

Birmingham City Council

Report to Cabinet

16 January 2024



Subject: Section 151 Officer Update on the Financial Position of the Council – January 2024

Report of: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Relevant Cabinet Member: Leader, Councillor John Cotton

Relevant O&S Chair(s): Chair of Finance & Resources Overview & Scrutiny, Councillor Jack Deakin

Report author: Fiona Greenway, Interim Director of Finance and Section 151 Officer

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential: N/A		

1. Executive Summary

1.1 This report outlines the financial situation of Birmingham City Council as of January 2024 . As outlined in the reports to Cabinet in November and December 2023, the City Council faces very significant structural financial challenges which are being addressed as part of the 2024/25 and 2025/26 budget setting process. This is the third report in a series of regular updates on the financial position of the City Council.

- 1.2 This report will focus on:
- a) An update on the overall financial position and savings programme for 2024/25 and 2025/26 (paragraphs 3.3 to 3.13 refers);
 - b) An update on the progress towards setting the budget and Council Tax Requirement for 2024/25 (paragraphs 3.14 to 3.30 refers);
 - c) An update on the savings and transformation programme for 2025/26 (paragraphs 3.31 to 3.38 refers).
- 1.3 As outlined in the December 2023 Financial Position Update, as the Section 151 Officer, I am currently unable to make a Section 25 statement under the Local Government Act 2003 in relation to the robustness of estimates and adequacy of reserves.
- 1.4 The Council is currently facing a two-year savings target in the region of £300m, following a re-basing exercise of the 2023/24 budget. To date, the Council has identified £149.2m of savings for the 2024/25 financial year. Through work over the recent weeks, the Council has identified a further £81.8m of additional savings for the 2025/26 financial year. These savings continue to go through due diligence, in particularly those for 2025/26 which will be firmed up during Quarter 1 of the 2024/25 financial year.
- 1.5 The Council is currently in a position where it is unable to set a lawfully balanced budget, and as such a formal request is now required with the Department of Levelling Up, Housing and Communities (DLUHC) to explore Exceptional Financial Support (EFS) to enable the setting of a balanced budget for 2024/25. This will be in the form of two requests, one for the permission to increase Council Tax above the referendum limit, and one for a Capitalisation Direction.
- 1.6 The estimated size of the request for EFS is still to be determined but must be of sufficient size to cover provisions for Equal Pay, capitalisation costs involved in a redundancy scheme, and the forecast budget deficit 2024/25 and 2025/26. This will need to be funded through the application of capital receipts, for which the Council has a £500m target in 2024/25, and use of loan facilities. Any loan facilities will need to be funded over an agreed loan period, and will be at a penalty rate due to the Council using capital funding for revenue spend.

- 1.7 A substantial amount of work is now required to ensure the savings programme identified for the 2024/25 and 2025/26 financial years is deliverable. This needs to be undertaken at pace, with ownership and accountability from nominated Officers and Cabinet Members. Non-delivery of savings is unacceptable in the current financial situation. Any non-delivery or under-delivery of savings must be addressed expediently by Officers and Cabinet Members with savings or reductions in services of an equivalent value.
- 1.8 To return the Council to financial stability, we must rebuild our usable reserves and our General Fund balance to an adequate level. To achieve this all Directorates must live within their means, to be agreed as part of the 2024/25 budget setting process.
- 1.9 Further detail on the budget, savings programme, and EFS requests will be released in line with the budget setting process for 2024/25.

2. Recommendation(s)

- 2.1 Cabinet is recommended to:
 - a) Note the update on the **overall financial position and savings programme for 2024/25 and 2025/26** (paragraphs 3.3 to 3.13 refers);
 - b) Note the current status of the **progress towards setting the budget and Council Tax Requirement for 2024/25** (paragraphs 3.14 to 3.30 refers);
 - c) Note the update on the **savings and transformation programme for 2025/26** (paragraphs 3.31 to 3.38 refers).

3. Background

- 3.1 As outlined in the Cabinet Reports presented to Cabinet on 14th November 2023 and 12th December 2023, and in the supporting Commissioner Review comments on both reports, the Council faces significant financial challenges. Having identified savings for both the 2024/25 and 2025/26 financial years, pace is required to develop a robust savings programme to deliver and monitor delivery of savings throughout the financial year.
- 3.2 Further detail on the proposals for the 2024/25 financial year are being developed through the budget setting process for the coming financial year. In addition to this,

the Council is developing a plan to deliver a two-year balanced budget, acknowledging the challenges involved in achieving a substantial £300m savings target in one financial year.

