

BIRMINGHAM CITY COUNCIL SERVICE REVIEWS

GREEN PAPER: DEVELOPING A SUCCESSFUL AND INCLUSIVE ECONOMY

INTRODUCTION

Birmingham City Council is facing a big challenge, having to cut the budget we can control by half over seven years. In the past we have often made changes to improve our services and get better value for money. But we now face cuts in government funding on a scale that has never been seen before.

We will need to make big changes to balance the books in the years ahead. These changes will have an impact on everyone in the city, so we want to discuss them with you before going ahead.

The key question we are seeking to answer is:

How can we continue to provide essential services to residents and guide the city through such difficult times, whilst supporting greater fairness and future prosperity?

We will need to be clearer on our priorities and ensure that we only spend money on things that support those priorities. We will need to develop new structures and ways of working with services such as the NHS. And we will need to work with the people of Birmingham to get maximum value from all the resources available to the city.

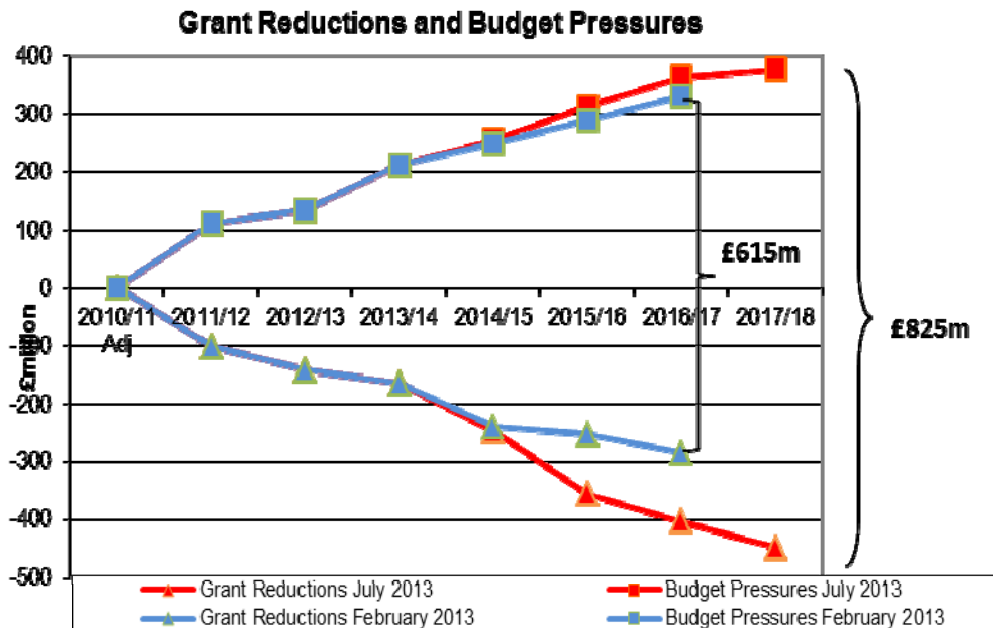
To do this we have begun a detailed programme of reviews looking at all our services and how the council works overall. This has never been done before on this scale and it might well lead to fundamental change in how services are provided and how key priorities are delivered.

THE BUDGET NUMBERS

The Government's programme to cut public spending has meant a severe reduction in local authority funding. At the same time, there are big pressures to spend more to meet inflation, the changing population, changes in the law and so on.

If we are to respond to this in time we must plan ahead and work out what the funding situation will be over the next three to five years. Our latest forecast is shown in the graph overleaf. As you can see the position has become much worse since the council set its budget in February this year. Even so this may still need to be updated further following future government announcements.

The Council faces huge cuts in its grants from Government and increases in demand.



Source: Birmingham City Council, Corporate Resources Directorate, July 2013

The Council has already made significant savings in recent years, for example £275m has been saved in the last two financial years, with the non-school workforce reduced by 27% since April 2010. But despite this we still need to save at least a further £450m by 2017-18, in addition to over £100m of savings in the current financial year.

