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**Local Government Finance**  
**Department for Levelling Up, Housing & Communities**  
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**23 January 2024**

## **Exceptional Financial Support for Birmingham City Council**

Dear Suzanne,

### **Introduction**

1. Further to our letter earlier this month, Ministers will be acutely aware of the challenging financial situation for Birmingham City Council (BCC). Work to address the financial situation continues at pace, working alongside Commissioners to address the current challenges. This letter highlights the financial challenges across the financial years between 2020/21 to 2024/25, and the Exceptional Financial Support (EFS) that the Council is now requesting.
2. The Council is seeking EFS for two reasons:
  - a. To enable the Section 151 Officer, and the Council's External Auditors (Grant Thornton), to consider **signing off all currently unsigned accounts as a going concern** – this request is to cover the provisions for potential Equal Pay liabilities for the unsigned accounts in 2020/21, 2021/22 and 2022/23. Without EFS to cover these Equal Pay liabilities, the Council would not have sufficient reserves to cover the liabilities for those years and would not be a going concern. Further details are in **Section One** of this letter.
  - b. To enable the Council to set a balanced budget for the 2024/25 and 2025/26 financial years – this request aims to cover the potential budget shortfall/gap for 2024/25. This budget gap is the result of the following, further details of which are included in **Section Two** of this letter:
    - i. Extensive budget pressures that cannot fully be covered by the Council's proposed savings plans;
    - ii. Redundancy and pension strain costs, as a direct result of proposed savings plans; and
    - iii. Estimated future costs to settle potential Equal Pay liabilities in future years.



## Section One: Potential Equal Pay Liabilities

3. On 5<sup>th</sup> September 2023, the Council issued a notice under Section 114 (3) of the Local Government Finance Act 1988. This notice outlined 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). At that point, the Council estimated that the potential liability would be between £650 million and £760 million. The Council does not have sufficient reserves to cover this potential liability.
4. When seeking this EFS request, the Council needs to tackle:
  - a. Historic liabilities – these liabilities need to be correctly calculated for all relevant years in which these potential equal pay liabilities are assumed to be due. The Council believes that this requires a new provision for the accounts for the 2020/21, 2021/22 and 2022/23 financial years (all of which will require sign-off by the Section 151 Officer and subsequently from our External Auditors). As the potential liabilities have been accrued – but are not yet being paid – this is an accounting requirement to ensure that the Council can sign off its accounts and being able to make an affirmative going concern statement.
  - b. Potential future liabilities – the Council will need to include provisions for Equal Pay in all future years until these potential liabilities have been fully paid. In addition, the Council must plan for, and budget for, payments if the potential future liabilities become due.

### Historic liabilities

5. The Council must recognise the potential equal pay liability in the current and previous financial years which has resulted in a negative General Fund Balance (essentially, negative financial reserves). This is an unsustainable financial position for the Council to be in, and as a result the Council is requesting EFS to be recognised for the current and previous financial years in relation to this potential Equal Pay liability.
6. Potential Equal Pay Liabilities are calculated for the Council (General Fund, which includes the Birmingham Children’s Trust, for financial purposes), the Housing Revenue Accounts (HRA) and Dedicated Schools Grant (DSG) and Schools. That is because:
  - a. BCT is wholly owned by BCC such that BCC can be said to have control of those companies. This means that they are likely to be an associated employer of BCC within the meaning of Section 79(9) Equality Act 2010.



b. Regarding employees in council-maintained schools, BCC is their legal employer, and so they can compare themselves with other employees of BCC. Although these groups of staff work at different establishments, they are employed on the same terms and conditions. Therefore, common terms would apply at those establishments meaning that they can make equal pay comparisons by virtue of Section 79(4) Equality Act 2010.

