Financial Controls Assessment; GAP Analysis

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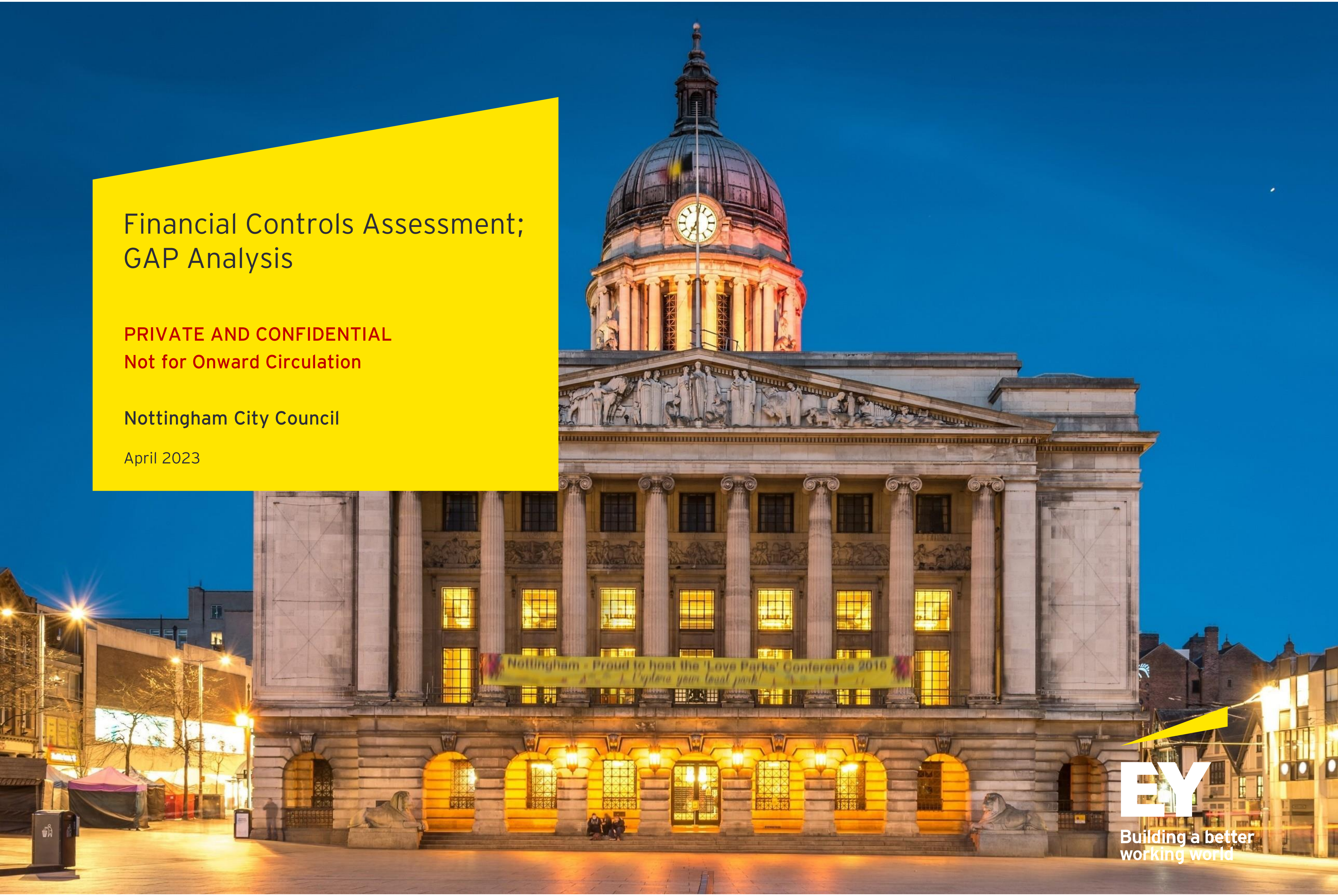
Nottingham City Council

April 2023



Building a better working world

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Reliance Restricted
Nottingham City Council

3rd April 2023

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Partner

Strategy and Transactions

Dear Ross,

Nottingham City Council: Financial Resilience Funding Review

In accordance with your instructions, we ("EY" or "We") have performed the work set out in our Engagement Agreement dated 11 January 2023 (the "Engagement Agreement").

Purpose of our report and restrictions on its use

This report was prepared on the specific instructions of Nottingham City Council ("the Council") for the purpose set out in this report and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report and its contents may not be quoted, referred to or shown to any other parties unless so required by court or a regulatory authority, without our prior consent in writing. Any third party should recognise in writing that we assume no responsibility or liability to them in respect of the contents of our deliverables.

In carrying out our work and preparing our report, we have worked solely on the instructions of the Council. We accept no responsibility or liability to any person other than to the Council, and accordingly if such other persons choose to rely upon any of the contents of this report they do so at their own risk.

We note that there is a separate engagement with regards to the Agreed Upon Procedures being performed in relation to the Council's ring-fenced funds, the findings of which are delivered in a separate report.

Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. We have not validated information provided to us by the Council for the purposes of this Gap Analysis.

If you would like to clarify any aspect of this Report or discuss other related matters, then please do not hesitate to contact me.

Yours sincerely,

EY

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1. Introduction and Gap Analysis Methodology

Introduction and Gap Analysis Methodology

Background

The Council is evaluating whether its financial arrangements are managed in a manner consistent with best practice and the relevant legislation. The purpose of this activity is to enable Nottingham City Council to identify any areas of weakness in its approach to its financial arrangements and adopt responsive actions that will support the Corporate Director of Finance to deliver their section 151 responsibilities.

Scope of Work

EY has been appointed to review the Council's approach to the financial management of ring-fenced funds whose use is prescribed under legislation and/or ring-fenced through direction and guidance for the following financial years: 2019/20, 2020/21 and 2021/22. The main areas of funding/expenditure to be covered by this review are set out below:

1. Capital
2. Transforming Cities Funds
3. Dedicated Schools Grant
4. Licensing income
5. Traffic enforcement
6. Better Care Fund

Our Scope of Work will be delivered in three distinct phases:

1) Gap Analysis

The **first phase** of activity, the findings of which are presented in this report, is a Gap Analysis. The Gap Analysis has been performed by identifying leading practice behaviours that support the correct financial management of funds that are governed by grant conditions, regulations or legislation. Against this we have benchmarked the behaviours observed from our initial engagement with a limited cohort of key process owners to form a view as to where gaps in the controls and governance environment may exist.

2) Agreed Upon Procedures

The **second phase** of work will be to perform 'Agreed Upon Procedures' (AUP) of higher risk areas of spend, as identified during the Gap Analysis. These AUP will include appropriate procedures around of journal entries to understand if expenditure has been undertaken in a manner that is consistent with the relevant rules and regulations. The AUPs (to agreed with you) will be informed by the emerging findings identified during the Gap Analysis exercise. The output of the AUPs will be used to validate or challenge the emerging findings from the Gap Analysis.

3) Controls Testing

In the event that errors are identified during the AUP phase of activities, a detailed review of the relevant controls will be performed to understand the cause of the error. This **final phase** of work will focus on whether the controls are operative, effective and/or by-passed by management. This will aid management in understanding the cause of incorrect use of funds, including whether or not management have engaged in a deliberate override of controls in order to use ring-fenced or otherwise restricted funds for non-compliant purposes.

