Annex 5

Robustness of the 2022/23 Budget

Contents

Robustness of the Budget and Adequacy of Reserves

1 Introduction

1.1 The Local Government Act (Part II) 2003 requires the Council's Chief Finance Officer (Section 151 officer) to report to councillors on the robustness of budget estimates and the adequacy of that council's financial reserves. The City Council's CFO and Section 151 Officer holds the post of Corporate Director of Finance and Resources. A summary of this evaluation is set out below.

1.2 Conclusions of this review are shown in section 10 to this Annex

2 Overall Robustness of the Budget

2.1 The Medium Term Financial Plan (MTFP) forms the overarching framework within which the Council's financial planning and management activity takes place. The annual budget is an integral part of the rolling multi-year MTFP. This approach enables it to support delivery of the Council's priorities and services as detailed within the Council Plan.

2.2 In 2020 the financial planning context shifted considerably and the impact of the disposal of Robin Hood energy and the Covid-19 pandemic led to the then S151 Officer to implement an Interim Budget which was approved by Full Council in October 2020 to ensure that the Council remained with a balanced legal budget for the financial year 2020/21.

2.3 On 11th August 2020, the Council's external auditors, Grant Thornton, issued a Public Interest Report following the Council's decision not to continue to provide support to the company in the light of a deteriorating financial position. The Public Interest Report made a number of recommendations which the Council accepted and is now implementing. https://www.nottinghamcity.gov.uk/public-interest-report/

2.4 Following issuance of the Auditor's Public Interest Report (PIR), the Secretary of State for Housing, Communities and Local Government (MHCLG) appointed Max Caller CBE in late October 2020 to lead a rapid, non-statutory review (NSR) at the Council. The purpose of the review was to provide assurance on the financial position of the Council, its governance arrangements and the commercial and investment issues identified by the Council's External Auditors, Grant Thornton, in the PIR published on 11 August 2020. The findings from the review were published in November 2020 and details can be found at https://www.gov.uk/government/publications/nottingham-city-council-rapid-review.

2.5 Key findings of the report included the need for a longer-term financial planning horizon to ensure that the Council achieves financial sustainability over a 2-3 year recovery phase. Additionally, the report findings covered the Council's debt position, the lack of pace in releasing underutilised assets and governance matters for the Council and its companies.

2.6 After consideration of the report, the Secretary of State determined that the Council must produce a Recovery and Improvement Plan and that an independent Improvement Board would be put in place for a three year term to support the Council in its recovery journey, oversee the implementation of the Recovery and Improvement Plan and to provide assurance to the Secretary of State for Housing, Communities and Local Government (MHCLG) that the Council is making satisfactory progress at pace The Improvement Board

is Chaired by Sir Tony Redmond with two other independent sector expects and the Leader of the Council.

2.7 The Council duly developed a Recovery and Improvement Plan which was approved at Council on 25 January 2021 and can be found at https://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=156&MId=8931

This has now been refreshed, reamed as the "*Together for Nottingham"* plan and was approved by Full Council on 10 January 2022.

2.8 Central to the plan is a realignment of the Council's vision through a new Council Plan, which aligns the Council's ambition to deliver modern citizen-centric services within a financial envelope which is affordable and sustainable over the medium term. This is a reforming agenda delivered with support from the Improvement Board again a clear plan.

2.9 The plan includes eight themes but four of these have direct relevance to the conclusions of this assessment:

- Theme one – MTFS (Medium term MTFS, a reforming transformation programme, strong spending controls and monitoring);
- Theme two – Asset Management (Asset Disposal Strategy, Operational and Community Asset Review);
- Theme three – Companies (Council Owned Company Review, Company Governance and Commercial Strategy);
- Theme four - Capital Programme (Capital Strategy, Debt Management Strategy, Review of Capital Schemes and Strengthened Programme Controls)

Each theme consists of a number of objectives, deliverables, activities, risks and actions/milestones with timescales for the actions.

2.10 In response to the findings of the reviews and to requests from the Improvement and Assurance Board, the Council has implemented some significant changes during 2021/22 in order to ensure that the recommendations are implemented. Key areas of progress include:

- The development of a new Performance Management Framework linking the Strategic Council Plan to Service Plans to the Medium-Term Financial Strategy and individual performance appraisals.
- Enhanced budget oversight procedures chaired by the S151 Officer to scrutinise variances in budget monitoring forecasts with Corporate Directors, Directors and Portfolio Holders.
- In depth reviews of the council's companies and removal on reliance of dividend income that has yet to crystallise.
- The creation of a dedicated shareholder unit to manage the Council's relationship with its companies more effectively.
- Operationalisation of capital and debt management strategies and the implementation of the Voluntary Debt Reduction Strategy
- A new capital governance and control framework including project controls and monitoring

Progress reports and updates on the financial position have been reported throughout the year to the Executive Leadership Team and the Improvement and Recovery Board.

