NON-STATUTORY REVIEW

NOTTINGHAM CITY COUNCIL

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Lead Reviewer

November 2020

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1. Executive Summary

1.1 Nottingham City Council is not in a position to prepare and approve, the legally required balanced budget for 2021/2022, without significant external support or the imposition of spending reductions, which would not be likely to deliver services that meet their statutory duties.

1.2 Over the past 4 years the Council has failed to act on the warnings, clearly stated by their Section 151 Officer (the statutory Chief Finance Officer), to manage their budgets on a rolling 3 year basis and bring forward savings proposals which reduced core expenditure and transformed or reimagined services. Instead, they relied on getting by in-year, the use of one-offs and the increasingly risky concept of 'commercialisation' and income generation. Many of those risks have now materialised, notably, the failure of Robin Hood Energy (RHE) has cost circa £38m. The response to Covid-19 locally did not cause those risks to be triggered but just exposed the fragility of the Council's position.

1.3 Capital expenditure appears to have been relatively unconstrained with schemes allowed to enter the programme throughout the year based on individual business cases. The consequences of this has been high levels of borrowing resulting in the highest debt to net budget of all core cities with the repayment restricting flexibility in revenue terms.

1.4 The Council has a significant number of wholly owned companies in its portfolio. Roles and responsibilities in managing and directing these companies have not been understood in the past, liabilities have been incurred without the returns justifying the risk. Until this is addressed there will be continued high levels of risk.

1.5 The current Executive Member and top Officer structure is confusing and overlapping. Ownership and responsibility is diffuse and the processes employed prevent speedy decisive action. It is not fit for purpose in facing up to the Council's current challenges.

1.6 To return to financial and operational stability the Council needs to focus its goals on what can reasonably be afforded during the necessary recovery period. It needs to move quickly to change structures, culture and mechanisms at both Member and Officer level.

1.7 If the Council does this and rigorously focuses on recovery for the next 2-3 years, the Review Team consider that the current political leadership in partnership with the newly appointed Chief Executive, should be supported through a difficult and lengthy period.

1.8 The Review team's recommendations are designed to help the Council change and hold them to account for delivery of the Plan that they agree in exchange for support until the Council can again stand on its own feet.

2. Introduction

2.1 The Secretary of State for Housing, Communities and Local Government, by way of letter dated 26th October 2020, appointed Max Caller CBE to lead a rapid, non-statutory review at Nottingham City Council (NCC) to be completed by the end of November 2020.

2.2 The purpose of the review was to provide assurance to the Secretary of State on the governance and commercial and investment issues identified in the City Council's External Auditors, Grant Thornton, Public Interest Report (PIR)[1] published on 11th August 2020.

2.3 Subsequently the Secretary of State appointed Julie Parker and Phil Brookes as Assistant Reviewers.

2.4 The Secretary of State provided the following Terms of Reference in relation to the undertaking of the review, requesting consideration of the following themes which are aligned with the Best Value duty:

- Governance
- Culture and Leadership
- Financial stability
- Services
- Capacity and/or capability to improve

2.5 In addition, specific questions were identified in relation to the Council's financial stability and their management of commercial risk:

- What level of confidence can the Department have on the Council's assessment of its financial position, particularly its estimate of their budget gap, for 2020/21 and 2021/22?
- What level of confidence can the Department have on the Council's plan to mitigate pressures; including the delivery of necessary savings, the existing resources that can be deployed, and their ability to afford borrowing
- What is your view of the Council's assessment of future financial risks and adequacy of their plan (or ability to plan) to manage those risks?
- What is your view of the Council's approach to mitigating their budget gap under different scenarios for how much financial support is provided?
- What level of confidence can the Department have on the Council's assessment of wholly owned companies, including the viability of companies to continue without any additional Council funding or loans?
- How robust are any forward-looking commercial strategies/plans and their longer- term approach to borrowing and investment?
- Does the Council's oversight and management of commercial and investment risk feel adequate or fit for purpose?

2.6 The full text of the letter of appointment of the Lead Reviewer can be found at Appendix 1.

[1] https://www.nottinghamcity.gov.uk/media/2835756/report-in-the-public-interest-rhe.pdf

2.7 Max Caller is a former London Borough Chief Executive and was one of the Intervention Commissioners, following the imposition of Directions on the London Borough of Tower Hamlets. He led the Best Value Inspection of Northamptonshire County Council in March 2018 and was one of the Non-Executives appointed to support Birmingham City Council in their improvement journey. He was also the Chief Executive of London Borough of Hackney, the first authority to be subject to the Direction regime. Julie Parker is a former London Borough Director of Resources (Section 151 Officer) at both Barking & Dagenham Council and Haringey Council and was the Assistant Inspector on the Northamptonshire Inspection. Phil Brookes is a Crown Representative at the Cabinet Office and has worked with a range of strategic suppliers to government in facilities and construction services.

2.8 NCC had assured the Secretary of State of their willingness to engage openly with the review. The Team wish to acknowledge the efforts made by the Council to provide substantial documentation at relatively short notice and to make available Senior Councillors and Officers, including executives of their wholly owned companies, to meet the timetable, and the openness of the communications. All requests for documentation, information or the facilitation of meetings were dealt with efficiently and speedily. No doubt, many staff were involved in making this happen but the work of Colin Monckton, Gill Cooke, Vanessa Watkin and Lorel Manders helped enormously. When the Ministry for Housing, Communities and Local Government (MHCLG) were asked to provide administrative support, they may not have appreciated the scale of the involvement. However, Tom Quinlan, who corralled lots of his colleagues to help and kept on top of all the documentation and meetings, did really well and he should be thanked for this.

2.9 The inspection has been undertaken by an extensive document review which encompassed both published documents and working papers where they existed; a programme of interviews involving councillors of all 3 parties represented on the Council, both in Executive positions and Overview and Scrutiny and Audit, Trade Union representatives, and senior and middle ranking Council staff or their equivalents in each of the Council's portfolio of companies. The team reviewed both published, high level officer financial assessments and budget papers for the last 4 years. The assessment of NCC is based upon the evidence and documentation provided, supplemented by interviews, which has been reviewed at pace to meet the rapid timeframe specified by the Secretary of State.

2.10 The Best Value legislation states:

"A best value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. (Local Government Act 1999 Part 1 section 3(1))"
"Every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. (Local Government Act 1972 Section 151)"

2.11 The concept of continuous improvement must mean that the best value duty must be a process. It must mean that even in the best performing authorities' errors will occur, failures of policy or practice may result despite good intentions and that an instance of this would not automatically mean a failure to comply with the best value duty. However, it must mean that an authority will learn from its past performance, rectify defects, and not continue along a path when failure is evident. Such events should be clearly isolated and exceptional rather than regular and repeated and should be immaterial in value or wider implications. A continued failure to comply with say, a Statutory Direction, is not an isolated matter and capable of being considered a failure to make the necessary arrangements that the legislation envisages.

3. Context

3.1 NCC is a tightly bounded urban unitary authority with a population of around 333,000 represented by 55 councillors in 20 wards elected on a 4-year cycle. It is characterised by high levels of deprivation and relatively low skills overlain by a significant student population drawn by the presence of high-quality university provision in the area. It is also the focus for top level sporting activity either in the City itself or immediately adjacent.

