

Birmingham City Council

City Council

25th September 2023



Subject: **Response to Section 114 Notice –
Financial Recovery Plan**

Report of: **Deborah Cadman, Chief Executive**

Report author: **Richard Brooks, Director of Strategy, Equality &
Partnerships**

Does the report contain confidential or exempt information? ☐ Yes ☒ No

1 Executive Summary

- 1.1 On 5th September, the Section 151 Officer (Interim Director of Finance) issued a notice under Section 114 of the Local Government Finance Act 1988. The Council must now agree and implement a Financial Recovery Plan which balances our expenditure with our income, and funds or finances our liabilities. Our work to address the situation must be urgent, will involve hard choices about what we deliver and how we operate, and will result in a smaller organisation.
- 1.2 This report sets out the elements of our Financial Recovery Plan and how these are being taken forward. Further reports and decisions will be required as the detail is developed, including on savings and a revised Emergency Budget for 2023/24; on asset disposals; on redesigning our organisation to achieve a sustainable Medium Term Financial Plan; and on generating additional income. The Council is likely to require Exceptional Financial Support from government, including agreement to

capitalise some of our revenue liabilities and repay the associated borrowing over a period of time.

- 1.3 Developing our full Financial Recovery Plan must proceed quickly. Given the scale of the challenge, implementation is likely to be lengthy and there will need to be an extended period of rigorous spending control and tight financial constraint. We must find the best possible ways of working more effectively with our partners and more efficiently as an organisation. Throughout this we must remain focused above all on our citizens, protecting our vulnerable residents and communities, and must always put their needs first.

2 Recommendations

2.1 Full Council is recommended to:

- I. Agree to accept the Section 114 notice issued on 5th September 2023 and the views set out within it, as described in section A below and Appendix 1.
- II. Agree to continue Spending Control measures under the direction of the Section 151 Officer until such date as the Council has passed an approved balanced Budget for 2024/25, as described in section B below and Appendix 2.
- III. Endorse the following activity now underway as part of our Financial Recovery Plan and described in section C below:
 - a. Measures to reduce spending and mitigate budget pressures for 2023/24, leading to a revised Emergency Budget for 2023/24.
 - b. Organisational Redesign work to reshape our services around citizens and within our available resources, to inform the 2024/25 Budget and deliver a balanced MTFP.
 - c. A Capital Strategy and Assets Review to identify options to raise funds and minimise borrowing costs.
 - d. A review of council-controlled companies and traded services to identify options to raise funds, reduce costs and reduce risk.
 - e. An Income Review to maximise sustainable income from all sources, including Business Rates, Council Tax, Grants and other income.

- f. Measures to achieve pay equity and stop the growth of our equal pay liability, including work to reduce the value of the potential liability and fund the actual liability.
 - g. Formal dialogue with DLUHC to explore options for Exceptional Financial Support, including potential capitalisation of revenue liabilities.
- IV. Agree to receive a further report and revised Emergency Budget for 2023/24 at an Extraordinary Council Meeting in late October; to note equalities considerations; to involve Overview & Scrutiny Committees; and to undertake public consultation and engagement as described below in section D below.

3 Background, considerations and proposals

A. Section 114 Notice

- 3.1 On 5th September, the Section 151 Officer (Interim Director of Finance) issued a notice under Section 114 of the Local Government Finance Act 1988. This was on the basis of a potential liability relating to Equal Pay claims in the region of £650m to £760m. The Council does not have sufficient resources to cover this potential liability.
- 3.2 In addition, the Council has also identified a budget shortfall for the current financial year (2023/24) of £87m, which is projected to rise to £165m in 2024/25; £177m in 2025/26, £172m in 2026/27 and £180m in 2027/28. These recurrent budget gaps highlight the seriousness of the underlying financial challenges faced by the council in addition to its potential Equal Pay liability.
- 3.3 Birmingham City Council set a budget for net expenditure of £925m in 2023/34. The scale of our financial challenge, and especially our potential Equal Pay liability, is large relative to the organisation's budget.
- 3.4 At the time the Section 114 notice was issued, the Council had moved into a negative General Fund position. In addition, the Council was not able to agree a solution for funding or financing its liabilities. For these reasons the Section 151 Officer was required in line with their statutory responsibilities to issue the Section 114 notice. **Members are recommended to consider the notice at Appendix 1 and accept it and the views expressed within it.**

- 3.5 Our work to address the situation must be urgent, will involve hard choices about what we deliver, how we operate, and the shape and size of the organisation. The Council acknowledges that the current situation will create uncertainty and in some cases disruption, and unreservedly apologises. It is committed to ensuring that citizens, partners and our own staff are regularly updated on the current situation and its future implications.
- 3.6 These serious challenges will not diminish the Council's ambition in supporting the upward trajectory of the City of Birmingham. Record levels of investment continue to flow into the city, and the Council will work with our partners to ensure this remains the case.
- 3.7 The Council also remains committed to working with key stakeholders in our diverse communities across the city, taking full account of equalities issues, and using all possible means to mitigate the impacts of the current cost of living crisis on our most vulnerable citizens.

What the Council needs to do, as a result of the Section 114 notice

- 3.8 Only approve new spending if it is essential during the period in which the restrictions brought in by the Section 114 notice remain in place – the spending controls that have been implemented are described in Section D.
- 3.9 Reduce spending to tackle the current budget gap in the 2023/24 financial year and the forecast budget gap for the 2024/25 financial year – the scope of this Financial Recovery Plan is described in Section E.
- 3.10 To set a balanced budget for the 2024/25 financial year (i.e. in which expenditure is covered by income), the Council must tackle the following financial pressures:
- a. Forecast financial pressures – as laid out in the Medium-Term Financial Plan update to Cabinet on 25th July 2023); and
 - b. Equal pay pressures – to quantify and cover the costs of the new Equal Pay claims.
- 3.11 These financial pressures must be tackled in time to enable Full Council to approve a balanced budget for 2024/25 by the end of February 2024.

B. Spending controls

- 3.12 Spending controls were already in place prior to the issuance of the Section 114 notice. Since the Notice was issued, these controls have been strengthened in line with the requirements of the law. A Spend Control Board is in place, chaired by the Section 151 Officer, and a rigorous spend control process has been established across the organisation. No new non-essential spending is allowed, and any new essential spending must follow the agreed approval process. All financial delegations have been removed and no new agreements or commitments for expenditure are allowed without the explicit agreement of the Section 151 Officer.
- 3.13 To be considered essential, spending must meet one of the following criteria:
- a. It delivers a clear and referenced statutory obligation.
 - b. It delivers a cashable saving compared to a current spending within a quantified time period.
 - c. It is already legally committed.
 - d. It is required to safeguard vulnerable citizens.
 - e. Or, it is fully funded by an external grant. If partially funded, it must be considered against a-d above.
- 3.14 The Spending Control Manual, which sets out the full process, is included as Appendix 2. The Manual includes examples and some of the main categories of essential expenditure (version as of 18.09.23). To ensure transparency, the decisions of the Spend Control Board are published on the Council's public website (CMIS).
- 3.15 Continued Spending Control is an important element of the Council's Financial Recovery Plan, as all new spending creates additional pressures that must be funded. For this reason, **Members are recommended to continue Spending Control measures under the direction of the Section 151 Officer until such date as the Council has passed an approved balanced budget for 2024/25.**

C. Financial Recovery Plan

3.16 The Council's Financial Recovery Plan will be overseen by a Financial Recovery Board working alongside the Spend Control Board. These will both report to a Strategic Team chaired by the Chief Executive, which will set direction, manage risk and ensure delivery. The Strategic Team will engage with both Elected Members and external partners of the Council. A Communication and Staff Engagement group supporting this structure will ensure that we communicate openly and transparently with all our key stakeholders in a consistent way.

Approach to in-year 2023/24 savings

3.17 The Cabinet received an update on the Council's Medium Term Financial Plan (MTFP) on 25th July 2023, including Quarter 1 of Financial Year 2023/24 (see Appendix 3). The report presented forecast budget pressures and inflation forecasts over the current financial year (2023/24) and the remaining financial years that make up the MTFP. It projected an in-year budget shortfall of £87m in 2023/24, rising to £165m in 2024/25, £177m in 2025/26, £172m in 2026/27 and £180m in 2027/28. These projected budget shortfalls did not reflect any additional costs relating to Equal Pay, including potential future liabilities or the cost of implementing any scheme of job evaluation. A budget of up to £20m for implementing a scheme of job evaluation was agreed by Cabinet on 25th July 2023 and will need to be reflected in an updated MTFP.

3.18 Many of the underlying forces driving these overspends are being felt by councils across the country. These include:

- a. **Rising demand and complexity pressures in essential services**, including provision of temporary accommodation; provision of social care and SEND services for children; and provision of adult social care. In total, demand and complexity growth adds £56m to the 2023/24 budget gap.
- b. **Rising costs of inflation**, primarily general inflation on costs of premises, transport, supplies and services costs. In total, inflation adds £21m to the 2023/24 budget gap.
- c. **Undelivered savings** which were agreed as part of the 2023/24 budget process but which are now considered to be at high risk. In total, savings considered to be at high risk add £33m to the 2023/24 budget gap.

- d. **Additional costs of Oracle implementation** have added to the pressures on the Budget and MTFP.

- 3.19 Services are now developing options for the maximum deliverable 2023-24 cashable revenue savings or additional 2023/24 income in their areas of responsibility. These may be one-off for 2023/24 or recurrent, but the more that is recurrent the more we can close the future MTFP gap. Proposals will include delivery timescales, milestones and an assessment of impact on services and citizens. Each proposal will have an identified officer below Director level to lead the development and implementation of the proposal. Savings must impact the General Revenue Fund, but within this we are not excluding any budget or service up front.
- 3.20 On the basis of this work, a revised Emergency Budget for 2023/24 will be presented to a further Extraordinary City Council meeting in late October.

Organisational redesign for 2024/25 onwards

- 3.21 The Council's expenditure is a consequence of our organisational design. The way we organise our resources to deliver services determines our cost base. Our latest review of our medium-term financial plan – with large imbalances currently forecast for all four years of the plan – demonstrates that our organisational shape and size is now out of balance with our income. We must therefore redesign our organisation around citizen needs in a way that fits our future budgets and delivers a balanced MTFP. We must also meet our Best Value duty under the Local Government Act 1999. We must be able to show that we have arrangements in place to secure continuous improvement and value for money in how we carry out our work, including our use of resources (one of seven themes in the Draft Best Value framework¹).
- 3.22 There are some key opportunity areas and building blocks for creating a more economical, effective and efficient organisation through organisational redesign. These include:
- a. Leaner corporate services, based on successful implementation of Oracle and associated savings.

¹ [Best value standards and intervention draft guidance \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

- b. Leaner service structures, cutting out duplication of functions and a focus on what value each role adds.
- c. Greater clarity about our service offers to citizens.
- d. More effective early intervention to reduce demand and cut costs of failure.
- e. More effective partnership with other public, private and community sector orgs, and a reduction in our own service provision.