2.11 The severe impacts of the Covid-19 pandemic on the City in 2020/21 have continued to have a financial impact in 2021/22 and are likely to do so for the medium term. Assumptions within the MTFP reflect this, in particular pressures for social care services and on the Council's income. An event of this magnitude undoubtedly means the Council is monitoring the impact and considering mitigating actions on an ongoing basis, how its services should operate sustainably in the future. There remains the longstanding challenge to Council spending and revenues if citizen needs and working and spending patterns in the city continue to change. In this context it is essential that the Council deploys its resources efficiently so that it can continue providing its services to citizens, visitors, and partners. To support this, the Council has developed a Transformation Programme that will challenge the way in which services are delivered and will deliver efficiency savings over the lifetime of the MTFP.

2.11 A S114 notice was issued on 15 December 2021 regarding the unlawful allocation of housing funds to the General Fund. Details of the S114 notice, the Chartered Institute of Public Finance and Accountancy (CIPFA) review and the subsequent extraordinary City Council meeting on 4 January 2022 can be seen at the link below https://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=156&MId=9457

2.12 A number of recommendations were made, and subsequently accepted by Full Council on 4 January 2022 including:

- In respect of financial years 2014/15 – 2019/20, set aside in its General Fund reserves the sum of £14,366,500 to repay the Housing Revenue Account (this is net of £1,492,000 below. Interest will be added to bring the payment to 2021/22 prices. Repayment will be made as soon as the sum for each individual year is validated following further detailed work.

2.13 Further detailed further work is underway and the final position will be known in full once this has been concluded. However the significant financial impact on the Council's finances, in particular its reserves is a key consideration.

2.14 This assessment of the robustness of the budget focuses on the likelihood that actual spending and income may remain uncertain and volatile for some time and that issues may emerge that had not been planned for or foreseen when the budget was set. With this in mind, the need to maintain reserves at an appropriate level is seen as a key part of the financial plan. In response to the impact of the Covid pandemic on the 2021/22 budget and in-year monitoring position in the early part of the financial year, the S151 officer introduced a number of spending controls to mitigate the impact of the additional costs and pressures on the Council's budget. This has proven to be an effective mechanism with forecast spending during the year reducing to the point where the Council is currently forecasting an in-year underspend.

2.15 The budget process is part of a continuous service planning and financial cycle. A wealth of knowledge and understanding of the local and national financial and economic environments is used to make informed assumptions and judgements about future financial planning. This activity seeks to establish a robust budget which is appropriate, realistic and constructed having taken a practical and appropriate assessment of risk. The impact of the current operating context is more difficult to predict due to the unprecedented impact

of the Covid-19 pandemic and ongoing and differing restrictions that are imposed as the nature and impact of the pandemic changes. This report sets out the direction and actions required over the coming months to ensure the financial sustainability of the Council from this point forward.

2.16 The focus for 2022/23 was to deliver a balanced 2022/23 medium term financial plan for the financial years 2022/23 – 2025/26. Following a period of intensive financial work, the Council has identified savings to the value of **£15.2m** in 2022/23 increasing to **£29.6m** in 2025/26. In doing so, the Council is able to present a balanced budget for 2022/23 without significant recourse to reserves. The current MTFP also shows a balanced position for all 4 years of the plan.

2.17 In line with the non-Statutory Review findings, the Council, in December 2020, applied to MHCLG to treat **£35m** of revenue costs as capital. The then Secretary of State approved total capitalisation of **£20m** in 2020/21 and for 2021/22 was 'minded to' support a further Capitalisation Direction but this would be subject to an assessment in Q3 2021/22, in conjunction with the Improvement Board. The Council has decided not to pursue the request the further **£15m** capitalisation request for 2021/22. The key factors in this decision include:

- A significantly improved in-year monitoring position for 2021/22 and a forecast underspend of **£5.1m**
- An improved financial position resulting from the Local Government Finance Settlement
- A review of earmarked reserves and the ability to create sufficient reserves to fund transformation
- Robust business cases that will lead to the delivery of ongoing transformation savings of **£18.5m** per annum from 2025/26

3 Financial Environment and Framework

3.1 The external environment in which the Council operates continues to be challenging. The impact of Covid-19 will continue into the medium term and will lead to additional costs and reduced income. This will also be true for council owned companies whose diminished profits will result in the cessation of dividends. Together with the uncertainty over the long term impacts of Brexit, the funding envelope for local government has never been under more pressure.

3.2 The following section details key elements that have shaped the construction of the 2022/23 budget.

Previous Financial Performance

3.3 In recent years, Nottingham has consistently overspent against is approved budgets as a result both of increasing cost pressures and the under delivery of savings proposals:

- 2016/17 **£2.5m** overspend
- 2017/18 **£4.2m** overspend
- 2018/19 **£1.7m** overspend
- 2019/20 **£6.8m**, overspend of which **£2.9m** was directly attributable to Covid-19.

3.4 For 2020/21, the pre capitalisation outturn was **£18.7m** favourable to budget as reported to July 2021 Executive Board. This variance was largely due to a **£15.3m** favourable variance within the Adult Care & Local Transport portfolio. The 2020/21 outturn variance post capitalisation was **£38.7m**, which together with the receipt of the Government Tranche 4 Covid funding enabled the reserves that were borrowed from as part of the 2020/21 Interim Budget Process approved by Full Council in October 2020 to address the combined impact of Covid-19 and specific issues in relation to the decision by the Council to terminate its interests in its wholly owned energy company – Robin Hood Energy to be repaid.

