Act requires the Chief Finance Officer (as responsible officer) to ensure proper administration of the Council's financial affairs.
- 3.4 Will decision(s) be carried out within existing finances and resources?  
Yes.
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):  
The issues raised in this report are largely of a technical financial nature.

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

- 4.1 An exercise is carried out each year to determine the "Group Boundary", that is to define which subsidiaries, associates and joint ventures are consolidated with the Council's financial statements to produce Group Accounts. This report includes assurance statements from those companies that meet the criteria for consolidation or which may meet the criteria in the near future. The assurance statements have been broken down into three main areas:
- Company Environment – looking at the governance arrangements of the company
  - The Identification, Mitigation and Reporting of Risk – looking at how the company manages risk
  - Financial Statements – looking at factors that may impact on the company's financial health and financial statements.
- Appendix 1 is a collated set of responses to these questions.
- 4.2 A review of the Group Boundary has been undertaken and there are no proposed amendments to the companies that are to be consolidated into the Council's financial statements.
- 4.3 Audit Committee is responsible for signing off the Council's financial statements, including relevant group accounts, in due course. As part of this sign off process, members of the Audit Committee will need to be confident that the information presented represents a 'true and fair view' of the financial position of the group and that the accounts are materially correct.
- 4.4 The company responses were considered by Cabinet Committee – Group Company Governance (CC-GCG) at its meeting on 16 January 2020. CC-GCG did not have any issues with the returns that it wished to raise with this committee. However, CC-GCG has recommended that this Committee review the impact of any changes within a company that would have an impact on any future response prior to signing off the

Council's financial statements. An update on any relevant matters will be provided at a future meeting of this Committee.

- 4.5 Members are asked to consider the responses received and identify any issues where it requires additional information.

**Signature :**

Interim Chief Finance Officer: .....

Dated: .....

**List of Background Documents used to compile this Report:**

None

**Appendix 1**

**Responses from:**

Acivico Limited  
Birmingham Airport Holdings Limited  
Birmingham Children's Trust C.I.C.  
Birmingham City Propco  
Finance Birmingham Limited  
InReach Limited  
The National Exhibition Centre (Developments) Plc  
Paradise Circus Limited Partnership  
PETPS (Birmingham) Limited  
PETPS (Birmingham) Capital Limited  
PETPS (Birmingham) General Partner Limited  
PETPS (Birmingham) Pension Funding Scottish Limited Partnership



## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	<p>Acivico Board Directors are provided with an induction on appointment to ensure their responsibilities are understood and they have the tools necessary. All current Acivico 'officer' roles (senior managers, etc.) are aligned to BCC job descriptions and person specifications, ensuring the rights skills and competencies are present to perform their roles.</p> <p>The Acivico Board of Directors will have a Continuous Development Programme established, which will ensure that awareness of individual and collective roles and responsibilities will remain up-to-date.</p> <p>The Acivico Group risk register includes a risk and required controls on this matter and Acivico's Audit Committee review the effectiveness of these controls on an annual basis.</p>
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Acivico company Directors attend monthly Board meetings, with all executive leadership officers (Chief Executive, Deputy Chief Executive & Director of Operations, Director of Finance & Resources & Director of HR & OD) and regular Audit Committee meetings (Audit Committee is due to meet 7 times during 2019/20)

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
	<p>The company secretary records attendance of Board members from meetings. Audit Committee is done by an administrator.</p> <p>Additionally, the Board members have attended workshops on strategic items, for example strategic plan, values and workforce development.</p> <p>Directors record of attendance is currently 84.21% for 2019/20 (as at November Board meeting) with 3 of the 5 Directors maintaining a 100% attendance during this period.</p>
Please explain the system of governance and the financial control environment within the company	<p>Acivico operate a Company Governance Framework which outlines governance and financial controls (standing orders) within the company. This includes Board members.</p> <p>Acivico currently use the council's IT finance system which will change during 2019/20. Existing controls are as per the council's governance requirements. As part of implementing new IT systems, BCC Internal Audit is providing a critical friend role pre implementation and a review post implementation to ensure governance and financial controls remain effective.</p> <p>Monthly financial reporting is undertaken within the companies. A challenge session is held with the relevant Acivico Director and Sector leads (Heads of Service) to review financial reporting and projections. Acivico Board members receive monthly reports during Board. Acivico Audit Committee receives the latest finance board report for scrutiny.</p> <p>The finance report considers financial risks and issues</p>

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	<p>The Acivico Director of Finance and Resources leads the monthly challenge sessions.</p> <p>The Acivico Group risk register is regularly maintained and reported to each Audit Committee. Audit Committee has a programme of work for 2019/20 which incorporates reviews including an Internal Audit work plan. The standing agenda also includes a statement to be made by both the BCC Assistant Director of Internal Audit and the Acivico Director of Finance and Resources to confirm that they are not aware of any matters concerning risk, internal control, and compliance.</p> <p>As part of the annual report Acivico's Audit Committee prepare a report on the statement of internal controls.</p> <p>To date, a review has been undertaken on the Environment, Quality Management Systems as part of continuation of the accreditation for Design, Construction and Facilities Management Ltd.</p>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	<p>The current three year Business Plan, approved from 2019/20 by Cabinet, is currently being refreshed. This will be presented to Cabinet Committee, Group Company Governance in February 2020. In accordance with Acivico's Company Governance Framework the annual financial plan is scheduled to be approved by Acivico Board before end February 2020. The December Board will see the first draft with a workshop scheduled for January 2020. Alongside the financial plan will be the marketing strategy and the overarching Strategic Plan (refreshed 3 year business plan – strategic level).</p>

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
	<p>The annual financial plan will include details for each company on cashflow projections. Cashflow is monitored and shared with the council.</p> <p>The company is currently operating under a going concern assurance letter from the council. Going concern is reviewed in accordance with ISA570, takes into account financial risks, trading position including pipeline and financial ratios produced by the Group end Qtr 1, Qtr 2 and now monthly.</p> <p>Remedial action is incorporated within a mitigation plan and tracked monthly, reporting outcomes to the Acivico Board</p>
What is the company's approach to the development of business continuity plans.	<p>Acivico Business Continuity Plans are being refreshed as the company is implementing new IT systems and business processes are being reviewed.</p> <p>Each company business unit is responsible for updating and refreshing their Business Continuity Plan.</p> <p>Given the changes within Acivico, there is a risk contained within the Group Risk Register regarding overarching arrangements for business continuity.</p> <p>Additional resource is being identified to follow up ICT transformation, business process reengineering, organisational design and other corporate transformation activity, to establish fresh business continuity frameworks across the whole Acivico Group.</p> <p>Expected work to be completed by Spring 2020.</p>



## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	A review has recently taken place to ensure compliance including refreshing the data matrix. The outcome is expected during January to coincide with the January Acivico Audit Committee. On a day to day basis, any escalations regarding compliance with GDPR are reported to the Acivico Governance Manager.
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	Financial risks identified in the monthly Group Finance Report presented to Board. Audit Committee receive the latest available report for Scrutiny. The Group Risk Register is refreshed regularly and is a standing item on the Audit Committee agenda.
Please set out your management's processes for identifying and responding to risks of fraud.	The Acivico Company Governance Framework outlines the process for individuals to report potential irregularities or suspected fraud. The company also has an anti-bribery and fraud policy and anti money laundering policy. Training on anti-bribery and corruption (ABC) has been identified for inclusion in the Company's new e-learning platform go1. The Acivico Group Leadership Team are kept informed As outlined earlier, Acivico Audit Committee standing agenda also includes a statement to be made by both the BCC Assistant Director of Internal Audit and the Acivico Director of Finance and Resources to confirm that they are not aware of any matters concerning risk, internal control, and compliance. There has been one instance so far

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
	which has been followed up through investigation and appropriate disciplinary action under existing HR procedures. BCC Internal Audit was informed and advice provided.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	See previous response
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	Fraud could occur during the procure to pay process, accepting cash within building control or an employee abusing the time recording system as examples. Acivico use separation of duties and weekly MI reporting checks to help mitigate against fraudulent activity. The Acivico Director of Finance and Resources further discusses this matter with External Auditors as part of the planning for the external audit.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	See earlier responses
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	For 2019/20 only one matter has been identified which has been investigated and referred for disciplinary action as part of existing HR policies and procedures.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Acivico's process is outlined in the Company Governance Framework.  BCC Internal Audit attend Acivico Audit Committee.

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
	If required, the Acivico Director of Finance and Resources would notify the council.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	<p>The council (in its capacity as shareholder of Acivico) has a representative attend the Board meetings and therefore receives the monthly Acivico Group Finance report.</p> <p>Each month the Acivico Director of Finance and Resources meets with the Shareholder representative (BCC Chief Finance Officer or delegated representative) to discuss finance matters and any areas of concern of the Shareholder</p>
How would the company communicate any breach of GDPR requirements to the Council.	Acivico Governance Manager would investigate, report to the Group Leadership Team, Acivico Audit Committee, Acivico Board and then via the Shareholder representative
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<p>Acivico currently secure nearly all their insurance policies via the council's insurance providers. A schedule of policies is available if required.</p> <p>Other specific insurances are based upon the company's identified needs such as Employment Tribunal Actions.</p>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	No claims have been made against the company or its Directors that have not been reported to the company's insurers.

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
	We are not aware of any current incidents that may lead to a claim.
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies are reviewed in accordance with FRS102 where applicable and other local policies, for example the debt policy. Acivico finance team members use both CIPFA and the Financial Reporting Council to keep up to date on accounting developments.  Accounting policies are reviewed and presented to Acivico Audit Committee
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	An initial meeting has occurred with Acivico's external auditors to start planning for 2019/20 audit.  Acivico has set up Acivico Traded Services Limited during 2019/20 which is currently dormant. This may start to trade towards the end of the financial year.

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

<b>ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD</b>	
<b>Question</b>	<b>Response</b>
	<p>There remain a number of activities in discussion with the Shareholder, relating to governance and the future operating model of the Acivico Group, which may impact on the financial statements.</p> <p>Finally, Acivico is implementing its own financial IT systems during 2019/20 which will impact on audit approach. External Auditors are aware of this change.</p>
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	At the time of returning this questionnaire, there are no known events
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	The council provide the guarantor for the lease of Louisa House and pension funds
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	The latest Audit Findings for 2018/19 saw a significant improvement.

## Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

## Appendix 1

ACIVICO LTD (INCLUDING ACIVICO (BUILDING CONSULTANCY) LTD AND ACIVICO (DESIGN, CONSTRUCTION AND FACILITIES MANAGEMENT) LTD	
Question	Response
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	<p>The loss of the Approved Inspector business activity. Whilst the company gained reaccreditation until 2024, the insurer's underwriters would not provide insurance (due to national market instability in the wake of the Grenfell tragedy).</p> <p>The revised Articles of Association for each company and the Governance Management Agreement (shareholder agreement) is in discussion with the Shareholder, which will influence the future operating model (and performance ability) of the company)</p>

<b>BIRMINGHAM AIRPORT (HOLDINGS) LTD</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	Directors are appropriately qualified to ensure they are adequately resourced to carry out their duties. Directors continue to have updates and training to keep them up to date on current affairs. Directors are provided with regular updates with relevant information and reports on the Airport.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	The company holds Board working groups/workshops (which are minuted) throughout the year. Directors have access to any information that they request from time to time, which is reported to them in a timely manner. Attendance at Board meetings is noted and recorded in the Board meetings minutes. BCC (Elaine Peach) is also notified of meeting attendance.
Please explain the system of governance and the financial control environment within the company	The group has a number of policies in place to manage its financial risks, along with a risk management programme which is reported to the Board and Audit Committee. Where actions are necessary and not covered by the policies in place, approval is sought from the Board. Enclosed at appendix A is the Airport's Management assurance to Directors which details further information on this process.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	The group is highly regulated and have policies & procedures in place to ensure compliance. Management are adequately qualified to perform their duties. Audits & reviews are undertaken regularly to ensure that the control environment is effective. These are reported through management and internal audit to the Audit Committee. Enclosed at appendix A is the Airport's Management assurance to Directors which details further information on this process.

Group Accounts Preparation

Appendix 1

What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	<p>The business holds a 10-year business planning model which includes full financial statements. This model is updated on an annual basis to reflect actuals and updated budgets. There is then a regular review of the plan to ensure that assumptions remain valid and engagement is sort from stakeholders throughout the business. A focus of the plan is on cash management and ensuring sufficient funds are available or access to funds available throughout the term to meet both operational and development needs. The plan also allows the business to ensure it remains within financial covenants.</p> <p>Engagement with key stakeholders throughout the business to understand the critical systems and processes in place. Understanding then the time criticality should these be compromised and the dependence these have on other systems and processes.</p> <p>The company has an information security department tasked with ensuring compliance with GDPR requirements</p>
What is the company's approach to the development of business continuity plans.	
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	



Group Accounts Preparation

Appendix 1

<p><b>The Identification, Mitigation and Reporting of Risk</b></p>	
<p>Please set out your management's views on your risk assessment process as it related to financial reporting.</p>	<p>The risk assessment process is 'fit for purpose' and is supported by a robust internal audit function and external audit review. In addition, we keep proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and group.</p> <ul style="list-style-type: none"> <li>• Annually we set Budgets which outline the forthcoming year's expectations for financial and statistical results. Budgets are a useful function to benchmark and compare actual results against which could potentially highlight inaccuracies with accounting.</li> <li>• The Airport prepares Monthly management accounts (and adopted FRS102 (new UK GAAP) during 2015/16 and the monthly management accounts are being prepared on this basis), reporting actual results against budget on a monthly basis in a timely manner. In addition, the report includes Key Performance Indicators (KPIs) which are traffic lighted (red, amber, green) which direct attention to variances from prior year and Budget. The process includes investigating variances to budget with any anomalies identified and followed through to resolution.</li> </ul> <p>The management accounts process is a thorough robust process and is able to disclose at any point in time the financial position of the company, subject to any processes that only occur at yearend such as actuarial valuations in accordance with accounting standard FRS102.</p>
<p>Please set out your management's processes for identifying and responding to risks of fraud.</p>	<ul style="list-style-type: none"> <li>• Where risks of fraud are apparent or have been identified by internal audit or external auditors, management responds to these by reviewing existing controls and where necessary implementing additional controls.</li> </ul> <p>Consideration to risks of fraud forms part of Management's processes, for example additional controls were implemented to reduce the risk of fraud on changing supplier bank account details.</p>
<p>How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.</p>	<p>The Airport has a robust Internal Audit (IA) function which periodically reviews the financial functions and findings are reported through to the Airport's Audit Committee (AC).</p> <ul style="list-style-type: none"> <li>• The IA function reports to the Chair of the Audit Committee and reports independently from management to the AC three times per annum.</li> </ul> <p>The Executive Board (EB) of directors formally reports to the Board six times per annum, any concerns raised by the EB are followed up with further supporting work and reporting.</p>

# Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

### Appendix 1

Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	PWC identified during the economic downturn that there had been an increase in fraudulent activities in changing bank details held within supplier payment ledgers, with employee's changing bank details from supplier's details to their own personal details. Immediately following this awareness, The Airport increased its controls in this area and these were subsequently reviewed by the Internal audit and external auditors for satisfactory compliance.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Internal Audit maintain a risk register which is updated by management and is reported to the Audit Committee three times per annum highlighting any changes.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	No fraudulent or irregularities have been identified by the Directors or the Internal and External audit process.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	The Airport's Board and Audit Committee include representatives from BCC and therefore any fraud or suspected fraud would be reported to BCC via their representatives on these bodies.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	The Airport's Board includes representatives from BCC and therefore any financial risks would be reported to the Board and hence BCC would be informed through this channel.
How would the company communicate any breach of GDPR requirements to the Council.	The Airport's Board includes representatives from BCC and therefore any GDPR compliance breaches would be reported to the Board and hence BCC would be informed through this channel
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	The Airport has a Commercial Crime policy in place with a £5m value (£100k excess). This policy is dependent on rigorous policies and procedures being in place to mitigate fraud. The business operates segregation of duties, along with dual authentication (e.g. supplier payments). Change requests (i.e. bank details) are subject to verification from separate sources to those requesting. An authorisation level hierarchy is in place. The Airport also has an internal audit department to review policy and procedures in place, test effectiveness and advise improvements.

Group Accounts Preparation

Appendix 1

Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None to report at this point in time.
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	<p>The financial statements continue to be prepared and comply with New United Kingdom Generally Accepted Accounting Practice (UK GAAP) following the adoption in 2015/16.</p> <ul style="list-style-type: none"> <li>To the best of our knowledge using the experience and professional knowledge of staff and external guidance, the financial statements have been prepared in accordance with New UK GAAP and the Companies Act 2006.</li> <li>It should be noted that during 2018/19 there have been no fundamental changes within The Airport which would raise any concerns with regard to financial statements being prepared consistently with previous years.</li> </ul> <p>We have selected and applied consistently, suitable accounting policies that are relevant to the company's and group's business</p> <ul style="list-style-type: none"> <li>The accounting policies adopted during the year are consistent with those applied in prior years.</li> </ul> <p>Accounting Policies are considered with any new area which arises during the year.</p>
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None to report at this point in time.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None to report at this point in time.
Please set out details of any indemnities or guarantees that the company has given.	None to report at this point in time.

# Birmingham City Council 2019-20 Informing the Audit Risk Assessment

## Group Accounts Preparation

Appendix 1

Please set out details of any indemnities or guarantees that the company has received.	None to report at this point in time.
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	<p>The Airport's judgements and estimates made are reasonable and prudent.</p> <ul style="list-style-type: none"> <li>The Airport makes relatively few judgments and estimates in preparing the financial statements and where the directors have had to make provisions they are reasonable and prudent.</li> </ul> <p>The provisions held are subject to a timed release policy where any greater than three years old are subject to a phased release, provisions held with this policy highlighted during PwC's review and identified within their audit report</p>
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None to report at this point in time.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None to report at this point in time.

<b>BIRMINGHAM CHILDREN'S TRUST CIC LTD</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	In recruiting directors the Trust has appropriate selection and evaluation criteria, which is then supplemented by its induction process for new directors. The Trust has a leadership and development programme for directors and holds regular Board development sessions.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	All directors attend regular committee and Board meetings and are also invited to a number of service meetings of a strategic nature. A record of attendance is maintained by the Head of Executive.
Please explain the system of governance and the financial control environment within the company	The Trust's overall governance is led by the Board supported by three sub-committees, which include Performance & Quality, Finance & Resources and Workforce Committees, and the Trust Executive. The Trust has adopted its own Scheme of Delegation which is reviewed on at least an annual basis.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	The Trust has appointed Birmingham Audit to provide an internal audit of its main processes and controls to test and provide assurance to the Executive, Committees and Board.

<b>BIRMINGHAM CHILDREN'S TRUST CIC LTD</b>	
<b>Question</b>	<b>Response</b>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	The Trust produced a Strategic Business Plan for 2019/20 which has been signed off by the Council. This business plan is refreshed annually on a rolling basis and reflected the recommendations of the previous Ofsted inspection.
What is the company's approach to the development of business continuity plans	The Trust has a number of business continuity plans covering specific services and is in the process of developing an overall business continuity plan for the Trust as whole based on advice by BCC's Business Resilience Team.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	The Trust inherited the levels of compliance with the (25th May 2018) Data protection Act 2018 and GDPR from the Council. To address the specific needs of the Trust an Information Assurance Plan has been developed and will be delivered in parallel to a similar Council Plan. Oversight of the delivery will be provided by the Trust Information Assurance Group chaired by the Trust's Senior Information Risk Officer. The Trust also complies with the Department of Health information governance requirements for the sharing of data between health and social care.
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	The Trust has a corporate risk register and financial reporting is not identified as a significant risk. Operational risk registers are being rolled out across service areas which will include finance, at which further consideration will be given to this. In the meantime risks are monitored

BIRMINGHAM CHILDREN'S TRUST CIC LTD	
Question	Response
	and managed by the Trust Executive and financial risk is monitored and managed by the Director of Finance & Resources with support from the Head of Finance and team.
Please set out your management's processes for identifying and responding to risks of fraud.	The Trust has adopted and adapted BCC's fraud policy for its purpose.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	The process of identifying the risk of fraud is overseen by the three Executive Directors in the Trust and would be reported to the Chief Executive and Head of Executive via the Executive meetings.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	The nature of fraud risk across the Trust extends to financial and contractual matters. The Trust also holds petty cash across its operations and has to ensure appropriate controls are in place to avoid fraud. Contract compliance is regularly monitored by the Trust and in the case of a recent whistleblowing incident, will refer these for investigation to Birmingham Audit. <del>in</del>
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Oversight of the corporate risk register is managed by the Director of Finance & Resources and a report is provided on a quarterly basis to the Finance & Resources Committee, which also undertake reviews ("deep dives") of individual areas of significant risk.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	The Trust is subject to an external audit which tests for error or irregularity. There were no such issues detected during the financial year 2018/19.