3.23 In reviewing the design of the organisation, we will apply some key principles:

- a. Use a Values Framework that puts citizens first to guide decisions.
- b. Use evidence about citizen needs, value for money and impact.
- c. Develop a service offer and organisational design that fits the MTFP.
- d. Plan for staff reductions and support our staff through the process.
- e. Avoid crude ring-fencing and salami slicing of budgets.

3.24 Services that are considered statutory, and spending which is considered essential, are within the scope of this work. Even where we are meeting statutory duties, we need to consider how best to do this in the interests of citizens, in the most efficient and effective way. We will put citizen needs at the heart of this process and design our organisation around them, not simply seek to make existing services more efficient. In some cases this is likely to involve transfers of services and assets to other organisations.

3.25 We recognise that this process will result in a smaller organisation that employs fewer people. We have already launched a Mutually Agreed Resignation Scheme (MARS) which allows staff to express an interest in voluntarily resigning and, if this is agreed, receiving a non-negotiable exit payment. In addition, we are identifying a range of potential savings from the use of consultancy, interim and agency staff, which will inform the revised 2023/24 Budget as well as longer term organisational design thinking. To deliver best value for our citizens it is vital that we keep the best people in the organisation and attract the best talent to the Council.

3.26 Organisational Redesign work will be taken forward through the Financial Recovery Board, drawing on all other elements of the wider Financial Recovery Plan outlined in this report. The results will inform the development of a balanced Budget for 2024/25 and the Medium-Term Financial Plan.

Limitation and funding of Equal Pay potential liability

- 3.27 Our estimated potential equal pay liability was made public in a Council statement on 28 June 2023. That statement gave a range of between £650m and £760m and an accrual rate of £5m to £14m per month. The potential liability of £650-760m is calculated as at 31st March 2025. The principal solution to the Council's equal pay issues is the delivery of new terms and conditions of employment following a job evaluation study and a new pay structure that complies with the Equality Act 2010. Once we are paying all our people fairly and in accordance with the law, the liability stops accruing.
- 3.28 On 1st September 2023 the Council Business Management Committee met to consider options for a renewed Pay Equity System (PES) consisting of a job evaluation study and new pay structure, to be delivered by no later than 1st April 2025. This is the date at which the £650-760m potential liability is assumed to end. A new PES removes job inequality and means, from that date, employees should not have a further Equal Pay claim. If our implementation of the new pay structure is delayed beyond then, the potential liability will continue to increase.
- 3.29 There have been extensive discussions between the recognised trade unions and the Council with the intention of ensuring that employee interests are properly represented and protected through this process. It is strongly in the interests of all parties to conclude the job evaluation study and implement the new pay structure without delay, and for the whole process to be robust and fair. Delays will increase financial strain for the Council, which may result in the need for further spending reductions. If the process is not robust and fair, it will be open to challenge and may generate future claims.
- 3.30 Whilst the potential liability has been estimated at £650-760m, we do not yet know with certainty the actual amount the Council will pay to settle claims. An important next stage of work will involve examining whether and how we can reduce the overall liability, for example by agreeing to pay some claims early.
- 3.31 Equal Pay claims are a revenue liability, and normally it is not allowed to use capital receipts or borrowing to fund revenue costs. Given the size of the potential liability relative to our net expenditure budget of £925m in 2023/24, we will need to seek permission from the Department for Levelling Up, Housing and Communities

(DLUHC) to capitalise some or all of the costs. See sub-section below on Exceptional Financial Support arrangements.

Asset sales and capital strategy

3.32 The Council holds a large portfolio of assets, including extensive land and buildings around the city; ownership or part ownership of companies; and financial assets. The Council holds a large portfolio of liabilities including Gross Loan Debt of £3.3bn at 31st March 2023, and budgeted debt servicing costs are £239m for 2023/24.

3.33 A Capital Strategy and Assets Review will develop options for generating capital receipts and to reduce borrowing costs. This will involve reviewing:

- a. Committed capital spend: a review of all current capital programmes to understand what can be paused and what should continue.
- b. Borrowing costs: a review of existing borrowing to assess whether refinancing could reduce interest costs.
- c. Existing reserves: a review of all reserves and capital receipts that are committed to future spending plans.
- d. Assets: a review of all assets to assess which can and should be sold (and estimate the potential sale price). This will likely lead to an assets disposal programme.

3.34 Capital receipts will be necessary to help fund the potential Equal Pay liability (on the assumption that the liability can be fully or partly capitalised). They will also reduce the need for further borrowing and will therefore reduce the strain of debt on the Council's revenue budgets, allowing us to protect services for our citizens.

Maximising income

3.35 Alongside reducing expenditure and sales of assets, the Council must consider options for maximising income. Our main sources of income are Business Rates, Council Tax, grants and other income including fees and charges. We will need to consider a wide range of options to balance income against expenditure over the period of Medium-Term Financial Plan.

Requirement for Exceptional Financial Support

3.36 Since 2020, the government has agreed to provide a small number of local authorities with support via the Exceptional Financial Support framework, following

requests from these councils for assistance with financial pressures that they considered unmanageable within the normal local government financial arrangements. Such support comes with significant conditions, including:

- a. An external assurance review focused on the council's financial position, and its ability to meet its budget gap without additional borrowing, for example through additional cost reductions.
- b. An effective response by the council to any recommendations from the external review, and regular progress reports (to DLUHC).
- c. An assumption that the council meets its own cost of exceptional financial support over time.

3.37 It is important to recognise that Exceptional Financial Support is almost never provided in the form of grant, but as permission to borrow or to apply capital receipts from asset sales. If Exceptional Financial Support is agreed, this is usually via a Capitalisation Directive from the Secretary of State. Any borrowing will then create future costs of servicing and paying off the debt.

3.38 The Council maintains regular communication with the Department for Levelling Up, Housing and Communities, and has been in discussions about a range of financial matters over recent months. This has included open and transparent discussions about our potential Equal Pay liabilities and wider financial pressures.

3.39 The Council has not up to this point formally sought Exceptional Financial Support. However, given the scale of the Equal Pay liabilities, such support is likely to be required, and this will require agreement with the Secretary of State for the Department for Levelling Up (DLUHC). Agreement of Exceptional Financial Support (EFS; likely a loan from DLUHC) is subject to negotiations. To enable the Council to set a balanced budget for 2024/25, such agreement will need to be in place (at least in principle) by the end of February 2024.

3.40 To get this agreement by end of February 2024, the Council will need to:

- a. Apply for EFS from DLUHC – including final confirmation of the Equal Pay liability, based on latest estimates.
- b. Carry out the work required to obtain an EFS – this will include review of savings, additional income (including potential additional Council Tax increases) and asset sales – to demonstrate to DLUHC that any funding

request would come after BCC had made tough choices and used existing assets.

- c. DLUHC Officials have confirmed that any EFS is only normally offered “for the residual funding amount” once a council has demonstrated a plan to reduce the amount required through savings proposals, asset sales and other activities as part of its Financial Recovery Plan.

D. Engagement with Overview & Scrutiny, public consultation and engagement

3.41 Overview and Scrutiny (O&S) is a key element of good governance and central to achieving best value for citizens. The Council’s O&S Committees have already held a round of meetings about the Section 114 notice and its implications, and have challenged specific factors contributing to our budget deficit including the non-delivery of savings. Going forward, O&S Committees will continue to have a key role both before and after decision making, challenging and improving proposals, and providing additional accountability for the effective implementation of agreed plans.

3.42 As we further develop and implement our Financial Recovery Plan, we will engage with residents and consult on how we will meet our Best Value Duty. Key opportunities for public engagement at the level of the whole local authority include setting our budgets and the medium-term financial plan. Further details of the Financial Recovery Plan will need to be developed by the end of October, to enable sufficient review and consultation prior to a draft budget for 2024/25 being completed, in time for formal consultation. In addition, there will be individual services where citizen engagement will be important as part of co-designing and changing what we do and how we do it, to best meet our residents’ needs within our available resources.

4 Legal Implications

4.1 Section 114 (3) requires that: “The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.” The process for issuing a Section 114 report and the effect of it are set out in various sections under the 1988 Act. Subsection 3(A) requires the chief

finance officer to consult, so far as reasonably practicable, the Head of Paid service and the Monitoring Officer.

- 4.2 Section 115 of the 1988 Act requires Full Council to consider and decide on the report made under Section 114 within 21 days beginning on the day the report is issued. Full Council must consider the report at a meeting where it shall decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it.
- 4.3 Section 115 (6) states that pending consideration of the report by Full Council, there is a prohibition period which runs from the date the report is made to the date of the Full Council meeting. During this period, the Council must not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority unless the chief finance officer of the authority authorises it to do so. Section 115(6A) states the chief finance officer may only give authority for the purposes of subsection (6) if he considers that the agreement concerned is likely to:
- a. prevent the situation that led him to make the report from getting worse, b. improve the situation, or c. prevent the situation from recurring.
- 4.4 Section 116 requires the Council to notify its external auditors of the report and the time, date and place of the full Council meeting. The external auditors also need to be informed of the outcome of the meeting as soon as practicable. The external auditors have been kept informed of the emerging financial position and the planned work. The external auditors will need to consider the implications of this report on their statutory functions and the implications for their opinion on the 2019/20 and subsequent accounts which remain unaudited at the date of this report.
- 4.5 The Council's legal duties around budget setting are set out in Section 31A of the Local Government Finance Act 1992, which states:
- a. In relation to each financial year a billing authority in England must make the calculations required by this section.
 - b. The authority must calculate the aggregate of:
 - i. the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices.

- ii. such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices.
- iii. the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure.
- iv. such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.
- v. any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with regulations under section 97(2B) of the 1988 Act,
- vi. any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act; and
- vii. any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section 98(5) of the 1988 Act and charged to a revenue account for the year.

5 Financial Implications

5.1 Financial issues are the subject of this report and are addressed in the body text.

6 Public Sector Equality Duty

6.1 The Council is strongly committed to equality and has statutory responsibilities to comply with both the Public Sector Equality Duty and the Equality Act 2010. These duties are concurrent with the duties imposed by the Section 114 notice, and we will continue to consider equalities implications in all relevant decision making, including decisions of the Spend Control Board. All spending control decisions are supported by information about the equalities implications of proceeding or not proceeding with the spending.

6.2 Birmingham is a superdiverse city with a high level of poverty and deprivation, and poor outcomes for key measures such as health and employment are associated

with specific protected characteristics. We will use the information now available through the City Observatory to inform decision making through our Financial Recovery Plan, including by providing evidence and insight about the pattern of need to allow more accurate targeting of our resources.