Impact of using one off measures

3.8 During the last 4 years, there has been a consistent use of one off measures and mitigating management actions to manage spending rather than a long term and structured approach to financial management. The range of management actions required have included:

- reducing contingency balances
- extensive use of earmarked reserves
- reduced revenue contribution to support capital programme expenditure
- vacancy freeze controls
- cessation of non-essential spend
- reductions to maintenance spend and
- restrictions on travel and conferences

3.9 The continued use of reserves and one off measures to address budget shortfalls has had the impact of detracting from making the more significant transformational changes that are required to secure the City's medium-long term financial sustainability. This practice has largely been eradicated in 2021/22 with a more corporate approach to the use of reserves introduced and an approach that links council and service planning to the MTFS introduced.

External Audit – key issues and recommendation

3.10 The 2019/20 and 2020/21 external audits have not yet been concluded as a result of valuation and Robin Hood Energy (RHE) related issues. However, the 2018/19 external audit report from Grant Thornton detail key issues and recommendations in relation to financial sustainability and the use of one off measures.

"Sustainable Financial Budget

The Authority has highlighted a number of risks regarding its ability to deliver a self-sufficient and sustainable financial budget in the medium term. Many of these risks are not specific to the Authority but to the sector as a whole, underpinned by reduced central funding and increasing demand for social care services.

The Authority's outturn for 2018/19 and 2019/20 has been overspend against budget. For 2018/19 the Authority has relied on a number of non-recurrent measures to help reduce the in-year overspend. Despite setting a balanced budget for 2019/20, it is likely that there will be emerging financial pressures that will require co-ordinated action by CLT."

Demand led pressures, income generation and reduced flexibility within the budget

3.11 A significant component of previous budget strategies has been to maximise income via a commercial approach, whether that be from internally provided traded services or external companies in the Council's Group structure. Covid-19 has and will continue in the medium term to have a disproportionate impact on the financial health of the Council and its associated companies due to the previous reliance upon income as part of the Council's MTFP.

3.12 These income assumptions have been reviewed as part of the budget process the impact of Covid-19 on the Council's income is forecast to continue over the medium term and that a return to pre Covid levels is not forecast within the current financial planning period.

CIPFA Financial Resilience Index

3.13 In response to the unprecedented financial challenges faced by local government, CIPFA has developed a Financial Resilience Index to act as an analytical tool for chief finance officers to support good financial management and shows the Council's position on a range of measures associated with financial risk.

3.14 The latest information includes data from the financial year 2020/21 and shows that Nottingham is carrying above average risks in the following areas:

- Has a high level of interest payable relative to the size of its net budget;
- Has a high level of external debt;
- Spends a higher proportion of its budget on Social Care services compared with its peers
- Has a limited ability to raise revenue from Council Tax when compared to others because it has a far higher proportion of Band A and B properties than its comparators (and thus a lower proportion of Band F, G, H);
- Has a low level of earmarked reserves relative to its budget in relation to comparators.

3.15 The following areas are where the Council has been assessed at a lower degree of financial stress risk compared with its peers:

- Has a relatively high level of fees and charges to fund its revenue requirements.
- Has a higher level of unallocated reserves to its comparators.

3.16 In 2021/22 the Council moved away from using reserves to support its budget and this approach is continuing into 2022/23 and future years. The issuing of the S114 notice in relation to HRA activity however creates a non-recurring call on reserves that had not previously been planned for. In addition to this, the Council requires reserves to fund a part of the transformation programme and the likely associated redundancy costs that is will incur. It is proposed that £24m of the costs are covered through the flexible use of capital receipts and that £6m be created from reallocating other earmarked reserves to a transformation reserve.

3.17 A review of earmarked reserves has also identified reserves that are considered to be in excess of what is required and these are to be repurposed to address other issues including the repayment of some reserves that were to be repaid through capital receipts and to enhance the finance resilience reserve to mitigate against any new and emerging risks that may arise and were unknown when the budget was set.

Symptoms of financial stress

3.18 CIPFA provide guidance to public bodies regarding the signs that an organisation is suffering from financial stress indicators:

- Running down reserves or a rapid decline in reserves - using up reserves to avoid cuts can only provide temporary relief
- Failure to plan and deliver savings to ensure the council lives within its resources
- Shortening medium-term financial planning horizons - could indicate a lack of strategic thinking and an unwillingness to confront tough decisions
- Greater “still to be found” gaps in saving plans
- Growing tendency for unplanned overspends and/or carrying forward undelivered savings into the following year - sign an authority is struggling to translate its policy decisions into actions

3.19 It is clear that Nottingham has experienced all of the above to a greater of lesser degree and many of these have now been addressed with the improvements and changes made throughout the year. These include:

- The introduction a corporate approach to managing earmarked reserves. From 2021/22 earmarked reserves were amalgamated and approval from the S151 Officer/Deputy S151 Officer is required in order to release them.
- Savings plans are now subject to challenge and scrutiny and require detailed implementation plans that set out how these will be delivered.
- A longer-term financial planning framework has been created with the development of a 4 year balanced medium term financial plan based on 2 year’s firm budgets and a 2 further years indicative.
- Service plans are being developed within the newly approved Performance Management Framework that link service plans to the MTFP

Public Accounts Committee

3.20 In March 2019 the Public Accounts Committee released a paper on Local Authority Financial Resilience. A key theme of the paper was the level of reserves and the unplanned use of the resourced by Local Authorities. The paper references the concerns over the uncertainty of future funding and that debates have been held whether there is sufficient funding to enable Local Authorities to discharge their statutory duties. It also had regard to media reports of financial difficulties of Local Authorities since the crisis of Northamptonshire County Council.