Introduction and Gap Analysis Methodology

Gap Analysis Methodology

This report is concerned solely with the findings from the Gap Analysis exercise. A detailed overview of our approach to this phase of activity is presented below:

1) **Review of relevant regulations, legislations and guidance for the following areas.** The following areas of spend were selected by the Council on the recommendation of their external auditors.
    i. Capital
    ii. Transforming Cities Funds
    iii. Dedicated Schools Grant
    iv. Licensing income
    v. Traffic enforcement
    vi. Better Care Fund
3) **Identification of leading practice behaviours** based on CIPFA and LGA guidance, as well as the EY team's experience working within and with local authorities. Leading practice behaviours have been grouped within the following categories: Knowledge Transfer & Learning; Monitoring & Reporting; and Controls & Governance.
4) **Review of key documentation provided by the Council.** The document review was performed to identify the conditions attached to expenditure funded by grant income and, where available, the internal processes used by the Council to support the appropriate use of funds (a complete list of the documents reviewed to support the Gap Analysis is presented in Appendix I).
5) **Conduct interviews with staff responsible for the in-scope areas of spend.** The interviews were used to confirm the level of understanding within the Council regarding restrictions on in-scope areas of spend, as well as the overarching approach to controls and governance that support the appropriate use of restricted funds. The interviewees, who were selected for this exercise by the Council, were process owners responsible for the in-scope areas of spend (a full list of the interviewees engaged for the Gap Analysis is presented in Appendix II).
6) **Benchmark observations from interviews against leading practice behaviours.** The leading practice behaviours, policies and procedures have been used to preliminarily benchmark the Council's performance with regards to the financial management of restricted funds. A high-level RAG analysis has been performed to aid the reader in interpreting the results of the benchmarking. Our observations reflect our preliminary engagement with a limited cohort of staff and should not at this stage be treated as being conclusive or systemic within the organisation or as evidence of a management override of controls.
7) **Identification of emerging findings.** The observations from the benchmarking have been analysed thematically to form a preliminary view on key strengths and weaknesses in the Council's financial management of ring-fenced funds. As with the initial observations, these require further validation and should not at this stage be treated as either systemic or conclusive.
8) **Recommendations for further analysis.** Potential weaknesses in financial management that may indicate a higher propensity for the incorrect use of restricted funds, as identified in the emerging findings, have been used to inform recommendations for further detailed analytical work to be undertaken during the AUP phase.

Introduction and Gap Analysis Methodology

Structure of Report

The report structure is as follows:

1. **Introduction and Gap Analysis Methodology:** An Introduction to the report, including the engagement background and scope of the engagement, and an overview of how we have approached the Gap Analysis exercise specifically.
2. **In-scope Spend - Overview:** Outline of each of the in-scope areas of funding and expenditure, including the relevant legislation, regulations and guidance that dictate their use.
3. **Leading Practise:** Presentation of the leading practice behaviours that serve as the benchmark for financial management in the Gap Analysis exercise.
4. **In-scope Spend – Observations:** Presentation of our detailed observations taken from the initial interviews conducted with key process owners for in-scope areas of spend as part of the Gap Analysis.
5. **Emerging Themes and Recommendations:** Summary of the emerging findings identified during the Gap Analysis and our recommendations for key risk areas to be subject to further procedures as part of the AUP phase of activities.

Limitations of Scope

- There is a separate engagement with regards to the Agreed Upon Procedures being performed in relation to the Council's ring-fenced funds; for clarity, the findings of this separate engagement are not presented in this report, which is concerned solely with the Gap Analysis.
- Neither the data presented in documents provided by Nottingham City Council nor the information provided by staff in the course of our engagement has been validated by EY. A full list of the documents received and the individuals interviewed during this engagement are presented in the appendices of this report.
- The emerging findings identified in the report are based on initial interviews with individual stakeholders. The purpose of these findings is solely to guide the focus for the AUPs and controls testing and should not at this stage be treated as conclusive evidence

2. In-scope Spend: Overview

Dedicated School Grant

In this section of the report we introduce each of the in-scope areas of funding and expenditure in more detail, including the relevant legislation, regulations and guidance that dictate their use.

Description: The Dedicated School Grant (DSG) is ring-fenced to fund school budgets and services that directly support the education of pupils. It is divided into four blocks: Schools Block, Central School Services Block, High Needs Block and Early Years Block.

Annual expenditure: 19/20 – £109.5m; 20/21 - £114.9m; 21/22 - £120.7m (net position after deducting for academies)

Point of contact: Senior Commercial Business Partner

Department: Commercial Finance Business Partnering - Schools

Legislation, Regulatory and/or Professional Guidance Framework

The DSG is a ring-fenced grant and must be used in support of the Schools Budget as defined in regulation 6 of the School and Early Years Finance (England) (No 2) Regulations 2020 as follows:

1. Expenditure on the provision and maintenance of maintained schools and on the education of pupils at maintained schools.
2. Expenditure on the primary and secondary education for children otherwise than at schools maintained by a local authority.
3. Other expenditure incurred in provision of primary and secondary education not defined in points 1 & 2
4. Expenditure on education of:
   i. under 19 + special needs
   ii. 19 - 25 with an Education, Health and Care Plans (EHC) plan
5. Early years provision.

The CFO must ensure that the grant monies for the DSG are used for the purpose for which they are intended. They must confirm this to the Education and Skills Funding Agency (ESFA) by submitting a signed assurance statement that confirms the deployment of the DSG, along with a note to the accounts.

Source:
The School and Early Years Finance (England) Regulations 2020 (legislation.gov.uk)
Dedicated schools grant: conditions of grant 2019 to 2020 (updated January 2020) - GOV.UK (www.gov.uk)

Description: The Better Care Fund (BCF) requires the NHS and local government to create a local single pooled budget to incentivise closer working around people, placing their wellbeing at the focus of health and care services, and shifting resources into social care and community services.

Annual expenditure: 19/20 - £42.0m; 20/21 - £43.6m; 21/22 - £44.9m

Point of contact: Director of Commissioning and Partnerships

Department: Commissioning and Procurement

Legislation, Regulatory and/or Professional Guidance Framework

The BCF is allocated based on the conditions set in the BCF policy framework. The framework sets out conditions that all BCF plans must meet. Throughout the in-scope period for our engagement the nationally set conditions have been as follows:

1. A jointly agreed plan between local health and social care commissioners, signed off by the Health and Wellbeing Board (HWB) - Local authorities and clinical commissioning groups (CCG) must agree a plan on use of mandatory BCF funding streams. Plans should set out a joined-up approach to integrated, person-centred services across local health, care, housing and wider public services.
2. NHS contribution to adult social care to be maintained in line with the uplift to CCG minimum contribution - HWBs should review spending on social care, funded by the CCG contribution to the BCF, to ensure the minimum expectations are met, in line with the national conditions.
3. Invest in NHS-commissioned out-of-hospital services - The BCF plan should set out an approach to how health and local authorities will invest in NHS-commissioned out-of-hospital services. This should include an expenditure plan to show commissioned schemes.
4. Managing transfer of care - The BCF plan should include a plan that supports improvement in outcomes for people being discharged from hospital, including improving the proportion of people discharged home using data on discharge to their usual place of residence.

BCF enables local authorities to access a pooled budget consisting of: CCG minimum contribution, improved Better Care Funds (iBCF) and Disabled Facilities Grant (DFG). The Winter Pressure Grant was decommissioned in 2019-20. For local authorities to access each of these funding streams they must meet the following conditions in their BCF plan:

a. CCG minimum contribution to the Better Care Fund – The CCG allocation to BCF is to fund local authority delivery of reablement, carers' breaks and implementation of duties to fund carer support under the Care Act 2014. The fund allocated is primarily applicable to national conditions 2 and 3 – condition 2 (contribution to adult social care) and condition 3 (NHS-commissioned out-of-hospital services). To note, only a portion of the CCG minimum contribution is received by Nottingham City Council, which is the transaction list in scope of this exercise, with the remainder retained and deployed locally by the Department of Health.

Better Care Fund (cont.)

(Continued)

b. iBCF – The iBCF funding can only be used for the purpose of either (or all) of meeting adult social care needs, reducing pressures on the NHS, including seasonal winter pressures, supporting more people to be discharged from hospital and ensuring that the social care provider market is supported.

c. DFG - The DFG is a capital grant that is pooled into the BCF to promote joined-up approaches to meeting people's needs to help support more people of all ages to live in suitable housing.

d. Winter Pressure Grant - Since 2020-21, this fund, which was previously paid as a separate grant for managing winter pressures (reducing the seasonal pressure on NHS during winters), has been included as part of the iBCF grant. To note it is not ringfenced for use in winter.

Source:
Better Care Fund: policy statement 2020 to 2021 (gov.uk)

EY Transforming Cities Fund

Description: In June 2020 Nottingham City Council and Derby City Council jointly received a four year £161m capital grant from the Transforming Cities Fund to strengthen connections between major employment sites, upgrade public transport, and improve options for people on foot or bike.

