





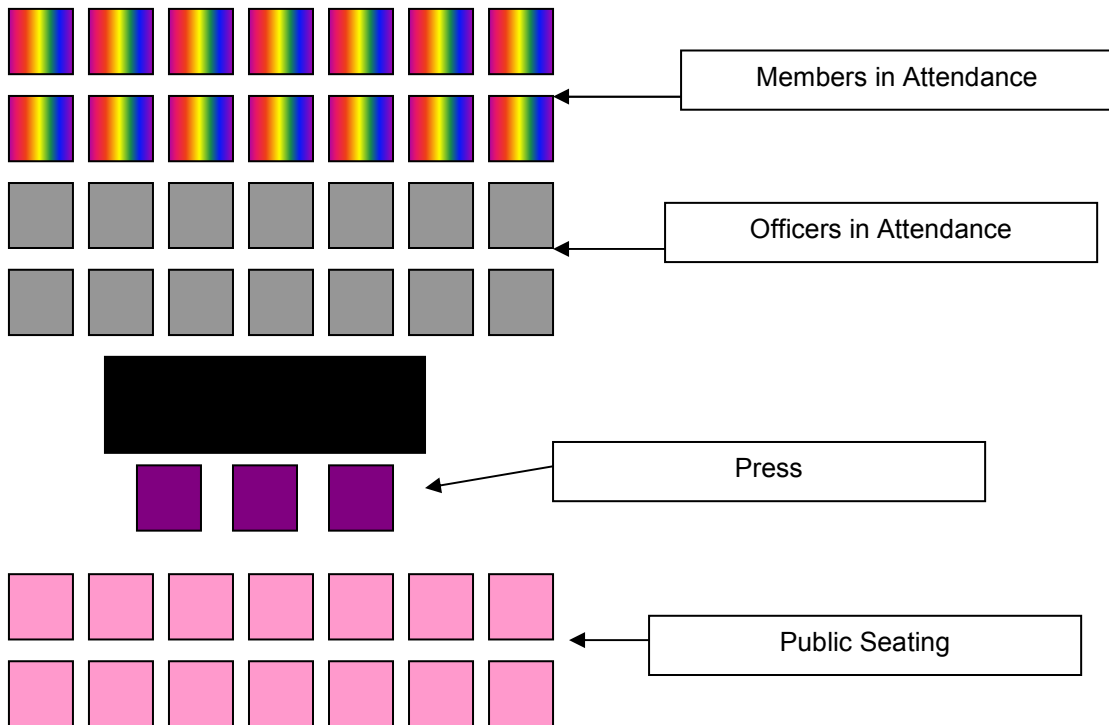
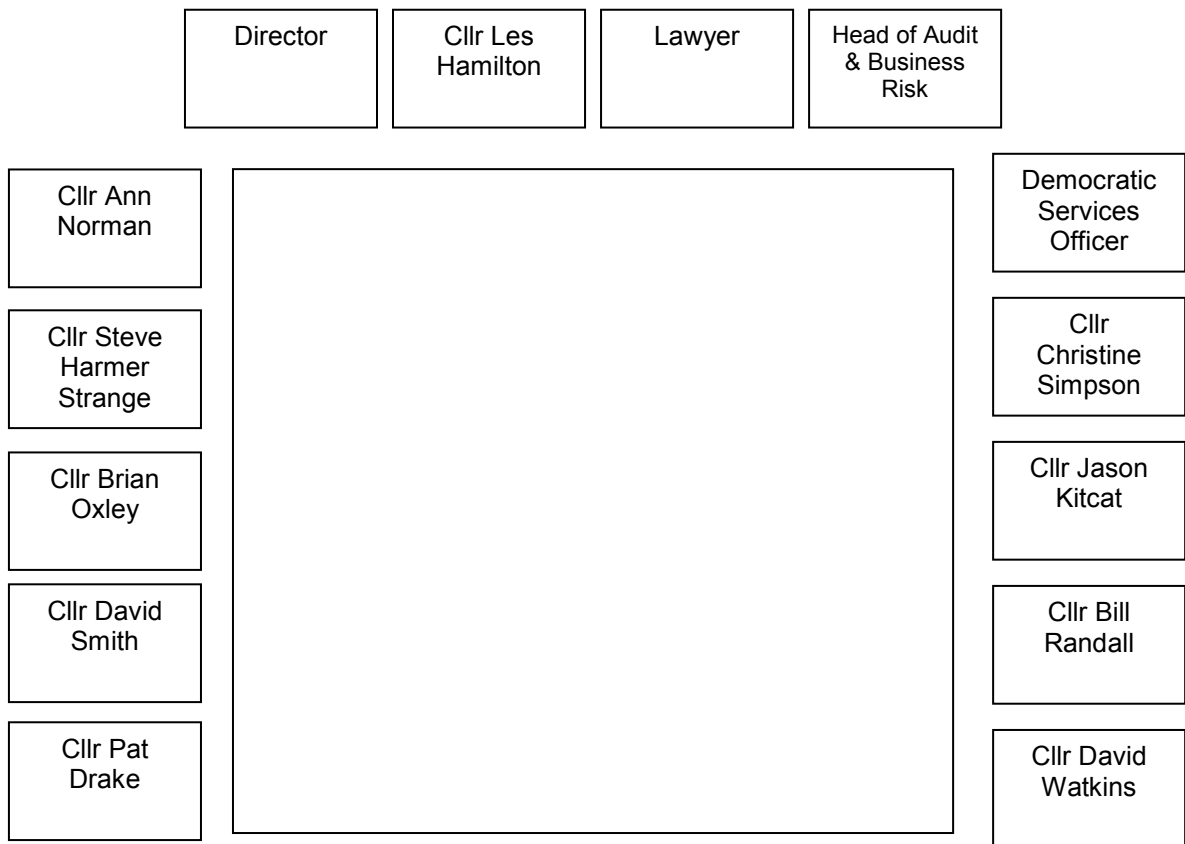
Brighton & Hove
City Council

