

## Response to the Section 114 Report and Section 5 Report, dated 15<sup>th</sup> December 2021

**Councillor David Mellen**  
**Leader of Nottingham City Council**

1. Since May 2019, Nottingham City Council has been carrying out a number of measures to bring about financial stability and rigor to its financial and governance arrangements and has overseen the council's Recovery and Improvement Plan to date. This has included introducing a fundamental overhaul of the Council's constitution but has also rightly looked at ways to set about balancing the budget whilst continuing to deliver the vital services we know people across the city need and rely on.
2. As part of the Council's ongoing work to review financial governance and practices in line with its Recovery and Improvement Plan, a significant issue had been brought to light involving funds from the Council's Housing Revenue Account being incorrectly credited to the General Fund for all council services.
3. The council commissioned a report from CIPFA (the Chartered Institute of Public Finance and Accountancy) which confirmed that £15.86m of funds from the Housing Revenue Account - which should only be used for transactions related to council housing landlord functions - had been illegitimately used by the General Fund for all council services since 2014/15.
4. In December 2021, the Council received legal advice which confirmed that the allocation of housing funds to its General Fund was unlawful and so on 15<sup>th</sup> December 2021, the Council's Interim Corporate Director for Finance and Resources and Section 151 Officer issued a report under Section 114(2) of the Local Government and Finance Act 1988. Simultaneously, the Monitoring Officer issued a further report under Section 5 of the Local Government and Housing Act 1989 and a response to both is presented to an Extraordinary meeting of Council on 4<sup>th</sup> January 2022 for its consideration.
5. The council accepts the recommendations of the CIPFA report in full and is taking immediate steps to cease this action with effect from April 2020 and to refund to the Housing Revenue Account (HRA) the full amount from its General Fund reserves. As Leader of the Council, I have asked officers to obtain formal instructions from government ministers in order to refund the HRA as soon as is practicably possible, which will most likely take the form of a ministerial direction.
6. Politicians have been elected to set the strategic policy and vision for the city, however officers manage the day-to-day running of the council. The council's budget and accounts are externally audited every year by independent experts. However, it was only in this year that the s151 officer alerted the



authority to the accounting irregularity with the Housing Revenue Account and was supported in seeking external advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) to review the issue.

7. Having received advice from officers in December 2021, members of this Council are committed to acting without delay to ensure that the money is accounted for correctly. This will not directly affect the Council's revenue budget for day to day services but will put further pressure on our General Fund reserves and steps are now being taken to immediately refund the Housing Revenue Account from the council's General Fund by the full amount.
8. Nottingham City Council is committed to making sure that the council continues to deliver vital services whilst ensuring that issues such as this are discovered and dealt with immediately. In light of these fundamental issues and a number of unanswered questions remaining, Nottingham City Council has commissioned an investigation without delay to understand how this happened and will absolutely ensure that measures are put in place so that something like this cannot and will not happen again.

**9. Council is recommended to**

9.1 Give due and proper consideration to the Section 114 report and its response to it;

9.2 Endorse the views contained in the Section 114 report;

9.3 Accept all of the recommendations contained within the Section 114 report, in particular:

- i. to note and endorse at its meeting the actions proposed by the Section 151 Officer in paragraphs 8.2.1 – 8.2.5 of the s114 report
- ii. to endorse the recommendations made by CIPFA at 9.3 – 9.9 in the s114 report (which have been accepted by the Section 151 and other Statutory officers)
- iii. to note the actions taken at recommendation 9.10 in the s114 report

9.4 Approve this written response to the Section 114 report and the Section 5 report.

**Councillor David Mellen**  
**Leader of the Council**  
**Nottingham City Council**