7 Background Papers / Appendices

Appendix 1: Section 114 Notice issued 5th September 2023

Appendix 2: Section 114 Spending Control Manual

Appendix 3: Medium Term Financial Plan (MTFP) Refresh – update to Cabinet at Quarter 1 of the 2023/24 Financial Year (25th July 2023)

Report to all Elected Members of Birmingham City Council
Under
Section 114 (3) of the Local Government Finance Act 1988
By
Fiona Greenway CPFA
Interim Director of Finance (Section 151 Officer), Birmingham City Council
Date of Report: 5th September 2023

Purpose of Report

1. Members of the Council are asked to consider this report by the Section 151 Officer (the Chief Finance Officer). The report is made under section 114 (3) of the Local Government Act 1988 because the Section 151 Officer is of the opinion that:
 - a. The Council is currently in a negative General Fund position. That is because of the cost of providing for Equal Pay claims, that the Council is now legally obligated to recognise, will result in exceeding the financial resources available to the Council. This means that spend due within that period exceeded the financial resources available to the Council in that same period.
 - b. The Council has insufficient resources to meet that expenditure and the Council is not currently able to agree a solution that will allow suitable funding or financing to be obtained for this liability.
2. This report is being issued now because of the following individual factors:
 - a. Correspondence from External Audit on 1st September 2023 which raises concerns around the provisions for Equal Pay in prior year accounts, 2020/21 and 2021/22, being materially understated which means the Council would have exhausted its General Fund balance on an accounting basis.
 - b. Further confirmation of the historic value of the potential Equal Pay liability impacting prior years, which is becoming more evident that it is unaffordable for the council based on existing available reserves. Since the announcement of the Equal Pay liability we have received additional correspondence to put the Council on notice of further litigation from recognised Trade Unions and claimant lawyers.
 - c. Correspondence from External Audit on 1st September 2023 also enquires around the likelihood of the Council being able to generate savings, additional revenue income, and/or capital receipts to mitigate the financial challenges.
 - d. A projected deficit of £87m for the 2023/24 financial year, for which the Council does not have sufficient reserves based on the Equal Pay liability above, which is forecast to grow in the 2024/25 financial year.
 - e. Concerns over the speed and effectiveness of the mitigations which have been put in place to address the in-year budget challenges, and the ability of the Council to address our financial position. We must now make challenging financial decisions and stop non-essential spending.
 - f. Extensive discussions with External Auditors, regulatory stakeholders, and leading Kings Counsel who have confirmed our assessment of our financial position (i.e. liabilities exceeding assets) and statutory position (i.e. the requirement to issue a S114). This advice has confirmed the points raised above and the case for issuing a S114 notice.
3. As a result the Council is unable to finalise the provisions for Equal Pay set out in the 2020/21 and 2021/22 draft accounts, nor can I write the supporting going concern statements for these financial years, nor can I make a Section 25 statement in the Local Government Act 2003, nor

can I approve accounts for three financial years (2020/21, 2021/22, and 2022/23). Following extensive discussions with External Auditors and other regulatory stakeholders over the last few months, I have come to this conclusion.

4. The Section 114 Notice is issued following statutory consultation with both the Chief Executive (Head of Paid Service) and the Monitoring Officer. At the date of this report that consultation has taken place. Following the issuance of the Section 114 Notice the Council has 21 days to hold a meeting of Full Council to consider the report from the Section 151 Officer and decide how it will respond.
5. The purpose of this Section 114 report is to make it clear to Members of the Council that immediate steps must be taken to mitigate the financial consequences of Equal Pay claims. This means agreeing a plan which provides a route to bringing the General Fund back to a positive position and assurance that this will be successfully delivered. This should include:
 - a. An appropriate savings plan;
 - b. Full assessment of the capital programme (including delaying existing projects and reviewing assets for sale); and,
 - c. Engagement with Central Government via the Department for Levelling Up, Housing and Communities (DLUHC), resulting in a formal request for Exceptional Financial Support (EFS).

Recommendations

6. That Elected Members of Birmingham City Council must consider this report by Fiona Greenway, Interim Director of Finance (Section 151 Officer/ Chief Finance Officer) issued under Section 114 (3) of the Local Government Finance Act 1988.
7. That this report must be considered at an extraordinary meeting of Full Council, held no later than the end of 21 days (the maximum allowable period set out within the Local Government Finance Act 1988) from the date of issue of this report.
8. That Birmingham City Council (by which this means a meeting of Full Council) must decide whether it agrees or disagrees with the views documented within this report and outline what action it proposes to take because of this report.

Summary of key issues

9. This report is being issued now for the following reasons:
 - a. Officers informed Cabinet on 28 June 2023 that the potential cost of new Equal Pay claims (brought about as a result of existing claims of job enrichment and evidence of task and finish practices taking place in some teams) would be between £650 million and £760 million. This advice made clear that the Council does not have sufficient resources to cover this potential liability. It is likely that the Council will need to recognise this liability in the current or previous financial years which will result in a negative General fund balance. This is an unsustainable financial position for the Council to be in.

- b. In Q1 of FY23/24, the Council forecasted an overspend of £87m for the financial year, which was reported to Cabinet on 25th July 2023 and sets the context of the gravity and urgency of the Council's financial challenge. In the interim period a series of mandatory 'S114 like' spending controls have been in place across the Council to restrict exceptional spend. Progress made against the projected overspend has started, however pace of delivery needs to increase.
- c. Further, work has been ongoing on developing a savings programme to address the in-year budget gap for FY23/24, which is an issue to the Council regardless of the potential Equal Pay liability.
- d. The council's external auditor has now indicated that it expects the potential EP liability to be recognised in 2020/21 and 21/22. Based on current estimates it is expected there will be a negative General Fund balance. As such the Council's expenditure is now greater than the resources available to it (including reserves).

Consequences of a Section 114 Notice

10. The issuing of the Section 114 report has the following impact on the work of the Council:

- a. Elected Members must by law agree to cease all non-essential expenditure and reduce the Council's operational and service delivery costs immediately.
- b. Financial Controls will be exercised by a S151 Spend Control Board. Based on this S114 report, from this date this S151 Spend Control Board will be chaired by the Section 151 Officer. The controls will mean that from this date:
 - i. The Council is prevented, without explicit agreement of the Section 151 Officer, from entering into any new agreement or commitment for expenditure until Full Council has met to consider the Section 114 report. These controls may be re-applied after the date of this Full Council meeting.
 - ii. Temporary Measures are now in force such that all non-essential expenditure will now stop with immediate effect without written confirmation from the Section 151 Officer. For avoidance of doubt, non-compliance with this requirement will be considered a disciplinary matter by the Council. This supersedes all previous guidance on non-essential expenditure, with no exclusions or delegations of authority to Corporate Leadership Team (CLT).
 - iii. The controls outlined in (i) and (ii) will apply to all services being delivered through companies controlled by the Council, or where the Council supplies funding to companies that are jointly or partly owned by the Council.
 - iv. The Financial Controls apply to all Council services, including statutory services, services delivered through controlled companies and connected entities. A framework will be set in place to ensure this happens whilst ensuring that key services to children and vulnerable people are not affected because of these controls.
 - v. Spending Controls will now remain in place for the foreseeable future, with a Financial Recovery Plan reported to Full Council on a quarterly basis moving

forwards. This is not a plan that is developed in isolation by Finance, but a plan that is created and owned by all Directorates and Members.

- vi. Due to the significant potential Equal Pay liability, and no route for financing or limiting this liability, the Council's Capital Financing Requirement will need to be reviewed and re-calculated as a potential route to financing the liability. This means that no further loans will be sought from the Public Works Loan Board (PWLb) unless these are to be applied for capital purposes for which the Council is in contract, for the replacement of existing maturing loans, the maintenance of working capital, or other specified matters agreed by the PWLB in conjunction with DLUHC and the Section 151 Officer.
 - vii. Financial controls will generally have an adverse impact on the profit and loss accounts of various accounts and entities in receipt of support from the Council. The boards of these companies may look to the Council to make up for the lost funding from revenue resources. However, based on the current financial position of the Council, and the issuance of a S114 notice, the Council is unlikely to be able to consider provision of such support.
 - viii. If Financial Controls are not adhered to, or do not achieve the required outcomes, a further S114 notice will need to be issued.
- c. The Council has already implemented Financial Controls on spending – these are detailed in the report to Cabinet on 25 July of this year (entitled Medium Term Financial Plan (MTFP) Refresh – update to Cabinet at Quarter 1 of the 2023/24 Financial Year). This report extends these controls, such that, **the Council is prevented, without explicit agreement of the Section 151 Officer, from entering into any new agreement or commitment for expenditure until Full Council has met to consider the Section 114 report.**
- d. Depending on the outcome of the Full Council meeting, these Financial Controls may need to remain in place until a solution is found to fund the costs of these Equal Pay claims. This is because the Council will lack the resources to maintain spending in all areas moving forward.

Financial Situation

11. As announced on 28 June 2023, following refreshed analysis it is estimated that as of the 31 March 2023 the Council's current potential Equal Pay liability is in the region of £650-760m. Detailed calculations are now being finalised for inclusion within the accounts for the 2020/21, 2021/22 and 2022/23 financial years, but they are material enough to warrant disclosure now.
12. Officers have begun consultation with the Department for Levelling Up, Housing and Communities (DLUHC). Potential support could enable the Council to make local arrangements to finance the cost, but would still require the Council to set a balanced budget and therefore make significant additional savings.
13. To enable the Council to cover the costs of any future loans, budget savings would need to be made. To address this challenge the Council has:
- a. **Implemented Mandatory Spending Controls** for all non-essential expenditure. Mandatory spending controls mean that no new agreements or commitments for all

expenditure (including revenue, workforce, and capital) can be made unless specific criteria are met. Individual Directorate arrangements have acted as a first line of defence for the application of criteria, with a Finance Governance Board (chaired by the Leader with a panel of Members, including Independent Financial Advisor) in place to discuss exceptional spend decisions above £200k. This has now been in place since July, and we have seen additional control over exceptional spend. However, there is still a large value of spend being incurred across the Council in relation to the delivery of services against the criteria outlined as allowable expenditure.

- b. **Developed a Robust Budget Savings and Recovery Plan** which is a multi-workstream plan to address both in-year financial challenges and the longer-term transformational changes required to reduce the cost base for delivery of services across the Council. This plan has a number of identified workstreams and Directors have commenced developing saving opportunities with their teams. However, the savings identified will not be sufficient to address the significant Equal Pay liability.

- 14. This action has not yet been sufficient enough to mitigate Equal Pay pressures or tackle a range of existing budget pressures. These budget pressures are detailed in the report to Cabinet on 25 July of this year (entitled Medium Term Financial Plan (MTFP) Refresh – update to Cabinet at Quarter 1 of the 2023/24 Financial Year).

