

# The way forward: an independent review of the governance and organisational capabilities of Birmingham City Council

Sir Bob Kerlake

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Local Government Association); Donna Hall (Chief Executive, Wigan Council); Councillor Sir Steve Houghton CBE (Labour, Leader of Barnsley Metropolitan Borough Council); Councillor Mehboob Khan (Labour, Kirklees Council); Joanne Roney OBE (Chief Executive, Wakefield Council); Councillor David Simmonds (Conservatives, Hillingdon London Borough Council); and Councillor Howard Sykes MBE (Liberal Democrats, Oldham Council) for their advice and support which has been invaluable.

- vi. In preparing the report we have drawn on a wide range of sources including the recent reviews lead by Peter Clarke CVO OBE QVM, Professor Julian le Grand and Ian Kershaw. I would like to thank them for their contribution.
- vii. Finally, I would like to thank Paul Clarke (LGA); Ian Hickman (Associate Controller, Audit Commission); and the review secretariat: Jamie Cowling, Siobhan Larking, Jack Lee, Michelle Nutt, Gillie Severin, Jehangir Ullah and Sue Westcott.



**Sir Bob Kerlake**  
**December 2014**

## Executive Summary

1. Birmingham is a great city. The second largest in the UK and it has the potential to be an economic powerhouse alongside London. High Speed 2 will provide another very important catalyst for its renewal. For the city to succeed though Birmingham City Council is critical.
2. The council has a proud past and can be proud of some significant achievements over recent years, for example, the physical regeneration of the city centre. Some services are working well. For example, Youth Offending Teams have played a role in successfully cutting gang crime and some major businesses have told us they find Birmingham City Council to be a good partner, the Local Enterprise Partnership is strong and the city is a good place to do business. There are other examples of the council's strengths that are highlighted elsewhere in this report. What stands out is the pride and passion in Birmingham, both for the city and the council, which we heard from virtually everyone who we spoke to.
3. But despite this, both the city and the council are some way from fulfilling their full potential. The council's financial issues, the poor performance of children's services and the council's failure to react effectively to the issues in some schools have been well documented. But the challenges go wider. The economy has underperformed - not just compared to London and the South-East but compared to Greater Manchester, Liverpool and Sheffield.<sup>2</sup> Birmingham is an outlier on its low employment rate and the low skills of its population. This is a matter of national importance. But it matters most to the people who live in the city.
4. Parts of Birmingham are among the most deprived in the country and as a result there are more poor children than anywhere else in England.<sup>3</sup> This will not change while so many adults remain low skilled and are locked out of the new jobs the city's businesses are creating. These are the conditions in which distrust and division can thrive.
5. For Birmingham to achieve its full potential and tackle these challenges Birmingham City Council must do better. The overwhelming consensus of those we have spoken to is that the council cannot carry on any longer as it is. We concur with that view.
6. The council must act now to address its significant challenges. Like all local authorities, it must rethink its role and the way it does business with its partners and those it serves, including its relationship with the city's residents. But there are some issues that are particular to Birmingham City Council. Some of its services

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<sup>2</sup> Based on the change in GVA per capita from 1997-2012. Source: ONS (2013) Regional Gross Value Added.

<sup>3</sup> DWP/HMRC (2014) Children in Low Income Families Local Measure.

are not good enough, such as children's services, and there is dissatisfaction with others, such as waste management. If the financial challenge is to be met the council needs to begin a different conversation with the people it represents.

7. Above all, the council has to change its corporate culture. The initial response to governance problems in the city's school was symptomatic of a culture, under successive administrations, that has too often swept deep rooted problems under the carpet rather than addressed them.
8. The council must lead a process of fundamental change. It cannot continue to do more of the same and expect something different to happen.
9. Our starting point was to ask what needs to change. This is what we have concluded:
  - a. Birmingham City Council's size acts as both a badge and a barrier: it has led to a not invented here, silo based and council knows best culture. These characteristics are not an inescapable feature of Birmingham City Council's size but they need to be acknowledged and addressed. There is much to learn here from other large authorities;
  - b. the narrative within Birmingham and the council needs to become more positive. Birmingham City Council too often sees itself as a victim. Whilst the financial and other challenges are considerable and must be tackled, the public and businesses are calling for a more positive vision;
  - c. 30 years ago Birmingham City Council was at the cutting edge of innovation in local government but has lost ground. To return it needs to start with getting the basics right;
  - d. there is a blurring of roles between members and officers. The relationship needs to be reset and officers given the space to manage;
  - e. the current devolution arrangements within the city are confused and very few people understand them. They have also not been reconciled with the council's financial position;
  - f. the council's vision for the future of the city is neither broadly shared nor understood by the council's officers, partners or residents;
  - g. instead there is a multiplicity of strategies, plans and performance management processes which lead to unnecessary complexity and

- k. performance management is ineffective and not up to the scale of the task;
- l. the council, members and officers, have too often failed to tackle difficult issues. They need to be more open about what the most important issues are and focus on addressing them;
- m. partnership working needs fixing. While there are some good partnerships, particularly operationally, many external partners feel the culture is dominant and over-controlling and that the council is complex, impenetrable and too narrowly focused on its own agenda;
- n. the council needs to engage in across the whole city, including the outer areas, and all the communities within it; and,
- o. regeneration must take place beyond the physical transformation of the city centre. There is a particularly urgent challenge in central and east Birmingham.

10. It is important to emphasise that the issues above are deep rooted and not the product of a single administration. They will not change overnight but there needs to be a clear plan of action that starts now.

## **Recommendations**

Some have suggested that Birmingham City Council is simply too big and should be completely broken up. On balance, we are not convinced that would currently be the best option. It is not clear that splitting the council alone would address the major challenges the city and council face. Our view is the council's problems are not just due to its size; many are the result of a series of poor decisions over a number of years but they must be addressed.

We have developed our recommendations to improve Birmingham City Council's governance alongside the interventions that are being led by Lord Warner and Sir Mike Tomlinson. We believe that taken together these will turn the dial sufficiently for Birmingham City Council to begin to improve. However, it is clear that Birmingham City Council will need independent support and challenge to deliver the changes needed.

### **Recommendation 1**

**Alongside the recommendations below the Secretary of State should appoint an independent improvement panel that is able to work with the council to provide the robust challenge and support the council requires. We recommend the Secretary of State invites Lord Warner and Sir Mike Tomlinson to join the panel as ex-officio members. The council should draw up an improvement plan with clear dates for delivery. The independent improvement panel should provide regular updates to the Secretary of State and updates on progress should also be made to the city's residents.**

It is essential that the council follows through on all of the changes we identify. Otherwise the problems will continue to recur and the question of size and structure will inevitably be asked again.







Birmingham City Council does not have a workforce plan for the future or the processes in place to manage the existing workforce effectively.

