

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAM CITY COUNCIL (the "Authority")

### Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2019 issued on 26 March 2021 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Report on other legal and regulatory requirements – adverse conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects, Nottingham City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Basis for adverse conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources, we identified the following matters:

##### Financial sustainability

During 2018/19 it was clear that the Authority had low levels of reserves and was facing a challenging financial outlook. It was also not integrating its group companies appropriately into its financial monitoring processes. Its financial strategy was too reliant on its commercialism agenda. Since then, a number of developments have exposed significant underlying weaknesses in the financial planning arrangements the Authority had in place during 2018/19:

- The failure of its wholly owned energy company Robin Hood Energy, which the Authority has estimated will cost it £38 million
- The impact of Covid-19 – while the pandemic could not have reasonably been foreseen, its financial impact has been very severe for the Authority because of its comparatively low levels of reserves, short term financial strategy and in particular its reliance on 'commercialisation', including companies and investment properties, which led to a higher degree of risk being built into its financial position
- Capital expenditure has been relatively unconstrained, resulting in high debt levels. The costs of servicing this debt have limited the flexibility within the Authority's revenue budget.

These matters highlight pervasive weaknesses in the Authority's financial planning arrangements.

##### Company governance

We issued a Report in the Public interest in August 2020 in respect of the Authority's arrangements for governance of its companies and in particular Robin Hood Energy (RHE). While the main issues in

relation to RHE arose in 2019/20, the inadequate arrangements that led to them were in place during 2018/19. We found that:

- The operation of RHE was hugely risky for the Authority, and these risks were not fully understood and managed
- There was a lack of clarity of roles within the Authority's governance arrangements
- The Authority was not adequately monitoring the financial performance of RHE
- The Authority had a very strong desire for RHE to succeed, which led to institutional blindness to its deteriorating financial position and the level of risk the Authority was being exposed to
- Lessons needed to be learned across the Authority's companies and in relation to its wider culture – and in particular the negative view that was taken of challenges to political priorities.

These matters highlight pervasive weaknesses in the Authority's arrangements for governance of its companies.

### **Management of significant projects**

We identified weaknesses in the Authority's application of its arrangements for significant projects, which were apparent in respect of the decision-making around the Broad Marsh refurbishment. In particular:

- The central finance function, including the s151 officer, were given very limited time to consider the decision-making report, in the context where the decision had to be taken to a very tight timescale.
- The forecasting methodology used in the business case for the development was not carried on an appropriate discounted basis
- Echoing our concerns in relation to RHE, it appeared that the scheme was seen as a 'must do' and that any challenge of it, or the process followed, was viewed very negatively.

The weaknesses in the application of the Authority's arrangements for significant projects led to a level of risk being taken (and debt being taken on) which the Authority's financial situation could not support.

These matters are evidence of weaknesses in the Authority's arrangements for informed decision making, and include weaknesses in proper arrangements for:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
- acting in the public interest through demonstrating and applying the principles and values of sound governance
- understanding and using appropriate and reliable performance information to support informed decision making and performance management, including business cases supporting significant investment decisions, and
- working with third parties effectively to deliver strategic priorities.

### **Significant risks**

Under the Code of Audit Practice, we are required to report on how our work addressed the significant risks we identified in forming our conclusion on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Significant risks are those risks that in our view had the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The table below sets out the significant risks we have identified. These significant risks were addressed in the context of our conclusion on the Authority's arrangements as a whole, and in forming our conclusion thereon, and we do not provide a separate opinion on these risks.

## Significant risks forming part of our qualified conclusion

## How the matter was addressed in the audit

### Risk 1 Financial sustainability

Like many other similar local authorities, the financial outlook for the Authority in 2018/19 was challenging. The 2018/19 budget was predicated on the delivery of cost reductions of £29.4 million, plus a further £4.4 million in relation to overspend risks. The total of this was £33.8 million, which represented 14% of the net general fund revenue budget. Significant gaps had also been identified for 2019/20 and 2020/21.

We therefore considered financial sustainability to be a significant risk for our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for 2018/19.

Our audit work included, but was not restricted to:

- assessing the Authority's financial performance in 2018/19 and subsequently
- assessing the Authority's future financial plans, including its Medium-Term Financial Strategy, and the robustness of the assumptions made in it
- assessing key factors affecting the Authority's financial position such as its levels of reserves and the cost of servicing its debt.

#### Key findings

We have qualified our conclusion in respect of this risk, as set out in the basis of adverse conclusion section of the report.

### Risk 2 Company governance

The Authority has significant investments in a number of subsidiary companies and has previously identified the need to enhance its governance arrangements in respect of them.

We therefore considered company governance to be a significant risk for our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for 2018/19.

Our audit work included, but was not restricted to:

- assessing the overall governance arrangements in place for the Authority controlled companies and other entities
- considering the financial performance of the companies and its impact on the Authority
- assessing the Authority's governance arrangements in respect of RHE
- considering the impact of our findings in respect of RHE on the Authority's overall governance arrangements.

#### Key findings

We have qualified our conclusion in respect of this risk, as set out in the basis of adverse conclusion section of the report.

### Risk 3 Management of significant projects

The Authority has an ambitious vision for the City, with a particular emphasis in 2018/19 on continuing to enhance the southern part of the City Centre, with decisions taken to contribute £47 million towards the refurbishment of the Broad Marsh Shopping Centre and to proceed with a scheme to replace the demolished Broad Marsh car park with an ambitious new scheme incorporating the shell for a new central library. Such major schemes involve major risks for the Authority, which are exacerbated by the overall economic situation and the limited flexibility within the Authority's finances.

We therefore considered management of significant projects to be a significant risk for our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for 2018/19.

Our work included but was not restricted to:

- assessing the Authority's arrangements for management and governance of major projects
- using the Broad Marsh schemes as a tracer to assess the practical application of those arrangements.

#### Key findings

We have qualified our conclusion in respect of this risk, as set out in the basis of adverse conclusion section of the report.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

In our report dated 26 March 2021, we explained that we could not formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we had completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have now completed this work, and our conclusion is set out above.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion.

We certify that we have completed the audit of the financial statements of Nottingham City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*J Gregory*

John Gregory, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

7 April 2021