



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

**Sent by email**

24 February 2017

Dear Secretary of State,

**Birmingham City Council's Improvement Progress**

The Panel last wrote to you about Birmingham City Council's progress and financial position on 9 November 2016. We reported that although there had been some positive signs of moving forward, as a result of flawed planning and insufficient delivery of the Council's 2016/17 revenue budget there was likely to be a very substantial overspend for the year. As a consequence the Council was facing a mammoth task to prepare a balanced budget for 2017/18. Given the need for the Council to have confidence about the deliverability of that budget when approving it on 28 February 2017, we agreed with the Council to commission jointly an independent review of the Council's 2017/18 revenue budget proposals and long term financial plans.

In your response to my letter you asked for a further report from the Panel once that review was complete. This letter fulfils that request, provides a summary of the Council's financial position and addresses two questions:

- Are the Council's proposals for 2017/18 and longer term financial plans credible and robust?
- How confident is the Panel about the Council's ability to *deliver* its financial plans, taking account of the Council's track record to date and relevant risks and opportunities?

The Panel proposes to also report in due course about the Council's progress in implementing the remaining recommendations set out in Lord Kerslake's 2014 report.

**Background to the Council's financial position**

Lord Kerslake's report published in December 2014 found that the Council was facing significant budget difficulties over the next few years and that it did not have credible plans to address them. In particular, it reported:

*'Birmingham City Council's core financial management processes are improving and the council has plans to set a balanced budget for 2015/16.'*

*However, without substantial reform some services will become unsustainable in the next few years. The council has not yet gripped the scale of the change that is necessary and has let some issues build up over many years so that the problem it faces today is acute. The council needs to take decisions that will ensure it is able to set a budget for the next 3 years without the expectation of further funding from central government.'*

Following its acceptance of Lord Kerslake's recommendations the Council approved a four-year financial plan 2015/16 to 2018/9 through which it planned to bring its expenditure fully into line with available resources by 2018/19.

The Panel recognises that all local authorities are facing substantial challenges as a result of major reductions in Revenue Support Grant and other resources. As suggested in Lord Kerslake's conclusions, this has required all councils to grip an agenda for major transformational change. In common with other councils Birmingham's financial sustainability depends on the Council being realistic in its financial analyses, taking timely bold decisions and co-ordinated action to better manage the demand for local services and reshape *what* the Council delivers and *how* it delivers. It also requires the Council to work consistently, effectively and jointly with its partners in the city to identify and implement innovative local solutions, quickly grasp local opportunities and mobilise the contribution of all key partners alongside that of the Council's own services.

As part of its Annual Audit Letter for 2015/16 the Council's external auditors took the unusual step of issuing the Council with a statutory recommendation under s24 of the Local Audit and Accountability Act 2014. In a detailed submission to the Council the auditors concluded that:

*'It is essential that the Council takes prompt action to bring its savings delivery back into line with its overall four-year plan as rapidly as possible.'*

### **Summary of the Council's financial position**

On 28 February 2017 the Council will be asked to approve a financial plan for 2017/18 to 2020/21. As part of its plans the Council will bridge its £111m 2017/18 revenue budget gap by making budget reductions of £71m and using general fund reserves of £40m. The plans have been developed after taking account of the advice of the independent financial review team, including in relation to the high level of risk associated with some of the proposed budget reduction measures, particularly relating to adult social care, Supporting People services and the implementation of the Council's future operating model.

As a result of the substantial overspend incurred during 2016/17 and its knock-on impact in 2017/18 it is estimated that the Council will have used up £104m of its reserves over the 2015/16 – 2018/19 period compared to a previously planned use of £41m.

The Council still has relatively healthy general fund reserves. The formal view expressed by the Council's Designated Financial Officer in the 2017+ draft Financial Plan is that the "level of reserves and balances for 2017/18... is *adequate*." But any continuation of

overspending in 2017/18 and/or 2018/19 will put at risk the Council's financial sustainability.

### **Are the Council's proposals for 2017/18 and longer term financial plans credible and robust?**

The independent financial review commissioned jointly by the Council and the Panel assessed whether the Council's 2017/18 budget proposals were realistic and capable of delivery. The review team's reports are attached as Appendix 1 and Appendix 2.

In its first report the review team noted that the Council had responded seriously to the financial challenge, had set about reassessing its financial bases to more realistic levels and addressing the financial gap in 2017/18. The team reported that there was strong resolve amongst senior managers and members to avoid the problems experienced in 2016/17. However, it identified a number of areas where the Council's plans were ambitious and it identified areas of particular risk. The report recommended that the Council prepare a contingency savings plan and a consistent set of delivery plans with clear accountabilities, and review its reserves strategy. The team emphasised that the political and managerial leadership of the Council needed to maintain discipline and focus to ensure delivery of its budget plans.