3.2 Over the past years, it has promoted an extremely ambitious vision, set out in the Council Plan, which has led to a large programme of capital expenditure. Some of this has been funded by capital receipts but most by external and internal borrowing. In addition, there is a significant part of this programme where the specific funding is yet to be identified or secured. This has led to the Council carrying much higher levels of debt than comparable authorities, with a consequent impact on the revenue budget due to debt servicing.

3.3 English local authorities, over the last decade, have been subject to a significant financial squeeze, both in terms of external support and restrained tax rises. Many authorities have used this externally imposed constraint to reimagine their core purposes and to promote ways of service provision and delivery which have been transformative, often in a positive way.

3.4 This has not been the approach used in the Council. They have pursued a policy of ‘commercialisation’. In part, this has been seeking opportunities to maximise income streams, albeit, without much understanding of either the volatility or quality of these streams creating a risk issue in setting the budget. In part, purchasing investment properties outside the core purpose of the authority, aimed at producing income streams to avoid cutting the revenue budget and, in part, by holding some services or assets in a wholly owned or joint venture company structure. This appears to have been done, in some instances, to avoid redundancy costs or hoping to secure a return from increased trading. However, the Council has not understood the implications of this strategy and, in particular, the business environment in which they operate. The Covid-19 crisis has not caused this strategy to fail as of itself. It has just exposed the risks the Council were exposing themselves to.

3.5 The case study of RHE, the subject of the PIR is instructive. The City's residents experience a high level of fuel poverty with many residents using prepayment meters and so unable to access the best tariffs. Recognising this and seeking to reduce this as an outcome, is a legitimate and admirable goal for the Council to want to address. Perhaps a combination of a bulk buy/affinity arrangement with one of the big players in the market or one of the switch sites coupled with some form of credit union mechanism to smooth payment for those on prepayment meters might have worked. However, the chosen solution was to set up a wholly owned energy supply company, RHE, to seek to deliver a cheaper tariff arrangement. Whether this was a Member or Officer idea is irrelevant. The UK domestic energy supply market is notoriously difficult. Even big supply companies struggle to make money and the marketplace is littered with failed challenger companies. If there were councillors and/or officers who understood this business, they would have seen the huge risks and the likely limited rewards that this initiative implied. At the very least, the Council would have wanted to ensure that at both Executive and Non-Executive levels the business was fully understood.

3.6 The PIR documents what happened. The skill level at Board level was unable to critically appraise the trading position and a forecast profit outturned as a significant loss. Even worse, RHE did not even deliver the best rates in the market so the political objective was not achieved. By the time the Council recognised this and brought in seasoned industry professionals as interim managers to manage an exit it was a question of how to limit the damage. The likely outturn will be a direct loss to the Council and thus City taxpayers of around £38m together with a significant impact financially to all stakeholders and reputational damage to the Council. Some will seek to recover their losses by an increase in charges and levies on all energy users so it will not just be local taxpayers that will lose out although it will be their services directly impacted.

3.7 What this experience demonstrates however, is that for a local authority councillor, being a company director is not just about a 1-day training course on the difference in legal duties in the different roles. Being a brilliant ward councillor or an effective political leader are not necessarily the skills you need in assessing a business. You cannot run a 1-day course in how to read a balance sheet, profit and loss account and challenge the assumptions in the management accounts. Being a company director needs specific skills and experiences, either in the industry itself or the wider business environment. The feedback the team has had, across the board, from the company perspective, was that not many appointees were able to contribute and that, too often, they were not on the board long enough to gain understanding. If the Council is to continue to be involved with a company structure in the future it needs to appraise the roles and skill sets required for specific companies and ensure they appoint the best match, even if this means the individual appointed is not a councillor.

4. Nottingham City Council: Governance and Structure

Executive Member and Officer Structures and Processes

4.1 As is identified in the Financial Position later in this report, the team noted that one of the major causation factors for the position the Council now finds itself in is the inability to recognise, respect and take action on the advice the Section 151 officer (S151 officer) was providing. Over a period of years, the position she had correctly identified was delayed in reporting, not supported by other senior officers, and resulted in no effective action being taken. This was not aided by the structure of the Council, which had established posts in spending and delivery areas which properly needed to come under the professional oversight of the S151 officer. In a similar vein, the team also noted that it was possible for legal advice to be sought and proffered to the Council without the clear oversight of the Monitoring Officer. Such an approach completely undermines the Statutory Officer roles that these officers are required by legislation to play and is completely unacceptable.

4.2 Even now, the evidence shows that there is no effective machinery to identify, quantify, validate, and bring forward proposals across the Council as a whole to meet the budgetary challenge. It does not and should not have required the arrival of the review team to kick start a process to bring proposals forward to Members. As a consequence, the team considered whether they should abort the process and invite the Secretary of State to consider initiating formal action under the Best Value legislation. Throughout our engagement with the Council the team have been impressed by the commitment of the Leader and his Executive colleagues to bringing sound management and leadership back to the Council and taking the decisions necessary to stabilise the position. The team concluded that, with support, it was possible to proceed to a position where the Council could take their decisions and be held to account for their delivery.

4.3 Structures and performance arrangements need to be rationalised at both Member and Officer levels. At Executive member level, a more effective approach during the recovery period, could be to provide more clarity about who is taking responsibility for what outcomes. There may therefore be value in reducing or eliminating overlap in portfolios. More importantly, there may be value in designating one Member with specific responsibility for performance and citizen experience ranging across all portfolios.

4.4 The Council does not appear to have a mechanism for setting targets and goals for its Chief Executive and holding the postholder to account for it. Whilst the Chief Executive delivers an administration’s policies, they are accountable to the whole Council for performance of the entire job. Without targets being clear and explicit, and a recognition that it is part of the job to manage the performance of all their direct reports, control will not be possible. Implementing the procedure outlined in the JNC for Chief Executives, publishing the targets and performance measures agreed and cascading these into the direct reports and to the bottom of the officer structure is the best way forward.

4.5 Below the Chief Executive the structure is seen to be complicated, diffuse and lacking corporate focus and control. A much simpler structure will be required to make the necessary changes to services and delivery during a recovery period. The organisation is not used to moving at pace corporately and ensuring consistency in its decisions and actions. By inspection, it is clear that there are opportunities to make significant savings by insisting on a standard model of delivery or using the benefits of corporate purchasing across the whole range of the Council's activity. It would be possible to set cost reduction targets trimming waste from the base.

Audit Committee

4.6 The Council's constitution does make it explicit how important it is to avoid conflicts of interest with the Membership of this Committee. The team noted that Councillors who are appointed as Directors of Council owned companies also sat on this committee and that this had led to problems in the recent past in respect of Audit reports. The newly appointed Chair is taking a lead in changing that and this is to be welcomed. Even so, there is significant development required for the Committee to become a best practice exemplar.

4.7 It is not routine for the External Auditor to meet with Members of the Committee in private without officers, the internal audit programme needs to be more focussed on risk and there appear to be no reports on counter fraud activity, not even about the level of activity. Most importantly, it is not clear where the committee reports in the Council structure in a way that ensures it secures and monitors action. It should be possible for a matter of concern to be referred to a relevant executive body and the Chair should then have the right to attend and speak to that item. It should be possible for the Committee to require responsible officers to appear at the committee to deal with matters under their control. It is suggested that as part of any constitutional changes to give effect to the Council's consideration of these observations the opportunity is taken to embrace all the relevant parts of the Redmond report on local authority financial reporting and external audit[2] in advance of a Government Decision.