The total estimated saving of £825m is about two thirds of the funding in 2010-11 that we had any choice over how to spend (what we call the “controllable budget”). Because of this combination of grant cuts and spending pressures we may not be able to deliver some of the services we now offer and it is likely to become more and more difficult to deliver those that we are required to provide to an appropriate quality, unless we change the way that we do things.

Focusing on the next two years in the first instance, for which information is more certain, this is likely to mean that we need to find further reductions on average across our services of 25% of the “controllable budget”.

BACKGROUND TO THIS REVIEW

The challenge for the review has been to help the council answer two key questions:

- How can the council better support the development of a successful and inclusive economy within Birmingham?
- How can the services in this review support a council-wide savings programme, which needs to identify £450m of savings to meet the current revenue pressure?

Usually, supporting economic growth requires investment – so these requirements can be seen as contradictory objectives. But they also provide an opportunity to innovate – to come up with a new way of doing things that will provide better support for the economy, whilst reducing costs.

Activities included in the review

The services considered for this review are responsible for:

- Ensuring that new developments are taking place in Birmingham and regeneration is benefitting priority areas
- Securing investment to support business growth, by bringing in grants that can be accessed by Birmingham businesses
- Connecting people to job opportunities, and targeting opportunities towards vulnerable groups and groups with greatest need
- Attracting new jobs, investment and businesses to Birmingham
- Regenerating housing and providing new homes for Birmingham
- Maintaining and managing Birmingham’s roads
- Providing support for tourism and the visitor economy in partnership with the private sector
- Setting and delivering the transport vision for Birmingham
- Providing support and advice to Birmingham’s businesses and entrepreneurs
- Managing the planning process across Birmingham
- Supporting both local centres and Birmingham City Centre
- Supporting the arts and cultural sector in Birmingham.
- Attracting events to the city

Where the money is spent

Headline Service Areas	£'million			
	Gross Expenditure	Gross Income	Controllable Adjustments	Controllable Budget
Challenge Unit	0.300	0.000	0.000	0.300
Culture & Tourism	14.350	-0.100	-0.386	13.864
Employment Team	5.500	-1.700	-2.368	1.432
Highways Maintenance and Management	146.860	-100.510	-16.860	29.490
Marketing Birmingham	4.400	N/A	0.000	4.400
Off-Street Parking	5.690	-6.800	5.020	3.910
Planning and Regeneration	11.100	-5.200	-0.808	5.092
Sustainability, Transport and Partnerships	8.800	-6.100	-1.641	1.059
TOTAL	197.000	-124.410	-17.043	59.547

Altogether, these service areas represent 5.7 per cent of the Council's overall controllable revenue budget (£1.046bn). They are split between the Local Services (£33.400m) and Development & Culture (£26.547m) Directorates.

The changing context

Birmingham has historically suffered from the complex, disconnected web of quangos and committees created by the changing policies of successive governments. The extremely centralised approach to public sector investment in the UK has meant that there is insufficient co-ordination across the wider city and city region.

Because of sustained budget cuts over a number of years, the amount of money available to support economic growth has also been drastically reduced. For example, Advantage West Midlands (AWM) had an annual budget of over £200m and a staff of over 300. Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) – one of the organisations that replaced it – operates with minimal funding from Government and contributions from local authorities and other partners. The council provides support to GBSLEP and is the “accountable body” that manages its resources and investments. This means that the council finds itself in a position of increased responsibility whilst its resources have been drastically reduced.

Strengths & Opportunities in Birmingham's Economy

Birmingham remains one of the UK's leading economic centres and the city has achieved considerable successes that the council has made a big contribution to. A significant proportion of its employment is in high value services (such as the legal and financial sectors), while the city remains at the heart of the UK's advanced manufacturing and automotive industries. It can also compete internationally in high-growth sectors including life sciences, digital and business services and advanced manufacturing and it is the most successful region in the UK at attracting jobs from foreign direct investment. Birmingham's position at the heart of the UK makes it one of the most accessible and connected cities in Europe, with 90 per cent of the UK market (customers and businesses) within a four hour drive.

