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Council Tax increase for Birmingham City Council for 2024/25 and 2025/26

Dear Suzanne,

Introduction

Ministers will be aware of the current financial situation for Birmingham City Council (BCC). The work continues at pace to tackle these issues including equal pay claims and to mitigate those liabilities. This letter highlights the work that has been done to date and explains the current financial situation.

The Council's number one priority is to deliver – and live within – a balanced budget for the next two financial years. To achieve this, alongside commissioners, the Council's Leadership Team has carried out an in-depth review of all directorates' budgets to understand where financial pressures exist and how they can be mitigated.

Budget challenge for 2024/25 and beyond

The Council faces a significant budget gap for the 2024/25 financial year and beyond. This budget gap is caused by a range of factors including:

- Historically poor organisational leadership and culture, including inadequate financial management and controls with a lack of focus on short and medium term financial sustainability of the Council;
- The material reliance on the use of one-off reserves to support ongoing pressures;
- The impact of inflation, in addition to the amounts that had been forecast and set aside for this financial year;
- Undelivered savings in prior years, leading to the need to rebase the 2023/24 budget through a series of savings write offs;
- Significant and on-going costs to stabilise and improve the functioning of the Council's Oracle finance system through the Stabilisation and Recovery Plan;
- A significant Collection Fund deficit (i.e. lower than expected income from Council Tax and Business Rates) due to a combination of lower than expected growth in new homes and businesses, increased debt levels and higher than expected



levels of appeals against business rate valuations. The Council remains committed to supporting the growth of our City and Regional economy;

- The costs required to implement a new scheme of job evaluation to prevent future successful equal pay claims from staff;
- Additional service pressures – most notably, growth in demand and complexity of care packages across Adult’s and Children’s social care and increased forecast requirement for temporary accommodation. These pressures are consistent with the national picture and are being experienced by the majority of Local Authorities across the country; and
- In addition, BCC has recently been notified by the Department for Transport of its intention to discontinue the existing Highways PFI arrangement which provided for £50 million of credits until 2035. This will create additional pressures on the Council’s revenue budget in future years.

In addition to the costs involved, the issues with the Oracle Enterprise Resource Planning (ERP) system are publicly well-known and well-documented and have two practical impacts on the budget setting process for 2024/25:

1. Forecasting future demand and cost pressures – while the finance system is working practically in many instances (e.g. paying staff, suppliers), difficulties remain around the integrity of the finance ledger.
2. Higher than expected debt levels – from implementation of the Oracle system in April 2022 until January 2023, debt enforcement activity was effectively paused across the Council. This work has ramped back up since January 2023 and significant progress has been made to clear the backlog of outstanding debt.

There is significant work, as part of the Oracle Stabilisation and Recovery Plan, to mitigate the root causes of the system issues, together with a newly-formed Transformation Board chaired by a Commissioner.

As a result of these challenges, analysis has been carried out to identify potential overspends and provide for these pressures in the budget for the 2024/25 and future financial years. This has led to, as currently estimated, a budget deficit for the 2024/25 financial year is in the region of £300m. Taking into account the estimated £150m of savings for 2024/25, this still leaves a potential budget gap of £150m.

Further work is ongoing with commissioners to build a savings plan to balance the 2025/26 budget and to identify and deliver £300m of savings over the next two financial years.



Council Tax request

However, without a significant Council Tax increase for 2024/25, the Council will continue to face ongoing budget pressures.

The following scenarios have been considered:

Additional income per year (compared to prior year)	2024/25	2025/26	2026/27	Total additional income (compared to 2023/24 Council Tax charge)
<u>Currently budgeted for</u> 4.99% increase in CT for 2024/25; and 1.99% increase for 2025/26 and 2026/27	£29.4m	£13.0m	£13.2m	£55.6m
<u>Possible scenarios:</u>				
<u>Option 1</u> 14.99% increase in 2024/25; 14.99% increase in 2025/26; and 1.99% increase for 2026/27	£73.1m	£80.0m	£16.3m	£169.4m
<u>Option 2</u> 9.99% increase in 2024/25; 9.99% increase in 2025/26; and 1.99% increase in 2026/27	£51.3m	£52.3m	£14.9m	£118.5m
<u>Option 3</u> 14.99% increase in 2024/25; 9.99% increase in 2025/26; and 1.99% in 2026/27	£73.1m	£54.7m	£15.6m	£143.4m



Notes:

1. For 2025/26 and beyond, 2% increases are assumed as there is no confirmation of referendum thresholds for these years
2. Forecast income assumes collection rates and all other factors, including Council Tax Base current forecasts, remain the same (illustrative forecast). To note that the Council Tax Base (i.e. number of Band D homes) has increased by 2% from 2023/24 to 2024/25

The Council is determined to balance the budget by the end of 2025/26. The Council is also aware of the impact of these increases on residents and is seeking to minimise the impact, as far as possible, whilst maximising the benefit. Therefore, this letter seeks permission for an increase of the current referendum limit from 4.99% to 9.99% in both 2024/25 and 2025/26 financial years (Option 2).