**Recomm**

**services should be organised in the way that is most efficient for that service, where appropriate these services should draw on the quadrant model to help align planning and resources with other agencies (see chapter 1, paragraphs 37-38);**

- b. the 10 District Committees should not be responsible for delivering services or managing them through Service Level Agreements. Instead, if they are to be retained, they should be refocused on shaping and leading their local areas through influence, representation and independent challenge of all public services located in the District, including those of the council;**
- c. the Districts should be provided with a modest commissioning budget**



## **Recommendation 11**

**The Government should support the creation of a new locally-led high powered partnership vehicle focussed on increasing employment and improving skills, starting in the most deprived parts of Birmingham. With an independent chair and involving the Cities and Local Growth Unit, the Department for Work and P**

# Chapter 1 – Size & structure

## Introduction

1. With a population of 1.1 million people Birmingham City Council (BCC) is the largest metropolitan local authority in England.<sup>5</sup>
2. We spoke to more than 350 people over the course of the review and BCC's size was among the most common issues people mentioned to us. It is one of the most defining features for those who work there and for its partners in the private, voluntary and public sectors.
3. The size of the City acts as both a badge and a barrier. People feel a sense of pride in the city and in working for the council. The council's size gives it the capacity to take on significant projects that many Local Authorities would struggle to achieve alone, particularly around economic development. This was undoubtedly a contributing factor that helped the council lead the successful physical regeneration of the city centre.
4. In other respects Birmingham City Council's size is a problem. We were told:
  - a. it has encouraged a culture that looks inwards rather than out and an organisation that thinks and acts like a parent with all that implies;
  - b. in the past some services, including education and children's services, have been too big to manage from the centre and have lacked the intelligence they need to operate effectively;
  - c. the city's council wards are among the largest in the country leaving councillors with a heavy workload and make it difficult to keep in touch with the communities they serve; and,
  - d. while other local authorities have successfully forged the partnerships needed to operate across a functional economic area Birmingham City Council has struggled in the past to build the alliances it requires to do so.
5. As a result, some have argued that either a new model of local government is needed in Birmingham or that Birmingham City Council is simply too big and should be broken up.
6. We have found that the council's size fosters an unhelpful culture and attitude. However, the size of the council is not the sole reason for its problems. It urgently needs a new model of devolution that enables services to be delivered within the resources available and provides more powerful community engagement.

## **The influence of Birmingham City Council's size on its culture**

7. In common with Professor Le Grand, Peter Clarke and Ian Kershaw, we found BCC's size to dominate the council's strategic perception of itself. It has led to a "not invented here", silo based and council-knows-best culture.
  
8. Too often the size of the council is used as a shield to deflect criticism instead of confronting its failings. We were told the council's size was a reason the council has poor external partnerships, looks inward, is divided into silos and where one part of the organisation is afraid to challenge another on issues that are perceived to be their core competence.
  
9. However, our view is that the council's problems are not intrinsic to its size. Large organisations can be successful but only if the problems that can come with scale are acknowledged and addressed. Other large authorities, such as Leeds City Council, are actively seeking to do this.

## **The Birmingham model of triple devolution**

10. Local government has two principle functions. First, to ensure there are the public services available required by residents in accordance with the law and within the constraints of available resources. Second, to represent the am vel1.32 e/po8-10(nt)2(r)7(i)6()10(r





argue that integration of services, engagement with community groups and social enterprises and shifting from acute spending to prevention are easier at a local level.<sup>9</sup>

16. BCC has devolved direct management of some services and influence over services to District Committees (see below). In total, District Committees either control or are able to influence a total budget of around £105.9m out of £3.2bn total expenditure by the council.

17. There are also 40 ward committees which are the principle public forum for residents to put forward issues in their neighbourhood. Each ward committee is currently responsible for a £50,000 community chest, though the future of this funding may be in doubt. The community chest fund was cut by half in 2013 and has been identified by the council as a medium/low priority for 2015/16.

18. The future role of district and ward committees are under review by the council. The council's 'Community Governance Review' is due to report in 2015. nity Gttt The -24.68(i)6(e)-d4(t

## **The existing devolution arrangements are not sustainable**

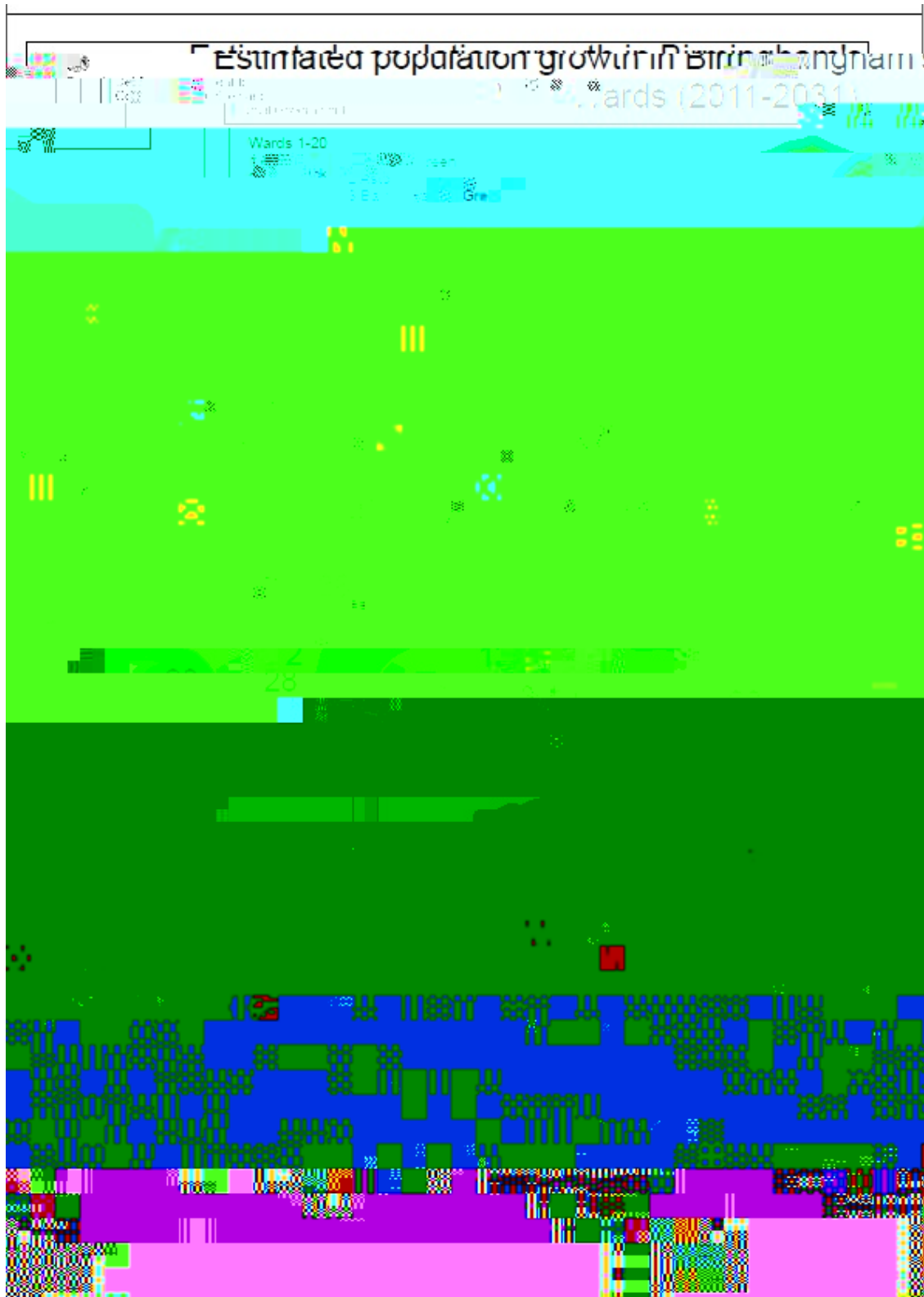
19. Our view is that the current arrangements in Birmingham are not sustainable for two reasons: first, because the management and delivery of services by District Committees is neither efficient nor effective; and second, because the city's growing population will mean Birmingham's wards become too large for effective and

