



The Rt Hon James Brokenshire MP  
Secretary of State for Housing, Communities and Local Government  
2 Marsham Street  
London  
SW1P 4DF

**Sent by email**

2 April 2019

Dear Secretary of State,

**Birmingham City Council's Improvement Progress**

The Leader of Birmingham City Council, Councillor Ian Ward, and I wrote to you in June 2018. In our letter we set out the following:

- a) The Council acknowledged that it had not sufficiently gripped the improvement challenge set by Lord Kerslake and was committed to do so from thereon with vigour;
- b) The Council acknowledged that it had failed to align its revenue expenditure with the available resources and had been using substantial reserves each year since 2015/16 to balance its budget, including 2018/19;
- c) The Council pledged to address this crucial issue and confirmed it was committed to taking the early action necessary to prevent overspending in 2018/19 and to approve a revenue budget for 2019/20 that did not resort to further use of reserves; and
- d) The Council said it understood that getting its finances under control would mean taking and implementing very difficult decisions without delay.

My letter and the Panel's attached report provide a summary of the progress that the Improvement Panel has observed since that last letter, together with our overall conclusions and reflections from our four years in Birmingham.

Fuller information about the Council's progress is set out in the Council's latest *Stocktake Report* and this is also attached. The report has benefitted from the Panel's and Council's collaborative working. We agree with much of its analysis. But there are some matters on which the Panel does not entirely concur with the Council's assessment. The most important of these are set out in our report, along with other important information that we wish to highlight. We continue to advise the Council to stay true to its commitments to be fully transparent and open. We continue to advise the Council to avoid overstating its progress or being over-optimistic about what it can achieve in the hugely challenging context it is working in. It takes time to embed genuine change.

The Panel stood itself down on 31 March 2019. The reason being that we believe we have done all that we can within our existing terms of reference and powers, and in the current context in which the Council is operating, to provide robust challenge, support and advice. The Council now, we

believe, needs to heed our advice and muster the strongest political courage and managerial capacity it can to follow through on its commitments to deliver services that are fit for the 21<sup>st</sup> century. It must be consistently true to its values and promises, always put the interests of Birmingham's citizens first and provide services that represent value for money. This will entail the Council fully implementing its improvement plans, and comprehensively addressing the statutory recommendations of its external auditor. These are set out in his latest report, which refers to the Council facing a unique level of one-off risks.

There are many significant and exciting opportunities available to the City and the Council, not least the Commonwealth Games and HS2. As Lord Kerslake rightly said in his 2014 review *'Birmingham is a great City.'*

However, the Council's financial position remains immensely serious. The risks to its financial resilience, which it must intensively manage, are considerable. Crucially, progress has been badly impacted by industrial disputes and poor industrial relations and the Council remains in the foothills of its improvement journey. In this situation the Council needs courageous and creative political leadership if it is to succeed.

The Council is intending to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements. It understands that it requires third-party assistance and has commissioned elements of this already. But, in the light of the exceptional risks that the Council is facing and particularly its industrial relations context, we consider that this type of challenge will be insufficient. We therefore recommend that you should put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel.

Yours sincerely



J R A Crabtree

Chair



# **Report of the Birmingham Independent Improvement Panel**

**2 April 2019**

# Report of the Birmingham Independent Improvement Panel April 2019

We do not intend to replicate the Council's *Stocktake Report*. Our report provides a summary of the key matters we believe it is appropriate to highlight.

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## 1 Progress since June 2018

- 1.1 We agree with the Council that there has been meaningful progress over the last ten months. We recognise the huge amount of work that Birmingham City Council is doing to get itself on the right track and tackle deeply entrenched problems and outdated ways of working.
- 1.2 The Council has worked hard over the last year and made considerable progress on many fronts.

### Managerial leadership and partnership working

- 1.3 Dawn Baxendale, Chief Executive, with the assistance of her mainly new corporate management team, is rapidly developing improved relationships with local partners. In that regard she is appropriately building on the platforms put in place by the interim Chief Executive who preceded her and the Council's current interim Corporate Director of Adult Social Care and Health.
- 1.4 The new Children's Strategic Board, the strengthening of The Community Safety Partnership, both of which the Council's Chief Executive chairs, and the Council recently taking a pro-active leadership role across the region are welcome developments. The successful launch of the Children's Trust, on time, and the latest Ofsted inspection results are also encouraging

signs. The recent setting up of the City Partnership Board is important and the Board is clearly identifying the priority outcomes that City partners can work on together, and intending to take a pragmatic and action-focused approach.

- 1.5 The Chief Executive's 'hands-on' approach and her clearer direction have been welcomed and are appreciated by the Council's senior staff and leadership teams. The developing corporate management team now has much more of the capability and experience that the Council so desperately needs. The team is, when able, focusing on the right things. It is seeking to bring stability to an ever-changing set of complex challenges. And to put in place stronger foundations on which it can build further improvements, with ever-greater confidence.
- 1.6 Promotion of a 'one council' approach is better and the organisational restructure and many of the new ways of working are helping to break down the silo working that has held the Council back for years. This, too, is encouraging.
- 1.7 The Council approved its Community Cohesion Strategy last year. It was the product of effective engagement and a good understanding of the issues. The Council is taking an approach that entails championing local best practice, facilitating challenging discussions on sensitive topics and commissioning preventative activity. It set out alongside its Strategy how each of its main services contributes to community cohesion. We have said to the Council that it could develop its action plans even further, by making clearer how the Council will continuously enhance all its own contributions to this agenda, over time.
- 1.8 The Council's leadership teams have shown concerted determination and coordinated their efforts while seeking to address the Council's refreshed priorities for improvement, which are clearer and better aligned.

### **Political leadership**

- 1.9 Notwithstanding a recent resignation, the new Cabinet, we are assured, operates more like a team. Cabinet members tell us that they appreciate the change in leadership style, which, they say is more encouraging of debate and joint working. The Leader and Deputy have cooperated with the Panel over the last year and the Deputy, in particular, has taken a keen role in shaping and driving improvements in the Council's governance. Previously she took a lead political role in driving forward many of the improvements in children's services that are now bearing results.
- 1.10 The relationships between senior officers and senior elected members are currently constructive. They have met regularly and worked together effectively on a series of complex and sensitive issues since the May 2018 elections, including on budget setting. Their emphasis on working as a 'single team' is important to them.
- 1.11 The Secretary of State will be aware, however, that political leadership issues and the existence of tensions in the relationships between elected members have featured recently in the local and national press.
- 1.12 The Panel recognises that the political leadership understands the need for bold decisions. Also that the Council's political leadership has been affected and constrained by the political and industrial relations climate it is operating in. We believe, however, that in spite of the

difficulties, the political leadership could have gone further in setting out a clear narrative and reinforcing and promoting the messages it set out in its 2018 Stocktake report and associated plans, about what the Council must change, and why.

- 1.13 The Council has made progress over the last year in strengthening its scrutiny functions. It undertook a review and increased the number of scrutiny committees. When Lord Kerslake recommended that the Council reduce the number of scrutiny committees he did so in the context of recommending and expecting that much of the scrutiny needed would be delivered locally instead. But development of locally-based scrutiny was never effectively implemented. It is right, therefore, that the Council has increased the number of committees. But, what will really matter is the quality of the scrutiny undertaken. And that will begin with all scrutiny members consistently turning up to the meetings they have a responsibility to attend. The new Scrutiny Chairs provided balanced feedback to us, at one of their meetings we attended. They said that some things were better and recognised that they have a huge way to go to embed effective self-challenge in the Council.
- 1.14 The picture is similar for other elements of the Council's self-challenge. The Audit Committee is facilitating better discussions, but it is early days. The Standards Committee has recently been reconfigured and is yet to demonstrate that it is working effectively.
- 1.15 This same story extends to some elements of the Council's self-support. After years of promising such support, the Local Government Association assisted the Council last summer to identify mentors for each of the Council's Cabinet members. This was a welcome development, and one that we thought should have been in place immediately following the Kerslake review. The Council is intending to continue with its mentoring arrangements and co-ordinating the approach. We hope that members will continue to draw as much value as they can from working with their mentors.
- 1.16 Overall cross-party working is respectful. Opposition parties have been supportive of the recent changes to Cabinet meeting protocols and co-operated with the reviews of Overview and Scrutiny and Full Council. Although opposition parties continue to express concern about important issues related to, for example, transparency and the lateness of reports.
- 1.17 We have seen, too, examples of good cooperation between the Council, the West Midlands Combined Authority and the region's Mayor.

### **Financial control**

- 1.18 The Council has, over the last year, achieved a tighter grip on its finances and improved its financial analysis and capital and revenue budget monitoring. Changes to the Council's finance teams and arrangements resulted in improved financial reporting for most months of 2018/19.

### **Organisational culture**

- 1.19 The Council knows, and recently has said openly, that it must modernise how it conducts its industrial relations. The well-publicised industrial disputes and strikes over recent months brought this issue, again, into sharp focus. The Council knows it must address this issue in order to mitigate its equal pay and other financial risks. Also to pave the way for it to bring

about the organisational cultural change and service transformation which need to be in place if the Council is to survive and thrive. The Council's heightened self-awareness, better diagnosis and greater willingness to be clear about its risks, are good signs of progress.

- 1.20 The Council's management team is readily and actively promoting learning from others. For example, it has worked with Leeds City Council to review its own confidential reporting arrangements. The Council's list of examples of useful learning and engagement with other local authorities is growing. This is creditable.

### **Governance and managing performance**

- 1.21 The Council has made concerted efforts to improve important aspects of its governance. Its Corporate Governance Improvement Plans (CGIP) for 2018/19 and 2019/20 set out the main issues that it has attended to, and still needs to take action on and/or deliver impact for. The Council has been focusing on the most pressing priorities, including the matters that relate to the external auditor's 2018 statutory recommendations. The Council and the Panel have regularly reviewed the Council's progress in implementing its 2018/19 CGIP, and has recognised where it has been successful in moving forward. For example, it has addressed some of the long-standing concerns we raised in the past about its report-writing and decision-making. It is also offering better induction and development opportunities to elected members. With induction being recently extended to new staff.
- 1.22 While there is still much to do, the Council's performance management is more outcome-focused. The Council is at last putting its performance into a context by reporting its own performance against best and comparative performers. This has provided the much-needed wake-up calls for officers and members about how poor many aspects of the Council's service provision really are. As the Council has told us, two thirds of its services are in the bottom quartile. The Council is planning to continue to improve how it manages and uses its performance information. In particular, it understands it must improve its use of insight, intelligence and trend analysis to better inform its improvement strategies and track its impact.
- 1.23 Until recently many elected members and too many staff didn't know or accept how far behind the times and poorly performing their services were. The Council's shift to producing reports that are more balanced in their analysis, and its shift to being less defensive in response to critical inspection reports - both long advocated by the Panel - are helping the Council to drive better self-awareness. This is enabling staff and elected members to work better together to develop realistic and meaningful strategies and action plans. Success in achieving this is particularly notable in the case of adult social care. The inspection findings for SEND services in the local area (Special Educational Needs and Disability) confirmed that, while a stronger emphasis on prevention and on resident choice is beginning to emerge, the shifts in performance have been from a shockingly low base. Health and life expectancy differences in the City are stark. It should long have been a top priority of the Council to work effectively with partners to address the gaping inequalities in the City's health outcomes. It is doing this now.
- 1.24 Currently the Council's performance reporting places a great deal of emphasis on monitoring performance against targets. We have queried how those targets are set and whether they are all sufficiently robust, relevant and useful. The Council assures us that it will review its

targets in the coming year.

### **Other positive developments**

- 1.25 Important improvements in aspects of adult social care, from a shockingly low base, are notable. We particularly are aware of the directorate's improved strategy, better partnership working, new emphasis on preventing problems and their escalation, deeper understanding about the need to focus on outcomes and service-users' needs. There has been a shift in its work culture. These developments are creditable.
- 1.26 The Council's *Stocktake Report* refers to its efforts to tackle difficult decisions and it cites as an example of this consulting on, agreeing and beginning to implement its Clean Air proposals.

### **Tracers**

- 1.27 We sought to trace for three cross-cutting services whether they were on an Improvement journey that would show tangible positive outcomes for Birmingham residents. Also we assessed to what extent any improvements to the Council's governance, financial controls and organisational culture were being embedded. The results showed a mixed picture. Performance management, as set out above, is showing signs of improvement from a low base and needs to continue its development if it is to be equal to the best councils. The skills agenda has not progressed far enough, despite it being a key priority which impacts on many of the Council's priorities. And it was highlighted in the Kerslake Report over four years ago. Structural changes have been implemented recently and the Council appointed a senior officer lead in early 2019, a few months later than initially planned. She will, hopefully, help to bring co-ordination and coherence to an agenda that until very recently has been fragmented. The City faces a huge challenge in tackling homelessness. It has a clear strategy with tangible actions that have and will bring improvements. The Council has taken on leadership roles for the regional programme, is engaging well with a wide range of partners across all sectors, and has a good understanding about what it must do to refocus its efforts on preventative activities.

## **2 Caveats, setbacks and disappointments during the last year**

- 2.1 The Secretary of State will need to take account of the fact that much of the progress set out above and in the Council's latest *Stocktake Report* is new. As a result, few of the improvement plans can yet demonstrate that the desired outcomes and impacts have been achieved or that the recent progress, while commendable, is sustainable.
- 2.2 For example, the Council understands that its partnerships are new in their current form and makes clear this is a '*fairly fragile phase for partnership working in the City*'. One partner recently said to us that Birmingham partners are 'in the foothills' of their partnership journey. We believe that this description has wider application to the Council's improvement journey.
- 2.3 The Council rightly refers to its understanding that it will take time for it to deliver its

ambitions and that the culture and unhelpful behaviours that persist in the Council make delivery challenging. The Council understands that its improvement journey to get to a stable, resilient and consistently good position is likely to span many years.

- 2.4 The challenging legacy that the Council is grappling with and the current context inevitably means that the journey will continue to be arduous.
- 2.5 We agree with the external auditor's opinion set out in his letter that the amount of progress made recently should not be underestimated. But, have we seen as much improvement as we, and the Council, expected to see or would have liked to see over the last year? Unfortunately we have not. While progress has been made in putting many improvement foundations in place there have been set-backs, disappointments and slippages.
- 2.6 Due to the enormous challenges encountered in the last year and still being experienced the pace of improvement continues to be slower than everyone involved would want.

### **Industrial relations**

- 2.7 Industrial relationships are a major issue and the Council formally registers them as such.
- 2.8 The Council acknowledges that it has been unable to quickly close down disputes arising from its attempts to improve the effectiveness and efficiency of its services.
- 2.9 But for the industrial disputes we believe the Council could have achieved far more progress.
- 2.10 The Secretary of State will be aware of the Council's industrial relations problems, including this year's waste service strikes and enablement service strike. The recent major industrial action relating to waste collection, the second in just 15 months, has only just ended. Sadly, it resulted, again, in significant costs and inconvenience to the city's residents.
- 2.11 The total cost of the two major disruptions to the waste collection service is estimated to be £14m with no discernable improvement in the service to justify the expenditure. In addition, the Council's Cabinet reports draw our attention to the risk of 'contagion'. The suggestion is that how the recent waste dispute was settled could lead to similar demands and industrial disputes in other services. The potential impact, if this did arise, could be significant, so increasing the Panel's concern about risks to the Council's ability to implement its improvement plans.
- 2.12 At the time of writing the dispute in the service that provides support to elderly people - the Enablement service – continues. While recognising that this dispute came about as a result of the Council seeking to make improvements to the service, the dispute has been running for 15 months.
- 2.13 Also the TUPE transfer of the Early Years and Wellbeing service staff, planned for January 2018, is still not implemented. This delay is costing the Council £750,000 a year.
- 2.14 The latest INLOGOV study that the Council references in its *Stocktake Report* is instructive. It refers to a '*culture of fear*' around the nature of industrial relations. The issue clearly stands out as a continuing major concern of staff and elected members alike, and this has wide-ranging negative impacts. The findings underline, again, the need for the Council to modernise its industrial relations if it is to make the improvements to service provision that

are needed.

