The Annual Audit Letter
For Birmingham City Council

Year ended 31 March 2017
October 2017

Phil W Jones
Director
T 0121 232 5437
E phil.w.jones@uk.gt.com

Laura Hinsley
Senior Manager
T 0121 232 5235
E laura.e.hinsley@uk.gt.com

Lorraine Noak
Manager
T 0121 232 5407
E lorraine.noak@uk.gt.com

Tess Barker
Assistant Manager
T 0121 232 5428
E tess.s.barker@uk.gt.com
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive summary</td>
<td>3</td>
</tr>
<tr>
<td>2. Statutory recommendation and other matters</td>
<td>5</td>
</tr>
<tr>
<td>3. Audit of the accounts</td>
<td>8</td>
</tr>
<tr>
<td>4. Value for Money conclusion</td>
<td>14</td>
</tr>
</tbody>
</table>

## Appendices

| A Reports issued and fees                                             | 22   |
Executive summary

Purpose of this letter
Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Birmingham City Council (‘the Council’) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 26 September 2017.

Our responsibilities
We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

• give an opinion on the Council's financial statements
• assess the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work
Financial statements opinion
We gave an unqualified opinion on the Council's financial statements on 29 September 2017.

We included an emphasis of matter paragraph in our report on the Council's financial statements to draw attention to the uncertainties surrounding the volume and timing of any future equal pay claims and the determination of any settlements.

This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Value for Money (VfM) conclusion
We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We therefore issued an adverse value for money conclusion in our audit opinion on 29 September 2017.
Certificate
We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors in relation to (a) certain education PFI schemes and (b) the Council’s Lender Option Borrower Option (LOBO) loans. We are also in receipt of a whistle-blower reference in relation to the Council, which we will be following up with the Council’s assistance. These outstanding issues do not affect (a) our opinion that the statements give a true and fair view of the Council’s financial position and its income and expenditure for the year and (b) our value for money conclusion on the 2016/17 accounts.

Whole of government accounts
We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 29 September 2017.

Certification of grants
We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed
We have also undertaken 2016/17 audits of the following Council subsidiaries.
- Acivico Limited (audit still in progress)
- NEC (Developments) PLC
- Innovation Birmingham Limited
- PETPS (Birmingham) Limited
- Finance Birmingham Limited
- Marketing Birmingham Limited

We have completed non-audit services for Innovation Birmingham Limited and Acivico Limited.

We have also certified a number of grant claims for the Council and provided CFO insights software.

Working with the Council
We met regularly with a range of Corporate Directors across the Council to inform our VfM conclusion and we have also been briefed by the Improvement Panel on their work with the Council.

We have continued to work with the Finance Team constructively throughout the year. This has included commenting on and supporting plans for earlier closedown both this financial year and looking ahead. We have also met regularly with the finance team to discuss emerging technical issues such as pension guarantees and Equal Pay.

In 2017, we provided a range of training and other events that council officers have attended. These include technical accounting workshops as well as seminars on pension prepayments

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017
Statutory recommendation and other matters

Section 24 follow up
We included a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014 (“Section 24”) in our 2015/16 Annual Audit Letter relating to the adequacy of budgetary arrangements. The recommendation stated that the Council needed to:

- ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17;
- demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Council Financial Plan 2017+ by:
  - revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17
  - ensuring that all savings plans are assessed for both lead time to implement and delivery risk; and
- re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves for 2016/17 and the impact of this on the reserves position from 2017/18 onwards.

This recommendation and the Council’s formal response were considered at the Council meeting on 10 January 2017. Following this, we wrote to the Acting Chief Executive of the Council on 15 March 2017 expressing concern about the Council’s ability to deliver its challenging savings programme, particularly given the gaps in senior management capacity at that time and the proposals to further reduce senior management capacity within the finance department.

The Council subsequently responded to the issues of capacity set out in our letter by making a number of key interim appointments, in particular to the vacant positions of Chief Executive and Chief Finance Officer. In addition, a report was presented to the Audit Committee on 20 June 2017 outlining the Council’s response to our Letter.

We have continued to monitor progress on delivery of the 2017/18 budget and the associated savings programme as well as following up progress made on the section 24 recommendation.

Our conclusions overall are that progress has been made in developing a more realistic medium-term financial plan, but that key elements of the plan remain at risk.