7. Over the last few months, extensive further work has been carried out to test key assumptions and refine the estimates of potential equal pay liabilities. This work has led to an estimate of liabilities for the previous financial years for which the Council deems that existing equal pay provisions need to be restated (and where accounts remain unsigned). Therefore, the Council has calculated a draft Equal Pay liability (to be audited) for the following balance sheet dates, **Table 1** shows:

**Table 1: potential Equal Pay liability (annual amounts)**

Provision by fund and Balance sheet date (showing amounts per annum)	31 March 2021 (£m)	31 March 2022 (£m)	31 March 2023 (£m)	31 March 2025 (£m)	Total (£m)
General Fund	158.3	91.4	121.1	164.0	534.8
Housing Revenue Account	18.1	9.2	8.7	15.8	51.8
DSG & Schools	130.1	18.1	51.1	81.2	280.5
<b>TOTAL</b>	<b>306.5</b>	<b>118.7</b>	<b>180.9</b>	<b>261.0</b>	<b>867.1</b>
Of which:					
<b>Total General Fund, DSG &amp; Schools (annual EFS request each year)</b>	<b>288.4</b>	<b>109.5</b>	<b>172.2</b>	<b>109.5</b>	<b>815.3</b>
<i>Total General Fund, DSG &amp; Schools (cumulative)</i>	288.4	397.9	570.1	815.3	

**Notes:**

- The Balance Sheet dates relate to 31 March 2021 (the closing provision for the 2020/21 accounts), 31 March 2022 (the closing provision for the 2021/22 accounts) and 31 March 2023 (the closing provision for the 2022/23 accounts).
- These estimates of potential equal pay liabilities have been made based on the best assumptions available at the date of this letter.
- These provisions have not yet been audited by the Council's external auditors, Grant Thornton.



- d. *The forecast for the potential Equal Pay liability is carried out until the end of the 2024/25 financial year – the point at which the maximum potential liability is expected to occur. This date is chosen as the date at which the potential equal pay liabilities would stop accruing because a new pay and grading structure is planned to be implemented by 1 April 2025. This forecast would encompass any potential liabilities that are forecast to accrue during 2023/24.*
8. With regard to the treatment of these Equal Pay liabilities across other Council funds, it is vitally important to note that:
- a. DSG and Schools – Charging the DSG and Schools for the Equal Pay liability would create a deficit within the DSG. The Council is looking to explore further conversations with DLUHC and the Secretary of State for Education on funding from another source.
  - b. HRA – the Council **does not intend to seek EFS** for the potential equal pay liabilities that relate to HRA-employed staff. It is proposed that HRA liabilities can be addressed through the use of funds within the HRA, and as such no support is required for these liabilities, details of which will be shared with our Commissioners.

#### Future potential liabilities

9. To estimate future potential liabilities that the Council may face, and payments to be made, this requires an estimate of the potential maximum level of liability.
10. To estimate this, the Council has projected forward to 31 March 2025 to estimate the maximum likely potential equal pay liability. This date is chosen as the date at which the potential equal pay liabilities would stop accruing because a new pay and grading structure is planned to be implemented by 1 April 2025.
11. This new structure aims to end any potential equal pay liabilities by ensuring all staff are on acceptable terms and conditions.
12. The estimate of the potential equal pay liabilities at 31 March 2025 is as **Table 2** shows:



**Table 2: Forecast for total future potential Equal Pay liabilities**

<b>Provision by fund and Balance sheet date</b>	<b>31 March 2025 (£m)</b>
General Fund	534.8
Housing Revenue Account	51.8
DSG & Schools	280.5
<b>Total</b>	<b>867.1</b>
Of which:	
Total General Fund, DSG & Schools	815.3
<b>Total General Fund, DSG &amp; Schools (additional EFS request in addition to the requests up to 31 March 2023)</b>	<b>245.2</b>

**Section Two: To enable the Council to set a balanced budget for the 2024/25 and future financial years**

The Budget Challenge for 2024/25 and 2025/26

13. The Council’s Leadership Team has carried out an in-depth review of all directorates’ budgets to understand where financial pressures exist and how they can be mitigated. This has meant re-basing the budget for the 2023/24 financial year, and this has surfaced a substantial number of fundamental financial management issues which need to be addressed in the 2024/25 financial year.

14. The Council faces a significant budget gap for the 2024/25 financial years. Following a re-base of the budget for the 2023/24 financial year, the following factors have led to this budget gap:

- a. **Budget pressures, including Demand and Complexity Growth** – Growth across Directorates such as: growth pressures against packages of care across adults and childrens social care (both in rising demand and increased complexity); increased demand for temporary accommodation; Oracle programme costs; and forecast equal pay costs; additional staffing costs across social care and to support the Oracle finance system; and expected lost income (mainly from parking and potential asset sales).
- b. **Inflation** – Covering assumed increases for future pay settlements as well as assumptions for growth in care packages, transport and general price inflation. This increase reflects a change to previous forecasts for inflation made during the 2023/24 budget – these have been updated for latest



forecasts. Therefore, general price inflation has been increased in line with Bank of England forecasts (compared to an estimate of 0% for 2024/25, made in the 2023/24 budget) and the cost of social care packages for adults and children has been uplifted from a 0.6% inflation forecast to a 6.7% inflation forecast;

