



# The Audit Findings for Nottingham City Council – Value-for-money and going concern

Year ended 31 March 2019

March 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Headlines

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# Context

We reported the findings of our audit of the Council's accounts to the Audit Committee as 'those charged with governance' on 31 July 2020. The audit was delayed significantly because of the impact of delays in the audit of one of the Council's wholly-owned companies, Robin Hood Energy (RHE). The auditor of RHE, BDO, had significant difficulties in concluding their audit, and it was eventually signed on 24 March 2020. The Council then had to restate its own single-entity and group accounts because of the impact of the RHE audit and a deterioration in RHE's financial position, and we had to carry out additional audit work. The audit was, however, substantially complete by July 2020.

### Value for money

As you are aware, we issued a Report in the Public Interest in relation to the Council's governance of RHE and its other companies on 10 August 2020. This was a culmination of a substantial volume of work we undertook on this issue as the situation developed. Following the issuing of our Report, The Council agreed to undergo a non-statutory review, which was led by Max Caller and reported on 30 November 2020.

As a result of the review, the Council now has in place a Recovery and Improvement Plan designed to effect major changes in its culture, finances and ways of working, which is overseen by an independent Improvement Board. The Recovery and Improvement Plan incorporates the significant changes in company governance agreed as a result of the Report in the Public Interest. Many of the other findings from the review echo our own findings from our consideration of both the RHE issues and our wider value-for-money work.

We had identified the following areas of significant risk in relation to value-for-money:

- Financial sustainability
- Company governance
- Management of major projects.

Our work on these risk areas had already identified a number of areas of concern. The emergence of the specific issues around RHE, however, has shown that our initial concerns around company governance were well-founded, and also confirmed that the Council's overall financial situation was not resilient enough to deal with the level of risks that it was carrying, with insufficient useable reserves, over-reliance on the previous programme of 'commercialisation' and limited flexibility due to high borrowing costs.

The Max Caller review report commented and made recommendations on these issues, and also picked up our concerns on the arrangements for major projects, such as the limited involvement of the then-section 151 officer and the Monitoring Officer from the evaluation of some projects until very late in the process.

We decided it was appropriate to put our reporting of our value for money conclusion on hold while first the Report in the Public interest and the review took place, and we are now reporting our work in the context of these two reviews. We are conscious, however, that the Council now has an agreed Recovery and Improvement Plan in place which addresses the highest priority issues, and that time has elapsed since our original VfM work. We are not therefore producing a detailed report or making new recommendations, which could distract the Council from the Recovery and Improvement Plan. We nevertheless need to report to you on our proposed Value for Money Conclusion and the reasons for it, and that is the main purpose of this report.

### Going concern

As part of our audit of the accounts, we have to consider whether or not you are a 'going concern' in terms of your ability to maintain sufficient cash balances to operate. This assessment is driven by the situation at the date of signing the audit opinion, rather than at the end of the relevant audit year. Given the delay in giving the opinion, we have therefore had to revisit our work on 'going concern'.

### VfM and later events

The value-for-money conclusion covered by this report is that for the 2018/19 year. It is therefore primarily an assessment of the arrangements in place in that year.

However, in assessing arrangements, we are required by the NAO guidance in AGN03 to consider whether events since the end of the year give us any further insight into the arrangements which were in place in the year. An example would be for us to consider more recent developments in the Council's financial sustainability and use that to inform our view of what vulnerabilities already existed in 2018/19, and similarly to consider whether the findings of the Best Value inspection, to the extent that they reflect the position back in 2018/19, indicate that there were significant weaknesses in the arrangements in that year..

We do not, however, take into account subsequent events which do not tell us anything about the arrangements in place in the relevant year.

