

BIRMINGHAM CITY COUNCIL

**FINANCE AND RESOURCES O&S COMMITTEE – PUBLIC
MEETING**

**1400 hours on Thursday 27 July 2023, Committee Room 6, Council House
Minutes**

Present:

Councillor Jack Deakin (Chair)

Councillors: Raqeeb Aziz and Paul Tilsley

Also Present:

Nadeem Afzal, Finance Manager, Financial Planning (Online)

Craig Buckley, Oracle Programme Director

Fiona Greenway, Interim Director of Finance (S151 Officer)

Mohammed Sajid, Interim Head of Financial Strategy

Steve Sandercock, Assistant Director, Procurement

Jayne Bowles, Scrutiny Officer

Amelia Wiltshire, Overview and Scrutiny Manager

1. NOTICE OF RECORDING/WEBCAST

The Chair advised that this meeting will be webcast for live or subsequent broadcast via the Council's Public-I microsite and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2. APOLOGIES

Apologies were received from Councillors Alex Aitken, Meirion Jenkins and Ken Wood.

3. DECLARATIONS OF INTERESTS

Members were reminded they must declare all relevant pecuniary and other registerable interests arising from any business to be discussed at this meeting.

Councillor Paul Tilsley declared he is a member of the Birmingham Airport Board.

Cllr Aziz declared he is a member of Unite Union.

4. ELECTION OF DEPUTY CHAIR

Cllr Alex Aitken was elected as Deputy Chair for the purposes of substitution for the Chair if absent for the period ending with the Annual Meeting of the City Council in 2024.

5. MINUTES

(See document No. 1)

RESOLVED:

That the minutes of the meeting held on 29 June 2023 were agreed.

6. ACTION TRACKER

(See document No. 2)

The following updates were provided:

29 June 2023 – Developing the Finance and Resources Overview and Scrutiny Committee's Work Programme 2023/24 – Discussion on Equal Pay:

- List of the Council's Statutory functions/responsibilities – this request is currently with the City Solicitor and Monitoring Officer and will be chased. The Chair made an additional request for this to include the Council's interpretation of those responsibilities.
- The Council's Corporate Risk Register – the Chair requested that this be brought to Committee on a regular basis and for it to be a standing item on the agenda.
- Response from the Leader to the Committee's request to be consulted on the work on the Values Framework – it was agreed that the Chair would follow this up directly with the Leader.
- Response to the question about what triggered the Equal Pay announcement on 28 June – The Chair clarified that this request was to establish why the announcement had been made on that particular date and not earlier. Fiona Greenway informed the Committee that External Audit had asked about the figures in March and when Fiona came into post in April work was put in place with two modellers going through nearly four million lines of data. The indications were that the numbers coming through were significant and the Council was in a severe financial position and it had to be flagged to all councillors that there was an issue. Fiona was asked to provide the Committee with the exact date that she had been made aware of the issues around the equal pay liability.
- Response to the question about decisions made at Cabinet on 27 June – Confirmation had been received from the City Solicitor and Monitoring Officer that the decisions made at Cabinet on 27 June do stand, as do those decisions made at Cabinet on 25 July (subject to call-in). Members were told that as part of the spending controls, where permission has been given to spend but not yet started to contract or procure, there needs to be a re-assessment to ensure value for money.

30 March 2023 – Planned Procurement Activities Reports – The Chair confirmed that a response had now been received to Cllr Wood’s question regarding the provision of fleet and waste vehicle maintenance and this had been circulated to Members.

9 February 2023 – Financial Monitoring 2022/23 Quarter 3/Month 9 – A list of property assets and planned disposals to be provided to Committee – the list of property assets has been requested from the Property Services Team. Finance officers can provide an accounting list of assets but that would be book value. The list of planned disposals would have to come from Paul Kitson’s team and the Chair also referenced the report on the Disposal of Surplus Properties which is scheduled to go to Cabinet in September.

The Chair also referred to a recent email he had sent to Fiona Greenway and the Lord Mayor’s Office requesting a list of regalia owned by the Council and it was agreed this would be provided to the Committee and that artefacts could also be added to that. However, it was pointed out that if this was discussed in Committee any valuations included as part of that would need to be considered in private session. It was also noted that where regalia has been gifted to the City by benefactors, there may be certain obligations on the Council in relation to those gifts.

RESOLVED:

That the action tracker was noted.

7. PLANNED PROCUREMENT ACTIVITIES REPORTS

(See documents No. 3 and No. 4)

Steve Sandercock, Assistant Director, Procurement, was in attendance for this item.

The Chair advised that there was provision to go into private session if there were any matters to be raised on the exempt appendices.

