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From: **Chris Tambini**
Date: Mon, 29 Jul 2024 at 11:57
Subject: RE: Audit reform lab report for comment
To: James Brackley

James

Thank you for early sight of this report.

There are many aspects of the report that Commissioners will not be commenting on such as equal pay, external audit and impact of austerity. We note there are some in accuracies in the report and suggest appropriate checking is undertaken prior to publication. The position at Birmingham has been monitored for some 10 years including the Kerslake Review and there is a background of failed improvement activity. The well known current difficulties and intervention did not come out of the blue.

We would like to make some comment on the underlying financial position as we believe the analysis in the report does not explain the financial position fully and underplays the historic and in year revenue budget deficits and the impact of Exceptional Financial Support (EFS). The intervention quickly identified that there is a serious structural deficit.

At the time the Exceptional Financial Support (EFS) was agreed by Government along with conditions the 2024/5 budget deficit was £390m. The council developed a savings plan for £150m. The residual gap of £240m is being financed by EFS. This is a major deficit that has occurred for a number of reasons including non-achievement of savings, unrealistic budget assumptions and service pressures, especially social care. It is probably the largest deficit any UK local authority has experienced. Some does relate to Oracle, but this is a relatively small proportion of the 2024/5 budget gap. Oracle was on any measure a very badly managed project but there are a host of other factors that have led to this dire budget position. At the heart of it is poor financial management and a dis functional management culture.

Commissioners acknowledge that the Sheffield Audit Lab have also concluded that capitalisation in excess of £1bn is required. It is worth noting that capitalisation is not a funding source, it is only a means of using capital resources to fund revenue expenditure. It is worth unpicking this some more. The EFS is in effect a loan that needs to be paid back either through asset sales or revenue payment. At BCC the aim is to pay this loan back with asset sales as extra borrowing would just add to the savings requirement. There is also the limiting factor that asset sales are finite and the Commissioners assessment is that finding asset sales in the order of £1bn will be very challenging. It is also worth noting that the assets sales planned are not a 'fire sale' and will result in a relatively small loss of income as these assets either have a low or zero yield especially once holding costs are taken into account. In total the yield is under 2%. Officers have been instructed to retain high yielding assets for obvious reasons.

This incredibly difficult financial position has taken a turn for the worse. At the latest Cabinet it was reported that Children's services require additional growth and this with other pressures has increased the required savings for 2025/26 to nearly £200m. The Council is between a rock and a hard place, with a very tight path to financial sustainability. This may well mean that a longer path to financial recovery is required, but in the absence of additional funding this will mean more asset sales and budget savings.

The above figures do not include the equal pay liability. An estimate has been made, but the eventual figure will depend on the outcome of negotiation with the unions and other interested parties. It is worth noting that the Council has already paid out £1.4bn in historic equal pay claims.

We are comfortable for this comment being published alongside your report. Also happy to discuss further.

Regards

Chris