Audit Committee

Title:	Audit Committee
Date:	14 December 2010
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chairman), Watkins (Deputy Chairman), Drake, Harmer-Strange, Kitcat, A Norman, Oxley, Randall, Simpson and Smith
Contact:	John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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Democratic Services: Meeting Layout



AGENDA

41. PROCEDURAL BUSINESS

- (a) Declaration of Substitutes - Where Councillors are unable to attend a meeting, a substitute Member from the same Political Group may attend, speak and vote in their place for that meeting.
- (b) Declarations of Interest by all Members present of any personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- (c) Exclusion of Press and Public - To consider whether, in view of the nature of the business to be transacted, or the nature of the proceedings, the press and public should be excluded from the meeting when any of the following items are under consideration.

NOTE: Any item appearing in Part 2 of the Agenda states in its heading the category under which the information disclosed in the report is exempt from disclosure and therefore not available to the public.

A list and description of the exempt categories is available for public inspection at Brighton and Hove Town Halls.

42. MINUTES OF THE PREVIOUS MEETING

1 - 8

Minutes of the previous meeting held on 28 September 2010 (copy attached).

43. CHAIRMAN'S COMMUNICATIONS

44. PUBLIC QUESTIONS

(The closing date for receipt of public questions is 12 noon on Tuesday 7 December)

No public questions received as of publication

45. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions have been received as of publication.

46. DEPUTATIONS

(The closing date for receipt of deputations is 12 noon on Tuesday 7 December 2010)

AUDIT COMMITTEE

No deputations have been received as of publication.

47. PETITIONS

No petitions have been received as of publication.

48. LETTERS FROM COUNCILLORS

No letters have been received as of publication.

49. TREASURY MANAGEMENT POLICY STATEMENT 2010/11 (INCLUDING ANNUAL INVESTMENT STRATEGY 2010/11)– MID YEAR REVIEW 9 - 22

Report of the Director of Finance (copy attached).

Contact Officer: Peter Sargent Tel: 29-1241

50. PROPOSED REVIEW ON THE EFFECTIVENESS OF THE AUDIT COMMITTEE 23 - 26

Report of the Director of Finance (copy attached).

Contact Officer: Ian Withers Tel: 29-1323

51. INTERNAL AUDIT PROGRESS REPORT 2010/11 27 - 34

Report of the Director of Finance (copy attached).

Contact Officer: Ian Withers Tel: 29-1323

52. ANNUAL GOVERNANCE STATEMENT 2009/10 ACTION PLAN UPDATE 35 - 42

Report of the Director of Finance (copy attached)

Contact Officer: Ian Withers Tel: 29-1323

53. RISK AND OPPORTUNITY MANAGEMENT (ROM): UPDATE 43 - 60

Report of the Director of Finance (copy attached).