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

The events surrounding the waste strike has affected capacity to focus on corporate budget and governance monitoring. The officer and political leadership need to work together to ensure that the Council’s financial stability remains a top priority. If the waste strike resumes, the additional expense arising will add to cost pressures.

We will continue to review budget monitoring reports over the coming months to determine whether sufficient progress is being made, and if not, what other formal audit action might be appropriate, whether by the issue of a report in the public interest or some other audit action.
Other matters

Senior Management Exit Packages

The Council made a number of significant commitments during 2016/17 in relation to exit packages for senior officers to facilitate the reshaping of the Council, to enable it to respond to the complex challenges going forward. These have ranged from payments for compensation of loss of office, through to enhanced arrangements to support an early retirement. We received a question from a Councillor regarding one of the exit package arrangements.

Accordingly, we reviewed the arrangements for these exit packages and concluded that each of the exit payments reflected different circumstances. We are satisfied that the Council had, in each instance, taken legal and financial advice before finalising each arrangement. The Council also involved Members appropriately in the decisions, in accordance with its procedures for Member authorisation of such payments, via the Independent Remuneration Panel (IRP).

There may however be scope to improve the governance around these arrangements, specifically by:

• ensuring that all reports to the IRP clearly articulate the legal, financial and operational rationale for each arrangement and in particular the likely cost implications of different options. For instance, dismissal may be an appropriate course of action in some instances, but this may prove costly if the grounds for dismissal have not been adequately evidenced;
• re-emphasising the importance of ensuring that details of emerging exit pay arrangements are maintained in strict confidence to safeguard the Council against the possibility of legal action by individuals who might consider that they have suffered damage by any ‘leaks’; and
• strengthening performance management procedures for senior officers through better documentation of such processes to ensure a consistent approach.

Commonwealth Games Bid 2022

The Government and Commonwealth Games England decided that Birmingham should be recommended as a Candidate City to host the 2022 Commonwealth Games following the decision earlier in the year to strip Durban of the event.

Subsequent to Birmingham’s proposal submission, the Commonwealth Games Federation announced that they have extended the deadline to receive ‘fully compliant proposals’ to the end of November 2017.

The Council has pointed to the economic, sporting and other benefits that the Games could yield for the City and the wider midlands region. We have not seen or reviewed any information associated with the projected costings or benefits associated with the bid, but it is clear that the Council will need to carry out a robust options analysis to ensure that the costs of delivering the Games, should the bid be successful, can be adequately supported within the context of its medium-term financial plan.
Other matters (continued)

Waste Dispute
The Council has sought to introduce changes to the organisation of its waste service with the aim of providing a high quality service and improving efficiency. In response, industrial action was commenced by waste staff from 30 June 2017 and continued, with one short break, into September 2017. This has resulted in the disruption of services provided to local citizens but also incurred considerable extra costs, running at some £0.3m per week.

The strike was suspended on 16 August 2017 following discussions under the auspices of ACAS. It was re-instated, following clarification by the Council that it remained committed to delivering the reorganisation in the original form agreed by cabinet on 27 June 2017. Selective details relating to the unfolding of these events appeared in the public media, which has not served to enhance confidence in the Council’s systems of governance. Whilst a clear picture is yet to emerge, we will discuss with the Council, in the context of our formal duties, whether any breaches of governance have occurred, particularly as they relate to:

• Lawfulness of decision making
• Conduct
• Member-Officer relations

Members will recall that a key strand of the Kerslake report related to the need to re-set Member-Officer relations. It is of concern that initial improvements in this area may not have been sustained. We note however that robust officer action has ensured that the breach of governance was detected and addressed.

In the wake of these events, the Leader of the Council announced his resignation on 11 September 2017 and Councillor Ian Ward has taken on the role of Interim Leader of the Council.

On 1 September 2017 the strike resumed as 106 workers were handed their redundancy notices but the action was suspended on 20 September 2017 when Unite won an injunction blocking the proposed redundancies. A court hearing is due on 27 November 2017 to decide whether the Council entered into a negotiation deal. The Interim Leader is committed to finding a sustainable solution to the dispute.

Children's Trust
The Children’s Trust will be established in 2018 and is currently operating in shadow form. We will monitor developments as the new organisation comes into being. An issue has arisen nationally in relation to the ability of such Trusts, as a private sector entities for tax purposes, to recover VAT for services supplied, which could have considerable financial implications for Local Authorities.