## Headlines

# Headlines

Outcome	Auditor commentary	
<b>Value for money</b>	<p>We intend to issue an 'adverse' value for money conclusion which states that, in 2018/19, the Council did not have adequate arrangement in place. The text of our proposed VfM conclusion is included within Appendix B.</p>	<p>As a result of the work we carried out on your arrangements in 2018/19, focused on the three risk areas, we had already concluded that a qualified value-for-money conclusion was appropriate. In the light of our work on RHE and the outcome of the Best Value inspection, we have concluded that we should give an 'adverse' conclusion ie one which says that your arrangements overall were inadequate. The other type of qualified conclusion would be an 'except for', which states that your arrangements were adequate overall, with the exceptions of a small number of areas. In your case, the broad and pervasive nature of the findings from both our report and the rapid review report strongly support an adverse conclusion.</p>
<b>Going concern</b>	<p>As a result of your current financial situation, which has arisen for a range of reasons including the impact of the RHE disposal, Covid-19 and past over-reliance on commercialisation, we have considered whether we should include an 'Emphasis of Matter' in our opinion on your accounts.</p>	<p>In giving our opinion on your accounts, we are required to consider whether the Council group is a 'going concern' for the foreseeable future, normally taken to be 12m from the date of signing the opinion. Due to the delays in signing the opinion, we have therefore had to request from you a new assessment of your 'going concern' status and to evaluate that against available audit evidence.</p> <p>As a result of this new assessment, we have concluded that the Council is still, in terms of the relevant accounting requirements which focus on cash position rather than reserves, a going concern, and we have not therefore modified our opinion in relation to going concern.</p>

# Value for Money

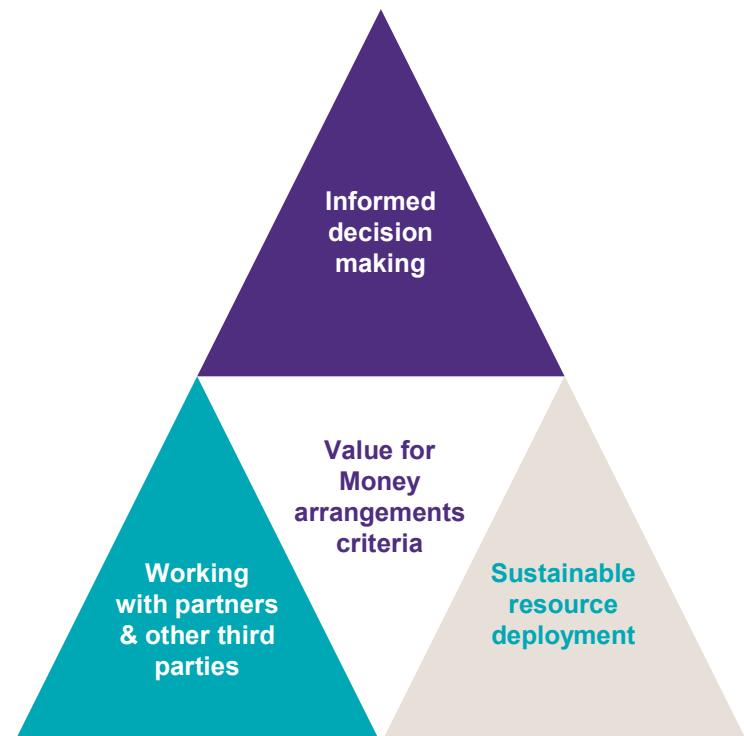
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in 2019. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2019 and identified three significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2019:

- Medium term financial sustainability
- Governance in relation to major capital schemes
- Arrangements for governance and monitoring of the Council's subsidiary companies

We carried out much of our work on these areas in Summer 2019, by which time we already had significant concerns in relation to the governance arrangements for RHE in particular. We therefore focused our efforts on RHE and left our wider VFM reporting in abeyance.

We have, however, continued to review relevant documents and have discussions with officers in relation to the wider VFM risks we identified, and especially financial sustainability. We have also considered whether the Max Caller review, which followed on from the publication of our Report in the Public Interest, required us to do any further work to address issues which impacted on our VFM conclusion for 2018/19. We concluded that no additional work was necessary specifically for the purposes of the 2018/19 VFM conclusion, but we will need to undertake additional work as part of the VFM conclusions for 2019/20 and/or 2020/21.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements, and have also taken into account the findings from our own specific work in relation to RHE and also the report from the non-statutory Best Value inspection.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 7-9..

## Overall conclusion

Based on the work we performed to address the significant risks, we are not satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as an 'adverse' qualified VFM conclusion.

The text of our report, which confirms this can be found at Appendix B.