BIRMINGHAM CHILDREN'S TRUST CIC LTD	
Question	Response
	Suspected frauds or irregularities are referred to Birmingham Audit to investigate which are then subject to a report being provided to the Director of Finance & Resources. Matters of a significant nature are notified to the relevant Executive Director who would then take appropriate action, including notifying the Chief Executive where necessary. The level of awareness is therefore considered appropriate for the Trust. The Trust had one issue of fraud during 2018/19 relating to purchase cards which was investigated, and the recommendations were acted upon.
How your organisation would raise the Council's Audit Committee's awareness of fraud or suspected fraud.	This would be via the Trust's Executive and where appropriate reported to the Trust's Finance & Resources Committee and /or Board.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	The Trust meets with the Council on a monthly basis at the Operational Commissioning Group (OCG) at which a monthly financial report is provided, and on a quarterly basis provides a more detailed quarterly financial report to the Council which is then discussed at the OCG. The Trust also meets quarterly with the Council for the Partnership Governance Group at which all strategic risks can be raised and discussed.
How would the company communicate any breach of GDPR requirements to the Council.	The Trust has appointed a Data Protection Officer who reports to the Head of ICT, and the latter acts as the Chief Information Officer for the Trust. Any breaches would be reported via the DPO to the CIO, SIRO, and the Information Assurance Group which meets every other month, and the Trust's Executive on at least a quarterly basis.



<b>BIRMINGHAM CHILDREN'S TRUST CIC LTD</b>	
<b>Question</b>	<b>Response</b>
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what insurance cover does the company have in place.	The Trust has procured via the Council a series of insurances to cover financial losses in a number of areas. The scope and level of cover for such insurances is subject to annual review by the Director of Finance & Resources.
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	The Trust's Director of Finance & Resources is responsible for determining the accounting policies in line with professional accounting standards, and agreeing these with the Finance & Resources Committee. These have been subject to independent review by the Trust's external auditors.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	No material matters or events have impacted on the Trust's approach to external audit.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	<p>The Trust does not currently hold any non-current assets.</p> <p>No changes in current circumstances that may cause impairment are envisaged.</p> <p>The Trust undertakes daily cash flow monitoring and cash management. The Trust secures investments of cash surpluses via the BCC treasury team.</p> <p>The Trust's debt relates to debtors only, approximately half of which as at 31 March 2019 related to monies owed by the Council to the Trust. Aged debt is monitored on a monthly basis and the Trust buys back "Account</p>

BIRMINGHAM CHILDREN'S TRUST CIC LTD	
Question	Response
	Receiveable" debt progression services from BCC via a support services agreement.
Please set out details of any indemnities or guarantees that the company has given.	The Trust has not provided any indemnities or guarantees which would give rise to a financial commitment.
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	The Trust made provision for the McCloud pensions judgement in line with the Council's accounting position.
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	<p>The audit findings report of the external auditors was presented to the Trust's Finance &amp; Resources Committee on 11 September 2019 and provided for eight medium risks of a less urgent nature which still required prompt action. A number of these have already been actioned.</p> <p>There were two other risk classified as low level which require action within an agreed timescale.</p>

BIRMINGHAM CHILDREN'S TRUST CIC LTD	
Question	Response
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	The Trust is experiencing demand pressure as a result of the number of children in care increasing. This has been the subject of discussion with the Council as part of the budget consultation process.



<b>BIRMINGHAM CITY PROPCO LTD</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	One of the Directors is a qualified Accountant. The other Director is newly appointed to Propco but is a director of other City Council companies. No specific formal training has been provided for Propco, although training has been provided on Company Directorships by Legal Services.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Propco completed its first trading year in March 2019 and the audit of final accounts was completed in August 2019. The company has a relatively small number of transactions (approximately 40 transactions per annum. At present, there is unlikely to be more than an annual meeting. However, the company could expand to deal with other commercial property transactions and if this were the case, the frequency of business/meetings would need to be reviewed.
Please explain the system of governance and the financial control environment within the company	A Finance Business Partner and Finance Manager oversee all transactions. There are established contracts with PWC for accounting support and VAT/Tax advice and UHY Hacker Young as auditor. As above, the level of transactions with this company are low and monitored against an established business model/forecast spreadsheet.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	All property related transactions are authorised by Property Services (i.e. rent income is raised via Manhattan and expenditure invoices are authorised for payment). The Finance Business Partner and Finance Manager roles are purely to action payment to and from Propco. A few

<b>BIRMINGHAM CITY PROPCO LTD</b>	
<b>Question</b>	<b>Response</b>
	non-property transactions i.e. professional fees are authorised by the directors themselves.
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	This has been well covered for the initial dealings of the company relating to 2 hotels at the NEC but the business plan could evolve to include more commercial property transactions. There are no plans at present to expand the company at present.
What is the company's approach to the development of business continuity plans.	Nothing specific at present as the only 2 matters are long term leases relating to 2 well established hotels at the NEC site. This will be kept under review.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	Nothing particular as the transactions are receipt of lease/rental and repayment of borrowing (together with some modest running costs). No major GDPR risk.
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	Nothing of concern at present.
Please set out your management's processes for identifying and responding to risks of fraud.	Separation of duties in place and there is a model which governs/monitors the transactions.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	Annual Board meeting.

BIRMINGHAM CITY PROPCO LTD	
Question	Response
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	None
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	See above
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None reported
How your organisation would raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Would report internally and escalate accordingly
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Embedded in monitoring but we have leases for both hotels for the long term.
How would the company communicate any breach of GDPR requirements to the Council.	Would report to Council reporting officer.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what insurance cover does the company have in place.	Insurance is in place. Low risk of fraud with the controls in place and nature of the company and with the monitoring undertaken.

<b>BIRMINGHAM CITY PROPCO LTD</b>	
<b>Question</b>	<b>Response</b>
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	The accounting processes and transactions were thoroughly reviewed by FHY Hacker as part of the audit of accounts for the year 2018/19. The Directors were supplied with the resulting management report, briefed on the findings and asked to approve the resulting management actions. These have been largely implemented however, further work is required to complete these by March 2020.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	Late submission of 2018/19 accounts to Companies House arising from delays in engaging the auditor. They had been procured earlier but not informed. The closedown timetable needs to be rigorously followed.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	Impairment of the finance lease debtors was shown in the accounts for 2018/19 on the basis of revised accounting treatment of leases. It is not expected that there will be any further impairment of current or non-current assets.
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None



BIRMINGHAM CITY PROPCO LTD	
Question	Response
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	<p>These were:</p> <ol style="list-style-type: none"> <li>1. VAT creditor overstated by £8k</li> <li>2. Trade creditor of £67k misanalysed as an accrual</li> <li>3. Interest on loan for 1 month (£67k) not accrued</li> <li>4. BAC's controls – independent authorisation where bank account changes</li> <li>5. Bank statements require authorisation to ensure reconciliation</li> <li>6. Insufficient Directors meetings during year,</li> <li>7. Operating lease relating to land has been classified as a finance lease.</li> <li>8. The Council's policy of a 30%/70% land and buildings split valuation has been used rather than independent separate valuation.</li> </ol>
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None



<b>FINANCE BIRMINGHAM</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	From a regulatory perspective, the FCA requires annual confirmation that approved persons are up-to-date on statutory compliance knowledge. From an operational perspective, the discipline of weekly senior management meetings, bi-monthly board meetings and annual appraisals (to include a review of any training requirements) keep everyone up-to-date. In addition, via a non-executive director, governance is monitoring via an independent view.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	Bi-monthly board meetings, supported by the provision of board papers, minutes of content and those in attendance.
Please explain the system of governance and the financial control environment within the company	Governance is monitored at a number of levels; as a regulated company FB is required to operate within FCA guidance, the board receives and reviews an annual business plan which incorporates any operating risks and governance is a statutory agenda item at each board meeting.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	Financial controls exist and a full accounts audit is undertaken by a third party (currently Grant Thornton) on an annual basis. Additionally, contracts are in place with external compliance advisors.