Legal Framework

- 15. Section 114 (3) requires that: “The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.”
- 16. The process for issuing a Section 114 report and the effect of it are set out in various sections under the 1988 Act. Subsection 3(A) requires the chief finance officer to consult, so far as reasonably practicable, the Head of Paid service and the Monitoring Officer. Both of these statutory officers have been fully briefed and consulted in the preparation of this report.
- 17. Section 115 of the 1988 Act requires Full Council to consider and decide on the report made under Section 114 within 21 days beginning on the day the report is issued. Full Council must consider the report at a meeting where it shall decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it.
- 18. Section 115 (6) states that pending consideration of the report by Full Council, there is a prohibition period which runs from the date the report is made to the date of the Full Council meeting. During this period, the Council must not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority unless the chief finance officer of the authority authorises it to do so.
- 19. Subsection (6A) states the chief finance officer may only give authority for the purposes of subsection (6) if he considers that the agreement concerned is likely to: a. prevent the situation that led him to make the report from getting worse, b. improve the situation, or c. prevent the situation from recurring.
- 20. Subsection (6B) requires that authority for the purposes of subsection (6) shall:

- a. be in writing,
 - b. identify the ground on which it is given, and
 - c. explain the chief finance officer's reasons for thinking that the ground applies.
- 21. Subsection (8) states that if subsection (6) is not complied with, the Council shall be taken not to have had power to enter into the agreement (notwithstanding any option to do so under contract or otherwise). Therefore, the Council's actions will be deemed unlawful.
- 22. Section 116 requires the Council to notify its external auditors of the report and the time, date and place of the full Council meeting. The external auditors also need to be informed of the outcome of the meeting as soon as practicable. The external auditors have been kept informed of the emerging financial position and the planned work. The external auditors will need to consider the implications of this report on their statutory functions and the implications for their opinion on the 2019/20 and subsequent accounts which remain unaudited at the date of this report.
- 23. The Council's legal duties around budget setting are set out in Section 31A of the Local Government Finance Act 1992, which states:
 - a. In relation to each financial year a billing authority in England must make the calculations required by this section.
 - b. The authority must calculate the aggregate of:
 - i. the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices.
 - ii. such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices.
 - iii. the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure.
 - iv. such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.
 - v. any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with regulations under section 97(2B) of the 1988 Act,
 - vi. any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act; and
 - vii. any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section 98(5) of the 1988 Act and charged to a revenue account for the year.

Next Steps

- 24. The requirement of this S114 (3) notice is that an Extraordinary Meeting of the Full Council must happen within 21 days at which the Council must agree a response that addresses the issues outlined within this report. Full Council must consider whether it agrees or disagrees with the views contained within this report and determine action (if any) it proposed to take as a consequence. A failure to do so within the 21 days will lead to the issuance of a further s114 report.

25. As mentioned above, the Council needs to resolve funding the existing and accruing Equal Pay liability as well as address the Medium-Term Financial Plan Budget Gap for 2023/24 onwards.
26. The Financial Controls referred to in this report will operate from the date of this report. Elected Members must by law agree to cease all non-essential expenditure and reduce the Council's operational and service delivery costs immediately.
27. The timeline for activity over the coming months is as follows:
- a. 5th September 2023 – Issue S114 Notice
 - b. Extraordinary Full Council Meeting by 26th September 2023 latest
 - c. Statutory deadline for Full Council to agree a response to this report by 26th September 2023 latest
28. Negotiations with DLUHC will continue over the coming months to determine an approach to financing the liability.

Fiona Greenway CPFA

Interim Director of Finance (Section 151 Officer), Birmingham City Council

5th September 2023

Section 114 Spend Control Manual

Guidance issued to support the Section 114 Report to all Elected Members of Birmingham City Council under Section 114 (3) of the Local Government Finance Act 1988, by Fiona Greenway CPFA, Interim Director of Finance (Section 151 Officer)

[S114 Notice](#) [for information]

Contents:

1. Spending Controls under the Section 114 Notice (page 2)
2. Process for Spending Controls and Approvals (page 3-4)
3. Wider activities to address financial challenges (page 5)

Appendices:

- i. Examples of essential and non-essential spending (page 6)
- ii. Frequently Asked Questions (page 7)

Temporary Measures are now in force such that all non-essential expenditure will now stop with immediate effect without written confirmation from the Section 151 Officer. For avoidance of doubt, non-compliance with this requirement will be considered a disciplinary matter by the Council. This supersedes all previous guidance on non-essential expenditure, with no exclusions or delegations of authority to Corporate Leadership Team (CLT).



1. Spending Controls under the Section 114 Notice

This section relates to new spending requests. Under the Section 114 notice, only essential spending requests will be approved. This means that no new non-essential spending is allowed and any new essential spending is only allowed subject to the approval process outlined in this document.

1.1. What is essential spending?

1.1.1. Is the spend request related to a clear (and referenced) statutory obligation?

a) *This includes regulatory and legal requirements – i.e. essential health and safety*

AND/OR

1.1.2. Will this spend request deliver a cashable saving compared to current spending within a quantified time period?

a) *Robust business case with short payback period required, i.e. less than 24 months;*

b) *Business Cases to be reviewed by a group (established by S151 officer);*

c) *Recruitment will only be allowed for posts meeting requirement of 1.1.1 above and where the post is currently being covered by an interim and will therefore deliver cashable savings.*

AND/OR

1.1.3. Is this spend already legally committed? This means:

a) *Existing staff **payroll** and **pension** costs;*

b) *Expenditure required through **existing legal agreements and contracts**;*

c) *Payments for goods and services which have **already been received**.*

AND/OR

1.1.4. Is this urgent expenditure required to safeguard vulnerable citizens?

AND/OR

1.1.5. Does this spend impact the General Fund? If not, it is allowable i.e.:

a) *Is this spend fully funded by external grants (e.g. Dedicated Schools Grant)?*

If this spend is partly funded by external grants, the S151 board will need to consider the specifics of the request

b) *Non-BCC funds do not impact the General Fund. Further guidance will follow on this area.*

1.2. Consideration can be given to the following spending requests, if quantified:

1.2.1. Prevents requirement for a more expensive statutory service;

1.2.2. Capital decisions that reduce borrowing requirements AND/OR provide a capital receipt;

1.2.3. Prevents the loss of an external funding source (e.g. PFI grant from central government) that is used to pay for a statutory service;

1.2.4. Generates an income stream for the Council;

1.2.5. A contractual obligation which is not required for statutory services, in which exiting the contract will cost more than the proposed spend requested; and

1.2.6. It mitigates additional commercial risk to the Council.

See Appendix 1 for examples of essential and non-essential spending.

2. Process for Spending Controls and Approval

This section relates to the process for approval of new spending requests of any value, as detailed in Section 1 (above). This includes setting a new board – the Section 151 Spend Control Board – that supersedes the previous Finance Governance Board.

2.1. The Council is prevented, without explicit agreement of the Section 151 Officer, from entering into any new agreement or commitment for expenditure until Full Council has met to consider the Section 114 report. These controls may be re-applied after the date of this Full Council meeting.

2.2. In practice, this means that:

- 2.2.1. The existing scheme of Financial Delegation is superseded by the S114 notice. Only the Section 151 Officer can sign off new spend. This applies to new spend of any value.
- 2.2.2. Relative to existing spending controls in place across the organisation, this means that Directorate Spending Boards (and the Finance Governance Board) do not have the authority to approve new spending. These Boards can recommend spending to the Section 151 Officer only – to be approved via the S151 Spend Control Board
- 2.2.3. Further details of the approval process are in paragraph 2.5 below.

2.3. S151 Spend Control Board Composition:

- 2.3.1. Membership:
 - Section 151 Officer
 - Head of Paid Service
 - Deputy Section 151 Officer
 - Assistant Director, Finance & Deputy Section 151 Officer
 - Monitoring Officer
 - Assistant Director, Finance Performance & Insight
 - Assistant Director, Procurement
 - Interim Director of HR
 - Secretariat support provided by Committee Services
 - Observers:
 - Cabinet Member for Finance & Resources
 - Independent Financial Advisor
 - Relevant CLT and Cabinet members for items in their Directorate
- 2.3.2. Regularity of meetings:
 - Daily boards
 - Weekly review sessions
- 2.3.3. Outcomes:
 - Decisions published on CMIS as written. These will be published at a set time every week (assume end of Friday).

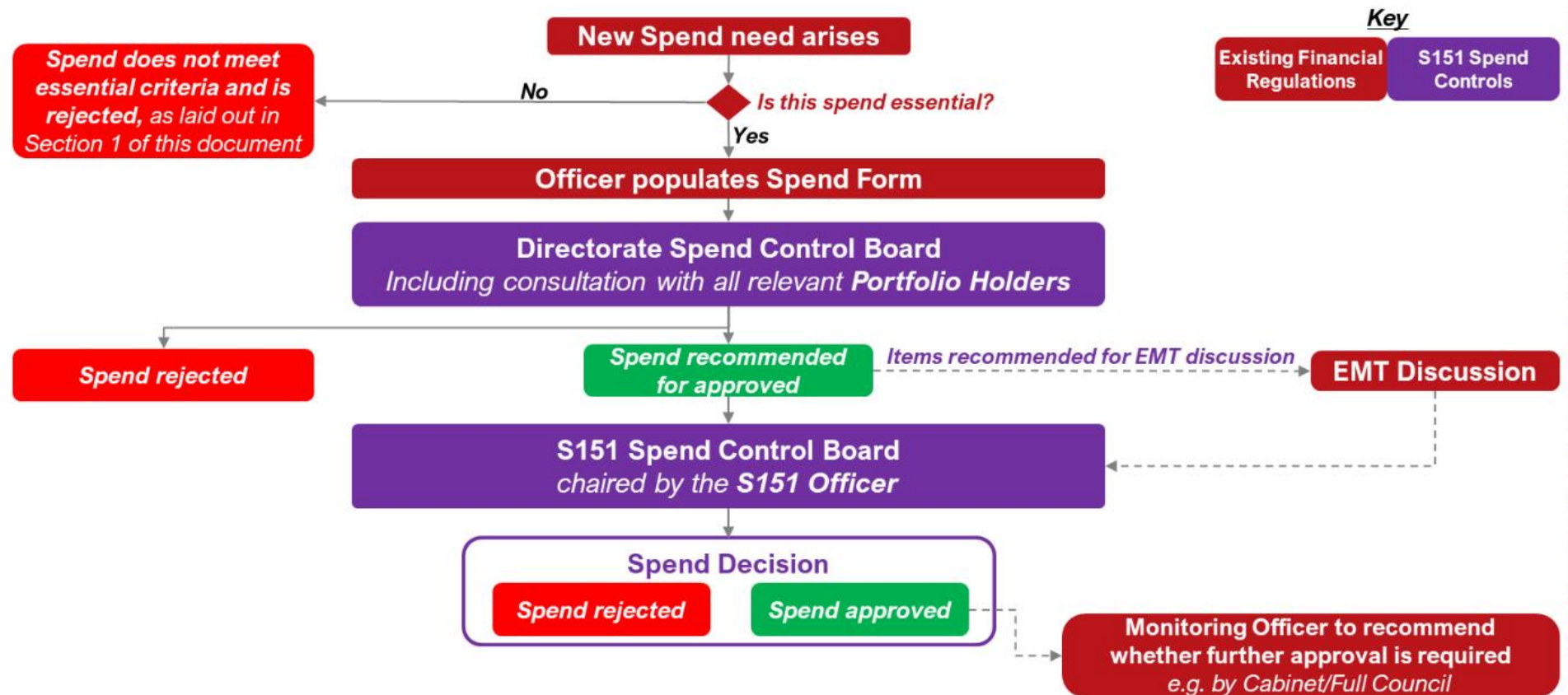
Note: Substitutes can be provided as needed based on availability.