23. The council pointed to the potential savings identified by the Greater Manchester Whole Place Community Budget as an example of how savings can be achieved through devolution. However, this potentially misunderstands the Whole-Place Community Budget approach. The potential savings were identified by both devolving decision making and by improving partnership working between public agencies better integrating public services across the 10 Greater Manchester Local Authorities. Not fragmenting them.<sup>10</sup>
24. The council clearly faces a tension between the desire for local control and its budget. It has argued that devolution could bring benefits of reducing service costs and improving responsiveness to local people. However, we have not seen any evidence of this and consider it to be a very high risk strategy.

### **Warding arrangements**

25. The second challenge that needs to be addressed is whether BCC's wards are simply too big for its councillors to be able to represent their residents effectively.
26. 15 of the 20 wards with the largest population in England are in Birmingham. In total 73% of the largest wards in the country are in the city. The result is councillors have a heavy workload and can find it challenging to represent all their residents.
27. The population of Birmingham is growing quickly and is expected to increase by a further 150,000 by 2031.<sup>11</sup> This is the equivalent to Birmingham absorbing a town around the size of Reading. The council projects that 4 wards in the city will have more than 40,000 people in them by 2031. As the population of individual wards grows larger, fulfilling councillors' role will become even more challenging.
28. At the same time, as the number of officers employed by BCC grows smaller, the ability of officers to provide effective support to 120 councillors is reduced. In BCC the member to officer ratio in 2009 was 1:167 and in 2013 it was 1:108. Based on current projections for headcount reductions the member to officer ratio for 2015 is likely to be around 1:58.
29. The council is already the third largest in the country, larger than the United States Senate, so simply adding more 3 member wards and increasing the number of councillors is unlikely to be a sustainable solution.

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30. We have concluded that the council urgently needs a different model for devolution and community governance. The test for the council's Community Governance Review will be to develop a model that brings together structures, member roles, officer capacity, responsiveness to communities and effective services in a way that is affordable.



32. Others have suggested that a Mayor with a much smaller council would provide the leadership and greater accountability the city needs. This was rejected by





was taken to align the boundaries of these four quadrants align with the existing boundaries of Birmingham City Council's Districts and wards.<sup>12</sup>

39. The Trojan Horse incident demonstrated that BCC did not sufficiently understand what was happening in its communities and did not have the confidence to act when the

45. **In the interest of effective and convenient local government the Local Government Boundary Commission for England should conduct an Electoral Review, to reflect existing communities, to help the council produce an effective model for representative governance. It should aim to complete its work to enable elections by May 2017.**
46. To help strengthen the council's ability to take strategic decisions we also recommend the Secretary of State changes the electoral cycle to all-out elections (see chapter 2, paragraphs 32-34).

### **Electoral Review**

The council currently has 15 of the 20 wards with the largest population in the country. By 2031 the council projects that 4 wards will have populations greater than 40,000. Plus, with 120 members the council is already one of the largest in the country. This is not sustainable.

By moving to predominantly single member wards, reducing the number of councillors and at the same time increasing the number of wards it is possible to alleviate the pressure of population growth while increasing accountability and saving money.

For example, by creating 100 mainly single member wards the average population of a ward in the city could be reduced to just 10,730 from 13,413. This would result in a direct saving of around £1.6 million over 5 years.

We are not making a recommendation on the number of wards in the city as that is for others to determine but our view is there needs to be a significant reduction on the current number of councillors.

### **Parish and Town Councils**

47. There is currently a single parish council within Birmingham. This is far fewer than in some other areas. For example, as a result of their historic geography, there are 15 parish and town councils in Greater Manchester and there are 32 parish and town councils in Leeds.
48. We were concerned that at a public meeting we attended the presentation given by BCC in Sutton Coldfield regarding the Community Governance Review was confused about the legal powers and responsibilities of parish and town councils.
49. Should residents of an area within the city wish to establish a new Town or Parish council a Community Governance Review should be completed, taking account of the statutory guidance. The Community Governance Review can recommend whether or not to create a new parish council, taking into account the wishes of the local community including a willingness to pay the additional council tax precept required.

We can see no reason that should prevent the creation of new town and parish councils within the devolution model that we have proposed.

## City region

50. The focus of this review is on the governance of Birmingham City Council. However, it is impossible to ignore the role that the governance and organisational capability of the council plays in the wider west midlands area nor the tight social and economic links across the west midlands.
51. In the future, like many other councils, BCC plans to organise more of its strategic economic services at the city region level. According to their Green Paper: '*Functions that support the economy and growth, such as strategic planning, transport, skills, business support, inward investment, major developments, are best carried out at city region level.*'<sup>13</sup> In common with many areas of the country, BCC are seeking greater devolution of powers and finance from central Government to the city region.
52. The Local Government Select Committee has said that the first test for devolving powers is for local authorities to be 'able to demonstrate how their particular unit functions as an economic entity.'<sup>14</sup>

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<sup>13</sup> Responding to the challenge, looking to the future (2014).

