

# Annual Audit Letter

Birmingham City Council

Audit 2008/09

December 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Summary

- 1 The Audit Commission's Organisational Assessment judged that overall Birmingham City Council performs adequately. The Council continues to offer people a good standard of service, both in terms of the quality and range of services available.
  - 2 The Council has continued its progress against the new and more demanding Use of Resources Assessment. However, there some areas where the Council needs to make further improvements. I have set these out in this report.
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## Financial Statements Audit

- 3 The Council needs to strengthen its arrangements for production of its annual accounts.
  - 4 I identified a number of errors within the Council's financial statements. In particular:
    - I encountered significant difficulties in agreeing the Council's ledger (trial balance) to the approved financial statements, and identified a number of accounting errors. The majority of the adjustments made relate to the capital accounting requirements. As such, the adjustments have not affected the level of resources available to the Council; and
    - I also identified significant weaknesses in the Council's operation of the procedures and controls it uses to maintain its fixed asset register. I was not always able to agree the value and existence of the Council's fixed assets.
  - 5 I have not concluded my work on the Council's financial statements. I will conclude my audit in 2010.
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## Internal control

- 6 The Council needs to ensure that the controls used for authorising financial transactions operate consistently in all areas of the Council.
  - 7 The Council has appropriately invested in the introduction of a number of new financial systems covering its general ledger, payroll system, accounts payable and accounts receivable. The procedures and controls for these systems are not always followed by Corporate Services and other service directorates. This increases the risk of fraud or error.
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- 8 Action is necessary by both front and back office services to ensure that the controls are operated in accordance with the Council's procedures.

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### Financial standing

- 9 The last year has seen the country enter a significant economic recession. The Council has responded well to the economic downturn and has developed actions to alleviate the effects on the community, such as the financial loans to businesses, enhanced housing benefit support services, and advice and support for local residents that are made redundant.
- 10 It also has well established and appropriate processes for the management of its own financial standing which will help it manage the effects of the downturn. This includes good budget management, good levels of reserves, and short and medium term efficiency plans in place, for example, the Business Transformation Programme. The Council has also begun to plan for the longer term effects of the economic downturn on its own finances.
- 11 Whilst the Council is reasonably well placed to manage the effects of the economic downturn, there are clear medium and longer term risks to the Council's financial stability. These include slippage against savings plans, overspends on the 2009-10 budget, service pressures and (in comparison to other authorities) relatively high planned levels of borrowing.
- 12 The impacts of the recession will continue to present a challenge to the Council in the coming financial year. Continued focus on delivering its budget, and assessment of its financial plans are key to the Council's financial stability.

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### Use of Resources

- 13 For 2008/09 I assessed the Council as 'performing adequately' in its arrangements for Managing Finance and Governing the Business, and as 'performing well' in its arrangements for Managing Resources. My overall assessment was that the Council was performing adequately.
- 14 My key findings for the three areas are as follows.
  - Managing Finance - performing adequately; as highlighted above the Council has a good track record of financial management with a good level of reserves. Areas for improvement include the need for an integrated 3 to 5 year service and financial plan which sets out its finances for the future, and outlines its plans during the economic downturn. This will support the delivery of the innovative 10 year longer term plan. The Council also needs to improve its understanding of its cost base and value for money provided by individual services, and improve its arrangements for preparing its financial statements.

## Key messages

- Governing the business - performing adequately; the Council has appropriate arrangements in place for governing its business. Areas of particular strength include the clarity of its strategic direction and focus on community needs, methods for purchasing supplies and services, and the governance structures, policies and procedures used to ensure the effective running of the Council. Areas to strengthen are the effectiveness of its internal control and risk management processes, and its arrangements for joint commissioning and market testing services with partners.
  - Managing resources - performing well; the Council has good arrangements in place to for managing its effect on and use of natural resources. For example, a new heating network has reduced CO2 emissions by 2,800 tonnes annually. Also the Investment in the Decent Homes programme is having a significant impact on emissions. The Council has adequate arrangements, including strategic plans, for managing its buildings. However, action is necessary to tackle the level of backlog maintenance.
- 15 Overall, the Council has continued its progress from the assessment made in 2007/08 and has performed creditably against this new and more demanding assessment. However, there are a few areas of significant weakness (as outlined above) where the Council needs to ensure that it makes sustained progress in 2009/10.

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## Value for Money Conclusion

- 16 I am required to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I issued a qualified opinion stating that the Council had appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources except that it did not have adequate arrangements for:
- timely and reliable financial reporting (in relation to its financial statements) that meets the needs of internal users, stakeholders and local people; and
  - management of risks and maintaining a sound system of internal control.