<b>FINANCE BIRMINGHAM</b>	
<b>Question</b>	<b>Response</b>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	Finance Birmingham is a self-sustainable, profit making business.
What is the company's approach to the development of business continuity plans?	Finance Birmingham is a business that essentially operates on the ability of its people, however, contingency plans exist in the event that any supporting infrastructure fails.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	Finance Birmingham is GDPR compliant.
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	The company's financial performance is reported at every board meeting – anomalies are reported immediately. BCC officers and councillors attend FB board meetings.
Please set out your management's processes for identifying and responding to risks of fraud.	Financial controls are documented and followed. Senior management meets weekly and discusses each aspect of the business. As mandated by the FCA, FB has a formal Compliance Officer.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud?	Any instances of fraud would be immediately reported to the Board by the CEO. Management ensures that there is the appropriate segregation of duties in place to ensure that the risk of fraud is minimised.

<b>FINANCE BIRMINGHAM</b>	
<b>Question</b>	<b>Response</b>
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	None.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud)?	Through regular (weekly) management meetings.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud?	The CEO would report to the FB board and, at the same time, raise awareness with senior BCC officers.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Through financial updates and review of management accounts at bi-monthly board meetings.
How would the company communicate any breach of GDPR requirements to the Council?	The CEO would report to the FB board and, if required, raise awareness with senior BCC officers.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	PI insurance, Directors & Officers insurance

<b>FINANCE BIRMINGHAM</b>	
<b>Question</b>	<b>Response</b>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	No.
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review?	Regular meetings with Grant Thornton. Annual audit.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None.
Please set out details of any indemnities or guarantees that the company has given.	Guarantee in the sum of £400k, approved by BCC – this relates to FDC's lease on the property at (part) 11 <sup>th</sup> floor, 45 Church Street. The guarantee was required due to the short trading history of FDC. FB's staff are located in these offices.
Please set out details of any indemnities or guarantees that the company has received.	None.

FINANCE BIRMINGHAM	
Question	Response
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None.
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None.





<b>INREACH (BIRMINGHAM)</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	<ul style="list-style-type: none"> <li>- INReach has two directors appointed by BCC who are both senior officers within BCC with extensive knowledge and experience in housing development sector and finance.</li> <li>- INReach has no direct employees</li> <li>- INReach has a service contract with BCC to provide specialist skills in housing development, finance and legal services.</li> </ul>
How does the company ensure that Directors engage fully with the company and what is the record of attendance	<ul style="list-style-type: none"> <li>- Quarterly Board meetings are held, and the Directors have 100% attendance record.</li> </ul>
Please explain the system of governance and the financial control environment within the company	<ul style="list-style-type: none"> <li>- INReach employed KPMG as its accountant.</li> <li>- XERO accountancy system is used for bookkeeping, production of monthly management accounts and year end accounts.</li> <li>- A dual authorisation process is required for banking with Barclays.</li> </ul>
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	<ul style="list-style-type: none"> <li>- All reporting is via INReach Board for approval and sign off.</li> </ul>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	<ul style="list-style-type: none"> <li>- Monthly management reports are produced</li> <li>- Company cashflow is reviewed monthly</li> <li>- The Business Plan is reviewed and updated every six months.</li> <li>- INReach Risk Register is reviewed monthly</li> </ul>

<b>INREACH (BIRMINGHAM)</b>	
<b>Question</b>	<b>Response</b>
What is the company's approach to the development of business continuity plans.	<ul style="list-style-type: none"> <li>- INReach risk management plan</li> <li>- Business continuity Insurance</li> </ul>
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	<ul style="list-style-type: none"> <li>- INReach does not hold or process any personal data, contracted parties are required to be fully compliant with GDPR requirements</li> </ul>
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	<ul style="list-style-type: none"> <li>- The risk register is reviewed on a monthly basis at project group and reported to board a quarterly basis.</li> </ul>
Please set out your management's processes for identifying and responding to risks of fraud.	<p>INReach has put in place processes across the business to identify and reduce the risk of fraud. This includes but not limited to segregation of duties, approvals and financial reporting.</p> <p>INReach Risk Register and scheme specific Risk Register are reviewed and updated by the Project Lead on a monthly basis. The Risk Register is also reviewed by the Director(s) on a quarterly basis.</p> <p>The Accountant Services review INReach accounts and identify and report any risk of fraud.</p> <p>Annual external audit is conducted to review, identify and report any risk of fraud.</p>

<b>INREACH (BIRMINGHAM)</b>	
<b>Question</b>	<b>Response</b>
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	<ul style="list-style-type: none"> <li>- Quarterly monitoring is via the risk register</li> </ul>
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	<ul style="list-style-type: none"> <li>- Management agreement with Pinnacle, potential risk around rent collection on behalf of INReach. This is mitigated by monthly report of voids, arrears and rent collection and access to their IT system which provides INReach with full transparency in relation to rent collection.</li> </ul>
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	<ul style="list-style-type: none"> <li>- Risk register and board meeting</li> </ul>
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	<ul style="list-style-type: none"> <li>- None</li> </ul>
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	<ul style="list-style-type: none"> <li>- Via the risk register and board meeting</li> </ul>
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	<ul style="list-style-type: none"> <li>- Monthly management accounts are shared with BCC as INReach's sole shareholder</li> <li>- Updates and performance are discussed at BCC Partnership board attended by INReach director(s)</li> </ul>
How would the company communicate any breach of GDPR requirements to the Council.	<ul style="list-style-type: none"> <li>- Promptly and in writing.</li> </ul>

<b>INREACH (BIRMINGHAM)</b>	
<b>Question</b>	<b>Response</b>
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<ul style="list-style-type: none"> <li>- Insurance Cover summary attached</li> <li>- Through its engagement of Accountant</li> </ul>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	<ul style="list-style-type: none"> <li>- none</li> </ul>
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	<ul style="list-style-type: none"> <li>- Through ongoing dialogue with its Accountancy Service.</li> </ul>
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	<ul style="list-style-type: none"> <li>- Final account settlement with development contractor Nov 2019.</li> </ul>
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	<ul style="list-style-type: none"> <li>- INReach's key asset is Embankment which is a 92 apartment building, any impairment is dependent on the property valuation.</li> </ul>

<b>INREACH (BIRMINGHAM)</b>	
<b>Question</b>	<b>Response</b>
Please set out details of any indemnities or guarantees that the company has given.	- None
Please set out details of any indemnities or guarantees that the company has received.	- None
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	- None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	- Audit report attached
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	- There are currently plans in place to expand INReach with the proposed acquisition of two city centre sites for development.