[2] Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Overview and Scrutiny Committee

4.8 It was noted that on a number of occasions, when dealing with significant changes or proposals, the Chair had waived the right to call in a proposal on the grounds of urgency. Good practice Councils would have ensured that such a waiver would only be sought if members of the committee were offered an informal briefing in advance of the decision so that any potential concerns could be identified and either addressed informally or dealt with formally at the decision taking body and the report to Council noting the waiver would include a reference to this. Whilst the Committee appears to have a full programme of work it is not clear how this is focussed, on either, key issues facing the City and the Council, or, to deal with performance or policy gaps so that it can help take the Council forward. Best practice also indicates that as Overview and Scrutiny is a Council function rather than an Executive function it could be appropriate for either the Chair or Vice Chair to be held by an opposition member. In the Nottingham context Vice Chair is most appropriate and this needs to be considered as part of any review of the constitution.

5. Nottingham City Council: Group Companies

Background

5.1 The Council has material financial interests in a number of group companies over which it has varying degrees of control or influence. There is a risk of exposure should any of the companies run into financial difficulties and this was clearly demonstrated by the losses incurred as a result of the establishment of RHE. The shortcomings in governance inherent in the organisation were covered in the PIR issued on 11 August 2020 and 13 recommendations were made for the Council to address.

5.2 The rationale for the establishment of the different companies is varied but can be distilled down to two principal reasons. Firstly, they were seen as an opportunity to raise income to offset reductions in funding from Central Government. Secondly, it was to allow them to access grant funding sources that were not open to Local Authorities, or following changes in legislation, or the introduction of borrowing caps for certain activities. This was particularly relevant in the case of Nottingham City Homes (NCH) and Nottingham City Transport (NCT), the two largest entities by revenue.

5.3 The degree to which the companies are autonomous from the Council also varies considerably, with some not having any direct employees and utilising the services, exclusively, of NCC employees. In these instances, it is difficult to understand what benefit exists in them operating on a standalone basis, given the additional burdens of Company reporting and governance requirements. Usually, where large organisations (both public and private sectors) have multiple entities there is generally a 'template' that dictates the general operating model of those entities ensuring a consistent approach to the delivery and monitoring of financial and operational performance. That is not evident within NCC and its subsidiaries, with the scope of activities within some, having evolved beyond their original objective. Some companies were also established / acquired to either profitably grow activity beyond NCC core services, or to help transform existing service delivery. Although there are examples of these objectives being met in some instances, there are a number where this is not the case and they have actually been a considerable drain on the Council finances.

5.4 Public sector bodies have increasingly turned to outsourcing, to help effect change and to reduce cost over recent years across a range of public services as Central Government finances have come under severe pressure. This is generally delivered through challenging historical working practices, utilising benefits of scale and modernising the terms and conditions of employees. In outsourcing to wholly owned subsidiaries, NCC have not realised the scale of savings that other bodies have enjoyed, as any changes implemented have been incremental and not transformational.

Overview of Group Companies and Joint Ventures

5.5 The Council maintains relationships with a number of organisations over which it has varying degrees of control, influence and exposure. These include:

- **Subsidiaries** – where the Council is exposed to variable returns from its involvement with the organisation and has the ability to affect those returns through its control.
- **Associates** – where the Council exercises a significant influence, having more than 20% of the voting power and has a participating interest.
- **Joint Venture (JV)** – where the Council exercises joint control with one or more organisations and has some rights to its net assets.
- **No group relationship** – where the body is not an entity in its own right, or the Council has an insufficient interest in the entity to justify inclusion in the group financial statements.

5.6 For the purpose of this report and to address the specific points raised in the terms of reference we have focused on the following companies.

5.7 RHE - set up to tackle fuel poverty and run on a not for profit basis. It supplies gas and electricity to residential and business customers. The decision has now been taken to exit this business and those arrangements are well advanced. As this organisation was the subject of a review resulting in a Report in the Public Interest earlier this year, our discussions were focused purely on a judgement of the adequacy of the provision set aside to cover the cost of exit.

5.8 Nottingham City Homes – created in 2005, the principal activities of the Group are to act as the managing agent of the Council's housing stock and to provide a repairs and maintenance service in respect of these properties, as well as owning housing stock of its own for social and market rent. The Group comprises Nottingham City Homes Ltd (NCH), Nottingham City Homes Registered Provider Ltd and Nottingham City Homes Enterprises Ltd. The Council has a management agreement with NCH and pays it an annual management fee (£22.374m in 2019/20).

5.9 Nottingham City Transport – this resulted from the 1985 Transport Act which moved operation of buses out of the control of local authorities into the private sector. The great majority of local authorities chose to exit, with only a small number retaining an interest. The company is the principal bus operator in the Greater Nottingham area. The company is controlled by the Council and commenced trading in October 1986. NCC have a 95% shareholding and Transdev Plc the remaining 5%. Transdev Plc receive a dividend of £288,000 per annum from an initial investment of £2.883m.

5.10 Futures Advice, Skills and Employment Ltd – is a company which is an all age, careers and employability service which delivers a range of careers advice and consultancy services in the East Midlands and across England. The company is jointly owned 50/50 by the Council and Nottinghamshire County Council. It was established in 1995 when both Councils were concerned that budget cuts were threatening the delivery of effective careers services. The funding for the business is ring fenced, giving no opportunity to pay dividends to NCC.

5.11 Nottingham Ice Centre – the principal activity of the company is to manage the trading aspects of the National Ice Centre and arena and it is a wholly owned subsidiary of the Council. The centre was constructed 20 years ago as a replacement for a facility that had fallen into disrepair. The Council received £22.5m from Sports England which represented 50% of the construction cost of the facility and is subject to a 50-year contract, the obligations of which are not contained in any agreements with the Ice Centre.

5.12 Thomas Bow Ltd – the Council acquired 100% of the issued share capital in September 2019 and it is now a wholly owned subsidiary of the Council. The Council claims the benefits of this acquisition include:

- There are complementary skill sets with the Council's in-house Highways service
- An opportunity to create a regionally significant highways construction company
- An opportunity to realise efficiency and synergy savings
- An opportunity to make a significant financial contribution to the Council's Medium-Term Financial Plan
- An opportunity to trade both regionally and nationally
- An opportunity to see further re-investment in the City's highway network

5.13 Enviroenergy Ltd – its main activities are the production of heat and steam for supply to domestic and commercial customers, along with the generation and sale of electricity. Enviroenergy is a wholly owned subsidiary of the Council and it was acquired in June 2001. It is the only heating source available to circa 4,800 properties, half Council owned, and half sold under Right to Buy with a covenant that residents must keep the heating system.

5.14 Blueprint Limited Partnership – the principal activities of the partnership are that of the purchase of interests in and redevelopment of property and the sale and interim rental of land and property. The General Partner, Blueprint (General Partner) Ltd manage the activity of the partnership. The objectives of this partnership are to carry out this trading and development in order to generate a commercial return and to encourage the physical regeneration and economic growth of the priority urban areas within Nottingham City. The Council purchased its share in March 2015. Places for People (PFPC1 LP) bought out the Igloo Regeneration share in May 2018. The Council and PFPC1 in effect own 50% share each through a limited liability agreement. Igloo Regeneration Ltd provide development management, finance, investment management and company secretarial services to Blueprint, in effect, Blueprint utilises only Igloo employees.