<sup>14</sup> Communities and Local Government Committee hteaoLLocaE121(nr)7(a)16(p)10(or)7 io wP12(aa)10(r1(-8(o a)16(er)7

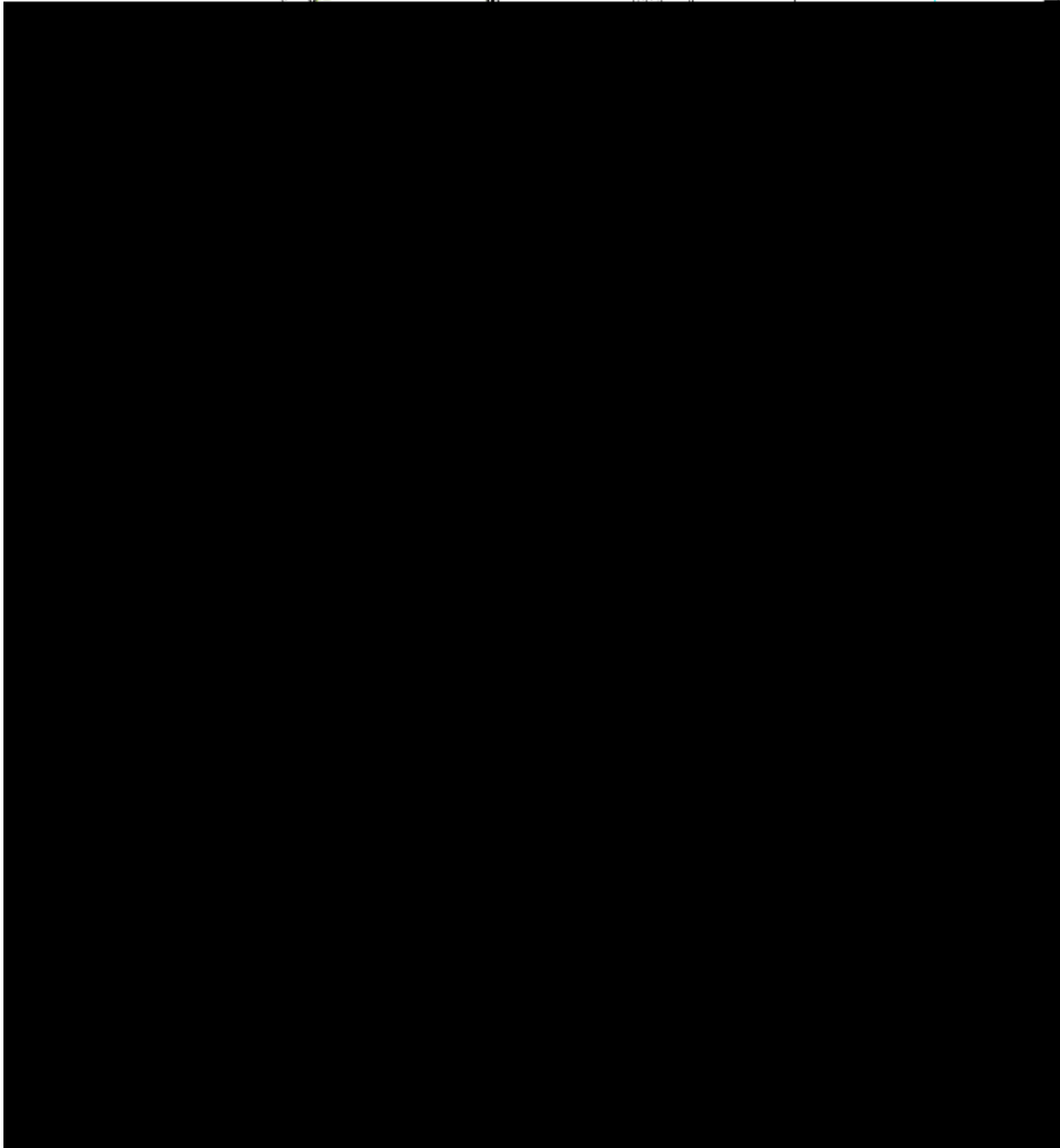
53. We have been told that both Greater Birmingham and Solihull Local Enterprise Partnership and the Black Country Local Enterprise Partnership are examples of strong partnerships. In particular, it was made clear by many of the business representatives we spoke to that they saw the Local Enterprise Partnerships as good partners and the city of Birmingham and the west midlands as a great place to do business.
54. However, our economic analysis shows that neither Greater Birmingham and Solihull Local Enterprise Partnership nor the Black Country Local Enterprise Partnership alone cover the functional economic area centred around Birmingham and the Black Country at the heart of the west midlands. Coventry is in a separate LEP: Coventry and Warwickshire.<sup>15</sup>
55. In order to devolve powers it is important that there are effective governance arrangements in place across the functional economic area that can command the support of the local authorities within it. One option that local authorities in other areas have chosen is to create a combined authority.

59. To be able to operate effectively combined authorities should be based on the functional economic area and, given membership is voluntary, their members need to be able to form a strong and enduring partnership.
60. The membership of any new combined authority will be a local decision. As the governance structure of a combined authority needs to be agreed between all the members, there is potentially a trade off between the number of members and the amount of time it takes to reach agreement.
61. In our view, there is a real risk that if the ambition at the start is set to include all of the members of the two Local Enterprise Partnerships and Coventry and North Warwickshire it will take too long to reach agreement. This would constitute a combined authority of 15 members.<sup>16</sup>
62. The largest existing combined authority is Greater Manchester with ten members and they have been working together as Association of Greater Manchester Authorities since 1986. The Greater Manchester combined authority has one coterminous Local Enterprise Partnership.
63. The District councils that are members of the Local Enterprise Partnerships could only become full members of the combined authority without their counties subject to Parliamentary approval of the Government's draft Legislative Reform Order.
64. Attempting to form a combined authority of 15 members may risk delaying the devolution all in the local area are keen to see. One option would be for the Local Authorities with the strongest economic links to proceed to form a combined authority first.
65. Our economic analysis (below) indicates that the strongest links are between Birmingham, Dudley, Sandwell, Walsall, Wolverhampton and Solihull shown in blue. Our analysis shows weaker economic links with Coventry and other surrounding authorities but Coventry is part of the existing Integrated Transport Authority and has a track record of working together with the other members.

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<sup>16</sup> Subject to legislative change necessary to allow Districts to become members of combined authorities without the relevant upper tier authority.