3.21 The paper makes it clear that the funding of local government is a key concern across the sector and the outcomes of the nation funding changes will be fundamental in ensuring that Authorities are financially sustainable.

Fair Funding Review and Business Rates Reform

3.22 The introduction of the Fair Funding Review and a standard 75% Rates Retention has now been further delayed due Covid-19, therefore funding for 2023/24 and beyond is unknown and the MTFP assumes that funding will continue at present levels. Each of these has the potential to benefit the city's finances. A consultation paper on Fair Funding Review is however anticipated for Spring 2022.

3.23 The final local government financial settlement has confirmed funding for 2022/23 only and no assumptions have been made for the likely impact on future settlement funding due to a lack of clear exemplifications of the Government policy options being currently considered.

4 Internal Measures to monitor the financial performance

4.1 The need for accurate, timely and robust financial monitoring is a key priority for the Council and a number of changes have been and will continue to be developed and implemented as the Council progresses on its Recovery and Improvement Plan. These include:

- An enhanced regime of Director and Portfolio Holder accountability through monthly budget review meetings to ensure delivery of individual savings.
- Implementation Plans for all new 2022/23 savings – agreed and signed by Corporate Directors and Portfolio Holders.
- Enhanced monthly monitoring to Executive and the Corporate Leadership Team with a focus on the timeliness of reporting.
- Regular risk based assessment of the Council's financial position.
- Development of a Transformation Programme structure to deliver new ways of working
- Budget Manager budget packs supported by Finance Business Partners
- A full zero-based review of budgets is planned for March/April ahead of commencing the 2023/24 budget cycle.

Budget Review Meetings

4.2 Monthly Budget Review Meetings were established in 2021/22. These monthly meetings were led by the Portfolio Holder for Finance and the S151 Officer and required Corporate Directors and Portfolio Holders to present the financial performance of their services, identify key risk areas and report on the progress of delivery of savings against the implementation plans. Where savings plans are off target, mitigations were sought. This was particularly important in highlighting areas of budget pressures as early as possible in the process, to enable appropriate management action to take place where necessary. The meetings have proved beneficial in ensuring that the financial position is understood and that action could be taken early on emerging issues. These meetings will continue into the 2022/23 financial year.

Implementation Plans for all new 2022/23 savings

4.3 Implementation Plans have been produced as part of the 2022/23 MTFP process. No savings proposals have been included within the 2022/23 budget without a duly signed plan. These plans are to give the Council and the S151 Officer the necessary assurance that the savings included within the budget are robust, credible and deliverable. These

plans form part of the Corporate Directors accountability in achieving the commitments made as part of the budget process.

Enhanced monthly monitoring to CLT and Leadership

4.4 The Council's financial controls are set out within financial regulations, allowing significant assurance of the strength of financial management and control throughout the Council. Given the current climate this process has been reviewed with improvements made to give CLT a comprehensive monthly pack. This details the forecasted outturn, variance commentary together with more detailed information by department. Regular updates are also provided to Leadership and Executive with a quarterly report presented to Executive Board.

Accountability Letters – Annual Budget Manager Budget packs

4.5 Budget Managers are accountable for delivering their services within budget and are required to forecast the outturn position at regular intervals within the financial year, typically monthly. To support Budget Managers with this requirement an annual budget pack is issued prior to the start of the new financial year including the detailed pay budgets, together with non-pay budgets and a statement of the new year budget savings or funded pressures. Budget Managers are supported throughout the year by Finance Business Partners and a suite of reporting.

Oracle Fusion

4.6 A new Finance system went live in April 2021. Budget Managers have been supported through this transition with engagement sessions, training and budget packs. Support has been provided to budget holders throughout the year. Further specific training to smooth out some continuing issues is planned – in particular this will focus on the need to raise purchase orders which will also support the Council in its purchasing and procurement activities and also speed up the time taken to pay suppliers.

4.7 The new Financial System in Oracle has given greater financial visibility to Budget Managers and supports senior managers within the Council deliver on their budget accountability. The new system has greater integration between the Finance and HR systems. Further enhancements to maximise the use and effectiveness of the systems are planned.

5 Constructing the 2022/23 budget, transformational programme and financial position

Constructing the 2022/23 budget

5.1 The environment and framework described above has significantly influenced the construction and governance around of the latest budget proposals. Throughout the process there has been effective and extensive engagement by Senior Colleagues, Finance Colleagues and Executive Councillors.

5.2 In developing the 2022/23 budget, the Council has also developed a medium term financial plan up to the 2025/26 financial year.