The Council has however received a letter from the Department for Education on 11 July 2017 stating that “in the interim, the Secretary of State has agreed to meet any additional costs arising from the VAT treatment of the Birmingham Children’s Trust”. We will continue to monitor this position going forward although we are satisfied this risk has been sufficiently mitigated in the short to medium term.
Audit of the accounts

Our audit approach

Materiality
In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £43.19 million, which is 1.5% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower level of specific materiality for senior officer remuneration of £20,000 and related party transactions of £100,000.

We also set a lower triviality threshold of £2.16m, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

• the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
• significant accounting estimates made by the Interim Chief Finance Officer are reasonable; and
• the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.
Audit of the accounts (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
</table>
| **Going Concern** The Council faced significant financial challenges and forecasted a significant deficit position for 2016/17. This raised doubts over the completeness and adequacy of the going concern disclosures in the accounts, particularly in relation to material uncertainty. | • Review of management's assessment of going concern assumptions and supporting information, e.g. 2017/18 and 2018/19 budgets and cash flow forecasts and associated sensitivity analysis; and  
• Review of completeness and accuracy of disclosures on material uncertainties in the financial statements. | We have considered whether there is evidence of material uncertainty that the Council will continue as a going concern for 12 months from the date of our audit report.  
We are satisfied that the Council’s financial statements have been appropriately prepared on a going concern basis. |
| **Valuation of property, plant and equipment** The Council revalues its assets on a rolling basis over a five year period. The CIPFA Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements. | • Review of controls in place to ensure that revaluation measurements are correct;  
• Testing of revaluations including instructions to the valuer and the valuer’s report;  
• Review of management's processes and assumptions for the calculation of the estimate;  
• Review of the competence, expertise and objectivity of any management experts used;  
• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions;  
• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding;  
• Testing of revaluation when assets are brought into use; and  
• Review of the procedures used to ensure that assets not revalued during the year (due to the Council's rolling 5 year revaluation programme) were not materially different to current value. | The valuation date within the valuer’s report for General Fund land and buildings is 1 April 2016, but is accounted for as if the valuation was at 31 March 2017, subject to the adjustment noted below.  
To ensure the valuation is not materially misstated, the valuer reviewed the potential movement in values for the year. As part of this, the valuer also carried out a desktop review of all DRC (Depreciated Replacement Cost) valued assets not subject to formal revaluation, to assess whether they were materially misstated. He concluded that the carrying values of these assets needed to be adjusted. This resulted in an increase of £10.9m for assets fully revalued in 2016/17, and £94.3m for assets not revalued during 2016/17.  
We are satisfied that the accounts are consistent with the valuation and assessment and that this demonstrates there is a low risk of material misstatement.  
Our audit work has not identified any other significant issues in respect of valuation of property, plant and equipment. |
Audit of the accounts (continued)

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation of pension fund net liability</strong>&lt;br&gt;The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</td>
<td>• Identifying the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;&lt;br&gt;• Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation;&lt;br&gt;• Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and&lt;br&gt;• Review of the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from your actuary.</td>
<td>Our audit work has not identified any issues which we wish to bring to your attention.</td>
</tr>
</tbody>
</table>

| **Changes to the presentation of local authority financial statements**<br>CIPFA has been working on the ‘Telling the Story’ project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required. | • Documentation and evaluation of the process for recording the required financial reporting changes to the 2016/17 financial statements;<br>• Review of the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council’s internal reporting structure;<br>• Review of the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS);<br>• Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES;<br>• Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger;<br>• Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and<br>• Review of the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code. | We identified that the column ‘expenditure reported to cabinet’ within the Expenditure and Funding Analysis note had been constructed using budget figures instead of the actual figures as reported to Cabinet. This has been included as a disclosure change to the financial statements and amendments have been agreed by the Council. Our audit work has not identified any further issues which we wish to bring to your attention. |
Audit of the accounts (continued)