During its follow up visit to the Council in January the team issued a further report. In summary it concluded that:

- The Council had taken the recommendations of the review team on board and responded well;
- That work was underway, where appropriate, to review the saving profiles of key high-risk proposals, and the Council had established more robust governance arrangements to monitor progress on the delivery of its 2017/18 budget;
- There was greater clarity and consistency in the delivery plans for the main savings areas;
- There had been a strengthening of capacity to support change corporately but the Council understood that there was still a risk that the appropriate level of capacity may not exist within services and so was in the process of reviewing directorate requirements;
- The Council was reviewing its reserves strategy and giving consideration to a contingency plan but this work was yet to conclude and therefore the review team could not comment on this at that stage;
- There was, understandably, a great deal more to do and the scale and pace of change required should not be underestimated so the Council needed to take stock of progress on a regular basis;
- There needed to be a stronger focus maintained over the coming year on the delivery of budgeted savings plans while at the same time maintaining close control of the Council's overall financial position;
- There were still demand pressures in key services which threaten the Council's financial position; and

- Funding reductions beyond 2017/18 would require additional savings potentially resulting in the need for further difficult decisions. It was important that the Council gives early consideration to these to allow sufficient time for planning and delivery.

The finding was therefore that the Council's latest financial plans are reasonably credible, robust and theoretically deliverable, although there were elements of the review team's recommendations that were not fully implemented at the time it produced its final report.

The Panel is very grateful for the contribution of the independent financial review team. Its reports have been helpful to the Council, particularly in identifying areas of risk and providing insight into the extent of focus and ownership of the financial challenge by the political and managerial leadership.

### **How confident is the Panel about the Council's ability to *deliver* its financial plans?**

To address this question the Panel has taken account of the Council's track record of financial planning and achievement during the last two years and the prevailing risks to delivery. We have also reflected on how the Council has responded to the broader improvement challenges that continue to impact on the Council's ability to plan and mobilise its resources effectively, including in collaboration with partners, and the various opportunities, support and assistance that the Council has had access to.

In relation to the Council's political leadership we concur with the independent financial review and the Council that the lessons of 2016/17 have been learned and that there is a strong determination from the Leader and Cabinet to provide the political support needed to deliver the Council's latest financial plans.

However, the Panel considers that, despite some progress on some aspects of the Council's improvement agenda, there remain additional risks that threaten the achievement of financial sustainability:

- The implementation of the new future operating model for the Council during 2017 and early 2018 will require bold, focused, suitably experienced and tenacious managerial leadership. Yet such managerial leadership has not been consistently evident. For example, the Council's future operating model is intended to deliver annual savings of £45m and a major element of this is the integration and streamlining of the Council's support services. Yet integrating these services originally formed part of the Council's improvement plan approved in January 2015 for implementation by March 2016, but that plan was not fully implemented;
- A stop-start approach and lack of follow-through in relationships with willing and potentially willing partners continues to inhibit the development and achievement of new ways of working that could enable the Council to reduce spending in more managed and possibly less detrimental ways;

- A number of forthcoming changes to the corporate leadership team bring the risk of a 'reset button' being pressed once again which could lead to further delays in achieving effective managerial leadership team-working;
- The contingency savings plan which the independent financial review recommended be prepared is at a very early stage of development; and
- The impact on corporate capacity of the major development programme to transfer the Council's children's services operations to a Children's Trust in April 2018.

There have been improvements in many areas, including some very recent enhancement of the Council's governance arrangements for monitoring the delivery of savings. But there has also been, overall, disappointingly slow progress in addressing many of the most important Kerslake recommendations relating to the Council's culture, capacity and capability. Yet implementing these recommendations in timely, persistent and resilient ways always was, and remains, crucial to achieving improved performance and financial sustainability. The Council has not effectively grasped all the opportunities that could have helped it manage and mitigate its risks sooner.

## **Conclusion**

The Council continues to operate in highly demanding circumstances. As the Council recognises in its Financial Plan 2017+ "The financial challenge the Council is facing involves making savings that are of an extremely difficult and complex nature". The corporate managerial leadership did not, during 2016/17 especially, fully grip and co-ordinate in a timely manner its transformation and financial sustainability agendas. "The Council had..." according to its own reports "considerable savings deliverability issues in 2016/17."

New financial plans are now in place and these are more robust and credible. The plans and strategies however will not be easy to implement. Some implementation timetables are still extremely ambitious and the risks to achieving fully effective delivery are high.

Kind regards

Yours sincerely



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