2024/25 Financial Position

- 3.3 The 25th July 2023 high-level Quarter 1 forecast for 2023/24 presented to Cabinet also included a forecast budget gap for future financial years, in addition to an in-year forecast overspend of £87.3m. The forecast for 2024/25 also showed an additional budget gap of £77.5m in-year, making this £164.8m cumulative across the two years.
- 3.4 During November and December 2023, the Finance team performed a 're-basing' exercise on the 2023/24 budget. This included a full review of the key assumptions upon which the 2023/24 incremental budget was based, including:
- a) Inflation;
 - b) Pressures/growth;
 - c) Savings;
 - d) Use of, and contributions to, reserves and provisions.
- 3.5 On 12th December 2023, Cabinet received an update on the financial position, outlining the position that the current two-year savings target for the Council was in the region of £300m. Due to the size of this target, and the feasibility of achieving £300m of sustainable recurring savings in one financial year, CLT have been working towards meeting this target over the next two financial years. This is with the intention of delivering a cumulative £300m recurring savings target from the 2025/26 financial year.
- 3.6 In December 2023 the Provisional Local Government Finance Settlement and Office for National Statistics inflation figures were released, which allowed the Finance team to update assumptions in their modelled budget gap.
- 3.7 Continued analysis now indicates that the budget gap may rise to tens of millions over the original £300m, with this being finalised in January 2024 to be included within the reports to Cabinet and Full Council in February 2024.
- 3.8 The re-basing exercise in November 2023 highlighted a number of significant issues with the 2023/24 base budget which, alongside pressures identified through the

normal course of business, result in a budget gap of over £300m for the Council for the 2024/25 financial year:

- a) **Budget pressures, including Demand and Complexity Growth** – Growth across Directorates such as: growth pressures against packages of care across adults and childrens social care (both in rising demand and increased complexity); increased demand for temporary accommodation; Oracle programme costs; and forecast equal pay costs; **additional staffing costs** across social care and to support the Oracle finance system; and expected **lost income** (mainly from parking and potential asset sales).
- b) **Inflation** – this covers assumed increases for future pay settlements as well as assumptions for growth in care packages, transport and general price inflation. This increase reflects a change to previous forecasts for inflation made during the 2023/24 budget – these have been updated for latest forecasts. Therefore, general price inflation has been increased in line with Bank of England forecasts (compared to an estimate of 0% for 2024/25, made in the 2023/24 budget) and the cost of social care packages for adults and children has been uplifted from a 0.6% inflation forecast to a 6.7% inflation forecast;
- c) **Savings Write Off** – Savings written off from the 2023/24 and 2024/25 financial years, as outlined in the 12th December Cabinet Report;
- d) **Collection Fund Deficit** – this relates to an underachievement against forecast Council Tax and Business Rates income for the 2022/23 and 2023/24 financial years. Any known and forecast deficit at the time of budget-setting in February is charged to the General Fund for the next financial year. This deficit mainly relates to a significant reduction in forecast business rates mainly as a result of reduced collection rates (partly the result of difficulties with the Oracle system) and higher than expected appeals against business rates (as March 2023 was the last point at which appeals could be lodged against 2017 rates bills). This forecast has been reviewed by an external consultancy to confirm the deficit.
- e) These increases have been partially offset by reducing forecast contributions to reserves (that were planned for 24/25 but are no longer required).

3.9 The deficit for the 2024/25 financial year continues to be reviewed and forecasts updated. The deficit will be confirmed as part of the budget setting process for the coming financial year, presented alongside mitigations to address the gap in

January. This will also include updates from the provisional Local Government Finance Settlement announced on 18 December 2023.

