
Nottingham City Council Commissioners

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Rt Hon Angela Rayner MP
Deputy Prime Minister,
Secretary of State for Housing,
Communities and Local Government
London SW1P 4DF

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Dear Secretary of State,

We write to give our first report on progress at Nottingham City Council since being appointed.

We have established a firm, cooperative working relationship with the Council. Despite finding our appointment a challenge, the Council has welcomed us constructively and has established a positive and productive approach to engaging with us.

In the six-month period during which we have built this relationship the Council has experienced significant leadership change, with a new Leader, Deputy Leader and Executive being appointed. We have also been fully involved in the appointments of a new Chief Executive, Interim Monitoring Officer, Corporate Director of Children's Services and Corporate Director of Adult Social Services.

This new leadership cohort is facing up to the challenges that the Council must tackle in full acceptance of the reality of the Council's difficulties and a declared resolve to overcome them. There has been no requirement for us to use so far any of the powers made available to us under the Directions in order to effect change. We are supporting the Council in its endeavours, offering advice and exerting our influence as necessary, all under the clear expectation that the Council will lead and drive its own improvement.

The challenges facing the Council have been well set out in a succession of independent inspections and reviews over a period of years, and in the Directions that we have been charged with. They are considerable. They manifest themselves most notably in the Council operating considerably beyond its means. Notwithstanding that financial challenges face the sector as a whole, it is sobering to reflect that in order to continue operating as it has done, the Council would require a 70% uplift in Government grant funding. Alternatively, it would need to raise Council Tax by 46%.

Such impossible solutions must be avoided, and they can be. By becoming substantially more efficient in its operations, through modernising and transforming the nature of its service operations and back office, optimising processes, and

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improving performance, a return to balance is possible in the medium-term and can be made sustainable thereafter. Services will have to change quickly as part of that process, and such change is inevitably difficult, but the solutions that we are pointing the Council towards are those which other Councils have successfully achieved in the most critical areas of delivery. Nottingham shares the desire of much of the sector to go beyond what is currently provided, and to expand its operations in the interests of the citizens of the city. It now recognises that it will be able to do this only when it restores its capability, embeds financial discipline, and takes advantage of learning from established best practice elsewhere to adapt to its own circumstances. Until it does those things it will continue to require exceptional financial support.

While we are confident that what is necessary is now well appreciated at a senior political and managerial level, considerably more work is necessary to ensure that the degree of change the Council must undergo in order to become sustainable is undertaken and becomes embedded throughout the organisation. These necessary changes, and the work under way to effect them, are set out below.

Governance and leadership

The Council has new political leadership which has set out (the Improvement Plan) to all Members of the Council what it intends to do and is accepting of the need for 'whole Council change.' As required under the Directions, the Improvement Plan has been submitted to us for approval and we have been pleased that it addresses how these challenges will be met, along with a timeline for doing so. It communicates the Council's purpose and intent for the next 4 years, sets objectives and identifies constraints. The senior management of the Council, substantially being refreshed at present, will be responsible for delivering this Plan under personal objectives that we also contribute to.

Some notable messages arise from this Plan. There is an acceptance that the Council will be smaller, and that it will deliver less, but that it will focus on delivering well, and will look to different delivery methods as may be necessary – a departure from the historic assumption that the Council will be the default deliverer of services.

It will seek to take advantage of digital methods and AI (Artificial Intelligence) in service delivery, which are at present underutilised. It will bring about rationalisation of its operational estate – which offers considerable scope for savings. It places greater emphasis on early intervention as a means for reducing demand, and it aims to make better use of data and intelligence. Given the excessive costs in the operation of both Children's and Adult Services, these approaches will be valuable.

Critically, it determines to find and deploy best practice in service delivery, and to apply robust financial management in support of that deployment. It addresses measures to improve management of risk and of performance. All of these changes will be of critical importance.

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The governance arrangements for pursuit of the Improvement Plan are sound on paper, and we will be extensively engaged in contributing to and supporting them to ensure success in practice.

Beyond this, the formal structures and governance arrangements of the organisation, the informal arrangements which are in place to supplement them, and the mechanisms for the implementation of decisions are all either being changed or are due to change, as these important aspects of governance have often proved inadequate in the past.

Immediate management attention is being given to driving these changes at the pace necessary. The Council's Chief Officer Corporate Leadership Team (CLT) has not historically operated as a leadership cohort possessed of a common goal and has not delivered as a whole which is greater than the sum of its parts. Putting in place these characteristics is a key priority for the new Chief Executive.