- 2.15 Unusually the Leader and Cabinet members have been directly involved in day-to-day negotiations with Trades Unions which presents the risk of a return to the position at the time of the Kerslake report, when blurring of member and officer roles was a key cause of concern. If union representatives will enter into negotiations only when the Council's political leadership is personally involved in meetings, this further demonstrates an inappropriate industrial relations approach, and the Council recognises this.
- 2.16 As the Council recognises too, the disputes and related distractions have caused the Council at times to have to revert to 'fire-fighting'. They have diverted both leading members and senior officers away from taking a strategic perspective, which has resulted in slippages and deferments in the delivery of planned improvements. The Council acknowledges that it has not yet started delivering the major transformation projects that it wanted to initiate sooner. Such as the implementation of, or detailed planning for, the local model that forms a major part of its agreed *property strategy*.
- 2.17 The industrial disputes not only distract attention and critical resources they demonstrate the challenge the Council is facing to put the interests of the City's residents first. A well-performing council will be a good employer and fair to its employees, but this aspect of its behaviour should not take precedence over its primary duties to address the needs of its residents and provide services that represent value for money.
- 2.18 At times, by way of example, the Council's Chief Financial Officer has spent the majority of his working hours in mediation and talks with unions and colleagues about industrial disputes. This is by no means a criticism of him, far from it. We understand why he was asked to take a lead role for one of the most important and urgent risks facing the Council. But this has led to us querying whether the Council has all the capacity and capability that it needs at the top of the organisation.
- 2.19 Permanent changes in the Finance team's work culture and capability are urgently needed. The Council knows this and it has been working with Cipfa to identify how to drive forward improvement. Yet while the Council has been pro-active in making progress on this and also many aspects of the Council's financial control and reporting agendas, we do believe that the pace of that progress has been compromised due to the Chief Financial Officer having to shift so much of his attention to resolving industrial relations emergencies.

#### **External auditor's statutory recommendations**

- 2.20 The Council's *Stocktake Report* sets out the Section 24 statutory recommendations that the Council's external auditor sent to the Council last summer. The Council has been addressing these since September 2018 and the external auditor has confirmed that the Council has been making good progress in a number of areas in delivering against those recommendations. But, despite that progress, in March 2019 the external auditor issued additional statutory recommendations. He did this while noting that the recent progress should not be underestimated. Also while stating that it would be unrealistic to expect a relatively new management team and the new team of officers and members to be able to address overnight the deep-seated problems that have dogged the Council for over a decade. These were the third set of statutory recommendations sent to the Council in three years. Receiving any is unusual for a local authority and to receive a third set in so short a

time is exceptional, possibly unprecedented.

- 2.21 The latest recommendations relate to governance, the waste service, and finance. His recommendations, made under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 are attached.

### **Independent waste inquiry**

- 2.22 Following the events of the 2017 waste service strike the Council commissioned an independent inquiry. The inquiry's findings were published in December 2018. That it took so long for the report to be published is regrettable. This is in spite of us urging the Council to do more to prevent so long a delay. Effectively the report questions if the Council made any progress at all up to 2017 in addressing Lord Kerslake's recommendations about the Council's organisational culture.
- 2.23 We believe that the Council has not taken every opportunity available to it over the last year to move to, and rigorously demonstrate and promote, its promised ways of operating. Yes, many aspects of the Council's culture that act as barriers to effective governance are being addressed. But many of the changes of the last year need still to gain sufficient reach and be embedded as the default and normal way of working, for everyone in the Council's leadership, at all times.

### **Staff feedback**

- 2.24 It is disappointing that while anecdotal staff feedback about, for example, the Chief Executive's weekly newsletter is positive, the results of the Council's staff surveys over many years have not shown improved results.
- 2.25 It is not clear to us what the Council is doing to address the findings from the most recent staff survey, nor the extent to which each directorate has progressed with developing action plans and implementing them. Meanwhile, recent performance reports suggest that the Council's sickness levels are high, and rising, and staff morale features in the Council's most recent corporate risk register.

## **3 Looking forward: opportunities and risks**

### **Opportunities**

- 3.1 Birmingham City Council's context is one of enormous opportunities.
- 3.2 The main point of the Kerslake review, Lord Kerslake's recommendations and our role has been to help the Council to be in a better position so that it can readily grasp, and enable its residents to benefit from, all the opportunities available to it.
- 3.3 How the Council grasps and manages its opportunities is almost as important as how well it mitigates and manages its risks.
- 3.4 The Council's preparation for, and potential legacies from, the Commonwealth Games, HS2

and other major City commercial developments align with just a few of numerous opportunities available. The Council's leadership has worked hard over recent years to build support for these major projects.

## Risks

- 3.5 The Council has set out its main risks, relating to, for example, industrial relations, equal pay, the Commonwealth Games, Paradise Circus and its Amey contract. External auditor reports align with the Council's views and set out in detail the significant risks that the Council is currently facing and could potentially face. In his latest Section 24 report the Council's external auditor notes that the Council faces '*a unique level of one-off risks*'.
- 3.6 The Council states that it is '*alive to the delivery, financial and reputational risks associated with the Games*' and that it has active risk management and programme management arrangements in place that will enable it to promptly resolve issues. This is helpful. But the extent of these risks is significant. The potential for escalation of costs is a serious risk.
- 3.7 Some of the issues that were associated with setbacks this last year also represent risks for the future.
- 3.8 There are risks inherent in the newness of much of the Council's progress. Many of the improvements are not yet fully embedded. So inevitably there will be fragilities. The resilience of some of the improvements and newer relationships are yet to be tested. The Council is aware of this and alludes to some of these risks in its *Stocktake report*.
- 3.9 We understand that the Chief Executive is being supported by the political leadership to build the capacity and capability she believes the Council needs. But we frequently see the Council's leadership team members appearing overstretched. We have drawn this to the attention of the Council's leadership at our regular meetings and have continued to question the Council's assertions on this point.
- 3.10 The risks relating to the Council's industrial relations persist and could erupt again. And if they do, potentially repeatedly, it will be very costly and put at risk many of the Council's improvement and delivery plans.
- 3.11 The biggest risk is if a number of these key risks coincide. The Council's Financial Plan 2019+ outlines both the extent of the financial risks facing the Council and its level of reserves. The financial risks include demographic pressures, capital project overruns, major contract disputes, potential changes to the business rates regime, the Commonwealth Games and Equal Pay. It is clear that if all the Council's risks that have detrimental financial implications were to come together the Council's financial resilience would be sorely tested.

## 4 The financial position and the medium term financial strategy

- 4.1 From early 2018 the Council started to grip the financial challenge and improved its control of its revenue and capital budgets. This year the Council has, at last, grasped the task to bring its spending into line with its revenue. But due to the delays in achieving this, the Council will have used £170m of its reserves to support its revenue budget in the four-year

period ending 31 March 2019.

- 4.2 Cabinet members and senior officers demonstrated in the current financial year much improved budget oversight for both capital and revenue budgets. There is now better senior elected member engagement with the finance agenda.
- 4.3 The Council's 2018/19 revenue budget was approved on the basis that £30m reserves would be required. The Council expects to remain within this budget with £9.7m of savings not achieved being covered by other underspends. As the Council understands only too well, any non-delivery of savings targets in one year will increase the savings needed in future years.
- 4.4 It is a move in the right direction that the Council's budget for 2019/20 does not rely on the structural use of reserves. But this means that the Council will need to deliver £46m of further savings that year. Achieving this will not be easy. Nor will meeting the medium term savings targets be easy. The Council's medium term financial plan for 2019/20 to 2022/23 requires total savings over the period of £86m.
- 4.5 What is worrying is that the Council has not yet clearly articulated the nature of the transformation of services, beyond Children's Services and Adult Social Care, that will be needed to deliver these savings, and so achieve financial sustainability. As the Council indicates in its *Stocktake Report*, the leadership of the Council had intended to be much further forward with this work, but was seriously diverted by the industrial disputes.
- 4.6 In its *Stocktake Report* the Council says that 'transformative work in areas such as assets, workforce, fleet and SEND (Special Educational Needs and Disability services) need further development before savings can safely be realised and form the bedrock for future financial resilience'. The report also acknowledges that some of the implementation plans, in support of these savings, are not as advanced in their depth and with assurance regarding capacity to deliver as would be ideal.
- 4.7 We are concerned that the Council is still a long way off having clear narratives about what its transformation strategies will really entail. We understand why, but the fact remains that it has not yet produced solid and detailed implementation plans. And it is not clear to us if, for each of its transformation programmes, the Council has all the capacity it will need to initiate then deliver them *in time*. This places delivery of the Council's Medium Term Financial Strategy at risk.
- 4.8 A particularly significant risk to the Council's medium term financial plans is that relating to the Commonwealth Games. In December 2017 the Council committed to providing £145m capital (of which £75m would be provided by partners) and £40m revenue to support the delivery of the Commonwealth Games. This represents 25% of the cost of the project with the government contributing 75%. In addition the Council is responsible for delivering the Commonwealth Games Village. So far none of the sources of external funding put forward in December 2017 as potential contributions to the Council's costs – including a temporary airport levy, hotel tax or workplace parking levy – appear likely to come to fruition. As a result the Council has had to provide for all its contributions in its forward capital and revenue plans, further increasing the risk to the delivery of its medium term financial strategy. In addition, the Council recently reported that some £30m of planned partner contributions is at risk of non-delivery.

## 5 Overall conclusions and reflections

- 5.1 We have reviewed the Council's updated *Stocktake Report* and had the opportunity to comment and assist with earlier drafts. We agree with much of its analysis and have drawn attention to some key aspects of the Council's progress. We have also highlighted where we do not fully concur with the Council.
- 5.2 We agree, in particular, that the Council still has a long way to go to deliver its ambitions. And we believe its onward journey will continue to be difficult and hazardous for some time yet. The Council's industrial relations issues, political and financial context and demanding work programmes, represent immense challenges.
- 5.3 The Council at last recognises how poor many aspects of its performance, financial planning and governance have been. It acknowledges it has a long way to go to get many of its functions and key services up to acceptable modern standards in terms of effectiveness and efficiency.
- 5.4 Years of the Council's public denial, defensiveness and push-back about the extent of its problems, risks and challenges, and its focus on ridding itself of Government intervention as quickly as possible, almost at any cost, has prevented the Council taking all the necessary steps to deliver real and lasting change.
- 5.5 Will this year's progress be sustained and further progress made in the years ahead? That remains to be seen. The situation with regard to industrial relations, in particular, is precarious. The resilience of much of Council's progress is yet to be tested.
- 5.6 The Council has done much in the last year to clarify its priorities and strategies. But at crucial times we could not elicit from all the stakeholders we spoke to a shared and coherent story about the Council's vision. Similarly key stakeholders could not explain clearly how the Council will meet the huge financial challenges in the years ahead. Nor was it always readily clear to us to how the Council will engage the City and its residents in meaningful and honest ways to explore all the feasible options for shaping its major modernisation programmes. At times the messaging to the public has been inconsistent.
- 5.7 We cannot say that the Council is now fully grasping and delivering on, as much as it should or could, all the opportunities available to it to ensure its citizens benefit from the economic renaissance the City is seeing.

## 6 Next steps

- 6.1 To enhance its chances of success in the future the Council will need to fully and consistently embrace challenge and be rigorously self-critical and non-defensive. It will also need to continue its improvement journey with unrelenting courage, focus and diligence. All its improvement actions will need to be entirely authentic attempts to bring about lasting positive change.

- 6.2 Consistent with the advice we have given to the Council, we believe that the Council must set out, relentlessly repeat and reinforce a clear, simple narrative. That narrative should be crystal clear about the Council's vision for its future and what the Council will change and when. Crucially it should set out the benefits that transformation and modernisation could bring.
- 6.3 As part of setting out its broad vision and priorities in 2018 the Council reaffirmed its values: We put citizens first, We act courageously, We are true to our word, We achieve excellence. The Council must be always true to these values. In particular, the political and managerial leadership need to consistently, and in a complementary way, demonstrate bold and authentic leadership.
- 6.4 We note that the Council plans to develop its transformation plans later this year. But, given the level of the Council's general reserves, we consider that the Council should be developing realistic and detailed plans for all aspects of its Medium Term Financial Strategy savings targets and transformation agendas without further delay.
- 6.5 Also in keeping with our advice since we began, and in spite of progress in this area, we still believe that the Council needs to improve its external communications. Particularly given its history and challenges it needs to be consistently fleet of foot, and on the front foot about its vision, ambitions, intentions, narratives and plans. Also it needs to be the first to publically acknowledge its mistakes, failures, limitations, learning, constraints and risks. As well as publically celebrating its successes and achievements.
- 6.6 Vitally, the Council should honour its commitments to be more open and transparent. We would like to see the Council committing to an ambition, or making a pledge, to be the most transparent and most open Council in the country. It must end its over-reliance on, and preferences for, keeping its reports private and its over-use of confidentiality agreements. These continue to create as many problems as they resolve and the impression of secrecy damages the Council's reputation. The Council must do all it can to build trust with its staff, partners, local residents and other stakeholders.
- 6.7 As the Council recognises, '*...to modernise the Council's approach to industrial relations ways of working will absolutely take time and concerted effort...a huge amount of work will be required over a number of years to rebalance that approach for the benefit of the citizens of Birmingham.*' (BCC Stocktake Report, 2019). We would add that sustained political courage and a stronger political narrative to help drive and shape the transformation will be needed above all. The Council says there is a need '*to refine a coherent and cohesive Council-wide narrative which is aligned to the Council Plan and its priorities as well as the long-term vision for the city....*'. We consider that, having advocated for years that the political and managerial leadership address this *personally*, this should be a top priority for the Council and it should address this without further delay, misplaced caution or prevarication.

## 7 The Panel

- 7.1 It is over four years since Lord Kerslake published his report about Birmingham City Council, and the then Secretary of State, Rt Hon Sir Eric Pickles MP set up the Birmingham Independent Improvement Panel. Our role has been to monitor and report to the Secretary of State on the Council's progress, and to provide to the Council support, advice and strong

external challenge.

- 7.2 We will be leaving the Council at the end of March 2019 with it in a better position than it was when we arrived in 2015.
- 7.3 We believe that this particular form of challenge, support, and advice has run its course and so brought our role, in the existing format, to a close on 31 March 2019.
- 7.4 We have done as much as we can to encourage the Council to ensure that it has the appropriate officer capability.
- 7.5 To address key challenges and risks to its transformation the Council will need to make bold *political* choices. And the Panel does not have the powers or legitimacy to push for particular political choices, even if these would be likely to help the Council achieve better value for money.
- 7.6 It is only stable, courageous and creative political leadership that will enable the Council to make the further progress it needs to make.
- 7.7 The implementation of Lord Kerslake's recommendation that the Council move to four-yearly all-out elections has given the Council the opportunity it needed to provide for such political stability.
- 7.8 In any event, we believe we would be out-staying our welcome if the Panel were to remain in place in its current form. The Chief Executive has made clear her wish that the Council's collaboration with the Panel should last up to 12 months. At times we provided, perhaps, more challenge than the Council wanted us to.
- 7.9 The Council is right to say in its *Stocktake Report* that a shift to collaborative working between the Panel and Council, made possible due to relatively recent changes in the senior management teams and the political leadership, '*heralded the requisite honesty around the scale of the challenge and sense of strategic purpose to start the improvement process in earnest*'. It feels to us that the Council is beginning only its second year of focused, earnest improvement while it is in fact in its fifth year since Lord Kerslake's review.
- 7.10 As the Council says, collaborative working between the Council and Panel was not possible in the first three years of its existence. We had to step back on two occasions to give the Council the opportunity to show whether its own assessments, strategies and tactics – which we did not entirely agree with - were right or not.
- 7.11 It is of no comfort to us that our concerns on a number of counts, that the Council emphatically refuted, turned out to be well founded. For example, despite our continuously urging the Council to be entirely transparent about all aspects of Council expenditure, its risks and issues, some of the worst problems of the last year related to the Council failing to be open previously about its mistakes. We did not know about the GMB payment or the mistake that led to it, until allegations were set out in the local press.
- 7.12 For the last year there has generally been improved and more effective collaborative working and more open sharing of information. But we would not wish to overstate this. We had to push to receive the Waste Inquiry findings, when we made clear that these should have been published at the earliest opportunity.