3.10 The savings figures, following the assurance process, are detailed in the following two tables, 2024/25 totalling £149.2m and an additional £81.8m in 2025/26 bringing the total cumulative savings by 2025/26 to £231.0m. These savings were incorporated into the submission to Commissioners on 31st December 2023 (original deadline 7th January 2024), **Tables 1 and 2** refer:

Table 1 – Summary of Savings identified for 2024/25 and 2025/26 by Directorate

Directorate	2024/25 £000	2025/26 £000
Adult Social Care	25,211	52,306
Children & Families	55,586	67,036
City Housing	6,236	9,436
City Operations	33,898	56,741
Place, Prosperity and Sustainability	8,365	12,550
Strategy, Equality and Partnerships	2,447	2,597
Council Management	15,767	22,597
Cross-cutting	1,700	7,807
Total	149,210	230,970

Table 2 – Summary of Savings identified for 2024/25 and 2025/26 by Risk Rating

Rating	2024/25 £000	2025/26 £000
Green	93,827	124,161
Amber	37,743	71,380
Red	17,240	33,429
Total	149,210	230,970

3.11 **Table 3** below shows the current estimated changes in departmental cash limits from the 2023/24 financial year to the 2024/25 financial year, factoring in inflation, variations and savings. All Directorates, except Strategy, Equality and Partnerships, have net increases in their 2024/25 base budget when compared to the 2023/24 base budget. City Housing, Council Management and Strategy, Equalities and Partnership have also identified savings that are relatively high proportions of their 2023/24 base budget, 41%, 31% and 30% respectively.

Table 3 – Summary of Directorate Changes to Net Base Budget

Directorate	2023/24 Original Net Base Budget £'000	Inflation & Pay Award 2024/25 £'000	Variations +/- £'000	Savings 2024/25 £'000	2024/25 Net Base Budget £'000	Savings 2024/25 as % of 2023/24 Base Budget
Adult Social Care	403,077	32,921	22,431	(25,211)	433,218	6%
Children, Young People and Families	401,909	27,220	30,951	(55,586)	404,494	14%
City Housing	15,334	5,283	19,477	(6,236)	33,858	41%
City Operations	199,057	23,931	21,331	(33,898)	210,421	17%
Council Management	36,302	5,864	58,993	(11,127)	90,032	31%
Place, Prosperity and Sustainability	53,497	6,662	13,423	(8,365)	65,217	16%
Strategy, Equalities and Partnerships	8,195	238	1,322	(2,447)	7,308	30%
Total Directorate Net Expenditure	1,117,371	102,119	167,928	(142,870)	1,244,548	13%
Corporately Managed Budgets	(192,294)	(9,113)	20,932	(1,700)	(182,175)	-1%
Total General Fund Budget	925,077	93,006	188,859	(144,570)	1,062,372	16%

Notes:

1. The Finance team is carrying out a final review of savings and pressures before finalising the budget in the next couple of weeks
2. Savings No. 7 (£0.8m Single Person Discount) and No. 10 (£3.8m Additional staff for council tax and business rate collection) are not included in Directorate Budgets as they help to improve Collection Fund forecasts for Council Tax and Business Rates income (a total of £4.641m). This income will be shown below-the-line

- 3.12 The 2024/25 Net Base Budget increases mainly due to the phasing of the £300m savings over two years.
- 3.13 The Council is currently in a position where it is unable to set a lawfully balanced budget, and as such two formal written requests to the DLUHC for EFS are now required, to include:
- a) Permission to increase the Council Tax level above the referendum limit, and to support this, the Council will review and revise the Council Tax Support Scheme to offset the potential impact to citizens;
 - b) A formal application for a Capitalisation Direction (figure to be confirmed) and 'minded to' letter to cover the Equal Pay accounting liability, the costs involved in the redundancy scheme, and support to deliver a balanced budget for the 2024/25 financial year.

Budget Setting Update for the 2024/25 Financial Year

- 3.14 On 12th December 2023, Cabinet received an update on the financial position which outlined the activities completed between 14th November 2023 and 1st December 2023.
- 3.15 On Friday 1st December 2023, the Council has identified £149.8m savings for the 2024/25 financial year. This was submitted to Commissioners, with supporting detail on the savings, delivery, risks, and mitigations. The high-level breakdown of these savings can be found in **Table 1** – 2024/25 Savings Categories and **Appendix 2** to the Section 151 Officer Update on the Financial Position of the Council – December 2023 report to Cabinet on 12th December 2023.
- 3.16 The latest revised 2024/25 Budget Setting Timetable and status is as per **Appendix 1** attached.
- 3.17 The key updates from the December Cabinet Report are as follows:
- Monday 4th December to Friday 8th December 2023
- 3.18 Following the submission of savings for the 2024/25 financial year to Commissioners, further due diligence was required to validate the constituent savings within the submission. Further work was completed during this week to

assess the deliverability of savings, risks identified, and mitigations associated with risks.