Steve Sandercock introduced the reports which had been presented to Cabinet on 25 July and confirmed that all the planned procurement activities had been approved. There had been one question raised around the SAP licensing and whether the residual licence costs were planned and included in the original business case for Oracle and the response was that they had. No other queries or points of contention had been raised.

There were no questions from Members.

RESOLVED:

That the reports were noted.

8. MEDIUM TERM FINANCIAL PLAN UPDATE AND IMPLICATIONS OF EQUAL PAY

(See document No. 5)

Fiona Greenway, Interim Director of Finance (S151 Officer) and Mohammed Sajid, Interim Head of Financial Strategy, were in attendance for this item.

Nadeem Afzal, Finance Manager, Financial Planning, was in attendance online.

The Chair invited Fiona Greenway to introduce the report and in doing so the following points were highlighted:

- The Medium Term Financial Plan (MTFP) refresh is done every year and Quarter 1 has been combined into this report on a risk-based approach.
- The report updates for things like inflation and savings that are known to be red risks if not acted upon, etc.
- Assurance was given that whatever happens, there is a need to get to the same balanced budget that was set by Full Council in February. There is no proposal to change the bottom line of the budget and a way has to be found to close the £87m gap in-year.
- Everyone will be aware there have been changes in inflation and that has gone a lot higher than was forecast in February. A lot of councils have refreshed their MTFPs and highlighted issues in the last couple of weeks in both the finance and national press.
- The proposal is for a robust budget savings and recovery plan, with a framework for that going to September Cabinet and a revised savings and recovery plan with detail in it to October Cabinet in order to demonstrate that this is being taken seriously and actions are in place to balance the budget.
- External Audit will monitor the Council on a monthly basis.
- The 2024/25 budget setting timetable is set out in the report. This is a standard process but has been accelerated to come back with in-year savings and proposals sooner than would normally be the case.

During the discussion, and in response to Members' questions, the main points included:

- The Committee discussed the options available to balance the budget and it was acknowledged that the Council cannot continue to use reserves for this purpose.
- There is a need to look at how service saving plans are reviewed and Scrutiny can really help with that by drilling down into specific service areas.
- The Cabinet Member for Finance and Resources is undertaking "deep dives" around certain areas of spend to identify where services can be provided in a different way or stopped.
- In terms of Government discussions, a number of options are being looked at with the Department for Levelling Up, Housing and Communities.
- With regard to capitalisation, the Government took away that legislation in March 2020. The Council has no authority to capitalise revenue spend. It was also clarified that that legislation had allowed councils to capitalise equal pay through capital receipts only and not through borrowing.
- In response to a question regarding the possibility of capital assets being used to address the current situation with Oracle, the Committee were told that assets can only be used to fund capital expenditure so whilst that would include IT development it would not include IT fixing. The definition of what can and cannot be capitalised for IT can be provided to Committee.
- The Chair referenced the Demand/Complexity section in paragraph 5.3 of the report which outlined the four largest areas of cost pressures and made a formal request for every scrutiny committee to be provided with information on the savings identified for the directorates and departments relevant to their

remits and for Finance & Resources O&S to be provided with the information for all directorates and departments, for consideration.

- The methodology used to consider whether savings are low, medium or high risk was queried as although low and high risk are easier to understand, medium risk is more broad and vague. It was agreed a definition of medium risk would be provided.
- It was also suggested that the Committee might want to invite someone from the Programme Management Office to a future meeting to talk through the methodology used.
- It was accepted that when the budget is presented to Full Council all councillors should be aware of the risks contained in each of the savings options.
- There was a discussion around the use of the title “savings to be identified” and a view that when the budget is presented to Council savings should already have been identified.
- Where savings have to be made, they have not been prescriptive with departments because top-slicing does not work. Targets are given and there are discussions at Corporate Leadership Team where people come forward with ideas and options which will then need to go through political due process for consideration.
- It was recognised that there will need to be some short term one-off savings in-year to address the £87m gap and to ensure that this does not impact frontline services. In terms of transformational savings, there will be a need to look at every part of the budget base.
- The budget is an estimate and can and always will shift, but how it is corrected in-year is important.
- There are also ongoing discussions with Procurement to look for efficiencies and they are being robust about tightening up on the use of waivers, as it is not acceptable to have the number of waivers currently going through.
- It was explained that waivers are where the procurement and contract governance rules are waived compliantly, for example where instead of running a direct competition, a quote is obtained from a supplier.
- Where there are requests for waivers, they are checked to ensure there is justification and where they are pushed back, this is documented.
- There is an Internal Audit report being done on waivers and breaches and this might be something the Committee would want to explore as part of its future work programme.
- Reference was made to the new scheme of delegation in the MTFP. This has been strengthened for more Member involvement with an extra layer added for exceptional spend, eg for Director Delegations under £200k, under this regime Directors are asked to consult with Cabinet Members.
- The default position is no new spend occurs unless it is already contractually or legally committed, or needs to be undertaken to provide statutory services, or is a ring-fenced grant. Any other spend is exceptional and has to go to the Finance Governance Board. It is at that point the Values Framework comes in.
- Each directorate has put in place a Spend Control Board. There have been two Finance Governance Boards with another one taking place on 28 July and the first three exceptional spends, which were ring-fenced grants on Public Health, went through on 24 July. The process is documented and recorded and