Annual expenditure: 19/20 – £8.0m; 20/21 - £20.3m; 21/22 - £62.6m (c.£90m of funding is allocated to the Nottingham City Council projects, with the remainder going to Derby City Council)

Point of contact: Head of Transport Strategy

Department: Strategy & Resource

Legislation, Regulatory and/or Professional Guidance Framework

The Transforming Cities Grant was issued by Department for Transport to Nottingham City Council and Derby Council in March 2020. Selected conditions attached to receipt of the grant funding include:

- The Council is responsible for ensuring schemes provide value for money for taxpayers
- Investment decisions are made in the accordance with the Council's Assurance Framework and the National Local Growth Assurance Framework guidance
- Any individual scheme decision requiring funding greater than £40m requires approval from Department for Transport
- The Council is to provide regular progress reports to Department for Transport
- The Council is to attend review meetings with Department for Transport
- Furthermore, the grant may only be used for capital expenditure within the definition set out in section 11 of Local Government Act 2003.

The Chief Executive and Chief Internal Auditor are required to sign a declaration no later than four months after the completion of a scheme confirming grant conditions have been met. If the conditions and requirements are not met the Minister of State may reduce, suspend or withhold grant, or requirement to repay of grant to Secretary of State.

Source:
Transforming cities fund – awarded funded allocations (gov.uk)
Transforming cities fund package: tranche 2 allocation (see Appendix A – Grant Award Letters in Appendix I)

Licensing Income

Description: Councils are responsible for administering a range of licences and approvals relating to both national legislation and discretionary functions that are agreed locally. Nottingham City Council's sources of licencing income include: selective licensing, taxi licensing and additional licensing.

Annual expenditure – Selective Licensing: 19/20 – £3.7m; 20/21 - £4.2m; 21/22 - £2.8m

Annual expenditure – Additional Licensing: 19/20 – £0.3m; 20/21 - £0.6m; 21/22 - £0.4m

Annual expenditure - Taxi: 19/20 – £1.0m; 20/21 - £0.7m; 21/22 - £0.7m

Point of contact: Head of Regulation

Department: Community Protection

Legislation, Regulatory and/or Professional Guidance Framework

The Local Government Association (LGA) produced the 'Open for Business: LGA guidance on locally set license fees' guidance in 2017. The guidance provides direction to councils for setting license fees to meet the requirements of the relevant legislation.

A summary of key principles from the guidance that are relevant to this scope of work are included below:

- Licensing fees set should ensure that full costs of administering the regime can be recovered, and are not to be subsidised by local tax payers, and that businesses are not paying more than they should. Councils must not use fees covered by the directive to make profit.
- Fees received under one licensing regime must not subsidise fees charged under another. A surplus generated from one licensing regime should be reinvested back into that regime, rather than used to reduce the cost of another regime.
- Councils should ensure that they have individual, discrete cost-calculations for each of the licensing regimes that they operate.
- Councils should charge a fee upon application (covering the costs of authorisation procedures) and a subsequent fee to successful applicants (covering the cost of administering and enforcing the framework).
- In order to comply with the above, councils should be able to separate out the cost of processing an initial application from those costs associated with the on-going administration of a scheme, because this latter element cannot be charged to unsuccessful licence applicants.

Source:
Open for Business: LGA guidance on locally set license fees (local.gov.uk)

EY Parking, Traffic Regulation and Bus Lane Enforcement

Description: Local authorities generate income from civil enforcement operations including Parking, Traffic and Bus Lane Enforcement

Annual expenditure - Bus Lane: 19/20 – £3.6m; 20/21 - £2.0m; 21/22 - £1.8m

Annual expenditure – Parking: 19/20 – £2.8m; 20/21 - £2.4m; 21/22 - £0.6m

Annual expenditure - Traffic: 19/20 – £2.0m; 20/21 - £1.9m; 21/22 - £2.4m

Point of contact: Corporate Director

Department: Planning and Transport Division

Legislation, Regulatory and/or Professional Guidance Framework

Parking Enforcement

Per the Traffic Management Act 2004 all revenue from 'on street' and 'off street' parking and penalty charges arising from parking offences must be spent on transport, including highway maintenance, environmental improvements and/or meeting costs incurred for these purposes by the General Fund in the preceding four years.

The use of income from 'on street' parking is governed by Section 88 of the Traffic Management Act 2004, 'off street' parking is governed by Section 55 of Road Traffic Regulation Act 1984 and penalty charge notices (PCNs) are governed by both. The principal use of income derived from both acts are that:

1. A local authority shall keep an account of their income and expenditure in respect of parking places.
2. At the end of each financial year any deficit in the account shall be made good out of the general fund, and any surplus shall be applied for all or any of the purposes specified in the Act (see point 4).
3. If the local authority so determines, any amount not applied in any financial year, instead of being or remaining so appropriated, may be carried forward in the account kept above to the next financial year.
4. See points on next page (a – d).

Traffic Regulation/Bus Lane Enforcement

The Civil Enforcement of Road Traffic Conventions (Approved Devices, Charging Guidelines and General Provisions) (England) Regulations 2022 state that any surplus arising from bus lane or moving traffic enforcement must be applied for the following purposes:

1. Meeting costs incurred, whether by the local authority or by some other person, in the provision or operation for public passenger transport services.

Parking, Traffic Regulation and Bus Lane Enforcement (cont.)

(Continued)

2. Local authority civil enforcement should be self-financing as soon as practicable; but compliant applications for civil enforcement of bus lane or moving traffic contraventions will be granted without the scheme being self-financing. However, authorities will need to bear in mind that if their scheme is not self-financing, then they need to be certain that they can afford to pay for it from within existing funding.

Recent changes to legislation have moved Bus Lane Enforcement regulations back into Part 6 of the Traffic Management Act 2004 and is now known as Moving Traffic Enforcement. However, the principle use for surpluses remains the same and can be utilised as follows:

a. the making good to the local authority's general fund of any amount charged to that fund in respect of any deficit arising from its bus lane or moving traffic enforcement, in the four years preceding the financial year in question.

b. for environmental improvement in the enforcement authority's area in accordance with Section 1(2) and 1(3) Pollution Prevention and Control Act 1999.

c. meeting costs incurred, whether by the local authority or by some other person, in the provision or operation of, or of facilities for, public passenger transport services.

d. for highway improvement projects in the local authority's area in accordance with Section 55, Paragraph (4A) Road Traffic Regulation Act 1984.

The AUP procedures will need to validate spend against extended spending principles as it is acknowledged that the potential use of funds is broad.

Source:
Road Traffic Regulations Act 1984 & Traffic Management Act 2004 (see Appendix 1 - 230111 v0.02 Management of Finances KD D25)

Capital Expenditure

Description: Local authorities expenditure incurred either to purchase or build a non-current asset, or to improve or upgrade an existing non-current asset. Capital and revenue expenditure should be identified separately in the financing statements.

Annual expenditure: 19/20 – £171.7m; 20/21 - £150.0m; 21/22 - £100.8m

Point of contact: Senior Accountant Capital Programmes

Department: Strategy and Resource

Legislation, Regulatory and/or Professional Guidance Framework

- In generally accepted accounting practice, capital resources can only be spent on capital expenditure. Local authorities may transfer money earmarked for revenue expenditure into their capital account, but may not transfer money from their capital account into their revenue account without permission from central government.
- Per the Code of Practice on Local Authority Accounting in the United Kingdom, expenditure on acquisitions and construction work should be analysed to decide whether it satisfied the accounting rules for recognising a non-current asset in the Balance Sheet. Capitalisation can include subsequent expenditure on existing assets.
- The amount capitalised generally comprises the purchase price plus any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable or operating in the manner intended by management.
- Costs incurred as a result of staff spending time on capital projects can be capitalised, provided that time can be linked to bringing a specific, separately identifiable asset into working condition, or substantially enhancing the working life of an existing asset.
- Costs incurred in relation to aborted capital projects can not be treated as capital.

