



Department for Levelling Up,
Housing & Communities

Simon Hoare MP
Minister for Local Government

**Department for Levelling Up, Housing and
Communities**
2 Marsham Street
London
SW1P 4DF

Councillor David Mellen
Leader of Nottingham City Council
By email

27 February 2024

Dear Councillor Mellen,

EXCEPTIONAL FINANCIAL SUPPORT FOR NOTTINGHAM CITY COUNCIL

I write in relation to Nottingham City Council's request of 12 January 2024 for exceptional financial support in respect of the 2023-24 and 2024-25 financial years.

As a result of the Council's financial challenges you have made a request for exceptional financial support for 2023-24 and 2024-25. While I commend the steps that have been taken thus far by the Council overseen by the former Improvement and Assurance Board, it is important to recognise that there is still significant work to be done given the extent of the financial issues. Government's view continues to be that councils requiring exceptional financial support, particularly where it is apparent that several concurrent years of support will be needed, should take all possible steps locally to manage their budget pressures and restore long-term financial sustainability.

It is within this context that the Secretary of State has considered very carefully the Council's position including the interest of local people in Nottingham, and the need to provide sufficient stability to the Council and to make sure that service delivery, especially for the most vulnerable citizens, is not disrupted.

This letter sets out the Department's current position but does not constitute a capitalisation direction.

The consideration of your request has been based on the estimates that the Council has provided to date of its budget position. The former Improvement and Assurance Board and Commissioners have provided assurance, as far as possible, that these estimates are reasonable and appropriate. I recognise, however, that these estimates are based in significant part on assumptions, and that the final amount will only be confirmed when the Council's financial accounts for previous years are closed.

With respect to the financial years 2023-24 and 2024-25, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £66.143 million. The total is broken down by each financial year as follows, as per your request. I understand as per your Council's exceptional financial support request provided to the Department that this will be sufficient for you to set a balanced budget for 2024-25 when taken together with your Council's broader budget proposals.

- 2023-24: £25 million
- 2024-25: £41.143 million

Before the capitalisation direction can be approved, your Council will need to demonstrate that it continues to take all necessary steps towards improvement. The Secretary of State will require

assurance from the Best Value Commissioners that you are making good progress against the Improvement and Recovery Plan, as per the Best Value Directions issued to your Council on 22 February 2024. If the Secretary of State decides to approve any capitalisation directions, he would confirm in due course any conditions that would be applied. This is fully addressed in the attached annex.

You will be aware that on 24 January, the Secretary of State announced the expectation for all councils to produce a productivity plan focused on improving service performance and reducing wasteful expenditure. I wish to emphasise that this productivity plan should be completed alongside your ongoing improvement and recovery work.

I expect you, your Members and council officers to work constructively with the Best Value Commissioners, including in the exercise of your duties to set a budget, for the people of Nottingham. I should be grateful if the Council would confirm to me in writing by 28 February that it wishes to proceed in accordance with the position set out in this letter. I am copying this letter to the Lead Commissioner, your Chief Executive and Section 151 Officer. This letter will also be published on GOV.UK.

SIMON HOARE MP
Minister for Local Government

Annex – Assurance required for approving exceptional financial support

Assurance

If the Secretary of State decides to give any directions, he would confirm in due course the final amount of capitalisation support and any conditions that would be applied. The Department's consideration will include evidence from the Best Value Commissioners of the Council's progress against the actions it is required to take, as per the Secretary of State's Best Value Directions (dated 22 February 2024) made under section 15(5) and (6) of the Local Government Act 1999. This will include evidence of the Councils:

- delivery of the proposed savings identified in the 2024-25 budget as a result of the duties and powers exercise.
- delivery of an enhanced medium term budget planning methodology by the end of June 2024 capable in the first instance of identifying options to bridge both the opening gap for 2025-26 and a mid-case view of a new budget gap that could arise in 2025-26.
- delivery of an asset disposal strategy to identify and dispose of capital assets to: minimise the need to undertake external borrowing to fund the in-principle capitalisation direction and /or capital programme, and; to continue to reduce overall external debt levels as per the Voluntary Debt Reduction Policy.

Conditions

Such directions may be subject to conditions, which would be set out in any capitalisation directions should the Secretary of State decide to exercise his powers under sections 16(2)(b) and 20 of the Local Government Act 2003.

If the Secretary of State decides to give any directions, he is minded to attach the following conditions:

- the Authority may only capitalise expenditure when it is incurred;
- where expenditure is capitalised, that the Authority shall charge Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with relevant guidance;
- where the Authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the Public Works Loan Board and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing;
- the Authority makes good progress against its Improvement and Recovery Plan, as assessed by the Best Value Commissioners in their regular reports to the Secretary of State.

With this in mind the Secretary of State may also attach additional bespoke conditions to any directions issued in respect of the financial years above, depending on the Council's individual circumstances.

Confirming final amounts

Although the Secretary of State is minded to approve a capitalisation direction for the 2023-24 and 2024-25 financial years this would be contingent on the Council reporting to the Department the final

amount identified for which it requires capitalisation for this year, with the agreement of the Council's external auditors and endorsed by the Commissioners.