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## Organisational Assessment

- 17 In October 2009, the Council received its organisational assessment delivered as part of the Audit Commission's CAA assessment. Overall, the assessment concluded that the Council is managing its performance adequately.
- 18 The Audit Commission's detailed findings are set out later in this report.

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### Audit Fees

- 19 My audit of the Council has not yet been completed. Due to the additional work undertaken on the accounts it is likely that I will need to increase my audit fee for the year. I estimate that my audit fee will increase from £702,875 to £762,875 (excluding VAT).

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### Independence

- 20 I confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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### Recommendations

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| <p><b>R1</b> The Council should develop a detailed 3 year service and financial plan which includes scenario analysis planning / sensitivity analysis planning. This should clearly link to its strategy and take account of the economic downturn.</p> |
| <p><b>R2</b> The Council should improve its arrangements for the preparation of its financial statements.</p>   |
| <p><b>R3</b> The Council should improve compliance with its procedures for the operation of its financial systems.</p>  |

### Mark Stocks

District Auditor (Officer of the Audit Commission)  
December 2009

# Financial statements and annual governance statement

**The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.**

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## Financial statements Audit

- 21 The Council needs to strengthen its arrangements for production of its annual accounts. I identified a number of errors within the Council's financial statements. Due to the work necessary to amend these errors I was not able to finish my audit before the national deadline of 30 September 2009. I will conclude my audit in 2010.
  - 22 While the audit of the accounts has been extended beyond the normal timescale the Council's team responded positively and professionally to the queries I raised. Also, while I have highlighted areas for improvement I also note that the quality of the accounts with regard to the Collection Fund and Housing Revenue Account had improved from 2007/08 and were of a good standard. I also note the improvements made in Housing Benefits and the reduction in the level of overpayments made by this department
  - 23 I set out below the key issues arising from my audit.
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## Errors in the financial statements

- 24 The accounts approved by the Council Business Management Committee included a number of material misstatements. In particular, I encountered significant difficulties in agreeing the Council's ledger (trial balance) to the approved accounts, and identified a number of accounting errors. The majority of the adjustments made relate to the capital accounting requirements. As such, the adjustments have not affected the overall level of resources available to the Council.
  - 25 The material errors identified included:
    - the Net cost of services was incorrectly stated. I increased the costs by £434m to £1.664bn. This reflects changes in the valuation of assets and other capital adjustments such as impairment in asset values and increased depreciation; and
    - the value of fixed assets was overstated. I reduced the value of the assets from £6.6bn to £5.7bn. The adjustments reflect various issues such as the impairment of asset values due to the economic downturn.
  - 26 I also identified a number of other non-material errors. I will provide a more detailed list of the changes made to the financial statements in my Governance Report.
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- 27 I identified significant weaknesses in the Council's operation of the procedures and controls it uses to maintain its fixed asset register. These weaknesses resulted in a high number of material errors in the valuation and recognition of its fixed assets (and the linked capital accounting transactions). A number of these issues have been adjusted for, such as the increased impairment due to the economic downturn, and the Council is considering the action it needs to take to correct any further errors.

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### Material weaknesses in internal control

- 28 My audit identified that action is necessary to strengthen compliance with the Council's financial systems and internal control systems.
- 29 The Council has appropriately invested in the introduction of a number of new financial systems covering its general ledger, payroll system, accounts payable and accounts receivable. The procedures and controls for these systems are not always operated or applied by both Corporate Services and other service directorates.
- 30 My audit, and the work of the Council's internal auditors, identified that controls were not always in operation during 2008/09 across a number of systems. This significantly weakens the internal financial control of the Council. The lack of control resulted in errors in payments to staff, and a significant attempted fraud in 2008/09, which was successfully prevented by the Council and its bankers. Internal Audit also identified a significant level of duplicate payments to providers (although the Council has now been able to reclaim approximately 95 per cent of the overpayment value).
- 31 Action is necessary by both frontline services and corporate services to ensure that procedures and controls are properly operated.

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### Financial Standing

- 32 The last year has seen the country enter a significant economic recession. The consequence in Birmingham is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for the Council as it seeks to maintain the level of services to local residents, whilst maintaining a sound financial position.
- 33 The Council has responded well to the economic downturn and has developed actions to alleviate the effects on the community, such as the financial loans to businesses, enhanced housing benefit support services, and advice and support for local residents that are made redundant.
- 34 It also has well established and appropriate processes for the management of its own financial standing which will help it manage the effects of the downturn. For example, budget processes within the Council are appropriate and a balanced budget has been set for many years. The Council also has a target level for balances which has been met in the last three years. Capital spend is well managed and treasury management procedures are robust.