Contact Officer: Jackie Algar Tel: 29-1273

54. TARGETED BUDGET MANAGEMENT (TBM): MONTH 6 FOR INFORMATION 61 - 92

Report of the Director of Finance (copy attached).

Contact Officer: Patrick Rice Tel: 29-1268

55. AUDIT COMMISSION: PROGRESS REPORT 93 - 106

Report of the Audit Commission (copy attached).

AUDIT COMMITTEE

- 56. AUDIT COMMISSION: ANNUAL AUDIT LETTER 2009/10** **107 - 124**
Report of the Audit Commission (copy attached).
- 57. AUDIT COMMISSION: REVIEW OF HOUSING REPAIRS AND MAINTENANCE CONTRACT 2009/10** **125 - 150**
Report of the Audit Commission (copy attached)
- PART TWO**
- 58. PART TWO MINUTES OF THE PREVIOUS MEETING (EXEMPT CATEGORY 3)** **151 - 154**
Part Two minutes of the previous meeting held on 28 September 2010 (copy attached).
- 59. FRAUD RISK ANALYSIS AND LOSS MEASUREMENT (EXEMPT CATEGORY 3)** **155 - 196**
Report of the Director of Finance (copy attached).
Contact Officer: Ian Withers Tel: 29-1323
- 60. CORPORATE RISK MANAGEMENT ACTION PLAN FOCUS (EXEMPT CATEGORY 3)** **197 - 216**
Report of the Director of Finance (copy attached).
Contact Officer: Jackie Algar Tel: 29-1273

The City Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public. Provision is also made on the agendas for public questions to committees and details of how questions can be raised can be found on the website and/or on agendas for the meetings.

The closing date for receipt of public questions and deputations for the next meeting is 12 noon on the fifth working day before the meeting.

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For further details and general enquiries about this meeting contact John Peel, (01273 291058, email john.peel@brighton-hove.gov.uk) or email democratic.services@brighton-hove.gov.uk

Date of Publication - Monday, 6 December 2010

AUDIT COMMITTEE

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 28 SEPTEMBER 2010

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chairman), Watkins (Deputy Chairman), Drake, Harmer-Strange, A Norman, Oxley, Randall, Simpson, Smith and Phillips

PART ONE

22. PROCEDURAL BUSINESS

22a Declaration of Substitutes

22.1 Councillor Phillips declared that she was substituting for Councillor Kitcat

22b Declarations of Interest

22.3 Councillors Randall, Harmer-Strange and Simpson declared a personal but not prejudicial interest on any matter regarding the Local Delivery Vehicle (LDV) due to their capacity as Board Members.

22c Exclusion of the Press and Public

22.4 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the Audit Committee considered whether the press and public should be excluded from the meeting during an item of business on the grounds that it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press or public were present during that item, there would be disclosure to them of confidential information (as defined in section 100A(3) of the Act) or exempt information (as defined in section 100I of the Act).

22.5 **RESOLVED** - That the press and public be excluded from the meeting during consideration of item 36 Non-Public Minutes of the Previous Meeting, and item 37, 38 and 39 Risk Management Action Plans Focus as these items were exempt under Paragraph 3 of Schedule 12A of the 1972 Act (information relating to the financial or business affairs of the authority).

23. MINUTES OF THE PREVIOUS MEETING

- 23.1 **RESOLVED-** That the minutes of the previous meeting held on 29 June 2010 be approved and signed as the correct record.

24. CHAIRMAN'S COMMUNICATIONS

- 24.1 In reference to Item 35: Abolition of the Audit Commission, the Chairman asked for the Committee to be tactful with their enquiries due to the sensitivity of the topic.

25. PETITIONS

- 25.1 There were none.

26. PUBLIC QUESTIONS

- 26.1 There were none.

27. DEPUTATIONS

- 27.1 There were none.

28. WRITTEN QUESTIONS FROM COUNCILLORS

- 28.1 There were none.

29. LETTERS FROM COUNCILLORS

- 29.1 There were none.

30. INTERNAL AUDIT PROGRESS REPORT 2010/11

- 30.1 The Audit Committee considered the report which summarised the progress made in the Internal Audit Plan for 2010/11, provided the results from completed reviews and reported the achievement against Internal Audit Key Performance Indicators.
- 30.2 The Chairman asked if the outsourcing of some reviews noted in 5.3 and 8.2 of the report would have any significant budgetary impact.
- 30.3 The Head of Internal Audit and Business Risk responded that he was very confident that the reviews would be delivered within the resources.
- 30.4 Councillor Randall requested more information on the matter of Housing Tenancy Verification.