THE NATIONAL EXHIBITON CENTRE (DEVELOPMENTS) PLC	
Question	Response
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	The Company's sole function is servicing the finance originally raised to fund the construction of halls 17-20 at the National Exhibition Centre. Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	<p>Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors.</p> <p>Directors meetings held during 2018/19 were attended by both directors</p>
Please explain the system of governance and the financial control environment within the company	<p>The Board comprises two Board members and is responsible for managing the affairs of the Company. It meets a minimum of once a year to discuss the requirements of the Company.</p> <p>The Board specifically monitors the statutory audit of the annual accounts including the independence of the statutory auditor.</p> <p>All transactions are processed through the City Council's financial systems in line with a budget previously approved by the Company Directors.</p>

<b>THE NATIONAL EXHIBITON CENTRE (DEVELOPMENTS) PLC</b>	
<b>Question</b>	<b>Response</b>
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	All transactions are processed through the City Council's financial systems in line with a budget previously approved by the Company Directors.
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	Not applicable. The largest transaction relates to fixed interest payable in relation to £73m loan. Other transactions cover scheduled repayments of City Council loan and minor costs of operating Company and administrating debt. The Company has no sources of income other than Birmingham City Council.
What is the company's approach to the development of business continuity plans.	Not applicable
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	Birmingham City Council officers manage the Company in line with Birmingham City Council processes.
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	All transactions are processed through the City Council's financial systems.
Please set out your management's processes for identifying and responding to risks of fraud.	All transactions are processed through the City Council's financial systems.



<b>THE NATIONAL EXHIBITON CENTRE (DEVELOPMENTS) PLC</b>	
<b>Question</b>	<b>Response</b>
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	All transactions are processed through the City Council's financial systems
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	Largest transaction relates to the fixed interest payment in relation to £73m loan.
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors. Largest transaction relates to the fixed interest payment in relation to £73m loan
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Not applicable. The largest transaction relates to fixed interest payable in relation to £73m loan. Other transactions cover scheduled repayments of City Council loan and minor costs of operating Company and administrating debt. The Company has no sources of income other than Birmingham City Council.

THE NATIONAL EXHIBITON CENTRE (DEVELOPMENTS) PLC	
Question	Response
How would the company communicate any breach of GDPR requirements to the Council.	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<p>The largest transaction related to fixed interest payable in relation to £73m loan. Other transactions cover scheduled repayments of City Council loan and minor costs of operating Company and administrating debt.</p> <p>All transactions are processed through the City Council's financial systems.</p> <p>Birmingham City Council maintains Directors and Officers insurance which both the Company and Directors have benefit of, to the value of £1million.</p>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None

THE NATIONAL EXHIBITON CENTRE (DEVELOPMENTS) PLC	
Question	Response
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies principally relate to the debt and are reviewed annually when preparing the Company accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	The Company has no source of funds other than Birmingham City Council. Birmingham City Council has given a guarantee to the Company in relation to the £73m loan stock, and has agreed to make payments to the Company to enable it to meet all of its other liabilities as they fall due for at least 12 months following the date of approval of the financial statements.

THE NATIONAL EXHIBITON CENTRE (DEVELOPMENTS) PLC	
Question	Response
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	An active market quote did not exist for the guarantee given by Birmingham City Council over the Company's 2027 loan stock at 1 May 2015. Management, therefore developed an estimate of its fair value at initial recognition based on the trading price of the company's listed loan stock given the cashflows are identical.
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	In relation to the Company's accounts at 31 <sup>st</sup> March 2019, the independent auditor has stated that no key audit matters were identified to be communicated in their report.
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None

<b>PARADISE CIRCUS LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	See attached document
How does the company ensure that Directors engage fully with the company and what is the record of attendance	See attached document
Please explain the system of governance and the financial control environment within the company	See attached document
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	See attached document
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	See attached document
What is the company's approach to the development of business continuity plans.	See attached document

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	<p>SANNE has implemented its own GDPR &amp; Data Protection project to ensure that we have an end-to-end privacy compliance framework in place; this is fundamental in demonstrating how we are aligned with the requirements of the GDPR. Some of the key project streams include:</p> <ul style="list-style-type: none"> <li>• The implementation of appropriate policies and procedures;</li> <li>• The roll out of a global training and awareness programme;</li> <li>• A priority driven data mapping and inventory exercise for each process within the business; and</li> </ul> <p>Third party vendor review programme.</p>
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	<p>Sanne PLC Board has agreed a risk appetite statement for the Group. Those risk appetite statements are adopted by all the regulated entities within the Sanne Group:</p> <ul style="list-style-type: none"> <li>• SANNE Group will take all reasonable steps to apply controls to mitigate the risk of fraud against its clients or any SANNE Legal Entity.</li> <li>• SANNE will apply a zero tolerance to any activity by any employee or party acting on behalf of a SANNE legal entity that constitutes, or could lead to, any fraudulent activity.</li> <li>• As permitted by law, SANNE will cooperate openly and transparently with SANNE's regulators and other lawful</li> </ul>

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<p>authorities in governing, preventing, detecting, responding or remediating any fraudulent activity.</p> <ul style="list-style-type: none"> <li>Where any fraud is considered to be of a material nature, as determined by the CS&amp;GS Risk Committee, then the matter will reported to the relevant Board of Directors who will determine it should be reported as a criminal activity to the local law enforcement authority.</li> <li>SANNE will apply a risk-based approach to monitoring transactional activity and asset transfers that will include setting thresholds and client behavioural tolerances that will automatically prompt a referral for that activity or transaction to be subject of a further review.</li> <li>As fraud is a predicate offence and when any employee has reasonable grounds to suspect that a fraud has been committed or attempted they will raise a SAR/STR and it will be processed in accordance with agreed reporting procedures.</li> </ul>
Please set out your management's processes for identifying and responding to risks of fraud.	Sanne has established an anti-Fraud policy, and training. Fraud is included in compliance monitoring programme, as well as tested by first, and third line of defence.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	<p>Sanne has implemented the 3 lines of defence model.</p> <p>The 1<sup>st</sup> line of defence (FLOD) owns and manages risks. It includes senior and middle managers, and staff. FLOD is responsible for identifying and managing risk as part of their accountability for achieving objectives. Sanne has also established a QA function,</p>

