



The Rt Hon Sajid Javid MP  
Secretary of State for Communities and Local Government  
2 Marsham Street  
London  
SW1P 4DF

**Sent by email**

9 November 2016

Dear Secretary of State,

**Birmingham City Council's Improvement Progress**

In this letter the Panel reports on positive aspects of the Council's progress in continuing to implement its improvement plans in the period April to October 2016. It also sets out our reservations about the slow pace of change in the Council's organisational culture and the potential impact this may have.

We report that flawed planning and insufficient delivery of the Council's 2016/17 revenue budget will result in a serious overspend for the year. As a consequence the Council faces a mammoth task to prepare a balanced budget for 2017/18 and, as the Council has very limited general reserves available, this potentially places at risk its future success.

The Council understands that long-term financial stability will be achieved only by delivering a highly ambitious transformation agenda. If this is to be successful the Council must simultaneously make significant savings, invest in new ways of operating and develop an organisational culture that is fit for purpose. Given the scale of the change still required both the political and managerial leadership will have to continue to boost its collective focus, energy and pace to ensure that the changes make a positive difference to the residents of Birmingham.

**The Panel's March 2016 report**

The Panel last reported to your predecessor, the Rt Hon Greg Clark MP, on 21 March 2016. We explained that much had been done by Birmingham City Council to address Lord Kerslake's recommendations and noted that the new political leadership and newly strengthened corporate management capacity marked a significant change and that the

pace of addressing the outstanding improvement priorities was beginning to pick up. However, we reported that the impact and sustainability of the Council's progress was yet to be evidenced.

We considered that the delivery of the Council's four-year financial strategy would be extremely challenging. Given the transformational nature of the key proposals for budget reduction we said that it would be a serious test of the Council's political and managerial leadership to deliver its financial plans successfully. We reported that the Chief Executive and corporate leadership team had given an assurance that they would provide strong corporate leadership to ensure delivery of the Council's improvement priorities - as set out in its published '*Gap Analysis*' - and the Council's financial plan. In the light of the assurances received it was agreed that the Panel would review progress in the Autumn.

### **Review of progress since April 2016**

To track its own progress the Council has recently produced a report '*Strengthening the Foundations*', which is published alongside this letter. This is a helpfully frank assessment of its position. It recognises that the Council is in year two of what is at least a five-year improvement programme.

To supplement the Council's review of its own progress the Panel has met with many of the Council's senior staff and elected members. It has received feedback from local partners and reviewed key documents and evidence – including those that provide insight about the views of all levels of the Council's staff and some of the city's residents. The broad findings from both these reviews of progress follow.

Since early 2016 additional senior management staff have joined the Council. The new skills, insights and contributions are welcome and making a positive difference. Many new arrangements and plans have been put in place. The Panel recognises that the Council has made progress in addressing many of its own improvement priorities and handled effectively some unexpected external events and challenges. Focused activity has enabled the Council to further address some of the outstanding recommendations from Lord Kerslake's review.

In relation to many areas requiring improvement the Panel acknowledges the Council's progress and is encouraging and supporting its broad direction of travel. For example, the Council has made progress in facilitating improved complementary and collaborative working between elected members and officers and it has strengthened how it tracks and seeks to manage its corporate performance. The Council Leader and new Cabinet have focused on re-setting the Council's vision and priorities, at the same time demonstrating improved cross-party working in this process and in other important areas of the Council's business.

The Council's four Assistant Leaders are taking an innovative approach to developing new ways of involving, and listening to, the city's residents. While these developments are at a very early stage they demonstrate a much-needed commitment to looking outward from the Council House and responding to the views and experiences of residents in each local area.

The Council's willingness to report transparently and realistically where it currently finds itself on its improvement journey is welcome. Such organisational self-awareness is a crucial ingredient in the Council being able to develop its plans effectively and take the action needed.

However, as the Council recognises, some of the crucial developments are still at early stages of design, implementation and adoption. Many of the new changes and aspirations for working differently have not yet filtered through to all front-line staff or across all staff groups. Partners across the city have welcomed the much more positive and responsive approach of the Leader, Chief Executive and top team. But many partners report that they have yet to see the impact demonstrated in improved collaboration for some areas of the Council's operations or the deep and wide staff engagement that is needed to make the Council a good partner.

While the Panel recognises that achieving area-wide partnership working is a challenge for any council, two years on from Lord Kerslake's report the Council has not agreed with local partners a truly city-wide vision. Although fresh work on this does feature in the Council's latest plans and some initiatives have been taken in the last year to get this agenda moving. Similar issues apply to the Council's development of its approach to community cohesion. Work on this vitally important agenda continues and good results and practice are evident for specific initiatives. But, as the Council recognises, a much more strategic focus is still needed to achieve fully effective co-ordination across the Council and to reap the benefits of aggregating efforts across the city.