## Financial statements and annual governance statement

- 35** The Council has also performed within budget for the last six years, with council tax increases held at 1.9 per cent for the last four years against a previously low base. There is a clear policy on use of reserves which the Council has adhered to for a number of years. Similarly good budget management has been maintained while improving services in most priority areas.
- 36** There are also both short and medium term efficiency measures in place. The most notable of these is the Business Transformation Programme which has delivered net savings of £27m (£84m gross savings) to date. The programme appropriately focuses on the medium term and sound governance arrangements are in place.
- 37** Whilst the Council is reasonably well placed to manage the effects of the economic downturn, there are clear medium and longer term risks to the Council's financial stability. In particular, the savings to be delivered through the Business Transformation Programme underpin the Council's financial stability. There has been some slippage in the delivery of these savings in 2008/09 and there are further indications of slippage in 2009/10. Service pressures have also arisen during 2009/10. The Council is currently forecasting a year end overspend of £9.9m (after the application of corporate resources of £16.3m and Working Neighbourhood Funds of £14.0m). While the slippage and overspends are of concern, the Council is managing both the Business Transformation and budget slippage and is confident that it will be able to maintain a robust financial balance.
- 38** The Council has also begun to plan for the longer term effects of the economic downturn on its own finances. As with other councils, the full impact of the economic downturn is not clear but the Council's has begun to assess the most likely effects on its finances. One area the Council may wish to consider is its prudential borrowing levels. These are planned to rise in the medium term raising concern with members (as highlighted in the Scrutiny Committee letter to the Leader on 18 September) on the affordability of the capital programme and debt servicing. The Council should take account of these concerns in its revised long term plans.
- 39** The impacts of the recession will continue to present a challenge to the Council in the coming financial year. Continued focus on delivering its budget, and assessment of its financial plans are key to the Council's financial stability. I will continue to monitor the Council's response and actions in this key area.

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### Treasury Management

- 40** Following the financial losses made by a number of public bodies effective Treasury Management has taken on an increased profile. However, Birmingham did not make any losses as a result of the various banking failures.

- 41 During the year I considered the arrangements put in place by the Council. My review confirmed that the Council has robust arrangements for the management of its treasury management activities. In particular:
- it has a clear policy strategy and framework. This was last reviewed in February 2009;
  - the treasury management framework clearly sets out the Council's risk management polices, and the criteria for investment including credit ratings (which take account of other information including country and history);
  - there is clear reporting of activities at Member and Officer level;
  - there is clear responsibility for investment decisions;
  - internal audit assess compliance with procedures, and there are also computerised real-time checks on compliance with procedures; and
  - there are regular assessments of the capacity and capability of staff involved in treasury management.

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### National Fraud Initiative

- 42 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. The referrals from the current exercise were released to participating bodies in early 2009. The NFI work is in addition to the Council's own enhanced standard system reports and routine budget monitoring.
- 43 The Council's Assistant Director of Audit and Risk Management has undertaken work to risk assess the matches with regard to invoice payments identified from the 2009 data. Work has then been undertaken to understand the reasons for these matches. The work to date has identified a number of duplicate payments (with a value of £281,000) which are now being reclaimed by the Council. Other cases are being investigated. The Council has also identified a number of vendors with dual registrations on the payments system (increasing the possibility of duplicate payments being made). These have been removed from the payments system.
- 44 Unfortunately, there have been considerable delays in reviewing matches in a number of areas, for example, payroll, council tax, pensions, and housing benefits and rents have yet to be reviewed. We are discussing with the Council how these cases can be prioritised and reviewed.

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# Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 45 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 46 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 47 The Authority's use of resources theme scores and overall score are shown in Table 2 below.

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**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	3
Overall score	2

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48 Overall the Council was assessed as 'adequate' for its Use of Resources. The key findings and conclusions for the three themes were as follows.

### Managing finances - assessment - level 2

49 The Council adequately plans its finances.

50 The Council Plan clearly sets out the Council's strategic direction. The resources needed to deliver these outcomes are set out in the ten-year financial plan. The financial plan is regularly updated and used to inform annual budget planning.

51 While the Council has both a clear strategic direction and a clear financial plan it has not fully integrated these documents. There is no single document that integrates the strategy, finance, service plans and workforce etc. over a long term period. It is not therefore possible to see how all of the plans link and are co-ordinated. Similarly service budgets continue to be set on an annual basis and services do not have three to five year business plans (which link to the available finances). For 2009/10 Portfolio cash limits have been set on a 10 year basis. This should enhance the ability of portfolios to agree long term service budgets enabling services to plan for the long term.