5.15 Nottingham Revenues and Benefits Ltd – the company is principally engaged in the provision of administration services in relation to Nottingham's revenue and benefits services and is a 100% wholly owned subsidiary. It was established in 2014 with the intention of creating up front savings and reduce pressures around Council finances. It is claimed to have delivered £6.2m of up-front savings, but these were not explained. A 7-year agreement was put in place with Northgate Public Services by the Council, but NCC wanted to maintain control of services and therefore Nottingham Revenues and Benefits was created to deliver those services and protect jobs. The contract expires in the next 12 months.

5.16 The Council also has involvement in the following Trust Funds. Highfields Leisure Park, Harvey Hadden Stadium Trust and Bridge Estate, together with Associate relationships with Nottingham Regeneration Ltd, Ticketing Network East Midlands Ltd, EMPSN Services Ltd and Inspired Spaces Nottingham Ltd. These organisations are excluded from the group accounts on the basis of risk and materiality and therefore have not been included in this review.

5.17 In addition to the companies listed above NCC also receives HR, payroll and finance transactional services from East Midlands Shared Services, which was established in partnership with Leicestershire County Council.

Oversight of Group Companies and Joint Ventures

5.18 The Councils governance arrangements for the companies varies in its effectiveness in terms of holding to account the management of the company and how they are performing against financial and delivery targets. In the more established long-term operations such as NCT and NCH there appears to be a more consistent and established approach to financial forecasting and monitoring. This is to be expected given the duration they have been operating and the scale of the businesses. In some other companies this was not as evident, although the churn of non-executive board members and shareholder representatives is most likely a contributing factor.

5.19 The PIR for governance arrangements with RHE examined in detail the use of councillors operating as non-executive directors and questioned whether that was appropriate. We would echo those concerns as the role of non-executives is only effective when they have detailed sector knowledge, experience of interrogating management reports – especially financial reports and an understanding of the risks that are inherent within the sector. Since the report was published, Legal and Governance Officers have developed and rolled out comprehensive briefings at the Companies Governance Executive Sub-Committee (CGESC) on what the responsibilities of the role actually are and further training is planned. This training needs to be comprehensive if it is to adequately prepare individuals to operate effectively. There are some examples where councillors are fulfilling the role of non-executive and providing a good balance of support and challenge, but these seem to be in a minority. It is also a cause of great frustration to some management teams that they have no say in who is appointed to their Board and the frequency with which changes are made, both of which are valid concerns.

5.20 We would also emphasise the importance of the shareholder representative role. These are relatively recent appointments so the scope and effectiveness will need to be developed over time. Whether the importance of this role is fully understood at the moment is questionable. Minutes from a recent CGESC included the following statement:

‘The shareholder representative is the representative of the shareholder, i.e. the Council, and is authorised by the Council to protect its investment. By providing a report back to this Committee, this is the fulfilment of the role and provides the necessary assurance that the investment is protected.’

5.21 This implies that the role is merely a reporting one, when, in reality, it should be the key interface between the company and NCC, with a clear watching brief on the Councils financial stake whilst ensuring the Council’s policy aims are being delivered to the optimum level. It is intended that reports will be presented quarterly to the CGESC on each company by the shareholder representative, but clearly there will be monthly / bi-monthly reviews in the companies where the shareholder representative and non-executive board members will need to monitor performance and hold management to account.

5.22 The recent establishment of the CGESC, operated effectively and with appropriate representation, is a positive step and should play a central role in improving governance. Adequate time needs to be allocated to these sessions to ensure that reviews are sufficiently in-depth to allow participants to gain a full understanding of the risks and opportunities. The financial information that is compiled by the Finance function and presented at the CGESC for all subsidiary companies is comprehensive and focuses in the main, on the most relevant financial indicators. It has recently been proposed that more detailed cash flow forecasting be added, and we would support that proposal. It should be stressed however, that the CGESC need to ensure that what is being presented is meaningful and reliable, through robust challenge. They also need to consider the risks that the companies face and to satisfy themselves that the companies’ management are alive to the competitive environment they operate in and thinking about the longer-term opportunities. Another aspect that the CGESC should monitor and relates to the scope of the companies’ activities. Diversification away from the core of what was envisaged when these ventures were established or acquired has taken place in a number of areas and as a consequence, the level of risk has increased. Any diversification needs to be carefully thought through and subject to appropriate business case scrutiny. Ultimately, to be effective any oversight board needs to be decisive and respond to the challenges presented. A number of significant risks have regularly been reported on the Company Group Risk Register, but there is limited evidence of meaningful mitigation measures being implemented. The establishment of an officer Shareholder Board was reported in the Council’s response to the PIR on RHE. The officer Shareholder Board appears to be a welcome initiative, but it needs significant development in understanding and action to make the necessary difference.

5.23 It was noted that the level of interaction between the various companies was minimal and certainly less than would normally be expected in a large and diverse organisation. Communicating and reinforcing policy, performance and priorities in a forum comprising all subsidiary companies' management teams is good practice. Similarly, using these forums to explore opportunities to share resource and equipment, look for bulk buying opportunities and helping keep everyone informed about new challenges could lead to improvements. It is also important in helping ensure connectivity to the 'centre' and morale of the company employees, many of whom transferred out in the first instance.

Financial Performance of NCC Companies and JV's

5.24 A summary of the last 3 years financial performance for the main subsidiaries and JV's as reported in the statutory accounts to March 2020 is shown in Table 1.

Table 1: Main Subsidiaries and JV's 3-year financial performance

COMPANY	REVENUE £m			PROFIT BEFORE TAX £000's			NCC FUNDING £m
	2018	2019	2020	2018	2019	2020	
BLUEPRINT	6.098	3.582	5.905	571	319	172	0
ENVIROENERGY	7.970	8.653	9.521	(515)	487	206	11.563
FUTURES	18.026	14.300	14.565	403	(969)	(2288)	0.536
NOTT CITY HOMES	63.507	64.959	67.029	(7320)	(5645)	(6053)	39.421
NOTT CITY TRANSPORT	53.222	53.689	53.915	1225	764	5294	35.576
NOTT ICE CENTRE	15.663	19.378	20.718	(55)	(215)	(669)	2.385
NOTT REV & BENEFIT	5.635	5.998	6.114	(1010)	(821)	(968)	0
THOMAS BOW			28.804			790	0.297
TOTALS	170.12	170.56	206.571	(6701)	(6080)	(3516)	89.778

1. Thomas Bow figures relate to the period 1 Oct 2018 - 31 Mar 2020
2. Profit Before Tax figures include significant pension adjustments (credits and debits) which can distort underlying performance.
3. Enviroenergy: these figures come from draft accounts.

5.25 Even allowing for the pension movements contained within the profit before tax returns, it is evident that recent financial performance across the companies is variable and, in many instances, deteriorating. It should also be noted that the figures represent the best case, as it is inevitable that there will be cost to NCC in the oversight of these companies that is not fully allocated, most notably around governance. It should also be highlighted that Enviroenergy and Nottingham Ice Centre have both been required to obtain letters of support from NCC to achieve going concern status following issues raised by their external auditors.