## Recommendations for improvement

We are making this report in the context of the Council already having an Improvement Plan in place in response to the non-statutory review and our Report in the Public Interest. We are satisfied that there is no need for us to make any further recommendations in this report as the Improvement Plan already incorporates the key areas requiring improvement.

## Significant difficulties in undertaking our work

We are required by auditing standards to report to you on any significant difficulties we had in undertaking our work. There are no such matters we need to report' except that our work in relation to company governance was made more challenging because the Council did not appear to hold certain documents which we would have expected it to, had stronger governance been in place.

## Significant matters discussed with management

Auditing standards require us to report to you any matters which we discussed with management in undertaking this work. As you are already aware, we have had extensive discussions with management and yourselves as 'those charged with governance' during the lengthy period of time in which we have carried out our work.

The main focus of these discussions has been:

- RHE and related company governance matters
- The Council's deteriorating financial position and the factors which could result in a section 114 notice being appropriate
- Decision making around the Broad Marsh schemes (shopping centre and car park/library)

There are no matters arising from our work on which we require specific representations from management or those charged with governance.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>Financial sustainability</b>  <b>(wording as per Audit Plan, Spring 2019)</b></p> <p>Like many other similar local authorities, the financial outlook for the Authority remains challenging. The 2018/19 budget is predicated on the delivery of cost reductions of £29.4m, plus a further £4.4m in relation to overspend risks. The total of this is £33.8m, which represents 14% of the net general fund revenue budget. The most recent plans presented to the Executive Board indicate further savings are needed in 2019/20 of £22.1m, in 2020/21 of £19.2m and in 2021/22 £20.7m. For the latter two years there remain funding gaps of £27.2m and £45.4m respectively.</p> <p>This risk relates to the sub-criteria of Sustainable Resource Deployment.</p>	<p>Our initial work in Summer 2019 found that the Council had comparatively low levels of reserves and was facing a challenging financial outlook, although its arrangements for budget setting and monitoring were sound. We expressed concern to the then-s151 officer that the financial performance of the subsidiary companies was not integrated into these processes, and improvements were subsequently made, and also discussed the Council's high level of indebtedness..</p> <p>Since then, a number of factors have led to a significant deterioration in the Council's financial position, most significantly:</p> <ul style="list-style-type: none"> <li>- The failure of RHE, which is likely to cost the Council an estimated £38m</li> <li>- The impact of Covid-19 – while the pandemic could not have reasonably been foreseen, its financial impact has been very severe for Nottingham because of its comparatively low levels of reserves, short term financial strategy and in particular its reliance on 'commercialisation', including companies and investment properties.</li> </ul> <p>The non-statutory review report concluded that:</p> <ul style="list-style-type: none"> <li>- The Council has placed too much reliance on 'getting by' in-year, the use of one-offs and the increasingly risky concept of 'commercialisation' and income generation'.</li> <li>- Capital expenditure has been relatively unconstrained, resulting in the high debt levels</li> <li>- A sustainable medium term financial plan needed putting in place.</li> </ul> <p>Taking our initial work, the subsequent deterioration in the Council's position and the findings from the non-statutory review together, it is clear that, while some aspects of the Council's financial management were strong in 2018/19, there were significant underlying weaknesses which have contributed to more recent developments. In particular:</p> <ul style="list-style-type: none"> <li>- the Council's reliance on its 'commercialisation' strategy to avoid service reductions led to a higher degree of risk being built into its financial position, given the volatility which has since occurred, not just due to Covid-19 but also due to other changes in the financial performance of the companies</li> <li>- The Council's very high level of debt, and the costs of 'servicing' this debt, have limited the flexibility within the Council's revenue budget.</li> </ul>	<p>On the basis of this evidence we have concluded that the Council did not have appropriate arrangements in place to secure Value for Money through Sustainable Resource Deployment during 2018/19. We note the progress now being made through the Improvement Plan.</p>