3.19 In addition, during the week commencing 4th December three Budget Scrutiny Task and Finish Group sessions were completed to review the savings identified to Friday 22nd December 2023. Savings were presented by Corporate Leadership Team (CLT) Directors, alongside Finance Business Partners (FBPs) and Heads of Service. A cross-party group of Elected Members provided challenge to savings proposals, with Directorates taking away feedback to be addressed in future submissions.

3.20 On Friday 8th December 2023 a series of Budget Assurance Forums commenced, with the Leader, Cabinet Member for Finance and Resources, and the relevant Cabinet Member hosting challenge sessions with CLT Directors, FBPs, and Managers responsible for delivery of the saving. In addition, relevant Commissioners have attended these sessions to provide feedback on savings proposals and identify further savings opportunities.

Monday 11th December to Friday 15th December 2023

3.21 Further sessions of the Budget Assurance Forums were delivered during week commencing 11th December 2023, broken out by relevant Cabinet Member portfolio.

3.22 In addition, a further Budget Scrutiny Task and Finish Group was arranged to challenge the savings proposals which bridged the gap between 24th November 2023 and 1st December 2023 savings submissions.

3.23 In addition to this initial Directorate engagement sessions were held, to ensure Directorates were aware of potential staffing implications within the savings proposals for their Directorate.

3.24 The savings put forward by Directorates have gone through a number of challenge and assurance sessions over these two weeks. This is to better understand proposals put on the table, assumptions underpinning them, where the savings will come from (e.g. income generation, staffing or vacancy reductions, overhead reductions etc.), and assumptions on timings of the savings.

Monday 18th December to Friday 22nd December 2023

3.25 Further sessions of the Budget Assurance Forums were delivered during week commencing 18th December 2023, split by relevant Cabinet Member portfolio.

3.26 In addition, CLT were tasked with identifying further 2025/26 savings, with a deadline of 19th December 2023. This has identified a further £22m of savings in 2025/26. A meeting between CLT and Commissioners was held on 20th December 2023 where a selection of these new 2025/26 savings were presented.

3.27 The latest savings submission was presented to Commissioners on 31st December 2023 with £149.2m of savings in 2024/25 and a further £81.8m in 2025/26.

Outcomes from Challenge

3.28 Necessarily, due to the timelines to complete all the work to deliver a budget for 2024/25, the challenge process has been undertaken at pace. The following high-level themes have come out of the review and challenge exercise:

- a) A number of the proposals were found to have assumed a **full year effect** of the savings in 2024/25. These have been challenged and rephased where appropriate.
- b) **Cross-cutting savings** have been part of the process and these will ultimately need to be extracted from service level budgets. At present these proposals will need to be substantiated at a Directorate level in terms of the base budget on which this is predicated and hence how it would be allocated by service and cost centre. Cross-cutting savings must be accepted at a Directorate level to be deliverable.
- c) Proposals regarding use of **Public Health Grant** funding to support service area expenditure on eligible activity has been reviewed with teams looking to establish in more detail what the funding would be applied to. This has now been reviewed by the Director of Public Health and discussions with the Office for Health Improvement and Disparities, to ensure proposals behind savings meet relevant criteria.

3.29 The most substantial risk arising from the review is the delivery and grip of savings by Directorates. While services have explained and stood by the deliverability of their savings, Directorate are responsible for delivering the necessary actions in full, on time and to scale in order to deliver the savings put forward. The accountability for the delivery of the savings rests with Directors and Managers responsible for delivery. As commented by the Commissioners on the December 2023 Financial Update Report, "Going forward, every budget-holding officer must not overspend

without reporting a viable compensating saving. If this is not possible, delegated authority to spend will need to be withdrawn”.

3.30 The timeline attached as **Appendix 1** includes an updated forecast for activities into January 2024, and to conclusion of the budget setting process for the 2024/25 financial year.

Savings and transformation programme for 2025/26

3.31 As outlined in paragraphs 3.6 and 3.7, the Council intends to present a balanced budget over two financial years. This means developing a two-year savings programme which achieves £300m of credible savings by the 2025/26 financial year.