- 30.5 The Head of Internal Audit and Business Risk clarified that several issues on tenancy checks had been identified and in co-operation with Housing Management, these issues would be addressed in a new scheme. An update to Members on the changes would be scheduled as soon as possible.
- 30.6 Councillor Simpson asked why limited assurance had been given to 'Records Management'.
- 30.7 The Head of Internal Audit and Business Risk responded that subsequent to investigation, it was felt that not enough information was displayed on the Council's internal web page.
- 30.8 Councillor Randall asked if staffing levels within Internal Audit and Business Risk had improved and if it was usual to use contractors to assist the audit process.
- 30.9 The Head of Internal Audit and Business Risk replied that it was not uncommon to use contractors and these had been used in recent years. There were still vacant posts in the department but these were gradually being filled.
- 30.10 **RESOLVED-** That the Audit Committee notes the contents of the progress report.

31. TARGETED BUDGET MANAGEMENT (TBM): MONTH 4 FOR INFORMATION

- 31.1 The Committee considered a report of the Director of Finance and Resources that set out the revenue and capital forecast outturn position as of month 4.
- 31.2 On behalf of the trade union organisations, Councillor Randall asked why the Council could not use its reserve funds to provide ongoing funding for the Connexions Service that was proposed to be discontinued.
- 31.3 The Chairman reminded Members that the responsibility for the budgetary allocation was not within the remit of the Committee.
- 31.4 The Director of Finance and Resources commented that general reserves were held to deal specifically with crises or significant overspends and on occasion can be earmarked for specific matters which council or cabinet could decide. The level of each individual reserve was detailed in full in the Statement of Accounts.
- 31.5 Councillor Simpson sought clarification with respect to restructures and vacancies.
- 31.6 The Director of Finance and Resources responded that a detailed analysis was carried out when a post became available to determine if the service was essential. If classified as such, internal recruitment is used in the first instance which gave consideration for those in other areas of the council whose skills may correspond to the post.
- 31.7 Councillor Randall asked how the use of agency staff was determined.

31.8 The Director of Finance and Resources clarified that in areas where agency staff had been used for long periods, detailed reviews are undertaken to ascertain the most practical and affordable long term staffing solution. She supplemented that in the short-term, agency staff could be a very useful service device.

31.9 **RESOLVED-** That the Audit Committee note the report on Targeted Budget Management for Month 4.

32. RISK AND OPPORTUNITY MANAGEMENT ANNUAL REPORT 2009/10 AND PROGRAMME 2010/11

32.1 The Committee considered a report of the Director of Finance and Resources that provided an annual report of progress against the approved annual Risk & Opportunity Management Programme 2009/10 to inform the Audit Committee's opinion on the effectiveness of risk management and internal control. This report was submitted for approval.

32.2 The Chairman noted that 'Officer Time' was identified as a required resource. He asked if this would pose the programme problems concerning completion.

32.3 The Risk & Opportunity Manager responded that she did not believe this would be a problem and it would be mostly her time and through working with others, as in previous years, which would enable the programme to be achieved.

32.4 **RESOLVED-** That the Audit Committee note the progress against the Risk & Opportunity Management programme 2009/10 and approve the Risk & Opportunity programme 2010/11.

33. AUDIT COMMISSION ANNUAL GOVERNANCE REPORT 2009/10

33.1. The Committee considered a report of the Audit Commission that summarised the key findings of their 2009/10 audit. The District Auditor introduced the report and stated that she was in a position to give an unqualified audit opinion, that subject to investigation into a matter that had arisen that day, the financial statements were free from material error, there was an adequate internal control environment and that there were adequate arrangements to secure value for money. She added that two misstatements had been identified and recommended to the Committee that these be amended.