- 7.13 We are of the view that the Council has benefited from rigorous external independent challenge, and also support and advice, during its recent history.
- 7.14 Have we been able to assist as much as we were prepared to? The answer to this question is sadly 'No'. Intervention is rarely warmly welcomed. Yet, when it is, the benefits that can flow from it will be greater.

### **Recommendation to the Secretary of State**

- 7.15 The Council is intending to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements. It understands that it requires third-party assistance and has commissioned elements of this already. But, in the light of the exceptional risks that the Council is facing and particularly its industrial relations context, we consider that this type of challenge will be insufficient. We therefore recommend that the Secretary of State should put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel.

## **8 The Panel's evidence and work to inform our conclusions**

- 8.1 Members of the Panel are John Crabtree OBE (Chair), Frances Done CBE (Vice-chair), Cllr Keith Wakefield OBE, and Steve Robinson. The Panel's adviser is Sally Hammond. The Children's Commissioner for Birmingham City Council is an ex-officio member of the Panel.
- 8.2 The Panel and its adviser have regularly met with the Council's Leader, Deputy Leader, Chief Executive, Assistant Chief Executive, Corporate Director for Finance and Governance, City Solicitor and Monitoring Officer, and MHCLG representatives. The formal minutes of our joint meetings have been circulated to all the Council's elected members and are available on the Council's website. We trust that the Panel web pages will be maintained and readily available for the foreseeable future.
- 8.3 Panel members and the Panel's adviser have over the last year met:
- All elected members of the Council's Cabinet
  - Senior scrutiny members, the Chair of Audit Committee, the Chair of the Standards Committee
  - The Council's Opposition Leaders
  - Senior officers of the Council's corporate management team
  - Local partner representatives
  - Senior staff who are leading the Council's major transformation programmes and service modernisation programmes
  - Senior staff and elected members with responsibilities for financial management, governance, organisational cultural change, workforce strategic planning and performance management improvements
  - Officers who are working on homelessness, the skills agenda, community cohesion

and other 'tracer' cross-cutting agendas

- 8.4 Some of our meetings, as set out above, were one-off. Many have been frequent and/or regular – such as, quarterly or monthly.
- 8.5 The Panel and its adviser also regularly reviewed the Council's Cabinet papers and other important reports, its corporate management team agendas and reports and many of its new and updated strategies and plans – both during their production and following publication.
- 8.6 The Panel and its adviser attended or remotely observed many important Council meetings, including, for example, meetings of the Cabinet, full Council, Resources Overview and Scrutiny, and Audit Committee.
- 8.7 A Panel representative and the Panel's adviser held detailed discussions on a number of occasions with Council staff regarding three areas of activity, namely homelessness, skills and performance management. The aim was to establish whether these services were on an Improvement journey that would show tangible positive outcomes for Birmingham residents. Also to what extent any improvements to the Council's governance and organisational culture were being embedded in 'sample' cross-cutting agendas.
- 8.8 The Panel has published annually a high level summary of its activity and costs and these are available on the Improvement Panel section of the Council's website.

## **9 Appreciation**

- 9.1 We wish to thank the Council's officers and elected members for their collaboration, cooperation, frank exchanges, assistance and patience during our time in Birmingham.
- 9.2 We would also like to thank for their candour, honesty, enthusiasm, engagement and assistance the many other stakeholders we have communicated with and met over the years. Including staff, elected members, local partners, regulatory and inspection staff, and government representatives, past and present.

# **IMPROVEMENT STOCK-TAKE REPORT**

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**Birmingham City Council**

**MARCH 2019**

## Executive Summary

This document provides an assessment of the Council's progress against the previous stocktake report in June 2018 and the Corporate Governance Improvement Plan 2018-19. It is supplemented by a narrative regarding service transformation and improvement; a summary of the high level corporate governance improvement priorities for 2019/20 together with an outline of the scrutiny and peer-challenge framework for the future.

The Kerslake Report was published in December 2014 and the Birmingham Independent Improvement Panel (BIIP) was established in January 2015. Since then, the Council has undergone significant changes in the leadership; improved financial planning, control and performance management; improved education, adults and children's social care regulatory assessments; put in place a robust four year Financial Plan underpinned by a programme management office; and stronger governance and leadership arrangements with the introduction of four year elections with more transparent and timely decision-making. Following the 'all-out' elections in May 2018, much of the year 2018-19 has been typified by a level of stability and robust governance under the new administration and the appointment of a permanent Chief Executive, Dawn Baxendale. This change in relationship and approach heralded the requisite honesty around the scale of the challenge and sense of strategic purpose in order to start the improvement process in earnest.

The year has also seen, however, some ongoing challenges in industrial relations which have constrained service modernisation and dented the Council's, otherwise very promising, performance in delivering financial planning and control. Despite the settling of the recent waste industrial dispute, the Council acknowledges that the recent industrial action has, unfortunately, framed this stock-take report and the end of the BIIP process at a time of risk and uncertainty for the Council.

As such, the Council has publicly committed to launching an independent review of waste services to consider cost, quality and an optimum operating model for the period beyond the current 'Memorandum of Understanding' agreement. The Council will engage positively with a joint working group of trade unions in undertaking this review, but will take sole responsibility for commissioning the review and acting on the findings.

In addition to a fulsome summary of progress to date against the LGA's improvement framework, this report highlights a series of 'critical issues' and provides a pragmatic assessment of the Council's position. The most significant such issue, as highlighted by the Secretary of State in his letter of September 2018, was financial control. During 2018-19, the Council has over-hauled and strengthened its financial planning and control framework and reasserted 'grip' of the financial position with a series of interventions that have enabled the Council to manage out a £28m *in-year* pressure since the May 2018 election. This is a milestone achievement, and has stabilised the position such that the Council anticipates closing the 2018-19 financial year in surplus – albeit using a sizeable amount of reserves as planned for in the 2018-19 budget.

In parallel, the Council's new Cabinet and Management Team worked as one team, early in the year to develop a 2019-20 budget that was pragmatic and deliverable. The Council approved a reserves policy on 21<sup>st</sup> January 2019 and the 2019/20 Budget has been set in

line with this reserves policy meaning that *reserves have not been used to mitigate the requirement to make ongoing savings*. This was an explicit expectation cited by the Secretary of State in September 2018, and the Council has met that challenge. These critical actions have provided the Council with a platform for modernisation in 2019-20 and beyond.

The Council is of the view that decisive progress has been made against six of the seven core external audit recommendations, as published in July 2018, which places the Council on a very robust footing relative to the financial health and resilience of national peers. This has required changes in transparency, governance, subsidiary bodies and financial strategy. The one area that continues to cause the Council significant and unique concern is in relation to waste collection management and industrial relations within the city as highlighted above.

Clearly, there continue to be risks which require active monitoring and on-going rigour in improvement work across the Council and a continued degree of humility is required. Further risks related to industrial relations, equal pay, the Commonwealth Games, capital investment oversight and the potential impact of major contract revisions are all considered in the report in a forthright and balanced manner, with clear progress in train but no sense of complacency as these risks merit ongoing vigilance to reduce the Council's exposure.

Similarly, the Council has outlined a concise set of priorities within the 2019-20 improvement plan attached to this report, and a clear description of how a scrutiny and peer-led challenge and support process will be forthcoming under a new model of quality assurance. These priorities map across from the Kerslake themes, the areas of focus for the BIIP and the activity undertaken in-year 2018-19 through the Council's Corporate Governance Improvement Plan. This approach will enable consistency to the Council's improvement journey and deepening of maturity in these areas over time. A selection of the headline areas, where the Council is readily seeking to go further, faster in 2019-20 are: -

- Emphasis on deepening and strengthening the Elected Member development process alongside a pragmatic review of the Council's casework system.
- Development of a new industrial relations framework developed in concert with local trade unions and with support from UK Core Cities.
- Continued development of a one Council 'transformation' programme for 2020-23 reshaping the Council's service, corporate and citizen offer in line with invest-to-save financial strategies.
- Concerted delivery of the Workforce Strategy Implementation Plan 2018-22.
- Full, permanent staffing of the Council's management structure alongside a management development and robust induction programme.
- A new performance management approach – ensuring that the 'golden thread' of performance management runs through all levels of the organisation.
- A full suite of capital governance, budget monitoring and programme management arrangements for the Commonwealth Games.
- Development of the Council's community hubs strategy with clarity around an integrated, local offer and commencement of implementation alongside the Council's property strategy.

- Building on early improvements in partnership working arrangements and developing integrated delivery mechanisms to positively impact citizens' lives.
- Development of a strategic/shared narrative and approach to external communications, including a new 'social contract' with citizens.

Whilst grateful for the significant investment of energy, experience and perspective from the BIIP to date, the Council is firmly of the view that the foundations are now in place to allow the Elected Members and Senior Officers of the Council to take ownership of the Council's improvement journey without the additional resource and reporting arrangements as required by the BIIP process. In order to maintain a level of constructive and critical challenge, the Council is actively working with audit, overview and scrutiny and external peers to drive a sector-led approach to sustaining improvement in the future. With a 'one council' approach, and placing the needs of citizens at the heart of our agenda, the Council looks forward to a period of stability, improvement and opportunity in 2019-20 and beyond.

## Introduction

“The Council wants to secure better outcomes for the citizens of Birmingham in a challenging and fast-moving financial, social and economic environment. The Council is therefore committed to addressing issues raised by the 2014 Kerslake Report and subsequently the Birmingham Independent Improvement Panel (BIIP)”. (June 2018 Stocktake Report).

This document provides an assessment of the Council’s progress against the previous stocktake report in June 2018 and the Corporate Governance Improvement Plan 2018-19. It is supplemented by a narrative regarding service transformation and improvement; a summary of the high level corporate governance improvement priorities for 2019/20 together with an outline of the scrutiny and peer-challenge framework for the future.

The Kerslake Report was published in December 2014 and the Birmingham Independent Improvement Panel (BIIP) was established in January 2015. Since then, the Council has undergone significant changes in the leadership; improved financial planning, control and performance management; improved education, adults and children’s social care regulatory assessments; put in place a robust four year Financial Plan underpinned by a programme management office; and stronger governance and leadership arrangements with the introduction of four year elections with more transparent and timely decision-making. Following the ‘all-out’ elections in May 2018, much of the year 2018-19 has been typified by a level of stability and robust governance under the new administration and the appointment of a permanent Chief Executive, Dawn Baxendale.

Despite the settling of the waste industrial dispute, the Council acknowledges that the recent industrial action has, unfortunately, framed this stock-take report and the end of the BIIP process at a time of risk and uncertainty for the Council. It is notable, however, that the Council’s response to the recent industrial relations dispute has been a collective and managed one with Members and Chief Officers working together, as one team, but with clarity and respect for different roles. The Council does not underestimate the breadth of the challenge in waste industrial relations, which remains a uniquely impactful issue in terms of resident experience and threat to the Council’s financial position and, as such, has publicly committed to launching an independent review of waste services to consider cost, quality and an optimum operating model for the period beyond the current ‘Memorandum of Understanding’ agreement. The Council will engage positively with a joint working group of trade unions in undertaking this review, but will take sole responsibility for commissioning the review and acting on the findings. Given the potential ‘contagion effect’ of industrial relations constraints on the Council’s wider modernisation and financial strategies, the Council has highlighted this as a significant risk and priority to be maturely tackled in the 2019-20 work programme.

The Council has delivered on the commitments made in the last stocktake report, namely to work in close collaboration with the Birmingham Independent Improvement Panel (BIIP) with an improved level of honesty and impetus around areas for improvement. Both the Council and BIIP have since the last report met on a regular basis with the Ministry of Housing, Communities and Local Government (MHCLG) to jointly drive progress against a

clear set of improvement plans, review budget / performance standing items with minutes and plans published online and distributed to all BCC Elected Members.

Panel members and Council representatives have also worked together in-between meetings in order to provide an accurate update to the Secretary of State. Further to this there have been a number of improvement “tracer” workshops on homelessness; skills and performance management. This collaborative approach has proved effective, giving regular insight around the Council’s improvement journey. This self-assessment draws and builds on this work over the last twelve months.

The June 2018 stocktake report identified that, at the heart of the improvement agenda, is sound organisational governance as reflected in the Local Government Association’s criteria for an effective organisation. These are reiterated here and have been a constant framework for the Council’s improvement model since the Kerslake review: -

- Effective political leadership and managerial leadership, working as a constructive partnership;
- A good understanding of the local context which informs a shared long-term vision and a clear set of priorities that is translated through a healthy organisational culture and understood by the workforce and partners;
- Effective governance and decision-making arrangements that respond to challenges and manage performance, change, transformation and disinvestment;
- Capacity and resources focused in the right areas in order to deliver the agreed priorities, supported by relevant organisational and workforce development; and
- A financial plan in place to ensure its long-term viability and evidence it is being implemented successfully

This stock-take report represents the Council’s self-assessment of progress against these criteria, since the June 2018 stocktake report. It provides a précis of the Council’s position up to March 2019 indicating some of the changes that are being made in this financial year and highlighting on-going priority areas for improvement as the Council maintains its focus and ownership of its improvement journey. The structure of the report seeks to be consistent with previous updates provided to the BIIP and Secretary of State to ensure comparability.

## **A Fresh Context**

Birmingham is a fast-changing city enjoying something of a renaissance with record levels of growth and regeneration. It’s gearing up to host the 2022 Commonwealth Games and is home to the biggest city centre brownfield development in Western Europe. The £1.5bn Birmingham Smithfield scheme will transform a huge swathe of the city centre to create a vibrant urban quarter close to a new HS2 station.

But the new Council, post-May 2018, has made clear in the Council plan that true success will only be measured by the degree to which local residents reap the benefits of their city’s resurgence. The members and senior officers of the Council are therefore far more confident and expressive about the journey of transformation required within the Council itself to rise to that challenge, with the plan for 2018-22 setting out a vision to be a city of

growth 'where every child, citizen and place matters'.

Despite its impressive past as the home of modern local government, the council has not been without its problems in the last few years – most of which have been well documented. However, meaningful progress has been made over the last 10 months. The Council has laid important foundations for bringing the finances back on track with a balanced budget in place for the next four years and an ambitious programme of modernisation and change is starting to be defined and implemented.

The Council is determined to change the narrative in Birmingham from an authority that is too big and too broken, to one that is seen as leading the way regionally, nationally and internationally. But we know that this will take time, and that certain constraints have made life challenging in the first year of this process. It is important that we become a Council that delivers improved outcomes that citizens, members, staff and partners value and have pride in. In order to become that modern, high performing sustainable organisation, we will have to radically change the culture and behaviours of the organisation and implement more effective and streamlined organisational structures which promote innovation, financial resilience and accountability.

The Council's latest medium-term financial plan is built around the following core principles:

- Allocating resources so that they are more closely aligned to key priority areas and areas of need;
- Ensuring that the Council sets a balanced revenue budget for 2019/20, plans for one in the medium term and that its long term financial health and viability remains sound;
- Ensuring that capital investment plans are set at an affordable and sustainable level;
- Reducing the Council's reliance on Government funding through the use of fees, charges and taxation that are in line with levels that the Council regard as being necessary, acceptable and affordable;
- Protecting the Council's reserves – in line with its Reserves Policy - for 'rainy day' events and not seeking to use them to meet ongoing pressures or where savings have not been achieved;
- Ensuring that there is strong governance, assurance and accountability for delivery of service outcomes and savings proposals within budget; and
- Mitigating against uncertainty – in the near and medium term

In addition to improving the way the Council uses and manages its financial resources, elected members and senior officers have started to define and embark on a long term programme of transformational change. As a result of this programme the Council will be: -

- Smaller and more strategic - The Council has already reduced staffing by 48% over the last eight years and will continue to reduce its headcount by more than 1,095 posts in 2019/20, potentially rising to 1,579 by 2022/23;
- More self-sufficient and sustainable over the medium-term with further consolidation of support services to realise efficiencies;

- Supporting a wide range of partnerships and other providers (including social enterprises, voluntary and community sector);
- More responsive to ever-changing needs, demands and behaviour of our citizens – particularly responding to and capitalising on opportunities around enhanced use of data intelligence and new communication technologies;
- Have greater integration between our services/functions, so all of us are working together towards our priority outcomes in a way that can be scalable across organisational boundaries;
- Make much better use of customer insight and business intelligence to ensure we make informed decisions and deploy all our resources (financial, people, physical, information, relationships and democratic mandate) in support of the Council's priorities;
- Leaner and more agile, with fewer layers of management and increased spans of control; and
- More collaborative, working as 'one council' with Elected Members and across the Extended Leadership Team.