Weaknesses & Challenges in Birmingham's Economy

Unemployment is 40 per cent higher than pre-recession levels and economic output is 3 per cent lower. Birmingham's overall employment rate is around 58 per cent (significantly below the UK average of 71 per cent), with a full-time employment rate of just 44 per cent.

The unemployment rate is 10.3 per cent – over twice the national average – with a 20 per cent youth unemployment rate which is the highest of all the major cities. There are also a number of areas of longstanding deprivation where over 50% of the working age population is out of work.

37 per cent of all the jobs located in the city are taken up by in-commuters, with a net influx of 112,000 (whilst 119,000 residents are claiming out of work benefit). Although there is considerable growth in high-value employment sectors, Birmingham residents are not being equipped with the skills to compete for the best jobs in the market – so an even greater percentage of them will be taken up by in-commuters.

Priorities for a more successful and inclusive economy

A successful economy is a pre-requisite of a more inclusive economy – so the priority for the Council must be to create the right conditions for growth, and to ensure that Birmingham's residents are given the skills and the opportunities to benefit from it. A successful and inclusive economy is also one in which:

- All services responsible for supporting the economy are focused on creating jobs and helping Birmingham residents get those jobs
- People will stay and remain a part of the city – not move outside once they reach a certain point in their lives and careers
- Action is taken to ensure that those currently excluded or outside of the economy – young and old – are able to participate
- There is a vibrant jobs market – which means diversifying the employment base of the city
- There is access to decent housing, job opportunities, quality education and health provision, integral to an inclusive economy
- Personal responsibility is strong so that people have the capability to move into employment and out of dependency

Economic exclusion costs the public sector a significant amount through increased health, social care and benefits costs along with lost income through business rates

and other revenue sources. A successful and inclusive economy in the long-term helps save and safeguard public investment, by avoiding these hidden costs of failure.

INITIAL FINDINGS OF THE REVIEW

1. Continuing to develop a successful and inclusive economy is the right thing to do.

The majority of the services provided to support the economy are discretionary – that is, the council has no legal duty to provide them – and therefore could be stopped. Moving to a statutory-minimum model would mean significant savings (potentially rising to around £50m a year) – but it would also effectively end the council’s ability to provide meaningful support for a more successful and more inclusive economy, and lead to wider, hidden costs of failure. A more successful and inclusive economy should have a positive impact on health care budgets (by keeping people healthier through jobs and decent homes); re-offending rates (by providing ex-offenders with gainful employment opportunities); the business rate income to be reinvested in other services (by keeping businesses in the city and helping new ones to thrive here); and the wider welfare bill (by making sure that everyone has access to sustainable job opportunities, reducing dependence on the state in the future).

Therefore, continuing to support the economy is the right thing to do. Simply pulling back to the statutory minimum is not the right course to take. At a time of anxiety, significant challenge and pressing need for the city, this is an important statement for the council to be making.

2. There is more we can, and must, do to promote further economic inclusion

Because developing a more inclusive economy is a key policy priority for the City Council, it is imperative that the initiative is taken now to focus on:

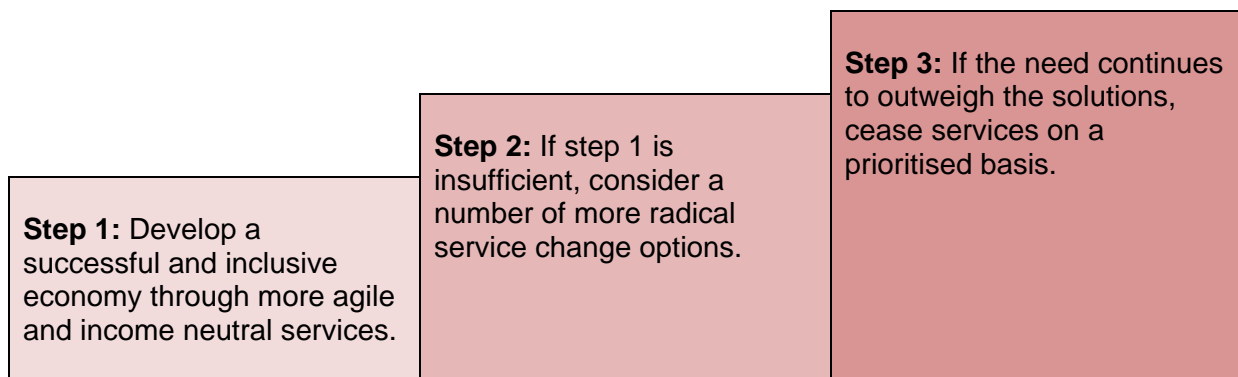
- Creating 55,000 new jobs and ensuring that Birmingham’s residents have the abilities and opportunities to access them
- Ensuring all services within the review are directly serving the priorities of developing a more successful and inclusive economy
- Taking the good work already being done by different areas and setting out a clear evidence-based strategy that can attract funding and support from partners
- Explicitly linking the impacts from supporting the economy on wider public sector budgets, leading to a more strategic and joined-up approach with other key priority areas (particularly around health and social care).

