

City Council – 4 March 2024

Report of Melbourne Barrett, Chief Executive and Ross Brown, Corporate Director for Finance & Resources and Section 151 Officer

Report Author and Contact Details

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Title: Response to Statutory Recommendation from the Council’s External Auditor

Does the report form part of the Budget or Policy Framework?

Yes No

Does this report contain any information that is exempt from publication?

No

Relevant Council Plan Key Outcome:

Clean and Connected Communities	<input type="checkbox"/>
Keeping Nottingham Working	<input type="checkbox"/>
Carbon Neutral by 2028	<input type="checkbox"/>
Safer Nottingham	<input type="checkbox"/>
Child-Friendly Nottingham	<input type="checkbox"/>
Healthy and Inclusive	<input type="checkbox"/>
Keeping Nottingham Moving	<input type="checkbox"/>
Improve the City Centre	<input type="checkbox"/>
Better Housing	<input type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input checked="" type="checkbox"/>

1. Summary

- 1.1 On 9 February 2024 the Council received a statutory recommendation from its external auditor Grant Thornton.
- 1.2 The statutory recommendation was issued using the external auditor’s powers under section 24 schedule 7 of the Local Audit and Accountability Act 2014. The Council is required to consider the recommendation made by the external auditor at a meeting held within one calendar month of receiving it. At a public meeting the Council is required to decide:
 - Whether the recommendation is to be accepted, and
 - What, if any, action to take in response to the recommendation.
- 1.3 The external auditor’s recommendation and the reasons for it are set out by Grant Thornton elsewhere on this agenda item.
- 1.4 This report provides a response from the Council to the Section 24 Statutory Recommendation which should be read alongside the 2024/25 Budget and Council Tax Resolution report being discussed at the same meeting.

2. Recommendations

- 2.1 City Council agree to accept the Statutory Recommendation made by Grant Thornton using their powers set out in section 24 schedule 7 of the Local Audit and Accountability Act 2014.
- 2.2 City Council agree the proposed response to the Statutory Recommendation as set out in Section 6 of the report.

3. Reasons for recommendations

- 3.1 In line with their statutory responsibilities the external audit, Grant Thornton, have issued a Statutory Recommendation using their powers set out in section 24 schedule 7 of the Local Audit and Accountability Act 2014. Adopting the Council's proposed budget set out elsewhere on the agenda for this meeting and agreeing the proposed response to the statutory recommendation is crucial to the Council's on-going financial sustainability.

4. Other options considered in making recommendations

- 4.1 The alternative to the acceptance of the external auditor's statutory recommendation and approval of the Draft Budget, which is set out elsewhere on this meeting's agenda, would further adversely affect the Council's future financial stability and sustainability.

5. Consideration of Risk

- 5.1 The Council's draft budget for 2024/25 and proposed response to the statutory recommendation from the external auditor is to manage and mitigate the immediate financial risks for the Council.
- 5.2 The Council will need to act upon the professional advice from the Section 151 Officer in their Section 25 statement on the Robustness of Budget Estimates and Adequacy of Reserves set out in the Budget report elsewhere on this meeting's agenda.

6. Response to Section 24 Statutory Recommendation

- 6.1 A copy of the Grant Thornton Section 24 statutory recommendation report is included as Appendix 1 of this report. Set out below is the Section 24 statutory recommendations from Grant Thornton:

Area:

Extent of unidentified savings to address the £41.1 million indicative budget gap in 2024/25 and dependence on exceptional financial support.

Recommendation:

To ensure the long-term financial sustainability of the Council, it is recommended that in addition to the actions outlined in the s114 report and following the new Finance direction issued by the Improvement and Assurance Board in January, the Council should identify and develop further savings proposals.

This could be achieved through council tax increases, investment in service reform, income generation and expenditure reductions. By doing so, the Council can minimise reliance on exceptional financial support, achieve a balanced budget in 2024/25 and build a prudent level of reserves over the next two years in line with the s151 officer's professional view.

As the Council operates in a dynamic environment that may result in in-year pressures, it is essential to develop sufficient savings proposals to allow for the creation of a prudent contingency that the s151 officer can deploy as necessary during the year. By taking these steps, the Council can build financial resilience and ensure it can meet future growth requirements in key demand-led areas.

6.2 The Council's response to the Section 24 statutory recommendation is as follows:

- a) The Council accepts the recommendation. It also recognises the urgency to identify and develop further savings proposals in addition to those proposed in its draft budget for 2024/25 to ensure its long-term financial stability.
- b) The Government has confirmed the Council can use exceptional financial support to balance its draft budget for 2024/25 upto £41m. This support has been provided in the form of a capitalisation direction which enables the Council to fund revenue costs from capital resources. The capital resources are required to be repaid from asset sales.
- c) In 2024/25 the Council is proposing to increase council tax in line with the maximum permitted within the referendum guidance set out in the Local Government Finance Settlement of 4.99%. It will further consider its medium-term council tax strategy over the forthcoming year.
- d) The Council's draft Budget for 2024/25 includes a range of officer developed identified savings proposals which, subject to approval, will be implemented. The investment required to achieve savings has been included in budget plans. The Council will develop further proposals, and bring these forward for approval during the forthcoming financial year, to improve its financial position to minimise its reliance on exceptional financial support. These proposals will include demand management strategies, service reform, income generation and expenditure reductions.
- e) As set out in the Section 151 Officer's Section 25 report on the Robustness of Budget Estimates and Adequacy of Reserves the Council has set aside a prudent contingency and reserves in 2024/25 to manage the risks its faces.
- f) The Council will develop a comprehensive financial strategy budget methodology by end of June 2024 aimed at bridging the opening gap for 2025/26.

6.3 The progress in delivering the budget for 2024/25 will be reported to Executive Board during the financial year.

7. Finance colleague comments (including implications and value for money)

7.1 Financial Issues are the subject of this report and are addressed in the body of the text above. This report should be read in conjunction with the draft budget report elsewhere on this meeting's agenda with specific reference to the Section 151

Officer's Section 25 report on the Robustness of Budget Estimates and Adequacy of Reserves.

Shabana Kausar – Director of Finance and Deputy Section 151 Officer – 29 February 2024

8. **Legal colleague comments**

- 8.1 The legal issues arising out of the service of the Statutory Recommendation issued under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014 are set out in the body of the report. The obligation placed on the Council by virtue of the legislation is to respond to the Statutory Recommendation within one calendar month. This report sets out the Council's response in order to comply with that requirement.

Malcolm R. Townroe – Director of Legal and Governance and Monitoring Officer – 1 March 2024.

9. **Equality Impact Assessment (EIA)**

- 9.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required for this report because the impact of any future changes to service delivery will be assessed prior to implementation, and the draft budget report includes its own EIA assessment.

10. **List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

- 10.1 None.

11. **Published documents referred to in this report**

- 11.1 Draft Budget Report to City Council on 4 March 2024, elsewhere on this meeting's agenda.