

# Final Internal Audit Report

## Parking Enforcement – Focus on Income

June 2024

Distribution: Corporate Director, Sustainable Communities, Regeneration and Economic Recovery  
Director of Streets and Environment  
Head of Highways and Parking  
Finance Manager  
Director of Finance (Deputy S151)  
Corporate Director of Finance and S151 Officer

Assurance Level	Issues Identified	
Limited	Priority 1	2
	Priority 2	1
	Priority 3	2

### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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## **1. Introduction**

- 1.1. The London Borough of Croydon (Council) exercises its parking service powers under the Traffic Management Act 2004 (TMA), which transferred responsibility for the enforcement of parking regulations from the Police to Local Authorities. This is administered by the Planning and Strategic Transport division of the Sustainable Communities, Regeneration and Economic Recovery (SCRER) directorate.
- 1.2. The directorate generates significant levels of income, particularly within the Planning and Strategic Transport and Sustainable Communities divisions. The six key sources of income generated by the Highways and Parking team are:
  - Permits (both residential and for businesses);
  - Pay & Display (P&D);
  - Suspensions (e.g. for skips or moving houses);
  - Penalty Charge Notices (PCNs – civil penalties issued for parking violations identified by officers on the street);
  - Existing Automatic Number Plate Recognition schemes (ANPR – which allows officers to issue PCNs for violations by moving vehicles); and
  - New ANPR schemes.
- 1.3. The socio-economic conditions post-COVID have created an uncertain environment on which these income levels are predicated with fewer major applications, declining town centres and high streets and a reduction in commuting. This could lead to budget pressures across income generating teams.
- 1.4. In particular, the Sustainability and Climate Emergency priority will require a significant reduction in carbon emissions through levers such as extending the roll out of Electrical Vehicle Charge Points (ECVPs) and promoting active travel initiatives. This may lead to reductions in parking income for local authorities, including the Council.
- 1.5. COVID restrictions in 2021 meant that the Council saw a continued loss of parking income due to downturn in footfall/traffic within the Borough. Despite restrictions lifting, the income has not significantly improved, and this reflects reduced overall levels of parking due to societal change. Working patterns have now changed on a long-term basis to increased working from home and a shift to accessing retail and other services online. In addition, there have been delays in implementing the Healthy Neighbourhood and School Streets programme which has impacted on the Council's ability to recover enforcement income.
- 1.6. Additionally, there have been delays to the implementation of planned new ANPR schemes. This is due to issues with the third-party supplier of the ANPR infrastructure. The Council had expected substantial revenue from new ANPR schemes in 2022/23, which will now be substantially reduced.

- 1.7. As at August 2022 (Month five) of 2022/23, SCRER was forecasting a net overspend of £15.641m, with the main area of overspend relating to a £10.5m shortfall in parking income. It was noted in a report to the Environment Sub-Committee on 8 November 2022 that demand for parking services had not returned to pre-pandemic levels and this was affecting all areas of parking which included ANPR, pay and display and on-street parking.
- 1.8. For 2022/23, the Council had set a budget of £36.5m for parking income, across the six main sources outline above. At December 2022 (Period 9), the Highways and Parking team had forecast income of just £18.4m across these sources of income. The Budget for 2023/24 had initially been set at £40.3m, but this was subsequently reduced to £26.4m after the Highways and Parking team put in a growth bid to reduce the budget. The initial budgets for 2022/23 and 2023/24 were both derived from the Council’s Medium-Term Financial Strategy (MTFS).
- 1.9. While this review and testing was performed remotely, all relevant documents required to complete the review were provided.
- 1.10. The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

### Priority 1 Issues

Review of the budget and the income projection identified that in 2022/23, there was a substantial difference between the budget set for Parking Income (£36.5m) under the MTFS (which had ultimately been based on pre-COVID parking data) and the baseline income projection that the Highways and Parking team had calculated (based on more recent parking data from 2021/22 (initially £26.7m)). A growth bid (meaning a bid to reduce the income forecast in the MTFS) was required to modify the 2023/24 budget from £40.3m to £26.4m in order to reflect post-COVID parking numbers. **(Issue 1)**

Revenue from existing ANPR schemes for 2022/23 has been substantially lower than expected. At August 2022 (Period 9), the Highways and Parking team were projecting revenue of £3.1m from existing ANPR schemes, against a budget of £7.2m and a P1 forecast of £4.6m. **(Issue 2)**

### Priority 2 Issue

Key Performance Indicators (KPIs) data for Highways and Parking had not been requested by the Business Insight Manager (who is external to the Highways and Parking team) since early 2022. This was also a wider issue across other areas of the Council. **(Issue 3)**

The Priority 3 issues are included under item 4 below.

