

Fourth Quarterly Report

Introduction

This fourth quarterly report by the Board offers a critical examination of Nottingham City Council's performance in responding to the Caller findings and recommendations reported to the Council some twelve months ago. In addressing this imperative, the Recovery and Improvement Plan seeks to provide the foundation for the required fundamental change in the Council's strategy, governance, financial planning and resilience, organizational culture and service delivery. The Board has continuously tested the Council's response in achieving these objectives and each of the previous three quarterly reports has acknowledged that some progress has been achieved, whilst highlighting a number of key areas which required urgent attention.

Analysis of the Council's performance

The Board has undertaken a thorough analysis of the Council's progress in the following areas of the Authority's Recovery and Improvement Plan which warranted a particular focus;

- a) Strategic and Service Planning and Delivery
- b) Financial Sustainability and Resilience
- c) The Council's Constitution and Governance Arrangements
- d) Transformation and Cultural Change
- e) Procurement, Commissioning and Commercial Activity

Strategic, Service Planning and Delivery

The Council has approved and adopted an updated Strategic Council Plan 2019-23 which illustrates its continued ambition to deliver enhancements and improvements, across the wide range of Council activities, to its citizens. This, in the view of the Council, has also been tailored to acknowledge its current financial constraints after a careful review of the previous version of the plan. However, the Board's challenge to that updated Council Plan at the time is the extent to which it dealt with the future financial constraints and work is now underway to translate those strategic objectives into a detailed and costed service plan. This needs to be consistent with the Recovery and Improvement Plan and the Medium Term Financial Plan, and issues addressed later in this report. The granularity required to demonstrate this coherence is progressing but is not yet complete. Importantly, while there is a greater ownership of this challenge by both the Executive and Officers, the incidence, quality and impact of service levels must be articulated before the service plan can be concluded.

Whilst the budget for 2022/23 may be viewed as a priority for the Council, the Board has made it clear that an agreed coherent service plan must also underpin the four year Medium Term Financial Plan (MTFP) for 2022/26. The production of such a medium term plan was a cornerstone of the Council's promises in its Recovery and Improvement Plan.

Financial Sustainability and Resilience

Previous Board reports have highlighted concerns about the pace at which the Council has addressed its very significant financial challenges. The basic requirement is for the Council to produce a robust MTFP for the next four years which matches its service provision and offers assurance in respect of medium to long-term financial sustainability. This situation has been further complicated by the forecast budget overspend in 2021/22.

Since the last report the Council has made some progress identifying a schedule of net expenditure reductions for each of the next four years. A significant proportion of these potential savings relates to the transformation programme, although yet to be confirmed by proper under-pinning business cases, noting that the Council advises that a significant discount has been applied to transformation savings pending completion of detailed business cases. Even with the delivery of all the substantial spending reductions currently highlighted by the Council, the draft budgets for the next four years would not be containable within its currently estimated available financial resources. The current situation, in summary, is illustrated below;

MTFP	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Current estimate of budget gap (cum.)	27958	28464	32046	38067
Savings agreed for consultation (cum.)	12239	12327	13550	13833
	<u>15719</u>	<u>16137</u>	<u>18496</u>	<u>24234</u>
Transformation savings (cum.)	4325	8912	12574	14300
Residual gap if transformation savings are adopted (cum.)	<u>11394</u>	<u>7225</u>	<u>5922</u>	<u>9934</u>

It will be noted that draft spending plans significantly exceed available resources in each of the financial years even assuming the delivery of 'transformation' savings which in itself is a critical challenge. At this point in time, alternative means of bridging these residual financial gaps have yet to be identified. The option of utilising reserves is being explored but the Board has been clear that any use of reserves should be only to fund non-recurring expenditure.

With regard to the potential overspend in the current financial year it is encouraging to note that the Council's previously reported forecast deficit of £12 million has been reduced to some £2 million. In terms of timing, the consultation on financial plans is scheduled to commence in December 2021 and the Board's concern is that, while budget and service planning activity has increased markedly in recent months, the information presented for citizen and stakeholder consumption may be incomplete as the full extent of the transformation savings, and their impact, has yet to be tested.

