

Addendum: Annual Governance Statement 2020/21

Background

- 1.1. The 2020/21 Annual Governance Statement (AGS) was approved by [Audit Committee on 30th July 2021](#) as part of the approval of the 2020/21 Financial Statements. This Addendum updates the key events since that date and should be read in conjunction with that AGS.

Statutory Directions

- 1.2. Following the Improvement and Assurance Board's (IAB) reports to the Secretary of State in April 2022, directions were issued in September 2022
- 1.3. The [Directions](#) moved the Board from a non-statutory advisory role to a statutory footing so that they are empowered to direct rather than guide the Council's improvement activities.
- 1.4. In February 2023 the IAB issued 39 instructions to the Council along with deadlines for their achievement. These Instructions, alongside the delivery of the wider actions in the Together for Nottingham Plan have shaped the Council's improvement work over the course of 2023/24. An additional 2 instructions specifically concerning maximising savings in setting of the 2024/25 budget were issued at the end of January 2024.
- 1.5. The Council responded to the IAB on its delivery against each Instruction as the deadlines became due, IAB meetings were held throughout each year and individual contacts between IAB members and the Council took place. These interactions and response against the Instructions informed the quarterly reports that the IAB provide to DLUHC on the Council's progress.
- 1.6. The IAB's 3rd report on the statutory intervention noted a mixed picture on progress, with progress in a number of areas, but shortcomings elsewhere and concerns about financial resilience and sustainability, There was a serious concern about failure to address particular weaknesses in finance, transformation and the underlying culture of the organisation in respect of governance and the workforce..
- 1.7. After consultation in late 2023 and early 2024 the government decided to appoint three Commissioners, including a Lead Commissioner, a Commissioner for finance and a Commissioner for transformation.

Commissioners

- 1.8. On the 22nd February 2024 the Secretary of State implemented an intervention package replacing the Improvement and Assurance Board with commissioners led by Tony McArdle with new directions allowing the commissioners to exercise a broad range of functions associated with governance, improvement and strategy.
- 1.9. The intervention comes with a set of Directions, including the requirement to produce an Improvement Plan to the satisfaction of Commissioners. The Council has been working closely and cooperatively with Commissioners, including in the production of a new improvement plan.
- 1.10. This [plan](#) was approved by the Council on 5th August 2024.

Section 114 (2) Notice (Dec 2021)

1.11. The S151 Officer identified a significant issue as part of work to gain financial management assurances. On 15th December 2021 he issued a [S114 notice](#) to all councillors identifying unlawful transactions which had breached the statutory HRA ring-fence. Councillors agreed actions to address the issue at a meeting in January 2022 and further work was commissioned to address remaining issues. This further work was reported in April 2022 extending the financial impact and scope of concern. As a result the Council [decided to insource its housing management function](#), and this was achieved in April 2023. In September 2022 the Secretary of State directed NCC to incorporate the recommendations reported in April into the Together For Nottingham (TFN) plan (completed in October 2022) and allocate resources accordingly.

Section 114 (3) Notice (Nov 2023)

1.12. The S151 Officer, on 29th November 2023, issued a [report under Section 114\(3\)](#) of the Local Government Finance Act 1988 because, in his professional opinion, the council was not able to deliver a balanced budget for 2023/24, although this is a legal requirement. In reaching this opinion he considered not only the immediate circumstances faced in the current year, but also the 4-year MTFP (specifically the significant budget gap for 2024/25) and the overall adequacy of reserves.

1.13. City councillors met on Monday 18 December 2023 and unanimously agreed all of the recommendations in the Chief Executive's report to Full Council.

1.14. The S151 Officer, being conscious of the limited financial control environment, instigated significant controls during 2023 through the Finance Improvement Plan to improve clarity and transparency. These support his professional assessment of the Council's financial position. A Financial Intervention Strategy, involving a range of spend control measures, was implemented following forecast overspend. Despite the considerable efforts of the Council since July to manage its position, the operating environment and wider economic context continue to be volatile with small changes in demand disproportionately materialising in large financial pressures. As a result, the funding gap forecast included a multi-million in-year overspend.

Exceptional Financial Support Request & Budget 2024/25

1.15. A request for Exceptional Financial Support for the financial year 2023/24 and 2024/25, was made to the Government Department for Levelling Up Housing and Communities and approved. This allowed the Council to set a balanced budget for 2024/25 on 4th March 2025. In practical terms this sought permission to 'capitalise' revenue expenditure so that it is treated as capital expenditure and can be met from the council's capital resources. The final amount and confirmation that the Council can capitalise is subject to a number of conditions and assurance.