**Birmingham Functional Economic Area based on travel to work analysis<sup>17</sup>**



66. This does not mean that partnership working with the other local authorities in the area that are not part of the combined authority should stop. On the contrary BCC's relations with other local authorities need to continue to get better.
67. Nor does it mean that a local authority outside those with the strongest links that is able to do so within the existing legislative framework could not join any new combined authority from the start if there is local support to do so. The governance review should consider this.
- 68. A combined authority governance review based on an authority formed of at least in the initial stage the core functional economic area of Birmingham, Dudley, Sandwell, Walsall, Wolverhampton and Solihull should be completed by July 2015. Once this has happened the Government should begin to engage in a dialogue about further devolution.**
69. We also recognise that combined authorities are not appropriate everywhere. For example, councils can and do work together without a combined authority or Economic Prosperity Board. Local Authorities in the surrounding area and beyond will continue to work in partnership with the individual members of the new combined authority without necessarily having to become full members themselves. The existing Local Enterprise Partnerships footprints would support such an approach.
70. Given the risks associated with significant devolution in areas smaller than the functional economic area, we believe the proposed combined authority is essential before further devolution can occur. There should then be an agreement with Government over what devolution of powers will follow.
71. The Greater Manchester combined authority will shortly have the first metro-wide elected Mayor outside of London. The new combined authority may wish to pursue this model but it must not be allowed to become barrier to getting on with the job of

- b. the secretariat should be based outside of Birmingham City Council;**
- c. the Government wants to see seamless working between Local Enterprise**



# Chapter 2 – Leadership & strategy

## Introduction

1. According to the Local Government Association (LGA) there are five factors that are critical to council performance and improvement. Councils need:
  - a. effective political and managerial leadership, working in partnership;
  - b. to understand their local context and establish a shared long-term vision for the future with a clear set of priorities;
  - c. effective governance and decision-making arrangements that respond to challenges and manage change, transformation and disinvestment;
  - d.

numerous strategies, plans and processes developed to different timescales which promote unnecessary bureaucracy and blur lines of accountability.

6. The council does have a clear annual policy statement from the Leader setting aims and objectives for the coming year and an implementation plan is in place and monitored to deliver these. But this does not translate into a cohere

12. Instead of an effective partnership between the political and managerial leadership of the council we have consistently heard that the respective roles of members and officers are blurred in practice. In the words of a Cabinet member: “councillors pretend they are officers, and officers occasionally pretend they are councillors.”

13. While we heard this was partly the result of members’ frustrations and feeling they needed to intervene in detail to ensure their decisions were implemented, this is not healthy. It is a clear sign that the governance of BCC is not operating the way it should.

14. We were also concerned that the Governance, Resources and Customer Services



**22. BCC should adopt a one city approach and support the development of a new long-term vision for the city of Birmingham, which we call the ‘City plan’. This should be approved by the new independent Birmingham leadership group (see chapter 4).**

23. The vision should be for the long term. It should be shared by as many of the civic leaders in the city as possible, it should articulate the city’s values – not just the council’s – alongside the ambition and the outcomes they want to see. The vision then needs to be used to drive the strategic planning and performance management of the council (see below and chapter 3) and its partners.

### **BCC’s Strategic Planning framework**

24. BCC’s current strategic planning process comprises:

- a. the council Business Plan 2014 which sets out the annual budget and long term financial strategy of the city council and plans for assets, capital investment and other resource issues to deliver the council’s priorities. This is approved by the council each March;
- b. detailed Business Plans for city council services and directorates comprising internal documents that show how resources will be deployed to achieve objectives we have set within each service area. These are “produced early in each financial year”; and,
- c. the Leader’s Policy Statement, which sets out the core purpose and goals of the city council, and the priority programmes and strategies to be developed or implemented in the year ahead. This is published in June or July.<sup>21</sup>

25. We believe there are 3 problems with the current approach:

- a. strategy is the scope and direction of an organisation over the long term. BCC’s annual time horizon is not strategic;
- b. the Leader’s Policy Statement is implemented after the resource planning process. It therefore cannot set resource allocation in a sensible way; and,
- c. there is conflicting measurement of performance. Nobody is clear on what the priorities are and where accountability lies, so decisions can be avoided and lines of accountability are unclear.

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<sup>21</sup> This is set out in the Leader’s Policy Statement 2014, p.7. We were also informed that District Committees were being asked to produce individual policy statements each autumn but this does not appear to be publicly documented yet.

## **Example Strategic Planning Framework**

**Vision:** sets out the long term vision and aspirations for the city.

**City Priorities Plan:** outcomes / priorities to be delivered by the council and partners over next 4-5 years, includes a set of indicators to measure progress.

**Council Plan:** sets out the strategy for making it easier for people to do business with the council and for achieving the savings and efficiencies required over 4-5 years.

**Financial Strategy and annual budget:** approved budget for revenue spend for the year which is developed and agreed each year within the context of longer term financial planning. Sets out how resources will be aligned to the council ambitions for the next 4 year period.

**People Plan 2014 – 17:** 4-5 year workforce plan setting out how the council will achieve its ambitions through its people. Underpinned by the council values, commitment to joint working and civic enterprise through working with the public, private and voluntary sector

**Annual service plans, team plans and appraisal objectives:** set out what each service is seeking to achieve including contribution to the delivery of the Council Plan and City Priority Plan, business as usual activity and any service improvement or development objectives. Link from strategic level plans through to team plans and individual appraisal objectives which are developed from service plans.

**Area / locality planning:** at community committee, ward and neighbourhood level a range of plans exist which bring together priorities based on specific local needs of an area. These are tailored to reflect local circumstances.



**as a stand alone document or brought within the annual corporate planning cycle.**

### **Election by thirds**

32. Part of the problem in Birmingham is the culture of short-termism. There is an inability to focus on longer term problems, including transforming services, that is holding the council back. It also encourages members to become too involved in operational issues.

33. We believe that, especially in conjunction with an electoral review, changing the electoral cycle to all out



**commissioning, performance management, Human Resources, IT and property should be managed corporately.**

41.

Warner has found the council is unable to recruit sufficient social workers so relies



# Chapter 3 – Financial and performance management

## Introduction

1. Performance and ability to improve also rests on having a financial plan in place to ensure the long term viability of the authority and a performance management system that enables the council to manage delivery.
2. Like many local authorities, Birmingham City Council (BCC) is facing very significant financial challenges. This means that it needs to change the way it operates and rethink the way it does business with its partners and with those it serves. As the council becomes smaller and delivers more with and through others, efficient financial and effective performance management becomes even more important.
3. The question we have sought to answer is therefore whether BCC has in place plans that match financial challenges it faces and a performance management system that is able to ensure delivery.
4. BCC's core financial management processes are improving and the council has plans to set a balanced budget for 2015/16. However, without substantial reform some services will become unsustainable in the next few years. The council have not yet gripped the scale of the change that is necessary and have let some issues build up over many years so that the problem they face today is acute. The council needs to take decisions that will ensure it is able to set a budget for the next 3 years without the expectation of further funding from central government.
5. We have found performance management to be patchy. There is no clear line of sight from Key Performance Indicators to staff performance; BCC rely too heavily on data that is not robust enough rather than allying it to local intelligence and are not managing their workforce's performance well enough.