Source:
Code of Practice on Local Authority Accounting in the United Kingdom (cipfa.org)

Bridge Estate - Observations

Description: Directed by Leadership Team

Annual expenditure: £1,480k (21/22)

Point of contact: [redacted]

Department: Strategy and Resource

Legislation, Regulatory and/or Professional Guidance Framework

- A request was made of EY to explore whether the Bridge Estate, a Charity controlled by the Council for the purposes of maintaining bridges across the Trent (CC 220716), showed any signals of management override or control weaknesses. This research had several angles:

    1. Whether the value of the Surplus transferred reflected the actual Surplus generated in the financial year by the Bridges Trust.
    2. Whether in the event this Surplus exceeded that generated by the Bridges Trust, this had been funded by earmarked and / or designated Reserves.
    3. Whether any of these transfers would fall outside of the Charity objectives, or outside of accepted practice by the Charity Commission.
    4. Whether the Bridges Trust places any requirements on the council to report expenditure and outcomes achieved, from the Surplus transferred to the Council.

Context

Bridge Estate is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity. All transactions relating to Bridge Estate are subject to the same financial regulations and procedures as those relating to the Council. The objectives of the charity are as follows:

1. Provide for the efficient maintenance and repair of Trent Bridge and the approaches to it.
2. In effect, to set up a contingency fund for the possible construction of such new bridge or bridges over the River Trent as may be found necessary or desirable.
3. The residue of such income is to be applied as the Trustee thinks best for the improvement of the City of Nottingham and the public benefit of its inhabitants.

Bridges Trust – Observations (contd.)

An initial review of the Bridges Trust accounts was conducted, alongside an interview with the Strategic Finance Business Partner. Against the four questions above, the following observations were captured:

1. Whether the value of the Surplus transferred reflected the actual Surplus generated in the financial year by the Bridges Trust.

The value of the transfer does not appear to correlate with the surplus generated within a particular year. It is not identifiable within the Statement of Accounts how the value of the surplus is arrived at.

Year	SOFA - Net Income / Expenditure Less Transfer to Council	Transfer To Council	Delta To Operating Surplus	Transfers From Endowment Funds to Unrestricted Funds
21/22	£480,416	£1,000,000	**-£519,584**	£594,355
20/21	£2,087,789	£1,545,000	**£542,789**	£1,033,058
19/20	£1,256,465	£1,545,000	**-£288,535**	£923,622

2. Whether in the event this Surplus exceeded that generated by the Bridges Trust, this had been funded by earmarked and / or designated Reserves.

Given the Operating Surplus identified above, alongside the transfers from Endowment funds to Unrestricted – it does appear Endowment Funds contribute toward this transfer. The restrictions around these endowments would need to be explored to understand whether we these are complaint or not.

3. Whether any of these transfers would fall outside of the Charity objectives, or outside of accepted practice by the Charity Commission.

The Charity's objectives state any surplus can be utilised to the 'benefit of residents of Nottingham'. However a transfer above this surplus would likely be interpreted as outside of the Charity's objectives, and consequently ultra vires.

4. Whether the Bridges Trust places any requirements on the council to report expenditure and outcomes achieved, from the Surplus transferred to the Council.

Of the operating expenditure on the large investment portfolio held by the Trust, how annual maintenance and decisions on capital investments are taken is difficult to ascertain from the accounts. In the event this is understated, properly represented it could reduce

3. Leading Practice

EY Leading Practice

In this section of the report we introduce three pillars of leading practice behaviour that serve as benchmarks for the Gap Analysis that has been performed with regards to Nottingham City Council's financial management of ring-fenced funds.

Leading practise policies and procedures supports an environment in which the financial management of restricted areas of spend can be undertaken in a manner that is compliant with regulations, legislation and grant conditions. The promotion and implementation of leading practice within a council can enhance the leadership's confidence that expenditure is being undertaken appropriately.

For the purposes of this Gap Analysis, the leading practice policies and procedures serve as a benchmark against which observed practices within the Council can be appraised. Evidence of leading practices, or their absence, will inform the report's preliminary findings as to whether there is evidence of good financial management of expenditure within the Council.

EY has identified three pillars of leading practice that are core to effective financial management. These reflect CIPFA and LGA guidance, including the CIPFA Financial Management Code, as well our experience.

1) Knowledge Sharing & Training

The landscape governing ring-fenced areas of spend, for example regulatory regimes or grant conditions, is complex and at times fluid. For these reasons it is important that the Council invests in appropriate **Learning and Development for staff members responsible for the financial management** of these areas of spend so that they have a robust understanding of the conditions attached to funding that has restricted uses.

Tools should also be made available to the **wider cohort of Council staff who engage with (but do not necessarily control) ring-fenced funds** to ensure there is a common understanding and ownership of issues relevant to the management of restricted areas of spend.

2) Monitoring & Reporting

A transparent process by which budgets are set and can be monitored against budget so that overspends/underspends can be identified and variances understood is at the cornerstone of good financial management within a council. **Analysis should be reported** so that decision-makers can adjust their strategies and address risks to financial sustainability.

Monitoring use of restricted funds enables the Council to **protect reserves** and identify transactions that may not be compliant with the relevant rules and regulations. On an aggregate level, monitoring and reporting provides an opportunity to identify higher than expected spend or lower than expected outcomes, which may indicate inappropriate use of funds.

3) Controls & Governance

Governance is the way in which organisations are **directed, controlled and led**. As such, the leadership of a council has a significant role in ensuring the effective governance of an organisation.

Effective knowledge sharing, training, monitoring and reporting also form part of a wider controls environment that collectively supports good governance. **Good governance in turn ensures better informed and long-term decision-making** by management, helping to ensure that they achieve their organisation's intended objectives, including its financial management objectives, such as operating within the applicable legal framework.

Knowledge Sharing & Training

This slide presents a number of behaviours, policies and procedures that indicate leading practice with regards to Knowledge Sharing & Training.

Leading Practice	Rationale
▸ Document and circulate internal guidance with respect to obligations under relevant regulations, legislation or grant conditions.	▸ Ensures all staff are aware of obligations of restricted areas of spend, thereby reducing likelihood of incorrect use of funds.
▸ Dedicated individual with responsibility for regularly reviewing updates to regulations, legislation or grant conditions.	▸ Safeguards the Council from non-compliance risk and ensures new and accurate information is fed through the organisation.
▸ Cross-departmental training to promote awareness of restrictions that apply to certain funding streams, including the source of such restrictions, i.e. legislation.	▸ Increases staff awareness of restrictions that apply to certain funds and creates a common understanding and ownership of related issues.
▸ Cross-departmental training to promote awareness and understanding of governance and controls in place to support correct use of restricted funds.	▸ Increases staff awareness of controls in place and their purpose, thereby increasing likelihood that controls will be deployed effectively and not overridden.
▸ Appropriate arrangements for ensuring handover/knowledge transfer takes place with change of personnel.	▸ Ensures institutional knowledge is not lost and reduces likelihood of funding being used inappropriately.
▸ Hold an accessible, promoted repository of knowledge, comprised of key policy documents, annual reviews undertaken of processes and controls and datapoints.	▸ To facilitate effective onboarding of new staff, capture knowledge and evolution of processes from leavers, and have a clear one stop repository for all documents and data.

EY

Monitoring & Reporting

This slide presents a number of behaviours, policies and procedures that indicate leading practice with regards to Monitoring & Reporting.

Leading Practice	Rationale
▸ Documented processes for monitoring on expenditure funded from ring-fenced funds and reserves generated by historical surpluses.	▸ Ensures monitoring and review is undertaken consistently and effectively.
▸ Use of appropriate delegated authorities for review of material transactions.	▸ Ensures that front-line management are accountable/responsible for income and expenditure.
▸ Use of reporting function within accounting system to support council's monitoring of transactions impacting restricted funds.	▸ Increases efficiency with which monitoring and reporting activities are undertaken. ▸ Ensures that reviews reflect actual position as per the General Ledger/Sub-Ledgers rather than offline and potentially out-of-date position.
▸ Regular reporting of actual outturn vs. budget and performance of variance analysis.	▸ Emerging issues and risks are identified and escalated on a timely basis so that appropriate interventions can be undertaken.
▸ Monitor project milestones against spend to assess if two are commensurate.	▸ Provides insight into whether actual spend is delivering expected outcomes; variances may indicate funds have been redirected for non-compliant purposes.
▸ Adopting a transparent process for calculating corporate recharges that is consistent across the organisation.	▸ Reduces risk of overheads being charged inappropriately and supports effective review.
▸ Utilise the IAS260, Audit Files and other Risk events or reports to identify and intervene on risks that have evolved into issues and control failures. Develop a detailed action plan, following an issue or an unknown event, that has clear mitigating actions, and accountability for delivery and closure.	▸ Adopts a transparent and responsible approach for intervening on and closing out risks and issues. ▸ Stops repeat items in key documents such as the IAS260 and demonstrates management action.