External Audit

1.16. In February 2022 the Council's external auditors [Grant Thornton provided an update](#) in respect of their financial statements audit stating 3 significant weaknesses in respect of 2019/20 and 2020/21 financial statements:

- financial sustainability,

- company governance and
 - delays to annual accounts production and finalisation
- 1.17. The first 2 of these issues are covered within TFN. The 3rd points to resourcing of accounts preparation and strengthening of valuation records.
- 1.18. In February 2023 [Grant Thornton updated its concerns about arrangements to secure best value](#) by adding 5 new areas considered to be significant weaknesses:
- failure to secure significant improvements in Children’s Services,
 - significant movements between budget and final outturn in 2021-22
 - unlawful transfer from Housing Revenue Account to the General Fund
 - lack of management capacity due to recruitment and retention issues
 - failure to demonstrate best value through procurement
- 1.19. These are reflected in the significant issues identified for AGS purposes and the TFN plan, all are considered for AGS purposes to reflect issues present in 2020/21 or to be developments related to these issues.
- 1.20. Grant Thornton issued a statutory recommendation on 9th February 2024, using the external auditor’s powers under section 24 schedule 7 of the Local Audit and Accountability Act 2014, that further savings proposals are developed. The Council has accepted the recommendation.
- 1.21. As a result of the CIPFA and Penn reports the external auditor determined that a high audit risk of management override existed, which necessitated further assurance from the Section 151 Officer in respect of a number of key financial processes. Ernst & Young (EY) were procured to carry out a review, and a preliminary report identified gaps compared to best practice in some areas. A further concluding report on the Establishing Grip phase of EY work is yet to be reported.
- 1.22. The Together for Nottingham Plan addresses the significant issues identified in previous Annual Governance Statements and sets out a structure, priorities, accountabilities and milestones for improvement incorporating and developing the recommendations made in the Public Interest and Non-Statutory Review reports. The Audit Committee has received updates on progress of the themes of the Together for Nottingham Plan and the IAB instructions during the year.
- 1.23. [Grant Thornton’s Annual Report on Nottingham City Council for the 3 years 2020/21, 2021/22 and 2022/23](#) was issued in March 2024. It sets out Grant Thornton’s judgment of significant weakness in each of these years for
- financial sustainability and financial governance,
 - governance, and
 - improving economy, efficiency and effectiveness
- 1.24. The report highlights that whilst some improvements have been made, for all 11 previously highlighted key recommendations further work is required. The 3 areas above are factors within these key recommendations covering

- Financial sustainability including savings schemes, business case development, and budget management and forecasting
- Medium Term Financial Plan
- Recruitment and retention (including pay policy and interim / permanent mix)
- Budget approach and finance skillbase
- Company arrangements
- Companies' strategic purpose, financial needs and risk
- Statutory accounts preparation
- Prioritisation of external audit query resolution
- HRA ringfence and housing subsidiary companies
- Children's services
- Procurement and contract management

1.25. A further key recommendation has been made to engage fully and at pace with the improvement and intervention plans developed by Commissioners.

1.26. The report concludes that significant work is still needed and concerns remain in respect of

- financial sustainability
- workforce strategic management
- the effectiveness of internal control.

1.27. A key weakness continuing over the last 2 years has been the level of vacancy and interim resource in the Finance structure.

Key Personnel changes

1.28. In December 2022, the Council appointed Ross Brown as its Corporate Director of Finance and Resources replacing Clive Heaphy. From May 2024 Beth Brown took over as Director of Legal and Governance (Monitoring Officer) from Malcolm Townroe.

Additional Significant Issues related to 2020/21

1.29. As a result of the above the following have been added as significant issues related to 2020/21 (other issues above are incorporated in the issues already recognised)

- Housing management & HRA ring-fence
- Delays to annual accounts production and finalisation
- Management override of controls & Finance Improvement Plan

1.30. Significant issues have been covered in the [TFN plan](#) and the IAB's [39 statutory instructions](#). The 2 further instructions clarified expectations in respect of the budget instruction for 2024/25. Delivery of the plan and instructions was monitored by Corporate Leadership Team and the IAB. The new [Improvement Plan](#) covers much of the same ground and incorporates new areas and priorities as a result of the statutory intervention and attempts to align strategies, plans and activity to resources.

Downgraded Significant Issues related to 2020/21

- 1.31. The Deputy Director of Public Health Reports that: In respect of the Protecting People from Covid-19, while the long term impact of the COVID-19 pandemic on the health and wellbeing of Nottingham City citizens, and in particular children and minority ethnic populations, is important to recognise, it is now incorporated into business as usual as part of our approach to addressing health inequalities. The Local Authority Public Health Team is not seeking or in receipt of any additional COVID-19 specific funding. COVID-19 has been removed from our Public Health risk register and we currently have other health protection priorities.

Head of Audit & Risk (HoIA) Opinion

- 1.32. The mandatory Public Sector Internal Audit Standards require the HoIA to give an opinion and report to support the City Council's Annual Governance Statement.
- 1.33. In July 2021, based on the audit work completed and assurances received, the HoIA gave a limited level of assurance. Further post balance sheet events lead the HoIA to now confirm an overall limited level of assurance for this addendum for the 2020/21 year. The HoIA has concluded that whilst some internal control systems are operating effectively within the Council, the areas of concerns identified above lead to an overall limited level of assurance.