The Council will handle these changes sensitively but with a clear focus on implementing the tough decisions that Elected Members have made. Our workforce strategy has been agreed by Cabinet in 2018, and this will guide a much stronger approach to staff engagement, empowerment and culture change as we work through these changes in 2019-20 and beyond. It will be important for the Council to modernise its services to make them more accessible and easier to use. We will do this by: -

- Focusing on performance, quality and getting the basics right to reduce demand failure by using our data intelligently to improve services to citizens;
- Using Invest to Save principles to enable greater focus on early intervention and prevention within our service redesign work;
- Delivering political priorities and outcomes;
- Focusing on excellence in customer experiences;
- Robust commissioning of outcomes and ensuring delivery of the 'right' service, irrespective of whether they are delivered internally or externally;
- Enabling economic growth;
- Prevention and early intervention;
- Encouraging innovation and a commercial approach. Evidence based decision making at all levels, supported by effective performance management;
- Changing the Council's use of property to provide a more consistent set of 'public hubs' for local service delivery whilst refreshing our relationship with community organisations and their use of buildings;
- Improving the BRUM account service that enables citizens to access Council services online to make sure that, wherever possible, we get things right first time; and
- Bringing Information Technology services back from the current supplier to a new operating model in the Council to deliver benefits to citizens and the workforce.

Crucially, all of these changes require a 'One Council' approach, embedded across the whole organisation. But this is not the Council's journey alone. Individuals and communities from across the city will need to become more involved in supporting services at a local or

neighbourhood level. The challenge for the Council and its partners will be to enable this to happen. These changes will affect individuals – where the Council will seek to enable people to live independent lives – whilst also helping communities as we look to put partners, citizens and neighbourhoods at the heart of decision making.

## **Critical Issues**

As stated above and in the June 2018 stocktake report, the Council is now afforded a different platform for a degree of political stability with the administration having been elected for a four year tenure to coincide with the four year Council elections cycle recommended by Kerslake. Whilst this facilitates both continuity and consistency and paves the way for strategic long term planning, the Council recognises that political and organisational culture change will take time. The Chief Executive has now been in post for just under a year and has appointed a strong and experienced Council Management Team with significant permanent appointments such as the Chief Finance Officer, Assistant Chief Executive, Director of Public Health, the Director of Children’s Services and extended interim arrangements with the Director of Adult Social Care.

Underpinning this is a new JNC structure, which came into force on 21 January 2019, were a series of further appointments at Assistant Director level, with property, legal, HR, skills, enforcement and regulation and social care quality and improvement roles all populated to provide a platform for rapid change in these areas. Further senior appointments at Assistant Director level are in train with seven crucial roles out of the market in February 2019. This provides the Council with capacity, capability and the stability needed to tackle the improvement challenge, with fresh perspectives and breadth of experience from elsewhere a vital part of driving a cultural shift over time. The Council does acknowledge, however, that some of the challenges in-year 2018-19 have stretched the existing team to the limit and have potentially slowed the implementation of the improvement plans at pace.

The Council’s past inadequacies in terms of governance and partnership working have been well documented. In the past, the Council has been criticised for failing both to take and to implement difficult decisions and for a lack of transparency. Through the implementation of the Council’s Corporate Governance Improvement Plan, we have started to address this challenging history and to fundamentally change the culture of the organisation. This includes a whole-system review approach to role definition of Elected Members and Officers, staff/union engagement procedures and formal decision-making processes.

During 2018-19, the Council has over-hauled and strengthened its financial planning and control framework and reasserted ‘grip’ of the financial position with a series of interventions that have enabled the Council to manage out a £28m *in-year* pressure since the May 2018 election. This is a milestone achievement, and has stabilised the position such that the Council anticipates closing the 2018-19 financial year in surplus – albeit using a sizeable amount of reserves as planned for in the 2018-19 budget. In parallel, the Council’s new Cabinet and Management Team worked as one team, early in the year to develop a 2019-20 budget that was pragmatic and deliverable. The Council approved a reserves policy on 21<sup>st</sup> January 2019 and the 2019/20 Budget has been set in line with this reserves policy meaning that *reserves have not been used to mitigate the requirement to make ongoing savings*. This was an explicit expectation cited by the Secretary of State in September 2018,

and the Council has met that challenge. These critical actions have provided the Council with a platform for modernisation in 2019-20 and beyond.

The Council's four year strategic outcomes and priorities, together with performance measures were agreed in consultation with Executive members within a month of the May 2018 local elections. In June 2018, the Executive Management Team (EMT) undertook an extensive review and evaluation of the demographic research, insight and residents' surveys, deploying a thematic approach to produce the Council Plan 2018 – 2022 in line with the Labour Manifesto. This enabled the authority to adopt a "priority-based conversation" to align the use of financial resources with its policy priorities for 2019 onwards, and involving consideration of performance and unit cost information. The result was the achievement of a budget that was a balance between a "stabilisation budget" (a budget that was deliverable for the next year and beyond without relying on reserves to mitigate the requirement to identify savings) with service transformation elements. The Council is planning to build on this and, pending Comprehensive Spending Review delay, embark on a three year budget process in summer 2019 with the aspiration to produce a medium term budget that is transformation and priority led. This process is being complemented by an ongoing level of external challenge as the Council strengthens its existing partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA) in both augmenting the audit challenge to Birmingham's financial position relative to peers, whilst also improving the functionality and modernisation of the Council's strategic and technical capacity and capability.

The Corporate Governance Improvement Plan has therefore provided a range of solutions to improve decision making and transparency, which has led to some tangible improvements in approach in 2018-19. For example, the Council has instigated processes that help it tackle difficult and complex decisions where difficult political choices were made, such as:-

- Consulting on, agreeing and commencing implementation of the most ambitious set of Clean Air proposals of any core city in the UK – with the city's Clean Air Zone Business Case now endorsed by Government;
- Reviewing and making savings in 'Travel Assist' services to children;
- Day service modernisation for vulnerable adults and those with learning disabilities;
- Reablement services in adult social care; and
- Waste management industrial relations.

This rigour in decision-making processes has been accompanied by a concerted effort to improve policy development processes and address long-identified gaps in strategies in areas such as: -

- Community cohesion;
- Local Industrial Strategy;
- The Council's future framework for Localism;
- Empowerment and equality in democracy;
- Public Health;
- Community Safety; and

- A holistic review and changes to the Council's framework for partnership working.

Clearly, some of these issues have then faced significant issues in implementation post-decision due to some of the same constraints that were identified in the June 2018 stock-take report. The Council has, however, put in place foundations in this first year post-election to provide a much stronger platform to take forward implementation of difficult decisions and, with key appointments and changes to Council service delivery models, is now in a better position to tackle crises as they occur. Crucially, the Council has started to address those structural factors that peers would expect to see in stable and leading Councils in the UK, such as budget 'grip' through monthly budget boards and financial reporting; rigour in capital funding prioritisation and monitoring; a whole-sale review of performance and risk management processes; underpinned by the foundations for a culture change in officers, elected members and expectations of the public.

Similarly, in terms of culture change, there have been significant improvements in behaviour and approach in partnership working and leadership. The workforce strategy was agreed in autumn 2018 and implementation and grip of such issues started in January 2019. The pilot 'Owning and Delivering Performance' culture change work undertaken within Adult Social Care in 2018 provides a template that will be rolled out across the rest of the Council in 2019. As highlighted above, this has coincided with the population of the senior officer structure to enable the Council to have strategic leaders to drive this process as part of the new council management team. Progress has also been made with the transparency agenda with officer and members pushed beyond comfort zones with peer challenges from Leeds and other authorities resulting in changes to Cabinet decision making protocols to mark the start of this process. The Council acknowledges, however, that some of these changes have moved more slowly than anticipated and therefore will continue to be a theme in our 2019-2020 planning alongside some of the areas mentioned above.

There are a number of critical issues and risks that the council is actively managing and, rightly, these will be areas of focus for external and internal audit, Overview and Scrutiny (O&S) and Government departments in 2019-20 and beyond. In addressing issues of strategic financial management and budgetary control, we have placed a particular emphasis on delivery against the statutory recommendations made by the Council's external auditor. The statutory recommendations, issued in July 2018, stated that the Council needed to: -

#### *Finance*

- *deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks*
- *develop a realistic medium term financial plan for 2018/19 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks*
- *ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay*

#### *Transparency and Governance*

- *ensure that its financial monitoring and budget reports are clear, transparent, and timely particularly in relation to the use of reserves, whether in-year or at year-end*
- *report governance failures and emerging issues promptly and clearly to Members and local citizens*

#### *Subsidiary Bodies*

- *Ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and Council representation on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed promptly*

#### *Place Directorate*

- *ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives*

These recommendations, along with the Council's formal response, were considered at the Full Council meeting in September 2018 by which time, in our view, significant progress was underway against each of the areas of focus. In our view, decisive progress has been made against six of the seven core external audit recommendations which places the Council on a very robust footing relative to the financial health and resilience of national peers. The one area that continues to cause the Council significant and unique concern is in relation to waste collection management and industrial relations within the city as highlighted below.

In-year 2018-19, a range of specific risks have been identified which are relevant to the Council's future financial sustainability and potential use of reserves, namely, through medium-term uncertainties and / or unique risks to Birmingham linked to legacy issues around capital investments and planned returns. Some specific examples are: -

- **Industrial Relations** – the Council continues to work through a series of challenging industrial relations processes that have the potential to undermine budget, transformation and service performance aspirations. The Waste Governance Review has now been published and clearly sets out the lessons to be learned from the Council's internal governance processes and legal and finance risks around widespread industrial action in previous years. Despite the difficulties, these lessons were deployed in response to the waste dispute in 2018-19. There are revised governance arrangements in place and EMT is presenting a cohesive and consistent response with clearly planned contingencies put into place and transparent reporting of risks and issues to Cabinet. As highlighted above, the Council will be putting in place specific actions around waste industrial relations as part of 'heads of terms' with trade unions, but does not underestimate the breadth of the challenge which remains a uniquely impactful issue in terms of resident experience and threat to the Council's financial position. Similarly, the Council acknowledges the potential 'contagion' effect that such constraints can have on modernisation and financial strategies.
- **Equal Pay** – the BIIP has been regularly updated throughout 2018 on the history and latest position regarding the Council's Equal Pay risks and the financial summary of this position is included in the Council's Medium-Term Financial Strategy for 2019-

2023. Cabinet agreed a mitigation strategy for Equal Pay in November 2018 and internal governance arrangements will closely monitor the issue. It remains however a significant financial risk.

- Commonwealth Games – this tremendous growth opportunity for the City and Council obviously brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments. The BIIP and external audit colleagues have understandably expressed concerns about the Council’s ability to ‘parallel run’ such a major project alongside delivery of core Council business. Working with Games Partners and the Organising Committee in particular, the Council will ensure appropriate capacity is in place to discharge all responsibilities whilst honouring the firm commitments to ‘cap’ local financial risk. A full time Programme Director has been in place since the end of May 2018 to oversee, coordinate and manage delivery of the Council’s obligations within the Host City Contract. In addition, appropriate governance arrangements have been implemented across the workstreams relating to the Games, and in particular around the capital projects.
- Paradise Circus – the funding for phase 2 of this major capital development has now been agreed and the development can now proceed. We will be monitoring the development to ensure that we remain on budget and in light of the recent late report to Cabinet, will be ensuring full transparency going forward. This issue facilitated the (re)introduction of urgent capital prioritisation and internal reporting mechanisms that had previously been lacking and, hence, the Council would expect such risks to be more managed in a more transparent and timely manner in the future.
- AMEY Contract – the Council’s successful court action against this major contractor served to publicise the ‘client side’ risks around delivery of vital highways services. The long-term and complicated nature of the contract and the Council’s status within the wider ‘Special Purpose Vehicle’ necessitates close monitoring and crucial negotiations with all parties. The Council has proactively engaged with Cabinet Office support and the negotiated outcome and any subsequent transition arrangements will continue to be a vital issue throughout 2019.

### **Political Leadership**

This section concerns effective political leadership working as a constructive partnership, with clear definition of roles and a shared agenda with the Council’s senior officer team.

Following a turbulent time with changes in political leadership in 2016-17, the stock-take report in 2018 accentuated the need for stability, clarity of role and transparency in political leadership. The ongoing process of member development and encouragement of political culture change has started with the building blocks for this in place following extensive activity and commitment in 2018-19. Member and officer relationships have improved at a strategic level. This is evidenced from the feedback from Members in the monthly ‘temperature take’ sessions with opposition leaders and EMT. There is also a formal

member/officer protocol in place which in turn is framed by BCC values and behaviours<sup>1</sup>. By building trust as a collective team, CMT and Cabinet have been able to progress some difficult decisions as highlighted above, and there is a discernible difference in the quality, tone and nature of the debate publicly and privately.

Engagement from all of the political groups is positive and the working relationship between group leaders and respective portfolio holders and their 'shadows' is respectful, professional and productive. All the political groups have undergone self-assessments and group secretaries have engaged in this process with support from legal services. A number of changes were made by the Labour Group in April 2018 to introduce more stability into their working practices and the Chief Whip from the Labour Group is also seeking regular advice from Legal Services on particular issues, giving an indication that they are working effectively on personnel and standards issues. Conservatives, Labour and Liberal Democrats are now following a revised code of conduct which will be included in the refreshed constitution in April 2019. Furthermore, there is now a refreshed Group Leaders' meeting cycle in place with a structured agenda. Elected Members are not complacent about improvements required to group and governance processes.

Over the last year there has been increased Member support available to all councillors alongside an on-going programme of Member development with the LGA and a Member induction programme (welcome/welcome back programme). It was designed and informed by a Members' steering group to ensure it met Members' preferences and the Council's objectives taking suggestions from previous, current and new elected Members. The feedback from Members was on the whole positive.

However, it is fair to say that the Council's work in respect of Member development is not yet fully developed. Opportunities have been presented but attendance has been variable. Practical steps have been taken to address this such as holding training events just before Full Council which saw a 50% improvement in take-up, and introducing partners to brief members on wider system issues across the City. The Council is now concentrating on the interplay between democratic services and HR support to bolster Elected Members' development in their critical role.

The Council has continued to seek external challenge and independent support through the INLOGOV "Outside the Box" project with follow up research into officer and member relations during 2018. The original report, "Exploring Relationships between Partners, Officers and Elected Members in Birmingham City Council", <sup>2</sup>was produced in 2015 and published in 2016 and will provide the baseline against which we can measure progress. The headline results from the exercise are now available, and they point to a number of improvements since the earlier report in 2016; namely:

- Positive change at a senior Leader / Cabinet level in terms of shared and inclusive decision making;
- The Council moving away from a silo mentality with a shared narrative building between senior officers and elected members;

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<sup>1</sup> Member & Officer Protocol

<sup>2</sup> Exploring Relationships between Partners, Officers and Elected Members in Birmingham City Council

- An absence of defensiveness compared to previous years with both officers and members highlighting the need for change;
- Increased stability and new managerial team seen as a force for good;
- Improved Overview and Scrutiny arrangements; and
- Strong relationships between neighbourhood staff and elected members.

