Template to Accompany any Late Reports

PUBLIC REPORT

Report to:	**CABINET**	***Exempt information paragraph number – if private report*:**
Report of:	**THE CHIEF EXECUTIVE AND INTERIM CHIEF FINANCE OFFICER**	
Date of Decision:	**12TH DECEMBER 2017**	
SUBJECT:	**BUDGET 2018+ CONSULTATION**	
Key Decision: Yes / No	**Relevant Forward Plan Ref: 004430/2017**	
If not in the Forward Plan:	**Chief Executive approved** ☐	
(please "X" box)	**O&S Chair approved** ☐	
Relevant Cabinet Member(s) or Relevant Executive Member:	**Councillor Ian Ward**	
Relevant O&S Chair:	**Councillor Mohammed Aikhlaq**	
Wards affected:	**All**	

REPORT

*** To be completed for all late reports, ie. which cannot be despatched with the agenda papers ie. 5 clear working days' notice before meeting.**

Reasons for Lateness

Discussions have continued until a late stage to ensure that the draft savings proposals are ones which will minimise the impact on services wherever possible. There are significant financial consequences if this report does not proceed to the December Cabinet and therefore this satisfies the 'special circumstances' reason as required by the Constitution.

Reasons for Urgency and Reason for immediate implementation following Cabinet approval

S 30(6) Local Government Finance Act 1996 (LGFA) provides that the Council has to set it budget before 11th March each year. The Council must begin consultation on the draft budget and savings proposals for 2018/19 – 2021/22 as soon as possible to enable the Council to set its budget before 11th March.

A delay in approving the draft Budget Consultation document at December's Cabinet would leave insufficient time for the Council to undertake and fulfil the legal consultation obligations prior to the approval of the 2018/19 Budget at Council in February.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

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Wards affected:	**All**

1. Purpose of report:

1.1 This report sets out the financial context to the City Council's budget-setting decisions for the period from 2018/19 onwards.

1.2 The draft document attached is proposed as the basis for public consultation on the budget proposals.

2. Decision(s) recommended:

That the Cabinet :-

2.1 Approves the attached budget consultation document as the basis of public consultation on budget proposals for the period from 1 April 2018 onwards.

2.2 That this decision is designated as not subject to call-in, as set out in the City Council's Constitution, Section 3 - Meetings Administration, Part 8 - Immediate Decision Implementation: "If the interests of the Council are jeopardised unless an executive decision is implemented immediately then the Chief Executive in consultation with the Leader (or Deputy Leader in his/her absence) may designate such executive decision as so urgent that its implementation cannot wait until the expiry of the call-in period."

Lead Contact Officer(s): Mike O'Donnell, Interim Chief Finance Officer
Telephone No: 0121 303 2950
E-mail address: mike.o'donnell@birmingham.gov.uk

3. Consultation:

3.1 Internal

3.1.1 Cabinet Members, Corporate Directors, the City Solicitor, Director of Human Resources, Director of Public Health and Assistant Director (Communications) have been consulted in the preparation of proposals set out in this report.

3.2 External

3.2.1 The draft document attached as an Appendix to this report will form the basis of public consultation on the overall budget proposals. This will be complemented, where appropriate, by consultation with stakeholders and staff on individual savings proposals.

4. Compliance Issues:

4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?

4.1.1 The financial proposals set out in the attached consultation document have been formulated in the context of the Council's policy priorities.

4.2 Financial Implications (How will decisions be carried out within existing finances and resources?)

4.2.1 The proposals attached, if adopted, will set out the resource envelope within which services must be managed. Final decisions on budget allocations will be taken at the City Council meeting on 27 February 2018.

4.3 Legal Implications

4.3.1 The Local Government Finance Act 1992 (as amended) requires local authorities to calculate their Council Tax requirement, after having regard to all items of income and expenditure for the forthcoming year and, after taking account of the principles set out by the Government, to determine whether a referendum is required on the proposed Council Tax increase. In practice, therefore, this means that a local authority must set a balanced budget for the forthcoming financial year, in this case 2018/19.

4.3.2 The provisions of the LGFA 1992 set out what the Council has to base its budget calculation upon and require the council to set a balance budget with regard to the advice of its Chief Finance officer (s151). The setting of the budget is a function reserved to Full Council who will consider the draft budget which has been prepared by the Executive.

