

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL (the "Council")**

### **Issue of audit opinion on the financial statements**

In our audit report for the year ended 31 March 2017 issued on 29 September 2017, we reported that, in our opinion:

- the financial statements present a true and fair view of the financial position of the Council and Group as at 31 March 2017 and of the Council's and Group's expenditure and income for the year then ended; and
- the financial statements had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Issue of adverse conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources**

In our audit report for the year ended 31 March 2017 issued on 29 September 2017 we reported an adverse conclusion in the following terms:

#### **Basis for qualified conclusion**

In considering the Council's arrangements for securing efficiency, economy and effectiveness, we identified the following matters:

#### *Budget Delivery and Reserves Management including the Future Operating Model and Equal Pay*

The Council's Business Plan 2017+ included the requirement to deliver £148 million of recurrent savings by the end of 2018/19.

The planned delivery of recurring savings is not being achieved, resulting in £14.4 million of the total savings target of £123.2 million in 2016/17 being achieved from one-off or non-recurrent sources. The Council's Corporate Revenue Monitoring report for July 2017 identified that, despite a number of mitigations, £18 million of the total planned savings for 2017/18 will either be delayed or not delivered. In particular, the Business Plan 2017+ included the implementation of the Future Operating Model, an approach to prioritise public facing services, consolidate and optimise support services and bring consistency to the spans and layers of management within the Council, which was expected to save £14.6 million in 2017/18. However, due to significant delays in the implementation of the Future Operating Model, the Council is forecasting that there will be undelivered savings of £15.4 million in 2017/18, rising to £34.2 million in future years.

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.

These matters are evidence of weaknesses in proper arrangements for sustainable resource deployment in:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; and

- planning, organising and developing the workforce effectively to deliver strategic priorities.

### *Improvement Panel*

The Secretary of State for Communities and Local Government appointed an Improvement Panel (“the Panel”) in January 2015 to oversee improvements in the Council’s governance arrangements.

The Panel is currently liaising with the Council in respect of matters emerging in relation to the recent waste dispute, and the Secretary of State has written to the Panel requesting an urgent update so that he can consider the next steps for the Council. The Panel was scheduled to meet with the Leader of the Council and the Deputy Leader on 12 September 2017 but the Leader of the Council resigned on 11 September 2017. At the date of issuing our opinion, the Deputy Leader is acting as Leader on an interim basis to provide stability.

This matter is evidence of weaknesses in proper arrangements for informed decision making in acting in the public interest, through demonstrating and applying the principles and values of sound governance.

### *Services for Vulnerable Children*

In May 2014 and November 2016 the Office for Standards in Education (Ofsted) issued reports on its inspections of services for children in need of help and protection, children looked after and care leavers in Birmingham. The reports assessed the services as inadequate and identified a number of serious weaknesses in the Council’s arrangements for looking after vulnerable children and young people.

An Ofsted monitoring visit was completed in May 2017 and its subsequent report highlights that the Council requires substantial further progress to address the weaknesses identified.

- This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in: □ acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

### *Management of Schools*

Significant failings in the Council’s management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Council has taken and continues to take action to improve its management of schools through the implementation of its improvement plan.

However, as part of the assessment of the improvements to schools governance 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).

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to deliver strategic priorities.

### **Adverse conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, because of the significance of the matters described in the basis for adverse conclusion paragraphs above, we are not satisfied that, in all significant respects, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

In our report dated 29 September 2017, we explained that we could not formally conclude the audit on that date until we had completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. These matters have now been dealt with.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We certify that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

### ***Phil Jones***

Phil Jones  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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16 August 2018