



Our Ref PJ/BCCPJ

Ms Angela Probert
Acting Chief Executive
Birmingham City Council
Council House
Victoria Square
Birmingham
B1 1BB

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham B4 6AT
T +44 (0)121 212 4000
F +44 (0)121 212 4014
DX 13174 Birmingham
grantthornton.co.uk

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Dear Angela

Birmingham City Council: Financial Capacity and Resilience

Following our discussion on 8 March 2017 we said that we would write to you setting out our views as external auditors in relation to progress made by the Council at this stage in responding to our statutory section 24 (and schedule 7) recommendations, which were issued to the Council in November 2016 under the Local Audit and Accountability Act 2014.

The Council has experienced considerable change in recent months and now would seem an opportune moment to take stock. The Council published its draft Financial Plan 2017+ in February 2017. This envisaged the need to secure savings of £71m in 2017/18 and cumulative savings of £171m by 2020/11 in order to achieve a balanced position into the medium term. The scale of savings required over the next few years is considerable and will be supported by the use of £40.5m of corporate reserves in 2017/18. The Council's general funds reserves amount to some £111m and it also has other earmarked reserves. Our concern is that, following the delivery of an estimated £35m overspend in 2016/17, the Council must substantially deliver its savings plans in 2017/18 and succeeding years, in order to sustain financial resilience but also to preserve an adequate level of reserves to support contingencies.

The savings target in 2017/18 looks challenging and remains challenging in succeeding years. The independent Improvement Panel, appointed by Government, concluded on 24 February 2017 in its letter to the Secretary of State for Communities and Local Government, that the Council's financial plans were now 'more robust and credible' but argued that:

'The plans and strategies however will not be easy to implement. Some implementation timetables are still extremely ambitious and the risks to achieving duly effective delivery are high.'

We concur with the Panel's conclusions in this regard.

Recent changes in senior management have included the retirement of the Council's Chief Executive, the imminent retirement of the Strategic Director of People, and the absence of one corporate Director at present through sickness absence. The Council's senior

management capacity is therefore considerably reduced at a time when such capacity is key to delivering the transformational change required to achieve the 2017/18 savings programme.

We are concerned that these changes could hinder progress. We are pleased however to note that the Council has acted quickly by seeking to put in place interim arrangements to bolster senior management capacity. To that end, you have been appointed as Acting Chief Executive and we understand that interim replacements will be in place shortly to address other gaps in the corporate management team. An experienced interim Chief Finance Officer has now been appointed as Section 151 Officer and an interim Chief Executive is to be appointed in early April. Arrangements are also underway to make permanent appointments to all first and second tier positions where there is not currently a permanent incumbent. Whilst this is to be welcomed, the quality of the interim appointments and the commitment that they can instil in the staff that they will be leading, will be key in determining whether the ambitious savings programme is delivered or not. Delivery of that programme is inherently challenging. Changes in senior management capacity at this juncture increase the risks associated with delivery of the programme. We are also concerned that the timing of the proposed changes to senior management capacity within the finance department may impact on:

- the Council's ability to deliver financial savings
- the quality of in-year reporting
- the production of the Council's annual accounts

We will discuss with the interim Director of Finance how the above risks will be mitigated. Whilst significant savings clearly need to be delivered by the Council, reducing senior financial management capacity at this juncture could inhibit the Council's ability to monitor and deliver those savings. The Council's finance department has delivered significant improvements in relation to the production of the annual accounts in recent years, addressing a previous history of significant problems in this area. We would not wish to see those improvements put at risk, particularly with the accounts closure timeline coming forward in 2017/18.

It is also important that Members play an active role in supporting the change programme, which will involve taking tough decisions and supporting officers to implement those decisions.

We aim to work constructively with the Council and in order to do this we shall be carrying out a piece of work over the coming months to assess what progress is being made in relation to our statutory section 24 recommendations. This will broadly cover budget delivery and monitoring arrangements. We will reflect progress made in our Audit Findings Report in September 2017, but if insufficient progress is made, we would consider at that stage what other formal auditor action might be appropriate, whether by the issue of a report in the public interest or other audit action. In our view, the financial situation of the Council is grave and we would reserve the right to comment at an earlier stage should that be warranted.

In our earlier discussion, we agreed that this letter would be shared with the Council's Leader and that it would be considered by one of the Council's public committees. We look forward to your early confirmation that this has happened.

Yours sincerely

A handwritten signature in black ink that reads "Phil Jones". The signature is written in a cursive style with a large 'P' and 'J'.

Phil Jones
Director
For Grant Thornton UK LLP

T 0121 232 5232
E phil.w.jones@uk.gt.com

cc. John Clancy, Leader, Birmingham City Council