4.3.3 In formulating its budget proposal if these result in decommissioning or re-shaping services then the law will either require specific statutory responsibility to consult on those proposals or the common law will impose an obligation to consult or a further obligation is likely to arise because the Council's proposals require it to comply with or meet the objectives of the **Public Sector Equality Duty (PSED) arising under 149 Equality Act 2010.**

4.3.4 The PSED imposes on the Council an obligation to have 'due regard' as to what is appropriate in all the circumstances in achieving its desired outcomes. In setting the budget, the Council and individual councillors should consider the issue of discrimination

before making any policy decisions that may be affected by such an issue,

4.3.5. In the absence of an express duty to consult, whether or not the service is a statutory service, the common law will impose an **enforceable legitimate expectation of doing** so where:

a) There has been a promise to consult; or

b) There has been an established practice of consultation; or

c) Failure to consult would lead to conspicuous unfairness.

4.3.6 Subject to the overall requirements of fairness, a public authority usually has a broad discretion as to **how** a consultation exercise should be carried. Consultation should provide for interested organisations, service users, and wider community to put forward options on how to reshape the service or project and Councillors before making policy decisions and setting the budget should have ' due regard' as to the likely impact of these proposals on these interested parties.

4.3 7 In addition **Section 3 Local Government Act 1999**, imposes an obligation on local authorities to consult widely in order to determine how the Best Value duty should be fulfilled when decommissioning or re-shaping services.

4.3.8 Subject to the overall requirements of fairness, a public authority usually has a broad discretion as to **how** a consultation exercise should be carried out however the courts will now expect the following criteria to have been followed;

1) Consultation must be at a time when proposals are still at a formative stage.
2) Sufficient information must be given to those impacted to permit intelligent consideration and response; and
3) Adequate time must be given for this purpose; and
4) The results of the consultation must be conscientiously taken into account in finalising decisions by decision makers.

4.4 Public Sector Equality Duty (see separate guidance note)

4.4.1 Each service area is required to undertake the Councils Equality Analysis on each of the budget proposals, and to have 'due regard' to their duties under the Equality Act 2010 before a policy decision is taken by both Full Council in February 2018 and before a decision to implement that policy is then taken by Cabinet/Cabinet Member/Corporate Director which might affect those with relevant characteristics.

5. Relevant background/chronology of key events:

5.1 The financial year 2017/18 has been a transitional year for the Council. Following the setting of a balanced budget for 2017/18, the Council have been seeking to implement that budget while progressing its priorities. The Council's Vision is to be a city of growth where every child, citizen and place matters. Its key priorities are Children, Housing, Jobs and Skills and Health. During the year, the Council has strengthened its performance frameworks and it will be publishing a delivery plan which makes clear how the Council will be meeting its priorities. The Council continues to work with an Independent Improvement Panel appointed by the Secretary of State for Communities and Local

Government, and is currently working with that Panel to review ways of working for the coming year.

5.2 The Council is balancing running day to day services as effectively as possible while running in parallel of a series of major improvement programmes. The three key areas for these are Adult Social Care, Children's Social Care and Waste Management. In some cases, such as Children's Social Care and Education there are existing Improvement Plans. In others the Plans are due to come to Cabinet. The Council has been making major changes in its corporate operations as well. The Council's momentum was slowed temporarily by dealing with an industrial dispute triggered by the process of seeking to improve the waste service and some of the corporate governance consequences of that. The dispute also resulted in a number of significant additional costs which have been set out in the Council's budget monitoring reports. In Children's Social Care the Council has benefitted from recognition of .improvement in two Ofsted monitoring reports, but it still faces major challenges. . The Council continues to work to preserve the services it knows citizens care a great deal about – clean streets, environmental health, parks and green spaces

5.3 Alongside the challenges set out above the Council has been progressing its major programme of redevelopment of the city centre and beyond, including the area around Curzon station as a consequence of HS2, Smithfield (one of the largest developments in Europe), Peddimore, Paradise and Centenary Square. The Council has a major programme of highways maintenance with Amey as well as working on strategic and sustainable transport issues in partnership with the West Midlands Combined Authority.

5.4 It has also been making significant strides in its joint working with health services, both through its Health and Wellbeing Board and through the Sustainable Transformation Partnership, which is focusing on a number of changes to improve the integration of health and social care services across the city. The Council is in the planning stages of a Children and Young People's Partnership to engage and galvanise the city in providing the best possible opportunities for the 46% of the city who are under 30 years old.