Internal Audit have been asked to check what is in place and how it is working. They will produce a report which can be shared with the Committee and Audit Committee have also asked to see it.

- There was a request for the updated forecast to be broken down into directorates and departmental categories where appropriate, for example inflation, and it was agreed a breakdown by service area to see where inflation is applied can be provided.
- With regard to the staffing forecast, it was queried whether that takes into consideration the pay award and Members were told that for 2023/24 they have built in a 5% increase, 2.5% the year after and in future years the Bank of England forecast of 2%. Any increase above that will result in extra pressure.
- It was queried whether there was anything being done as a Council to reduce the amount of the business rates and council tax deficit.
- Members heard that of the £27m business rates deficit, around £15m is due to appeals. There had been over 2,000 appeals lodged in the last quarter of 2022/23 to get a reduction in business rates and it will be down to the Valuation Office to decide if those appeals stand and if so how much the rateable value will reduce. Where appeals have no ground or merit, then there will be nothing to refund and the appeal will be dismissed.
- As provision has been made for appeals that have been launched, any that are dismissed by the Valuation Office would improve the Council's position in 2024/25 as that provision would no longer be needed and the surplus would go into the General Fund.
- With regard to council tax, it was queried whether the problems with Oracle mean that the Council does not necessarily know how much it is owed. Members were told there have been problems with customisation of the bank reconciliation system where transactions have not been processed or have been processed but allocated to the wrong ledger. They have been working on fixes and have focussed on 2022/23 in terms of closing the accounts. There is still some work to do and they will then need to do the same for 2023/24 and on an ongoing basis.
- They are just completing the high level design on the future of cash management and are expecting to cease the use of customisation in due course and revert to 'vanilla' Oracle (uncustomised).
- Reserves were discussed and Fiona Greenway confirmed that it is down to her as the Section 151 Officer to recommend levels of reserves.
- The General Fund balance is about £38m, which is about 4.5% of the net budget. That should never be touched as it is rainy day money, for example to be used in the event of a natural disaster if there are no other reserves.
- There are Earmarked reserves, eg the PFI reserve which can only be used for Highways.
- Unearmarked reserves are ones which the Council has decided to establish, eg financial resilience reserve for the cost of living crisis or any changes in inflation and other demand pressures.
- There is a budget smoothing reserve for use where there is a problem with a high risk saving, however that just moves the problem on and there is a need to break that cycle.

- If unearmarked reserves were used to help fund the £87m gap that would cause a problem for setting the budget for next year as the Section 151 Officer would be in a position where she could not say reserves were adequate.
- This is why reserves cannot be used to balance the budget, the base budget has to be changed and the importance of councillors seeing the base position and not just the net position was stressed.
- In a situation where there is an underspend, that would move into the General Fund balance but the Council can make the decision to replenish other reserves.
- In response to a query regarding the signing off of the 2020/21 and 2021/22 accounts and any potential impact on the reserves position, the reason they have not been signed off is not due to the financial position but to do with more technical issues and a national issue around infrastructure assets or with pensions assets now.
- The work being carried out should not affect the reserves position at 2021/22. There is some work going on around the capitalisation of Oracle costs and if they are deemed to be revenue and not capital there would be a minor impact.
- It was noted that the outstanding audit should not affect the current financial position. However, it was further noted that the equal pay liability might have to be backdated and might need to be staggered. It should not affect the gravity of the situation the Council is in now but might change the figures for the previous three years.
- In terms of work around accountability and transparency, there is a whistleblowing investigation, a management review covering the Oracle position and other related matters so covers Equal Pay and Job Evaluation, and then the Governance Review being done independently which we have been asked to do by the Government. Each will inform the other and none should overlap. External Audit are also doing a piece of work around value for money on Oracle and will do a piece of work around Equal Pay as well.
- The Chair requested that those reports come to Scrutiny when concluded, in private session if necessary, and asked for the timeframes to be provided so that they can be included in the Committee's work programme.