52 The Council Plan clearly sets out the key areas of focus for the Council. This is supported by a number of other strategic and annual financial planning processes. The Council is also able to demonstrate a sustained focus on achieving priorities by shifting resources from low-to-high priority areas. In particular, the following areas have seen significant growth in line with the Council's priorities:

- Clean streets (residents' main priority for improvement) – an additional 12 per cent in the last 5 years (£11m) for Transport & Street Services;
- Adults care – additional 24 per cent (£57m) over five years for Adults & Communities; and
- Children – additional £12m over five years to Children, Young People and Families.

53 The Council engages well with local communities and this has led to some delegation of budgets to ward levels. However, there is little evidence that local people significantly affect resource allocation.

54 There is a general understanding of the costs of services in the Council and in some services there is also an understanding of unit and transaction costs. This understanding is good in some services, for example, in housing and in areas assessed by the Business Transformation programme. However, there is not a comprehensive understanding of unit and transaction costs across the whole Council, and it is not always clear how cost information is used by the Council to improve value for money.

## Value for money and use of resources

- 55 The Council has both short and medium term efficiency measures. The most notable of these is the Business Transformation (BT) Project which has successfully delivered net savings of £27m (and gross savings of £84m) to date. The programme appropriately focuses on the medium term and appropriate procedures have been established for its governance and management. Despite this there are clear longer term risks to the Council's financial stability. In particular, it is of concern that there has been some slippage against the BT programme recently (although plans are now in place to correct the slippage).
- 56 In year budget setting is good. A balanced budget has been set for many years, and council tax has been kept low with low yearly increases. The Council also has a well developed budget monitoring system which has delivered financial balance in the last six years. The Council also reviews the financial performance of its significant partnerships.
- 57 There have been significant weaknesses in the production, accuracy and compliance of accounts with statutory guidance. This has resulted in late opinions for the last three years and the identification of material errors in the financial statements.

## Governing the business - assessment - level 2

- 58 Overall the arrangements for governing the business are assessed as adequate. There are a number of clear strengths but also areas of weaknesses that require resolution.
- 59 Arrangements for the commissioning and procurement of services are adequate and are improving. The Council has taken a number of positive actions to ensure the effective commissioning and procurement of supplies. In particular, the Council has a clear vision of intended outcomes for local people, underpinned by strategic needs assessments, and supported by an accessible procurement strategy. However, the Council has not yet ensured that its joint commissioning approach encompasses the whole Council, or considered whether service efficiency and quality could be enhanced through the market testing of services.
- 60 The Council has become more focussed on securing high quality and reliable data for decision making. Members and officers generally receive fit for purpose information, and use the information to tackle under performance within services. However, data quality is not consistent across the Council and continued action is necessary to embed data quality, and to integrate performance and financial information.
- 61 The Council has good governance arrangements at all levels, and promotes and demonstrates the principles and values of good governance and ethical behaviour. The Council has an open culture, both internally and with partners, and working relations between members and officers are good. There are clear codes of conduct for members and officers, and procedures relating to members' interests, complaints (Standards Committee) and whistle blowing are robust. The Council gives effective corporate leadership to partnership governance. This is an area of strength.
- 62 Appropriate risk management systems are in place, and the risk management process has been applied effectively to manage significant risks in relation to a number of projects including New Street Station, and Building Schools for the Future. The application of risk management procedures has not always been effective most notably with regard to child safety issues.

- 63 The Council has identified the need to strengthen its financial systems and internal control systems. I have provided details in the earlier section of this report on Internal Control.
- 64 The current arrangements where the Audit Committee act in a support role, to 'those charged with governance', are not fully effective. The Committee's role which is blurred with scrutiny, financial knowledge, and purpose needs to be reviewed to ensure it can provide effective challenge.