33.2. **RESOLVED-** That the Audit Committee:

- 1) The Director of Finance & Resources, as the Section 151 Officer, is authorised to sign the financial statements on behalf of the Committee.
- 2) Note the adjustments to the financial statements set out in the report
- 3) Decline to amend the errors identified by the Audit Commission
- 4) The Committee agrees to set out in the Letter of Representation the reasons for not adjusting the errors in the financial statements.
- 5) Approves the letter of representation to the Council

6) Agree the proposed action plan

34. AUDIT OF ACCOUNTS ENDED 31ST MARCH 2010: LETTER OF REPRESENTATION & STATEMENT OF ACCOUNTS UPDATE

- 34.1. The Committee considered a report from the Director of Finance & Resources regarding the Statement of Accounts 2009/10 Update.
- 34.2 The Acting Assistant Director of Financial Services presented the report and noted that the Audit Commission had identified two unadjusted misstatements. The first highlighted the fact that no partners in the pooled budgets in which the council participates are accounting for pooled budgets as joint arrangements that are not entities which did not comply with the requirements of FRS9 and will not comply with the International Accounting Standard 31 for 2010/11. The report recommended that the changes were not material to the accounts and was in keeping with previous years and was the same accounting treatment used by the council's partners. The suggested adjustment should be rejected with the accounting treatment to be revised for 2010/11 to comply with the new accounting standards. A second adjustment recommended by the Audit Commission was income and expenditure related to investment properties which was currently accounted for within the Council's net cost of services disclosed in the Income & Expenditure Account. It was suggested that income and expenditure should be classified as relating to trading operation and be disclosed as part of the Council's net operating expenditure. The Acting Assistant Director of Financial Services explained that the council would be undertaking a full review of its investment properties and related income and expenditure as part of the implementation of IFRS. The adjustments were not material to the accounts and it was therefore not recommended to make the changes stipulated. In addition, an action plan had been put into place that would address the uncertainties in the financial statements the priorities being the payroll system and pensions liability.
- 34.3 Councillor Smith asked if pension contributions would at any stage be reviewed.
- 34.4 The Acting Assistant Director of Financial Services responded that employer pension contributions are set for a three year period following each actuarial triannual review. He stated that it was likely that there would be further stepped increases in the employer's contribution rate due to the ongoing deficit in the pension fund. . The Director of Finance and Resources supplemented that employee pension contribution could only be changed at national government level.
- 34.5 Councillor Randall asked what proportion of council tax income was used for pension contribution.
- 34.6 The Director of Finance and Resources replied that she did not have that figure to hand but would be able to supply details after the meeting.
- 34.7 **RESOLVED-** That the Audit Committee:
- 1) Note the adjusted misstatements to the 2009/10 Statement of Accounts
 - 2) Approve the advice given on the unadjusted misstatements and that they should not be adjusted

- 3) Note the position statement regarding the Annual Report and Summary of Accounts
- 4) Note the results of the Public Inspection of the Accounts
- 5) Approve the letter of representation on behalf of the Council.

35. AUDIT COMMISSION: ABOLITION OF THE AUDIT COMMISSION (VERBAL UPDATE)

- 35.1 The District Auditor provided an update to the Committee providing more information on the decision of central government to disband the Audit Commission. She informed the Committee that although there was still a lot of uncertainty from all sides on the matter, she was of the opinion that the Audit Commission might continue as a mutual co-operative. The Audit Commission would continue to audit the Council until December 2012. Unfortunately, she was not in a position at that time to give further information on matters surrounding the payment of fees.
- 35.2 The Chairman asked if the announcement would have any short-term impact on staffing levels.
- 35.3 The District Auditor elaborated they had up until the point of disbandment to develop a framework for mutuality if this was decided as viable which she hoped many staff may want to be a part of. Although the staff were valued, knowledgeable and well-thought of, there was a risk some may decided to leave or be approached by other private audit services.
- 35.4 **RESOLVED-** That the verbal update from the District Auditor on the abolition of the Audit Commission be noted by the Committee.

36. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING- EXEMPT CATEGORY 3

- 36.1 **RESOLVED-** That the Part Two minutes of the previous meeting held on the 29 June 2010 be approved and signed as the correct record.

37. CORPORATE RISK MANAGEMENT ACTION PLANS: CR15 EFFECTIVE PROCUREMENT PROCESS AND CO-ORDINATED ORGANISATIONAL COMPLIANCE (VERBAL UPDATE)- EXEMPT CATEGORY 3

- 37.2 **RESOLVED-** That the verbal update from the Head of Strategic Finance and Procurement on CR15 (Effective Procurement and Co-ordinated Organisational Compliance) be noted by the Committee.

38. CORPORATE RISK MANAGEMENT ACTION PLANS: CR1- HOUSING STOCK CONDITION (VERBAL UPDATE)- EXEMPT CATEGORY 3

38.2 **RESOLVED-** That the verbal update from the Assistant Director of Housing Management on the Corporate Risk Management Action Plans: CR1- Housing Stock Condition be noted by the Committee.

