

Nottingham City Council

Section 24 Statutory recommendation

9 February 2024



Nottingham City Council
Loxley House
Station Street
Nottingham
NG2 3NG

9 February 2024

Dear Councillors

Recommendation made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Authority's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make a written recommendation under section 24 of the Act due to the extent of unidentified savings to address the indicative budget gap for the 2024/25 financial year. Further details are set out in the attached report.

What does the Authority need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:

The Authority must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Authority.

At that public meeting, the Authority must decide:

- whether the recommendation is to be accepted, and
- what, if any, action to take in response to these recommendation.

Schedule 7 specifies the meeting publication requirements that the Authority must comply with.



Grant Thornton UK LLP

Grant Thornton UK LLP

17th Floor
103 Colmore Row
Birmingham
B3 3AG

grantthornton.co.uk

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London EC2 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grantthornton.co.uk for further details.

Background to the recommendation

We have concluded that it is appropriate for us to use our powers to make a written recommendation under section 24 of the Act, due to inadequate financial governance arrangements at the Authority exposed further by the recent report of the s151 officer under s114 of the Local Government Finance Act 1988. This report follows on from the key recommendations we raised in February 2022 and February 2023 in respect of the Council's financial sustainability. At the time of writing this report, the 2024-25 indicative budget gap is £33.215 million.

Financial management arrangements at Nottingham City Council

In February 2022, we issued key recommendations in respect of significant weaknesses in the Council's arrangements to secure financial sustainability. We recommended that the Council identify additional savings to address the significant budget gaps identified in its Medium-Term Financial Strategy (MTFS). In February 2023, we confirmed that the extent of unidentified savings in the MTFS remained a significant weakness in the Council's arrangements.

In 2023/24, the Council has faced significant budget pressures and uncertainty, including not just the increased demand for services, the long-term impact of COVID-19 and the current backdrop of economic uncertainty and inflation, but also from the current level of financial support from Central Government over the medium term.

In October 2023, we wrote to the Chief Executive to express our concerns over the Council's ability to balance its budget in 2023/24. This was prompted by the Council reporting a forecast position at Month 6 of 2023/24 of a net £23.351m overspend against budget after mitigation. At the time, it was our view that if the Council could not significantly reduce the net overspend then it would likely exceed the resources available to it to meet that expenditure.

On 29 November 2023, the s151 officer issued a report under section 114 (3) of the Local Government Act 1988 in respect of the Council's inability to balance its budget in the 2023/24 financial year. The s151 officer considered the suitability of deploying further reserves in year but concluded that it would not be prudent for the Council to act in this way.

On 18 December 2023, members accepted the recommendations of the s114 report and supported the continuation of current spending controls until the end of March 2025.

On the following day, the Executive Board met to discuss the latest 2024-25 indicative budget gap of £33.2m and progress in delivering a credible medium term financial strategy able to ensure the Council can meet its statutory legal requirement to set a balanced 2024-25 General Fund Budget by 11 March 2024.

The indicative budget gap was the position after officers had identified ways to save £35.5m by using a framework called Duties and Powers to deliver a balanced budget for 2024/25. The Duties and Powers approach (equivalent to legal minimum) has been deployed and utilised to articulate the minimum cost of service provision against the Council's legal obligations as set out in legislation and guidance. The objective of the Duties and Powers framework is to allow the Council to resize to a scale that matches its financial envelope and is financially sustainable on a continued basis. Despite identifying these savings, there remained an indicative budget gap of £33.2m at the time. Since then, we understand that further movements have led to the budget gap increasing to £41.1m. To close this gap, the Council is dependent on the approval of exceptional financial support from central government to be able to set a legal budget for 2024/25.

Fundamental change to the Council's operating base is required to ensure that it is on a firm financial footing and can live within the resources available to be deployed. The Council will need to both transform the way in which it delivers its services and what it is able to deliver. However, despite the seriousness of the Council's financial position, we note that some of the recurrent saving proposals put forward by officers to reduce the budget gap did not have political approval. The current challenges in setting a lawful budget for 2024/25 suggest that some members may not have fully grasped the severity of the Council's financial position.

In response to the serious financial governance challenges facing the Council and the ongoing uncertainty around the appointment of commissioners, the Improvement and Assurance Board decided to issue new Finance directions in late January. The new directions authorise the s151 officer, in consultation with the Chief Executive and other corporate directors, to present a draft budget for 2024/25, which maximises savings options as suggested by Corporate Directors and quantifies the minimum budget imbalance reliant on a bid to Government for 'Exceptional Financial Support,' for approval at the Full budget setting Council meeting subject to any professionally required changes.

Our statutory recommendation reflects the serious nature of the financial issues and is intended to support the new Finance direction issued by the Improvement and Assurance Board. Page 4 sets out our statutory recommendation. If the Council is not able to address these issues, I may need to consider further use of statutory auditor powers.

Recommendation made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
<p>Extent of unidentified savings to address the £41.1 million indicative budget gap in 2024/25 and dependence on exceptional financial support</p>	<p>To ensure the long-term financial sustainability of the Council, it is recommended that in addition to implementing 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.</p> <p>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.</p> <p>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.</p>	