Despite these positive foundations that have been put into place in 2018-19, the INLOGOV report does, however, cite a series of very challenging, deep-seated issues that the Council will need to continue to confront in political and officer culture change. These range from a 'culture of fear' around the nature of industrial relations in the Council; ongoing issues around changing and modernisation of roles; a lack of empathy and understanding between officer and members' different roles and pressures; through to a lack of responsiveness and joint capacity at ward level and in support of member queries. This analysis has been augmented by the Council undertaking the first Elected Member survey in 2018. Encouragingly, 44 councillors responded to the survey, an overall 43.6% response rate. The topics covered by the survey include issues of role definition, understanding of decision making processes, safety, training and development and the degree to which the modern councillor role is manageable. Overall the response presents a mixed picture, with a balance between councillors who feel comfortable and well supported and those who continue to experience significant difficulties. The Council will not shy away from confronting these challenges and recognises that these changes will take time.

To understand the issues around member commitment to personal and collective development, it is important to understand some unique pressures regarding the role of Elected Members in UK core cities. The Deputy Leader of the Council has established a Member development governance group to encourage a reflective and 'owned' approach from Elected Members on this issue whilst understanding their lived experience. There is now a detailed programme for the next 12 months and a programme that looks forward to the next four years. Following each election cycle, there will be mandatory elements that will have to be completed within the year and certain modules will be on a Continuing Professional Development (CPD) basis. The responsibility for Member development is now effectively resourced and is seen as crucial in preventing issues regarding member conduct. We are planning to give the member development programme elevated status and concerted challenge. For example, the Council is the first nationally to work with the University of Birmingham and the LGA as part of a 'kitemark' project regarding 21<sup>st</sup> Century Public Servant framework and we are now developing a number of peer mentor relationships with other councils, including support for all Cabinet Members and dedicated support from Rotherham to the chair of the Audit Committee.

Important foundations have been laid with officers and Members working effectively together to produce a four year council plan and vision for the authority which contained the associated performance measures. Improvement planning has been at the heart of council planning with improvement plans integrated into the monthly performance and finance monitoring cycles. The Council plan was produced through a series of Executive Management Team away days and drew on research and insight data on the state of the city and residents' opinions.<sup>3</sup> Following on from this, planning was commenced much earlier

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<sup>3</sup> State of the City Report and Council Plan 2018-2022

in 2018. Budget workshops were held throughout July to October to build towards a robust and meaningful consultation on a four year medium term financial framework.

The governance arrangements for the Council have been revised, strengthened and enforced. There is a new “Cabinet clearance” process which includes a better dialogue with Overview and Scrutiny and is intended to reduce the number of late reports. Currently we still have a higher level of late and or private reports than other core cities. As the new corporate governance processes embed, the late and private reports will be a real exception. Decision making is more integrated across all levels of the Council with an aligned and integrated forward plan managing the flow from Council Management Team, through to Cabinet and subsequently to Full Council, with appropriate challenge and quality assurance throughout.

The role of Overview and Scrutiny committees has been strengthened. The overview and scrutiny committees have full work programmes and have ensured alignment with the Council Plan / Improvement Plans / Committee activities.<sup>4</sup> The Leader and Deputy Leader regularly engage the scrutiny committees to maintain this alignment and to ensure constructive scrutiny and co-ordination arising from the monthly MHCLG- BIIP BCC meetings regarding the Council’s improvement processes. Scrutiny committees are all looking beyond Birmingham in their work programmes to understand best practice. The Council recognises, however, that there are still improvements to be made to ensure parity of esteem and consistent quality for O&S in 2019/20 and, therefore, will be looking at these improvements through a refreshed work programme and a refresh of the earlier stocktake and review of Scrutiny as presented to Full Council in 2018.

The Council has undertaken a review of all outside bodies, systematically working through all the commercial entities and has been addressing requisite issues as they arise in recognition of the high risk profile and legacy issues with financial issues in certain Council subsidiaries. Throughout 2019-20 the Council will build on the training and development steps that have been taken in-year to improve skills of Council nominees such that, by 2020/21, member and officer appointments to outside bodies will be assessed against a skills framework, with requisite training, to ensure they have the ability to adequately challenge and contribute to risk and performance manage of the third-party bodies that they participate in. To oversee this process, the Council has established a new group company governance committee which the Deputy Leader chairs.

### **A Modern and Progressive Organisational Culture**

Effective political and managerial working must be underpinned by an organisational culture that promotes shared working across Directorates, encourages transparency and honesty, and supports leaders to take personal responsibility of issues and challenges

The Kerslake Report in 2014 identified a ‘Council knows best’ attitude and the need to look outside and learn from others. There has been significant culture change in this respect. The Council now looks outward to others for best practice. And the feedback through the monthly temperature takes with partners has demonstrated that the Council is now listening and has reduced the “Council knows best” attitudes. Members have spent time

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<sup>4</sup> O&S Work Programmes

looking at good practice in comparable city authorities, visiting with officers from Oldham, Leeds, Manchester and, most recently, Bristol and Nottingham. Officers have been involved proactively in peer reviews within the sector (in Haringey, Suffolk and Warrington), have been active participants in Core Cities and regional peer networks; whilst our work with CIPFA has helped to establish a new national benchmarking pilot on financial resilience. Work in partnership and within the community is showing a broader spectrum of ideas and a different set of leadership skills, with cohesion strategy and localism 'white paper' reported by partners to be excellent examples in this regard.<sup>5</sup>

In terms of internal communication and transparency, there has been very positive feedback from Members and officers on the Chief Executive's weekly bulletin to all staff. The Chief Executive is also getting around, visiting as many people as she can. And there have been dedicated 'open' CMT sessions with staff. In these sessions, the staff members were very positive. People said how proud they were to work for BCC whilst proposing ideas for change. More of these CMT sessions with staff are planned and the Council is planning to create a staff forum (Forward Together) with a maximum of 300 staff to act as a flexible sounding board for the organisation.

The Council now has a revised workforce strategy that sets out the themes and intended actions to build a new organisational culture and drive modernisation, whilst starting the process of strategic workforce planning linked to the Medium Term Financial Strategy. The Council is currently developing a more detailed implementation plan, with a new Assistant Director for Organisational Development in post to drive this forward. The workforce strategy is supported by a workforce planning toolkit which will help managers assess and plan for future staffing arrangements over the medium term. The pace of implementation of the strategy however, is slower than planned due to capability and capacity issues in the Council during 2018, with a degree of fire-fighting arising from events such as industrial disputes and a tendency for the organisation to err on the side of caution.

It is also increasingly clear that culture change has been a vital element in driving effective service transformation activity in Council services. There is a very robust example in place in Adult Social Care where the design and delivery of a new neighbourhoods' model in 2018 was accompanied by an extensive culture change programme and emphasis on performance management which is, already, starting to demonstrate impact for citizens in terms of process and outcome improvement. Similar developments in the Children's Trust and Customer Services start to build a picture of a Council investing in medium-term improvement with the workforce at the heart of these changes. The Council has now developed and agreed an approach to rolling out this framework for culture change across the rest of the Council as part of the workforce strategy implementation.

The Council has, in the past, been criticised for avoiding making and implementing difficult decisions. Cabinet has demonstrated that it is tackling difficult decisions head on where difficult political choices were made, such as:-

- Consulting on, agreeing and commencing implementation of the most ambitious set of Clean Air proposals of any core city in the UK;

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<sup>5</sup> DV strategy; the Cohesion Strategy; temperature takes; city partners' board

- Reviewing and making savings in ‘Travel Assist’ services to children;
- Day service modernisation for vulnerable adults and those with learning disabilities;
- Reablement services in adult social care; and
- Waste management industrial relations.

The Council is demonstrating that it has learnt from the 2017 waste dispute and independent governance report, with the Executive Management Team now providing a more united front with appropriate Elected Member and Officer role-definition and statutory advice being considered transparently as Cabinet takes decisions. Undoubtedly, it has been challenging for a Labour administration to approve decisions around enablement and waste – due to complexities in the national, regional and local party dynamics and extremely challenging relationships with trade unions that continue to constrain the local authority. There is full recognition that to modernise the Council’s approach industrial relations ways of working will absolutely take time and concerted effort. Those decisions have been approved in Cabinet as they seek to reset the nature of the relationship – respecting the role of elected members and the important role of trade unions – but a huge amount of work will be required over a number of years to rebalance that approach for the benefit of the citizens of Birmingham.

### **Managerial Leadership**

This section concerns effective managerial leadership working as a constructive partnership, with clear definition of roles and a shared agenda with the Council’s Elected Members.

The majority of the commitments made in the June 2018 stocktake have been achieved namely:

- A re-invigorated approach to the Executive and Management Team meetings devoting time to develop a new Council Plan and associated performance framework and then move towards an early Medium Term Financial Plan and associated budget cycle;
- Empowerment of the new Chief Executive to implement a whole-system change to the Council’s Chief Officer structure with engagement and support from all political parties through the JNC panel;
- Dedicated sessions of the Extended Leadership Team (ELT) of JNC officers on a monthly basis and thematic basis, with an emphasis on peer learning and joint policy development; and
- Changes to Council Management Team (CMT) arrangements to embed rigour and forward planning and use of technology to address staff resistance to change (for example, Chief Executive updates, blogs and use of Yammer).
- Population of the JNC structure is starting to develop the capacity and capability within the Council’s senior management community and the culture change programme is underway.

As the wider leadership team continues to be populated at Assistant Director level, the Council will be in a position to invest in their development. In order to increase productivity and give managers the tools to support the effective running of the organisation and modernisation in 2019-20, significant investment will be made in training and development. Cultural change will be crucial in concert with our partners, with senior colleagues learning to 'give a little to gain a lot' in our new relationships. Such investments will also be supported by system and process reviews to modernise the approach to Council management practice with, for example, the implementation of a new Enterprise Resource Planning System (ERP) for the HR/payroll and Finance transformation programme. This will assist in terms of new ways of working; talent management; appraisals; inductions; apprenticeship; succession planning and improved business processes.

### ***Improved communication and engagement***

There is a mixed picture in terms of communications and engagement. The Council has gained a number of awards for its digital offer to citizens, campaigns and web communications including the 'Luvvies', 'Webbys', Plain English award for the Website and an award for its use of email to improve schools admissions. The Council has also taken a more open approach to feedback from external bodies and inspections such as the Care Quality Commission and the Ofsted Special Educational Needs and Disability inspection.

The use of new tools and techniques to reach new audiences and build engagement with key issues has also been demonstrated through the Council's approach to the consultation around the Clean Air Zone, which attracted the largest ever approach to a Birmingham City Council consultation, the annual budget consultation and the preventative work it and partners around the city are doing to address the issues of homelessness and rough sleeping.

In addition, there is a strategic communications grid which includes a range of key campaigns from across the Council as well as tracking key events and issues that could have an impact on the reputation of the organisation and/or the city. There is also an increased rigour in the evaluation of the reach and impact of delivered activity.

But there remain a number of challenges. The first is the need to refine a coherent and cohesive Council-wide narrative which is aligned to the Council Plan and its priorities as well as the long term vision for the city that bridges into a simpler, better defined 'social contract' with citizens. The other area of challenge is the ability of the organisation to 'get ahead' of issues in the media. In part this is a cultural issue for the organisation, relating back to the point made earlier about 'erring on the side of caution'. This is also an issue of process, governance and clarity of the role of strategic communications which the Council's leadership recognises needs to be addressed if it is make its voice heard more widely. Whilst recent industrial relations issues have seen the Council be more proactive, they serve as high profile reminders of the need to maintain focus on this area in 2019-20.

## Strategic Planning, Financial and Performance Management

Effective corporate and financial framework to ensure strategic focus, transparency and governance

### Financial Management and Sustainability

#### In year monitoring and in-year spend

The level of reporting is much enhanced encompassing all aspects of Council finances as well as being more transparent and much more open. The Council has instigated processes around controlling spend in-year, namely; putting accountability back to Directors and reintroducing star chambers as a way of being able to transparently control spend. The refocused role of Finance Business Partners, and the ongoing work with CIPFA to recognise and baseline the current state of Finance and to work with the Chief Finance Office in developing best practice and benchmark the Council against its peers, will continue to provide strategic capacity to ensure rigour and budget 'grip' is retained in the medium-term. Early 'wins' in 2018 also focussed on the Council developing a single view of capital expenditure, delivery of the 2017-18 out-turn report at pace and with a new structure to lay the ground for 2018-19 grip.

These changes have already reaped a dividend with a series of interventions that have enabled the Council to manage out a £28m *in-year* pressure since the May 2018 election. This is a milestone achievement, and has stabilised the position such that the Council anticipates closing the 2018-19 financial year in surplus – albeit using a sizeable amount of reserves as planned for in the 2018-19 budget. In parallel, the Council's new Cabinet and Management Team worked as one team, early in the year to develop a 2019-20 budget that was pragmatic and deliverable. The Council approved a reserves policy on 21<sup>st</sup> January 2019 and the 2019/20 Budget has been set in line with this reserves policy meaning that *reserves have not been used to mitigate the requirement to make ongoing savings*. This was an explicit expectation cited by the Secretary of State in September 2018, and the Council has met that challenge. These critical actions have provided the Council with a platform for modernisation in 2019-20 and beyond.

There is therefore a strengthened financial regime and improved financial awareness and accountability for both Cabinet Members and Senior Officers. This has led to improved ownership of financial outcomes. The level of the Council's reserves has been assessed against key risks by the Chief Finance Officer and compared with those of other Core Cities. We have also used the CIPFA beta test Financial Resilience model and made changes to stop the use of in-year reserves to fund budget pressures or the non-delivery of savings. If the Council continues with its currently improved position in respect of managing within its financial resources and can manage its risks, the level of reserves is likely to prove adequate.

However, the finance directorate itself is in transition and there is a reliance on interim post holders to provide the necessary expertise and capacity which is largely lacking in the former permanent workforce. Nevertheless, steps are in place to shore up the finance department and establish a permanent more skilled finance team. There is further work to be done, but significant strides have been made, with embedding through a focussed approach to financial capability training and development of all senior staff in 2019-20.

### **Medium Term Financial Strategy (MTFS)**

The budget process was introduced early in the year and the Council was much more disciplined in conducting a rigorous review of all spend and existing / new pressures, transparency around risks (equality and implementation) with a tightly programme-managed process. As previously stated, EMT dedicated significant time to review all the evidence from research and insight to agree priorities against which to develop the budget proposals. The workshops ran from July through to October culminating in November with the launch of the public budget consultation, again commencing much earlier than in recent years. The end product was a mixture of service transformation and stabilisation which has left the Council well placed to embrace priority based and transformational budgeting from 2020 onwards. This year's process however could have been better, and the plan is to start even earlier next year.

The consultation outcomes and the Finance settlement were taken into account on formulating proposals that were recommended for approval by Cabinet on 12 February 2019. For the first time in a number of years, the Council is able to formulate a balanced 4 year budget with significant elements on transformation and without any reliance on reserves to mitigate the requirement to make savings. Further transformative work in the areas of assets, workforce, fleet and SEND needs further development before savings can be safely realised but these form the bedrock for future financial resilience.

In terms of budget delivery, the Council has now established a Programme Management Office to drive budget delivery with central visibility and business partnering support. The Council is monitoring all the implementation plans through a programme board and, when one goes off track, challenge and mitigating actions are picked up early. The Financial Plan was presented to Cabinet and Full Council in February presenting a robust financial position for the Council in the medium-term - which has been a perennial problem for this authority for a number of years. It is now imperative to keep the pressure on directorates to deliver with support from the PMO and the programme board. The Council is acutely aware that some of the implementation plans, in support of savings, are not as advanced in their depth, rigour and with assurance regarding capacity to deliver as would be ideal at this time. However, the analysis of feasibility at this stage in the budget process represents a clear step forward for the Council. Continued challenge and support will therefore be required through the PMO and in terms of senior officer and political leadership. Similarly, it will be important for the Council to bridge beyond solely project managing delivery of savings, and increasingly adopt a one Council approach to the programme management of change and modernisation.

### **Performance Management**

The performance management reporting has improved with alignment to the Council Plan priorities, enhanced benchmarking with peer areas, clarity on quartile positioning for indicators, rapid turn-around in reporting and more honest / transparent narrative in reporting. There is a better understanding of what is being reported and it is more outcome focused and significant progress has been made in improving the learning from insight and intelligence. The Council still needs to focus on how best to deploy such reports and insight to further facilitate improvement across the Council through new and innovative internal challenge mechanisms. This will be a priority for 2019-20.