39. CORPORATE RISK MANAGEMENT ACTION PLANS: CR19- EFFECTIVELY MANAGING TRANSFORMATION & CR20- INFORMATION GOVERNANCE- EXEMPT CATEGORY 3

39.5 **RESOLVED-** That the Corporate Risk Management Action Plans: CR19- Effectively Managing Transformation and CR20- Information Governance are noted by the Committee.

40. PART TWO ITEMS

40.1 **RESOLVED-** That the above items remain exempt from disclosure from the press and public.

The meeting concluded at 6.05pm

Signed

Chair

Dated this

day of

Subject:	Treasury Management Policy Statement 2010/11 (including Annual Investment Strategy 2010/11) – Mid Year Review		
Date of Meeting:	11 November 2010 (Cabinet) 14 December 2010		
Report of:	Director of Finance		
Contact Officer:	Name: Peter Sargent	Tel: 29-1241	
	E-mail: peter.sargent@brighton-hove.gov.uk		
Key Decision:	Yes	Forward Plan No: CAB17837	
Wards Affected:	All		

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The Treasury Management Policy Statement 2010/11 (TMPS) and the Treasury Management Practices (including the schedules) (TMPs) for the year commencing 1 April 2010 were approved by Cabinet on 11 March 2010. Full Council approved the Annual Investment Strategy 2010/11 (AIS), which forms part of the TMPS, on 20 March 2010. The policy statement sets out the key role for treasury management, whilst the practices and schedules set out the annual targets for treasury management and the methods by which these targets shall be met. The AIS sets out the parameters within which investments can be made.
- 1.2 The purpose of this report is to advise of the action taken during the period April to September 2010 to meet the policy statement and practices and the investment strategy.

2. RECOMMENDATIONS:

- 2.1 That Cabinet endorses the action taken during the half-year to meet the TMPS and associated TMPs and the AIS.
- 2.2 That Cabinet notes the maximum indicator for risk agreed at 0.05% has not been exceeded.
- 2.3 That Cabinet notes the authorised limit and operational boundary set by the Council have not been exceeded.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Overview of markets

- 3.1 The first half-year has seen a continuation of the tentative signs of stability in the financial markets. The bias of policy decisions by the Bank of England continued towards stimulating the economy with official rates remaining at ½% and quantitative easing (QE) unchanged at £200 billion. The Bank, at its' monthly monetary policy meetings, has discussed the option of increasing QE in the coming months to prevent a return to negative growth but as yet no further action has been implemented.
- 3.2 A commentary on the markets is set out in Appendix 1 to this report.

Treasury management strategy

- 3.3 A summary of the action taken in the six months to September 2010 is provided in Appendix 2 to this report. The main points are:
- no new long-term debt has been raised and only a minor amount (less than £1,000) of long-term borrowing has been repaid in the period;
 - short-term debt outstanding at the beginning of the period (£24.7m) has been fully repaid;
 - the level of investments made by the in-house treasury team as at 30 September 2010 totalled £39.5m, an increase of £20.7m during the half-year;
 - the level of investments made by the cash manager as at 30 September 2010 totalled £24.2m, an increase of £0.1m during the half-year;
 - the return on investments by the in-house treasury team and cash manager has significantly exceeded the target rate;
 - the two borrowing limits approved by Budget Council in February 2010 – the 'authorised limit' and 'operational boundary' – have not been exceeded in the first half of the year.
- 3.4 Treasury management activity in the half-year has focused on a short-term horizon, with surplus cash being used to firstly repay short-term debt and secondly to invest for periods out to three months. This impact is demonstrated in the table below.

	April to Sept 2010
Net surplus cash available	£45.4m
Short-term borrowing repaid	£24.7m
Net increase in investments made by the in-house treasury team	£20.7m

- 3.5 Capital risk on the investment portfolio continues to be the primary objective for the council's investment strategy. The investment counterparty list approved by Council in March 2010 reflected a tightening of the investment parameters and these parameters have not changed during the first half-year. However, as part of the continuing assessment of the financial markets, new investments made in the half-year have not exceeded three months, with the average period for fixed period loans at around 2-3 weeks in duration.

Security of investments

- 3.6 A summary of investments made by the in-house treasury team and outstanding as at 30 September 2010 is tabled below. The table shows that investments continue to be held in high quality, short-term instruments.