5.5 Housing is one of the Council's largest services as it continues to manage its own housing stock and facilitate Housing Birmingham, the partnership of housing providers in the city. This year, like all local authorities in the UK, it has had to respond to the . terrible consequences of the Grenfell Tower Fire in Kensington and Chelsea. It has responded promptly and effectively to all the requests from the Department of Communities and Local Government while working energetically with local residents, the housing workforce and other housing partners to review safety and reassure residents. The Housing budget is dealt with separately from the main General Fund budget on which this report is focusing primarily today, but it is a very important part of the Council.

5.6 The Council has also been working with many supportive partners including the West Midlands Combined Authority, the three LEPs in the region and the city's universities on the strategic objective of attracting the Commonwealth Games to the city, without impacting on the hard pressed budgets on which we are consulting in this report. The Council is making sure that the city's bid has no impact on Council Tax.

5.7 In common with most other local authorities, the City Council has been subject to significant funding reductions since 2011/12. At the same time, the Council has had significant expenditure pressures. This has meant that over the seven years to 2017/18 the City Council has had to make overall annual savings of £642m. We anticipate having to make further annual savings of £111m between 2018/19 and 2021/22. This will mean

total annual savings of £753m over the eleven year period.

5.8 The Council has a gross budget of £3.0bn. However a large proportion of it is constrained by national parameters or financial regulations which mean it has to be spent in specific ways:

- £713m must be spent on schools
- £284m must be spent on Council housing
- £550m must be spent on benefits
- £260m must be spent in accordance with grant conditions
- £291m is funded by income
- £197m is other uncontrollable expenditure, including financing costs

5.9 This means that the amount of the Council's budget from which it is possible to identify savings is around £740m.

5.10 This consultation proposes new savings proposals of £14.2m. These are required for a combination of reasons including:

- Addressing the reductions in resources;
- Funding spending plans; and
- Replacing savings plans that are no longer considered to be deliverable.

Resources

5.11 There are three main sources of corporate income

- Government Grants
- Business Rates
- Council Tax

Government Grant Reductions

5.12 Local Government as a sector has suffered disproportionate cuts as part of the Government's approach to austerity since 2011/12. The City Council has been subject to greater funding reductions than other local authorities over this period.

5.13 The Council made representations to the Government on the unfairness of its approach to distributing cuts in 2014/15 and 2015/16 as it diverged significantly from the last "fair funding" calculation from the Government. The Council was successful in ensuring the Government recognised that this was unfair as it introduced a new approach from 2016/17. However, the Government did not make adjustments for the unfair distribution of cuts built into the system, which the Council estimates reduce grant income by around £100m annually. The Leader has written to the Chancellor of the Exchequer about this.

5.14 The Council is currently half way through the provision of a "guaranteed minimum" financial settlement. This means we have relative certainty regarding resources for 2018/19 and 2019/20. However, following this there is significant uncertainty including:

- Whether national Government austerity policies will continue in their current form;
- What the Government will announce in the next Spending Review regarding plans for local government funding; and
- The impact of a "fair funding" review being carried out by the Government on the distribution of local government funding – this is due to be implemented (at least in part) by 2020/21.

5.15 Given all of the uncertainty the Council is currently forecasting that its resources from Government will increase in line with inflation from 2020/21.

5.16 The Council's main grants from Government which can be used for general purposes are expected to reduce by £46m in 2018/19 (out of a total of £137m received in 2017/18). The Council also expects to receive an additional £19m from grants to support Adult Social Care. Further details are set out in the table in paragraph 5.16.

Local Resources

Business Rates

5.17 The Council has entered into an agreement with the Government to Pilot 100% business rates retention locally. This means that all business rates generated in Birmingham are available to the City Council to help provide services. This drives an incentive to grow businesses within the city. We recognise the importance of ensuring all businesses pay their business rates and have begun a review to ensure that all businesses are registered to pay their full share of business rates. Following this and other growth in businesses forecast, the Council estimates that income available to it from business rates will grow by £52m in 2018/19.

5.18 To date the Council has received very few appeals from businesses against their business rates bills. Whilst the cost of appeals is backdated to the start of the valuation list, the Council is proposing to re-profile when it sets aside resources to repay business rates for successful appeals. This will bring the profile of resources set aside more in line with when appeals are expected to be submitted. This will not reduce the overall anticipated cost to the Council of business rates appeals.

Council Tax

5.19 The Council's other main form of income is from Council Tax. The Council has carried out thorough reviews of discounts being awarded to ensure that everyone pays their fair share for the services provided by the Council. We have been able to make significant improvements to the Council Tax taxbase following reviews of Single Person Discounts awarded. We have also estimated growth in homes in Birmingham.