While the Council's confidence in its own ability to pick up the pace and make change happen is growing, and while it is now taking on board more of the advice and assistance it has been offered, it recognises it is not yet able to evidence widespread and sustained impact on outcomes.

*As Securing the Foundations acknowledges, some improvement agendas are lagging behind the Council's initial plans and even its reset/revised plans. Notably, while there are examples of progress and 'green shoots' for many organisational cultural issues, progress has been slow for the Council in, for example, moving away from silo-based working, ruthlessly challenging stifling bureaucracy, and trusting and empowering staff. The Council reports from its recent staff survey that 'confidence levels about our ability to change in ways that staff believe will be helpful remain low'.*

While we recognise, as Kerslake did, that large-scale change takes time, there has been unexpectedly slow progress in changing the Council's organisational culture. The delays in driving radical shifts in how the Council operates has impacted on the development and implementation of credible plans for dealing with the Council's serious financial position, which remains the key concern for the Panel.

## **The Council's financial position**

The Council's monitoring of its 2016/17 revenue budget position has revealed that there is likely be a significant overspend for the year, predicted in the Council's report to be in the region of £49m. The Council has now acknowledged that a significant number of the budget reduction proposals recommended to the Budget Council meeting in March 2016 were unrealistic and many previously undeliverable proposals were carried forward into the 2016/17 budget. There was insufficient understanding and ownership of the Council's 2016/17 budget and a lack of comprehensive and robust delivery plans for the budget reduction measures that were required to balance the Council's budget. This is despite the Panel in late 2015 and early 2016 clearly bringing to the attention of the Chief Executive and corporate leadership team its concerns about, and the risks associated with, many of these matters.

The overspend will have to be financed by depleting the Council's organisational transition reserve and, according to the Council's progress report, this will leave a further £78m of savings required to balance the 2017/18 budget, which is in addition to the substantial budget savings programme already agreed for that year. This represents a mammoth task for the Council, to be achieved over a very short timescale.

Our discussions with the Leader, Cabinet Members and Chief Executive have demonstrated that they are actively engaged in joint working to understand and grip the full challenge now facing the Council, and to identify and consult on the measures needed to bridge this very substantial financial gap. The Panel also understands that the Chief Executive intends to recruit a Chief Operating Officer, to provide the extra senior management capacity that is needed. However, the 2016/17 budget situation has made the management of the 2017/18 budget much more difficult, with reduced lead-in times for proposals which will inevitably affect very sensitive services, making it much harder to manage the impact on residents.

Birmingham, in common with all-purpose authorities across England, faces severe financial pressure, particularly on its adult social care budget as a result of demographic changes and growth in demand. The Council is actively engaged in the early stages of working with its health partners to develop a more integrated approach to commissioning and delivering health and social care services to residents. While clearly the right approach in that the focus is on collaborative working to achieve the best possible health and social care outcomes for the city's residents, these developments are unlikely to deliver financial savings for the Council in the short term. The Council recognises this now. The late recognition has made the Council's financial challenge much greater.

Given the need for the Council to have absolute confidence in the deliverability of the 2017/18 revenue budget when asked to approve it in March 2017, we concur with the Council's view that it should commission an independent review of the 2017/18 budget and long term financial plan with a particular focus on the quality and robustness of its delivery plans for 2017/18 across all areas of expenditure. To avoid duplication of effort in reviewing the robustness of the Council's plans and financial management approaches and to ensure full transparency we recommended that the review be jointly specified with and reported to the Panel and this has been agreed with the Council.

## **Next steps**

The impact that tackling the financial concerns could have on what are the *strengthening*, but not yet *strong* foundations for future improvement is of concern. Many of the new arrangements and improvements are fragile and as yet untested. The Council must continue to maintain its focus on the improvement programmes relating to education and children's social care, including the development of plans for a Children's Trust. Additionally, as the Council acknowledges in its progress report, some weaknesses remain in the Council's capacity, capability and governance. These are potentially hindering and may continue to compromise rapid development and implementation of the budgetary solutions now needed. There is therefore a risk that some of the advances made to date could be put under considerable strain.

In the light of the above, we recommend that the Panel and its adviser should continue to support the Council. Particularly we wish to assist the Chief Executive and his senior team over the coming months as they seek to play their role in preparing a balanced budget and robust delivery plans.

If our recommendation is agreed, the Panel will report to you again in March 2017, following further review of the Council's budget and plans.

Kind regards

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J R A Crabtree', written in a cursive style.

**J R A Crabtree**  
**Chair**