2.4. Terms of Reference

- 2.4.1. To apply the Spend Controls outlined within the Section 114 report issued on 5th September 2023, and the guidance outlined within this Spend Control Manual.

2.5. Spending Controls Flowchart

Any financial delegations outlined in the Constitution or the scheme of delegation are now superseded by this S114 report. Decision making power has been removed and all financial decisions must be agreed and documented by the S151 Officer:



Note: Spend Form will be shared shortly and mirror the criteria for essential spending outlined in Section 1 of this document.
All approvals and rejections will be documented as evidence of the application of controls.

3. Financial Recovery Plan

This Section relates to work required to address the in-year and future year budget gaps, based on existing and committed spend.

3.1. Review of existing revenue spend – what should be stopped, based on the criteria in Section 1 above?

- 3.1.1. This should be part of the scope of work being led by Fiona Greenway and Richard Brooks on the Council's savings programme for current and future financial years

3.2. Review of capital programme – how can the Council reduce the impact of existing borrowing costs? Can the Council free up spending to tackle the Equal Pay liabilities? A requirement of this work – and likely from Department for Levelling Up, Housing & Communities (DLUHC) in advance of any Exceptional Financial Support (EFS) request – is confirmation of existing Council resources that can be used to mitigate the scale of any EFS request. (In simple terms, how much can the Council free up within existing resources, or what assets can it sell, to reduce the scale of any central government EFS package.) This will include reviews of:

- 3.2.1. Committed capital spend: This should include a review of all current capital programmes to understand what can be paused and what can continue
- 3.2.2. Borrowing costs: a review of existing borrowing to assess whether refinancing might reduce interest costs
- 3.2.3. Existing reserves: this includes a review of all reserves and capital receipts that are committed to future spending plans
- 3.2.4. Assets: the Council must review all assets to assess which can be sold (and estimate the potential sale price). This will likely lead to an assets disposal programme.

3.3. This work should be owned collectively by the Executive Management Team (Cabinet members and Corporate Leadership team members).

3.4. Section 114 controls will remain in place until a Financial Recovery Plan can be agreed by Full Council to mitigate the budget gaps. This will include:

- 3.4.1. A clear and actionable savings plan to tackle in-year and future year budget gaps – details in this section; and
- 3.4.2. Resolution on the EFS available from DLUHC.

3.5. Ultimately, it will be the decision of the Section 151 officer as to whether the Financial Recovery Plan is sufficient, delivering (i.e. signs of tangible progress are clear to see), and reported to Scrutiny to enable the lifting of the spending controls laid out in this document.

Appendix (i): Examples of essential and non-essential spending:

Essential Spending:

Statutory Services: These are services that the council is legally obligated to provide and are considered essential. They typically include:

- Education (e.g., schools and special educational needs support)
- Social services (e.g., child protection, adult social care)
- Public safety (e.g., police and fire services)
- Waste collection and management
- Public health services (e.g., public health inspections, disease control)
- Debt Servicing: Payments on outstanding loans and debts are essential to maintain the council's financial integrity
- A library service

Staffing for Essential Services: Employee salaries and benefits related to delivering statutory services.

Maintenance and Repairs: Funding for essential infrastructure maintenance and repairs to ensure public safety and service continuity.

Emergency Provisions: Funds set aside for unforeseen emergencies or contingencies that could impact essential services.

Non-Essential Spending:

Discretionary Services: These services are not legally required but may enhance the quality of life in the community. Examples include:

- Parks and recreational facilities
- Cultural and arts programs
- Leisure centres and sports facilities
- Library Buildings

New Capital Projects: Investments in new infrastructure or construction projects that are not immediately necessary for public safety or statutory obligations.

Consultancy and Professional Services: Spending on external consultants, advisors, or professional services that are not directly tied to essential services or legal requirements.

Marketing and Promotion: Advertising and promotional expenses that are not critical to the delivery of essential services.

Non-Urgent Capital Expenditures: Capital spending on equipment, vehicles, or technology upgrades that are not immediately required for essential services.

Non-Essential Staffing: Hiring or maintaining personnel for roles not directly related to statutory services, which may include administrative or non-essential positions.

Events and Entertainment: Expenses related to hosting events, conferences, or entertainment activities that are not crucial for service delivery.

Non-Critical Travel and Training: Travel expenses and training programs that are not essential for maintaining statutory services.

Appendix (ii): Frequently Asked Questions

- *Do these spend controls apply to **Birmingham Children's Trust (BCT)**?* – These controls apply to Birmingham Children's Trust (as this impacts Council spending through the General Fund), and the S151 Officer will work with the Director of Finance for the Trust to ensure spending controls mirror the guidance set out within this document.
- *Do these spend controls apply to **Capital spend**?* – These controls apply to all Council spend, including Capital spend. As well as approval at the Directorate Spend Control Board, Capital spend should be approved at the Capital Board prior to being added to the agenda for the S151 Spend Control Board.
- *Do these spend controls apply to **Grants**?* – These controls apply to all Council spend, including Grant and ringfenced spend. To approach Grant and ringfenced spend in the most pragmatic way possible, we are requesting that CLT Directors (or delegates) work with Finance Business Partners to assess Grant and ringfenced spend to identify approvals that are required for high frequency mandatory spend. This will allow a spend decision to be documented for this type of spend, whilst also limiting the need to repeat approvals.
- *What does **Value for Money** mean?* – For all spend requests relating to Value for Money should represent a cashable saving compared to the current spending within a quantified period of time. This means there should be a short payback period, delivering savings or reducing costs in a 24 month period. All business cases should be created in conjunction with Finance Business Partners, and approved prior to submission to the S151 Spend Control Board.
- *Does the S151 Control Board need to **approve everything**?* – Yes, as per the terms of the S114 notice. There needs to be a clear written and published decision for each decision made. That is why all decisions will need to go through this board. All of these decisions will be recorded on CMIS.
 - To approach spend in the most pragmatic way possible, we are requesting that CLT Directors (or delegates) work with Finance Business Partners to identify approvals that are required for high frequency mandatory spend. This will allow a spend decision to be documented for this type of spend, whilst also limiting the need to repeat approvals.
- *Which decisions need to go to **Cabinet or Full Council**?* – All spending decisions need to be approved by the S151 Officer. Once the spending decision is approved, if there is a further policy decision to be made, a request may need to go to Cabinet or Full Council for approval. Guidance will be provided by the Chief Monitoring Officer.
- *Do these spend controls apply to **Accountable Bodies**?* – These spending controls apply to any spending that will go through the General Fund.
- *What is the role of **Scrutiny Committees**?* – It is expected that Scrutiny committees, notably Finance & Resources, will receive a list of spending decisions made for comment and discussion.
- *How should **spending on extraordinary items** be approved?* – This document states that all spending should go through the process outlined in Section 2, namely through Directorate Spend Control Boards and then on to the S151 Spend Control Board. This includes current work to mitigate the issues with the Oracle.

THIS DOCUMENT WILL BE SUBJECT TO REVISION AS THE SPEND APPROVAL PROCESS EMBEDS AND IS REVIEWED BY THE SECTION 151 SPEND CONTROL BOARD.

Birmingham City Council

Report to Cabinet

25th July 2023



Subject: Medium Term Financial Plan (MTFP) Refresh – update to Cabinet at Quarter 1 of the 2023/24 Financial Year

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

Relevant Cabinet Member: Councillor John Cotton, Leader
Councillor Sharon Thompson, Deputy Leader
Councillor Brigid Jones, Cabinet Member for Finance and Resources

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

Report author: Peter Sebastian
Head of Financial Planning (interim)
Email Address: peter.sebastian@birmingham.gov.uk

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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 011384/2023		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

1 Executive Summary

- 1.1 As part of the Council's approach to financial management, the Council provides updated forecasts across the Medium Term Financial Plan (MTFP) period to Cabinet three times a year – at Quarter One (this report); Quarter Two (in October) and at

Quarter Three (December/January, in the run up to formal budget-setting for the next financial year).

- 1.2 This report shows forecast budget pressures and inflation forecasts over the current financial year (2023/24) and the remaining financial years that make up the MTFP. It is projected that there is in-year budget shortfall of £87.4m in 2023/24, rising to £164.8m in 2024/25, reflecting the extent to which the costs of current service provision exceed the funding levels. These projected budget shortfalls do not reflect any additional costs relating to Equal Pay, including potential future liabilities as well as the cost of implementing any scheme of job evaluation.
- 1.3 Across the country, many councils are facing significant and similar budget pressures – mainly due to increased demand for services from residents, higher than forecast inflation and difficulty with delivering existing savings programmes in this current economic climate. Therefore, the current MTFP forecasts for Birmingham City Council (BCC), while serious and requiring immediate attention, are not unique.
- 1.4 What is unique, in the BCC context, is the significant and additional forecast liability for Equal Pay claims of between £650m and £760m. The Council has engaged with its External Auditors and is having ongoing discussions with the Department of Levelling-Up, Housing and Communities (DLUHC).
- 1.5 It is for this reason that this report supports the implementation of mandatory spending controls to give the Council time to further review financial pressures (including finalising the details of the Equal Pay liability) and mitigations.
- 1.6 In addition, this report recommends the implementation of a Robust Budget Savings & Recovery Plan to tackle existing budget pressures and the financial implications of the additional Equal Pay liability. This Plan sets out a series of activities that need to be delivered over the next five years to achieve financial stability within the Council, reviewing all aspects of BCC's financial management systems, processes and capability. This Plan will also seek to tackle financial pressures and rebuild corporate reserves over the medium term.