5.20 As in previous years we anticipate that the Government will place a referendum limit of 2% on general increases in Council Tax. The Government has also allowed Councils to increase Council Tax by a further 3% through the Social Care Precept in 2018/19. The proposals in this consultation assume a combined general and Social Care Precept increase in council tax of 4.99% in 2018/19 and 1.99% in later years.

Spending Plans

5.21 Despite the reductions in funding that the Council has received, we have continued to invest in our services in order to ensure that sufficient resource is available to continue services. In the past we have been able to identify a further £30m of investment in Children's Services and made provisions for inflation. For 2018/19 we propose to continue to invest in our services. For example:

- £8.5m to meet demographic pressures in Adult Social Care
- £4.5m to further our contribution to paying sustainable wages
- Funding general inflation costs of the Council

5.22 Further details of the pressures proposed to be funded in the period 2018/19 – 2021/22 can be seen in the table below.

Table 1: Budget Pressures

Year	£m
2018/19	46.556
2019/20	63.179
2020/21	68.624
2021/22	73.957

Non-delivery of Savings

5.23 The City Council has successfully delivered £642m of savings through to 2017/18. However, it is becoming harder to identify and deliver savings. There have been some deliverability issues with regard to some savings in 2017/18. Our budget monitoring reports have highlighted the challenge in delivering our current savings plan. Further work has been undertaken as part of the budget process to reduce the anticipated level of savings non-delivery in the current and future years. This has reduced the budget gap that then needs to be covered by new savings proposals.

5.24 The current savings programme can be considered to be in two parts:

- Directorate savings proposals; and
- Corporate savings proposals.

Directorate Savings

5.25 Early monitoring reports identified that the Council had initial concerns about the deliverability of its Directorate savings plan in 2018/19 and beyond; initially £13m was considered undeliverable in 2018/19. However, the Council has persevered in resolving the deliverability of its savings programme and the majority of the Directorate savings plans are now considered to be deliverable; of the original plan of £26m, only £5m is expected to be undeliverable in 2018/19.

Corporate Savings

5.26 The Council had intended to make two main corporate savings – savings related to not having to pay increments and the Future Operating Model of the Council. The Council reached collective agreement with the trade unions in order to agree that increments would not be paid through to 2020/21. This .will deliver annual savings of £15m by 2020/21.

5.27 The Future Operating Model (FOM) has not been progressed to the same extent as planned. Savings are planned to be delivered across support services to both the Council and the Children's Trust. Savings of nearly £10m are planned for 2018/19 and other savings have been delivered across directorates, but these have been counted against directorate savings targets rather than the corporate FOM target. However, the scale of savings originally envisaged across the whole of the Council has not yet been achieved. The reasons for this relate to a number of different factors which include issues to do with the way the savings were calculated.

Reserves

5.28 Despite these challenges the Council's aim is to deliver a sustainable savings plan for future years. That is why the detailed information surrounding this consultation includes

figures associated with our proposals on a four year basis. Inevitably, due to the scale of the financial challenge 2018/19 will be a transitional year where we start to put in place necessary changes, which will not take full effect until 2019/20. However, it is essential that the City Council moves to a position where it no longer relies on use of reserves to balance the budget in future years.

5.29 The Council has reviewed its ability to use reserves to help the Council in its transition. It is proposed that £15m of reserves are used to help phase the transition in 2018/19. Furthermore, the Council is proposing to use reserves to fund the costs of pension fund strain in order to allow Directorates to maximise their savings proposals. The use of reserves in respect of pension fund strain is assumed to be a further £4m.

5.30 This is considered to be a strategic use of reserves to enable progress to be made in services which require transformation, such as Adult Social Care, and allow the Council to transition to a sustainable financial position in the medium term.

5.31 A summary of the planned use of corporate reserves is shown below:

Table 2: Corporate Use of Reserves

	£m
One off use of reserves	(15.5)
Funding Pension Fund Strain from Organisational Transition Reserve	(4.2)
Repayment to reserves	3.6
Contribution to Business Rates Appeals Reserve	7.0
Other Contributions to specific reserves	7.4
Net use of reserves in 2018/19	**(1.7)**
Net use of reserves in 2017/18	(32.1)
Movement between years	**30.4**

Savings

5.32 A comprehensive review of the Council's budget has taken place; where possible pressures have been reduced and savings plans have been reinvigorated. However, new savings proposals are required in order to deliver a balanced budget. The table below shows how the level of savings that the Council needs to deliver has been determined.