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</td>
<td>• Documented our understanding of processes and key controls over the transaction cycle; • Undertaken walkthrough of the key controls to ensure those controls were in line with our documented understanding and that controls in place ensured operating expenses were not understated and were recorded in the correct period; • Reviewed the application of the year-end closedown process for capturing creditor accruals; and • Undertaken substantive testing of year end creditors including after date payments.</td>
<td>We tested a sample of payments made in April and May 2017 to identify whether there were items relating to goods/services received in 2016/17 which had not been appropriately accrued for (whether via system/manual accruals or the forecast accrual process). Two out of the seven school invoice payments selected within our sample related to services received prior to 31/3/17, but processed for payment after year-end, which were not manually accrued by the school on their submission to BCC. The total value of such school invoices paid in April and May amount to £9.8m, and this value is expected to include invoices for goods and services relating to both 2016/17 and 2017/18. Therefore, we are satisfied there cannot be a material risk of under-accrual of school invoices relating to 2016/17. We recommend that the Council review their processes for ensuring schools expenditure includes appropriate accruals. Our audit work did not identify any other issues which we wish to bring to your attention.</td>
</tr>
<tr>
<td><strong>Employee remuneration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</td>
<td>• Documented our understanding of processes and key controls over the transaction cycle; • Undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding and were in place to ensure payroll expenses were not understated and were included in the correct period; • Reconciled the annual payroll to the ledger and to the Expenditure and Funding analysis by nature note in the accounts; • Completed a trend analysis of monthly and weekly payroll payments covering 2016/17 and compared these to 2015/16 to determine whether additional substantive testing was required; and • Agreement of employee remuneration disclosures in the financial statements to supporting evidence.</td>
<td>Our audit work did not identify any issues that we wish to bring to your attention.</td>
</tr>
</tbody>
</table>
### Audit of the accounts (continued)

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
</table>
| **Property, plant and equipment** | Risk that property plant and equipment activity is not valid | We have undertaken the following work in relation to this risk:  
- Documented our understanding of processes and key controls in place to ensure that PPE activity was valid;  
- Undertaken a walkthrough of the process to ensure controls were in line with our documented understanding;  
- Tested the agreement of the fixed asset register to the accounts and supporting notes; and  
- Tested a sample of PPE additions and disposals as well as ensuring compliance with capitalisation requirements. | Our testing identified two errors which have been adjusted in the Statement of Accounts. These related to incorrect capitalisation of £6.7m spend on the Midland Metro which should be treated as REFCUS and £5.3m spend on one school which came into use in 2016/17 but was not transferred out of Assets Under Construction (AUC). We identified no other issues that we wish to bring to your attention. |
Audit of the accounts (continued)

**Audit opinion**

We gave an unqualified opinion on the Council's accounts on 29 September 2017 in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable (four weeks ahead of the national deadline) and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

**Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the Council Audit Committee on 26 September 2017.

**Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Minor amendments were made to both the Annual Governance Statement and the Narrative Report to ensure both documents were prepared in line with the relevant guidance and were consistent with supporting evidence provided and with our knowledge of the Council.

**Whole of Government Accounts (WGA)**

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

**Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to consider two objections made in relation to the councils 2016/17 Financial Statements.

We have also considered the responses made to the Section 24 recommendation made on 2015/16.
Value for Money conclusion

Background
We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings
Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed recommendations to address our findings:

1. Budget Delivery and Reserves Management
The Council needs to deliver the identified mitigating actions to offset the undeliverable planned savings in 2017/18 and maximise the delivery of the remaining savings plans for 2017/18 to reduce the use of additional reserves to achieve a balanced budget position.

The Council needs to develop realistic savings plans for future years which take full account of any delivery issues that are identified.

2. Future Operating Model
The Council needs to deliver management and support services changes following the redevelopment of the FOM on a timely basis to ensure that it delivers the required financial and operational outcomes.

3. Improvement Panel (‘the Panel’)
The Council needs to demonstrate that the pace of change and the impact of new political and corporate leadership arrangements are sufficient and sustained to address the concerns previously raised by the Panel.

4. Services for Vulnerable Children
The Council needs to continue to demonstrate measurable improvements in services for vulnerable children through successful implementation of the Children’s Trust.

5. Management of Schools
The Council needs to continue to increase the pace of improvement in schools’ governance arrangements to ensure that it can demonstrate to Ofsted that it has addressed the issues that it raised.

We issued an addendum to our Audit Findings Report on 26 September 2017 to include a reference to Equal Pay within the adverse VfM conclusion. The settlement of Equal Pay Claims remains an issue for the Council. Uncertainty around the timing and amounts of future claims will have an impact on the Council’s reserves management.