**3. Actions and Key Findings/Rationale**

**Control Area 2: Income Modelling, Forecasting and Projections (including Assumptions and Rationale)**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>The rightsizing of budgets via Growth bids is a part of the budget setting and management process.</p> <p>Parking budgetary pressures are reported to Cabinet and Scrutiny Sub Committee each reporting period. This is ongoing activity.</p> <p>The risk to parking income is recognised and as such is included on the Council’s corporate risk register. With the adoption of the new Parking Policy and the additional MTFs savings targets associated with parking charges changes, the 2024/25 parking income budget should be achievable, subject to external factors.</p>	<p><b>Expected Control</b></p> <p>The budget setting process for each financial year should be robust, making use of the best available data in order to provide accurate and realistic projections.</p> <p><b>Finding/Issue</b></p> <p>During the course of testing, the parking income budgets for 2022/23 and 2023/24 were examined, and the Highways and Parking team's financial data and analysis was reviewed.</p> <p>In 2022/23, a budget of £36.5m was set for the six main streams of parking income. For 2023/24, the budget was initially set at £40.3m. In both cases, this figure was derived from the MTFs Savings Plan, which calculated the budget by taking the 2020/21 budget (which was set before COVID-19) and adding an assumed level of annual growth.</p> <p>The Head of Highways and Parking and the Acting Head of Finance for SCRER both reported that they had believed from the beginning of 2022/23 that a budget of £36.5m was unlikely to be achieved in light of changes to parking behaviour in the Borough since the COVID-19 pandemic. Testing verified that SCRER reported this view to Directorate Management Team (DMT), Senior Management Team (SMT) and the Improvement &amp; Assurance Panel in P8, P9 and P10 of 2022/23.</p>

	<p>The parking budget will continue to be monitored and reported each financial period throughout 2024/25 financial year, and issues escalated as appropriate.</p>	<p>The Baseline Income Forecast was £26.7m, £9.8m lower than the budget. Additionally, an Adjusted Baseline Forecast was updated monthly in-year, by flexing the baseline forecast in response to severe delays to the implementation of new ANPR schemes. As of January 2023, the Adjusted Baseline reduced projected New ANPR income by £5.8m, creating a new Adjusted Baseline Forecast of £20.9m for 2022/23.</p> <p>As at January 2023, the Highways and Parking team were projecting year-end income of £18.4m. This represented a significant variance from the budget of -£18.1m (-49.5%), but a smaller variance from internal Adjusted Baseline Forecast of -£2.8m (-13%).</p> <p>Although the budget for 2023/24 was originally calculated using the same methodology as 2022/23, the Highways and Parking team were able to reduce the budget from £40.3m to £26.4m. This involved providing 'rightsizing' calculations, supported by data analysis. However, this 'rightsizing' process was not a standard feature of the defined budget setting process. It involved the Highways and Parking team submitting a 'growth bid' to reduce the budget by £14.0m. A 'growth bid' is a bid by a division to reduce its projected income or increase its projected expenditure against the MTFS. In the absence of this bid, the budget would not have been modified based on recent and reliable data.</p> <p>Furthermore, reports to DMT and SMT for Periods 8, 9 &amp; 10 of 2022/23 and the Improvement and Assurance Panel from P8 showed that SCRER had consistently reported on the budgetary pressure and outlined that it was a long-term issue rather than a one-off issue.</p> <p><b>Risk</b></p>
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		Where the budget-setting process is not based on recent, reliable data, there is a risk that budgets will be set that are not realistic and are unlikely to be achieved. Where unrealistic budgets are set, there is a risk to the Council of financial insolvency when severe budget deficits materialise. There is also a reputational and/or regulatory risk if the Council reports savings plans that are known to be unachievable.
<b>Responsible Officer</b>	<b>Deadline</b>	Unrealistic projections, whether these are favourable or not, harm the Council's ability to manage its budget.
Head of Highways and Parking	March 2025	This risk is heightened if long-term external budgetary pressures are noted in reports to Senior Management but are not actioned as part of the budget review process.