Assumptions

5.3 Underlying assumptions have been reviewed by the Council's S151 Officer and found to be satisfactory as follows:

- The provision for inflation and other grants and income is considered to be appropriate, being consistent with known trends and reasonable forecasts
- The income aspects of the overall budget are calculated based on previous and current trends, known influences and identified risks – the impact of Covid-19 however presents a significant forecasting challenge and will be kept under constant review.
- Other known trends and potential overspends (e.g. demographic changes, new legislation, etc.) have been evaluated, subjected to various peer reviews and professional challenge and adequately provided for.
- There are appropriate bad debt provisions in place, however the impact of Covid-19 represents a significant challenge in determining appropriate levels of bad debt provision and will be kept under constant review
- The organisational and financial frameworks and processes required in order to operate within the proposed budget are practical and adequately planned
- Capital receipts used in the funding of the capital programme have been based on professional estimates both of timing and value with a specific risk assessment applied to determine likelihood of receipt.

Integrated Transformational Programme

5.4 A robust transformation programme is key in achieving the long term financial sustainability. Fundamental service reform and changing to modern efficient business models of delivery for the Council to avoid further damaging one off service cuts.

5.5 The Integrated Transformation Programme will oversee and drive the key areas of service reform required across the organisation, and align outcomes to budgets to ensure that Council's objectives are met within the parameters of that envelope. The Programme Management Office (PMO) will ensure that the programme delivers in an efficient and effective way and all projects will be required to develop and deliver to Project Management Plans and Business Cases and be subject to the overall monitoring and governance regime set out as part of the wider Recovery Programme.

Current Financial Position - General Fund Revenue

5.6 The Quarter 3 2021/22 monitoring reports variances to the Interim Budget and a favourable **£5.1m** position is forecast. Pressures within children's social care continue however are offset by underspends in adult's social care. In response to this, a rebasing exercise has been carried out as part of the 2022/23 budget process to ensure that budgets are more accurately aligned to service delivery and reflect costs within the People Directorate. A broader zero based budget review is planned for early 2022/23 for the whole of the Council's budget.

5.7 Spending controls remain in place for 2021/22 to ensure only essential spend is incurred. Full details of the latest position are in Annex 1 of this MTFP report.

Current Financial Position - HRA Revenue

5.10 The City Council is required to periodically review the HRA to ensure that it does not move into deficit. In order to allow for unforeseen expenditure or loss of income, a working balance is needed. The 2021/22 budget increased the working balance to **£7.6m** (from **£4.0m** in 2017/18)**.** The opening working balance for 2021/22 was **£9.4m** however this is expected to be reduced by **£0.2m** by the end of 2021/22 to **£9.3m**. This will provide additional support to mitigate potential financial impact of Universal Credit on the HRA and provide additional one-off funding to cover the early years impact on the new build and acquisition programme. The impact of Covid-19 on the HRA remains challenging to forecast and will be kept under constant review.

6 Capital Programme Risk Management & Governance

6.1 The Council has developed a new Capital Strategy and Investment Plan in response to the findings of the NSR. The report acknowledges that a sustainable capital programme, and the strategy and controls to shape and manage it, is a critical contributor to the overall financial recovery of the City Council. New governance arrangements have been implemented and are operating effectively. Full details of the governance arrangements are set out in the Capital Strategy and include a Capital Board chaired by the Leader of the council and a Capital Officer Board chaired by the Council's S151 officer.

6.2 The capital programme has been developed on the basis that no new schemes will be approved where they incur additional borrowing. This is in line with the Council's Voluntary Debt Reduction Policy. To support new schemes and also to enable the Council to reduce its debt levels, the Council has embarked on an ambitious asset rationalisation programme which will deliver considerable capital receipts over the 4-year period of the MTFP. This work is overseen by an Asset Rationalisation Board and the progress against the plan is reported to the Capital Board on a monthly basis. In total £108.2m is anticipated between 2021/22 and 2025/26 of which £20.8m has already been received. As part of the enhanced governance arrangements, no new schemes are permitted to progress until the funding has been received and is available.

6.3 Key activities achieved during 2021/22 included: -

- A full review of the capital programme to remove de-prioritised schemes and add in future liabilities
- Approval of a revised Debt Management Strategy aligned with a new Capital strategy with an aim of paying down debt over time.
- Creation of a revised Capital Strategy incorporating a prioritisation process which has been fully implemented and forms the basis of new requests for 2022/23 and future years.
- Implementing a strengthened Governance and Control Framework and embedding this across the whole of the Council.

6.4 The implementation of these ensures that:

- Capital investment is strictly prioritised and meets the Council's objectives within a set funding envelope.
- Investment meets the CIPFA criteria of being prudent, sustainable, affordable and value for money.
- The Council is appropriately responding to the recommendations raised in the non-statutory review.

- The Capital Programme does not include any schemes that meet HM Treasury's definition of debt to yield.
- Capital projects are delivered within budget and in a timely manner.