Delegation of decision making is haphazardly applied, and accountability does not always accompany it. This builds in delay, risk, and cost. It also engenders frustration. Relationships between the political leadership and senior managers have consequently become strained over the years. These relationships are being reset, and expectations made explicit. A structured, owned, and supported process of effective delegation of leadership and decision making in the Council is a specific objective with associated actions in the Improvement Plan. This will lead to decisions being taken at the lowest possible level and supplant the discouragement of ownership which has inhibited officer career development, leading to poor levels of staff retention and of job satisfaction.

The Council will need to project its objectives and its changed role into a debate with communities and partners about what this might mean for them and their future relationship with the Council.

There is a need for more visible governance. Most authorities webcast Council and key committee meetings but Nottingham does not. Webcasting of Council and committee meetings will be introduced as soon as practicable, in the interests of transparency and in fostering public interest in what goes on.

People

While in our time here we have met some very committed and highly capable Members and officers, we have not found a unified organisation with a sense of shared purpose. This lack of cohesion, and sometimes of role clarity, is evident between Members and officers, across management tiers, and within individual teams. This has led to silo-based working and has resulted in uncoordinated decision making and the duplication of activity.

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Time is being taken for the Executive and CLT to invest in the development of a shared sense of purpose and the building of a constructive working relationship so that the Improvement Plan and further ambitions can be delivered. A series of workshop style meetings, with space for informal development of working relationships has been initiated, to be run by the LGA. These will be followed by regular, planned, formal and informal opportunities for such engagement.

Priorities for the training and development of staff include the launch of a programme emphasising curiosity about other organisations, evidence-based practices, financial literacy, and operational efficiency. The Council has not fostered such attributes sufficiently in the past. The Council needs to work to embed a culture of continuous improvement at all levels of the organisation.

Visibility of, and accessibility to senior managers is not greatly evident across the Council nor is it consistent across the working week. A policy requiring a high level of senior manager presence has been initiated. The Council's hybrid working policy is also being reviewed, with a focus on increasing accessibility and visibility of leaders and of middle management.

A more robust regime for the management of officer performance is to be implemented and aligned with Council Plan performance targets. It will identify, monitor, and address poor performance while recognising good performance, ensuring employee accountability and alignment with Council objectives.

Engagement with staff on the changes that are coming will be an important part of making these changes successful. While there is a long way to go, it is encouraging that some 450 of the Council's 7,000 strong workforce have signed up to be part of a 'Change Community' that will give staff a direct ability to affect the development of those changes. This will need to be supported by a training programme to ensure managers are equipped with the right skills to manage change and deal with resistance to change where necessary.

For the longer term, the recruitment and development of staff so as to engender organisational resilience needs to be focused upon, prioritising areas of acute churn in the first instance. This will emphasise the nurturing of talent and the enabling of appropriate succession planning.

Sustainability

The Medium-Term Financial Plan currently indicates a gap of £172m over the next 3 years. An emerging forecast overspend in the current year may impact this figure negatively. The action to be taken to close this gap requires political courage and officer determination. In accepting this as a foremost responsibility, the political leadership is explaining the challenges and constraints that this imposes to partners and to citizens.

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The introduction of strictly operated Spending Control Panels was an entirely necessary measure in the Council's response to receiving a s114 report in November 2023. These are in effect an operation of financial management at a transactional level, and while they have been initially effective, they impose a heavy burden on individuals and delay the normal operation of the procurement and payment processes. They cannot become the norm, as they also undermine delegated responsibility and budget management and diminish leadership responsibility. We are requiring that their use be reviewed and as is appropriate, phased out.

Financial management and accountability are not strong features of the Council – the relationship between the finance function and the service departments is one of firm central control, with budget holders being told what their financial position is rather than them having to know it themselves. The introduction of Star Chambers across the Council for this budget round, at Commissioners' request, starts to move the responsibility back to budget holders and it is important that further tools are developed to enhance financial management. The finance function needs to become a more agile and supportive operation with effective business partners placed within and working hand in hand with services to deliver more efficiently and effectively utilising performance information to inform savings and change programmes and driving continuous improvement to deliver increased value.

This work will include the development of better forecasting tools to support budget holders in their task of managing budgets – particularly those which are volatile. This training will include the respective responsibilities of finance managers, budget holders, portfolio holders and of the audit and scrutiny functions to embed the principles of the accountability framework. A new finance structure which provides for additional resource at a more strategic level will be created and populated with permanent staff. At the moment, it is proving difficult to source sufficient quality of staff and this presents a risk to the Council as it recovers. The Council is now robustly delivering an asset disposal programme so that EFS (Exceptional Finance Support) can be fully funded from this source, avoiding any additional revenue budget pressure. It is also undertaking a full review of its property assets and their usage to ensure it is maximising value for money. This includes the exploration of opportunities for better use of property by services and jointly with external partners.