3. We cannot continue to develop a successful and inclusive economy based upon the current service models, and we will need to see considerable service innovation.

Meeting the wider financial challenge is paramount, and this means that these services will not be able to continue on the same cost-base. They have already delivered significant ‘salami slicing’ cuts in recent years, and have little-to-no scope with which to simply absorb proportional savings whilst continuing to provide a meaningful service. But the services in this review are able to generate income and to contribute towards their own costs - they currently bring in over £120m, to offset their gross costs of almost £200m. Therefore, to make sure we have a sustainable model for supporting the economy, we need to consider a number of changes to how we do business as a local authority.

Stepped proposals for delivering priorities

The following approach has been identified to enable the Council to progress through a series of stages in order to deliver the savings and the priorities required:



Each step has within it a number of specific proposals, which in turn can help realise a range of potential savings. These are explained in more detail below.

Step 1: Develop a successful and inclusive economy through agile and cost-neutral services.

This step contains two principal proposals:

R1a. Embrace the benefits of “enterprise services” and move towards as many service areas as possible being net revenue neutral to the Council

The local authorities that will be most able to maintain a broad set of services to support the economy will be those that are most effective at covering their own costs from outside funding.

This will mean a new focus on securing grants and charging core costs outside of the authority. It will also mean a need to efficiently and continuously, adapt the size

of services according to the income they are able to generate through the adoption of an ‘enterprise services’ model.

Whilst there are some well-founded concerns about a loss of control of service direction, the time the transition could take and the practical limits to how much more income generation can be achieved, these challenges should not discourage a concept that can help retain a broader base of services.

For example, more income can be generated even by those services that cannot fully cover their own costs. If the council were working to a defined Successful and Inclusive Economy Strategy, this could be deployed as a means to direct outside funding, to protect priorities and shape the overall direction of public spend. The Council should adopt a clear and strong position whilst helping set the agenda for future funding streams, such as the Local Growth Fund and new European funding arrangements.

The following early saving potential has been identified:

	Savings £'000 14/15	Savings £'000 15/16	Savings £'000 16/17
Move a number of identified services into ‘enterprise’ models with net-neutral revenue costs to the council	280	566	826
Generate new income to support wider enterprise position	135	160	185
Total	415	726	1,011

The review proposes that more can, and should, be done to ensure a larger number of service areas embrace this model and, as such, the amount of realisable savings should grow. It is the long-term aspiration of the Council to see the entire set of services become revenue neutral.

R1b. Ensure that all of the services the council delivers are as efficient and as agile as possible

In spite the level of savings services have had to deliver in recent years, scope remains to create more efficient activity – particularly in areas where there is an inability to become full “enterprise services”. This can be achieved by reducing back office capacity, better integration, closer working with the private sector and increasing partner contributions to citywide priorities. As a result, early savings potential has been identified as follows:

	Savings £'000 14/15	Savings £'000 15/16	Savings £'000 16/17
Reduce back office and service costs and increase partnership working	105	125	145
Reduce the costs of planning strategy / planning management	155	155	155
Support reductions in the City Council's energy bill	0	700	700
Increase outside income in partnership activities	100	1,000	1,600
Increase the balance of outside funding into business development activities	75	100	100
Increase the balance of outside income into employment support activities.	550	550	550
Total	985	2,630	3,250

Step 2: Considering a number of more radical service change options.