6.5 The Council have significantly relied on borrowing to fund capital expenditure in recent years leaving the Council with significant debt exposure. The introduction of the Voluntary Debt Reduction policy and the effective delivery of the Asset Rationalisation Programme has seen overall debt forecast to reduce to **£900.9m** by the end of 2021/22 which is **£90.1m** lower than the initial target. By the end of 2024/25, the Council's debt is forecast to have reduced to **£843.5m**.

6.6 The Council has adopted a new corporate process for developing a rolling multi-year capital programme. This now operates on an annual cycle with clear timescales, clear information requirements and clear evaluation criteria. The purpose of the new approach is to ensure that capital resources are directed towards supporting schemes that best meet corporate objectives and that capital projects are deliverable.

6.7 A new Capital Programme Board structure has been established and is fully operational. The Board will provide strategic oversight of the implementation of the strengthened Governance and Control Framework. This ensures that projects only commence once they have gone through the prioritisation process, and are then subject to a support, monitoring and assurance package to improve delivery. Controls have also been put in place to extend to the management of benefits post-delivery to help inform ongoing performance and future investment decisions. The Board will also oversee the delivery of the actions and recommendation set out in the Recovery and Improvement Plan

6.9 The draft 2022/23 capital budget is based on this new Capital Strategy and Debt policy

Capital Programme – Current Position

6.10 General Fund – Current forecast spend, including schemes in development, is **£334.9m** and is fully funded.

6.11 **£231.7m** of grants and contributions and **£35.7m** of borrowing will be required to fund the programme as well as **£56.5m** of capital receipts, of which **£40.2m** are unsecured and revenue resources of **£11.1m**. This represents an improved position on previous years with reduced borrowing requirements. The success of the Asset Rationalisation Programme and the delivery of significant capital receipts has contributed towards this and is a key success factor in reducing the borrowing. Borrowing levels are forecast to be £83.9m less than the forecast contained in the Voluntary Debt Reduction Policy when this was agreed in march 2021.

6.12 Public Sector Housing - The forecast spend to 2025/26 is **£274.9m**.

Capital Programme Risk

6.13 The proposed five-year programme will require the Council to use a high proportion of available resources but without recourse to any more borrowing than is necessary to meet existing commitments. Investment of this nature will result in the Council being exposed to additional risks as follows:

- the impact of Covid-19 on original capital business cases – in particular the Broadmarsh Shopping centre and Car Park projects

- the impact of Brexit / Covid-19 on construction costs
- the ability to generate capital receipts to fund the programme
- major schemes have a long pay-back period, which will require the use of reserves in the early years to fund short term deficits in business plans

6.14 The management of risk will be overseen by the Capital Board.

7 Companies

7.1 The Council has a range of companies in its ownership and some owned jointly with others that have developed over time. Many of these companies have experienced trading difficulties mainly arising from the ongoing economic impact of Covid-19 on business models. The Council's MTFP has been de-risked to remove reliance on any budgeted income from companies. In the future, the Council will only budget to spend any dividends once they have been received rather than in advance.

7.2 A significant amount of work on companies has been undertake. Enviro Energy has been brought in house to the Council and other company structures are under review. Specialist financial expertise has been brought in to review the company structures and to make recommendations to the Council. This work is still ongoing and will conclude in 2022/23. The longer term needs of the Council regarding the oversight and governance of companies have been strengthened through the introduction of a Shareholder Unit. Other specialists and dedicated support, including finance, is to be introduced. The '*Together for Nottingham'* Plan includes a theme dedicated to the Council's companies. This theme seeks to reach a clear determination on the future and direction of each Council company within a coherent and effectively managed commercial strategy. Once conclude the work will address the following key objectives:

- Provide greater visibility of company performance and the risk profile of the wider City Council group of companies.
- To reduce overall complexity and simplify the management and oversight of all core Council activities by reducing the number or alternative delivery vehicles.
- To strip out duplication of overhead and management costs by bringing core functions in house where there is no imperative to maintain externalised delivery vehicles.
- To identify opportunities to generate capital receipts to the Capital Programme through divestment of interests in profitable activities that are outside the City Council's core competence
- To establish robust shareholder controls and assurance mechanisms for those companies Nottingham City Council maintains.

8 CIPFA Financial Management Code

8.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code in October 2019. This code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental

weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.

8.2 Nottingham City Council will fully adopt the code which applies a principle-based approach and these principles together with the CIPFA Financial Management Standards are illustrated in **Diagram 1** below

Diagram 1: CIPFA Financial Management Code Principles & Financial Management

8.3 Throughout the Code there are several references that demonstrating compliance is the collective responsibility of elected members, the Chief Finance Officer (CFO) and the Corporate Leadership Team.

8.4 Local authorities are required to apply the requirements of the Code with effect from 1 April 2020 and CIPFA consider that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should have been able to demonstrate that they are working towards full implementation of the Code. The first full year of mandatory compliance was 2021/22.

8.5 The Council will continue to assess its compliance with the new Code, many of the principles within the code have been referred to in the Interim Budget and Recovery and Improvement Plan and have been implemented. There are however areas of improvement and development that will continue to be addressed during 2022/23.