2 Recommendations

Cabinet is recommended to:

- 2.1 Note the MTFP budget pressures (inflation, savings, directorate pressures, Collection Fund update), as well as the Quarter One 2023/24 position (which provides a high-level assessment of a budget gap for this financial year) (**Section 5 of this report**);
- 2.2 Note the wider financial position of the Council, in terms of capital expenditure and available corporate resources, which demonstrate that the additional Equal Pay liability, alongside MTFP budget pressures, cannot be found within existing BCC resources (**Section 5**);

- 2.3 Note the work carried out to date to assess the potential scale of additional Equal Pay liabilities **(Section 4)**;
- 2.4 Endorse the mandatory spending controls which came into effect from 5 July 2023 **(Section 6)**;
- 2.5 Endorse the robust Budget Savings & Recovery Plan – to close the forecast budget gaps in the current financial year and future financial years– as per the timetable included in this report **(Section 6)**; and
- 2.6 Agree the 2024/25 budget-setting timetable, including the dates for the implementation of the recommendations in this report **(Section 7)**

3 Background

- 3.1 Birmingham City Council (BCC) approved its 2023/24 annual budget and Medium Term Financial Plan (MTFP) on 28 February 2023 as part of the annual budget setting cycle. Budgets were balanced up to 2023/24 (and across the MTFP period) on the assumption that:
 - a. £97.1m of savings were to be delivered over the next four years to 2026/27 (assuming no savings are brought forward undelivered from 2022/23);
 - b. Budget managers and budget holders are diligent in working within budgetary envelopes; and
 - c. Council tax was increased by 4.99% (including 2% for social care) with income levels largely returning to pre-Covid levels.
- 3.2 This paper:
 - a. Updates the assumptions (particularly inflation) that were used to set budgets for the 2023/24 financial year and provide an initial high-level

forecast (as at Period 3; Quarter One, April – June 2023) for the 2023/24 financial year;

- b. Updates the budget assessments over the MTFP period (from 2024/25 to 2027/28) based on the most recent forecasts (particularly with regard to inflation);
- c. Provides an update on Directorate spending to identify recent spending pressures, as well as progress against the agreed savings programme within the 2023/24 Financial Plan;
- d. Provides an outline of the Robust Budget Savings & Recovery Plan, including proposals for spending controls and key workstreams;
- e. Outlines the timetable and next steps required for the budget-setting process for the 2024/25 financial year, including budget consultation and engagement;
- f. Outlines the scale of the Council's existing capital programme – including a summary of existing borrowing (a full Capital and Treasury Management will come to Cabinet later this year); and
- g. Provides an initial assessment of potentially available corporate reserves that could be used to cover potential upcoming financial liabilities. It should be noted that these reserves are currently an estimate; a full review of reserves will be completed as part of the 2022/23 outturn report that will come to Cabinet in Autumn 2023.

3.3 This paper does not cover ringfenced revenue funding in the Housing Revenue Account (HRA) or the Dedicated Schools Grant (DSG) – it solely focuses on General Fund revenue budgets. The HRA Business Plan is expected to come to Cabinet in September 2023 for review; the DSG budget position is covered as part of the usual cycle of quarterly reporting to Cabinet.

4 National & Local Financial Context

4.1 Cabinet should note that there are a significant range of challenges that this Authority, and all public bodies, are currently facing. Research by the Special Interest Group of Municipal Authorities (SIGOMA) which represents 47 urban authorities, published on 19 June 2023, found that 55% of respondents were unsure whether they would be able to meet the budgets that were approved in March 2023 for the 2023/24 financial year. Based on the updated MTFP forecasts in Section Four of this report, without immediate and urgent action, BCC is in a similar position. The macroeconomic factors that are causing financial pressures include:

- a. **The impact of inflation** – compared to February 2023 when the budget for the 2023/24 financial year was agreed, inflation looks set to be higher than forecast. This manifests itself in a number of ways, from increased pay and materials budgets to rising energy costs; for example, the 2023/24 Financial Plan included an increased budget allocation of £18 million for the Council's energy bills and a £6 million increase for our schools. Further details on the impact of inflation are detailed in Section Five of this report;
- b. **Impact of Covid** – this continues to impact in a number of ways, from increased support needs for our residents (resulting in additional pressures on public services) to the income collection, as can be seen in the movement in the Collection Fund (most notably for business rates) that is described in Section Five;
- c. **Uncertain central government funding** – the Council's net revenue budget is funded from four main sources: Business Rates, Council Tax, government grants and fees & charges. (Where necessary, corporate reserves may also be used to cover specific expenditure or cover budget shortfalls.) Fees & charges are dependent on activity levels and residents' ability to pay. While Council Tax and Business Rates are also dependent on ratepayers' ability to pay, there are a number of uncertainties over these funding streams in future. Central Government has provided some clarity for the 2024/25 financial year only – namely that current Council Tax threshold levels (i.e., the amount that rates can be increased without the need for a referendum) will remain at 3% for Council tax and 2% for the Adult Social Care precept. Future reforms to the Business Rates system are currently delayed until 2025/26 at the earliest but may have a significant impact on BCC.

4.2 At present, there are also a number of challenges that are specific to BCC:

- a. Oracle finance system implementation – as approved by Cabinet on 27 June, this MTFP refresh includes £33.7m of costs from 2023/24 onwards to fix urgent issues, and to develop a plan that will deliver the Council's vision for an optimised Oracle. The total cost is £46.5m, including £12.8m of costs that had related to the 2022/23 financial year. In addition, the time taken to fix this Oracle system has delayed the completion of the 2022/23 outturn report and final reserves position, which means that this report cannot fully consider the impact on reserves of future cost pressures. This will be done at the Quarter Two MTFP refresh report due to come to Cabinet in October.
- b. Equal Pay challenges – the additional forecast Equal Pay liability is a key driver for the recommendations in this report. As noted above, initial estimates of the potential additional Equal Pay liability are between £650m and £760m.

4.3 Before the financial implications of this Equal Pay liability can be fully quantified for the MTFP, a more detailed calculation, using individual time-series data, to assess the full extent of the Equal Pay liability is being carried out. The results of this work are expected in August.

- 4.4 The overall scale of the liability needs to be quantified to assess total costs and enable BCC to explore all options for payment. A provision for Equal Pay liability will also need to be made within all accounts that are not currently signed off by auditors – this includes the 2020/21, 2021/22 and 2022/23 financial years – to demonstrate the scale of the issue at that point in time. This provision cannot be made until a financial solution is agreed with national government and stakeholders. At that point, the accounts can be reviewed and signed off by auditors.

5 MTFP – updated forecasts

- 5.1 The key movements from the MTFP position since BCC approved the budget for 2023/24 (and forecasts for future years) in February 2023 are shown in the table below. The projections identify a significant in-year budget shortfall of £87.4m in 2023/24, rising to £164.8m in 24/25, reflecting the extent to which the costs of current service provision exceed the funding levels:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total Net Expenditure (as per 2023/24 Financial Plan)	925,078	1,018,314	1,035,612	1,049,934	1,083,206
Total Resources (as per 2023/24 Financial Plan)	(925,078)	(1,018,314)	(1,035,612)	(1,049,934)	(1,079,093)
Budget gap as (as per 2023/24 Financial Plan)	-	-	-	-	4,113
Expenditure					
Budget Pressures					
Staffing	3,844	3,973	4,070	4,170	4,273
Demand/Complexity Growth	55,586	37,736	44,027	42,240	39,840
Statutory Requirement	-	-	-	-	-
Borrowing costs, investment etc	-	-	-	-	-
Budget Pressures Subtotal	59,430	41,709	48,097	46,410	44,113
Corporately Managed Budgets	(4,240)	(4,097)	(3,935)	(4,154)	(5,461)
Pay Inflation	-	-	(2,532)	(5,178)	(7,943)
Contract Inflation	1,042	27,346	51,904	55,348	58,666
Other Inflation	19,875	28,352	35,367	42,593	50,063
Fees and Charges Inflation	-	(357)	(365)	(372)	(378)
Inflation Sub-total	20,917	55,341	84,374	92,391	100,408
Savings					
High Risk Savings	35,141	56,274	75,374	75,374	75,374
Savings Subtotal	35,141	56,274	75,374	75,374	75,374
Total Net Expenditure Movements	111,248	149,227	203,910	210,021	214,434
Resources					
Business Rates	-	14,100	(27,677)	(40,165)	(41,052)
Council Tax	-	2,019	-	-	-
Other Grants Excl DSG & ABG	-	-	-	-	-
Top Up Grant	-	-	-	-	-
Other income	5,044	2,589	2,589	2,589	2,589
Net Payment to/(from) Reserves	(28,907)	(3,096)	(1,687)	-	-
Total Resources Movement	(23,863)	15,612	(26,775)	(37,576)	(38,463)
MTFP Budget Gap at July 2023	87,385	164,838	177,135	172,445	180,084

- 5.2 These projected budget shortfalls do not reflect any additional costs relating to Equal Pay, including potential future liabilities as well as the cost of implementing

any scheme of job evaluation. Full detail on these projections is included in paragraphs 5.3 – 5.15 below.

5.3 **Budget Pressures & Policy Choices** – this is made up of two elements:

- a. **Staffing** – this includes the correction of a previous budget issue that relates to the 1.25% planned increase in National Insurance contributions (and therefore pay costs) which was subsequently scrapped in September 2022. This planned increase was removed from base budgets, leaving a shortfall (£3.4m in 2023/24) to cover the forecast pay award.
- b. **Demand / Complexity** – this covers a range of directorate-specific spending pressures. The four largest areas of cost pressures are:
 - i. Oracle costs (assumed £33m from 2023/24 to 2025/26);
 - ii. Temporary Accommodation (assumed pressure of £8.6m in 2023/24, rising to £18.2m in 2024/25; based on the recent proposal to June Cabinet to purchase additional temporary accommodation which was approved);
 - iii. Children & Families pressures (£6.7m in 2023/24 and £3.9m in 2024/25), driven by demographic pressures requiring care (particularly in Unaccompanied Asylum Seeking Children) and home-to-school transport support, as well as an additional liability relating to Birmingham's Children's Trust pension liabilities for 2023/24 only (all of which will be further reviewed at Quarter Two); and
 - iv. Adult Social Care demand pressures (forecast £6.2m in 2023/24 and £8.9m in 2024/25) relating to increased numbers seeking care and increased placement costs (i.e. additional demand for more expensive residential care).

5.4 **Corporately Managed Budgets** – this includes a forecast reduction in borrowing costs of £3.9m in 2023/24 and £2.3m in 2024/25, as delays in the capital programme have led to lower than forecast loan debt (and therefore lower Treasury costs).

Inflation

5.5 **Other inflation** – this line covers General Price inflation on premises, transport, and supplies and services costs. The assumptions used in the 2023/24 Financial Plan have been reviewed in light of the latest Bank of England Consumer Price Index (CPI) forecasts from May 2023. The updated forecasts are based on the following assumptions:

	2023/24	2024/25	2025/26
Apr-Jun	8.2%	3.4%	1.1%
Jul-Sep	7.0%	2.9%	1.0%
Oct-Dec	5.1%	2.3%	1.0%
Jan-Mar	4.4%	1.5%	1.1%
Average CPI Inflation	6.2%	2.5%	1.1%
MTFP refresh assumptions used:	6.2%	2.5%	2.0%
Assumptions used in 2023/24 Financial Plan:	0.0%	0.0%	0.0%

Source for MTFP refresh assumptions: Bank of England CPI forecasts, May 2023

Note: for the 2025/26 financial year and future financial years, MTFP forecasts are assumed to be 2.0% - a slight increase from Bank of England forecasts to ensure the MTFP is calculated on a prudent basis

5.6 As noted above, the increase in forecast inflation is due to the increase compared to the 2023/24 Financial Plan, in which assumptions were made that Directorates would not receive any inflationary uplift for premises, transport and supplies & services costs and would need to manage pressures within existing budgets.