### Managing resources - assessment - level 3

- 65 Overall, this is an area of strength. The Council performs well in the management of natural resources but can further improve the management of its buildings and other property assets.
- 66 The Council is taking a strategic approach to minimising its use of natural resources and there is a good understanding of the major causes of carbon emissions which is reflected in its plans.
- 67 The Council is reducing its impact on the environment. A new CHP decentralised heating network was commissioned in 2008 which services a number of buildings including the Council House resulting in overall savings of 4,000 tonnes of CO<sub>2</sub> and 2,800 tonnes annually. Further networks have been agreed with expected annual savings of 5,300 tonnes from 2009 and a further, 3,500 tonnes from 2010. Carbon emissions from the usage of electricity, gas and oil in BCC's buildings reduced by 18 per cent between 1989/90 and 2007/08. Water consumption over the same period has reduced by 41 per cent.
- 68 Investment in the Decent Homes programme is having a significant impact on emissions. Recycling and reuse of materials on site is built into highways contracts. The Council is starting to address environmental risks in conjunction with its partners.
- 69 The Council has adequate arrangements, including strategic plans, for managing its assets. Directorates develop capital projects in the context of the approved Capital Strategy which is informed by Council priorities and service strategies.
- 70 Responsibilities for assets are clearly designated and members are involved in policy development for the asset base. However as a result of under investment in its asset base, there is an increasing maintenance backlog. Some directorates struggle to maintain their portfolio due to limited repair and maintenance budgets. Some benchmarking is done to drive down costs and improve quality. Members scrutinise performance of the asset portfolio. Investment decisions are subject to the Councils gateway process and whole life costing and appraisal has to be undertaken at various stages of a project. There is little evidence of an overall strategic approach to working with others to maximise the use of assets.

### Value for Money (VFM) Conclusion

- 71** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 72** I intend to issue a qualified VFM conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources, except that it did not put in place adequate arrangements for:
- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
  - management of risks and maintaining a sound system of internal control.
- 73** I reached this conclusion as I was unable to obtain sufficient evidence that the Council had the control environments fully embedded for its new financial systems to maintain a sound system of internal control. Also due to delays in the production of the financial statements there is also presently insufficient evidence that the Council can produce financial statements that are free from material error.

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### Local Performance work

- 74** In planning my audit I identified a number of areas that could affect my VFM conclusion. I have summarised below the key findings from my work in these areas.

### Business Transformation

- 75** Overall, sound progress has been made in the Council's arrangements for delivering its business transformation (BT) programme since our last audit. It remains however a high risk activity for the Council. The overall delivery risks of the programme, in terms of achievement of planned efficiencies within agreed timescales remain high given its scale and complexity. The critical importance of continued risk management from the highest level cannot be over-emphasised.
- 76** The risks are however generally well managed. Risk management is built into all stages of BT through the governance structure and methodology. Financial risks are though particularly high. Whilst the lag experienced in 2008/09 savings is projected to be recovered through re-profiling, the Council needs to remain vigilant in ensuring programme milestones are met to avoid further delays or shortfalls. More can be still be done to identify long term inter-project dependencies. The identification and management of technical and reputational risk have been strengthened.

- 77** BT programmes are closely and constantly challenged at each stage of business case development. The in year scrutiny by the Intelligent Client Function (ICF) is an added strength. The focus is firmly on achieving value for money and slippage monitoring is being strengthened. At the time of audit the Council remained on target to exceed its original long term savings projections. It is implementing a system to ensure the value for money of BT programmes continues to be monitored once realisable benefits have been formally signed off and they go live. The contract with Capita and its delivery is kept under active review and its value for money has been improved.
- 78** The Council learns from its BT experience and puts that learning into practice. The big lessons from the Corporate Service Transformation report have been acted upon. For example the role of the BT advisory group has been strengthened and a more strategic focus taken by the BT steering group. Learning from BT is now developing into an on-going process with the formation of a lessons learnt editorial committee.
- 79** The engagement of the various stakeholders has improved. Officers are now more likely to see BT as part of their 'day job'. This has been helped by BT being brought within the medium term financial plan and integrated into directorate plans. Trades union engagement is constructive, with monthly corporate cross transformation meetings being held. Effort has gone into member communication and scrutiny is strongly engaged and constructively critical. Partner engagement is still developing but Be Birmingham is now more closely involved than before.
- 80** The Council has improved and strengthened its BT communications arrangements. It has put a dedicated core communications team in place which delivers the corporate communications strategy, which includes a communications approvals process.
- 81** Some important actions from our last audit however remain to be put in place, notably having an over-arching BT plan and a workforce plan.
- 82** Despite its committed leadership of BT the Council does not yet have an outcome focussed, over-arching plan for delivery of the nine individual BT programmes. This is a significant gap in the governance arrangements. Such a plan will help to strengthen the strategic leadership of the programme.
- 83** Nor does the Council yet have a BT workforce plan, although work has started on mapping how and when the benefits to be delivered by BT will impact on the workforce. This is a serious gap as achieving the benefits of BT depends heavily on well managed staff deployment and re-deployment through development into delivery. The Excellence in People Management (EPM) project could contribute towards this but it unclear that it is being focussed on doing so.
- 84** The very scale and complexity of the BT programme (to deliver a 15 per cent improvement in productivity and £1.5 billion in cashable benefits over ten years in return for a £400 million investment) mean though that delivery risks remain high. Consequently, and particularly in the current economic climate, the Council will be challenged to achieve its planned efficiencies in full. I therefore intend to re-visit the Council's progress on business transformation in 2009/10 and focus on the progress of specific BT programmes, such as EPM.