8.6 The section 151 Officer has ensured that training has been provided to elected members, senior managers and heads of service on the implications and actions needed to meet the requirements of the code as part of a programme to enhance financial management skills and accountabilities across the organisation. Further phases of the training are currently being for 2022/23 and will be delivered to all finance staff and budget holders.

9 Adequacy of Reserves and Risk Assessment

9.1 The assessment of reserves is important in the context of the sustained cuts in funding and depletion of reserves. It is important to acknowledge that reserves are ‘one off’ funds and are therefore suitable for funding ‘one off’ or unexpected costs. The use of reserves to fund ongoing expenditure or a failure to achieve budgeted savings is never advised, except in emergencies and/or to enable transition to new ways of working. Whilst the use of reserves to date has been deemed to be affordable, they are now at a level whereby any significant further use would leave the Council exposed to risk and unable to manage potential risks. This is particularly important in the context of an MTFP which has had significant resource removed and which is now vulnerable to risk.

9.2 Taken together, reserves, contingencies and the processes within the financial framework provide capacity to deal with the changes arising from external forces. This will include, for example: continued financial impact of the Covid-19 pandemic, increased demand for services from citizens, changes in legislation, guidance from central government, economic changes, interest rate changes, national emergency incidents and employee relations. This list is indicative rather than exhaustive. The localisation of both Business Rates and Council Tax Support increases the significance of Council reserve levels as these are significant variables on both income and expenditure.

9.3 In recommending an adequate level of reserves, the CFO considers and monitors the opportunity cost of maintaining particular levels of reserves. This opportunity cost may be the lost opportunity of investing those funds in service improvement and/or spending on alternative activities. There is a balance to be struck between setting prudent levels of contingencies and reserves considered to be an adequate ‘safety net’ to ensure the Council can operate successfully in a very challenging environment and ensuring sufficient funds are in place for service provision and other Council activities. The levels recommended here are considered to have achieved that balance. This assessment is made on the basis that the

Recovery and Improvement Plan and the themes and actions arising from the programme ensure that the Council can achieve long term financial sustainability.

9.4 **Table 1** shows the estimated Net Revenue Expenditure (NRE) and Unallocated Reserves for Nottingham compared with other Core Cities. The data is taken from 2019/20 RO returns, demonstrating Nottingham's reserve position is lower relative to similar councils.

Table 1 : Comparison of Reserves with Core Cities			
Authority	**Net Revenue Expenditure £m**	**Estimated unallocated financial reserves level at 31 March 2020 £m**	**Estimated Unallocated Reserves as % of NRE**
Birmingham	854.2	133.0	15.6%
Leeds	546.4	31.5	5.8%
Bristol	365.5	17.0	4.7%
Sheffield	394.9	13.2	3.3%
Manchester	482.3	21.3	4.4%
Newcastle	236.4	10.1	4.3%
Liverpool	507.4	5.7	1.1%
Nottingham (See Paragraph 9.9)	**240.8**	**2.2***	**0.9%**

***£2.2m as reported within the RO returns and represents the opening general fund balance of £11.6m less the 2019/20 overspend of £6.8m and £1.7m element of the 2018/19 overspend and before the additional £1.0m increase to the general fund balance**

9.5 This assessment is supported by a comprehensive risk assessment to ensure that the level of reserves represents an appropriately robust financial safety net for the organisation. In assessing these risks, the CFO has consulted with relevant colleagues and stakeholders to ensure all risks have been identified. The Implementation Plans introduced for the 2022/23 budget and subsequent Budget Review meetings will support this activity.

General Fund Balance

9.7 Previous financial plans have established a target opening balance (unearmarked reserves) on the general fund to be between **2%** and **4%** of the total net general fund revenue budget.

9.8 The level of general fund balance is expected to be sufficient to support financial risks in a single year budget. However, recent events have demonstrated that circumstances can arise which, if they occurred, could exceed the un-earmarked reserves and require further action. The most pressing issue in relation to this is the longer term financial 'scarring' from the Covid-19 pandemic over and above what has been factored into the 2022/23 budget.

9.9 The general fund balance has been informed by the detailed risk assessment undertaken as part of the budget process. The MTFP assumes an increase of **£1.0m** pa for the duration of the budget, which would increase the opening general fund balance to **£13.6m** (**6%)** of the general fund budget.

General Contingency Budget

9.10 The MTFP removes previously held contingency budgets. The financial operating model for future years will move towards risks being managed through reserves and through stronger budgetary control. To support this, a base budget review will be undertaken in the first quarter of 2022/23 to ensure that budgets are set at realistic levels. It is also intended that some current practices that can impact on transparency and budgetary control, including high level of virements and recharges, will cease or reduce

Earmarked Reserves

9.11 Earmarked Reserves are funds set aside to provide for specific future expenditure plans. The Council held balances of **£157.1m** in earmarked reserves at 31 March 2021 which includes schools budget balances of **£18.3m** and capital reserves **£3m**. The reserves included **£30.8m** of business rate relief grant (Covid related) that were made available in 2020/21 but related to the 2021/22 financial year. A review of these earmarked balances has been performed to establish the purpose of the reserves and the likely timescale that these reserves will be utilised.