RESOLVED:

- That the following information be provided to Committee:
 - The definition of what can and cannot be capitalised for IT.
 - Savings identified for all directorates and departments – and each individual scrutiny committee to be provided with the savings identified for the directorates and departments relevant to their remits.
 - The definition of medium risk savings.
 - A breakdown of the updated forecast by service area to show where inflation is applied.
- That the Internal Audit report on how the process for the Spend Control Boards and Finance Governance Board is working be shared with Committee when available.
- That the timescales for the whistleblowing investigation, management review, Governance Review and the two pieces of work being done by External Audit

around value for money on Oracle and Equal Pay be provided to the Chair and that when they conclude the reports be brought to this Committee, to be held in private session if necessary.

- That the report was noted.

9. ORACLE STABILISATION UPDATE

(See document No. 6)

Craig Buckley, Oracle Programme Director, was in attendance for this item.

Craig provided a brief summary of the slides included in the agenda pack and highlighted the following points:

- He had been in post since May, about one year after the implementation had gone live.
- The focus has been on what was deemed the safe and compliant plan, a set of short term activities that needed to be done immediately to make sure the Council could support its statutory and legal duties, eg closing of the accounts, and support for People Services in terms of urgent changes and enhancements and Internal Audit in terms of the risk management cloud which is not yet live but aiming for implementation in September.
- They have also been supporting Procurement in terms of their priorities.
- The focus is now changing from immediate activities to what happens next. The high level design has commenced and will set out what is being done with the different elements of the system and progress will be reported in future meetings.
- The high level design should be agreed and signed off in late September and the intention is to take a report to Cabinet to confirm the direction and to re-confirm timing and funding.

During the discussion, and in response to queries raised by Members, the main points included:

- It was noted that there had been a report to Cabinet requesting extra funds but that a more detailed document was needed setting out the cost implications of putting this right. However, Members were told that in terms of working out the cost to completion, there is a need to clarify exactly where we want to get to.
- It was acknowledged that unfortunately implementation had not been “out of the box” and the problems had been due to the Council making a large number of customisations. The expectation in the high level design is to move much closer to ‘vanilla’ Oracle.
- It was pointed out that Oracle are providing additional advice and consultancy at no cost.
- The current position with schools was queried and Members heard that whilst the situation is improving there are still challenges and it is fair to say schools are not comfortable with the service they are receiving at the moment.
- A new date in October has been set to resolve the issues and this has been communicated to schools.

- With regard to the effectiveness of the Relationship Managers, feedback had been that communication was not good enough and they need to see how schools wish to proceed in terms of communication.
- The Council sells HR and finance services to schools and it was queried whether they will be offered a refund as essentially they have been unable to use those services. It was confirmed that a discount for both the current year and next year has been offered to help mitigate.
- The Oracle response governance arrangements were clarified and discussed and a concern was raised regarding Graeme Betts' time being taken away from the demands of his own role as Director of Adult Social Care. It was, however, made clear that the intention is that he chairs and reviews progress rather than taking control of certain items on a daily basis.
- The timeline included in the slides is still the timescale they are working to, although they would like to bring some of the optimisation activity forward,
- The Chair requested that once the management review is concluded the report be brought to this Committee, in private session if necessary, and also requested that key strategic risks be included in any future Oracle reports.
- The Chair apologised for the first agenda item over-running and not leaving sufficient time to go through the presentation in detail and said that for future meetings the order of the Oracle and Equal Pay/Budget Recovery items would be alternated.

RESOLVED:

- That key strategic risks would be included in future Oracle reports.
- That once the management review is concluded the report be brought to Committee, in private session if necessary (as also referred to in the previous item).
- That the report was noted.

10. WORK PROGRAMME

(See document No. 7)

The Chair confirmed that the Committee would be focussing on these two main issues although there is also a menu of options for future consideration.

Members were asked to look at the Forward Plan items included in the report and to email the Chair if there was anything they wished to be included in the work programme for a future meeting.

The Chair would like Disposal of Surplus Properties to be looked at by this Committee when it goes to Cabinet in September as it relates to the Budget Recovery and Equal Pay issues.

Job Evaluation will also need to come to this committee.

RESOLVED:

That the work programme was agreed.

11. REQUEST(S) FOR CALL IN/COUNCILLOR CALL FOR ACTION/PETITIONS RECEIVED (IF ANY)

None.

12. OTHER URGENT BUSINESS

None.

13. DATE OF THE NEXT MEETING

Noted.

14. AUTHORITY TO CHAIR AND OFFICERS

RESOLVED:

That in an urgent situation between meetings, the Chair jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

15. EXCLUSION OF THE PUBLIC

N/A

PRIVATE AGENDA

16. PLANNED PROCUREMENT ACTIVITIES REPORT EXEMPT APPENDIX 3

N/A

The meeting ended at 1558 hours.