	Balance o/s 30 Sept 2010	
	'AAA' rated institutions / funds	£14.7m
'AA' rated institutions / funds	£15.5m	39%
'A' rated institutions / funds	£3.4m	9%
Top 7 building societies not included above	£5.9m	15%
	£39.5m	100%
Period – less than one month	£31.0m	78%
Period – over one month and less than two months	£3.5m	9%
Period – over two months and less than three months	£5.0m	13%
	£39.5m	100%

Risk

- 3.7 As part of the investment strategy for 2010/11 the Council agreed a maximum risk indicator of 0.05%. The indicator is a simple target that measures the risk within the investment portfolio based on counterparty risk and length of investment. The indicator set for 2010/11 is consistent with the investment parameters set out in the AIS.
- 3.8 The following table summarises the maximum indicator for each month in the half-year period and confirms investments have been made in high quality counterparties.

	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10
Maximum risk indicator	0.000%	0.001%	0.002%	0.003%	0.005%	0.005%

Performance

- 3.9 The following table summarises the performance on investments compared with the budgeted position and the benchmark rate.

(*) Annualised rates	In-house investments		Cash manager investments	
	Average balance	Average rate (*)	Average balance	Average rate (*)
Budget 2010/11 – full year	£17.7m	1.27%	£23.9m	1.38%
Actual to end Sept 2010	£44.9m	0.67%	£24.1m	0.94%
Benchmark rate (i.e. average market rate) to end Sept 2010	-	0.41%	-	0.41%

4. CONSULTATION

- 4.1 The council's external treasury advisors have been consulted in the drafting of this report. No other consultation was necessary.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The financial implications arising from the action taken under the TMPS are included in Financing Costs. The month 6 forecast for financing costs shows that £150,000 from the reserve set up to offset the projected short-term reductions in investment income will be needed during 2010/11.

Finance Officer Consulted: Peter Sargent

Date: 26/10/10

Legal Implications:

- 5.2 Action under the TMPS must be in accordance with Part I of the Local Government Act 2003 and regulations issued thereunder. Relevant guidance also needs to be taken into account.
- 5.3 This report is for information purposes only and as such it is not considered that anyone's rights under the Human Rights Act will be adversely affected by it.

Lawyer Consulted:

Abraham Ghebre-Ghiorghis

Date: 26/10/10

Equalities Implications:

- 5.4 There are no direct implications arising from this report.

Sustainability Implications:

- 5.5 There are no direct implications arising from this report.

Crime & Disorder Implications:

- 5.6 There are no direct implications arising from this report

Risk & Opportunity Management Implications:

- 5.7 The continuing uncertainty in the financial markets means the increased risk in lending has not abated. The action taken in the first six months of 2010/11 has resulted in the council reducing capital risk on its investment portfolio.
- 5.8 The position will be regularly monitored and, when confidence returns to the financial markets, opportunities to raise new borrowing and rebuild the investment portfolio will be considered.

Corporate / Citywide Implications:

- 5.9 Investment income is used to support the budget requirement for the council. Any action taken to reduce the risk of capital loss will have a downward impact on the level of interest received.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 This report sets out action taken in the six months to September 2010. No alternative options are therefore considered necessary.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 The TMPS requires the Director of Finance & Resources to report on the action taken by the council in meeting borrowing limits and investment parameters after the first 6 months and at the end of the financial year. This report fulfils the first reporting requirement.

SUPPORTING DOCUMENTATION

Appendices:

1. Market Overview – April to September 2010
2. A summary of the action taken in the period April to September 2010
3. Performance and balances

Documents In Members' Rooms

None

Background Documents

1. Part I of the Local Government Act 2003 and associated regulations
2. The Treasury Management Policy Statement and associated schedules 2010/11 approved by Cabinet on 13 March 2010
3. The Annual Investment Strategy 2010/11 approved by full Council on 20 March 2010
4. Papers held within Strategic Finance, Finance & Resources
5. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2003

Market Overview – April to September 2010
(courtesy of Butlers)

Interest Rate Movements and Expectations

UK short-term interest rates fluctuated in a very narrow range in the first half of the financial year. The official interest rate (i.e. the Bank of England Base Rate) was held at its record low of ½% in spite of above target inflation and evidence of a recovery in activity in most industrialised economies.