## Financial management

6. BCC have reduced costs substantially since 2010. By the end of this financial year BCC will have been required to save £461 million and expect to be required to find a further £360 million before 2017/18.
7. Subject to confirmation in the Local Government Finance settlement, Birmingham's spending power is likely to reduce by 5.7% next year.<sup>24</sup> This is a significant amount but other Local Authorities are also likely to have to make similar reductions.

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<sup>24</sup> Spending power measures the overall revenue funding available for local authority services, including Council Tax, locally retained business rates and government grants.

8. However, BCC faces some distinctive challenges:

a. despite a large population, Birmingham has a relatively small Council Tax

12. Our view is that the reductions so far have been too reactive and tactical.<sup>26</sup> This is

13. The council faces significant challenges to balance its budget in 2015/16. It is seeking £41.6m of additional funding from Government for children's services. If this is not forthcoming in 2015/16 then the council expects to be required to use most of the one-off windfall money secured from the changes to the Minimum Revenue Provision for children's services in that year.

#### **Adjustments to BCC's Minimum Revenue Provision**

In 2014 the council changed its Minimum Revenues Provision Policy in a number of ways. This is a creative move that has had the effect of producing savings on debt repayments in the short term as the payments are made over a longer time period. In effect the council sees a saving each year for the first 22 years and a net increase in costs thereafter up to the end of the write down period for the asset i.e. the next 18 to 28 years. In 2015/16 this will save around £50 million p.a. for the first 22 years. However, it adds £1,148 billion additional costs over the lifetime of the proposals.

14. This will leave the council with a combination of low reserves and a huge financial challenge in 2016/17 and 2017/18.
15. According to the latest long-term financial plan BCC will be required to find additional savings of £80.2m in 2016/17 and £137.9m in 2017/18. It is seeking £265m of additional grant funding from Government over 2016/17 and 2017/18 years for a mix of children's services and general use. Excluding the additional money the council is seeking for children's services, if the additional grant funding is not forthcoming BCC expect to have to save an additional, £56.2 million in 2016/17 and £68.8 million in 2017/18.

#### **Equal Pay**

Birmingham City Council, unlike many authorities, has still to fully address its equal pay issues and therefore faces continued, significant equal pay liabilities.

To date, Central Government has provided the council with permission to capitalise around £530 million to help manage its equal pay costs. To assist authorities still managing equal pay liabilities, the Government also amended regulations to enable councils to use capital receipts from asset sales to fund outstanding equal pay claims.

The council has been addressing, defending and settling its Equal Pay obligations since 2007. Some have questioned whether the council's approach to managing its equal pay issues contributed to the size of its liabilities and whether they could have been settled sooner.

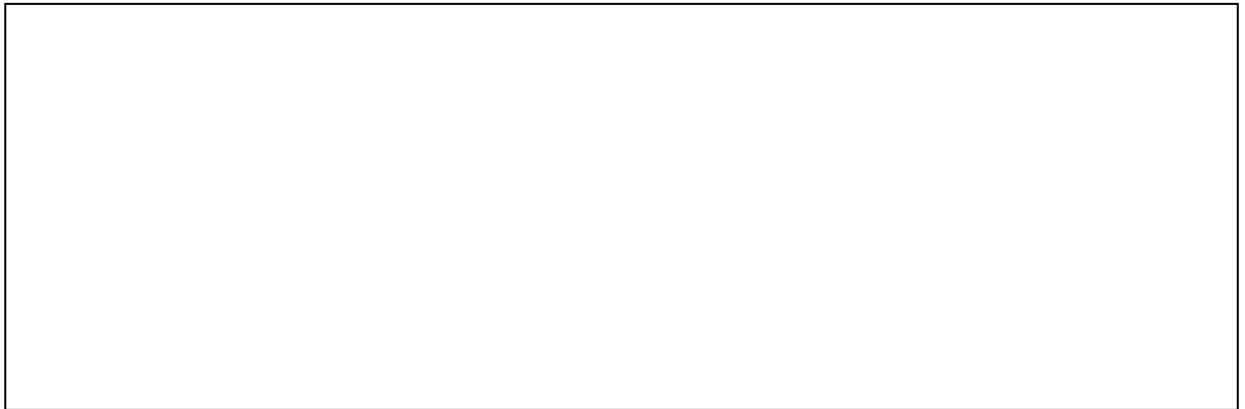






missed last year and just 39% of KPIs in first quarter of this year were on track. 84% of the available Leader Policy Statement Actions were achieved by the year-end and another 15% that were behind schedule at that stage.

30. To provide effective leadership, members and senior officers need the discipline to agree a small number of shared priorities and then have the appropriate processes to monitor the delivery.



31. In addition we were told that the council currently relies on data that is too often unreliable and does not give the full picture of how services are performing.
32. The significant risk is without allying the numbers to a deeper sense of how services are performing on the ground, and what the emerging big issues are, an illusion of management control is created. Trojan Horse is an example of just how serious the problems can become as a result.
33. The council needs to focus effort and capacity on getting basic services operating efficiently and effectively. That means ensuring that waste is collected, not left on the streets, Council Tax is collected, and care is provided for the most vulnerable and elderly. Nothing in this report should detract from that focus. That must include getting on with the vital task of improving children's and education services that is being supported by Lord Warner and Sir Mike Tomlinson.
34. Addressing this in a council the size of BCC places a particular emphasis on members, both executive and non-executive, in their role as community representatives and organisers, to understand how services are performing in their wards (see chapter 4). This should not be confused with micro-management or engagement in operational decisions.
35. It also requires staff to feel they have a safe and secure outlet available should they suspect wrongdoing and to know that action will be taken as a result.

- 36. The whistleblowing processes that are being put in place in the child safeguarding service should also be mirrored in the council's other services.**
37. BCC's staff need to understand how what they do contributes to the overall direction of the city, how it benefits residents and be managed and developed to be able to deliver. In the words of one senior manager we spoke to "turning KPIs into human management is key". This is what has been described as the golden thread that flows from the overall vision for the City to individual members of staff. Enabling

**a clear line of sight from the council's strategic priorities, annual business planning and the performance management system.**



8. However, time and time again we were told that the fundamental philosophy that underpins BCC's approach to partnerships is wrong. The overwhelming view of those we have spoken to is that partnership working in Birmingham needs to be fixed, and that failure to form effective partnerships is creating significant problems for both the city and the wider area.
9. This does not mean that there are no examples of good partnership working. We have seen areas such as The Multi-Agency Safeguarding Hub (MASH) and the Greater Birmingham and Solihull Local Enterprise Partnership that are working well.
10. We are also aware that in any partnership there are two or more sides to the story. However, when we spoke to representatives from BCC's partners within the city a clear pattern emerged from nearly every conversation.
11. We were told that BCC do not treat their partners as equals. The council has an attitude of "if it's worth doing, the council should do it". This paternalism alienates partners and means the council is failing to reconfigure services.
12. The criticism from the council's partners is that their concerns and priorities are not listened to. The council develops plans alone without input from their partners (see chapter 2) and then expects to discuss how others can contribute to what they feel are the council's predetermined priorities.
13. They feel the council isn't open to constructive challenge by partners and falls back on the default position that their size and complexity allows them to underachieve.

