

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 2018 issued on 31 July 2018 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Council as at 31 March 2018 and of the group's expenditure and income and the Council expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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 2018 issued on 31 July 2018 we reported an adverse conclusion in the following terms:

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, because of the significance of the matters described in the basis for adverse conclusion section of our report, 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 2018.

Basis for adverse conclusion

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

Budget Delivery and Reserves Management, as well as saving proposals (including the principles of the Future Operating Model) and Equal Pay

The Council had demanding savings targets of £85.3 million in 2017/18 which included finding solutions for £14.4 million based mostly on savings achieved on a non-recurrent basis in 2016/17. The Council continued to under-deliver planned savings in 2017/18, again, in part due to the failure to deliver large savings plans such as the Future Operating Model (FOM), which under-delivered by £15.4 million in 2017/18, an under-delivery which was due to rise to £34.2 million in future years. As a result, the Council reported a 2017/18 revenue budget overspend of £4.9 million after the use of £63.1 million of reserves (£42.2 million of which was planned).

The Council's Business Plan 2018+ identifies continuing savings pressures, with a requirement of £117.0 million of savings to be delivered by the end of 2021/22, with 2018/19 (£52.9 million) and 2019/20 (£35.6 million) being the two years with the greatest savings demand.

The uncertainties surrounding the volume and timing of future equal pay claims and the determination of any settlements may also have an impact on the level of the Council's reserves.

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.

Birmingham Independent Improvement Panel ('the Panel')

The Secretary of State for Communities and Local Government appointed the Panel in January 2015 to oversee improvements in the Council's governance arrangements.

The Council has been working more closely with the Panel since the autumn of 2017 and the Panel, in conjunction with the Council, has written to the Secretary of State several times since 1 April 2017, most recently in June 2018.

The joint letter from the Panel and the Council in March 2018 recognised that the Council has experienced a number of changes in key leadership positions during the last year and still needs to address a number of significant financial challenges to achieve financial sustainability.

The joint letter from the Panel and the Council in June 2018 included a copy of the Council's Improvement Stocktake Report, which represents the Council's self-assessment against the Local Government Association's criteria for an effective organisation, underpinned by a suite of detailed corporate governance and service improvement plans. This demonstrates that the Council has not yet addressed the issues identified to drive improvement in its corporate governance and achieve financial sustainability in the context of significant changes within the Council's leadership team.

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 which 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.

The Ofsted monitoring visit undertaken in March 2018 highlighted that the Council has demonstrated that it has maintained and made some further improvements to the quality of social work practice since the last inspection. Further work remains to be done to ensure that practice is consistently good and that the best outcomes for all children are achieved on a timely and consistent basis.

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.

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. Specifically, 32 of the 87 schools audits (37%) undertaken by internal audit in 2017/18 were assessed as 'level 3' assurance (specific control weaknesses of a significant nature noted, and/or the number of minor weaknesses noted was considerable) and two schools (2%) were assessed as 'level 4' assurance (controls evaluated are not adequate, appropriate or effective, and/or risks are not being managed and it is unlikely that objectives will be met).

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.

Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2018. We have now completed this work.

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 or a significant impact on our 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