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<b>Company governance</b> <b>(wording as per Audit Plan, Spring 2019)</b>  The Council has previously identified the need to enhance the governance arrangements surrounding its subsidiary companies, and there are a number of issues within these companies at present which require strong governance arrangements to be in place.  This risk relates mainly to the sub-criterion of informed decision-making	<p>The Council has a complex group structure, with eight entities consolidated into its Group Accounts for 2018/19 and interests in various other entities. Its involvement in such entities requires strong governance arrangements, including monitoring of financial performance and risk management.</p> <p>In our initial work in Summer 2019, we had identified a number of concerns in relation to the Council's governance arrangements for its companies. Our views were reinforced as a result of our specific investigation in relation to Robin Hood Energy. While the main issues in relation to RHE arose in 2019/20, the inadequate arrangements which led to them were in place during 2018/19 and therefore impact on our VfM conclusion for 2018/19.</p> <p>The results of that work were set out in the Report in the Public Interest issued in August 2020 and are not repeated in any detail here. In brief:</p> <ul style="list-style-type: none"> <li>- the operation of RHE was hugely risky for the Council, and these risks were not fully understood and managed</li> <li>- There was a lack of clarity of roles within the governance arrangements</li> <li>- The Council was not adequately monitoring the financial performance of RHE</li> <li>- There was a very strong desire for RHE to succeed, which led to institutional blindness to its deteriorating position and the level of risk</li> <li>- Lessons needed to be learned across the Council's companies and in relation to its wider culture – and in particular the negative view that was taken of challenges to political priorities.</li> </ul> <p>The non-statutory review also considered company governance arrangements and its findings and recommendations echoed those we had made in our RHE report.</p>	On the basis of this evidence we have concluded that the Council did not have appropriate arrangements in place to secure Value for Money through informed decision-making during 2018/19. We note the progress now being made through the Improvement Plan and which was previously being made as a result of the Report in the Public Interest..

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<b>Management of significant projects</b> <i>(wording as per Audit Plan, Spring 2019)</i>	<p>Our initial work in Summer 2019 found that the Council's prescribed arrangements for significant projects were sound. However, we had concerns about some aspects of how they were being applied, which were apparent when we used the decision-making around the Broad Marsh refurbishment as an example. In particular:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- The s151 officer had some concerns about the forecasting methodology used in the business case for the development</li> <li>- 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.</li> </ul> <p>We commented in our RHE report on the Council's overall culture in which there was a high level of political drive and ambition to implement new policies and projects to improve the City, but that any challenge of these ambitions from officers, including statutory officers, was viewed very negatively.</p> <p>The non-statutory review commented on the relatively unconstrained nature of the Council's capital programme, and the need to greater control to ensure that overall indebtedness is reduced. It also commented on the need to strengthen the roles of the statutory officers.</p> <p>In our view, while there were no major weaknesses in the Council's prescribed arrangements for significant projects, the way those arrangements were being applied during 2018/19, and particularly the negative view of any challenge, led to a level of risk being taken (and debt being taken on) which the Council's financial situation could not support.</p>	<p>On the basis of this evidence we have concluded that the Council did not have appropriate arrangements in place to secure Value for Money through informed decision-making during 2018/19. We note the changes which are being made to arrangements as part of the Improvement Plan.</p>

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

## Initial work

We assessed the position when undertaking our 2018/19 audit, and reported our findings to you in our audit findings Report on 31 July 2020. We noted that there was no indication that maintenance of sufficient cash balances would be an issue for the Council within 12 months of that date and that we did not propose to modify our audit report in respect of going concern. We did however comment that:

*‘The Council faces much more significant challenges in respect of its budget and reserves position. We will provide further commentary when we report the findings from our Value-for-Money work, but due to the impact of Covid-19 and other financial pressures, including the impact of RHE’s performance, the Council is facing a budget gap of £62.3m. Bridging this gap will require difficult decisions to be taken, but failure to do so could require the section 151 officer to issue a ‘section 114’ notice to the effect that the Council’s budget is unlawful, and/or for us to take formal audit action.’*

## Current position

Since then, the continuing impact of Covid-19 and the realisation of losses in relation to RHE have led the Council to request financial support from central government. An application was submitted on 23 December 2020 for a capitalisation direction, which would enable the Council to treat £35m of its revenue expenditure in 2020/21 as if it were capital, and hence to be able to fund it from borrowing rather than from existing reserves.