Controls & Governance

This slide presents a number of behaviours, policies and procedures that indicate leading practice with regards to Controls & Governance.

Leading Practice	Rationale
▸ The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	▸ The tone and actions at the top of a council sets the overall governance and controls culture within the organisation and are therefore critical.
▸ Clear governance framework that documents the process by which decisions are made with regards to expenditure funded from ring-fenced funds, including reserves.	▸ Supports expenditure being undertaken in a way that is consistent with policies and procedures (driven by legislation, regulation and guidance). ▸ Provides transparency so that expenditure can be readily scrutinised by the appropriate oversight body.
▸ Existence of schemes of delegation for approving expenditure.	▸ Delegations ensure that those responsible for the delivery of services are held responsible for financial management of associated expenditure and income. ▸ Ensures journal entry postings are only undertaken by individuals who have an understanding of the restrictions applied to certain pools of funding.
▸ Use of automated system controls to prevent or flag postings to the general ledger that do not follow the schemes of delegation.	▸ Limits likelihood of expenditure being miscoded to restricted pools of funding without appropriate approval.
▸ Maintenance of separate reserves for ring-fenced income.	▸ Supports effective monitoring and protection of ring-fenced funds.
▸ More effective use of automated controls within the Finance System, particularly in relation to thresholds and approvals	▸ Automated protections that cannot be overridden offer the most immediate and efficient control mechanism.

4. In-scope Spend: Observations

EY Approach to Observations

In this section we have presented our observations taken from the interviews conducted with key process owners for in-scope areas of spend. We have also noted potential risk areas identified via our discussions with staff members. Our observations reflect our initial engagement with a limited cohort of staff and should not at this stage be treated as being conclusive or systemic across the organisation.

Methodology

To develop an understanding of the Knowledge Transfer & Training, Monitoring & Reporting and Controls & Governance environment within the Council, eight interviews were held with 13 members of staff drawn from across the teams responsible for the in-scope areas of spend. Interviewees were selected by Nottingham City Council and were principally drawn from operational, commissioning and finance/commercial business partner roles. A full list of interviewees is presented in Appendix II.

The observations from these discussions have been used to benchmark the Council's performance against the leading practice behaviours identified earlier in this report. Evidence of leading practice provides preliminary insights into whether or not there is an effective governance and controls environment capable of supporting the correct financial management of ring-fenced funds.

As a visual aid, for each in-scope area of spend and for each leading practice theme we have awarded a RAG rating. The RAG ratings have been awarded as follows:

- **Green:** Good alignment with leading practice behaviours and limited evidence of behaviours contrary to leading practice
- **Amber:** Limited alignment with leading practice *or* evidence of certain behaviours that are contrary to leading practice
- **Red:** Limited or no alignment with leading practice behaviours *and* evidence of certain behaviours that are contrary to leading practice

Table 1 – RAG rating for each in-scope area of spend against three areas of leading practice

In-scope area and Leading practice	Dedicated Schools Grant	Better Care Fund	Transforming Cities Fund	Licensing Income	Parking, Traffic Regulation and Bus Lane Enforcement	Capital Expenditure
Knowledge Transfer & Training						
Monitoring & Reporting						
Controls & Governance						

Dedicated School Grant

Observations

Knowledge Transfer & Training

- Within the Schools Forum, the membership of which is school representatives and which the Council attends as an observer, discussions are held over what is permitted expenditure and not, this ensures guidance is shared across the Council and beyond, thereby supporting awareness of grant conditions. The Schools Finance Regulations and the s251 guidance also provide the DSG team with direction on what is permitted expenditure under the DSG.

Monitoring & Reporting

- Budget managers are responsible for the monitoring of budgets within their service area, as well as forecasting. On a monthly basis budget managers are expected to review their pay, non-pay and income transactions in Oracle Fusion to ensure they accurately reflect what is anticipated. If incorrect transactions are identified budget managers are required to arrange for corrective action.
- A monthly outturn forecast is reported by budget managers to the Corporate Leadership Team and Executive Board. Outturn forecasts prepared in Oracle Planning are also reviewed by the relevant Commercial Business Partner, which provides an opportunity for the Commercial Business Partner to offer challenge regarding the appropriateness of expenditure. The Senior Commercial Business Partner is engaged if guidance is required on what expenditure is permitted under the DSG.

Controls & Governance

- The Council's school's budget is subject to review by the School Forum and the Council's Executive Board. Additional Schools Forum approval is needed should the Council wish to move more than 0.5% of budget between the blocks of the DSG. Proposed budgets are also sent to the ESFA.
- At Year End the outturn position for individual blocks are presented by the Senior Commercial Business Partners to their line manager to ensure that variances with budget are understood and can be confidently presented to the Schools Forum.
- As part of the Year End process a report is run to identify all cost centres in the Children and Education departments. Cost centres that are wholly funded by DSG are reimbursed. If DSG were only to fund specific posts then the payroll costs would be extracted from Oracle and the service budget reimbursed. Where the DSG makes only a contribution towards the cost of a service the cost centre would be reviewed to ensure that DSG is only partially funding the activity. Reimbursements are approved by the relevant authority as per the DSG management hierarchy matrix.

Dedicated School Grant (cont.)

Identified Risk Areas

- Once funds from the DSG have been disseminated to schools they are deemed to have been used appropriately. While how individual schools use their funding is outside the scope of this report, there may be a risk that this spend is undertaken inappropriate. We understand that the Council relies on the governance processes within schools and the Council's rolling Internal Audit process to ensure funds are used appropriately by schools.
- The DSG team identified corporate recharges and activities that are jointly funded by the Council and DSG as being hypothetical risk areas due to the challenge of understanding the process by which these recharges have been arrived at. However, the interviewees were not aware of this being an issue within their area of funding.

Observations

Knowledge Transfer & Training

- Department of Health is closely involved in the development of the BCF Plan, which ensures that any updates to the national conditions are communicated to the Council and that submitted schemes meet these conditions.
- It was noted that the national conditions attached to funding are broad and remain largely consistent year-on-year, meaning there is limited risk of schemes being approved that are not consistent with BCF conditions.
- Pre-COVID-19 an NHS England representative would also attend key BCF governance meetings, which served as a valuable source of information; however, this engagement has not resumed since the pandemic.

Monitoring & Reporting

- A budget manager is responsible for monitoring the budget associated with cost centres that are funded by BCF. This process is supported by the finance team and is used to identify costs incorrectly coded to cost centres. Variances to budget greater than 15% must be reported to the HWB sub-committee with an explanatory paper.
- It was noted that it is typical that entire teams will be funded using a specific funding stream from within BCF. These costs will be budgeted in a dedicated cost centre, which enables efficient monitoring.

Controls & Governance

- Expenditure funded by the DFG funding stream within the BCF is restricted to capital expenditure and goes to the capital board for review. Internal audit reviews transactions within this area and provides a statement of assurance that the expenditure is capital in nature.
- A quarterly BCF Oversight meeting is attended by Finance, Operations and Commissioning to review performance against BCF metrics, including national conditions. A quarterly BCF Oversight report is prepared that summarises outputs.
- The same 'tripartite' of Finance, Operations and Commissioning meets to prepare the BCF Plan submission. As part of this process the scheme proposals will be reviewed to ensure they are aligned with the national metrics. The HWB sub-committee will also review the BCF Plan for consistently with the national conditions. Finally, the BCF Plan is submitted to and reviewed by NHS England using a standardised template that requires the Council to demonstrate alignment with the various national conditions.

Better Care Fund (cont.)

Identified Risk Areas

- Post-Covid-19 no NHS England representative has attended BCF Governance meetings; this could inhibit the flow of information relevant to compliance with the grant conditions from NHS England.
- The BCF team commented they are confident that expenditure is undertaken in way that is consistent with national conditions. The nature of expenditure, including multi-year contracts and staff solely resourced to BCF, reduces the complexity of monitoring expenditure and helps to ensure it is appropriate per the relevant national guidelines.