"Commissioning is one of our bug-bears. There is a 'computer says no' approach, with very risk averse legal advice. The council also call things commissioning when they are procurements." Housing partner

"They have a one- contract approach to commissioning and procurement which leaves a – 'we can't fit it in, so we won't' and old fashioned approach. We'd like to explore more opportunities for local delivery for better value for money but the council aren't thinking about transformation." Community group

14. There is a mixed view of BCC's approach to commissioning and procurement across all sectors. We were told that the joint venture between the council and Capita 'Service Birmingham', is not operating well and the council is bringing the contact centre back in-house. While not unexpected, the voluntary and community sector representatives we met were sharply critical of the council's approach to procurement and commissioning.

15. Commissioning is undertaken by individual directorates with only a small central team that does not have the capacity to consistently provide the support that is needed. We were told by voluntary and community sector representatives in particular that the council does not apply an understanding of the local area in the commissioning arrangements, which they claimed in some places has resulted in misalignment of intentions with commissioning outcomes (see chapter 2).

### **Opportunities are being missed**

16. To be able to work more closely with other agencies and work together to plan provision, Birmingham City Council needs to work with their partners to develop a shared mission for the city and then seek to strategically align motivation, money and monitoring.

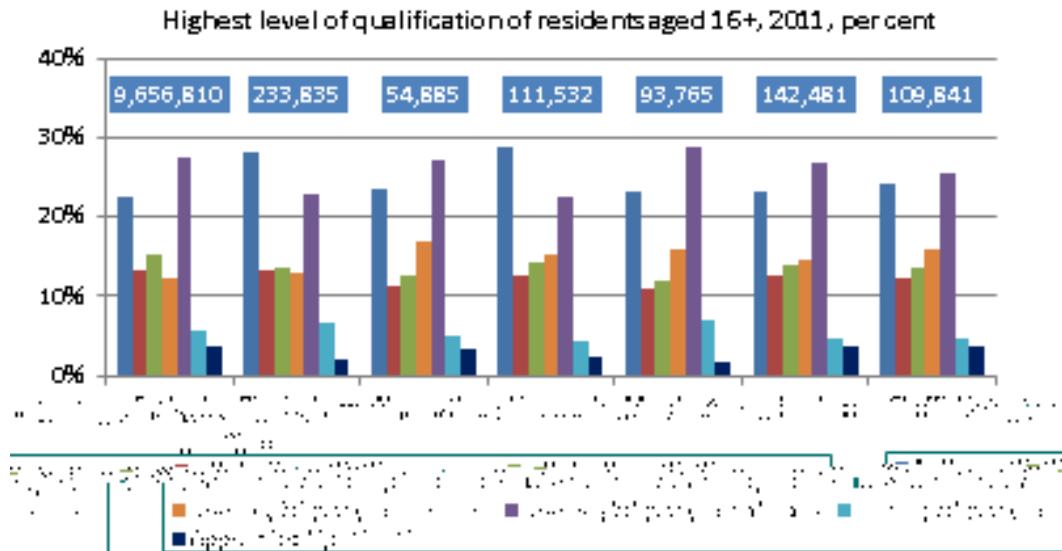
17. Overall, partners have said they want to engage more with the council and discuss opportunities to transform services but at the moment they do not know whether this would be welcomed.

18. That is because there is no shared vision for the city and agreement on the outcomes the council and its partners want to see achieved (see chapter 2). We were told that as a result, discussions around aligning of resources and efforts to achieve common goals for the good of the city are not happening as they should be.

**19. BCC should redefine their partnership approach. They should do this by:**

- a. Producing with their partners a clear statement of their partnership values, such as openness, transparency, learning, collaborating, safe and constructive challenge. These should be communicated and applied across the organisation and externally;**
- b. having a shared clarity about the mission, objectives and purpose of individual partnerships and how they will**