**Control Area 3: Income Monitoring and Oversight**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
1	<p>We acknowledge the potential risk around reliance on ANPR as a source of revenue, and increasing compliance around restrictions and are proactively monitoring the issuance of ANPR PCNs.</p>	<p><b>Expected Control</b></p> <p>ANPR is intended primarily as an enforcement mechanism, and any revenue gained from an ANPR scheme is incidental. As compliance with traffic rules can be expected to improve after ANPR is implemented, revenue from ANPR is expected to reduce, as fewer PCNs will be issued. Forecasts of ANPR revenue should take into account the effect of reducing revenue over time.</p> <p><b>Finding/Issue</b></p> <p>Analysis of the Highways &amp; Parking team’s income modelling for 2022/23, identified that the effect of reducing revenue was considered when projecting revenue for new ANPR schemes. Historic income data was used to generate a revenue curve, which was applied to new schemes to calculate the expected reduction in revenue over time.</p> <p>However, analysis identified that income from existing ANPR schemes had been substantially lower than projected by both the Budget and the Baseline Forecast. Against a budget of £7.2m, the baseline forecast at P1 projected an outturn of £4.6m, a variance of -£2.5m or -35%.</p> <p>However, by P9, due to lower-than-expected actuals, the new forecast for existing ANPR schemes was just £3.1m. This represented a variance of -£4.1m (-57%) against the budget, and a variance of -£1.5m (-33%) against the Baseline Forecast, prepared at the beginning of 2022/23.</p> <p>The Head of Highways and Parking explained that compliance in response to ANPR had increased far more quickly than expected. The Head of Highways and Parking</p>



		<p>believed part of this could be attributed to media attention that had made residents more aware of the ANPR systems.</p> <p><b>Risk</b></p> <p>Where forecasting of ANPR revenue does not sufficiently take into account the effect of reducing revenue due to improved compliance, there is a risk of adverse budget variances materialising. This can have a severe impact on the Council's financial solvency.</p>
<b>Responsible Officer</b>	<b>Deadline</b>	<p>Additionally, there is a reputational risk stemming from negative publicity around reliance on ANPR as a source of revenue, as demonstrated by recent media reporting.</p>
Head of Highways and Parking	31 March 2025	

**Control Area 7: Management Information and Reporting**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3				
2	In the absence of corporate KPIs we have defined a number of service KPIs for Parking and these are in place and are reported each financial period to the Director Streets & Environment.	<p><b>Expected Control</b></p> <p>KPIs should be set that allow for performance to be objectively measured and monitored regularly. KPIs should be reported monthly, and an adverse change in a KPI or a KPI below target should be accompanied by a narrative explanation.</p> <p><b>Finding/Issue</b></p> <p>The Head of Highways and Parking advised that the team had not been asked to provide data for KPIs for several months, since at least early 2022. The request for data formerly originated from the Business Insight Manager, but these requests had stopped. The Head of Highways and Parking understood that new KPIs were being drafted as part of a new performance framework for the Council, but had not yet been put in place, and at the time of Internal Audit, the team had not reported KPIs for several months.</p> <p>In other recent audits Heads of Service in other parts of the Council had also reported that the Business Insight Manager had stopped requesting KPI data from them.</p> <p><b>Risk</b></p> <p>Where there is no formalised reporting of performance indicators, or a long gap in reporting, Senior Management may be unaware of performance issues affecting their team.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Head of Highways and parking</td> <td>March 2025</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Head of Highways and parking	March 2025	
Responsible Officer	Deadline					
Head of Highways and parking	March 2025					