5.7 **Contract inflation** – this relates to areas of spend which are tied to specific contracts, and so require specific inflation assumptions. The largest area of spend – and therefore the largest impact on the MTFP – relates to Adult Social Care (packages of care; estimated £18.6m increase in inflation forecasts in 2024/25) and Children's Social Care (third party payments to the Birmingham Children's Trust for care packages; estimated £7.3m increase in inflation forecasts in 2024/25). This is based on the following assumptions:

	2023/24	2024/25	2025/26
<u>Adult Social Care packages</u>			
Assumptions used in the 2023/24 Financial Plan:	7.5%	0.6%	0.0%
MTFP refresh assumptions used:	8.7%	6.5%	4.9%
<u>Children's Social Care third party payments</u>			
Assumptions used in the 2023/24 Financial Plan:	7.4%	0.6%	0.0%
MTFP refresh assumptions used:	7.4%	6.5%	4.9%

Source for MTFP refresh assumptions: Analysis of future ASC care package costs as at end of May 2023

Note: for Children's third-party payments, it is assumed that they will track ASC inflation movements in 2024/25 and 2025/26. The 2023/24 figures have not yet been updated and will form part of the next MTFP Refresh paper to Cabinet in October

5.8 **Pay inflation** – at present, pay inflation budgets look broadly accurate. The Financial Plan 2023/24 assumed 5.0% increase in 2023/24, 2.5% in 2024/25 and in future years. Based on Bank of England forecasts, this update revises this forecast to 2.0% from 2025/26 onwards.

5.9 **Savings** – progress against the savings agreed in the 2023/24 Financial Plan has been reviewed. Based on the table below, it is estimated that a total of £35.1m of savings are at high risk (i.e., assessed as unlikely to deliver). These are described in paragraphs 5.10-5.11 (£33.2m of savings at risk within the agreed corporate savings programme) and 5.12 (an additional £1.9m of savings that had been incorrectly applied).

- 5.10 From the agreed corporate savings programme, as laid out in the 2023/24 Financial Plan approved by Cabinet in February, the Financial Sustainability Programme Board is currently forecasting that £33.2m of savings are at high risk (i.e., assessed as unlikely to deliver) in 2023/24 with a further £21.1m unlikely to be delivered in 2024/25:

£'000	2023/24	2024/25	2025/26	Total	% of Target
MTFP Target 23/24 to 25/26	(55,165)	(28,137)	(19,544)	(102,846)	92%
Previous Undelivered Savings	(9,454)			(9,454)	8%
Total Target	(64,619)	(28,137)	(19,544)	(112,300)	100%
Delivered					
Low Risk	(2,623)	(1,116)	(84)	(3,823)	3%
Medium Risk	(28,517)	(5,888)	(360)	(34,765)	31%
High Risk	(33,479)	(21,133)	(19,100)	(73,712)	66%
To Be Confirmed					
Potential Write-Off					
Total Forecast	(64,619)	(28,137)	(19,544)	(112,300)	100%

- 5.11 The following points should be noted about this savings forecast:
- This assumes that, in addition to the £55.2m of budgeted savings in the MTFP for 2023/24, there will be £9.5m of undelivered savings in 2022/23 that will need to be rolled forward for a total savings target of £64.9m in 2023/24. This will need to be confirmed as part of the outturn report for 2022/23 (and the number of undelivered savings could rise or fall).
 - The projects that are not expected to deliver target savings in 2022/23 include: Workforce savings (£2m); Traded Services (£1.6m); Council Admin Buildings Premises (£1.3m); Automation (£0.85m); Fieldworker / new ways of working (£0.8m); and Customer Services (£0.4m).
 - An initial high-level review of savings projects by the Financial Sustainability Programme Board, as at mid-May, suggests that approximately £33m (50%) of the total £64.9m required in 2023/24 is currently at risk of slippage/non-delivery. Key projects currently at high risk of slippage/non-delivery include: Children's Trust Savings - £6m; Reducing Bed and Breakfast spend - £5.5m; Commercial Investment/Property - £4.7m; Workforce Savings - £4m; CAB Premises - £3.7m; Traded Services - £3.1m; EIP/Localities Hub - £2.5m; Automation - £1.850m; Centres of Excellence - £1.8m; Customer Services - £0.990m; and Fieldworker - £0.8m
 - Work is currently progressing to review the risk levels and options for mitigation. Further information will be provided in subsequent reports to Cabinet on the 2022/23 outturn and the Quarter Two MTFP Refresh in October.
- 5.12 In addition to the savings above, this MTFP includes an additional £1.95m of vacancy factor savings (i.e., holding staff positions vacant as people leave) that

had been incorrectly applied to Children & Families and City Operations. These had been applied on top of existing 3% savings across all Directorates.

5.13 **Resources** – this paper also considers a range of factors affecting future income. These include:

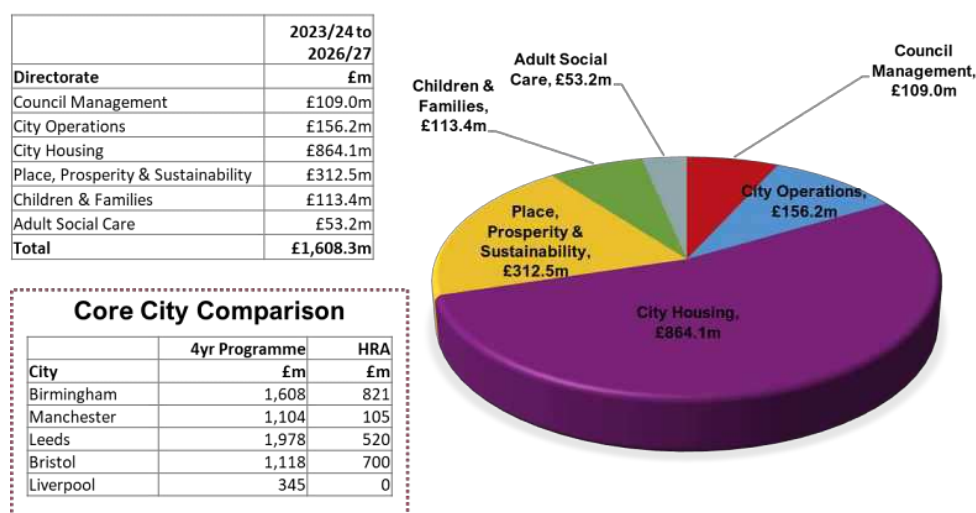
- a. **Business rates** – based on the draft 2022/23 outturn position for the Collection Fund, it is forecast that there is a deficit in business rates income of £27.8m due to a challenging economic environment for businesses (resulting in lower than forecast collection rates), a delay in enforcement activity (due to Oracle implementation issues) and an increase in business rates appeals (as this is the last year of the six year period in which businesses can query the latest set of rateable valuations (i.e. tax due) which were carried out in 2017).
- b. Under statutory guidance, the 2022/23 Collection Fund deficit will be charged to the General Fund for the next financial year (i.e. in 2024/25). However, this is offset by additional forecast income from business rates of £13.8m in 2024/25 and in subsequent years. Business rates are calculated by multiplying the rateable value of the property by the “non-domestic multiplier” which is adjusted to reflect the Consumer Price Index inflation figure for the September prior to the billing year. As Bank of England forecasts for CPI are expected to be higher than the forecasts used in the Financial Plan for 2023/24, this could result in additional income for the Council in future years.
- c. **Council tax** – as with Business Rates, there is projected to be a £2.0m deficit for 2022/23 in Council Tax income due to a reduction in collection rates. This will also be charged to the General Fund for 2024/25. It is worth noting that collection rates across Council Tax and Business rates fell in 2022/23, relative to 2021/22. For Council Tax, in year collection fell from 92.9% to 90.2%; for Business Rates, in year collection fell from 95.8% to 90.1%.
- d. **Grants** – there are two main categories of grant: 1) those used to fund wider Council services (e.g., Top Up Grant, Business-rates related Section 31 grants); and 2) those ringfenced to fund specific services (e.g., the Social Care Grant). At present, there is not sufficient information from central government to update forecasts for grant funding in 2024/25 and beyond. Further information is expected later in the 2023/24 financial year.
- e. **Other income** – this includes a range of pressures including a pressure of £1.5m on parking income (due to reduced demand with the city) and £1.5m on business waste collection income (again likely due to reduced office usage across the city).
- f. **Reserves** – at present, the only use of reserves assumed is to cover the additional expenditure required to support the remediation of the Oracle

finance system. A further review of reserves will be provided to Cabinet as part of the 2022/23 outturn report in the Autumn.

- 5.14 **Additional risks** – there are a range of other possible service pressures that are being reviewed by officers. For the purposes of this paper, only pressures that are 1) viewed as more than 50% likely to take place and 2) can be quantified are included in this report. Others will be reviewed and may be quantified as part of the Quarter Two refresh of the MTFP for Cabinet in October. This could include the potential cost implications relating to the current Private Finance Initiative (PFI) contract between the Council and Birmingham Highways Limited – a procurement exercise for a new sub-contractor is currently ongoing, so it is not possible to quantify any additional costs at this stage.
- 5.15 **Equal Pay** – further to the description in Section Four of this report, and for the purposes of this paper, a high level estimate of the potential financing costs has been made for information purposes. It is not yet included in the MTFP forecasts in this paper, as the work to finalise the figures is ongoing.

Capital Programme

- 5.16 **Size** – a review of the Capital programme is needed in light of the current financial situation with a view to add, reprioritise, accelerate, defer and descope the programme. This will need to be looked at across all Directorates within scope of the Capital Programme.
- 5.17 The current approved capital programme is for £1.6 billion of spending over this MTFP period:



- 5.18 The capital spend by Directorate includes:
- City Housing includes £820m for the Housing Revenue Account: investment in current housing stock as well as new social housing;
 - Council Management includes £54m transformation projects and £30m Corporate Contingency over four years;

- c. The above figures do not include the proposed £400m investment in the Council's Temporary Accommodation strategy, approved by Cabinet on 25 June; and
- d. Place, Prosperity & Sustainability includes £52.9m Enterprise Zone funded by borrowing to be repaid by the retention of future Enterprise Zone business rates.

