

Dudley MBC

Section 24 Statutory recommendations

30 January 2024



Dudley Metropolitan Borough Council
Council House
Priory Road
Dudley
DY1 1HF

30 January 2024

Dear Sirs/Madams

Recommendations 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 written recommendations under section 24 of the Act due seriousness of the Council's financial position and the plan to fully deplete general fund reserves during the 2024/25 financial year, which significantly increases the probability that the s151 officer may decide to issue a Section 114 notice in the near future. 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 recommendations are to be accepted, and
- what, if any, action to take in response to these recommendations.

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



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Background to the recommendations

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act due to inadequate financial management arrangements at the Authority exposed further by the recent report to Cabinet detailing plans for the 2024/25 budget. This report follows on from the key recommendations we raised in December 2023 in respect of significant weaknesses in the Council's arrangements to secure financial sustainability.

Financial management arrangements at Dudley MBC

We issued our Auditor's Annual Report ('AAR') for Dudley Metropolitan Borough Council for the financial years 2021/22 and 2022/23 to Audit and Standards Committee on 18 December 2023.

In our report, we identified a significant weakness in the Council's arrangements for securing value for money in relation to Financial Sustainability for both year and we raised two Key Recommendations for the Council to address as a matter of urgency.

Our first Key Recommendation was that Members should recognise the scale of the Council's financial challenge and act accordingly to support the Council's officers in developing realistic and deliverable savings plans in the short to medium term. The recommendation was accepted by the Council and it was stated that the Council will incorporate actions to address this would be incorporated into the Improvement and Sustainability Plan.

We also raised a Key Recommendation that the Council should revisit financial plans with the sustainability of reserves in mind to ensure medium-term financial plans demonstrate a realistic plan to replenish reserves where one-off use is expected to cover budget gaps. Again, this recommendation was accepted with the Council stating that actions will be incorporated into the Improvement and Sustainability Plan to address it.

Whilst the final version of the AAR has only recently been issued, we shared our concern about the level of Council's reserves with members of the Audit and Standards Committee in July 2023. Since that time, the Council has established an Independent Improvement & Assurance Board to provide external advice, scrutiny, challenge, and expertise to the Council as it develops financial improvement plans.

The Council has made some progress but more work is required to develop and deliver plans to address the indicative budget gap for the 2024/25 financial year urgently.

A joint report to Cabinet from the Deputy Chief Executive and Director of Finance and Legal on 11 January 2024 sets out that in addition to the £5.1m planned use of reserves agreed in the 2023/24 budget there is also an adverse forecast outturn of £9.1m. Based on this, the total use of unallocated General Fund reserves in 2023/24 would be £14.2m. This would leave an unallocated General Fund reserves balance of £7.6m at 31 March 2024. The report also sets out the current medium-term financial outlook for the Council up to 2026/27. In 2024/25, the current forecast net budget deficit is £10.1m after the delivery of savings totalling £7.7m. We understand that there has been an overall positive movement to the financial position that was set out in the Cabinet report. However, the outlook is still a serious concern.

If the available unallocated General Fund reserves balance is reduced to £7.6m at 31 March 2024 as expected, the Council would fully deplete this balance during 2024/25 to cover the deficit and would need to repurpose earmarked reserves. In the absence of a minimum level of unallocated general fund reserves to manage future financial risks, there is a high possibility that the Chief Finance Officer would decide to issue a Section 114 notice during the year.

Members recognise the scale of the financial challenge facing the Council. We note that the Council currently has spending controls in place and this has led to positive variances which may be realised in the 2023/24 final outturn. However, the financial outlook for the Council remains highly concerning and our statutory recommendation reflects the serious nature of this

It is the corporate responsibility of all members to ensure that the Council acts within the law and sets a balanced budget. This is a member responsibility and not an officer responsibility. Members must take account of professional officer advice in setting the budget and must be prepared to take difficult decisions to deliver the scale of financial improvement required in Dudley.

Page 4 sets out our statutory recommendation.

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

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Seriousness of the financial position of the Council, the risk of depleting General Fund reserves during 2024/25 and the risk that the Council issues a Section 114 notice	<p>Members should not underestimate the seriousness of financial position the Council now faces and must support officers in identifying sufficient and viable alternative proposals in form of council tax increases, investment, income generation as well as expenditure reductions to ensure that the Council maintains a minimum level of General Fund balances during 2024/25 to give it the best possible chance of avoiding a Section 114 notice.</p> <p>To address the seriousness of the financial position of the Council and to avoid a Section 114 notice being issued during 2024/25, the Council must now take urgent action to identify and deliver all available opportunities to reduce the current budget gap and reduce the reliance on General Fund reserves.</p> <p>The Council should:</p> <ol style="list-style-type: none"> 1. Maximise the opportunity for positive movement in the 2023/24 final outturn and 2024/25 budget, thereby reducing the indicative budget gap and the need to use General Fund balances in year. 2. Implement the likely steps it would need to take if the S151 officer was to issue a S114 notice or if Commissioners were appointed by the Government. This includes strictly enforcing the existing spending controls already in place without exception and taking further measures to stop all non-essential spend immediately. For example, we suggest that the Council undertakes a comprehensive review of statutory services to determine the minimum level of service legally required. This approach will assist in providing a robust business case in case the Council need to apply for exception financial support. 3. Identify and develop additional expenditure reduction and income generation proposals to fully address the indicative budget gap in 2024/25 of £10.1m as well as the budget gaps in the remaining years of the current Medium Term Financial Strategy. These may be temporary short-term savings, but it is important that where possible, these should be recurrent savings to address the forecast budget gaps beyond 2024/25. 4. Create a prudent centrally-held contingency, which the S151 officer can deploy as necessary to manage any in-year pressures and fund the cost of change, by developing savings proposals that exceed the indicative budget gap. 	