This is a time of unprecedented financial challenge for the City Council and the traditional approaches to reducing budgets (efficiencies and “salami slicing”) are no longer sufficient by themselves. A number of concepts have been considered and developed, which represent more radical means to secure both improvements in the support for the economy and savings for the City Council.

As these are more radical recommendations, there is considerable potential for increased savings and income to be generated; but there is also a need to test these proposals carefully within and outside the council before they can be proposed for implementation. There are three substantive proposals within this step:

R2a. Vary or re-negotiate current contracts and funding agreements, in order to deliver maximum value for the council

Much of the controllable budget for the services in scope is tied up in contracts and funding commitments. Whilst the council does not take the implications of attempting to vary these agreements lightly, we believe that there is no choice at this point in time. The two biggest agreements in place are the Council's subsidy to CENTRO, the Independent Transport Authority (ITA) and the Highways private finance initiative (PFI) agreement with Amey and the Department for Transport.

In the case of the former, a decision about funding would need to be taken in conjunction with the other local authorities in the West Midlands that are part of the ITA, and the decision as to how to implement any reduction would need to be taken by the ITA itself. However there is scope to seek a more equitable and proportional agreement, given the constraints felt not just by Birmingham but across the West Midlands.

The Highways PFI agreement lasts for a further 21 years and, although it has only recently been varied to make savings, work is on-going to consider further ways spending could potentially be reduced.

	Savings £'000 14/15	Savings £'000 15/16	Savings £'000 16/17
ITA levy reductions	6,400	6,400	6,400
Highways PFI reductions	1,000	1,000	1,000
Total	7,400	7,400	7,400

R2b. Create new tools and methods to generate income to support the economy, particularly by looking to the beneficiaries of interventions to provide support.

A number of methods for replacing current council investment have been identified. These cannot be regarded as savings to the council's budget as such (because the income will not be used to fund current activity), though they could ensure the sustainable continuation of some aspects of support for the economy even if the council no longer has the revenue to provide it. The most attractive models are:

- Supporting, and potentially increasing, investment into transport priorities and a long-term urban mobility strategy through a new system of Government-agreed employee tax models. This would emulate models that have been successfully developed across Europe and provide long-term investment for key infrastructure developments.
- Supporting, and potentially increasing, investment into sector priorities through an expansion of the Business Improvement District (BID) and Thematic BID concept. This would allow for more thematic and existing BIDs to support key priorities (building on the Tourism BID model).

R2c. Merge departments and functions (both within the Council and with outside partners) to create better and stronger means of supporting the economy more efficiently

The review has considered the appropriateness of current structures and the potential benefits that could be created if a more radical approach were taken to supporting growth across the council and wider region. As a result three key proposals have been developed:

- Ways of working more closely at city region level, engaging other local authorities and potentially other partners in business and from government departments as well. This would support the Triple Devolution vision established within the Leader’s Policy Statement and enable a more strategic approach to supporting growth at the functional economic level. Potentially beginning with services in the review, it could provide the platform for much stronger regional collaboration, and help provide savings through economies of scale and efficiency for Birmingham and other local authorities.
- Combining cross-directorate functions to better promote economic inclusion, creating a closer alignment of services that are currently spread across multiple directorates and could be more effectively, and efficiently, managed together.
- Establishing a Birmingham Energy Services Company (BESC). The BESC would be run by the Council to generate local energy, build strategic energy infrastructure and wholesale energy to Birmingham consumers. It would have ability to generate income for City Council whilst also supporting economic inclusion and tackling priorities such as fuel poverty for Birmingham residents.