Transforming Cities Fund

Observations

Knowledge Transfer & Training

- Key condition for Transforming Cities is whether spend is capital in nature. As per Capital discussion, Capital Framework is too high level to serve as a useful guide for Council employees regarding appropriate capitalisation; conversely the accounting handbook is too detailed and inaccessible to non-accountants, we understand both are currently being rewritten.
- Noted in Transforming Cities discussion that there is a "grey area" with regards to what constitutes capital or revenue expenditure. Noted that this allows for a higher degree of discretion from budget holders and that more clarity in this regard would be beneficial.

Monitoring & Reporting

- Project managers manage multiple projects and will charge expenditure to the cost centres they are responsible for, which goes directly to the ledger. Budget holders will also review posts to the ledger to identify any expenditure that has been miscoded to a cost centre they are responsible for.
- Budgets greater than £1m are automatically subject to a monthly review by the Project Management Office. The Transforming Cities Programme lead will also review expenditure at a programme level.
- The Capital Accounting team reviews expenditure quarterly and offers challenge if expenditure does not appear to be capital in nature. This process can lead to a re-coding of expenditure to revenue.

Controls & Governance

- Transforming Cities proposal was co-designed with the Department for Transport so there is a high degree of confidence that overall schemes are consistent with the requirements of the grant funding.
- Monthly cross-authority (the Council and Derby City Council) governance board reviews programme performance, including expenditure.
- Money is received in advance and the Council reports to the Department for Transport on what spend has been undertaken, including whether spend is within budget and whether commitments as per the grant bid submission are being met. The Council also signs declarations to the Department for Transport to confirm that expenditure funded by Transforming Cities is capital in nature.
- Interviewees expressed some concern that service areas that support capital programme may be misstating capital in their recharges to reduce pressure on revenue maintenance.

EY Transforming Cities Fund (cont.)

(Continued)

- Interviewees also noted that capitalised design stage costs are not consistently being reversed when a project is aborted, as is required per the relevant accounting standard.
- In instances where the need for capital projects has changed, for example additional parking for the tram, it is possible to redirect capital expenditure as there is a degree of flexibility within the grant conditions; changes of use are done with permission from the Department for Transport via a notice submission.
- The Council's accounting software automatically escalates approvals to the appropriate hierarchy level based on value in line with the scheme of delegations.

Identified Risk Areas

- Noted by interviewees that capitalised design stage costs are not consistently reversed when a project is aborted; historically, feasibility reserves maintained to accommodate these costs but these no longer exist due to budget pressures and there is rarely surplus revenue budget to accommodate, particularly if reversal has impact on prior year.
- Noted by interviewees that service areas that support capital programme (specifically Highways) may be misstating capital in their recharges to reduce pressure on revenue maintenance, which would otherwise be funded from the General Fund.
- Noted by interviewees that limited revenue budgets relative to capital (£150k vs. £200m) increases likelihood of staff capitalising costs where a "grey area" in the accounting rules presents an opportunity to do so.
- It was notable that the team did not detail their approach to challenging non-capital expenditure that had been wrongly allocated or capitalised.

Licensing Income

Observations

Knowledge Transfer & Training

- The Licensing team makes use of LGA guidance on how ring-fenced income can be used, which they consider adequate for their needs.
- There is better financial management of housing licensing regimes (vs. other licences) due to successful learning from older licensing regimes.
- View within Licensing team that the Commercial Finance Business Partners knowledge and expertise with regards to how licensing regimes are administered has been lost and not replaced. Finance acknowledge there was significant change in prior years although consistent leadership has been achieved in the last 12 months.

Monitoring & Reporting

- Budgets are reviewed on a monthly basis by the Licensing team with the support of finance; budget holders provide commentary on variances with budget; Licensing team assess if spend is eligible, although effective review is inhibited by poor detail on journal entry postings and consolidation of multiple costs into a single journal entry line.
- Non-housing licensing regimes, specifically older regimes such as 'Taxis', suffer from legacy processes that are challenging to review due to a lack of transparency regarding how the Corporate and Strategic Finance Team recharges for its shared services ("below the line costs"); the corporate centre has been reluctant to increase transparency in this area; an absence of standardised costs for central overheads increases the challenge of effective review. This indicates the regime lacks leadership, ownership and effective governance.
- Corporate recharges for delivering housing licensing regimes are better understood by the Licensing team because there is greater transparency from the corporate centre as to how recharges are calculated. The housing regimes also benefit from a dedicated Finance officer; this resource facilitates more robust review and challenge.
- Oracle does not work well for the Licensing function due to the timing of income and frequent changes to forecast expenditure (for example as staffing mix changes) that are particular to Licensing; as a consequence the Licensing team uses Excel to monitor budgets offline. With the Finance teams principles that all forecasting is undertaken in Oracle Fusion, exploration for this offline model is warranted.

Controls & Governance

- There are delegated authorities in place over the approval of in-year expenditure, depending on the level of expenditure the approval process goes through various stages, e.g. Senior Leadership Team or Board level.

Licensing Income (cont.)

(Continued)

- Whilst revised practices protect against the use of ringfenced accounts, the Licensing Team did share a view pressure has been placed on generating more licence fees with an eye to easing wider budgetary pressures. This would be contra to the relevant legislation, and not the position of the Section 151. In responding, Finance noted that the prior Resident Services Corporate Director had been highly commercial and did not promote effective ringfencing. However, Finance confirmed licence fees in the last 12 months have been ringfenced, noted new leadership, and stated all trading account budgets have not contributed toward General Fund MTFS planning.
- Licensing team commented that they have "lost agency" over how license fees are set as development of the budget in undertaken by the Corporate and Strategic Finance Team. In response Business Partner felt that budget setting was a collaborative process between Service and Finance, and there was a risk the Corporate Recharges were the least transparent, and potentially confusing, part of the process.
- It was noted by Finance that operational data (allocation of staff to activities, time and motion studies) were required to derive more accurate cost positions.
- It was noted Corporate does issue requests around utilising reserves; however Trading account reserves have been protected from this process.

Identified Risk Areas

- Lack of transparency regarding how recharges for corporate services are arrived at increases the risk of costs for delivery of licensing regime being misstated, and therefore license fees being inflated to meet these costs.
- Observations made regarding the Licensing team's perceived loss of agency over budget management may increase the risk of income targets/forecast for licensing being set at a level that is in excess of the cost of administering the regime.
- Licence team do not understand the fee structure and make-up of the 'full cost recovery' of the Licencing Service. The budgeting method needs to engage the team to provide confidence how fees have been arrived at.

Parking, Traffic Regulation and Bus Lane Enforcement

Observations

Knowledge Transfer & Training

- Portfolio holders demonstrated understanding of key terms within legislation, while recognising that the relevant rules are complex to interpret.
- The enforcement team has worked with the Improvement and Assurance Board to clarify uncertainties within regulation and obtained in-house legal advice with regards to eligible in-year expenditure for street parking.
- There is a lower level of understanding across the organisation of the restrictions that apply to usage of the funds. It was commented that education around the relevant rules is required across the organisation.

Monitoring & Reporting

- Annual patrol report produced by the Council which summarises all Parking and Enforcement activity at a high level within the Council. Steps are being taken to ensure reporting is more aligned to Auditable Accounts reporting requirement which is sent to the Secretary of State.
- Admin costs incurred in relation to administering the enforcement regimes are clear and managed via individually budgeted cost centres; however, below the line costs recharged lack transparency and are therefore difficult to review (a process for review is acknowledged as currently being undertaken). Noted that despite significant reductions in Finance and HR these have been sustained at current levels for example.

Controls & Governance

- Noted by interviewees that historically the Council has been commercially-driven and set income targets for the enforcement team, contra to the regulatory guidance; it was commented that the corporate centre has treated this division as a "cash cow".
- Noted that the Council received £5m from Central Government for lost car parking during Covid-19 but that the enforcement team did not receive any of this money and it is not clear how it was used.
- Recognised that expenditure by the Council on activities that fall within the scope of the relevant regulation is in excess of surpluses claimed by the corporate centre, but there is no clear audit trail to demonstrate that these funds are used for the specified purposes (i.e. to make good the General Fund of any amount charged in preceding 4 years). This issue was believed to be particularly prevalent within Parking Enforcement.

Parking, Traffic Regulation and Bus Lane Enforcement (cont.)