## Value for money and use of resources

### Delayed Transfers of Care – Partnership Arrangements

- 85** Since the introduction of the Community Care (Delayed Discharge) Act 2003 Delayed Transfers of Care has consistently been an issue in Birmingham. Success in this area is reliant on good partnership working. Birmingham has seen some improvements but these have not necessarily been in line with comparative authorities.
- 86** We undertook two reviews simultaneously with South Birmingham PCT and Birmingham East and North PCT to establish the effectiveness of partnership arrangements in addressing delayed transfers of care.
- 87** On a citywide basis the arrangements for addressing delayed transfers of care had undergone recent changes. These were seen as a positive move although too early to see any immediate benefits. Positive aspects of the citywide approach to delayed transfers of care included:
- a move to a commissioning focus for addressing the issue in a whole systems way;
  - a specific LAA target focusing on delayed transfers of care;
  - LAA delivery plan for addressing delayed transfers of care across organisational boundaries;
  - consistency of individual organisational plans with a strong focus on supporting independence and admission avoidance; and
  - development of citywide consistency in collecting information and monitoring against the target. The information was well utilised as the main source of information available on delayed transfers of care.
- 88** Our work identified a number of challenges facing the citywide partnership that it needed to address. These included:
- Clarity of funding arrangements; there is a clear need to clarify funding arrangements. The Reimbursement Grant along with all previously ring fenced grants has now been pooled. This has created some uncertainty as to the continuation of existing schemes and the development of new ones. A review of the original Tripartite Agreements (which are now out of date) also needs to be undertaken;
  - Joint Strategy; the Council and its partners need to develop a Joint Strategy to support a citywide approach to reducing delayed discharges and give direction to staff;
  - Information; the Council and its partners need to identify and develop the information needed to support a more proactive approach. The information available is currently target focused. There is very little information at citywide and local level to demonstrate the impact of schemes to address delayed transfers of care;
  - Patients and carers; there is a need to gain the views of patients and carers through the evaluation of current services. This should direct future planning to address delayed transfers of care;

- Procedures; the Council and its partners should develop clear discharge planning procedures and monitoring arrangements at operational level to help minimise potential delays;
- Complex care; a number of patients have complex care needs. The Council and its partners need to gain a good understanding of complex care needs and develop plans to identify and address service gaps in this area; and
- Performance measurement; changes to the calculation to the delayed transfers of care target have made it more difficult to look at progress and trends in performance. The Council and its partners should agree how they will assess improvement and the success of the new arrangements.

89 Our work has also been used to inform the Comprehensive Area Assessment of Birmingham, as well as the Council's own organisational assessment. Delayed Discharge has been 'red flagged' under CAA as an area for significant improvement. I note that the Council has responded positively to this and is working with its partners to improve performance in this area.

### Highways Private Finance Initiative

90 The Secretary of State for Transport approved the Birmingham highways maintenance and management private finance initiative (PFI) credit on 26 September 2007. It is one of the largest PFI projects in England.

91 The Council have one preferred bidder and external consultants (mirroring internal disciplines) who are supporting work on the PFI project. The highways maintenance and management private finance initiative project team also involve specialist external advisers, for example on insurance matters.

92 My review focused on management arrangements for delivering Birmingham's highways maintenance and management PFI. The objective was to provide assurance that Birmingham City Council has taken reasonable steps to manage delivery of the highways maintenance and management PFI.

93 I concluded that the Council has taken appropriate steps to mitigate the risks associated with the highways maintenance and management PFI. Inevitably, given the size of the scheme a number of risks remain. I am satisfied that arrangements are in place to manage them.

### Third Sector arrangements

94 Birmingham City Council expends considerable resources through the third sector, using a mix of grants and commissioning. In 2007/08 this amounted around £25 million in mainstream grants alone.

95 The Council implemented its third sector framework in 2006, with the support and assistance of the voluntary sector. There was a phased implementation by directorates, which adopted different approaches to the transition to third sector commissioning. The Council received Beacon status and numerous awards in 2006 and 2007 for its work in successfully developing its support of the voluntary sector.