9.12 The main categories of earmarked reserves that the Council holds:

- Sums set aside for major schemes, including Private Finance Initiatives, capital developments, or to fund transition and transformation
- Potential Liabilities
- School Balances
- Insurance and risk management

9.13 The requirement to repay the HRA from the General Fund of **c£14.5m** places greater pressure on earmarked reserves. To ensure that this can be funded, a review of earmarked reserves has been carried out and the funds previously allocated to the Transformation Reserve are to be re-directed to support the repayment to the HRA. The Council has generated significant capital receipts and these are being targeted to replenishing reserves where there is a previous commitment to do so, including SAM big ticket, and to take the opportunity to use £30m of receipts flexibly to support transformation, including redundancy costs. Phasing of these takes account of the implementation of the transformation programme and when these costs are likely to crystallise.

9.14 The Council is currently forecasting an in-year underspend of **£5.1m.** The proposal is for this to be added to the financial resilience reserve will create some capacity within the Council to manage in-year unforeseen pressures. The current balance on the financial resilience is not considered sufficient to manage any variances and the strengthening of this is crucial when taking into account uncertainties over Covid-19 and the potential for further pressures in social care and potential for loss of income and also the removal of the corporate contingencies which historically have been used to mitigate against adverse variances.

S151 Officer approval for all movements within controllable Earmarked reserves

9.15 Earmarked reserves include reserves held on behalf of other organisations, for example Schools, and therefore outside of the definition of controllable reserves. In response to the depletion of controllable earmarked reserves as part of the Interim Budget since September 2020 all movements in reserves require S151 / deputy S151 Officer approval and no decisions

around the usage of reserves can be taken without this prior approval. This practice is recommended to continue over the MTFP period.

9.16 The need for long term financial sustainability and the need to replenish reserves led to a change in the way controllable earmarked reserves are managed. From April 2021, with the exception of specific risk reserves, the remaining balances on the controllable reserves were amalgamated and any movements from this balance are subject to a prioritisation process Each drawdown request from the amalgamated balance needs a justification as to why the resources cannot be found from existing departmental budgets.

Housing Revenue Account (HRA)

9.17 The MTFS requires the Council to establish opening HRA reserves of between **2%** and **3%** of the gross HRA spend (capital and revenue) the precise level within this range being informed by the risk assessment with no opening working balance ever being set below the **2%** threshold in an individual year. The working balance opening balance for 2021/22 is **£9.4m (9%)** however this is expected to be **£9.3m (9%)** by the end of 2021/22.

10 Conclusions

10.1 The environment in which the Council operates continues be one of unprecedented financial challenges arising from the pandemic, demand pressures and weak commercial trading conditions The outlook beyond 2022/23 remains uncertain and during this period, the Council will need to undergo significant reform to ensure that its ambitions are matched by its available resources.

10.2 A number of events have occurred in 2021/22 all of which have informed the assessment of the robustness of the budget and adequacy of reserves. The findings in the reports consistently point to areas of improvement which are within the Council's control have been documented throughout this report and its supporting annexes. These include:

- The "Together for Nottingham" Plan approved in January 2022
- The oversight of the Improvement and Assurance Board
- Public Interest Report (PIR) published in August 2020
- Rapid Non Statutory Review (NSR), results published in November 2020
- Capitalisation request to Government in December 2020
- Recovery and Improvement Plan approved by Full Council in January 2021 and establishment of the Improvement Board

10.4 The focus for 2022/23 is to deliver a balance MTFP for the 4-year period to 2025/26. This has been achieved although there remain risks in the plan and it will therefore be reviewed on a regular basis and assumptions updated based on new and emerging trends. The development of service plans aligned to the MTFP is underway and will ensure that service delivery is managed within the context of available funding.

10.5 In line with the non-Statutory Review findings, the Council sought Government authorisation to be able to capitalise **£35m** of revenue costs. Tranche 1 of this funding, **£20m**, was received in 2021/22 and the remaining Tranche 2, **£15m**, has not been requested.

10.6 The contingencies and reserves at the level set out here and in the overall budget report have been considered. The CFO considers that the Budget for 2022/23 is robust and that the level of reserves is sufficient. That said the medium term remains extremely difficult and gaining cashable savings from the Transformation Programme and wider Recovery and Improvement Plan will be critical for the long term financial sustainability for the Council.

10.7 In concluding that the budget being proposed is robust and that the level of reserves is adequate for 2022/23, this statement is predicated on a series of recommendations and actions, these being:

- The transfer of 2021/22 in year underspends to the financial resilience reserve to mitigate against the risks of Covid-19 related pressures and loss of income as well as the removal of corporate contingencies from the MTFP.
- Align the MTFP to the new Council Plan and service planning framework.
- Continuation of the controls over earmarked reserves and that these continue to be subject to S151/ Deputy S151 Officer approval and also subject to a prioritisation process and to replenish the resilience reserve.
- Increase the general fund balance to **£13.6m** from April 2022 and to increase by **£1.0m** pa for the period of the MTFP.
- Review and update the current MTFP practices as necessary to align with CIPFA Financial Management Code

This statement has been prepared in good faith and having made best endeavours to consider all known prevailing relevant issues.

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Nottingham City Council

February 2022