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<p>which sits within first line of defence and is responsible for testing controls.</p> <p>Compliance and Risk forms the 2nd line of defence (SLOD). This provides the policies, frameworks, and support to enable risk and compliance to be managed in the first line, conducts monitoring to test adequacy and adherence to controls. Reports are provided to local boards and directors.</p> <p>Internal Audit function forms the 3rd line of defence (TLOD) Its main responsibility is to ensure that the first two lines are operating effectively and advise how they could be improved. IA reports to the board. It also provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to Sanne's senior leaders.</p>
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	<p>External fraud covers:</p> <ul style="list-style-type: none"> <li>• Client is fraudster - where the client commits, or attempts to commit fraud through their accounts or products against another party.</li> <li>• Third Party Fraud - where a third party (i.e. anyone who is not a client of SANNE Group) uses our client's details to commit, or attempt to commit fraud.</li> <li>• Where a third party uses fraud against a SANNE entity.</li> </ul> <p>Internal fraud covers:</p>



PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
	<ul style="list-style-type: none"> <li>Employee Fraud - committed by, or assisted by, staff, suppliers (and employees of suppliers) or business introducers. Activity includes:               <ul style="list-style-type: none"> <li>The intention to exploit an individual's or organisation's trust or legitimate access to their assets for unauthorised and or/illegitimate purposes.</li> <li>Aiding and abetting others through recklessness or wilful blindness, where colleagues are not actively involved in a deception, but recklessly or knowingly allow it to happen.</li> <li>Aiding or abetting others to commit tax evasion.</li> </ul> </li> </ul>
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	Please see the above sections.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	There are no instance of, or allegations of fraud, errors or other irregularities for the 2019 calendar year.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Notification to BCC representatives that sit on the board of Paradise Circus General Partner Limited and General Partner of Paradise Circus Limited Partnership.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	This would be communicated by Argent LLP and Avison Young UK LLP, who are engaged to provide services to the limited partnership. SANNE provide company secretarial and accounting services only.

<b>PARADISE CIRCUS LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
How would the company communicate any breach of GDPR requirements to the Council.	Notification to BCC representatives that sit on the board of Paradise Circus General Partner Limited and General Partner of Paradise Circus Limited Partnership.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	SANNE has a control framework in place to mitigate risks in line with market practice. This residual risk is then insured. SANNE have appropriate levels of insurance in place.
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	No claims have been made against the directors or the company.  We are not aware of any incidents that may lead to a claim.  There have also been no claims against the company secretary.
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	The financial statements have been prepared in accordance with FRS 102 – as applied by the Partnership (Accounts) Regulations 2008. The accounting policies adopted have been consistently applied in the current and preceding year. The financial statements are reviewed on a regular basis and are audited.

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	The accountants have changed during the year from Argent to Sanne.
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	None
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	At the inception of the 250-year head lease over the land at the Paradise Circus site, it is considered that the present value of the minimum lease payments amount to at least the fair value of the leased asset, therefore, it has been accounted for as a finance lease.  Investment properties are measured at fair value.  There have been no changes from prior period.
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	No issues have been identified by the external auditor as yet. The auditors are still completing their testing on the TB and the financial statements.

PARADISE CIRCUS LIMITED PARTNERSHIP	
Question	Response
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	No material change of circumstances expected.

## BCC Questionnaire – Paradise Circus Limited Partnership

Paradise Circus Limited Partnership (“PCLP”) is a Limited Partnership registered in the UK for the purpose of the development of Paradise Circus, Birmingham City Centre. It was established as a joint venture between BCC and Britel Fund Trustees Limited (“Britel”).

Paradise Circus is a 17 acre site in the historic civic heart of Birmingham. The planned mixed-use development will provide a mix of offices, shops, leisure and cultural facilities together with civic amenities, a hotel and new public realm. The Enterprise Zone has accelerated the transformation of the city centre, which has attracted £58million of private investment, securing a range of occupiers such as HSBC and HMRC. Enterprise Zone funded works are now programmed to be completed in early 2020. All of the Phase 1 works are due to be completed in Q1 2020. The Enterprise Zone funded work for Phase 2 was approved in December 2018, and this work is ongoing.

Paradise Circus General Partner Limited (the “GP”) has considered the impact of adverse changes in the market on the financial risks of market, currency, interest rate, credit and liquidity risks. It has been determined that any adverse changes in the market to the parameters that determine the effects of these financial risks will have a minimal impact on the financial performance and position of PCLP. The GP continues to monitor the economic market for fluctuations, which drive PCLP’s decisions and policy.

As PCLP is a joint venture, the Directors were appointed by way of a joint agreement between BCC and Britel. There are 4 directors on the board of the General Partner of PCLP, comprised of two directors from BCC and two from Britel. Any decisions taken must be taken by way of joint agreement by BCC and Britel. No resolutions can be passed without consensus from both parties involved.

Contracts are entered into between PCLP and 3<sup>rd</sup> parties in relation to the development and management of the development, such as Avison Young as real estate advisors, and SRM as above. Such contracts are always approved by both BCC and Britel. SANNE keep a record of all contracts entered into, and approval dates.

PCLP has no employees or workforce of its own. Instead, in order to achieve completion of its purpose, various third parties have been engaged:

- Argent LLP – is a UK property developer and acts as Property Manager for PCLP. Argent are responsible for the development works, and oversee the contractors engaged on the project (such as Sir Robert McApline (“SRM”) and BAM Construction Limited). Argent are also responsible for the budgeting of the joint venture, with assistance from Avison Young as below.
- Avison Young UK LLP – provides additional budgeting support and project planning for PCLP
- Sanne Group (UK) Limited – are engaged to provide company secretarial, administration and accounting services to PCLP and the wider structure. SANNE and Argent are in constant communication with one another regarding the project.

As PCLP has no workforce of its own, it therefore maintains none of its own controls, policies and procedures. Instead, these are the policies and procedures that are undertaken by SANNE as service provider to PCLP. PCLPs control environment and agreed practices around internal controls, review and audit are therefore an extension of SANNE.

With respect to Business Continuity Protocols/Practice, SANNE has its own BCP, which includes all employees being able to work remotely. Both BCC and Britel are able to contact some members of staff outside of business hours if required.

Quarterly board meetings are held, which must be attended by at least 1 BCC and 1 Britel director. In practice all directors attend the quarterly board meetings, either via phone if needed. All directors are heavily involved in the decision making for PCLP and the structure. During 2019 all of the directors were in attendance at these meetings. SANNE, Argent and Avison Young also attend these meetings to advise on any matters as necessary. SANNE oversee the governance of PCLP and the structure.

<b>PETPS BIRMINGHAM LIMITED</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors
How does the company ensure that Directors engage fully with the company and what is the record of attendance	<p>Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors.</p> <p>Directors meetings held during 2018/19 were attended by both directors</p>
Please explain the system of governance and the financial control environment within the company	<p>Following the completion of the sale of the NEC Group in 2015, the Company assumed the ongoing funding obligation of the NEC Limited Pension Fund and Scheme. At the same time Birmingham City Council gave guarantees to meet the funding obligations that may arise in respect of the liabilities.</p> <p>The assets of the Fund and Scheme are held separately from the Company. The Company itself has no financial transactions.</p>
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	The Company itself has no financial transactions.

<b>PETPS BIRMINGHAM LIMITED</b>	
<b>Question</b>	<b>Response</b>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	The Company itself has no financial transactions.
What is the company's approach to the development of business continuity plans.	The Company itself has no financial transactions.
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	Birmingham City Council officers manage the Company in line with Birmingham City Council processes
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	The Company itself has no financial transactions.
Please set out your management's processes for identifying and responding to risks of fraud.	The Company itself has no financial transactions.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	The Company itself has no financial transactions.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	The Company itself has no financial transactions.