Table 3: Summary of Savings Requirement

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Changes in core Government grants	45.7	79.4	78.4	77.4
Changes in Council Tax/Business Rates & related Grants	(70.9)	(77.8)	(97.5)	(116.9)
Changes in grants earmarked for Adult Social Care	(18.9)	(40.0)	(40.0)	(40.0)
Pay & Price Inflation	19.7	39.6	58.1	75.9
Budget Pressures	46.6	63.2	68.6	74.0
Net Payment to/(from) Reserves	30.4	33.8	30.0	41.3
Corporately Managed Budgets	1.0	(4.2)	(7.1)	(0.3)
Savings requirement	**53.6**	**94.0**	**90.5**	**111.4**
Savings in Financial Plan 2017+	(62.7)	(93.9)	(100.5)	(100.5)
Savings not delivered	23.3	39.8	36.5	35.1
Savings being consulted on	(14.2)	(26.8)	(39.4)	(47.8)
Further savings to be identified for future years	**0.0**	**13.1**	**(12.9)**	**(1.8)**

5.33 The savings in the current plan that are still being pursued by the Council are not sufficient to deliver the total level of savings required. The Council is therefore proposing to consult on £14.2m of new savings proposals which can be seen in the draft budget consultation document set out as an Appendix to this report.

6. Evaluation of alternative option(s):

6.1 The proposals in the attached draft budget consultation document reflect the evaluation of alternative options by the Administration of the City Council for balancing the General Fund budget for 2018/19, and in setting the financial strategy in the medium term. The purpose of this consultation is, however, to invite the public and partners to consider these savings proposals and if they wish, make alternative suggestions.

7. Reasons for Decision(s):

7.1 To approve the attached budget consultation document as the basis of public consultation on budget proposals from the period from 1 April 2018 onwards.

Signatures **Date**

Interim Chief Finance Officer ……. ……...

Interim Chief Executive ……. ……

Leader …….. ……

List of Background Documents used to compile this Report:

1. City Council Financial Plan 2017+ approved at Council 28th February 2017
2. Corporate Revenue Budget Monitoring Document – Month 6

List of Appendices accompanying this Report (if any):

1. Draft Budget Consultation 2018+ document

Report Version 3.5 **Dated 11th December 2017**

PROTOCOL
PUBLIC SECTOR EQUALITY DUTY

1 The public sector equality duty drives the need for equality assessments (Initial and Full). An initial assessment should, be prepared from the outset based upon available knowledge and information.

2 If there is no adverse impact then that fact should be stated within the Report section 4.4 and the initial assessment document appended to the Report duly signed and dated. A summary of the statutory duty is annexed to this Protocol and should be referred to in section 4.4 of executive reports for decision and then attached in an appendix; the term 'adverse impact' refers to any decision-making by the Council which can be judged as likely to be contrary in whole or in part to the equality duty.

3 A full assessment should be prepared where necessary and consultation should then take place.

4 Consultation should address any possible adverse impact upon service users, providers and those within the scope of the report; questions need to assist to identify adverse impact which might be contrary to the equality duty and engage all such persons in a dialogue which might identify ways in which any adverse impact might be avoided or, if avoidance is not possible, reduced.

5 Responses to the consultation should be analysed in order to identify:

(a) whether there is adverse impact upon persons within the protected categories

(b) what is the nature of this adverse impact

(c) whether the adverse impact can be avoided and at what cost – and if not –

(d) what mitigating actions can be taken and at what cost

6 The impact assessment carried out at the outset will need to be amended to have due regard to the matters in (4) above.

7 Where there is adverse impact the final Report should contain:

- a summary of the adverse impact and any possible mitigating actions (in section 4.4 or an appendix if necessary)
- the full equality impact assessment (as an appendix)
- the equality duty (as an appendix).

Equality Act 2010

The Executive must have due regard to the public sector equality duty when considering Council reports for decision.

The public sector equality duty is as follows:

1 The Council must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

2 Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

(b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

(c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

3 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

4 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

(a) tackle prejudice, and

(b) promote understanding.

5 The relevant protected characteristics are:
(a) marriage & civil partnership
(b) age
(c) disability
(d) gender reassignment
(e) pregnancy and maternity
(f) race
(g) religion or belief
(h) sex
(i) sexual orientation