5.26 As the figures are to March year end, they include very little impact from the disruption caused by Covid-19. That impact varies significantly across the different companies, with NCT and NIC being most affected, through loss of revenue. In the case of NCT, the Bus Service Operators Grant (BSOG), provided through DfT will reduce the financial impact, but it will not be in a position to make a contribution to NCC this financial year. Equally, NIC has needed to obtain additional financial support from NCC as the facility has been unable to host any significant events throughout the year and is unlikely to before the current financial year end. Some operational impact occurred within the construction and maintenance activities, but to a far lesser extent. There is also likely to be an impact on the recovery from property disposals – both commercial and residential – together with potential reductions to rental income, although the extent is difficult to quantify at this stage. Overall, the outlook for 2020/21, for the full year forecast as provided by management, despite the various support initiatives from Central Government including the furlough scheme, is poor. Unless there is swift and comprehensive intervention it is highly likely that further funding will need to be made available to some of the companies, as has happened with NIC since year end.

5.27 There are significant long-term pension liabilities being carried in a number of the companies. The smaller turnover over which each of the companies operate (compared to the Council) means the impact on revenue has the potential to be much greater. The Council has recognised this as a risk and does need to work with the companies on mitigating the risk.

5.28 The onset of Covid-19 has clearly been commercially devastating across whole swathes of the private sector with very few companies fully prepared for such an event. It does though highlight some of the risks of the commercialisation agenda that NCC have pursued over recent years and should be a central strand when considering which activities merit further investment in the future. There are also some major capital investment decisions that need to be made as a matter of urgency and sufficient focus needs to be given to those critical choices, which will have far reaching consequences if delayed further.

5.29 In developing an appropriate medium- and long-term strategy for which activities NCC consider might be best delivered in house, as opposed to the current approach, consideration needs to be given to the management bandwidth available within NCC. The level of planning required to affect a smooth transition is considerable and good communication with employees and other stakeholders is essential and the scale of that challenge should not be underestimated.

6. Nottingham City Council: Financial Position

Background

6.1 Like all of English local government the Council has experienced a substantial reduction in the value of government funding. The Council has managed these reductions while at the same time seeking to protect key front-line services and maintaining jobs.

6.2 The Council's approach has been to pursue commercialisation. It has established a large number of controlled companies to deliver services and activities and has also made significant commercial investments in order to generate income. This approach has supported the Council budget over the years, however in recent years increasing cost pressures in Adults and Children's services have challenged the Council's financial position.

6.3 The problem started 4 years ago as prior to 2016/17 the Council underspent on its revenue budget, however since then it has been over budget. Over recent years there has also been a consistent use of one-off measures and mitigating management action to get the outturn position.

6.4 Budget setting has been characterised by identifying budget pressures over a number of years, while only setting savings plans for one year with many of the savings not being ongoing and the budget being supported by one off measures. Each year the Council has updated its medium-term financial outlook which incorporates a balanced first year budget then a projection of budget pressures over the years that give rise to a significant budget gaps. The scale of the financial challenge that the Council has been facing has been set out very clearly in the annual budget report by the S151 officer.

6.5 There is no strategy setting out how the Council will address the financial challenge going forward. There also appears to be a disconnect between the outlook and the decisions the Council makes regarding spending, with more and more commitments and risk being added to an already challenging financial position.

6.6 The S151 officer has regularly prepared a State of the Nation paper (April 2018, March 2019 and July 2019) to assist in the development of a budget strategy. The March 2019 State of the Nation report to the corporate leadership team identified £184m of quantifiable risks (which included £40m for RHE) and also a number of unquantifiable risks. Many of the identified risks in the report have continued or materialised.

6.7 In the July 2019 report the S151 officer said the following to the Executive Panel, all of which still holds true:

- We have an immediate significant financial issue to deal with in-year and requires immediate action
- This issue needs dealing with in an extremely difficult financial context
- The amount of financial risks the Council is managing are significant and of significant value
- In order to live within our means, the Council is going to have to look substantially different from the way it looks and delivers

6.8 The statements made by the S151 officer on the robustness of the budget each year set out the overall financial position and the risk, these have become increasing focused on the level of risk and the reducing financial sustainability. In February 2019 the S151 officer pointed to the need for a thorough transformation plan and strategy in order to balance the medium-term financial position. No action appears to have been taken as that was reiterated a year later in February 2020 when the S151 officer made it clear that the Council needed a budget strategy with a stronger focus on transformation and financial sustainability.

6.9 Over recent years the Council reserves have been reducing. The S151 officer has reported on the reduction in the level of unallocated balances compared to core cities. The level of unallocated reserves as % of net revenue expenditure has dropped from 4% in 2018, to 3.9% in 2019 and for 2020 is 3.31%, putting the Council as having the second lowest level of unallocated reserves of all core cities.

Table 2 Comparison of reserves with core cities – Feb 2020 Budget setting report			
Authority	Net Revenue Expenditure (NRE) £m	Estimated unallocated financial reserves level at 31 March £m	Estimated Unallocated Reserves as % of NRE
Birmingham	848.785	144.050	16.97%
Bristol	347.068	23.258	6.70%
Leeds	517.471	27.991	5.41%
Manchester	453.377	22.045	4.86%
Newcastle	230.056	10.135	4.29%
Liverpool	455.292	16.311	3.58%
Nottingham	**240.887**	**7.962**	**3.31%**
Sheffield	370.752	8.130	2.19%
The trend for Nottingham			
Feb 2018	242.5	9.6	4%
Feb 2019	245.7	9.6	3.9%
Feb 2020	240.887	7.962	3.31%

6.10 Earmarked reserves have reduced by 49.3% as a result of the interim budget in Oct 2020, so now the Council only has corporate reserves (no service reserves). £31m of earmarked reserves have been ‘borrowed’, the repayment is planned over 5 years, adding to the budget gap in future years. This gives the Council little room for manoeuvre.

6.11 The repeated warnings given by the S151 officer both publicly and privately have not resulted in action, the warnings have been ignored by officers and members. More recently the S151 officer has been reporting to the corporate leadership team on the capital programme these reports show an increasing level of risk and there appears to be little action and certainly not at pace.

2020/21 Budget

6.12 The 2020/21 budget was set with £8.783m of one-off items or one-year savings in order to present a balanced position. The S151 officer stated to the Executive Board on 18/2/20 in Annex 5 of the budget setting report that:

‘The continued use of reserves and one-off measures have had the impact of deferring the more significant changes that are required to balance the revenue budget to secure future financial sustainability. It needs to be recognised there are diminishing options for the use of one-off measures which reduces further any budget flexibility.’

6.13 The Council set an interim budget for 2020/21 on 5th October 2020 based on the projected position at period 4 to address the financial consequences of Covid-19 and the projected crystallisation of the costs of the closure of RHE. The latter of which at £38m is eye watering. Table 3 below sets out the detail.

Table 3 - Interim Budget	£m
2020/21 Net budget	**248.059**
Net Covid-19 impact	38.585
Business as usual forecast underspend	(5.811)
New savings	(12.505)
Carried over from 2019/20 overspend	6.754
Robin Hood Energy	38.200
Companies provision for Debt and other risks	6.000
Use of earmarked reserves	(38.718)
Borrow and Pay back of earmarked reserves	(31.304)
Use of general reserve	(1.202)
Total after interim budget	**248.059**

1. Figures extracted from table in Executive Board report which includes a miscalculation of £1k.

6.14 The interim budget has bridged the gap in the budget by using earmarked reserves in two ways. £38.7m has been the straight use of the reserves, while £31.3m has been ‘borrowed’ from the reserves (mainly the PFI reserve) to be paid back over 5 years. The repayments have increased the size of the budget gap in future years, so requiring a greater level of savings. This spending in advance and then paying back/ replenishing occurs in the capital programme also (see later).