<b>PETPS BIRMINGHAM LIMITED</b>	
<b>Question</b>	<b>Response</b>
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	The Company itself has no financial transactions.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	Not applicable. The Company itself has no financial transactions.
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	Not applicable. The Company itself has no financial transactions.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Not applicable. The Company itself has no financial transactions.
How would the company communicate any breach of GDPR requirements to the Council.	Birmingham City Council officers manage the Company and Birmingham City Council officers have been appointed as Company directors
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	Not applicable. The Company itself has no financial transactions.  Directors and Officers insurance is available to the value of £1million. Pension Trustee liability cover is also available to the value of £10 million.

<b>PETPS BIRMINGHAM LIMITED</b>	
<b>Question</b>	<b>Response</b>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies are reviewed annually when preparing the Company accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None
Please set out details of any indemnities or guarantees that the company has given.	The Company is sole guarantor of the NEC Pension Trustee Company Limited, a wholly owned subsidiary.

<b>PETPS BIRMINGHAM LIMITED</b>	
<b>Question</b>	<b>Response</b>
Please set out details of any indemnities or guarantees that the company has received.	Birmingham City Council has given guarantees to meet the current and future contingent funding obligations that may arise in respect of the NEC Limited Pension fund and the NEC Executive Pension Scheme.
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None



<b>PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
<b>Company Environment</b>	
What approach does the company have for ensuring that Directors and Senior Management have the necessary skills to enable them to fulfil their responsibilities appropriately	Birmingham City Council ("City Council") officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
How does the company ensure that Directors engage fully with the company and what is the record of attendance	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.  All meetings held during 2018/19 were attended by both directors.
Please explain the system of governance and the financial control environment within the company	During 2017/18, the City Council implemented an asset backed funding structure to allow the City Council to finance payments to the NEC Limited Pension Fund. As part of this, the City Council set up wholly owned companies PETPS (Birmingham) Capital Limited and PETPS (Birmingham) General Partner Limited which established PETPS (Birmingham) Pension Funding SLP. The Partnership was capitalised with £17.2m cash which has been loaned back to the City Council.  All cash transactions are processed through the City Council's financial systems.
Please explain how management gains assurance on its control environment, its process for reviewing the effectiveness of the system of internal controls and the results of any reviews that have been undertaken.	All cash transactions are processed through the City Council's financial systems.

<b>PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
What are the company's arrangements for the development of its Business Plan, including details of cashflow management, determination of going concern and how are plans developed for taking remedial action to any adverse changes within the company	Not applicable. The largest transaction relates to payments by the City Council to the Partnership under the £17.2m loan and the Partnership makes payments to the Trustee of the Fund in accordance with an agreed distribution schedule.
What is the company's approach to the development of business continuity plans.	Not applicable
What is the company's approach to ensuring compliance with the General Data Protection Regulation (GDPR) requirements	City Council officers manage the Companies and Partnership in line with City Council processes.
<b>The Identification, Mitigation and Reporting of Risk</b>	
Please set out your management's views on your risk assessment process as it related to financial reporting.	All cash transactions are processed through the City Council's financial systems.
Please set out your management's processes for identifying and responding to risks of fraud.	All cash transactions are processed through the City Council's financial systems.
How do those charged with governance monitor management's processes for identifying and responding to risks of fraud.	All cash transactions are processed through the City Council's financial systems.
Please set out the areas that face fraud risks, including specific accounts or classes of transactions where fraud risks have been identified.	Not applicable. The largest transaction relates to payments by the City Council to the Partnership under the £17.2m loan and the Partnership makes payments to the Trustee of the Fund in accordance with an agreed distribution schedule

Group Accounts Preparation

Appendix 1

<b>PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
How does the company's management communicate to those charged with governance with respect to business risks (including fraud).	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
What has been your Management's awareness or allegations of fraud, errors, or other irregularities during the period.	None
How would your organisation raise the Council's Audit Committee's awareness of fraud or suspected fraud.	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
How your organisation would communicate financial risks to the Council, for example, where there is an expected downturn in trading performance that would impact on the financial status of the company	Not applicable. The largest transaction relates to payments by the City Council to the Partnership under the £17.2m loan and the Partnership makes payments to the Trustee of the Fund in accordance with an agreed distribution schedule
How would the company communicate any breach of GDPR requirements to the Council.	City Council officers manage the Companies and Partnership. City Council officers have been appointed Directors of the Companies.
What mitigating actions are in place to minimise financial losses from risk events or fraud, for example, what type and value of insurance cover does the company have in place.	<p>All cash transactions are processed through the City Council's financial systems.</p> <p>Directors and Officers insurance is maintained to the value of £1million in respect of PETPS(Birmingham) General Partner Limited, and £1million in respect of PETPS(Birmingham) Capital Limited.</p>

## Group Accounts Preparation

## Appendix 1

<b>PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
Have any claims been made against the company or its Directors, or are you aware of any incidents that may lead to a claim, which have not been reported to the company's insurers?	None
<b>Financial Statements</b>	
How does the company determine that its accounting policies are appropriate and what process is in place for ensuring they are kept under review.	Accounting policies are reviewed annually when preparing the Company accounts.
What matters or events occurred during the year that could influence your audit approach or may have an impact on the Council's consolidated financial statements.	None
Please set out details of any events or changes in circumstances that may cause an impairment of current or non-current assets.	None
Please set out details of any indemnities or guarantees that the company has given.	None
Please set out details of any indemnities or guarantees that the company has received.	None



## Group Accounts Preparation

Appendix 1

<b>PETPS (BIRMINGHAM) CAPITAL LIMITED, PETPS(BIRMINGHAM) GENERAL PARTNER LIMITED, PETPS(BIRMINGHAM) PENSION FUNDING SCOTTISH LIMITED PARTNERSHIP</b>	
<b>Question</b>	<b>Response</b>
Please set out details of any transactions, events or conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement.	None
Please set out any issues identified by your external auditor and how the company is implementing any actions to mitigate those issues.	None
Please set out any material change of circumstances that have occurred, or may occur, that could impact on the company's performance.	None



**BIRMINGHAM CITY COUNCIL****AUDIT COMMITTEE****24 MARCH 2020****SCHEDULE OF OUTSTANDING MINUTES**

<b>MINUTE NO./DATE</b>	<b>SUBJECT MATTER</b>	<b>COMMENTS</b>
99 26/03/2019	<b><u>Early Years Health and Wellbeing Risk</u></b> The Director, Education and Skills requested to provide an update report.	Report due in 28 January 2020  Discharged at 28 Jan 2020 Committee.
193 28/01/2020	<b><u>Travel Assist</u></b>  The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries.	Report due in July/September 2020
195 28/01/2020	<b><u>Audit Committee – Future ways of Working</u></b>  The Committee agreed a draft proposal on future ways of working of the Audit Committee to be shared at the 24 March Committee.	Proposals due in 24 March 2020