Overall VfM conclusion
Because of the significance of the matters we identified in our work, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.
Value for Money

Table 2: Value for money risks

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Delivery and Reserves Management</td>
<td>We have reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</td>
<td>The Council reported a 2016/17 revenue budget overspend of £29.8 million on a net revenue budget of £835.3 million. The outturn overspend is in the context of demanding savings targets of £123.2 million including finding 2016/17 solutions for £35.0 million largely for savings achieved on a non-recurrent basis in 2015/16. The Council has used £30.0 million of corporate funding (made up of use of the Capital Fund and the Organisation Transformation reserve) to address the year end pressure.</td>
</tr>
</tbody>
</table>

Given the recognised difficulties associated with the Council’s 2016/17 savings programme, an independent review of 2017/18 budget setting process and an evaluation of the deliverability of the proposed budget has taken place.

Overall the savings plan outlined in the Council's Financial Plan 2017+ needed to deliver 100% recurrent savings (£148 million) by the end of 2018/19 to maintain a workable reserves position. The key risk is that the proposed schemes will not deliver the required recurrent savings, or will take longer to implement than planned.

The Month 4 Corporate Revenue Budget Monitoring report position up to the end of July 2017/18 identifies the following:

- At the end of July 2017 a net revenue overspend of £15.7 million in 2017/18 is being forecast. This consists of an underspend of £2.3 million in the base budget delivery and £18.0 million of savings delayed or not deliverable in 2017/18 after identified mitigations.
- The total forecast overspend of £15.7 million is primarily related to Place Directorate (£4.4 million), Children and Young People (£4.8 million) and the Future Operating Model (£15.7 million), offset by planned mitigations from Budget Planning work of £4.0 million and Corporate mitigations of £5.2m.
- In the case of the Place Directorate, this relates largely to savings delivery challenges and base budget pressures on Waste Management services.
- CYP relates largely to savings delivery challenges and pressures on the base budget for Travel Assist.
## Value for Money (continued)

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Delivery and Reserves Management (continued)</td>
<td>We have reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</td>
<td>We identified in our initial risk assessment that the key risk was that the major savings schemes would not deliver the required recurrent savings, or would take longer to implement than planned. The £14.4 million shortfall in recurrent savings brought forward from 2016/17 and the delivery difficulties associated with the largest savings schemes in 2017/18 means that this risk is not sufficiently mitigated. In our view savings planning arrangements did not sufficiently take into account the impact of the level of non-recurrent savings or adequately assess the vulnerability of the largest proposed savings scheme. We have concluded that these weaknesses in the Council's arrangements relate to the adequacy of financial planning VfM criteria as part of informed decision making.</td>
</tr>
</tbody>
</table>
### Value for Money (continued)

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
</table>
| **Future Operating Model**  
The re-structure of the Council to meet its vision for the future will affect all Birmingham City Council Employees and will require a significant amount of detailed planning to deliver. The overarching purpose of the new model is to achieve more for less. Not just to manage on less money but to deliver on new expectations. The key risk is that the planned changes to the Council's operating model do not fully deliver the desired outcomes or take longer than planned to implement. | We have reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks. | The FOM is planned to prioritise public facing services, consolidate and optimise support services and bring consistency to the spans and layers of management within the Council. |

In January 2017 a report was presented at Cabinet setting out the proposals to strengthen the leadership capacity of the Council, reshape the strategic leadership and initiate the implementation of the FOM. To ensure that the Council can deliver the FOM, it is imperative that the organisation adjust its structures, spans and layers of management to align with the model. At its centre the organisation requires a streamlined, disciplined operating centre that supports delivery departments to achieve the priorities of the organisation. The implementation of the FOM was expected to deliver savings in 2017/18 of £14.6 million in the Council’s Financial Plan 2017+. However, due to significant delays in its implementation the Month 4 Corporate Revenue Budget Monitoring report shows that there will be undelivered savings of £15.4 million in 2017/18, rising to £34.2 million in future years before mitigations of £4 million that are expected to be achieved from the Budget Planning work. The Council is currently redeveloping the FOM to ensure that it includes the appropriate management and support service changes to deliver the required financial and operational outcomes. We identified in our initial risk assessment that the key risk is that the planned changes to the Council’s operating model do not fully deliver the desired outcomes or take longer than planned to implement. This has clearly been the case with the FOM and, on that basis, we have concluded that these weaknesses in the Council’s arrangements relate to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities. |
Value for Money (continued)

