

Addendum: Annual Governance Statement 2018/19

Background

- 1.1. The 2018/19 Annual Governance Statement (AGS) was approved by [Audit Committee on 31 July 2020](#) as part of the approval of the 2018/19 Financial Statements. This Addendum updates the key events since that date and should be read in conjunction with that AGS.

Report in the Public Interest concerning Nottingham City Council's governance of Robin Hood Energy

- 1.2. Nottingham City Council's (NCC) external auditor published a Report in the Public Interest ([PIR](#)) on 11 August 2020 concerning NCC's governance of Robin Hood Energy (RHE).
- 1.3. The PIR states that:
 - There was an insufficient appreciation within the Council (as a corporate body) of the risks involved in ownership of, and investment in RHE
 - There was insufficient understanding within the Council of RHE's financial position, partly due to delays in the provision of information by RHE and the quality and accuracy of that information
- 1.4. A strategic review has been undertaken which indicated that the Council should dispose of its interest in Robin Hood Energy. As part of this process the customer base has been sold to British Gas and the company entered administration on 5th January 2021 pending resolution of the remaining business affairs.

Ministry of Housing, Communities and Local Government (MHCLG) Non-Statutory Review

- 1.5. As part of a continued dialogue, MHCLG commissioned a rapid non-statutory review (NSR) of the Council undertaken by Max Caller CBE. The review commenced on 27 October 2020 and was completed by the end of November 2020. The decision to carry out the review was taken by the Secretary of State for Housing Communities and Local Government following issues raised in the PIR. Important areas of consideration were the Council's ability to set a sustainable budget for next year, 2021/22, and into the medium term. The themes within the review were:
 - Governance
 - Culture and Leadership
 - Financial stability
 - Services
 - Capacity and/or capability to improve

- 1.6. The reviewer, Max Caller, outlined areas where the Council needed to improve. This has implications for the whole system of governance and accountability at the Council. Significant issues reported were: -
- the Council would not be able to set a balanced budget for 2021/22 without significant external support
 - over 4 years the Council failed to act on the warnings, clearly stated by their Section 151 Officer to
 - manage budgets on a rolling 3 year basis
 - bring forward savings proposals which reduced core expenditure and transformed or re-imagined services
 - the Council relied on use of one-off measures and the increasingly risky concept of commercialisation and income generation
 - capital expenditure has been unconstrained leading to the highest debt to net budget of all core cities, meaning that debt repayments became a restriction on revenue flexibility
 - roles and responsibilities in managing and directing Council owned companies have not been understood in the past, and liabilities have been incurred without the returns justifying the risk
 - the current Executive Member and top Officer structure is confusing and overlapping and is not fit for purpose in meeting current challenges
 - the Council needs to focus on reasonably affordable goals during the necessary recovery period to return to financial and operational stability
 - the Council needs to move quickly to change structures, culture and mechanisms at both Member and Officer level
- 1.7. As a result of the NSR the Council set out and agreed in January 2021 a Recovery & Improvement Plan. All the actions agreed as part of the PIR have been incorporated in the Recovery & Improvement Plan including to review lessons to be learnt from the Council's involvement with RHE.
- 1.8. The Secretary of State has responded by establishing an Improvement and Assurance Board, chaired by Sir Tony Redmond.
- 1.9. The purpose of this Board is:
- To provide external advice, challenge and expertise to Nottingham City Council in driving forward the development and delivery of its three-year Recovery Plan;
 - To provide assurance to the Secretary of State on Nottingham City Council's progress in delivering this Plan.

Key Personnel

- 1.10. In October 2020, the Council appointed Melbourne Barrett as its Chief Executive to replace the Interim Chief Executive Katherine Kerswell. He brings a wealth of experience of local authorities in Chief Executive and Director roles.
- 1.11. In November 2020, the Council appointed Clive Heaphy as its Interim Strategic Director of Finance (Section 151 Officer) to replace the outgoing S151 Officer.

Clive brings considerable private sector and public sector experience including his previous role at Birmingham City Council.

Updated Financial Outlook and Capitalisation

- 1.12. The S151 Officer continues to assess financial monitoring and forecasts and to update assumptions. The Council's Medium Term Financial Outlook and Medium Term Financial Strategy has been updated to take account of the significant changes and identify a pathway that might enable the Council to best manage the challenges ahead.
- 1.13. The September 2020 Executive Board and October 2020 Full Council approved a 2020/21 Interim Budget.
- 1.14. In February 2021 Executive Board approved the 2021/22 Budget and Medium Term Financial Outlook report. Full Council approved the Budget for 2021/22 on 8 March 2021.
- 1.15. The CFO is required to make a statement as to the Robustness of the Budget and Adequacy of reserves. In this statement the CFO stated that the need to transform services is a key recommendation of the NSR and will be a key priority for the Council in 2021/22 to ensure the delivery of a balanced and sustainable long term cost base for the Council. However, without financial support from Government the Council would not be in a position to fund the transformation programme and maintain reserves to an adequate level to protect the Council against future risks.
- 1.16. In order to both maintain its resilience (and that of its wholly owned companies) in the face of ongoing and future financial pressures and to deliver a major change programme to transform its services, the Council will need to access additional financial resources. For these reasons, it was considered appropriate that a request for capitalisation of £35m of costs be made to maintain financial resilience (£20m) and fund a comprehensive change programme (£15m). Transformation will be critical in delivering on the Council's adopted Recovery and Improvement Plan, to ensure that the Council can deliver its policy priorities and statutory duties within a framework of sustainable medium term finances.
- 1.17. Capitalisation requires Government approval and a request to MHCLG was submitted on 23 December 2020. On 5 March 2021 approval was received from MHCLG.
- 1.18. On 12 March 2021, Executive Board agreed to accept a Capitalisation Direction for 2020/21 of £20m and noted that the Secretary of State was minded to issue a Capitalisation Direction of up to £15m for 2021/22, later in the year, subject to conditions. The Capitalisation Direction was issued on 16 March 2021.