- c. **Savings Write Off** – Savings written off from the 2023/24 and 2024/25 financial years, as outlined in the 12th December Cabinet Report;
- d. **Collection Fund Deficit** – Relating to an underachievement against forecast Council Tax and Business Rates income for the 2022/23 and 2023/24 financial years. Any known and forecast deficit at the time of budget-setting in February is charged to the General Fund for the next financial year. This deficit mainly relates to a significant reduction in forecast business rates mainly as a result of reduced collection rates (partly the result of difficulties with the Oracle system) and higher than expected appeals against business rates (as March 2023 was the last point at which appeals could be lodged against 2017 rates bills). This forecast has been reviewed by an external consultancy to confirm the deficit.

#### Savings Programme to Address the Budget Challenge

15. The Council has been focussed on addressing the budget challenge since identification of an in-year budget challenge for the 2023/24 financial year in July 2023. Since then, the Council Executive Management Team, i.e. the Corporate Leadership Team and the Cabinet, have developed a significant savings programme for the 2024/25 and 2025/26 financial years.

The savings programme for the coming financial years has been completely rebuilt, with the whole savings programme being written off from the 2023/24 and 2024/25 financial years. In order to develop this new programme a new approach to savings documentation, management, and delivery has been rebuilt in consultation with Commissioners to form a new programme.

16. The proposed savings programme, and the financial impact of this programme, is laid out below, **Table 3** shows:



**Table 3: Summary of proposed savings programme**

Directorate	2024/25 £000	2025/26 £000
Adult Social Care	25,009	51,961
Children & Families	54,459	65,462
City Housing	6,236	9,436
City Operations	33,898	51,741
PPS	8,365	11,150
SEP	2,447	2,597
Council Management	16,067	22,404
Cross-cutting	1,000	5,207
<b>TOTAL</b>	<b>147,481</b>	<b>219,958</b>

17. This savings programme aims to address the significant budget over a two year period, recognising the substantial one-year budget gap for the 2024/25 financial year. The Council, in the absence of other challenges outlined within this letter, aims to have a self-sufficient balanced revenue budget in the 2025/26 financial year.
18. In order to achieve these significant savings, the Council must have a redundancy scheme to deliver these savings. The costs of this scheme are estimated to be **£100m** (£50m per year) across the 2024/25 and 2025/26 financial years. This is included within the total request for Exceptional Financial Support
19. The net impact of the savings programme on the Council's budget gap, and as such funding support required, is as follows in **Table 4**:



**Table 4: Estimated 2024/25 Budget Gap**

<b>Council Budget Gap</b>	<b>2024/25 (£m)</b>
Budget Gap	382.6
Savings Proposals	(142.8)
<b>Net Budget Gap</b>	<b>239.8</b>

*Notes:*

- 1. This budget gap does not show the impact of additional Council Tax income (above the referendum threshold). The Council's request for this information has already been sent to the Department.*
- 2. The savings proposals shown above relate to the General Fund savings. £4.7m of savings for 2024/25 relate to the Collection Fund (i.e. Business Rates and Council tax income forecasts) which are already factored into the budget gap at the top of this table*

20. The Council recognises the need for a balanced budget for the 2025/26 financial year. **At present, there is a budget gap forecast for the 2025/26 financial year and the Council is developing a range of proposals to mitigate this budget gap. Therefore, this EFS request does not include a request to support a budget gap for 2025/26.**

21. The Council has undertaken a thorough review of reserves, as part of the 2024/25 budget-setting process. This has resulted in:

- Increasing General Fund Balances (unearmarked reserve) to be 5% of the net expenditure budget for the Council for the 2024/25 financial year. This reserve is forecast to be £56m at the start of the 2024/25 financial year
- Centralising directorate reserves (except for those with specific (contractual) earmarks) into a new "Strategic Reserve" which will also be unearmarked. For the 2024/25 financial year the Strategic Reserve is forecast to be £127.1m at the start of the 2024/25 financial year.