Corporate Reserves

- 5.19 At present, officers are reviewing corporate reserves to finalise the outturn position for the 2022/23 financial year. These will need to be compared to the MTFP budget gap included in this paper and additional costs as a result of additional Equal Pay claims.
- 5.20 Using corporate reserves will, of course, significantly reduce the financial resilience of the council against future pressures. Once reserves have been used, they need to be rebuilt from existing budgets (i.e., through future savings that can be contributed to reserves). Once reserves have been spent, they are no longer available. That is why it is worth pursuing a savings programme first and retaining reserves to enable the authority to have some protection against future budget pressures. The method for pursuing these savings will be the Robust Budget Savings & Recovery Plan – outlined in the next Section of this report.

6 Robust Budget Savings & Recovery Plan

Background

- 6.1 The financial challenges being faced by the Council are of a sufficient size that they require immediate and sustained action to control. There is no doubting the scale of the financial challenge. There is a significant budgetary challenge arising, which includes:
 - a. The sizeable MTFP budget gaps identified in Section Five of this report; and
 - b. Additional financing costs for any future Equal Pay costs.
- 6.2 The Robust **Budget Savings & Recovery Plan** is made up of:
 - a. **Mandatory spending controls** – to enable the Authority to pause non-essential spending and to enable time to tackle the budget gap; and
 - b. **Detailed workstreams** – including Oracle Remediation, MTFP and Budget, and Workforce.

Mandatory Spending Controls

- 6.3 Based on the rationale in this report, **Mandatory Spending Controls** were implemented on 5 July.

6.4 **Mandatory spending controls mean that:**

- a. ***No new agreements or commitments for expenditure can be made, without engagement with the three statutory officers.***
- b. Temporary measures will be brought in to ensure all **new** non-essential expenditure will stop with immediate effect.

6.5 **The only allowable expenditure permitted under an emergency protocol includes the following categories:**

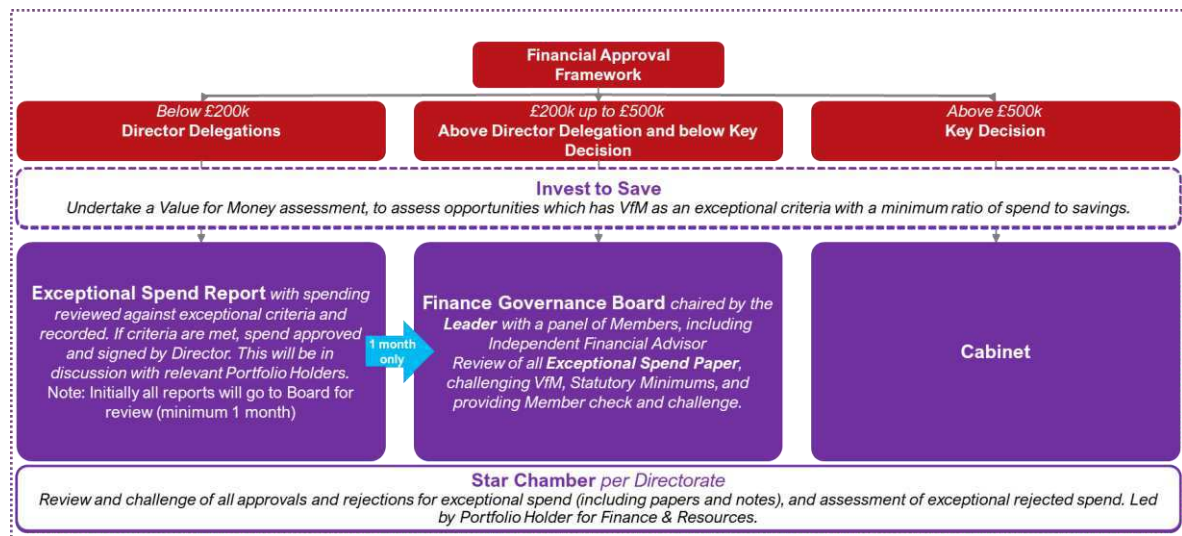
- a. Existing staff **payroll** and **pension** costs
- b. Expenditure required through **existing legal agreements and contracts**
- c. Expenditure on **goods and services** which have **already been received**
- d. Expenditure required to deliver the council's **provision of statutory services**
- e. Urgent expenditure required to **safeguard vulnerable citizens**
- f. Expenditure to address **services** which are **under regulation**
- g. Expenditure funded through **ring-fenced grants**
- h. Expenditure necessary to achieve **value for money** and / or **mitigate additional in year costs**
- i. Expenditure necessary to achieve **value for money** and / or **mitigate additional in year costs**
 - i. *Robust business case with short payback period required, i.e., less than 24 months;*
 - ii. *Value-for-Money Framework to be developed; and*
 - iii. *Business Cases to be reviewed by a group (to be established by Chief Executive)*

Robust Budget Savings & Recovery Plan

6.6 **Governance Arrangements – three governance forums will be used to challenge spend within the Council:**

- a. **Director Delegations with Exceptional Spend Report** – To review spend against exceptional criteria and take delegated decisions against spend thresholds. In discussion with relevant Portfolio Holder.
- b. **Finance Governance Board** – To review spend above certain thresholds based on exceptional criteria, utilising senior stakeholders to challenge spend, and regularly review Director delegated decisions.
- c. **Star Chamber** – To review and challenge all approved exceptional spend (including papers and notes) and an assessment of exceptional rejected spend.

- 6.7 This will be implemented in line with a temporary scheme of delegation, aligned to the Finance, Procurement and Contract Governance Rules in Part D of the constitution:



*Notes: All forums will occur on a weekly basis to ensure spend is agile and responses to Directorate needs. This will apply to all spend over £500 as a de-minimus level. All spend must adhere to Council Procurement Governance. This includes spend and call-offs from frameworks. This includes **Capital and Ring-Fenced Grant Spend**. Consideration will be given to the volume of reports, needs to split by General Fund and Housing Revenue Account spend, and the timeliness of reporting and governance. This covers increase in spend **and** decrease in income.*

- 6.8 **Work plan** – this plan will inform the roadmap of activities that need to be delivered over the next five years to achieve financial stability within the Council.
- 6.9 There are nine activities which form this plan, split into Strategic and Operational Activities. The Strategic work streams are:
- Organisational Spending Review** – Review all spending for Value for Money and Outcome Focus across all services and budgets, including General Fund, Housing Revenue Account, Capital and external funding, Companies, Traded Services (i.e. Schools);
 - Equal Pay Resolution** – Roadmap of activities to understand and resolve the Equal Pay challenges, including detailing the potential costs over the next 5 years;
 - MTFP and Budget** – Quantification and remediation of the budget gap, revising the MTFP (next four financial years, Long-Term Financial Plan (next ten financial years), and Budget setting process. This will include the identification and delivery of savings, to be owned by the Corporate Leadership Team and Cabinet; and

- d. **Workforce** – Ensuring recruitment and retention is not at risk within the workforce, and developing contingency, creating capacity and flexibility, and exploring staff and people costs, including agency and interim costs.

6.10 The Operational work streams are:

- a. **Mandatory Spend Controls** – Implementation of mandatory spend controls, as outlined above, and the delivery of in-year spending savings through these controls, including Collection/Recovery of Income, balance sheet controls and use of Minimum Revenue Provision;
- b. **Oracle Remediation** – Activities to achieve Safe and Compliant, Stabilisation, and Optimisation of the Oracle Fusion implementation;
- c. **Governance and Controls Framework** – Review and remediation of governance and key financial controls, including but not limited to Internal Audit, Procurement, Value-for-money, Risk Management, Annual Governance Statement;
- d. **Closure of the Accounts** – Activities to deliver accounts for the Council across all financial years that remain open with External Auditors, including any further investigations and assessments; and
- e. **Finance and Governance Capacity and Capability** – Strengthened finance and governance knowledge, capability and capacity to deliver the planned improvements, including development of a Service Improvement Programme.

6.11 Work is already underway against a number of these areas. Each of the nine pillars above has a detailed plan of activities with responsible owners, risks, timelines, and allocated resources against each step.

6.12 The Robust Budget Savings & Recovery Plan will be reported to, and monitored by, the Finance Governance Board.

7 Next Steps

7.1 Significant work is required over the next few weeks to deliver on the proposed Budget Savings & Recovery Plan. A further update will come to Cabinet in October to update the MTFP position and assumptions over the medium term, in advance of the formal budget-setting process for 2024/25.

7.2 The timetable for the 2024/25 budget-setting process is as follows:

Activities	Date
Spending Controls implementation	5 July 2023
Implementation of Budget Savings & Recovery Plan	25 July 2023
Quarter Two Update on MTFP assumptions, budget position to Cabinet	10 October 2023

Budget engagement on resource prioritisation	Mid October – December 2023
Scrutiny of budget development proposals and Scrutiny review of Budget Savings & Recovery Plan for 2024/25 budget	November/December 2023
Provisional Local Government Settlement	Mid December 2023 (TBC)
Cabinet – setting of council tax and business rate tax base	16 January 2024
Final Local Government Settlement	January/February 2024 (TBC)
Cabinet consideration of the 2023/24 budget and Financial Plan	13 February 2024
Full Council approval of 2023/24 budget and setting of Council tax	28 February 2024

8 Next Steps

- 8.1 The Council believes that it is important that it engages with citizens and business when planning activity and the financial implications of those plans. An engagement plan is currently in development, focusing on gathering the views of Council Tax and Business Rates payers to feed into the 2024/25 budget setting process.

9 Risk Management

- 9.1 There remains significant uncertainty in respect of public spending levels and the level of funding for local government and therefore the assumptions outlined in this report will be subject to continual review over the coming months to ensure that the Council's short term and medium term financial stability can be protected and critical services delivered.

10 Compliance Issues:

10.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- a. The Robust Budget Savings and Recovery Plan is an essential part of the Medium Term financial planning process. This will be informed by the priorities that led to its implementation, namely to provide a stable footing for the future financial position of the Council. In doing so, the Robust Budget Savings and Recovery Plan will seek to support the delivery of the Council's priorities, as laid out in the Council Plan, wherever possible within current and potential financial constraints. The

MTFP must remain focused on social justice, frontline services and the needs of residents and communities of the city.

10.2 Legal Implications

- a. A local authority is required under the Local Government Finance Act 1992 to produce a balanced budget.

10.3 Financial Implications

- a. The detailed financial implications have been covered throughout the report.

10.4 Procurement Implications (if required)

- a. There are no procurement issues arising directly from the contents of this report. Any procurement implications will be identified as specific budgets are developed.

10.5 Human Resources Implications (if required)

- a. There are no specific human resources implications arising from this report. Any Human resource implication will be identified as specific budgets are developed.

10.6 Public Sector Equality Duty

- a. In compliance with the Council's duties on equality, changes in the budget that impact on the provision of services will need to be properly assessed. An Equalities Impact Assessment will be undertaken on proposals as they are developed where this is considered necessary to do so.