Therefore the first phase of the Council's efforts in year one were focussed on the foundation stones of strategic planning, budget resilience and a new performance framework. In year two, the Council needs to move beyond the strategic clarity provided by the Council Plan and performance framework, and embed a more holistic integrated strategic planning framework that traces the golden thread from the Council Plan, to directorate and service plans right through to individual appraisals. The newly appointed Head of Business Improvement and Insight will be taking this forward in spring 2019 in concert with the capacity provided within the programme management office.

### **Community Cohesion**

The Council moved quickly in 2018 to launch a wide ranging and evidence-based strategy development process regarding community cohesion given the critical importance of this agenda for the city. Community cohesion is a key priority for the Council. Following a range of best practice identification and liaison with Government regarding the national strategy, the Council convened a summer of engagement that helped shape the first community cohesion strategy for Birmingham. The consultation was open from 9<sup>th</sup> July to 31<sup>st</sup> August 2018. It was important to engage widely to ensure the strategy accurately reflects the different views, needs and ideas of the people of Birmingham on how to improve cohesion whilst also 'lifting the lid' on some sensitive issues.

Despite the consultation taking place over the summer holiday period; we still managed to engage over 300 people with 210 responses from 14 focus groups. We consulted with people with a wide range of socio-economic characteristics and cultural backgrounds, including asylum seekers, gender specific community groups, BAME community groups, and young people.

Focus group sessions were largely hosted and facilitated by colleagues in the voluntary & community sector and partners. This approach ensured that the consultation wasn't council-dominated and also that we were listening to new communities and groups who are too often ignored. Also, our partners and communities felt they had influence in shaping the agenda it also gave them a sense of ownership. It was only through officer relationships with existing networks with partners and stakeholders that made it possible to convene these sessions that were geographically spread across the city. The consultation also found examples of great work already being delivered by a range of partners and communities that have been included in the strategy.

During the consultation partners, including Aston University made a commitment to play their part in delivering the strategy. Aston University has agreed to convene a research and intelligence group made up of academics and researchers from across the different universities and public sector

The strategy was approved at Cabinet in November 2019 and full Council in December 2018. It has also been circulated to our partners to sign up to the vision and aims of the strategy.

A community cohesion summit is being planned for March 2019 and directorates have made strong commitments as part of a wider implementation plan in 2019. It is clear, however, that the Council cannot (and will not seek) to deliver this alone, with vital roles for schools, businesses, other statutory agencies and the voluntary and community sector in bringing

forward good practice. In this regard, the Birmingham strategy is distinct from the approach to 'grant and spend' still being undertaken in peer cities in the UK. This approach to 'living strategy' will ensure that community cohesion is an on-going process that develops in response to new ideas, research and examples of cohesion in action.

### **Commonwealth Games**

The Council has continued to make important progress on delivering its responsibilities pertaining to the Birmingham 2022 Commonwealth Games since the 2018 stock-take report, working closely with strategic and regional partners to build robust and collaborative governance arrangements that move us from an inception and mobilisation phase into strategic planning phase, as per the overarching Games delivery model and learning from previous games. Key to this has been considerable efforts in relationship building, considered efforts in defining roles and responsibilities across the Games partners and establishment of key priorities for the Games at a strategic level.

Within the Council, work has continued apace since the previous update by which point we had established and embedded robust governance arrangements, and secured the appointment of an experienced Programme Director. A project board has been established within the Council, and all relevant work streams have a lead council officer in place. This enables cross council collaboration, coordination and management of planning, issue resolution and risk management in relation to the Games.

Based on learning from previous Games, our focus has been to embed a 'whole of council' approach to delivery. This has involved considerable effort on establishing where capacity and capability lie across many council departments to ensure we can meet the obligations of the host city contract, and more importantly focus on maximising the benefits of hosting the Games for the citizens of Birmingham.

The Council also recognises the opportunity hosting the Games creates towards supporting and embedding integrated planning processes and coalescing around key themes which not only support Games delivery, but also have a lasting legacy in the form of supporting the Council achieve its ambitions within the 2018-2022 Council Plan. A series of cross council workshops and strategic planning sessions have taken place to achieve this, and to help us align the work and benefits of the Commonwealth Games against the strategic priorities set out in the 2018-2022 Council Plan. The intent behind this work is to have clear action plans for where the Games support the Council to deliver on its wider priorities and embed a sense of collaborative working across departments which will have benefits far beyond the delivery of the Games in terms of integration, staff engagement and outcome focused planning and service delivery.

Externally Birmingham City Council has taken the lead on creating the Games narrative defining the Vision and Mission and driving forward outcome based legacy or benefit programme associated with the Games. To enable this council officers have been collaborating effectively with strategic partners to achieve a shared view of the key priority focus areas for the Games legacy and the associated incremental legacy outcomes that they could deliver, which was signed off by the partnership Strategic Board on 16<sup>th</sup> January 2019. Underneath this sits five delivery pillars, namely physical activity and wellbeing, Community Cohesion and Civic Pride, Trade, Business, Digital, Jobs & Skills, Infrastructure and

Sustainability and Culture and Tourism. The Council will lead on 'Community Cohesion and Civic Pride' and 'Culture', providing collaborative leadership supported by the Organising Committee on Culture, while working alongside colleagues in Sandwell Metropolitan Borough Council and Transport for West Midlands on 'Infrastructure'.

Our priority continues to be the Capital Programme comprised of the Commonwealth Games Village, the Alexander Stadium, Sandwell Aquatics Centre and Transport infrastructure, as these are the most time pressured and fundamental products required for the games. Considerable progress has been made on these significant programmes with highlights including:

- The Commonwealth Games Village project securing c. £165 million in funding from MHCLG and being granted planning permission on 20<sup>th</sup> December 2018.
- A main contractor being appointed for the Commonwealth Games Village project and demolition of the previous Birmingham City University campus being near completion.
- Master planning for the Alexander Stadium and surrounding site being near completion and contractors appointed to Project Manage the works.

The Aquatics Centre continues to be delivered by Sandwell Metropolitan Borough Council, and Transport in collaboration with regional partners, primarily Transport for West Midlands and the West Midlands Combined Authority.

Financially Birmingham City Council is still committed to providing 25% of the Organising Committee games budget plus the Games Village, with Birmingham City Council's contribution being comprised of our own funds, and contributions from regional partners. Birmingham City Council has been fully involved in the games budget setting process, although the initial budget is yet to be announced by the Government. Our projected contributions have been fully considered in our internal budget setting process and will be published alongside the Council's Medium-Term Financial Strategy in February 2019. Progress has been made with regional partners over the past period in defining the composition of the 25% funding. This will remain a key focus of the Council throughout 2019 to ensure the funding is secure and robust governance is in place to assure the management of those funds.

Partnership and collaboration with our strategic and regional partners remains fundamental to the success of the games to ensure we extract maximum value for citizens of Birmingham and the wider region. To that end we continue to play a leading role in the multi-agency space, working effectively with our partners in the Birmingham 2022 Organising Committee, the sponsoring Government department (DCMS), the Commonwealth Games Federation, Commonwealth Games England and associated delivery partners, the West Midlands Combined Authority, Transport for West Midlands and West Midlands Police.

The Council is alive to the delivery; financial and reputational risks associated with the Games and have active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues.

By placing the Commonwealth Games at the core of the Council Plan 2018-2022, the Council can ensure that the planning and delivery of the Games both maximises the benefits for our citizens, but also can strongly support the wider improvement agenda within the Council as a whole.

### **City Partnerships**

The Council has made a concerted effort to transform its leadership style, joint strategy and integration as part of more effective partnership working in the city at both officer and Elected Member levels. Recognising that strong and effective partnerships take time to build and embed, the Council has made significant progress in-year by agreeing the structures and the model for our strategic partnership working, but appreciate that this is in the early stages. The Council is beginning to build trust through delivery and arrangement in all them all thematic areas will continue to mature. For the first time in a decade, the Council established a City Board which adopted the Council Plan vision and priorities as the priority framework for the partnership working in the city, and sought to prioritise those outcomes that were not currently being addressed by the city's statutory partnership framework for 2019. These are; young people and knife crime, homelessness, child obesity, and a new external brand / city narrative to promote Birmingham nationally and internationally. These are closely aligned with our Council plan priorities. There has been strong youth representation with the setting up of a shadow youth board and an engaging new 'distributed leadership model' with representation and self-determination from sectors across the city. The Council has actively sought to play a different leadership role by asking Rt Hon Jacqui Smith to act as an independent chair.

There has also been a review of key strategic partnerships during 2018 which found that some partnership forums are more developed than others. There have been significant advances in collaborative efforts to improve children's outcomes through partnership with, for example, with the Chief Executive chairing a new Children's Strategic Board and series of strategic responses to Ofsted processes with strong commitment and alignment around the children's agenda from Health, safeguarding board and wider partners in an integrated partnership. Outcomes for our most vulnerable citizens are starting to demonstrate improvement as a result. After twelve years of failure, Ofsted moved Birmingham out of the inadequate rating for children's safeguarding in 2018 and we are awaiting formal feedback after a positive inspection process on fostering and adoption. The Council is now demonstrating vital progress relative to peers in the Adult Social Care outcomes framework and service user feedback surveys in response to a challenging Care Quality Commission report early in 2018. Similarly, efforts around Special Education Needs and Disability arrangements for children and the Multi-Agency Safeguarding Arrangements are moving forward quickly and ahead of Government expectations in response to challenging Ofsted inspections in 2018.

The Health and Wellbeing Board continues to meet regularly and is providing leadership in key areas. With a focus on its contribution to making a difference across the 'life-course', the Board is now well-positioned to play its key leadership role across the care and health sector and respond to CQC recommendations in 2019. The first Director of Public Health report in three years was delivered in 2018 and this has been super-ceded by a consultation on the Public Health strategy with work underway to develop the city's first Health and Wellbeing strategy.

The Council is a vital and active partner in the Sustainability and Transformation Partnership which has developed a clear vision, a strategy for how it was going to improve health outcomes for the citizens of Birmingham and a delivery programme is already well resourced and 'in flight' as we head into 2019. The findings from the Newton Review, led and commissioned by the Council, have given the system a strong and trusted evidence base for this work. We now have a robust programme management model in place, a mature delivery programme and a different delivery approach. With the publication of the NHS Long Term Plan year plan, there is a clear role and process for STPs to put in place the plans which will deliver the ambitious goals the Government has set out for the NHS.

The Community Safety Partnership has suffered in the past from a lack of strategic direction and stable membership. The Chief Executive now chairs this partnership giving it a renewed purpose, focus and sense of clarity. In the space of three months in 2018, the partnership revised its governance arrangements, refreshed the strategy and performance framework and deployed its resources differently prior to 2019-20. The partnership has a crucial agenda for change in 2019-20 to address citizen concerns and troubling trends, but now has the leadership buy-in and foundations for success. The Council is stepping up to take a leadership role across the West Midlands in working with the police on youth violence, exempt accommodation and organised crime.

The Council continues to build on its excellent reputation as being 'open for business' with the Council's efforts in development, regeneration and growth consistently regarded as being an exemplar with a strong reputation nationally and internationally. The Council has started to bridge from its existing strengths in city centre and town centre development (linked to the Big City plans, wider development framework and proactice inward investment strategy) to start to tackle challenging policy agendas such as clean air, inclusive growth and homelessness in partnership with regional peers, the local business community and local Business Improvement Districts. Similarly, the Council has revitalised its important, strategic relationship with the city's five universities in 2018-19 both individually and as a collective group. By way of example, regular strategic engagement with the University of Birmingham is starting to identify crucial themes such as 'student city' advantages and challenges (for example, safety) and strategic growth opportunities such as energy, life sciences and the Commonwealth Games.

Finally, the Council has improved and valued its relationship with the voluntary and community sector in the city – building from some fractious decision points in 2016 regarding legacy funding arrangements. The Council has sought to partner productively on crucial change agendas in adult social care, homelessness and cohesion / localism whilst developing a more mature strategic dialogue with infrastructure bodies such as BVSC. The city is also actively becoming a vanguard area for social enterprise and social finance, with the city awarded the accolade of UK social enterprise city in autumn 2018, in part, due to the strenuous efforts of Council officers and members in investing in new ways of working at a community level.

We recognise that these partnerships are relatively new in their current form and that this is a fairly fragile phase for partnership working in the city. Feedback from partners has been provided to the BIIP and MHCLG on a monthly basis through our 'temperature take'

arrangements and partners from the VCS, Health sector and Children’s Safeguarding Board provided direct feedback in December 2018. Although at an early stage of development, consensus from partners is that the Council CMT and Cabinet has demonstrated early signs of progress in all forms of partnership working – accelerating forward at pace in some, whilst putting in the building blocks in others. Elected Members have on the whole moved away from the traditional paternalistic style to play a different role and lead in a more facilitative manner. This is evident in the distributed leadership model in operation at the City Board. Senior officers are credited with launching and sustaining a different approach to partnership on a day-to-day basis, this has yet to filter down through the entire organisation so there is a need to embed this throughout the organisation of part of workforce development in 2019-20.

### **Local Leadership**

The last year has seen significant steps forward in the implementation of a new model of devolution; one based more on bottom-up engagement with communities and less on City Council structures. The old structure of district committees and budgets has been removed and new management and delivery arrangements put in place. The new electoral system of smaller wards with one or two elected members and four yearly elections was introduced in May 2018 and has been “bedding down” through the year. Ward Committees have been replaced by Ward Forums and many wards have developed a more inclusive, partnership based approach and experimented with new ways of engaging communities.

The consultation on the green paper “Working Together in Birmingham’s Neighbourhoods” was completed in September, but this was only the first step in a longer term process of engagement with local neighbourhoods to explore how local groups can have more of an impact on service design and local issues. In addition to formal consultation on the paper, there was also engagement with community leaders and groups who have then led their own dialogue on these issues.

The final policy statement (“white paper”) was approved by Cabinet on 22 January. It sets out a new direction for localism in the city and a policy framework for working with neighbourhoods, including a “Framework of Relationships”, Neighbourhood Charters, the setting up of further parish or town councils and local Devolution Deals. The Framework of Relationships sets out the full range of rights and options available to neighbourhood organisations, including various options for the transfer of services and assets to the local level.

The Council is now engaging further with a small number of areas who are already interested in looking at the parish council option. Discussions are also on-going with Royal Sutton Coldfield Town Council about a first Devolution Deal for the city.

The Cross Party Working Group has met three times and engaged fully in the production of the White Paper. Elected members have agreed that it should continue meeting, in recognition of its value.

However, the City Council continues to face serious challenges in identifying the necessary resources to maintain or enhance support to councillors and their ward work and to support the ambitions set out in the White Paper. As the green paper consultation highlighted in no

uncertain terms, the infrastructure of local services and support to local groups, as well as to elected members has been severely reduced in recent years and the City Council received many proposals for the reinstatement of previous arrangements which are now simply unaffordable.

The Council recognises that these challenges must be addressed on a partnership basis. The aim is to find ways to support neighbourhoods in meeting their own objectives and not to create dependency on council grants or support. The White Paper therefore announces a partnership based resource review, which will be conducted during 2019. This will seek to achieve stronger collaboration between public services but also look at the resources available to communities themselves and through the social and community sector, trusts and foundations. This work will have a vital 'cross-over' to the Council's property strategy where the public sector footprint in communities will be reviewed alongside the asset base of key partners such as the police and NHS.

The White Paper also announces work to explore ways of redesigning services to make them more responsive to local neighbourhoods, building on our pioneering neighbourhood networks model in Adult Services. In addition we are exploring ways of changing the culture across our management structures to enable managers to operate beyond their specific service roles and engage more directly with both local places and the overview and scrutiny process. The aim is to create an organisation as a whole that is more responsive to local needs and concerns and the importance of place in residents' lives.