## Value for money and use of resources

- 96 My 2009 review considered how the Council had progressed its work and commissioning with the third sector since the implementation of the framework. I concluded that the Council had not given consistent and strong corporate support to the implementation of its third sector commissioning strategy. Issues included ongoing delays in resourcing the work and a lack of importance being allocated corporately to ensuring that third sector commissioning plans are progressing well.
- 97 As a result the recent focus of the work has been predominantly on implementation within the Adults and Communities directorate. Other directorates, in the absence of a third sector team and of directorate champion's meetings, have not received adequate guidance and support. That good relationships have been maintained with the third sector is a tribute to the work of the corporate lead member and officers who have worked hard to maintain these links. I concluded that renewed focus was required to ensure that the third sector can contribute effectively to improved service delivery.
- 98 The Council has responded well to my report and has:
- (from September 2009) moved responsibility for third sector funding to Corporate Policy and Performance Team, providing stronger corporate leadership and a more consistent approach;
  - allocated a temporary project worker to assess the current position and identify areas for improvement;
  - reinstated the Corporate Third Sector Group (which met for the first time in October 2009); and
  - appointed two permanent officers to third sector work - an Information and Compliance Officer and the Head of Corporate Third Sector Partnerships.

## Regeneration and Worklessness in the West Midlands

- 99 Over 7 per cent of the working age population in Birmingham is claiming job seekers allowance. This is nearly double the national average. In some of the most deprived areas of the City over a third of the working age population are on out of work benefits.
- 100 Our recent inspection of the Council, along with the six other metropolitan councils in the West Midlands, found that a number of successful initiatives were being undertaken in Birmingham to provide people with skills and job opportunities. For example, in Aston targeted initiatives had been making a difference, prior to the recession. Matching and preparing local people for jobs in a new supermarket resulted in 63 per cent of the workforce being recruited from the local community. Cross City initiatives such as Forward4Work are providing training and support into employment for people with disabilities.

- 101** The inspection also found that in common with the other councils the numbers of people being helped in Birmingham are small relative to the size of the problem. In addition, there is scope for councils to make more use of their role as employers and procurers to support people into work. To address this all seven councils are coming together with other organisations such as Job Centre Plus and the Learning and Skills Council to work more effectively and on a larger scale. This is happening through a 'Multi-area agreement'. This joint plan to improve employment and skills in the West Midlands has been agreed and will be implemented from April 2010. Progress on implementing this plan and its impact on employment and skills in the sub region will be followed up and commented on in 2010.

# Managing Performance and Organisational Assessment

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## Managing Performance

- 102** The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 103** The Council scored 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). The key findings from the review are set out below in the Organisational Assessment which combines both the Use of Resources score and the Managing Performance Score.

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## Organisational Assessment

- 104** Overall Birmingham City Council performs adequately. The Council continues to offer people mostly good services, the way the Council uses its resources is judged as adequate (see earlier) but there are still concerns about the quality of services to safeguard children. Birmingham City Council scores 2 out of 4 for managing its performance.
- 105** By March 31st 2009, 73 per cent (53) of the 77 available council plan measures either achieved or exceeded their targets. More adults social care clients now receive self-directed support. More carers have needs assessments or a review and have a specific carer's service or advice and information. Educational attainment is in line with similar areas and is continuing to improve in line with both national picture and similar areas. More Birmingham consumers feel confident when buying goods or services in the city. Partners say the Council is now a better partner in delivering shared ambitions. The locally-based street cleansing teams have helped the Council to exceed its target for clearing litter from the streets.
- 106** The area has many more affordable homes being built than originally planned. The Council beat its affordable housing targets of 600 new homes for 2008/09 with 975 new homes built. Given the economic downturn this is a significant achievement made possible through the Council's partnership working with housing associations and affordable housing providers. The Council has improved its strategic approaches to housing. It scored good and excellent scores in its most recent inspection. The Council is making significant progress in tackling high levels of homelessness.