Previous reports have referred to the Council's Capital Programme set against available borrowing and capital receipts. The work undertaken in recent months has been encouraging and there is now in place much more rigorous asset disposal processes which have led to a more focused asset sales programme in support of the Council's voluntary borrowing cap and, ultimately, the reduction in its very high level of debt. The Board will be interested in the formulation of the Capital Programme for 2022/23 onwards especially in how the Council proposes to deal with some significant but currently unfunded risks (e.g. Broadmarsh and District Heating).

The Council's Constitution and Governance Arrangements

The revised Council Constitution, approved in September 2021, incorporates greater clarity relating to decision-making and accountability. Part of the Constitution relates to the respective roles of portfolio holders and officers in making decisions and this is reinforced by a protocol for managing these arrangements in practice, including the scheme of delegations for officers. The Board acknowledges this important strengthening of the governance arrangements but will seek to monitor the practical application of the scheme. Specific concern expressed in the past by the Board also relates to companies' governance. The Council's roles in such matters have been reinforced but we will observe how the authority of three statutory officers' roles in the companies' board activity and proceedings is discharged.

Transformation and Cultural Change

Mention has already been made of the importance of the Council's transformation activity. A Director of Transformation has been appointed, with significant experience in this area, during the summer of this year, and a major review of the Council operation, ways of working, reconfiguration of service provision and training of staff and members is underway. This cultural change will be embedded in the organisation but it is recognised that this will take time. Additional capacity and support is being provided by PWC, Newton Europe and other consultants and it is anticipated that, through modernising operating models and business process transformation, the programme will yield considerable savings in future years in both statutory and non-statutory services. The Board is positive about the current focus and direction of travel in the Council's 'transformation' journey and has noted a commitment amongst members and officers to achieve significant savings and economies in service provision. The critical next step will be the production of realistic business cases identifying the change investment required, the resulting staff impact, and, crucially, the service delivery changes which can underpin the level of savings being sought

Procurement, Commissioning and Commercial Activity

The Council, supported by CIPFA, has undertaken a review of most of its companies following the demise of RHE. The immediate risks identified are being actively addressed. The award of revenues and benefits services to NRB and the hive-up of Enviro Energy have been achieved. Commercial confidentiality precludes detailed reference to actions being taken with other individual companies. There remains a backlog of risks and opportunities in the companies that the Council estimates will require another year of continued focused effort to tackle.

A plan has been in place for several months to address the shortcomings in the companies' governance. Some elements of this plan have been implemented, such as the improved evaluations undertaken by the shareholder unit. However the majority of the plan has yet to be implemented. Additional resources have been re-assigned, but it is essential that the Council dedicates sufficient continuous expert resource to improving companies' governance to complete the implementation as soon as possible.

The Council has identified that poor levels of procurement compliance have been ongoing for some time. This is likely to have led to NCC spending more than necessary for goods and services, as well as exposing itself to other risks. The Council has now put in place a combination of measures to correct this, including education, tightening of procedures and increased personal consequences for non-

compliance. It will be important that the levels of compliance continue to be closely monitored and these measures be enhanced if necessary.

The Board welcomes the Council's decision to invest in a programme of works aimed at achieving best practice in local government procurement and contract management. In the coming months it will design and implement a savings plan through procurement and contract management activity as well as a new operating model.

Conclusion

The Council has responded to a number of the challenges identified by the Board in its third quarterly report. Governance has been addressed and transformation is underway; the Council's Strategic Plan and Recovery Plan have been updated and commercial activities are being reviewed. There remains, however, a substantial challenge in effecting fundamental change across the Authority in a timely fashion. The Board remains of the view that the pace of this change must be accelerated.

The MTFP timeline leaves very little, or no, scope to adjust numbers as consultation takes place, and the budget deficits for 2022/23 (albeit reduced since our last report) and later years remain. Although transformation may ultimately yield sufficient net expenditure reductions in later years, it is very disappointing to report that these cannot be certain at this point in time. The table relating to the MTFP in this report reveals significant residual budget deficits for each of the four years even assuming the delivery of the transformation savings, which in itself is a critical challenge. The ultimate deadline for approving a viable and robust medium term financial plan, for the next four years at the City Council meeting of 7 March 2022 must be observed if the financial sustainability of the Authority is to be assured in the medium to long-term. At this point in time, although the Council considers it will achieve a sustainable MTFP which will comply with these requirements detailed evidence has yet to emerge which supports this assertion. This is a matter of genuine concern for the Board.