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement Panel</td>
<td>We have considered the Panel’s reports and discussed the progress made and key issues with the Panel’s Vice Chair.</td>
<td>We met with the Vice Chair of the Panel on a frequent basis throughout the year and were briefed on the Panel’s view of the progress being made. The Panel has written to the Secretary of State several times since 1 April 2016.</td>
</tr>
<tr>
<td></td>
<td><strong>The Improvement Panel</strong> (‘the Panel’) has been in place since January 2015, following the publication of Lord Kerslake’s report on the Council’s governance. The Panel has reported to the Secretary of State on the progress made by the Council, but has also noted its concerns.</td>
<td>The Panel's August 2017 letter stated that its assessment overall is that the Council’s direction of travel is positive. The Panel noted that:</td>
</tr>
<tr>
<td></td>
<td>The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.</td>
<td>“In light of the good prospects for improvement and bearing in mind the highly experienced capacity and capability in the current management team and the Leader’s strong resolve to continue to make the necessary changes that will promote good governance we suggest that the Panel should suspend its current operation with only the Vice Chair and the Panel’s adviser staying in touch with the Council.”</td>
</tr>
<tr>
<td></td>
<td>Subsequent to this, issues arose from the recent waste dispute which led to the resignation of the Leader of the Council on 11 September 2017 and the Secretary of State requested an “urgent update” from the Panel so that he could consider the “next steps” for the Council.</td>
<td>Subsequent to this, issues arose from the recent waste dispute which led to the resignation of the Leader of the Council on 11 September 2017 and the Secretary of State requested an “urgent update” from the Panel so that he could consider the “next steps” for the Council.</td>
</tr>
<tr>
<td></td>
<td>We identified in our initial risk assessment that the key risk was that the Panel will conclude that the Council was not making sufficient progress in implementing the changes needed. We considered the latest findings of the Panel including its suggestion to suspend its current operation, but, recent developments have led us to conclude that these weaknesses in the Council’s arrangements do not support informed decision making.</td>
<td>We identified in our initial risk assessment that the key risk was that the Panel will conclude that the Council was not making sufficient progress in implementing the changes needed. We considered the latest findings of the Panel including its suggestion to suspend its current operation, but, recent developments have led us to conclude that these weaknesses in the Council’s arrangements do not support informed decision making.</td>
</tr>
<tr>
<td></td>
<td>Subsequent to the issue of our audit report on 29 September 2017, we became aware that the Panel met with Councillor Ward and Stella Manzie, interim Chief Executive, to discuss the situation. It was agreed that the best course of action would be for the Panel to remain in place, providing advice and support to the Council until it can demonstrate that the changes and governance still required are truly embedded.</td>
<td>Subsequent to the issue of our audit report on 29 September 2017, we became aware that the Panel met with Councillor Ward and Stella Manzie, interim Chief Executive, to discuss the situation. It was agreed that the best course of action would be for the Panel to remain in place, providing advice and support to the Council until it can demonstrate that the changes and governance still required are truly embedded.</td>
</tr>
</tbody>
</table>
## Value for Money (continued)

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services for Vulnerable Children</td>
<td>We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council was identifying, managing and monitoring these risks.</td>
<td>The Council was subject to an Ofsted monitoring visit in May 2017 and the inspector wrote to the Council summarising his findings on 13 June 2017. The visit was the first monitoring visit since the Council was judged inadequate in November 2016. The areas covered by the visit were help and protection, with a particular focus on referral and assessment arrangements, the application of thresholds for intervention, and services to children at risk of sexual exploitation and those who go missing from home. The inspector’s letter stated “since the last inspection, leaders and managers have worked hard to make a range of necessary improvements including successfully embedding some well-established strength-based approaches to practice within an overall relationship-based model of social work. Although substantial further progress is required before services are consistently good, in a number of areas Birmingham are receiving better and timelier services. Against a long-standing history of failing to provide good services for children, this represents notable progress.” The report of the Improvement Quartet to the Council on 11 July 2017 highlighted the progress made with the establishment of the Children’s Trust. In particular, the appointments of the following: • Andrew Christie as the Trust Chair; • a Chief Executive who started on 14 August 2017; and • six non-executive directors. These appointments and the Trust’s governance arrangements provide the Council with a strong platform to deliver the further improvements required for children’s services in the near future. We identified in our initial risk assessment that the key risk was that services for vulnerable children do not show demonstrable improvement and continue to be subject to external intervention. The findings of the Ofsted monitoring report means that this risk is not sufficiently mitigated. We concluded that these weaknesses in the Council's arrangements relate to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.</td>
</tr>
</tbody>
</table>
Management of Schools
The Council's management of the governance of schools was found to be weak and an Education Commissioner was appointed by the Secretary of State in 2014. The commissioner post ended in July 2016. However much work is still required and the Birmingham Education Partnership (BEP) has responsibility for implementing an improvement plan in conjunction with the West Midlands designated Regional Schools Commissioner.