## EFS Request

22.EFS is being formally requested as the Council currently cannot:

- a. **Present a budget to Council for the 2024/25 and 2025/26 financial years**, as the current funding envelope would mean that the budget presented would have an in-year deficit for these financial years;
- b. **Write a Section 25 Statement under the Local Government Act 2003**, written by the Section 151 Officer, due to inadequate reserves to cover all potential liabilities owed by the Council which are recognised within its accounts;
- c. **Close prior year accounts** currently in draft with External Auditor Grant Thornton for the 2019/20, 2020/21, and 2021/22 financial years due to the Section 151 Officer being unable to write an adequate going concern statement;
- d. **Present draft accounts for the 2022/23 financial year** to the External Auditor Grant Thornton, as the Section 151 Officer cannot write an adequate going concern statement.

23.As such, Council is requesting EFS in the form of a capitalisation of revenue spend and liabilities across the financial years from 2020/21 to 2025/26, **Table 5** shows:

**Table 5 – Summary of EFS request (amount for each financial year)**

<b>EFS Request</b>	<b>2020/21 (£m)</b>	<b>2021/22 (£m)</b>	<b>2022/23 (£m)</b>	<b>2023/24 (£m)</b>	<b>2024/25 (£m)</b>	<b>2025/26 (£m)</b>	<b>Total (£m)</b>
Budget Gap	0.0	0.0	0.0	0.0	239.8	0.0	239.8
Redundancy Costs	0.0	0.0	0.0	0.0	50.0	50.0	100.0
Potential Equal Pay Liability (taken from Table 1)	288.4	109.5	172.2	0.0	245.2	-	815.3
EFS Contingency	0.0	0.0	0.0	0.0	100.0	0.0	100.0
<b>TOTAL</b>	<b>288.4</b>	<b>109.5</b>	<b>172.2</b>	<b>0.0</b>	<b>635.0</b>	<b>50.0</b>	<b>1,255.1</b>



## Notes:

- 1. The forecast for the potential Equal Pay liability is carried out until the end of the 2024/25 financial year – the point at which the maximum potential liability is expected to occur. This date is chosen as the date at which the potential equal pay liabilities would stop accruing because a new pay and grading structure is planned to be implemented by 1 April 2025. This forecast would encompass any potential liabilities that are forecast to accrue during 2023/24.*
- 2. An EFS Contingency of value £100m has been included within the total request to support delivery of the extensive savings programme in 2024/25 and to enable transformative savings in 2025/26. This also includes a contingency for potential inherent risks that we may find in the budget as we move through 2024/25.*

24. The Council intends to fund the request for EFS request substantially through the use of capital receipts from asset sales, for which there is a programme of sales totalling £500m by the end of the 2024/25 financial year. This programme will continue in years two and three with target capital receipts in each of these years to be agreed with Commissioners.

25. Further, the Council intends to explore mitigations to address the overall value of potential Equal Pay liabilities through the use of settlement schemes. The overall budget shortfall and when redundancy liabilities fall due will also vary the total value of this request, and the Council will mitigate as best as possible these pressures as they materialise.

26. This is the total capitalisation request, which is looking to be mitigated through capital asset sales, use of capital receipts, mitigations of liabilities, and addressing the budget gap through a substantial savings programme. However, the Council requires this support in order to address the need to set a balanced budget for 2024/25, close prior year accounts, and continue with the financial recovery which has commenced in the Council.

27. As part of this capitalisation request, the Council is looking to explore further conversations with DLUHC and the Secretary of State for Education on funding from another source.

## Conclusion

28. These are challenging time for the Council. Every effort is being made to address the significant financial challenges. The Council is currently unable to deliver key



statutory requirements in relation to financial management due to insufficient funding to allow the presentation of a balanced budget for the 2024/25 financial year and address significant liabilities identified in prior years.

29. In light of this situation, the Council is requesting EFS in the form of capitalisation for the 2019/20 to 2025/26 financial years, as laid out in Table 5 above, of a total value of £1,255.1m.

30. The detail of this has been considered alongside Commissioners who endorse the Council's request.



**Councillor John Cotton**

Leader of the Council



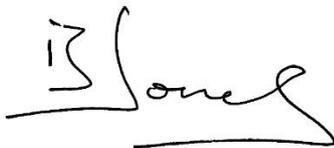
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**Max Caller**

Lead Commissioner



**Councillor Brigid Jones**

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**Fiona Greenway**

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Finance Commissioner