6.15 The net costs of Covid-19 is a projection with a high degree of uncertainty and will change as additional grants are received and income projections change given lockdown restrictions and confidence levels. Presently the borrowing from reserves might be partially replenished by the £10.7m received in tranche 4 from government to cover Covid-19 costs.

6.16 As a consequence of the interim budget earmarked reserves have reduced by 49.3% from 2019/20, with £77.5m remaining, many of these are fully committed for PFI and capital or are to fund known issues.

6.17 The Executive Board on 29/6/20 identified the need to find a minimum of £15.5m savings, on 22/9/20 it recommended new savings of £12.5m which were included in the interim budget set on 5/10/20, however only £4.8m are ongoing.

6.18 These savings make a contribution to the overall in year budget gap, however they are tactical and not substantial. Given the Council is facing a significant budget crisis the approach illustrates the challenge the Council has to respond at pace and scale.

6.19 The Council on 20/10/20 agreed to consult on a voluntary redundancy package that generates up to £2.3m of ongoing savings. A small-scale contribution to the size of the problem the Council faces.

2021/22 onwards

6.20 When the Council set the 2020/21 budget it was projecting the budget gap for 2021/22 to 2023/24 to range from £25m to £33m and at the time did not set out any strategy for how it would address the gap.

6.21 At the Executive Board on 22/9/20 it has updated its projections in the light of Covid-19 and emerging issues. This is now showing budget gaps in the range of £39m to £54m for 2021/22 rising to £53m to £64m in 2023/24.

6.22 These are significant sums to find. Given NCC failure to achieve savings at scale in the past this will require a massive shift in approach. It is not evident that the Council's savings plans have been transformational in previous years.

6.23 Savings from significant service changes and transformational changes usually take time to implement and it is therefore good practice for Councils to be planning ahead in terms of making savings. Annual savings are unlikely to deliver savings at scale. The Council needs to plan ahead so it can implement service changes now that will net ongoing savings in future years.

6.24 The Council needs to move to setting a 3-year budget that is linked to service plans which contain policies, priorities and statutory requirements, with a strong underpinning strategy on how it will bridge the budget gaps. The plans may need to change, but by planning ahead it gives the Council time to find alternative options without the need to use reserves.

6.25 NCC does not have the level of reserves to be able to address repeated shortfalls in the bridging of budget gaps that occur.

6.26 The review team were aware that the officers were set the task of identifying budget reduction options of £50m for consideration by the Executive. This is needed so that the Council could be in a position to set the 2021/22 budget without exceptional support from central Government. We were aware that as this report is being finalised there was a considerable shortfall still to be bridged.

Capital programme

6.27 The Council has for many years had an ambitious capital programme, funded extensively from prudential borrowing. It has acquired £250m of commercial investments and provided loans to Council owned companies.

6.28 The Council has in total borrowed £1,075m and it has the highest debt to net budget of all the core cities, only Birmingham and Leeds have higher levels of debt. Its financing costs for the general fund are 16.7% of the net revenue stream increasing to 25.8% when PFI costs are included.

6.29 The capital programme is characterised by the addition of significant schemes each quarter. To illustrate, during 2019/20 from an initial £454m general fund capital programme £87m of new schemes were added during the year.

6.30 The current general fund programme is £173m for 2020/21 (£352m over the 5 years of the programme) of which £90m for 2020/21 is funded from prudential borrowing (£134m over the 5 years). The capital programme is dependent on £43m of capital receipts which are still to be secured. Prudential borrowing has been used to temporarily fund this so incurring additional debt costs.

6.31 The Council does not have a well-advanced disposal programme to provide confidence that these level of receipts are achievable in year.

6.32 It is hard to see how the Council can continue to add schemes to its capital programme and fund schemes from borrowing or capital receipts, when it has such a large budget gap to bridge and is already short of capital receipts. It needs to focus on only borrowing where it has a sustainable revenue position and only committing to schemes once the existing capital receipt shortfall has been addressed.

6.33 The review team are aware that the Chief Executive and Leader have recently put in place temporary measures to more centrally control the level of capital commitments.

The size of the financial shortfall

6.34 The Council has identified a revenue budget gap of £39m to £54m for 2021/22. This continues into future years increasing to a range of £53m to 64m by 2023/24. The range reflects the uncertainty around the impact of Covid-19 on the Council's income and expenditure.

6.35 There is a shortfall in the capital programme of £43m of capital receipts that are still to be secured. The short-term borrowing to fund this impacts on the revenue gap.

6.36 There are a number of potential capital schemes that the Council has been considering, which the S151 officer assessed as totalling circa £100m, that are not included in the programme. In addition, there are a number that have not been quantified.

6.37 Two significant ones are Broadmarsh City Centre – Southside Development and Enviroenergy for the provision of heating services to properties in the City. Broadmarsh is a major project which initially included the redevelopment of an existing shopping centre and bus station, together with a new library and the creation of new car parking. The development partner for the shopping centre Intu, fell into administration earlier this year and NCC have had to work with Intu's contractor Sir Robert McAlpine to make the site safe. Works are ongoing to the site to allow the contractor to leave site in early 2021, with some additional ongoing costs likely until work recommences or the site is disposed of. Spend to date on this element of the project is circa £18m of which approximately half is estimated to be a sunk cost. Works to the bus station and car park are scheduled to be complete in spring 2021. A full review is underway of options for the site, but it is highly likely to require significant capital investment. The Council needs to ensure that any options considered limit the extent to which they will be required to fund the project.

6.38 For some time, management at Enviroenergy have been trying to engage the Council in a full consideration of the investment need. This LA company is the sole provider of heat to a significant number of domestic and commercial properties, using assets that are around 50 years old. Consideration of this is intertwined with the future of the waste incinerator which provides the power for this district heating scheme. The topic needs a proper review and integrated proposal taking into account the Government's recent statement on green energy which will greatly influence the outcome. Such a review will take around 6 months to complete and result in a proposal which will need to be included in a programme under the service failure head. It is not possible to quantify presently what resources will be required but significant investment will be required. This, together with consideration of the Broadmarsh development, dwarfs any other issues in the assessment. Only then will it be possible to have confidence in the overall financial position.

6.39 Covid-19 has had an impact on the business cases of a number of capital schemes, these are still to be assessed by the Council.

6.40 The provision for the costs of RHE are based on a mid-case, so these could change. While the Council has provided resources in 2020/21 for the debt and other risks within its other companies, this may be insufficient.

6.41 The Council has limited reserves to fund future redundancy and other exit costs resulting from revenue and capital budget reductions. Another potential budget pressure for the Council to address.

6.42 As can be seen there are still a number of large budget pressures that will impact on the size of the Council's budget gap particularly for 2021/22 onwards. As the Council does not at present have an articulated plan to address the known gap (yet alone the unquantified areas) it is hard to see how it can afford additional borrowing.

6.43 With a large budget gap to bridge, limited reserves, funding gaps in the capital programme and unquantified risks the options available to the Council to respond to different levels of support that might be provided by MHCLG are limited.