The key risk is that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed.

We have focused on the BEP’s management and reporting of the Single Integrated Plan. We have reviewed the progress made by Internal Audit within their coverage of schools governance.

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
</table>
| Management of Schools                                                           | We have focused on the BEP’s management and reporting of the Single Integrated Plan. We have reviewed the progress made by Internal Audit within their coverage of schools governance. | The Council published its Education Services Delivery & Improvement Plan for 2016/17 in May 2016. The four key actions of the plan are:  
• to work with strategic partners to build a great education offer for all in a challenging landscape;  
• to improve safeguarding and resilience for all to keep all children safe from harm;  
• to champion fair opportunities for vulnerable children and young people; and  
• to ensure exceptional leadership across and beyond the education system.  

The report of the Improvement Quartet to the Council on 11 July 2017 highlighted the progress made with Education Services. In particular, it noted that:  
• over 90% of the education improvement plan had been delivered on time;  
• feedback from the Department for Education, Ofsted and local stakeholders was positive; and  
• in view of the progress and capacity to improve further, the Education Commissioner’s tenure was ended by the Secretary of State in July 2016.  

However, as part of the assessment of schools governance improvement Birmingham Audit (internal audit) have been commissioned to carry out a programme of audits over a two year period. Their findings have continued to show that there are a range of governance issues to address across the schools visited, 17 of the 97 schools audits undertaken by internal audit in 2016/17 were assessed as ‘level 3’ assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable).

We identified in our initial risk assessment that the key risk was that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed. Although it is clear that progress has been made with the implementation of the improvement plan there is still work to do. The pace of school improvement remains the key issue which is affecting our judgement.

We concluded that these weaknesses in the Council's arrangements relate to managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.
## Value for Money (continued)

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working with Health Partners</strong>&lt;br&gt;The Council has extensive partnership arrangements with Health bodies. Delivery of service outcomes is dependent on effective partnership working with Clinical Commissioning Groups. Deliverability of the Sustainability and Transformation Plan is now at risk due to budget pressures. The redesign of care commissioning is paramount to the achievement of overall public money budgets. The key risk is that partnership arrangements do not fully deliver service outcomes and improvements.</td>
<td>We have reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</td>
<td>We have considered the governance arrangements for the Better Care Fund (BCF) and other pooling agreements including improved Better Care Fund (iBCF). In particular, the clarity of lines of accountability to the Council. We have also considered the risk sharing arrangements in place and the partnership arrangements. The Birmingham iBCF totals £34 million for 2017/18, £47 million in 2018/19 and £60 million in 2019/20. The published policy framework outlines that the intended use of the iBCF is across three priority areas: &lt;ul&gt; &lt;li&gt;to meet adult social care need;&lt;/li&gt; &lt;li&gt;to provide support to the NHS (especially through application of the 8 High Impact Changes); and&lt;/li&gt; &lt;li&gt;to sustain the social care provider market.&lt;/li&gt; &lt;/ul&gt; Whilst the Council is instrumental in the decision making process for how the iBCF money is allocated, ultimately the final decision remains the responsibility of the local Health and Wellbeing Board. The Council is working closely with its NHS partners and social care providers to develop new programmes of care to deliver more efficient and effective services following the deployment of the iBCF. At the Health and Wellbeing Board on 4 July 2017 the proposals for the use of the iBCF and dementia funding as part of the BCF were considered. We identified in our initial risk assessment that the key risk is that partnership arrangements do not fully deliver service outcomes and improvements. We have considered the Council’s arrangements for the distribution of the BCF and the iBCF and are satisfied that they are appropriate. On that basis, we have concluded that the risk is sufficiently mitigated and that the Council has appropriate arrangements in place to work with third parties effectively to deliver strategic priorities and commission services effectively to support delivery of strategic priorities.</td>
</tr>
</tbody>
</table>
Appendix A: Reports issued and fees