### **Regional and National Leadership**

Collaboration with the Combined Authority, the elected Mayor and the other West Midlands authorities has continued to develop over the last year as the partnership matures. There has been consistent attendance at the WMCA as well as the LEP. Developments during the year have included a skills deal and first housing deal, as well as effective collaboration around the Commonwealth Games 2022 and new programmes such as the 5G pilot and the Town Centres programme. Birmingham has played a leading role in all these developments through both member engagement and officer capacity. It is the lead authority on homelessness and also plays a key role in initiatives on town centres, employment support, air quality, culture and cycling. The City Council holds the Economic Growth portfolio, which means we lead on key policy areas such as Industrial strategy. Officers from the Council and the CA actively support this role through regular briefings and clear officer responsibilities within BCC.

The City Council also engages fully in the Core Cities network. The Deputy Leader and the Cabinet Member for Health and Social Care both sit on LGA boards.

### **Service Improvement Blocks**

The attached 'service modernisation' timeline describes some of the changes that have occurred in crucial service areas since 2015. Vital improvements have been made to Adults, Children's and Digital / Customer services as part of concerted modernisation and transformation agendas, whilst significant challenges remain in some areas to clarify and implement this change agenda.

### **Future Priorities and Quality Assurance**

The attached 2019-20 plan builds from the analysis in this report and the regular monitoring of progress in 2018-19. To maintain momentum, the Council will preserve a concerted approach to good governance, prudent financial discipline, transparency and putting citizens at the heart of decision making. We will continue to develop our use of intelligence, data analysis and insight to ensure that all our improvement programmes rest on a solid evidence base, allowing us to move confidently and decisively to improve service delivery outcomes. Through the improvement work undertaken in 2018-19, the Council has started to develop a level of maturity in inviting challenge and benchmarking with peer authorities but, with the proposal that Birmingham Independent Improvement Panel stand itself down, alongside our 2019-20 programme it will be necessary to construct a new model to ensure continued internal capacity to challenge and ongoing third-party support and engagement. To that end, the Council is putting in place a new quality assurance framework to monitor pace and quality of improvement work, including personalised packages of support from key national bodies such as the LGA and CIPFA. This will take a 'value-added' approach rather than replicating day-to-day governance arrangements outlined by the new Constitution, to avoid duplication of work.

### **Closing Reflections**

It has now been over four years since the Birmingham Independent Improvement Panel was asked to support Birmingham City Council in its improvement journey following the Kerslake review in 2014. Since the elections in 2018, the new Cabinet and Executive have changed the approach to the Panel to one of collaboration. This had been previously not been possible. This change in relationship and approach heralded the requisite honesty around the scale of the challenge and sense of strategic purpose in order to start the improvement process in earnest.

Clearly, there continue to be risks which require active monitoring and on-going rigour in improvement work across the Council, and a continued degree of humility is required as the Council approaches the priorities within the 2019-20 improvement plan. Despite the settling of the waste industrial dispute, the Council acknowledges that the recent industrial action has, unfortunately, framed this stock-take report and the end of the BIIP process at a time of risk and uncertainty for the Council. It is notable, however, that the Council's response to the recent industrial relations dispute has been a collective and managed one with Members and Chief Officers working together, as one team, but with clarity and respect for different roles.

The Council does not underestimate the breadth of the challenge in waste industrial relations, which remains a uniquely impactful issue in terms of resident experience and threat to the Council's financial position and, as such, has publicly committed to launching an independent review of waste services to consider cost, quality and an optimum operating model for the period beyond the current 'Memorandum of Understanding' agreement. The Council will engage positively with a joint working group of trade unions in undertaking this review, but will take sole responsibility for commissioning the review and acting on the findings. Given the potential 'contagion effect' of industrial relations constraints on the Council's wider modernisation and financial strategies, the Council has highlighted this as a significant risk and priority to be maturely tackled in the 2019-20 work programme.

Whilst grateful for the significant investment of energy, experience and perspective from the BIIP to date, the Council is firmly of the view that the foundations are now in place to allow the Elected Members and Senior Officers of the Council to take ownership of the Council's improvement journey without the additional resource and reporting arrangements as required by the BIIP process. In order to maintain a level of constructive and critical challenge, the Council is actively working with audit, overview and scrutiny and external peers to drive a sector-led approach to sustaining improvement in the future. With a 'one council' approach, and placing the needs of citizens at the heart of our agenda, the Council looks forward to a period of stability, improvement and opportunity in 2019-20 and beyond.



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# Statutory Recommendations

## Final Report

**March 2019**

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**Birmingham City Council**

**Audit of Accounts 2018/19**

**Governance Issues**

# Birmingham City Council: Statutory Recommendations March 2019

## Our responsibilities

1. As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014 ('The Act'). These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law. Electors also have the right the opportunity to raise questions about the Council's accounts and to make objections in relation to the accounts.
2. We have concluded that it is appropriate for us to use our powers to make statutory recommendations under section 24 of The Act (Schedule 7) due to the Council's financial and governance challenges.

## Reasons for making the recommendation

3. We included statutory recommendations in July 2018 under paragraph 2 of Schedule of 'the Act' in both our 2017/18 Annual Audit Letter and Audit Findings Report relating to operational arrangements, finance and governance. This followed the issue of a statutory recommendation in October 2016 in respect of financial resilience. The statutory recommendations issued in July 2018 stated that the Council needed to:

### Finance

- deliver its savings plans in 2018/19, in particular by identifying alternatives where existing plans are not deliverable, to mitigate the impact of the combined savings and budget pressure risks
- develop a realistic medium term financial plan for 2018/19 to 2021/22 which incorporates realistic and detailed savings plans and takes account of key budget and service risks
- ensure that it maintains an adequate level of reserves to mitigate the impact of budget risks, in particular one-off risks such as the Commonwealth Games and Equal Pay

### Transparency and Governance

- ensure that its financial monitoring and budget reports are clear, transparent, and timely, particularly in relation to the use of reserves, whether in-year or at year-end
- report governance failures and emerging issues promptly and clearly to Members and local citizens

### Subsidiary Bodies

- ensure that appropriate arrangements are implemented in relation to the Council's subsidiary bodies, including regular financial reporting and Council representation on subsidiary body boards, to ensure that emerging risks are monitored, reported and managed promptly

## Place Directorate

- ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives
4. This recommendation and the Council's formal response were considered at the Council meeting on 11th September 2018. A 12 month Action Plan was agreed and is being tracked by the Council's Audit Committee.
  5. We have now concluded that whilst good progress has been made in a number of areas in delivering against the recommendations, progress in relation to the refuse collection service, in particular, has been hampered by a new wave of industrial action. The Council, in addition, continues to face a number of very significant risks, which it is seeking to manage. Accordingly, we now consider it appropriate to make further statutory recommendations under 'the Act'. This is the third set of such recommendations that we have considered it appropriate to issue in just under two years.
  6. It is encouraging that the Council has made progress in the following areas:
    - Ofsted has, for the first time in recent history, recognised improvements in children's services. The service is still judged to require improvement, but this is an important and significant step forward.
    - the Council's Management Team (CMT) has been strengthened and refreshed, including, in the last year, a new Chief Executive, Chief Finance Officer and Assistant Chief Executive, all with considerable sector experience, which has increased capacity.
    - there is a new focus on delivering service improvements and robust financial management.
    - a new council plan and workforce strategy have been developed, reflecting the Council's priorities.
    - in-year financial reporting is more transparent, particularly concerning the use of reserves and the annual Financial Plan provides greater detail than previous plans.
    - the 2018/19 budget is on target to be delivered, with a smaller call on reserves than the budgeted £30m, with greater focus on budget management and financial accountability in Directorates.
    - CIPFA has been brought in as an improvement partner to help strengthen the finance function and move it towards a top quartile performing function.
    - governance has been strengthened in relation to the oversight of the Council's subsidiary bodies, which has involved Member training and a re-focus on the importance of the 'shareholder' function; and
    - there is to be a renewed focus on the customer and customer experience.
  7. This progress is not to be underestimated and represents a step forward by a new team of officers and members in a short period of time. We accept that it would be unrealistic to expect that a relatively new management team would be able to address, overnight, the deep-seated problems which have dogged the Council for over a decade. This will take time. The independent Improvement Panel's remit finishes in March 2019 and its concluding report will provide the Panel's own final assessment of progress made against the improvement challenge set by the Kerslake report.

8. Despite the progress made, however, our view, is that the Council faces some particular challenges which need to be tackled now. The way in which recent events in relation to the waste dispute is resolved will determine how much of a corner has been turned. Strong political leadership is required to implement the hard decisions required to deliver the transformational savings needed to protect financial resilience, and to mitigate the significant financial risks that the Council is facing.
9. Accordingly, we have made the following recommendations.

### **Recommendation made under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 ('the Act')**

The Council is recommended to:

#### **Governance and the Waste Service**

- ensure that the terms of reference for the planned review of future options for the delivery of the refuse collection service, provide for the review to be carried out in a timely fashion, and include an examination of all options for delivering the refuse collection service going forward, in order that the service can demonstrate value for money in the delivery of its financial and service objectives; including, for instance:
  - looking to best practice models across the sector
  - examining different staffing and working arrangements
  - combining collection and disposal functions
  - other potential options, such as outsourcing
- build industrial relations capability within the Council to ensure that it is able to maintain consistent and effective relations with its trade union partners.
- commission a review of the new working practices in place within the refuse service to ensure that they are embedded and monitored robustly to minimise the potential for further Equal Pay claims

#### **Finance**

- continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements
- broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks
- keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:
  - continuing to strengthen its level of reserves; and
  - completing the development of contingency plans to minimise the effects of these risks should they crystallise.

## Governance and the Waste Service

10. The Kerslake Report of December 2014, concluded that:

‘For a number of years and successive administrations, the council’s members and senior officers have not gripped some very significant issues, such as children’s services, waste management and equal pay. Instead there have been a series of short term fixes and annual salami slicing of services which have kicked the can down the road [...] this is no longer sustainable.’

11. The report argued that successive administrations had swept deep-rooted problems ‘under the carpet’. It went on to argue that the most important thing that the Council needed to do to improve was to change its corporate culture. Some four years on, of the significant issues referenced by Kerslake, children’s services show signs of improvement, but waste management and equal pay remain significant challenges. It is therefore legitimate to question the extent to which corporate governance has improved in the last four years.

12. While corporate management capability and capacity has strengthened, the Council has, at times, continued to exhibit the same short-termism, and tendency to avoid managing deep-rooted problems, that Kerslake identified as being the biggest block to progress four years ago. Nowhere is this better illustrated than the Council’s approach to waste services. We were critical of the Council’s failure to manage its waste services effectively in July 2018 and issued the following statutory recommendation to address its shortcomings in this respect:

‘[the Council should] ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives.’

13. Our 2017/18 Annual Audit letter noted that the events leading to the original waste strike being suspended on 16 August 2017, then re-instated on 1 September 2017 when 106 workers were handed their redundancy notices:

‘did not serve to enhance confidence in the Council’s systems of governance [...] Members will recall that a key strand of the Kerslake report related to the need to re-set member-officer relations. It is of concern that initial improvements in this area may not have been sustained.’

14. The original waste strike and the failure to introduce revised working arrangements until September 2018 (which have still not been formally signed off by the unions) have given rise to significant budget pressures in both 2017/18 and 2018/19. The total additional cost of the original waste strike was of the order of £6.6m.

15. Subsequently, the Council commissioned external solicitors to review the actions of the former Leader and Cabinet in relation to the conduct of the original waste dispute over the summer/autumn of 2017. The report, which the Council published in the public domain in December 2018, concluded that the former Leader had acted unlawfully in seeking to overturn a decision made by Cabinet on 27 June 2017 regarding the re-organisation of the waste service.

16. The report states that the Leader had purported to make an agreement with Unite at ACAS to reverse the Cabinet's decision to delete 113 grade 3 posts. It goes on to say that he subsequently sought to ratify his decision via an informal Cabinet meeting on 18 August 2017. The report concludes, however, that the informal Cabinet was not a formal decision-making body and therefore had no powers to ratify the Leader's decision. The report argues that the Council should have proceeded to implement the decisions made in the 27 June report or have made a decision at a formally instituted Cabinet to modify its original decision, which would then have been lawful.
17. The report's conclusions are stark and echo many of the findings of the original Kerslake Report in relation to the Council's systems of governance. In this respect, the report notes:

'At the heart of this matter lies an ongoing failure to accept the norms of decision-making. This is the DNA that is the day to day governance of a council and its heart and at the material time, namely in 2017 was missing/distorted at BCC [...] The Cabinet did not operate effectively during this time. It was dysfunctional not a cabinet [...] collectively they were not an effective team. They were also played off against each other by the Leader. Meetings when they did happen were ineffective. When presented with the ACAS meeting and outcome, Cabinet members did not challenge the Leader collectively over his actions and did not stop Cllr Clancy as might be expected. At least one said that they did not do so because they did not want to lose their job as a cabinet member [...] The senior officer management team (CLT) was dysfunctional during this time.'
18. It is a picture that Kerslake would have recognised.
19. Following the original waste dispute, the former Leader resigned and a new Leader was installed in the autumn of 2017. The action was suspended on 20 September 2017 when Unite the union ('Unite') won an injunction blocking the proposed redundancies. The Court ordered the re-instatement of the dismissed workers but also the immediate implementation of the proposed revised working arrangements, incorporating in particular, a move to five day working. Whilst the dismissed workers were reinstated in different roles in January 2018, the revised working arrangements were not introduced until September 2018 and have still not been formally signed off by the unions.
20. Subsequently Unite commenced industrial action on 14 December 2018, by announcing that members would work to rule. Unite had learned that the Council had made payments totaling £68,645 to GMB members in the waste service in May 2018 on the grounds that the Council had failed to consult GMB over proposals to dismiss waste service employees as redundant, contrary to s.188 of The Trade Union and Labour Relations (Consolidation) Act 1992. According to the Cabinet report of 15 January 2019, the exclusion of GMB had been at the insistence of Unite, which Unite denies. The Council has subsequently conceded that Unite was correct in this assertion. The payments to GMB members were made under delegated arrangements and were accordingly not set out in a report to Cabinet.

21. Unite argued that there was no breach of s.188, alleged blacklisting and trade union discrimination, and demanded that its members receive similar payments to those made to GMB members. The total cost of this claim was of the order of £1.7m, as payments would also have to be made to Unison waste service members. Certain Unite members have also brought ET proceedings against the Council, alleging that the payments to GMB have been to the detriment of Unite members, on a variety of grounds. ET proceedings were timetabled for February 2020. On 11 January 2019 Unite informed the Council of its intention to begin continuous industrial action, based around working to rule, commencing 25 January 2019. The industrial action had the potential to run for some time and was causing considerable disruption to services, with additional costs running at up to £0.35m per week to bring in external contractors to remedy incomplete work.
22. In response, a public and a private report were presented to Cabinet on 15 January 2019, setting out the Council's proposed plans to deal with the industrial action. The public report stated that 'the Council does not in any way agree with Unite's position', and that it had little merit, in the Council's view. It set out four options to address the industrial dispute:
- do nothing;
  - make the payments to Unite members
  - seek binding arbitration; and
  - obtain a Court order (or 'injunction') to prevent the industrial action continuing on the grounds that it was unlawful.
23. The first two options were not recommended in the report. In particular, the second option of making payments to Unite members, was not supported, principally because, as the report states, there was 'no legitimate reason' to make payments to these workers, indeed, 'to make equivalent payments to them could be ultra vires.' The report also stated that making such payments could also represent a 'contagion' risk as other groups of Council staff might also, in future, resist any initiatives to reconfigure services to reduce costs in a similar way. The public paper states that the Council's options to respond to Unite 'are set out in this report and also the Private Report.'
24. Following the Cabinet meeting it was announced in the press and local media that the Council was to adopt a twin-track approach by pursuing arbitration, with the agreement of both parties, and by seeking a Court order to prevent the industrial action. The Council was concerned that, given a Court hearing date of February 2020 for the ET proceedings, significant additional costs might accrue, assuming that industrial action continued. The Cabinet member for Clean Streets, Waste and Recycling, however, promptly resigned as he was opposed to the proposed injunction. Unite then issued proceedings to obtain an injunction, later to be joined by Unison. Unite also announced a new programme of industrial action.
25. While the Council's legal advisers had advised that the industrial action was unlawful, the Council took subsequent legal advice which argued that it would be lawful for the Council to make payments to Union members, if they were made, pursuant to settling litigation, rather than being made in recognition of the validity of Unite's claim. Our own legal opinion broadly reflected the Council's legal advice. Negotiations on a 'without prejudice' basis were then conducted with the Unions with a view to agreeing suitable payments to end the dispute. These were not successful.