(Continued)

- Finance referenced how the Parking Budget has had historic budget setting issues; frequently rolled over at Period 6, and utilising incremental methods that are not reflective of current activity. The Budget also opens as a credit balance, where permissible expenditure is not reconciled or planned against the budgeted income, or accrued against that cost centre as spent, each year.
- Following a recent review, the Parking Enforcement team now sets aside surpluses into a specific reserve on a quarterly basis to help manage and protect the use of these funds. This is a new practise implemented in the past 12 months as a result of consultation with legal, the Section 151, and in response to the growing value of surpluses generated in-year. The team commented this forms part of a broader effort to improve governance. (To note, these improvements may fall outside of the in-scope years of 2019/20, 2020/21 and 2021/22 and are therefore not fully reflected in the RAG rating that has been awarded.)
- The work place parking license, which has generated £90m over 10 years, was identified as a scheme in which there is better transparency regarding use of funds; this is due to the license being clearly linked to delivery of the Local Transport Plan

Identified Risk Areas

- Use of income targets risks Traffic Enforcement being managed in a manner that is contrary to the statutory target of aiming to achieve 100% compliance with traffic rules.
- Potential absorption of surpluses by Financial Strategy with a suggestion appropriate governance and controls are not in place, e.g. clear audit trail, increases risk of funds being used for non-compliant purposes.
- Risk that a lack of transparency regarding how ‘below the line’ recharges are calculated by corporate centre could lead to over-recovery of costs, diverting restricted funds away from their specified purposes. Noted a review is currently underway by the technical accounting team.
- Observed knowledge of policy and guidance in Financial Strategy, particularly in relation to Parking Services, is low creating risks around the use of funds.

Capital Expenditure

Observations

Knowledge Transfer & Training

- Staff have been provided with training on how to use Oracle Fusion (accounting software).
- In-house document explaining the Council's approach to capitalising expenditure exists.
- Capital Framework is too high level to serve as a useful guide for Council employees regarding appropriate capitalisation; conversely the accounting handbook is too detailed and inaccessible to non-accountants.
- Team is considering developing learning materials for use across departments on capitalisation, although not yet in place

Monitoring & Reporting

- Senior Capital Accountant team runs a monthly report to identify budget variances so overspend can be discussed with Project Managers, if necessary budget codes can be frozen while addition budget is approved.
- Senior Capital Accountant is responsible for reviewing Journal Entry descriptions to assess if they are capital in nature, although Journal Entry descriptions are sometimes inadequate to review effectively.
- Project Managers struggle to extract transactional data from Oracle Fusion for review as there is no Capital dashboard function (unlike for Revenue), consequently capital monitoring must be done 'off-system' in Microsoft Excel. Finance have flagged that management information tools, and journal controls are under review.
- Corporate Directors struggle to prioritise the monitoring of capital of spend, and lack the understanding of the systems to access and independently monitor capital spend in system, often relying rely on Capital team to update them on the budgetary position.

Controls & Governance

- Capital team reports monthly to the Capital Programme Board. It also reports to the Executive Board on a quarterly basis.
- Automated control to prevent Project Managers from posting JEs between capital and revenue, a noted risk area.
- Oracle Fusion has approval limits, preventing project managers from approving above their hierarchy limit. The system also presents orange warning to Project Managers if spend exceeds budget.
- Significant overspend may be called for attention in an executive board report, but contingency budgets normally mean that overspend is managed without major issue.

Capital Expenditure (cont.)

(Continued)

- Interviewees expressed some concern that service areas that support capital programme may be misstating capital in their recharges to reduce pressure on revenue maintenance.
- Interviewees also noted that capitalised design stage costs are not consistently being reversed when a project is aborted, as is required per the relevant accounting standard.

Identified Risk Areas

- Risk relating to capitalisation of design stage costs not being reversed when a project is aborted; historically, feasibility reserves maintained to accommodate these costs but these no longer exist and there is rarely surplus Revenue budget to accommodate, particularly if reversal has impact on prior year.
- Risk of service areas that support capital programme (IT, Legal, Highways) overstating capital in their recharges; perception that this issue became more prevalent as Revenue budgets came under greater strain; the absence of a consistent approach to corporate recharges facilitates this practice, e.g. hourly rates for key services.
- Risks emerge on capital expenditure where financial milestones and programme milestones are not tracked and reconciled.

5. Emerging Findings and Recommendations

Emerging Findings

This slide draws together common themes and emerging findings from the observations made during the first round of interviews held with Council staff. The emerging findings reflect the views of the limited cohort of staff that have been engaged with to date and should not at this stage be treated as conclusive or systemic.

Knowledge Sharing & Training

- The teams interviewed were able to clearly explain the **relevant regulations, legislation and guidance** relating to their area of spend; however, there was a commonly held view that this **applied understanding was not shared by the wider organisation** and particularly engagement and knowledge was lacking within the corporate centre. This risks external pressure being applied for ring-fenced funds to be used inappropriately.
- There is an **inconsistent approach to maintaining internal guidance**; for example the guidance on capital expenditure was not considered useful as available material is either too high level or too detailed and judged as being inaccessible to non-accountants. This could inhibit the consistent application of rules and regulations across the Council.
- Teams that work with third parties, e.g. DSG (Schools Forum) and BCF (NHS England, HWB sub-committee), to deliver services have good access to new information through their external networks, which supports understanding of complex grant conditions.

Monitoring & Reporting

- **Good evidence that expenditure/journal entries are subject to review by budget holders and finance teams** on a monthly basis, which lowers the risk of ineligible expenses being posted against restricted funds unknowingly. The review process for DSG and BCF appears particularly well structured.
- Variances to budget are investigated as part of the month-end budgeting process, although the treatment of variances varied between functions; for example, the BCF team is required to report variances to budget of more than 15% to the Health and Wellbeing sub-committee, whereas in the capital team variances are more likely to be managed between the budget holder and the capital accountant.
- It was widely commented that a **lack of transparency regarding inter-departmental recharges** increased the challenge of reviewing expenditure for compliance with the relevant regulations or guidance. The lack of transparency is caused by inadequate descriptions of journal entries (an endemic wider issue across transaction analysis), the consolidation of multiple costs into single lines of expenditure, and the absence of a standardised approach to calculating the unit cost of shared services by the corporate centre.
- **Oracle Fusion does not enable efficient or effective review** in all cases, for example Licensing believe the nature of their activities are not well served by Oracle Fusion, similarly there is no dashboard function to effectively monitor capital spend. As a consequence both teams monitor expenditure offline, which increases the likelihood of errors in the review process and may risk sub-optimal budget management.

Emerging Findings (cont.)

Controls & Governance

- Amongst interviewees there was a perception that **reserves generated from surpluses** by licensing and parking enforcement are on occasion **treated by the corporate centre as a means of meeting organisational budget pressures.** Income targets (rather than prudent forecasts) may reflect this reality. Reserves used for purposes other than those defined in the relevant legislation is illegal.
- There is concern amount interviewees that there is **no clear audit trail to demonstrate that reserves/surpluses absorbed by the corporate centre are used for purposes that are consistent with the relevant regulations**, for example that licensing income is used to support the administration of the licensing regime. Within parking, it was recognised that Council expenditure on eligible activities exceeds the value of surpluses that have been absorbed, but the governance process is currently insufficient to demonstrate this is the case.
- The Transforming Cities and Capital teams shared their concerns that aborted capital projects are not being reversed and charged to the Income Statement. This could result in an overstatement of capital expenditure and understatement of revenue expenditure and may be caused by the absence of an appropriate control to review aborted capital projects.
- Governance structures external to the Council, for example the Schools Forum and the Health and Wellbeing Board sub-committee, appear to support a stronger overall controls and governance environment.
- The internal recharges process also lacks controls and governance. An opportunity exists to develop a simpler, standardised approach focussed on statutory requirements and developed controls. Further, governance could be strengthened through advance agreement with Budget holders on the purposes and basis of recharges, further evidenced by the actuals.

EY Emerging Findings (cont.)

In response to the scope's requirements that we consider if there is evidence of management's deliberate override of controls, this slide presents findings with regards to organisational culture that may inhibit an effective controls environment. As previously noted, these findings are based on interview with a limited cohort of staff and should not at this stage be treated as being conclusive or systemic within the organisation. Rather, these findings will be used to direct appropriate procedures in the AUP phase, which may serve to validate or refute the emerging findings.