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

### Fees

<table>
<thead>
<tr>
<th>Service</th>
<th>Proposed fee £</th>
<th>Final fee £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council audit</td>
<td>314,168</td>
<td>314,168</td>
</tr>
<tr>
<td><strong>Audit of subsidiaries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acivico Limited</td>
<td>38,000</td>
<td>38,000</td>
</tr>
<tr>
<td>Innovation Birmingham Limited</td>
<td>22,800</td>
<td>22,800</td>
</tr>
<tr>
<td>NEC (Developments) PLC</td>
<td>30,000</td>
<td>35,000</td>
</tr>
<tr>
<td>PETPS (Birmingham) Limited</td>
<td>7,600</td>
<td>7,600</td>
</tr>
<tr>
<td>Finance Birmingham Limited</td>
<td>6,900</td>
<td>7,000</td>
</tr>
<tr>
<td>Marketing Birmingham Limited</td>
<td>13,900</td>
<td>13,900</td>
</tr>
<tr>
<td><strong>Subsidiaries total</strong></td>
<td><strong>119,200</strong></td>
<td><strong>124,300</strong></td>
</tr>
<tr>
<td>Housing Benefit Grant Certification</td>
<td>17,594</td>
<td>23,594*</td>
</tr>
<tr>
<td><strong>Total audit fees (excluding VAT)</strong></td>
<td><strong>450,962</strong></td>
<td><strong>462,062</strong></td>
</tr>
</tbody>
</table>

The proposed fees for the year for the Council audit and the Housing Benefit Grant Certification were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). *The final fee for Housing Benefits Grant Certification is pending agreement of a fee variation by PSAA. This variation is expected to be in the region of £6,000.

### Reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan</td>
<td>January / March 2017</td>
</tr>
<tr>
<td>Audit Findings Report</td>
<td>September 2017</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>October 2017</td>
</tr>
</tbody>
</table>

### Fees for other services

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit related services:</strong></td>
<td></td>
</tr>
<tr>
<td>• SFA Grant</td>
<td>4,500</td>
</tr>
<tr>
<td>• IMLT Grant</td>
<td>3,500</td>
</tr>
<tr>
<td>• Teacher’s Pension</td>
<td>TBC</td>
</tr>
<tr>
<td>• Pooling Capital Receipts</td>
<td>TBC</td>
</tr>
<tr>
<td>• CFO Insights (fee per annum)</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Other services</strong></td>
<td></td>
</tr>
<tr>
<td>• Innovation Birmingham – VAT</td>
<td>1,100</td>
</tr>
<tr>
<td><strong>Non-audit services</strong></td>
<td>19,100</td>
</tr>
</tbody>
</table>

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
Appendix A: Reports issued and fees (continued)

We have considered whether other services might be perceived as a threat to our independence as the Council’s auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

<table>
<thead>
<tr>
<th>Service provided to</th>
<th>Fees</th>
<th>Threat identified</th>
<th>Safeguards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of subsidiary companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acivico Limited</td>
<td>38,000</td>
<td>No</td>
<td>Separate commercial audit teams. As such, we do not consider the audit of Birmingham City Council’s subsidiaries to be a threat to our independence.</td>
</tr>
<tr>
<td>Innovation Birmingham Limited</td>
<td>22,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEC (Developments) PLC</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PETPS (Birmingham) Limited</td>
<td>7,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance Birmingham Limited</td>
<td>7,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing Birmingham Limited</td>
<td>13,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant claims</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Housing Benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- SFA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- IMLT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birmingham City Council</td>
<td>31,594</td>
<td>No</td>
<td>The fee for this work is negligible in comparison to the total fee for the audit and in particular the overall turnover of Grant Thornton UK LLP and the Public Sector Assurance service line. As such, we do not consider this grant assurance work to be a threat to our independence.</td>
</tr>
<tr>
<td>VAT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation Birmingham</td>
<td>1,100</td>
<td>No</td>
<td>Separate VAT team. As such, we do not consider this work to be a threat to our independence.</td>
</tr>
<tr>
<td>CFO Insights</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birmingham City Council</td>
<td>10,000</td>
<td>No</td>
<td>The fee for this work is negligible in comparison to the total fee for the audit and in particular the overall turnover of Grant Thornton UK LLP and the Public Sector Assurance service line. The annual fee is fixed with no contingent element. As such, we do not consider CFO Insights to be a threat to our independence.</td>
</tr>
</tbody>
</table>

None of the above services were provided on a contingent fee basis.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the Council. No other threats to independence have been identified.