7. Conclusions

'If we want things to stay as they are, everything will have to change'. Tancredi in The Leopard by Tomasi di Lampedusa

7.1 The publication of a Public Interest Report or a Section 114 Notice is a sign that political and managerial leadership has failed and is not capable of listening and acting. These events could be avoided if authorities take the necessary corrective action that is in their power beforehand.

7.2 Four years ago, Nottingham started to lose control of their budget. They were advised that they needed to address these issues. Both managerial and political leadership failed to heed these warnings and take the necessary action. This was, in part, due to the status of two of the Statutory Officers in the management arrangements, which meant that they did not have enough visibility or traction at the top table and the then Chief Executive did not initially recognise the risks that this entailed.

7.3 The Council also believed that a strategy of increasing income, via direct charges and investment, would help them avoid taking hard decisions on staffing levels and services. This approach was not considered in the context of commercial risk, the quality of the earnings generated and the threat to the core purposes of a local authority. As a consequence, the opportunity was not taken to use these income streams to manage the step change in the service offer and delivery mechanism that most English Local Authorities have gone through. This was not exposed because Nottingham continued with its one-year budget setting approach so, despite advice, a longer-term view was not encouraged. When presented with statistics which highlight high unit costs compared to comparable authorities, it did not trigger a focussed review on the cause of these costs, rather a search for statistics which better justified the existing position.

7.4 Many of these risks have now materialised. Covid-19 did not cause these risks but clearly exposed the fragility of the Council's position. Had the previous political and officer leadership still been in place the team would have concluded that a formal inspection would find that the Council had breached its Best Value Duty and made recommendations accordingly.

7.5 However, there is a relatively new political leadership team now in place, who have impressed with their determination to fix the issue. A new Chief Executive has just taken up post, who can lead the organisation to meet the challenges the Council faces, but it is not yet evident that all of the senior management below him either accept or understand the scale and pace of change and approach that is now required. A fundamental culture shift is required together with a much simpler structure, working together, with clear accountability and a strong personal and collective performance management regime starting from Councillors and focused through the Chief Executive right down the organisation. Reflecting this in the Council's Constitution is therefore indicated. Both politicians and officers will need support to help them through the recovery process which will not be quick or easy.

7.6 It is important that Councils are ambitious for their area and citizens and seek to improve their place for everyone’s benefit. Whilst there needs to be a guiding principle and a vision, the plan itself, over a 1, 3- and 5-years period, needs to be deliverable with the resources confidently expected to be available. Nottingham’s Council Plan needs to be scaled back in the short and medium term, to reflect the smaller, more focused Council that will emerge from the recovery process.

7.7 At present, at both officer and member level, the Council finds it hard to move at pace. Processes need to be streamlined to enable the Council to recognise what decisions it needs to take, in what order and at what time with a grip on implementation. This will require consideration of what information is required to take a decision rather than what it would be useful or nice to know but will not change the decision itself.

7.8 Our analysis indicates that there either never was or no longer is a rationale for the portfolio of companies under the Council umbrella. Some, for example, Nottingham City Transport or Futures, can only be operated in this format if the Council wishes to be involved in delivery. Many of the others are mainstream Council activity and urgent consideration should be given to bringing these back in house sooner rather than later. This will also provide the opportunity for cashable savings across the board. Whatever happens, the Council cannot continue to underwrite trading or provide loan capital in the short term and will need to realise returns and seek repayments where possible. For the companies that continue to trade, the Council will need to have a clear policy position on the role of nominated Directors and the Shareholder representative and agreement. This issue is of more than local significance and a recommendation is made to the Secretary of State for Housing, Communities and Local Government also on this topic.

7.9 Today, it is clear that the Council cannot balance its 2021/22 revenue budget without support. It is some way from producing the elements of a coherent recovery plan which will set out how it will get there over a 2-3-year period and the staging posts along the way. Whatever support MHCLG choose to offer, strong mechanisms to hold the Council to account in delivering this recovery are required and a recommendation to address this is promoted. Given the extent of the issues to be addressed it is likely that this mechanism, if adopted, will supersede the processes set up by the Council in response to the Public Interest report.

7.10 Funding any capitalisation of revenue streams cannot be by increasing external debt overall, although the report acknowledges this might be necessary in the immediate term. Nottingham is already one of the most heavily indebted Councils compared to comparators. The Council will need to develop and implement a plan to realise a significant increase in capital receipts for both General Fund and Housing purposes, to fund existing schemes and any support arising from a capitalisation Direction. No new schemes, unless required for Health and Safety or to prevent service failure should be introduced until the scale of indebtedness is substantially reduced. This will also require ending the capitalisation of time spent on developing schemes. The Secretary of State for Housing, Communities and Local Government should consider using powers contained in Local Government legislation to ensure that debt steps down, year on year, until stability is restored.

7.11 The Secretary of State requested the review to consider a number of specific points and these have been commented on throughout the text in the appropriate place and are not repeated here.

7.12 The Council approach to companies, its capital programme and revenue budget has layered risk upon risk and the consequences of Covid-19 on the budget has pushed it into the financial position of having a massive ongoing budget gap with depleted reserves.

8. Recommendations

8.1 NCC should produce a three-year recovery plan by January 2021. The recovery plan should clearly set out the actions and key milestones required to restore the financial viability of the Council's capital programme and revenue budget. The recovery plan should also establish the actions required to end the current reliance on annual budget setting towards implementing a more robust, at least 3-year, medium-term financial planning process. This plan should be considered by the proposed Improvement Board (recommended below) and submitted to the Secretary of State with their observations.

8.2 The Ministry of Housing, Communities and Local Government, in partnership with NCC, should establish a small focused Improvement Board by no later than January 2021 to oversee implementation of the three-year recovery plan, meeting at least quarterly. The Improvement Board should be chaired by a strong, independent chair with sector experience. Members of the Board should be appointed also as non-executive directors/mentors within the Council in order to support and improve performance, as has been used to good effect recently in Birmingham City Council. One Member of the Board should have relevant experience in political decision taking and the Leader of the Council should be the only member of the Council on the Improvement Board.

8.3 NCC should establish a simplified decision-making process as part of the recovery plan for the duration of the recovery period to support implementation of the recovery plan and ensure it is delivered at pace.

8.4 NCC should review their constitution within 6 months to ensure that the roles and responsibilities of members and officers, the framework within which they operate, including the decision-making processes, performance management and procedures within the Council, are clearly defined.

8.5 NCC should conduct an in-depth assessment of its group of companies during the first year of the Plan and integrate their conclusions within their medium-term financial planning process. This will determine the future status of each company as part of the Council Group.

8.6 NCC should produce a clear policy statement within 6 months which establishes the roles and responsibilities of nominated non-executive directors and shareholder representatives and incorporate it as an element of the Constitution. NCC needs to ensure that this relationship is clearly defined within all Council owned company agreements within a further 6 months.

8.7 The Secretary of State for Housing, Communities and Local Government should limit the borrowing capacity of NCC via statutory means at the earliest opportunity as part of the agreement for the Council to implement its recovery plan. NCC's borrowing capability could be adjusted incrementally, both up and down, on an annual basis as the recovery plan is implemented and this could form part of the conditions associated with any short-term financial support the Council is minded to seek from central Government.

8.8 The Secretary of State for Housing, Communities and Local Government should publish Departmental guidance, or commission guidance from an appropriate external body, for the Local Government sector on Council owned companies, including the roles and responsibilities of non-executive directors and shareholder representatives on Council owned company Boards.