	Savings £'000 14/15	Savings £'000 15/16	Savings £'000 16/17
Develop a Birmingham Energy Services Company	250	500	750
Externalise elements of support and develop a city region approach to developing a successful and inclusive economy	100	250	400
Combine cross directorate functions	750	1000	1000
Total	1,100	1,750	2,150

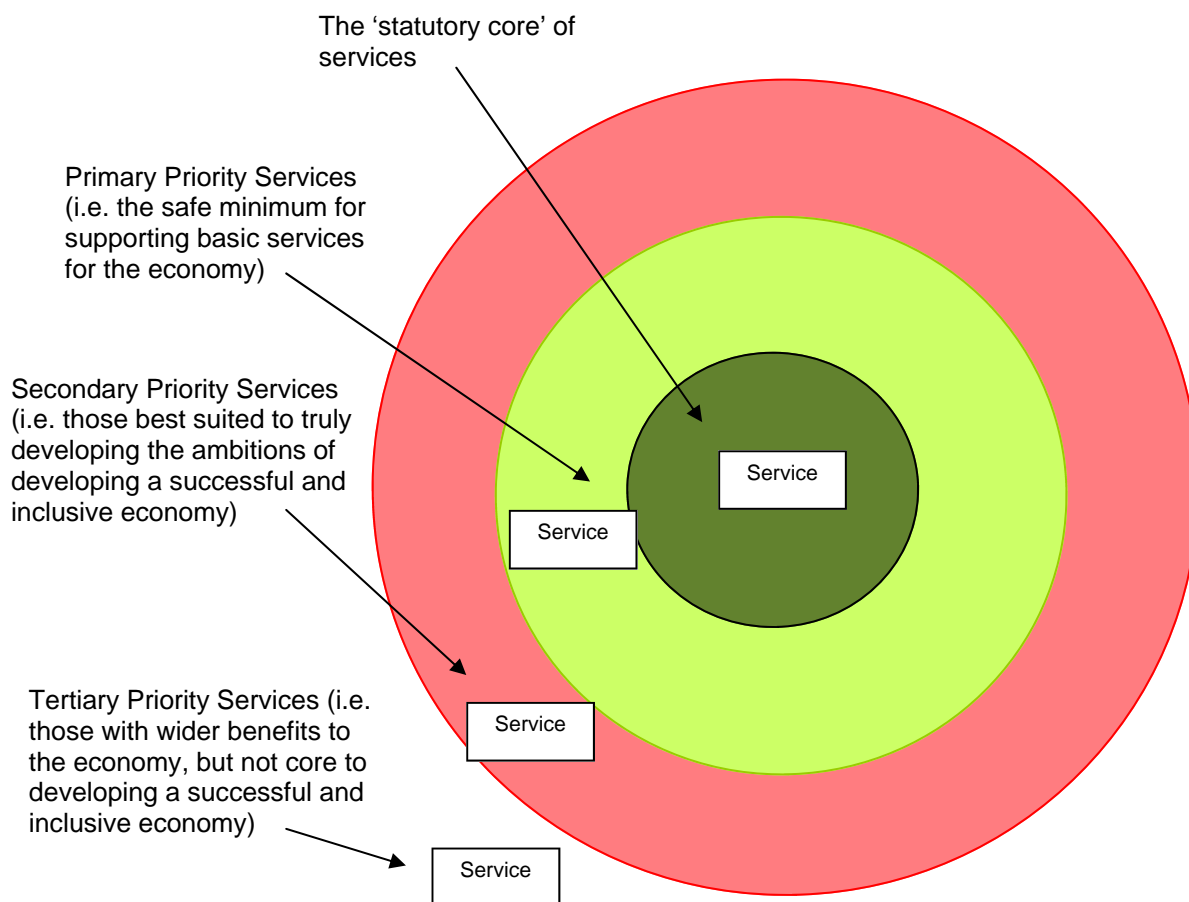
Step 3: Being prepared to stop providing certain services

Steps 1 and 2 identify the scope to achieve around £13.8m of savings over a three year period, the majority of which could be secured by year two. This is roughly 23 per cent of the “controllable budget” identified within the Review. Difficult further decisions may need to be made about a number of functions. If required, certain services will need to be ceased or decommissioned to allow prioritisation of the limited resources available into those areas of greatest benefit to developing a successful and inclusive economy.