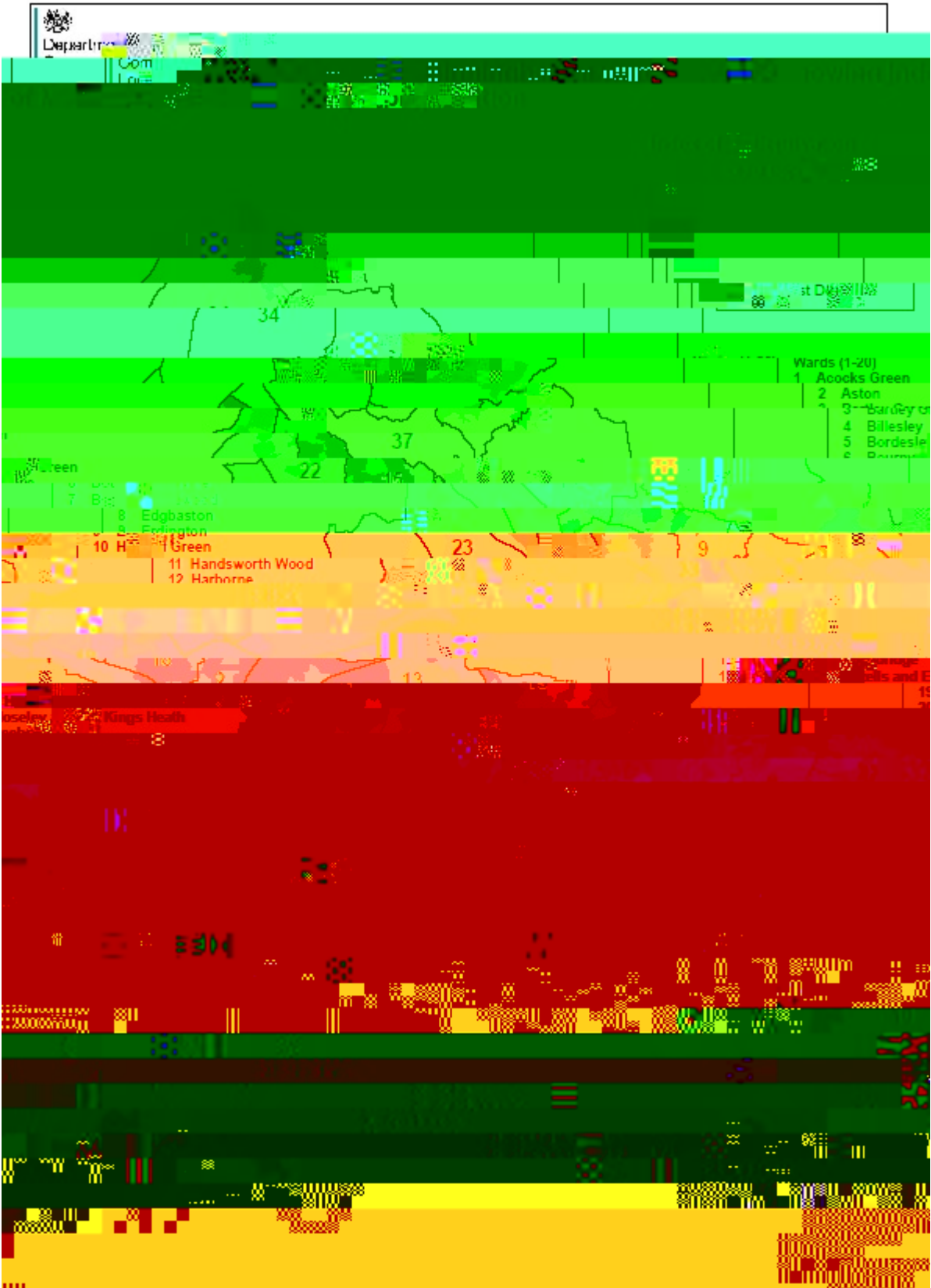




27. About 20% of people aged 16-64 in Birmingham have no formal qualifications.<sup>32</sup> That is around twice the national average. Similarly, Birmingham has significantly fewer residents with degree level and above qualifications than the national average, despite benefitting from excellent Universities.
28. Despite welcome reductions in unemployment over the past few years and strong performance in creating private sector jobs, Birmingham still suffers from relatively

economy is creating due to lack of skills. These are the conditions in which distrust and division between communities could lead to challenges in community cohesion.

32. Improving the skills and employability of its citizens is likely to be a priority for the new combined authority. However, the geographic focus and scale of the challenge in parts of Birmingham means a priority initiative is required that is capable of tackling intertwined issues in a coordinated and targeted manner.
33. In order for Birmingham to take advantage of the increasing number of jobs being created by the economy, all the local partners in the city, including the council, recognise the need a change of gear is needed if they are going to be able to take advantage of the increasing number of employment opportunities that the economy is creating and this means addressing the skills problem the city faces. We recognise and welcome that commitment.
34. **The Government should support the creation of a new locally-led high powered partnership vehicle focussed on increasing employment and improving skills, starting in the most deprived parts of Birmingham. With an independent chair and involving the Cities and Local Growth Unit, the Department for Work and Pensions with Job Centre Plus, the Skills Funding Agency, Local Enterprise Partnership and Birmingham City Council and other partners, the first step should be to develop an agreed plan including proposals for Government by April 2015, looking at best practice and maximising resources already committed to Birmingham.**



### A decade of low skills, low employment and deprivation in Birmingham

There are parts of Birmingham that are among the most deprived areas in the country and have been so for decades. The deprivation is primarily the result of a pattern of persistent worklessness in these areas. In 2014 the wards with the largest numbers of out of work benefits claimants in the city were the same wards as a decade earlier. These were:

- Sparkbrook
- Washwood Heath
- Aston
- Ladywood
- Soho
- Nechells

Birmingham has a higher proportion of residents with lower skills than the national average. This is a particular problem in certain parts of the city and there is a similar pattern of residents with low skills in east and central Birmingham and many of the same wards have had high concentrations of residents with no qualifications over time. In the following wards around 4 out of 10 residents had no qualifications in 2011 and 2001:

- Washwood Heath
- Bordsley Green
- Kingstanding
- Sparkbrook
- Shard End
- Tyburn

Our analysis suggests the skills partnership should initially pilot their new approach in Washwood Heath and Sparkbrook wards.

Sources: Out of Work Benefit Claimant for Small Areas and Census 2001, 2011



- d. an accessible way for residents to raise and track issues of concern, demonstrating how services have responded to their influence;
- e. a strong message within corporately produced guidance on service planning;
- f. a commitment to using the experience from everyday transactions (engagement between frontline staff and those who use services) to help shape those services; and,
- g. an openness to considering and developing new ways to deliver services.

## Rooting decisions in the community

44. The council needs to move away from the invitation-only gatekeeper model of engagement with communities. There is little evidence that an understanding and knowledge of the diverse communities in Birmingham is being used to drive decision making in the council. However, the council has begun to hold a series of 'Big Conversation' events and some innovative work in this area to ascertain





## Next steps

1. Birmingham City Council agreed the need for our review, has been a willing and helpful partner throughout the process and has already taken action based on our interim findings. We think it is essential that the council will accept and seek to implement our recommendations in full. On that basis, further statutory intervention will not be immediately necessary.
2. However, we believe the council will need robust independent support to be able to implement our recommendations and to improve its efficiency and effectiveness.
3. **Alongside the recommendations contained in this report the Secretary of State should appoint an independent improvement panel that is able to work with the council to provide the robust challenge and support the council requires. We recommend the Secretary of State invites Lord Warner and Sir Mike Tomlinson to join the panel as ex-officio members. The council should draw up an improvement plan with clear dates for delivery. The independent improvement panel should provide regular updates to the Secretary of State and updates on progress should also be made to the city's residents.**
4. The role of the independent improvement panel will be to provide independent support to the council and challenge where necessary, not simply to check on progress. The panel needs to be independent to provide challenge but the process of improvement needs a cross-party approach and to be owned by all council members and officers. As a result, the panel will need to

**out how it has implemented our recommendations in December 2015. The independent improvement panel will provide their assessment of this report and on the council's progress in setting a budget for 2016/17 to the Secretary of State.**

9. For the council to improve it needs fundamental change, or the same questions about the size and structure of the council will continue to be asked. This process must start now and there must be demonstrable improvement over the next year or the panel will also need to decide whether further consideration is needed to establish the relative benefits and disbenefits of breaking the authority up.

# Annex A – Suggested milestones

December 2014	<ul style="list-style-type: none"><li>• implementation plan started</li></ul>
January 2015	<ul style="list-style-type: none"><li>•</li></ul>

## Annex B – Terms of reference

The Leader of the City Council and the Secretary of State for Communities and Local Government have requested an independent review of Birmingham City Council. Sir Bob Kerlake, Permanent Secretary in Department for Communities and Local Government, will lead the review and report back to the Leader of the City Council and Secretary of State by 31 December 2014. The review will examine both the governance and organisational capabilities of the council with a view to making a series of recommendations on the economic and service delivery capabilities of the council. In conducting this review:

- Sir Bob will appoint an advisory panel to support him throughout the review, which will spend 5 days in Birmingham over the next 4 months to conduct interviews and hold evidence gathering sessions
- the panel will meet with Sir Bob on a regular basis