- 107** Health inequalities remain a big problem in the City. The Council is working well with partners to tackle some of the more pressing problems and there are signs that some progress is being made. Although there is a great deal more that needs to be done to improve the life chances of people in the poorest neighbourhoods. After some signs of improvement, delayed discharges from hospital have increased again during the year. Keeping someone in hospital, longer than they need to be, because arrangements cannot be made for their care out of hospital, makes it more difficult for people to go back to living independently. It also uses money that could be put to better use. This problem has been with the Council and the health services for a long time now.
- 108** A large number of Birmingham's children live in poverty. Children whose circumstances make them vulnerable are doing worse than in similar areas. Incidences of violent crime with guns and gangs remain a major challenge. Health inequalities (infant mortality, child obesity, life expectancy, teenage pregnancy, and smoking) are improving but much more progress is needed.
- 109** The Council has taken prompt action to tackle weaknesses and has made some progress although it acknowledges itself that there is "some way to go in certain performance areas". Ofsted rates children's services as performing poorly because of concerns that not all of the improvements needed in services to protect vulnerable children have yet been made. The overall effectiveness of the majority of the local authority's inspected and regulated services and settings for children are adequate. But there are significant weaknesses in areas of social care provision. The local authority's arrangements for safeguarding children were judged as inadequate in their annual performance assessment in 2008, leading to a statutory improvement notice.
- 110** Good progress has been made in educational attainment. The attainment of Birmingham pupils has been rising at GCSE level and Birmingham has been above the national average for the percentage of pupils achieving 5 A-C GCSEs for three years running. But the city still faces a big problem with an overall lack of skills in the workforce, making it harder for people to get jobs and for the city to grow and attract new business.
- 111** High levels of unemployment and low levels of skills continue to be a key barrier to improving both the local economy and the life chances of local people. The Council is joining forces with the other six West Midlands councils and other organisations such as Job Centre Plus and the Learning and Skills Council to work more effectively and on a larger scale for jobs and skills. This is happening through a "Multi-area agreement". This joint plan to improve employment and skills in the West Midlands has been agreed and will be implemented from April 2010. Year 2 of CAA will assess progress in this area.

## Managing Performance and Organisational Assessment

- 112** The Care Quality Commission rates the Council's adult social care services as performing well. The Council has continued to develop initiatives to ensure that the hard to reach groups have improved health and well-being. However more needs to be done to ensure that those projects that are successful are made more widely available. Feedback from people who use services and their carers is listened to and clearly linked with improvements. Carers in Birmingham have well developed support and a greater than average range of options to choose from. However there are some areas where more improvement is needed. Fewer people have had their assessment within the set time limits than last year. And the number of people who get the help they need within the set time after their assessment has not improved.
- 113** The local adults safeguarding board has been strengthened and agencies involved in the partnership are now clearer about their contribution to protecting vulnerable adults in the City. Because training has been delivered through other bodies, the Council does not know how many care staff in the independent sector have been trained in safeguarding. Some work has been undertaken to monitor outcomes of safeguarding incidents but learning from these case file audits has not been reviewed through the safeguarding board.
- 114** The Council has made good progress in improving the way it uses up natural resources. Its plans reflect a good understanding of the major causes of carbon emissions. Investment in improving the insulation and heating systems in council houses through the Decent Homes programme is having a significant impact on reducing carbon dioxide emissions. Highways maintenance contracts have recycling and reuse of materials on-site built into them. The Council is starting to address environmental risks with its partners.
- 115** The Council is investing well for the future. It is one of the pilots for the Total Place programme. This is a new national initiative to get public services in an area working better together by joining forces to tackle local priorities. First reports show positive results for how they might use this new information and new ways of working better with other public services to great advantage.
- 116** As part of the Comprehensive Area Assessment, the full text relating to the Authority was available from the 10 December 2009 on the Oneplace website ([www.auditcommission.gov.uk/oneplace](http://www.auditcommission.gov.uk/oneplace)).

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# Closing remarks

- 117** I have discussed and agreed this letter with the Chief Executive and the Corporate Director of Resources. I will present this letter at the Cabinet on 1st February 2010 and Audit Committee later in the month.
- 118** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Authority during the year (which are set out in Table 2 below).

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**Table 2**

<b>Report</b>	<b>Date issued</b>
Audit Plan 2008-09	March 2008
Interim Report	June 2009
Third Sector Follow up Report	June 2009
Highways Maintenance and Management PFI Report	July 2009
Delayed Discharges Report	September 2009
Business Transformation Report	December 2009
Annual Governance (ISA 260) Report	December 2009
Use of Resources Report	December 2009

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- 119** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Mark Stocks  
 District Auditor  
 December 2009

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The Council should develop a detailed 3 year service and financial plan which includes scenario analysis planning / sensitivity analysis planning. This should clearly link to its strategy and take account of the economic downturn.	High	Corporate Director of Resources/ Director of Policy and Performance	Yes		June 2010
6	R2 The Council should improve its arrangements for the preparation of its financial statements.	High	Corporate Director of Resources	Yes		September 2010
6	R3 The Council should improve compliance with its procedures for the operation of its financial systems.	High	Corporate Director of Resources	Yes		June 2010

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