Information provided by the service areas has been analysed and, based on key criteria (including how well they support greater inclusion, the statutory nature of the service and its ability to move to a cost-neutral position), an initial mapping of priorities is being generated. This now needs to be developed as a tool to help the council make decisions.

It is intended that this analysis be used as the basis for further dialogue with service users, elected members, service owners and wider stakeholders. This will be an integral part of the development process following the Service Review.

A mapping concept of service priorities to inform the dialogue



KEY QUESTIONS

1. Should we continue to support Birmingham's economy?

We believe that the Council should continue play a key role in providing support to Birmingham's economy, and that pulling back to the minimum level that we are required to provide by law is not the right course of action for Birmingham at a time of pressing need. We know the cuts have closed down services which other agencies used to provide, but we don't believe that is the right thing for the City Council to do.

What are your thoughts? What are the most important services for you that help the economy?

2. How can we support the development of a more inclusive economy?

We believe that an inclusive economy can help overcome a wide range of challenges the public sector faces – by reducing the costs associated with health inequalities, crime rates and dependency on the state – by giving people access to sustainable employment and good-quality housing. Unfortunately Birmingham does not currently have an inclusive economy, and the cost of this exclusion is high.

The Review has concluded, therefore, that ensuring that Birmingham's citizens have the skills and the opportunities to access jobs and housing is a key priority – and that the services looked at as part of the review should have a clear focus on creating jobs, and helping Birmingham's citizens to access them.

What are your thoughts?

3. Should we develop an "enterprise services" model?

We think that the councils who will be most successful in providing a breadth of services to support the economy in the near-future will be those who can quickly develop 'enterprising' models for these services, where all of their costs are effectively covered from outside of the local authority. We know this will not work for every service area, but we believe it should be tried as far as possible so that a wide range of services can survive in the future even if the City Council continues to face reduced core budgets.

What are your thoughts?

4. Should we consider new ways to fund services to help provide support for the growth of the economy?

We believe that if we are going to provide services, over and above the enterprise model, the Council as a whole will need to identify some more substantial contributions from outside sources. This might mean looking for greater contributions from those who directly benefit or use services linked to the economy, and, it might

mean expanding models help businesses ring-fence their own investment in the economy.

What are your thoughts?

5. Should we look at the way we work both as a Council, and with partners across the region, to help identify ways of reducing collective costs by working more closely together?

We believe there are significant potential benefits to be gained from merging functions within the council, and looking at the ways we work jointly with our neighbours and partners in the city. By working more closely together we could help each other deliver savings, and also increase our focus on support for the economy specifically.

What are your thoughts?

6. Should the City Council consider varying or renegotiating current contracts and funding agreements to either save money or get greater value?

A significant amount of expenditure from services in scope of this review occurs through contracts and commitments which the Council has already agreed to. Whilst we cannot take the implications for varying these agreements lightly, we think we have to try to work with our partners to look for means of getting greater value out of existing and standing commitments, and even consider cancelling some arrangements if they cannot continue to support our priorities for a successful and inclusive economy into the long-term.

What are your thoughts?

THE DIALOGUE

The first round of this dialogue will continue through the autumn. Following that there will be a formal budget consultation for 2014-15 – that will be a separate exercise which we are legally required to carry out.

All the information you need will be posted at:

<http://www.birmingham.gov.uk/servicereviews>

You will be able to take part in the dialogue by:

- Sending your comments by post or email
- Submitting comments on Facebook and via Twitter
- Attending the next meeting of your Ward Committee

Details for all these are on the web site.

In addition we will be holding discussion sessions on specific services with groups of service users and other interested people. We have also engaged the permanent People's Panel during the summer. Our scrutiny committees will be looking in detail at aspects of the education and adult social care reviews.

If you are part of the network of people and organisations involved in our social inclusion process, led by the Bishop of Birmingham, you will also be able to join in discussion of how we can limit the impact of cuts on social exclusion and inequality.

City Council staff will also be encouraged to join in the debate.