Protecting citizens and employees from Covid

- 1.19. The Council has prioritised protection of its citizens and employees during the COVID-19 recovery noting a disproportionate impact on the BAME community. The COVID work streams led the response and recovery to the pandemic. Risk assessments with mitigations were completed for Covid specific risks and departments identified and managed existing risks impacted by the pandemic through their established risk management processes. Regular communication

was provided to citizens and employees to advise of the live situation and the Council continues to monitor government guidance, assess impact on citizens and employees and complete detailed risk assessments for any reinstatement of services with particular regard for BAME employees and citizens.

- 1.20. The Council is working closely with the NHS, Nottinghamshire County Council and the District and Borough Councils to develop local arrangements, with aligned operating procedures and shared structures where possible, and is working with other partners and the Local Resilience Forum. The Council has actively engaged and communicated with communities.
- 1.21. The Council has published a [Local Outbreak Control Plan](#) that sets out how we will prepare for future outbreaks of Covid-19 in Nottingham.

External Audit of 2018-19 Statement of Accounts

- 1.22. The external audit is now complete and we expect a qualified Value for Money conclusion, which is reported separately to the Audit Committee.

Company governance arrangements

- 1.23. During the audit the external auditor has highlighted shortfalls in the company governance arrangements of the City Council, and has since issued the PIR as outlined above. In particular Grant Thornton have been concerned about delays in putting effective control arrangements in place and the role of the shareholder representative. There was a lack of clarity on the shareholder representative's role and this has led to the Council not achieving the best outcomes from its investments in companies, including some substantial losses. This will be addressed as part of the PIR Action Plan which has now been consolidated into the Council's Recovery & Improvement Plan.
- 1.24. The plan identifies three overarching projects for companies:
- Project 1: Commercial Strategy: Maximising the benefit of Council companies through an overarching commercial strategy.
 - Project 2: Company Governance: Review and revise the governance arrangements of Council-owned companies (split between this theme and the Constitution theme)
 - Project 3: Council-owned Company Review: Informed by CIPFA's independent analysis, making decisions on whether to maintain, revise focus, in-house or divest from Council companies.
- 1.25. The sequencing of project activities will be informed by work undertaken between the Shareholder Unit and the companies plus CIPFA's reviews of Nottingham Revenues and Benefits, Thomas Bow Ltd, Enviroenergy Ltd, Blueprint Ltd, Nottingham Ice Centre, and Nottingham City Transport. Revised Governance arrangements are under review strengthening both the Shareholder Representative role, and broader Shareholder Unit capability. Formal adoption of revised governance arrangements is scheduled for Q1 of FY 2021/22.

Capital

- 1.26. The NSR findings highlighted the level of risk and planned further borrowing within the capital programme, the high level of debt held by the Council and the reduction in the balances of reserves held which further reduces budget flexibility.
- 1.27. Following the review the Council has published a Recovery & Improvement Plan 2021 – 2024. The Plan acknowledges that a sustainable capital programme, and the strategy and controls to shape and manage it, is a critical contributor to the overall financial recovery of the City Council and as such a revised Capital Strategy together with a Voluntary Debt Reduction Policy has been developed.
- 1.28. The implementation of the Capital Strategy will assist in the Council meeting its Recovery and Improvement Plan.
- 1.29. The Capital Programme was approved by Council in March 2021 and incorporated the capital budget for 2020/21 – 2025/26. The capital budget is aligned to the Capital Strategy and presents, in financial terms, the Council's plan for investment related to the purchasing, building and improvement of capital assets, together with the implications of any major capital projects or investments in Nottingham. While ensuring the programme is affordable and the Council is in a position to reduce overall debt levels in accordance with revised policies.
- 1.30. The programme has been amended in line with the NSR regarding the level of debt within the Council and the level of unsecured capital receipts required to fund the Capital Programme.
- 1.31. A full review of surplus assets is currently being undertaken as part of the disposal and reinvestment strategy and an asset rationalisation board has been established with a focus on realising capital receipts going forward. Plans are in place to realise receipts to support the capital programme, however this needs to be kept under review given the emerging picture regarding the economic impact of Covid-19.

Broadmarsh shopping centre (BMSC)

- 1.32. Concerns regarding delivery of the Greater Broadmarsh Redevelopment on time and within budget were identified due to INTU financial pressures and a shortfall in funding as a result of Council budget measures. Post balance sheet, this issue deteriorated as work stopped on the BMSC site due to Covid-19 measures and INTU went into administration and its subsidiary relinquished the BMSC lease. NCC now has full control and responsibility for the site. The programme has had close management with regular updates taking place and a robust Programme Management and Framework approach has been developed which aligns with our Recovery & Improvement Plan. In February 2021 an independent advice panel of experts was established who have been tasked to help the council build an ambitious vision to transform the site.

Head of Audit & Risk (HoIA) Opinion

- 1.33. 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.

1.34. In July 2020, based on the post balance sheet events the HoIA modified his opinion to an overall limited level of assurance. As part of this addendum, the HoIA opinion for the 2018/19 year remains the same.