Max Caller CBE	**Julie Parker**	**Phil Brookes**
Lead Reviewer	**Financial Reviewer**	**Commercial Reviewer**
November 2020	**November 2020**	**November 2020**

Appendix 1: Max Caller CBE Appointment Letter

Ministry of Housing, Communities & Local Government

Catherine Frances
Director General, Local Government, Strategy & Analysis

Ministry of Housing, Communities & Local Government
2 Marsham Street
London SW1P 4DF

Max Caller CBE

26 October 2020

Dear Max,

I am writing to thank you for agreeing to lead a rapid, non-statutory review at Nottingham City Council. This letter formally appoints you on behalf of the Secretary of State and confirms the terms of reference that we have agreed for your work.

The purpose of this review is to provide assurance to the Secretary of State on the governance and commercial and investment issues identified in the recent Public Interest Report. I would like to acknowledge Nottingham's willingness to engage openly with the Department on these issues over recent months and their apparent recognition of the need to improve governance and financial management, alongside the challenges they face currently in terms of protecting their communities from Covid 19.

Terms of reference

We have agreed that your review will focus on the following themes, reflecting the lessons we have learnt and published about organisational culture and governance from recent interventions. These are aligned with the Best Value duty:

- *Governance,* e.g. sense of strategic vision and direction, adequate internal processes; key senior posts filled with appropriate permanent appointments;
- *Culture and leadership*, e.g. positive and open relationships between councillors/officers and officer/officer; openness to challenge;
- *Financial stability*, e.g. ability to stick to budget plans; clear plans for closing identified budget gaps;
- *Services*, e.g. reports from inspectorates/regulators/ombudsman;
- *Capacity and/or capability to improve*, e.g. acknowledging problems and engaging with sector support; evidence that attempts at improvement (possibly with sector support) have been effective.

We have also identified specific questions that we would like you to explore in relation to the Council's financial sustainability and their management of commercial risk:

- What level of confidence can the Department have in the Council's assessment of its financial position, particularly its estimate of their budget gap, for 2020/21 and 2021/22?

- What level of confidence can the Department have on the Council's plan to mitigate pressures; including the delivery of necessary savings, the existing resources that can be deployed, and their ability to afford borrowing?
- What is your view of the Council's assessment of future financial risks and adequacy of their plan (or ability to plan) to manage those risks?
- What is your view of the Council's approach to mitigating their budget gap under different scenarios for how much financial support is provided?
- What level of confidence can the Department have on the Council's assessment of wholly owned companies, including the viability of companies to continue without any additional Council funding or loans?
- How robust are any forward-looking commercial strategies/plans and their longer- term approach to borrowing and investment?
- Does the Council's oversight and management of commercial and investment risk feel adequate or fit for purpose?

I have agreed with the Chief Executive that you should have access to any information, whether by hard copy or electronically, relating to Nottingham which appears to you to be necessary for the purposes of your work at the Council. This includes documents that may be considered confidential from a public perspective.

We have agreed that you will submit your report to the Secretary of State by late November. This will set out recommendations for next steps, including possible further action by the Department. If appropriate, your recommendations will underpin a package of targeted support lasting up to two years. The latter should be supported by a robust improvement plan owned by the Council, which will help Nottingham City Council address the concerns you have identified and ensure they are meeting their Best Value duty.

Practicalities

As you are aware, Julie Parker has been appointed to work with you to focus on the financial aspects of the review. You will also be supported by a private sector consultant, Phil Brookes, in respect of the Council's commercial operation.

My team will provide secretariat support for your work, as well as press support to help manage any media interest. Because of the independent nature of this review, we will not provide IT and you will want to work with your secretariat to keep separate records of your work.

If you have any questions, please do get in touch at any time. Max Soule, Deputy Director for Local Government Stewardship, will be the lead official in my team for your work.

I am copying this letter to the Leader and Chief Executive of Nottingham City Council. It will also be published on gov.uk

Yours,

CATHERINE FRANCES

Appendix 2: Interviewees

Nottingham City Council: Members

Cllr David Mellen	Leader, Regeneration, Schools and Communications
Cllr Sally Longford	Deputy Leader, Energy, Environment and Democratic Services
Cllr Cheryl Barnard	Children and Young People
Cllr Rebecca Langton	Communities, Highways and Strategic Transport
Cllr Neghat Khan	Employment and Community Protection
Cllr Sam Webster	Finance, Growth and City Centre
Cllr Linda Woodings	Housing, Planning and Heritage
Cllr Dave Trimble	Leisure, Culture and IT
Cllr Adele Williams	Adult Care and Local Transport
Cllr Eunice Campbell-Clark	Health, HR and Equalities
Cllr Audra Wynter	Chair of Audit Committee
Cllr Anne Peach	Chair of Overview Scrutiny Committee
Cllr Andrew Rule	Leader of the opposition Conservative Group
Cllr Kevin Clarke	Leader of the opposition Independents

Nottingham City Council: Officers

Mel Barrett	Chief Executive
Chris Henning	Corporate Director, Development & Growth
Catherine Underwood	Corporate Director, People
Hugh White	Interim Corporate Director, COVID Response & Recovery
Andrew Errington	Director of Community Protection
Dave Halstead	Director of Neighbourhood Services
Paul Seddon	Director of Planning & Regeneration
Nicki Jenkins	Director of Economic Development
Chris Deas	Director of Major Projects
Richard Henderson	Director of HR & Customer
Colin Monckton	Director of Strategy & Policy
Malcolm Townroe	Director of Legal & Governance
John Dexter	Director of Education
Nicholas Lee	Director of Education Services
Alison Challenger	Director of Public Health
Helen Blackman	Director of Children's Integrated Services
Steve Oakley	Acting Director of Commissioning and Procurement
Nigel Hawkins	Head of Culture and Libraries
John Wileman	Head of Sport Community & Leisure Centres
Clive Heaphy	Section 151 Officer
Laura Pattman	Former Section 151 Officer
Theresa Channell	Head of Strategic Finance
Najeeb Nazir	Unison Representative
Jean Thorpe	Unison Representative
Christina Sanna	Unison Representative
Katherine Whitehouse	Unison Representative

Nottingham City Council: Companies

Robin Hood Energy

Jeff Whittingham	Interim Chief Executive
Mike Thomas	Interim Finance Director

Thomas Bow

Alistair Bow	Managing Director
Zuned Yusef	Finance Director

Nottingham City Homes

Nick Murphy	Chief Executive
Darren Phillips	Finance Director

Nottingham City Transport

Mark Fowles	Managing Director
Rob Hicklin	Finance Director

Enviroenergy

Antony Greener	Programme Director
Paul Brown	Finance Director

Nottingham Revenues and Benefits

Lisa Black	Director of Operations
David Marshall	Finance Director

Nottingham Ice Arena

Martin Ingham	Chief Executive
Marie Marshall	Finance Director

Futures

Peter Brammall	Chief Executive
Jennie Willock	Finance Director

Blueprint

Samantha Veal	Chief Executive
Matt Severs	Finance Director

External Auditors: Grant Thornton UK

John Gregory	Director, Audit
Helen Lillington	Auditor

Members of Parliament (who received a briefing on the review)

Nadia Whittome (Labour)	Nottingham East
Alex Norris (Labour)	Nottingham North
Lillian Greenwood (Labour)	Nottingham South