3.32 In order to achieve this, the Council must look at transformational savings for the 2025/26 financial year, which provide sufficient lead time to invest in services to achieve transformation which changes the ways of working within Directorates. Transformational savings have a longer lead time, however should deliver more significant savings which will fundamentally redesign the cost base for Council services.

3.33 In order to achieve this, the Chief Executive has instructed CLT Directors to lead on the development of transformational cross-cutting savings. This exercise was led by Director of Strategy, Equality and Partnerships and the Director of Transformation.

3.34 During the week commencing 4th December 2023, CLT was challenged to present savings which would align to future delivery model structures. This was completed in a whole day CLT session, facilitated by a third party, to challenge the ways of working across Directorates and focus on customer outcomes rather than Directorate siloes.

3.35 During the week commencing 11th December 2023, an outline Savings and Transformation Plan for 2025/26 was presented to Commissioners. This was an early draft with significant additional work required by the end of December 2023 to develop detail behind the savings proposals.

3.36 During the week commencing 18th December 2023, Directors built on the ideas identified for the 2025/26 savings programme, following the removal of areas of duplication. This meant developing sufficient detail behind the saving to ensure they

were right sized and addressable to support achieving the savings target for 2025/26. This was in the form of a savings proforma, including a risk assessment, identification of addressable budget, and assessment of potential deliverability through the use of benchmarks and peer comparisons.

3.37 The detail of this work was presented to Commissioners on 31st December 2023, as part of the Savings and Transformation Plan for 2025/26 submission (original deadline 7th January 2024).

3.38 The credibility of this submission is critical to providing assurance to the Section 151 Officer and Commissioners on the deliverability of the 2024/25 and 2025/26 savings programmes. This is required in order to get support from Commissioners for the Council's request for EFS from DLUHC. **Receipt of EFS from DLUHC is currently the only feasible route to presentation of a lawfully balanced budget for 2024/25, alongside a Section 25 Statement of the Local Government Act 2003.**

4. Public Consultation and Engagement

4.1 This report has been written in consultation of CLT members and has been discussed with EMT. The content of this report is also based on presentations to the Commissioner led Finance Sub-Board.

4.2 The full 2024/25 budget will be subject to legal advice and guidance regarding statutory consultation, at that point specific plans will be developed to ensure all relevant groups and communities are appropriately and meaningfully consulted with.

4.3 A statutory business rate payers consultation meeting will be held in January 2024.

5. Risk Management

5.1 All savings presented against the 2024/25 and 2025/26 savings targets will be fully risk assessed. This will ensure all savings are presented with a robust risk assessment prior to approval as part of the 2024/25 budget setting process.

6. Compliance issues

6.1 **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?** All implications and priorities will be considered

in the development of savings proposals alongside CLT and Cabinet Members. EMT engagement sessions ensure that there is alignment of proposals with City Council priorities, plans and strategies.

- 6.2 **Legal Implications:** Members have a statutory responsibility to ensure that the Council acts lawfully. The Council must set and maintain a legally balanced budget and must take steps to deal with any projected overspends and identify savings or other measures to bring budget pressures under control. Cabinet is responsible for preparing the annual Council budget in good time for the Council budget meeting on 27 February 2024.
- 6.3 Members are reminded in this context of their fiduciary duty to the Council Taxpayer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of the Council's resources.
- 6.4 The Council must comply with all relevant legal requirements to complete Council Tax Setting on 27 February 2024, including employment consultation and consultation with the public where appropriate on the implications of proposals as part of this process. The Council will make sure that Equality Impact Assessments and all appropriate statutory consultation takes place in the development of savings proposals. This will be referenced in future reports to Cabinet and City Council.
- 6.5 **Financial Implications:** Financial implications are included in the body of this report.
- 6.6 **Public Sector Equality Duty:** The Council will ensure that all actions taken in response to these recommendations are in line with the Public Sector Equality Duty, this includes aligning to Equality Impact Assessments completed in the development of savings proposals, and ensuring the impact of savings proposals are aligned to the Public Sector Equality Duty.

7. Appendices

- 7.1 Appendix 1 – Budget Timeline for 2024/25 and 2025/26 as of January 2024