

Transfer of Funds from Nottingham City Homes (NCH) to Nottingham City Council General Fund

1. INTRODUCTION

During the period between 2014 and 2021 Nottingham City Homes transferred sums totalling £15.85 m to the City Council, of which £14.366 m has been credited to the Council's General Fund. Given the statutory nature of the Housing Revenue Account (HRA), which is ring fenced to protect tenants' interests, these transactions have been classified as unlawful in the light of Counsel's opinion. Such monies should have been credited to the HRA, not the General Fund. The independent CIPFA report, commissioned to examine these actions by the City Council also confirms that over a six year period these allocations of funds failed to meet the necessary local authority accounting standards.

2. RESPONSES TO THE MINISTER

I have been requested, on behalf of the Improvement and Assurance Board, by the Minister for Equalities and Levelling Up Communities, to provide an assessment of the following:

- a) the adequacy and effectiveness of the steps the Council is taking in response to this issue
- b) whether these steps are sufficiently robust and comprehensive to identify any further issues and prevent this happening again
- c) whether the Council is currently complying with its Best Value duty.

The adequacy and effectiveness of steps the Council is taking in response to the issue

After identifying that the NCH transfers to the Council's General Fund were irregular and unlawful the following actions have been put in place:

- i) an immediate block, on any such proposed future transfer from NCH being allocated to the Council's General Fund
- ii) future transfers from NCH to the HRA be considered only if the ring fenced provisions of that Account are observed
- iii) a full review of systems and processes, in service and accounting terms, now underway to ensure that rigorous control and scrutiny is in place to achieve full compliance with the 'ring fenced' requirements of the HRA.
- iv) the commencement of a programme of training for all relevant members and officers to ensure full awareness of the statutory requirements relating to the HRA and the protection of tenants' interests
- v) a review of the governance arrangements being undertaken including the legal, financial and service interface between the City Council and NCH also paying particular attention to the statutory nature of the Housing Service and its financing.
- vi) a forensic analysis of all historical financial transactions between the City Council and NCH to ensure required accounting standards have been maintained.
- vii) the Chief Financial Officer has issued a Section 114 Report relating to unlawful transactions (a copy of which is enclosed) together with a Section 5 report by the Council's Monitoring Officer.
- viii) The key points included in the Section 114 report are:
 - amendment of the draft published accounts for 2020/21 by £1.492m to remove this 'rebate' from General Fund

- for 2020/21 no management fee rebate will be due from NCH
- from 2022/23 the management fee will be set at the correct level to deliver NCC's required specification and any small surplus made by NCH to be retained for investment for HRA services
- a review is underway of processes and systems to prevent these unlawful breaches being repeated

ix) an independent investigation has been commissioned by the Chief Executive, through the LGA, in respect of all unlawful transactions.

x) the City Council to commission a review of the NCC/NCH group relationship and the future operating model relating to the housing management function, and that NCC be prohibited from entering into such new arrangements or commitments with NCH.

Whether these steps are sufficiently robust and comprehensive to identify further issues and prevent this from happening again

The arrangements now in place or, in some cases, very soon to be put in place, should offer a high degree of protection against a recurrence of such an event relating to the HRA. I and my Board colleagues cannot say with any certainty that other such HRA malpractices have not occurred historically, but have yet to be identified. The thorough examination of past practices should provide these necessary assurances, or otherwise, in the near future. It is also important to note that, I am not aware that anything of this nature has been detected by External or Internal Audit and, specifically, no such reports of irregular or unlawful transactions affecting the HRA have, to my knowledge been produced.

Whether, in the view of the Independent Board Members, the Council is Complying with its Best Value duty.

The Authority's Recovery and Improvement Plan set out its strategic objective to deliver quality and cost effective services within available resources. That plan now recognises that there must be transformation in the way the Council operates in terms of organisation, management, governance, funding and the delivery of services. Specifically, spending in both capital and revenue terms must be controlled or reduced significantly which, in turn, should lead to a very substantial improvement in the efficiency and effectiveness of services provided to citizens. These fundamental changes were, initially, being introduced much too slowly but there is now evidence of real progress through the development and adoption of the Council's Transformation Plan. The key test in that regard will be the focused implementation with robust processes to benefit realisation. The Best Value criteria are properly incorporated in the underlying objectives of the Plan but must now be embedded in the culture of the organisation. Integral to this is financial sustainability over the medium to long term and the substantial, and inevitable, cuts in spending that this will entail. The Council seeks to achieve this in accordance with Best Value principles. Services will be under pressure in the event of such fundamental change although external support and advice from PWC, LGA, CIPFA and Newton Europe is helping in this regard. In Best Value terms there must also be a constructive and coherent approach to engagement and dialogue with citizens, stakeholders and key partners; this is

progressing. It should also be noted that, in the context of financial resilience, the 2019 /20 and 2020/21 accounts have yet to be signed off and the potential for further issues to emerge must be considered as a possibility.

3. CONCLUSION

The Improvement and Assurance Board will continue to monitor and examine the financial control arrangements now being put in place to maintain strict adherence to HRA ring fenced regulations. It also currently takes the view, as reflected in the fourth quarterly report, that it requires the Council to fulfil its obligation to produce a Medium Term Financial Strategy and Plan for 2022/26 and this must now also address how the misallocation of £14.36m will now be financed within the General Fund, given the current projected deficits over the next few years. Alongside good governance, cultural and organisational change, quality services must be provided within available resources. In addition, the Council needs to continue to critically challenge and enhance its financial planning and management processes. Good progress has been made in some of these areas but the principal challenge now lies in eliminating forecast budget deficits, within a balanced and sustainable medium term financial plan over the next four years. The deadline set for achieving this goal is the 2022 March Council meeting. The Council has stated that it will achieve this outcome on time - if it fails, the Improvement and Assurance Board will report accordingly.

Sir Tony Redmond

Chair of the Improvement and Assurance Board