In addition, the Council approved an ‘emergency’ budget for the remainder of 2020/21 on 5 October, which took into account the £27m net impact of Covid-19 and incorporated some use of reserves and planned savings of £12m.

Current plans for the 2021/22 budget require savings of £54m, the majority of which have now been identified, leaving a budget gap (assuming the 2020/21 expected position can be achieved through the capitalisation direction, of £4.9m. There are gaps of £24m and £27m respectively for 2022/23 and 2023/24 respectively.

In relation to cash flow, we have reviewed the most recent cashflow forecasts which run to the end of March 2022. These indicate that the Council is very unlikely to run out of cash by that date, and this is before the expected proceeds from asset sales are factored in. In addition, the Council in any case has the ability to borrow further from PWLB, albeit that this would be undesirable given the current level of indebtedness.

In relation to our audit report on the Council’s accounts, under the guidance which applied for 2018/19 (and 2019/20), it is the Council’s ability to maintain sufficient cash balances which ensures that it remains a going concern, and not its reserves position.

## Conclusion

The Council is clearly facing a challenging financial position. However, we do not believe there is a material uncertainty about “the entity’s ability to continue as a going concern” (ISA (UK) 570).

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<ul style="list-style-type: none"> <li>• We are required to give an opinion on whether the other information published together with the Council's audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified, although we have discussed with officers the scope for improvement in the structure and clarity of the AGS for future years. We plan to issue an unmodified opinion in this respect – refer to Appendix B.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>As you know, we issued a Report in the Public interest under schedule 7 of the Local Audit Accountability Act 2014 on 11 August 2020.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are normally required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Due to the delays in the audit, Whole of Government Accounts for the relevant year have already been produced by the time we were able to give any assurance, and we have not therefore had to complete this work for 2018/19.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to issue our audit certificate, formally concluding the 2018/19 audit, at the same time as we issue the updated auditor's report included at Appendix B.</p>

## Independence and ethics

# Independence and ethics

We have restated and updated our consideration of independence and ethical matters which we originally covered in our report to Audit Committee on 31 July 2020.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix A.

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and the Pension Fund. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. These fees have not been reflected in the accounts because of the timing of the Certification of Teachers Pensions return

#### Pension Fund

No non-audit services were identified which were charged from the beginning of the financial year to November 2020.

#### Council

The following audit-related and non audit-related services were identified.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Teachers Pension Return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £147,531 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

## Independence and ethics

# Independence and ethics

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified/, as well as the threats to our independence and safeguards that have been applied to mitigate these threats

	Fees £	Threats identified	Safeguards
<b>Non-audit related</b>			
CFO Insights Subscription	16,000	Self-Interest (because this is a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of 75,624 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. These fees have not been reflected in the accounts because of the timing of CFO Insights</p> <p>The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.</p>

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

## Appendix A

# Audit Fees

We confirm below the current situation in relation to fees charged for the audit and provision of non-audit services

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Scale fee	132,531	132,531
Fee variation – previously agreed due to increased regulator expectations in areas such as pensions, PPE and investment properties.	15,000	15,000
Fee Variation – Report in the Public Interest and other RHE matters		48,000
Fee Variation – additional work on accounts audit (review of restated group accounts and notes, revised impairment of RHE investment, additional review processes due to increased level of audit risk, reconsideration of going concern in light of impact of Covid-19 and other changes to Council's financial position, redrafting Enhanced Audit Report etc.)		24,500
Fee variation – additional work on VFM conclusion (revisit and report separately following Report in the Public Interest, updating assessment of financial sustainability, additional consistency panel)		6,000
<b>Total audit fees (excluding VAT)</b>	<b>£147,531</b>	<b>£226,031</b>

Proposed fee variations will be confirmed with the s151 Officer and are subject to approval by PSAA Ltd.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services – Teachers Pension Return	5,000	5,000
Non- Audit Related Services CFO insights	16,000	16,000
<b>Total non- audit fees (excluding VAT)</b>	<b>£21,000</b>	<b>£21,000</b>

## Appendix B

# Audit opinion- Nottingham City Council

We anticipate we will provide the Council with an unmodified audit report and this is a draft of that opinion.