26. A suite of options was then included in a report for Cabinet to consider on 12 February 2019 to resolve the dispute, which broadly reflected the options provided within the Cabinet report of 15 January 2019. The report included no officer recommendation. On the day of the Cabinet meeting, however, a late hybrid option was included in the report, option 5, which was to seek a negotiated settlement through ACAS. This involved making the offer of payments to Unite and Unison members to end the dispute. It also stipulated, however, that, should the offer not be accepted by close of play on February 12, the Council would move to injunct the unions. Discussions subsequently broke down and the Council accordingly put in place its plans to take legal action by way of injunction. This was a difficult decision for the administration to take.
27. On 28 February 2019, the case was heard and the Council was not successful in its application for an injunction preventing the current industrial action of Unite and Unison from continuing. In summary, the Court held that s.222 (1) (b) TULRCA required the Court to look at a union's reasons for undertaking industrial action. What mattered, the Court held, was the belief of the union. He concluded in this instance that the unions believed that industrial action was to seek parity payments for their members. The Council decided against appealing the Court judgment.
28. Subsequently, following discussions at ACAS, the Council and Unite agreed, on a without prejudice basis, a draft Heads of Terms which was approved by Cabinet on 15 March 2019. These proposals are intended to settle all litigation and all industrial disputes including ceasing all current industrial action. The public Cabinet report states that the Council will pay to Unison and Unite members, in summary, £3,000 to all valid individual claimants, and an additional payment of £500 to all individuals who were members of each union as set out in the Heads of Terms agreed by cabinet on 15<sup>th</sup> March 2019. The amounts are likely to be net of any applicable tax or national insurance. The gross amount payable to a standard rate taxpayer if tax and NI were payable, would be £5,754 to each individual. This will cost £1.864m in total. The proposed settlement needs now to be formally signed off by all parties.
29. Whilst a potential end to the industrial dispute, is a welcome outcome, it comes at a cost:
- the failure to consult with GMB in 2017 over the changes to working arrangements led the Council to make payments to GMB of £68,645, of itself a relatively modest sum. However, this was to have far-reaching and 'unintended consequences', in the Council's own words, resulting in the industrial action taken by Unite and Unison, disruption to services, and additional costs amounting to £6m to hire agency staff and other costs and to settle the dispute.
  - in addition, the Council will also have to pay £1.864m to bring to an end the dispute to Unite and Unison members.
30. A positive outcome, is that the draft Heads of Terms provide for an independent review of future options for the waste service to be carried out. The terms of reference for the review will be set by the Council on 26<sup>th</sup> March 2019. A Joint Services Improvement Board will be established and will be consulted upon in relation to the terms of reference. The Board will be chaired by a Cabinet Member and the membership will include all joint trade unions GMB, Unison and Unite.

31. This is, an important moment for Council and its politicians, in particular, to demonstrate, that they can act in a decisive manner to tackle a long-standing issue. The way in which the review is managed will impact on the Council's ability to contain the 'contagion' risk referred to in the Cabinet report of 15 January 2019. The Council has a challenging industrial relations history as the ongoing strike action involving the enablement service, which commenced in 2017, demonstrates.
32. The Council now has a chance to improve its relations with trade union partners by building industrial relations capability and also to look at options to ensure that the waste service delivers value for money for local citizens. In this respect, it is important that the independent review, agreed as part of the Terms of Settlement, should include all options for delivering the service going forward, so that any decision is informed by a comprehensive analysis of the choices available to the Council.
33. Assuming that the present dispute is resolved satisfactorily, it will still remain the case that the service is not as efficient as it could be. For instance, few councils that we are aware of, employ a waste reduction collection officer on each refuse freighter. Refuse collection also has a history of service disruption which does not represent a good stewardship of public funds.
34. In addition, looking back over the history of the waste dispute, the Council's unwillingness over a long period to tackle working practices within the waste refuse service has also cost it dearly. In particular, over the last decade, many of the Council's Equal Pay claims have resulted from comparisons between male refuse workers and female workers deemed to be in comparable posts who were paid significantly less. The Council has received claims under the Equal Pay Act 1970 and recognised total Equal Pay (EP) liabilities totalling £1.2bn, which relate to working practices and changes to terms and conditions which have been in place for more than a decade. This has involved successive political administrations. Funding the payment of these claims has proved a significant ongoing drain on the Council's finances.
35. The Council has put in place revised working arrangements in the waste service, and monitoring arrangements, to ensure that they minimise the potential for further Equal Pay claims. The Council also agreed a Mitigation Strategy on 24 August 2018 to include review of working practices Council-wide, to ensure compliance with equal pay requirements. It would seem sensible to gain further assurance around the robustness of these arrangements, as they pertain to waste services, by commissioning a review to ensure that they are embedded and are being monitored robustly.

36. For these reasons we make the following recommendations:

**The Council is recommended to:**

- **ensure that the terms of reference for the planned review of future options for the delivery of the refuse collection service, provide for the review to be carried out in a timely fashion, and include an examination of all options for delivering the refuse collection service going forward, in order that the service can demonstrate value for money in the delivery of its financial and service objectives; including, for instance:**
  - **looking to best practice models across the sector**
  - **examining different staffing and working arrangements**
  - **combining collection and disposal functions**
  - **other potential options, such as outsourcing**
- **build industrial relations capability within the Council to ensure that it is able to maintain consistent and effective relations with its trade union partners**
- **commission a review of the new working practices in place within the refuse service to ensure that they are embedded and monitored robustly to minimise the potential for further Equal Pay claims**

## Finance

### Savings Plan delivery

37. The Council has not delivered all of its planned savings in recent years. In 2017/18, the Council reported a net overspend of £4.9m after use of £63.1m of reserves (£42.2m of which were planned) plus £11.7m to fund pension guarantees. The Council applied £116.8m of reserves in 2016/17 and 2017/18 to deliver a cumulative deficit of £35m. We noted in our Audit Findings report for 2017/18:

‘If the Council had not applied any reserves over the last two years, it would have had to deliver £150m more in cumulative savings to achieve balance. It has effectively been running an annual deficit of £75m.’

38. The Council has, however, made progress in the last 12 months. The Council’s financial plan provides for £52.9m of savings in the current year, 2018/19, after applying £30.5m of reserves. In this respect, the month 9 budget report is forecasting a £2m overspend, which is a stronger position than at the same stage this time last year, when the Council reported a £4.5m overspend after the utilisation of £75m of reserves. It is also expected that not all of the £30.5m will need to be utilised to support the budget. Under delivery of savings in 2018/19 is likely to amount to £9.7m (18% of planned savings) which is a better position than in previous years. In 2017/18 under delivery of savings amounted to £22.6m (32% of planned savings) and £55.8m (63% of planned savings) in 2016/17. Bearing down on non-delivery of planned savings will continue to be a very important area of focus for the Council.

39. 2019/20 and beyond, however, continues to look extremely challenging. The Council is seeking to strengthen its monitoring processes and embed accountability for delivery of savings more strongly within Directorates. The Council needs to deliver £86m in savings by 2022/23. To put this into context, this is equivalent to around 8% of its current controllable budget (that is, excluding non-controllable costs such as delegated expenditure to schools). £36m of savings needs to be delivered in the next financial year, 2019/20, but £18m in savings, are still being consulted on. Savings to be consulted on in the following three years amount to £73m.
40. The Financial Plan for 2019/20 to 2020/23 includes mostly medium-scale savings plans but includes few 'transformational' savings plans. The Council argues that it has learnt lessons from the non-delivery of large savings plans in the past and that it will now only include transformational plans in its Financial Plan that are properly worked up. This is a sensible approach, but the absence of transformational plans within the current Financial Plan, will become more important in later years as it may become more difficult to achieve significant savings through less ambitious schemes. There are a number of one-off budget risks, (referred to later) which if they crystallised, might require an increase in the amount of savings to be delivered. Equally the Council needs budget headroom programme to meet any other changes in business assumptions in the overall medium term financial plan.
41. In this respect, there is an opportunity to broaden existing transformational work across the Council's financial plan for 2019/20 to 2020/23 to help deliver additional savings at scale to address the impact of the combined savings and budget risk pressures. The current financial plan includes a savings plan to reduce the costs of social care high-cost provision by £6.25m in 2019/20, but this plan remains an exception.
42. There is also an opportunity to learn from past experience. Some large projects have delivered more substantial savings, others have not. For instance, the 2017+ Financial Plan provided for an ambitious plan to radically reorganise the Early Years Service. This was one of the largest of the Council's transformational plans. The initiative was intended to deliver £10m in savings. A recent Internal Audit Report of January 2019 explained that a key element of the reorganisation plans involved the TUPE transfer of 140 Council staff to four partner organisations. However, due to late concerns expressed in relation to collective bargaining rights, staff have been, instead, seconded and not TUPE'd to the partner organisations. As a result, according to the Internal Audit report, the £10m predicted savings from the initiative will 'almost certainly not be achieved.' The delay in starting the contract has cost £4.7m according to the report.
43. It is right to exclude any project from the Financial Plan which is not sufficiently well-developed. The example of the Early Years Service project, however, should not deter the Council from continuing to develop similarly ambitious projects. The experience of that project, and, indeed the waste services dispute, suggest that cost reduction schemes involving significant service re-configuration, may require more effective engagement with staff and unions at the outset, and better joint understanding of the objectives of the change plans by Members and officers. The approach that the Council intends to take review the future operation of the waste service, reflects this approach, and if well-managed, could provide a model for other service reviews.

## Medium Term Financial Plan (MTFP)

44. The Council is seeking to develop a more robust MTFP which is less dependent on the use of reserves to support budget delivery. Whilst the original 2018/19 plan, as noted, was reliant on £30.5m of reserves, the Council argues that this was a recognition that it needs time and capacity to transform its services. The Council is seeking to strengthen financial resilience by setting a maximum council tax increase of 4.99% for 2019/20.
45. The MTFP is central to delivering financial balance over the medium term. It reflects current assumptions about future service and financial pressures and likely fee, government grant and other income trends. Developing more transformational savings plans may be one way in which the Council can build in headroom to accommodate financial pressures arising from increases in service demand, legislative requirements and, in particular the large one-off risks, such as The Commonwealth Games and Equal Pay, which are only two of the potential financial pinch-points referred to in the next section.

## Adequacy of Reserves

46. The Draft Financial Plan 2019-2023 notes that the Council will hold £152.8m in general reserves and £121m in earmarked reserves at the end of 2019/20. A Policy Contingency of £42.2m is also available 'to protect against unplanned expenditure.' The earmarked reserves are planned for specific uses and are therefore not available to support the general budget. Therefore, in reality, the Council has effectively £195m to support the budget and to meet contingencies.
47. The Council has recognised that it cannot continue to use reserves to support the revenue position, as it has done up to 2018-19. It also plans to make a net contribution to reserves of £17m in 2019/20. The Council's new reserves policy makes it clear that general reserves should not be used to mitigate the requirement to make ongoing savings. The 2019-20 budget, however, relies upon the use of £5.9m in general reserves to support the budget, and £21.1m (net) of earmarked and other reserves will also be applied elsewhere, for instance, to pump-prime savings schemes.
48. While the Council's reserves, earmarked and un-earmarked, are substantial, they should be viewed in the context of the unique financial risks that the Council faces, which are more considerable than those faced by most other local authorities. These remain significant; key risks have emerged as follows:
- **Equal Pay:** remains a significant financial risk, although it is difficult to quantify the extent of the risk as there are inherent uncertainties surrounding the potential volume, timing and chances of success of any future claims. The incidence of claims has reduced in recent years and the Council has been negotiating an agreement with the main unions which will mitigate risk.
  - **Commonwealth Games:** at December 2017, the Council had committed to providing £184.7m for the project, £145.1m in capital funding and £39.6m to meet revenue expenditure. These are considerable commitments. The Council will also incur additional costs during the Games and the project assumes partnership funding of £75m of which £30m still needs to be agreed by partners. The Council has budgeted for the expected cost of the games and, in addition has provided a £4.7m provision in 2018/19 to further mitigate timing risk. Pressure must be maintained to ensure that the overall budget is not exceeded, either through construction projects not coming in on budget, or through escalation of costs elsewhere. Accordingly, there remains a risk that the Council might have to meet further liabilities if costs are not well controlled.

- **Amey Contract:** this contract was one of the first Highways PFI contracts and commenced in 2010. It is a £2.7bn project over 25 years, involving a £328m refurbishment of the highway infrastructure. Following a series of legal challenges, the Court of Appeal determined that Amey's interpretation of the contract from 2014 had the effect of reducing its workload. The Court ruled that this interpretation was incorrect. Subsequently Amey and the Council have been in dispute regarding amounts due to the Council, following the Court ruling, and the Council has, in turn, withheld contractual payments from Amey. Negotiations are ongoing to resolve the dispute but there remains a risk that Amey could exit the contract which could result in financial liabilities accruing to the Council. In particular, the Council remains highly dependent on Government-funded PFI credits which contribute £50m towards the annual £80m unitary charge for the highways services provided. If the PFI arrangement could not be continued, the Council would face a very significant financial liability.
- **Paradise Circus:** is a Local Enterprise Partnership (LEP) programme started in 2014, carried out under the auspices of the City Enterprise Zone (EZ). It will develop office space, hotel and car-parking around Paradise Circus, a City Centre site under three anticipated phases. Phase 1 has overspent by £29.1m (from £37.68m to £66.79m) and Phase 2 costs are anticipated to increase by £21.43m (from £28m to £49.45m) yielding a total cost overrun of £50.53m. The Council's own arrangement for oversight of the project, as problems emerged, were inadequate. The project finances have now been restructured and remains fully funded through Business Rate growth via the EZ programme within the GBSLEP. The restructured deal provides additional benefits and risk mitigations to the Council and strong management is needed between BCC, GBSLEP and the PCLP to ensure that no further overspends occur on the remainder of the project. The Council is the Accountable Body.
- **Acivico:** is a Council wholly-owned company which has been poorly managed in recent years. The Council funded the write-off of a £10m deficit in 2017-18. The Council has put in place a refreshed management team during 2018-19 and involved a turnaround team to help the company attain greater financial stability. The Council will then make a decision as to the company's longer-term future. Early signs are that progress is being made and the Council's financial exposure is now better understood and more actively managed. It remains, however, a financial risk for the Council, albeit not on the scale of the risks outlined above.

49. There are other potential financial risks which are signposted in the Council's Draft Financial Plan 2019-2023, including the potential need to increase employer pension contributions, as well as additional service cost pressures, particularly in relation to social care service. The Council is prudent in recognising and articulating these risks.

50. However, the Council in our view faces a unique level of one-off risks. In addition, any failure to deliver on planned savings over the next three years, could also lead to a depletion of reserves. Having regard to these risks, we make the following recommendation:

**The Council is recommended to:**

**Finance**

- **continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements**
- **broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks**
- **keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:**
  - **continuing to strengthen its level of reserves; and**
  - **completing the development of contingency plans to minimise the effects of these risks should they crystallise.**

**What does the Council need to do next?**

51. Section 24 of The Local Audit and Accountability Act 2014 (Schedule 7), requires the Council to:

- consider our recommendations at a meeting held within one month of the recommendations being sent to the Council; and
- at that meeting the Council must decide:
  - (a) whether the recommendations are to be accepted, and
  - (b) what, if any, action to take in response to the recommendations.

52. Following the meeting the Council needs to notify us, as the Council's auditors, of its decisions and publish a notice containing a summary of its decisions which has been approved by us.