The impact of Option 2 on the budget gap is as follows:

	2024/25	2025/26	2026/27
Currently budgeted for additional income from Council Tax per year compared to each prior year, based on existing referendum threshold (and already included in the current budget gap)	£29.4m	£13.0m	£13.2m
Additional Council Tax income – as requested in this letter	£21.8m	£39.4m	£1.7m
Total additional Council Tax income (per year)	£51.3m	£52.3m	£14.9m
Cumulative additional Council Tax income	£21.8m	£61.2m	£62.9m

Note: Forecast income assumes collection rates and all other factors, including Council Tax Base current forecasts, remain the same (illustrative forecast). To note that the Council Tax Base (i.e. number of Band D homes) has increased by 2% from 2023/24 to 2024/25

The additional Council Tax income for 2024/25 would reduce the budget gap, as currently estimated, from £300m down to £278m, prior to savings being applied.



When considering these options, the Council has compared current Council Tax levels against comparable authorities:

Authority	Average Band D Council Tax for 2023/24	Percentage change for the 2023/24 year compared to previous year
Birmingham	£1,630.16	4.99%
West Midlands Combined Authority		
Coventry	£1,909.87	4.94%
Dudley	£1,568.40	4.99%
Sandwell	£1,654.52	4.99%
Solihull	£1,592.74	4.99%
Walsall	£1,985.48	2.99%
Wolverhampton	£1,909.01	4.99%
Core Cities		
Bristol	£1,996.09	4.99%
Leeds	£1,644.93	4.99%
Liverpool	£1,947.97	4.99%
Manchester	£1,618.25	4.99%
Newcastle	£1,919.32	3.99%
Nottingham	£2,052.89	4.99%
Sheffield	£1,840.69	4.99%

Note: items shaded in grey above are the Band D levels that are currently lower than Birmingham's average Band D Council Tax, as of the 2023/24 financial year

It should be noted that, when compared to other West Midlands authorities and Core Cities, BCC's Band D level is significantly below the majority of these authorities.

Council Tax Support

Any Council Tax increase can put pressure on residents. To offset difficulties for those most in need, BCC currently has a significant Council Tax Support scheme in place. Birmingham has approximately 115,000 households eligible for Council Tax Support, out of a total of 461,000 households within the City.

The scheme in the City allows for 100% rebate for certain groups in households where people (on low incomes) are:

- pensioners;
- entitled to a disability premium or disabled child premium;
- entitled to Employment Support Allowance and who also receives a qualifying disability related benefit;
- receiving a carer's premium;
- receiving a war disablement pension, war widows pension or war widower's pension; or
- caring for a child dependant under 6.



Consequently, around 75,000 households (of the 115,000 entitled to Council Tax support) in the City make no contribution at all to their council tax. The remaining 40,000 households in receipt of Council Tax Support, mainly people of working age (other than those listed above), do make a contribution towards their council tax bills. This is set at 20% in Birmingham, and for 2023/24 equates to (approximately):

- Band A – £1,270 = £254 (£21 per month)
- Band B – £1,482 = £296 (£25 per month)
- Band C – £1,693 = £338 (£28 per month)
- Band D – £1,905 = £381 (£32 per month)

The Council collects around 80% of this contribution 'in-year'.

In light of the proposed Council Tax increase in this letter, the Council will seek to ensure that additional support for tax payers is put in place.

We are proposing to use Section 13A (1) (c) of the Local Government Finance Act 1992 (as amended) to provide additional Council Tax Support for those already in receipt of Council Tax Support (and who currently make a contribution to Council Tax) for the 2024/25 financial year. *[Note: this funding will be automatically credited to those people already in receipt of Council Tax Support.]*

We are then proposing to consult on a new Council Tax Support scheme for the 2025/26 financial year, as this would need a formal consultation period with all households. A full Equalities Impact Assessment would be required on this scheme.

It should be noted that, at this time, it is not possible to formally expand the Council Tax Support for the 2024/25 financial year. Any change would require a full public consultation and would need to be completed in time for the February 2024 Full Council meeting to set the budget for next year – this is not possible at this date. It is not possible to amend the scheme during the financial year either; it would need to be done for the start of the 2025/26 financial year.

In addition, the Council will make available £500k through the Discretionary Hardship Fund for the 2024/25 financial year to help mitigate the impact for residents. Over recent financial years, support provided through this Discretionary Hardship Fund has been around £100k per year.



Conclusion

These are difficult times for the Council. Every effort is being made to reduce expenditure and find savings. Council taxpayers is the funding source of last resort and the Council is endeavouring to do everything it can to limit the impact on tax payers.

However, in light of the unprecedented financial situation, with due regard for the support that vulnerable residents may need and recognising the relative levels of Council Tax in Birmingham compared to similar authorities, it is proposed to request the permission for an increase of the current referendum limit from 4.99% to 9.99% in both 2024/25 and 2025/26 financial years (Option 2 above).

The detail of this has been considered by the Commissioners who are happy to endorse the Councils request.




Councillor John Cotton
Leader of the Council



Deborah Cadman
Chief Executive



Max Caller
Lead Commissioner



Councillor Brigid Jones
Cabinet Member for
Finance and Resources



Fiona Greenway
Interim Director of
Finance (Section 151
Officer)



Chris Tambini
Finance Commissioner