## 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 xx 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;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- had 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 issued by the C&AG in November 2017, 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, we identified the following matters:

### Financial sustainability

During 2018/19 it was clear that the Council 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. Since then, a number of factors have further exposed the underlying weaknesses in the Council and Group's financial position:

- The failure of its wholly owned energy company Robin Hood Energy, which is likely to cost the Council an estimated £38m
- The impact of Covid-19 – while the pandemic could not have reasonably been foreseen, its financial impact has been very severe for Nottingham because of its comparatively low levels of reserves, short term financial strategy and in particular its reliance on 'commercialisation', including companies and investment properties.
- Capital expenditure has in the past been relatively unconstrained, resulting in the high debt levels

As a result, the Council is now in a very difficult financial position and cannot produce a sustainable medium term financial strategy without securing additional funding.

### Company governance

We issued a Report in the Public interest in August 2020 in respect of the Council's arrangements for governance of its companies and in particular Robin Hood Energy. This found that:

- the operation of Robin Hood Energy (RHE) was hugely risky for the Council, and these risks were not fully understood and managed
- There was a lack of clarity of roles within the governance arrangements
- The Council was not adequately monitoring the financial performance of RHE

## Appendix B

# Audit opinion

- There was a very strong desire for RHE to succeed, which led to institutional blindness to its deteriorating position and the level of risk
- Lessons needed to be learned across the Council's companies and in relation to its wider culture – and in particular the negative view that was taken of challenges to political priorities

## Management of significant projects

While the Council's prescribed arrangements for significant projects were sound, we had concerns about some aspects of how they were being applied, which were apparent when we used the decision-making around the Broad Marsh refurbishment as an example. 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 did not carry 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.

While there were no major weaknesses in the Council's prescribed arrangements for significant projects, the way those arrangements were being applied during 2018/19, and particularly the negative view of any challenge, led to a level of risk being taken (and debt being taken on) which the Council's financial situation could not support.

## 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
<p><b>Risk 1 Financial sustainability</b> 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 £29.4m, plus a further £4.4m in relation to overspend risks. The total of this was £33.8m, which represented 14% of the net general fund revenue budget. Significant gaps had also been identified for 2019/20 and 2020/21. This risk relates to the sub-criteria of Sustainable Resource Deployment.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• assessing the Council and Group's financial performance in 2018/19 and subsequently</li> <li>• assessing its future financial plans, including its Medium-Term Financial Strategy, ensuring that they are based on robust assumptions</li> <li>• assessing its levels of reserves and other key components of its financial position such as the cost of servicing debt.</li> </ul> <p><b>Key findings</b> We have issued an adverse conclusion in respect of this risk, as set out in the basis of adverse conclusion section of the report.</p>
<p><b>Risk 2 Company governance</b> The Council has previously identified the need to enhance the governance arrangements surrounding its subsidiary companies, and there are a number of issues within these companies at present which require strong governance arrangements to be in place. This risk relates mainly to the sub-criterion of informed decision-making</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• assessing the overall governance arrangements in place for the Council's controlled companies and other entities</li> <li>• reviewing the financial performance of the companies and its impact on the Council</li> <li>• a full assessment of the weaknesses in the arrangements in respect of RHE</li> <li>• consideration of the impact of our findings in respect of RHE on the wider group and on our view of the Council's overall governance and culture.</li> </ul> <p><b>Key findings</b> We have issued an adverse conclusion in respect of this risk, as set out in the basis of adverse conclusion section of the report.</p>
<p><b>Risk 3 Management of significant projects</b> The Council 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 £47m 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 Council, which are exacerbated by the overall economic situation and the limited flexibility within the Council's finances. This risk relates to the sub-criteria of informed decision-making.</p>	<p>Our work included but was not restricted to:</p> <ul style="list-style-type: none"> <li>- assessing the Council's prescribed arrangements for management and governance of major projects</li> <li>- using the Broad Marsh schemes as a tracer, assessing the practical application of those arrangements.</li> </ul> <p><b>Key findings</b> We have issued an adverse conclusion in respect of this risk, as set out in the basis of adverse conclusion section of the report.</p>

# Audit opinion

## 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 xx 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 [name of Authority] 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.

## To be signed

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

Birmingham

xx March 2021



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