



Ministry of Housing, Communities & Local Government

Jim McMahon OBE MP
*Minister of State for Local Government and English
Devolution*
2 Marsham Street
London
SW1P 4DF

Councillor John Cotton
Leader of Birmingham City Council
By email

20 February 2025

Dear Councillor Cotton,

I am writing in relation to Birmingham City Council's request of 19 December 2024 for Exceptional Financial Support in respect of the financial years 2024-25 and 2025-26.

The Exceptional Financial Support process exists to support those councils facing unmanageable financial pressures. This government understands that fragility in the system has left some councils in difficult positions and recognises that support is required in exceptional circumstances to balance budgets. Going forward, as set out as part of the Local Government Finance Settlement, we are clear that we will continue to work to support local services and put the system back on a sustainable footing.

The Deputy Prime Minister has considered the council's position including all the measures that have been taken locally to support the continued delivery of sustainable services for residents, particularly for those who are most vulnerable.

This letter therefore sets out the department's current position but does not constitute a capitalisation direction.

With respect to the financial year 2025-26, the Deputy Prime Minister is minded to approve a capitalisation direction of a total not exceeding £180 million.

The Deputy Prime Minister is also minded to approve a revision to the previously agreed in-principle capitalisation direction of £685 million to £490 million for 2024-25.

We will continue to work with you on the final amount of support required for 2020-21, 2021-22, 2022-23 and 2024-25 ahead of issuing any capitalisation directions. Officials will discuss this with officers at your council in due course.

Requirements

Government's agreement to provide the Exceptional Financial Support outlined in this letter and any future support is subject to the council providing assurance of its position, and ongoing action to improve its financial position.

At all stages the department's consideration will also include evidence from the Commissioners of the actions the council is required to take, as per the Secretary of State's directions dated 5 October 2023 made under section 15(5) and (6) of the Local Government Act 1999. This will include evidence of the council's delivery of:

- The proposed savings identified in the 2024-25 budget. This should include:
 - Clear ownership and accountability for the savings at member level.
 - The Authority developing, alongside Commissioners, the infrastructure, people, and plans to deliver the savings.

- Rebuilding capacity and capability at its core to manage interdependencies in the savings plan, including ensuring there is the right balance between the corporate core and the service departments.
 - There should be clear lines of accountability from departments to the Chief Executive and Corporate Leadership Team.
 - This accountability will be strengthened by improvements in reporting to Cabinet.

Conditions

Capitalisation directions may be subject to conditions, which would be set out in any directions should the Deputy Prime Minister decide to exercise her powers as Secretary of State under sections 16(2)(b) and 20 of the Local Government Act 2003. If the Deputy Prime Minister decides to give any directions, she is minded to attach the following conditions:

- i. The authority may only capitalise expenditure when it is incurred.
- ii. Where expenditure is capitalised, the authority shall charge annual MRP using the asset life method with a proxy 'asset life' of no more than 20 years.
- iii. the Authority makes good progress against its Improvement and Recovery Plan, as assessed by the Best Value Commissioners, in their regular reports to the Deputy Prime Minister.

If the Deputy Prime Minister gives any directions, she will confirm the final amount of capitalisation support and any conditions that will apply in due course. The approval of any capitalisation directions will also be contingent on the council reporting to the department the final amounts identified for which it requires capitalisation for each year, with the agreement of the council's external auditors, and endorsed by Commissioners.

If you are considering financing capitalisation support through capital receipts, I want to make clear at this stage that it is my expectation that councils should avoid the disposal of community heritage assets where possible to protect the public ownership of locally significant sites to ensure residents can continue to benefit from them.

Thank you for your continued support and the support of your officers whilst we have considered your request for Exceptional Financial Support. Officials will continue to closely support you through the next steps of the process.

Yours ever,

JIM MCMAHON OBE MP

Minster of State for Local Government and English Devolution