**4. Priority 3 Issues**

Agreed action	Findings
<p><b><u>Control Area 1: Legislative, Organisational and Management Requirements</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>The Parking back office is currently being reviewed by an independent consultant, and this will include the review of procedural and training manuals.</p> <p><b><u>Responsible Officer:</u></b></p> <p>Head of Highways and Parking</p> <p><b><u>Deadline:</u></b></p> <p>September 2024</p>	<p><b>Expected Control</b></p> <p>It is important that policies and procedure manuals are kept up to date with any changes to legislation, or to Council strategy or policy. These documents should be dated to allow for regular review.</p> <p><b>Issue/Finding</b></p> <p>While numerous procedure and training manuals were in place for staff in the Highways and Parking team, which were confirmed to provide detail on the processes carried out, none had been dated or version controlled. This included the Permit Training Manual, and other manuals covering the Appeals Process, Debt Collection and Enforcement, Penalty Charge Notices and Pay &amp; Display. While the processes described in these manuals were reflective of current practice, the lack of dating meant it was not possible verify when these had been reviewed.</p> <p><b>Risk</b></p> <p>Where manuals are not dated, users may not realise that they are using an out-of-date version that does not reflect changes to legislation or practice. Additionally, it may be more difficult to keep manuals up to date.</p>



## AUDIT TERMS OF REFERENCE

### Parking Enforcement – Income Modelling and Assumptions

#### 1. INTRODUCTION

- 1.1 The London Borough of Croydon Council exercises its Parking Service powers under the Traffic Management Act 2004 (TMA), which transferred responsibility for the enforcement of parking regulations from the police to Local Authorities. This is administered by the Planning and Strategic Transport division of the Sustainable Communities, Regeneration and Economic Recovery (SCRER) directorate.
- 1.2 The department generates significant levels of income, particularly within the Planning and Strategic Transport and Sustainable Communities divisions.
- 1.3 The socio-economic conditions post COVID are creating an uncertain environment on which these income levels are predicated with fewer major applications, declining town centres and high streets and a reduction in commuting. This could lead to budget pressures across income generating teams.
- 1.4 In particular, the Sustainability and Climate Emergency priority will require a significant reduction in carbon emissions through levers such as extending the roll out of Electrical Vehicle charge Points (ECVPs) and promoting active travel initiatives. This may lead to reductions in parking income.
- 1.5 COVID restrictions in 2021 meant that the borough saw a continued loss of parking income due to downturn in footfall/traffic within the borough. Despite restrictions lifting, the income has not significantly improved, and this reflects the societal change where working patterns have now changed on a semi-permanent basis to increased working from home and a shift to accessing retail and other services online. In addition, there have been with delays in implementing the Healthy Neighbourhood and School Streets programme which has impacted on the Council's ability to recover enforcement income. This means that there is a risk that parking income targets for 2022/23 and beyond will not be met.
- 1.6 As at Month 5 of 2022/23, SCRER was forecasting a net overspend of £15.641m, with the main area of overspend relating to a £10.5m shortfall in parking income. It was noted in a report to the Environment Sub-Committee on 8 November 2022 that demand for parking services has not returned to pre-pandemic levels and this is affecting all areas of parking which includes ANPR, pay and display and on-street parking.
- 1.7 Sources of parking income include the following:
  - Croydon resident parking permits and visitor permits

- Business parking permits
- Car parks
- On street parking, including pay and display
- Penalty Charge Notices (PCN) for any violation of the parking regulations
- Parking Bay Suspensions (e.g., for moving house or skips)

1.8 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

1.9 This audit was part of the agreed Internal Audit Plan for 2022/23.

## 2. OBJECTIVES AND METHOD

2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit for each control / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

## 3. SCOPE





3.1 This audit, focused on parking enforcement – income modelling and reconciliations, was undertaken as part of the 2022/23 Internal Audit Plan. The specific scope included the following areas and identified issues:

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements (as these relate to the formulation and monitoring of income modelling and reconciliations)	0	0	1
Income Modelling, Forecasting and Projections (including Assumptions and Rationale)	1	0	0
Income Monitoring and Oversight	1	0	0
Reconciliation of Parking Income	0	0	1
Budgetary Control	0	0	0
Risk Register	0	0	0
Management Information and Reporting	0	1	0
<b>Total</b>	<b>2</b>	<b>1</b>	<b>2</b>

## Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## **Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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