The Council is putting in place a programme of work to deliver savings sufficient to balance the budget over a 4-year period. In building the programme, the Council is benchmarking to identify opportunities for service review and is prioritising delivery of savings according to the achievement of a balanced budget as soon as possible. This work employs a rigorous business case approach whereby the rationale and evidence for the proposed savings and the plan for delivery are considered, taking into account the risks associated, and their mitigation, to ensure success.

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For this to work, it must be supplemented by a cultural change across the Council which will embed the principles of the accountability framework and provide a supportive environment within which budget holders can meet their responsibilities, accessing excellent finance support when need.

The Council must also review appropriate and proportionate procedures to ensure finance, legal and HR input for member and officer delegated decisions is timely and thorough.

While all of these measures are being progressed and will have some immediate value, as well as in laying strong foundations for the future, the Council faces the immediate challenge of setting a budget for 2025/26 which will be the most difficult that it has ever had to set. This comes on the heels of an already difficult budget-setting for 2024/25 - a budget that is already under some strain in delivery.

This existing overspend challenge, the fragility of the Council's arrangements for setting next year's budget, its record in terms of delivery of change, and the uncertainty of what the long-term operating model will look like will all have to be taken into account in this process.

In doing so, care will have to be applied to not making precipitate decisions that may undermine longer-term value. Nonetheless, we have been clear with the Council that some difficult choices will have to be made, and we are fully engaged in advising the Council on these choices.

In respect of having a solid base from which to plan, it is also of significant concern to us that the Council's accounts have not been signed off since 2018/19. The 2019/20 accounts are currently under review by the auditors and when this is completed, the draft 2020/21 and 2021/22 accounts will be ready for review. All of these latter years' draft accounts may need to be reviewed further depending on the findings of the 2019/20 audit, albeit disappointingly on the basis of disclaimer opinions, as is expected.

Systems and Processes

We have seen many examples of systems and processes for decision making and service operation which are neither effective nor efficient. Most worryingly, we find a constant requirement to seek 'permission' or 'clearance' from multiple sources before a matter can progress, and often the need to loop around these repeatedly when questions are raised. This endless checking and rechecking of whether something is 'good to go' saps energy, depresses initiative and delays improvements.

It also seems that, all too often, consideration of potential decisions has come to be addressed as a matter in which compliance with cumbersome and convoluted processes is the mark of success rather than the effective delivery of the intent. Such

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a characteristic is evidenced through paralysis in operation, diffusion of ownership, and ineffectual accountability.

The Council's IT architecture and the disciplines of IT application are problematic. We are aware of applications and hardware that have been purchased to specifications which have proved incapable of use and have had to be abandoned. Some of the Council's core systems do not talk to each other. Due to lack of staff, there is little IT support available to services to identify and implement IT solutions to deliver improvements. This situation cannot prevail. There is confusion as to who 'owns' systems and software and what the relationship properly should be between the service that is seeking IT solutions or enhancements and the central IT function which supports it. This causes friction in the resolution of issues and delay in delivering service improvements.

A review of the fitness for purpose of the Council's IT software and architecture is needed. Arrangements for progressing this are under consideration. This will extend to the consideration of 'ownership' of systems once installed. In the meantime, a strong presumption will be made against the purchase of any software application that requires to be made 'bespoke' to the way in which the Council has historically operated. Such systems will instead be installed 'off the shelf' and the Council's operating methods altered to fit. Any cases for which an exception to this principle should be considered must be escalated to CLT for a decision.

The Council also must improve its assurance processes to provide confidence in the effectiveness of its day-to-day operations and ensure it has systems in place to provide early warning of things that may be going wrong – the cost of control failure is significant.

The Council's Strategic Risk Register is not as comprehensive nor as up to date as it needs to be. We have seen little evidence of the risk register being given adequate corporate consideration. We have seen some good examples of risk identification and suggested mitigations at project level, but this is not consistent across the whole organisation. More fundamentally, we have not yet seen much evidence of the active review of risks and mitigations to ensure these are being managed 'on the ground;' being used to direct / inform service delivery or to link risks to overview mechanisms such as the audit programme. The Council will have to scale up its active risk management, ensuring the identification and mitigation of risk is embedded in all aspects in the running of services – and to ensure all managers in the organisation are appropriately trained and equipped. It should undertake an assessment of its risk maturity and identify the appropriate actions to improve this.

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The Internal Audit (IA) function at the Council is ineffective. Little attention is given to IA reports and the recommendations made. These reports are not seen as a useful aid to the efficient running of the organisation, and this view is mirrored in the opinion of external audit. An external report on the effectiveness of the function by EY (Ernst Young) further reflected this opinion. Nor does the organisation use information readily available to indicate when things are not going well, such as customer complaints. The IA function must be reviewed to ensure it is made fit for purpose and become a more effective management tool. It is critical that immediate consideration is given to the implementation of IA recommendations and this discipline is being introduced.