Culture

- Within Licensing and Traffic Enforcement it was commented that **commercially driven culture** within the Council has led Strategic Finance to consolidate its control over the budget setting process, including the setting of income targets and management of cash inflows. The presumed motive for this among interviewees is **to meet budget pressures**. This **risks license fees and Traffic Enforcement becoming divorced from their regulatory purpose**, respectively to meet the costs of administering the licensing regime and achieving 100% compliance with traffic rules. To date the trend has been for expenditure to exceed income, however more robust approach to ring-fencing will be needed going forward.
- Licensing felt that there is a **reluctance from Strategic Finance to increase the transparency** with which it recharges for corporate services. There is a lack of an audit trail or reliable working papers for processing such costs. This risks expenditure being under or overstated and license payers either being subsidised by the General Fund or the General Fund subsidising license payers. In both cases this would be contrary to the relevant legislation that states licencing regimes should generate income sufficient to meet the costs of administration and enforcement only.
- The capital team believed that a budget constrained environment has **promoted a culture in which expenditure is overcapitalised** in order to protect Revenue budgets. This has been evidenced by the findings of overcapitalisation on the Broadmarsh scheme for example, supported by a recent internal audit report. As well as risking an understatement of expenditure on the Income Statement, in the case of the Transforming Cities Fund, this could also result in the grant being used to fund non-capital expenditure, which is contrary to the grant conditions.
- The involvement of **an external body** – NHS England (BCF), the Department for Transport (TCF), active licence holders (Selective Licensing) or the Schools Forum (DSG) – **provides external scrutiny that appears to strengthen the controls and governance environment** around use of restricted funds. Conversely, funds that are managed and administered at the discretion of the Council, with limited external scrutiny, for example Traffic Enforcement and elements of Licensing, appear to on occasion suffer from overreach by the corporate centre, risking inappropriate use of funds.

Recommendations for Further Analysis

This slide presents recommended areas for journal entry transaction procedures as part of the AUP phase of activities. These recommendations are based on the emerging findings identified during the Gap Analysis.

Area of spend	Recommendation for further analysis	Rationale
All areas	▸ Appropriate AUPs on transactions to compare if expenditure is consistent with regulations/grant conditions/accounting standards.	▸ Addresses overarching risk of restricted funds being used inappropriately.
All	▸ Expenditure relating to corporate recharges for shared services to ensure there is a reasonable and consistent approach to calculating recharges and that expenditure is not overstated. This risk was highlighted in discussions with Licensing, Traffic Enforcement and Parking teams, where the risk may be more acute.	▸ Lack of transparency regarding corporate recharges identified as inhibiting effective review by Licensing and Traffic Enforcement. DSG team identified it as a hypothetical risk area.
All areas	▸ Expenditure that is jointly funded by ring-fenced funds and the General Fund, e.g. staff costs for personnel who are a split resource across functions.	▸ Internal Audit identified occurrences of staff costs being wholly recharged to ring-fenced areas of spend when the individual was only partially employed for ring-fenced purposes.
Capital & Transforming Cities Fund	▸ Appropriate reversal of capitalised expenses and recognition of costs to the Income Statement when projects have been aborted at the design stage.	▸ Identified as an area of concern by both the Capital and Transforming Cities teams.
Capital Expenditure & Transforming Cities Fund	▸ Appropriate capitalisation of costs recharged by other departments, e.g. Highways. Internal audit identified the methods for calculating capital costs and the lack of transparency regarding the recording of staff time as key risk areas.	▸ Lack of transparency regarding recharges inhibits review. Budgetary pressures may also incentivise budget holders to overcapitalise in order to protect revenue.
Licensing & Traffic Enforcement	▸ Appropriate use of reserves that have been absorbed by the corporate centre for the in-scope years.	▸ Lack of governance process/audit trail regarding how surpluses/reserves are absorbed and used by corporate centre.
Better Care Fund: DFG funding stream	▸ Validity of capitalised costs funded by DFG funding stream (leveraging Internal Audit reports).	▸ Capital requirement presents opportunity/risk of overcapitalisation, as noted above.

6. Appendices

Appendix 1: Documents

This slide lists all documents received and reviewed in the course of the Gap Analysis exercise.

Documents
1920 Civil-Enforcement-Annual-Report-Nottingham-City-Council-2019-2020
1920 Funding Summary
2021 Civil-Enforcement-Annual-Report-Nottingham-City-Council-2
2021 Final Capital Funding
2122 Capital Funding
230111 v0.02 Management of Finances KD D25
BCF 2021-22 Planning Template City v2 3.12.21
BCF narrative plan template v0.7
BCF_201920_Planning_Template_v1.8
Better Care Fund Plan 201920
Better Care Fund Plan 202122
Better Care Fund Year-End Reporting Template 202021
Consolidated WPL Order 2008 (as provided by [redacted] in Dec 14)
Dedicated Schools Grant 19-20 to 21-22 Ledger
Dedicated-schools-grant_2020-to-2021_published-18-11-2021_nottingham
Dedicated-schools-grant_2021-to-2022_published-18-07-2022_nottingham
DFG 19-20 Position
DFG 20-21 Position
DFG 21-22 Position
DSG_2019_20_conditions_of_grant
DSG_2019_20_technical_note

Appendix 1: Documents (cont.)

Documents
DSG_2019-20_July_20_Table_Values
DSG_2020_21_conditions_of_grant
DSG_2020_21_technical_note
DSG_2021_22_conditions_of_grant
DSG_2021_22_technical_note
Early years block adjustment 2019 to 2020
Executive Board Report for Residents Parking Permit - Final Draft
Financial Data- Licensing
Financial Data- Parking Enforcement
IA Information: Capital 2019 20 Final Capital Report
IA Information: Capital 2020 21 Final Capital Report
IA Information: Capital 2021 22 Final Capital Report
IA Information Capital Briefing Note NPIF Grant Claim
IA Information Capital Briefing Charging to Capital May 2022
IA Information Selective Licencing 2019 Selective Licensing Report
IA Information Selective Licencing 2020 Selective Licensing Follow Up Report
IA Information Selective Licencing 2021 Selective Licensing Follow Up Report
IA Information Selective Licencing Lessons Learnt 2022
IA Information Selective Licencing Briefing Note 25 Nov 22
IA Information Transforming Cities 2020 Final Transforming Cities Report
IA Information Transforming Cities 2021 Final Transforming Cities Report

Appendix 1: Documents (cont.)

Documents
Independent Assurance
LGA Open For Business 2017-Licensing Income
March 2022 General Licensing Overview v2
MEES Briefing Update & MEES Fee policy amended 1
NCCL complaint on financial mismanagement 12-11-2022
Nottingham City HWB BCF_202021_Yearend_Template_FINAL
Public reports pack 22022022 1400 Executive Board
RPA Licensing Discovery
SCHOOLS BUDGET 202324-FINAL
TCF - Appendix A - Grant Award Letters
TCF - DCC Grant Award - signed
Transport Act 2000
Transport Act 2000 - Explanatory Note

Appendix 2: GAP Analysis Interviews

This slide lists the individuals interviewed as part of the Gap Analysis exercise

Nottingham City Council personnel	Area of spend	Date interviewed
Senior Accountant - Capital Programmes	Capital / TCF	13th December 2022
Senior Commercial Business Partner (Children & Education)	DSG	14th December 2022
Strategic Finance Business Partner	DSG	14th December 2022
Senior Commercial Business Partner (Schools)	DSG	14th December 2022
Pete Mitchell, Head of Regulation	Licensing	14th December 2022
Katy Ball, Director of Commissioning and Partnerships	BCF	5th January 2023
Strategic Finance Business Partner (Adult Social Care and Public Health)	BCF	5th January 2023 and 9th January 2023
Deputy Head of Joint Commissioning at NHS Nottingham and Nottinghamshire CCG	BCF	5th January 2023
Commissioning and Market Servicing Manager	BCF	5th January 2023
Mark Jenkins, Head of Traffic and Flood Risk Management	Traffic Enforcement	10th January 2023
Jason Gooding, Head of Parking	Traffic Enforcement	10th January 2023
Andrew Errington, Director of Community Protection	Licensing	10th January 2023
Chris Carter, Head of Transport Strategy	TCF	13th January 2023

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