All existing systems and processes which underpin decision-making at a corporate level are being mapped so as to identify those that are right for the task and have a clear value, and those that are not which will be shut down. A similar audit will have to be undertaken within service areas.

The existing review of companies of the Council is to be completed and recommendations implemented.

A Programme of Change

The Council's Improvement Plan has the purpose of reducing costs whilst providing the same or better outcomes. The Plan needs to progress through development of organisational design and a discrete number of high-level principles to underpin service reconfigurations as part of the budget setting for 2025/26. The work required to do this is not yet sufficiently understood or owned across the organisation and will require significant leadership drive and workforce engagement over the summer and into the autumn. External help has been secured for this via a time-limited piece of work to develop outline business cases that deliver savings through service transformation. This work will lead into a project to determine the shape of the organisation for the future. In support of this, and in recognition of the Council's objectives, the Council is creating a coherent set of organisational design principles that will underpin proposed changes and which will enable the Council to set out what it will do, how it will do it and – importantly – to be clear on what it won't do.

Early engagement between the new Executive and reformed CLT will need to take place so that leadership intent and priorities continue to shape the Improvement Plan and to build the confidence and ambition of the organisation to be curious and learn from others so it can use benchmarking data effectively and take initiatives from others with pride to create a faster pace of development and delivery.

In developing a 'target operating model' the Council must set out how this will work coherently to deliver for citizens, together with an implementation timeline and supported by documentation on how it will reduce duplication and drive efficiencies.

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In this, it will set out the expected tiers of management, spans of control and management responsibilities at the different tiers. It must develop a mechanism to evaluate service redesigns and restructures against the corporate standards.

Many of the Council's service mechanisms are themselves out of date and are not reflective of changes that the sector more widely has properly embraced, leading it to do things too often to people rather than for them. Conversations about the impact of services on the customer or resident need to be an integral part of service planning.

The Improvement Plan addresses the Council's poor record of being able to connect finance and project activity. Activity and financial data in project plans need to be much timelier in production and more focused so that progress can be measured against outcomes and anticipated savings. There also appears to be a lack of consistent management information with an expectation that managers use operational real time data. In order to address this, the Council will develop a framework for managing performance underpinned by a consistent approach to Directorate Performance Dashboards – these to be capable of tracking key hygiene measures (such as PDR performance development completion, sickness absence, the staff pulse survey, and complaints received) along with service specific measures. Using tools such as Power BI to automate the efficient and timely production of these dashboards is essential and will enable a clear delineation between real time data that can enable immediate operational decisions and performance data where trend analysis can enable strategic decision making.

The Plan itself benefits from robust governance and assurance arrangements for its monitoring and delivery. The Council's Corporate Directors have assumed accountability for programmes within the Plan, with Delivery Leads responsible to them for making these things happen. Commissioners are in turn developing a range of high-level success measures that the Council will need to demonstrate. This 'exit plan' will allow tangible and transparent measurement of success for us to assess the Council's readiness to move beyond intervention.

The Council must conduct a review of the Workforce Strategy/Plan to ensure it reflects the significant transformational changes that need to be realised.

Conclusion

The Council operates significantly beyond its means and is currently far from sustainable. It requires rapid modernisation of its service operations and the taking of difficult decisions to bring this about. It requires thorough application of better working methods and the systems for supporting these. It requires debt to be paid down through rationalisation of its estate and the sale of surplus assets.

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The Council's leadership, at both a political and managerial level have grasped the reality of this position and are demonstrating a growing understanding of the reality of what the Council needs to do to get out of it. There is a proper ambition to not only do so, but to put the Council back in the place that it could and should be – the predominant city in the East Midlands and a leading core city in the UK.

Those ambitions are some way off being realised, but a Plan to move firmly in that direction has been produced and is now being implemented. The aims of the plan are the right ones but the measures that the Plan identifies as needing to be developed, agreed, and undertaken will require some considerable resolution to make happen. As the challenges of becoming a smaller organisation, moving towards living within its means and tackling new ways of designing and delivering services start to bite, there will be some difficult choices to be made. There will be a need to communicate and carry the Council's membership and its staff through significant change. There will also be a need to communicate and engage with the citizens of the city so that this change is well explained and the value of it understood. Sustainability is a realistic outcome in the medium-term if these challenges are met.

A core pillar of this Plan is the development of a Transformation Programme and work is underway to develop this which will identify projects and programmes to deliver sufficient savings to deliver a balanced budget over the MTFP period. It should be recognised that the Council does not have a good record and delivery of savings, and it must rise to the challenge of this. This challenge cannot be overestimated.

Yours sincerely,

Tony McArdle

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Sharon Kemp