Quantitative easing (i.e. the re-purchase of government and other stock by the Bank) remained at unchanged at £200 billion. The tenuous nature of the economic upturn, confidence that price pressures will abate and the still fragile state of the financial sector supported the case for the maintenance of an accommodative monetary policy.

Long-term interest rates peaked in the early stages of the financial year. The rise was reversed in May. Confidence that the change of government will prompt a more aggressive approach to deficit reduction encouraged new investment in gilt-edged securities. More important, however, was the financial crisis in the euro-zone, triggered by the threat of a sovereign debt default by Greece. This, together with evidence of decelerating growth in the United States of America, ensured continued demand for high quality government debt. Gilt yields and Public Works Loan Board rates subsided towards their 2009 lows as a result.

Looking forward, short-term rates are expected to remain on hold for a considerable time. The recovery in the economy is likely to remain insipid. The danger of a double-dip recession is fading but the crisis in the euro-zone, the prospects of tight economic policies at home and tenuous consumer confidence means the threat has not evaporated completely.

Long-term interest rates will continue to benefit from these considerations and might be pressured lower in the event of a fresh programme of Quantitative Easing. Nevertheless, without this additional support, yields are probably close to their low point. Disappointment with the UK's inflation performance and the absence of QE would return yields to a gradually rising trend before the year is out.

Interest rate projections

	Base Rate	Short-term rates		Long-term rates		
		3 mths	1 year	5 yrs	20 yrs	50 yrs
2010/11	0.5	0.7	1.5	2.4	4.2	4.3
2011/12	1.1	1.3	2.2	3.1	4.8	4.9
2012/13	2.3	2.5	3.3	4.0	5.0	5.1

Summary of action taken in the period April to September 2010

Treasury Management Strategy

New long term borrowing

No new long-term borrowing raised in the first six months.

Debt maturity

No long-term debt has matured in the first six months.

Lender options, where the lender has the exclusive option to request an increase in the loan interest rate and the council has the right to reject the higher rate and repay instead, on four loans were due in the 6 month period but no option was exercised.

Debt restructuring

Opportunities to restructure the debt portfolio are severely restricted under changes introduced by the Public Works Loan Board in October 2007. No restructuring was undertaken in the first 6 months.

Weighted average maturity profile

The weighted average maturity period of the debt portfolio has reduced from 31.3 years to 30.8 years.

Capital financing requirement

The prudential code introduces a number of indicators that compare 'net' borrowing (i.e. after deducting investments) with the capital financing requirement (CFR) – the CFR being amount of capital investment met from borrowing that is outstanding. Table 2 compares the CFR with net borrowing and actual borrowing.

Table 2 – Capital financing requirement compared to debt outstanding

	1 April 2010	30 Sept 2010	Movement in period
Capital financing requirement (CFR)	£289.3m		
Less PFI element	-£30.2m		
Net CFR	£259.1m	^(*) £273.3m	+£14.2m
Long-term debt	£180.7m	£180.7m	-
Short-term debt	£24.7m	£0.0m	-£24.7m
Investments – in house team	-£18.8m	-£39.5m	-£20.7m
Investments – cash manager	-£24.1m	-£24.2m	-£0.1m
Net debt	£162.5m	£117.0m	-£45.5m
O/s debt to CFR (%)	79.3%	66.1%	-13.2%
Net debt to CFR (%)	62.7%	42.8%	-19.9%

^(*) projected 31 March 2011

Advice received from the council's external advisors suggests that borrowing should be at or near the maximum permitted in order to reduce the risk that demand for capital investment (and hence resources) falls in years when long-term interest rates are high (i.e. interest rate risk). This strategy has been changed in light of the continuing problems within the financial markets. Currently outstanding debt represents 67% of the capital financing requirement.

Cash flow debt / investments

The TMPS states that “The council will maintain an investment portfolio that is consistent with its long term funding requirements, spending plans and cash flow movements.”

An analysis of the cash flows reveals a net surplus for the first six-months of £45.4m (Table 3). A surplus in the first six months is not unusual as the profile of receipts against payments is heavily weighted towards this period.

Table 3 – Cash flow April to September 2010

	Payments	Receipts	Net cash
Total for period	£442.8m	£488.2m	+£45.4m

After adjusting for the increase in the value of the funds invested by the cash manager (+£0.1m) the net movement is increased to £45.5m. Part of this surplus (£24.7m) has been used to repay short-term borrowing, with the balance applied to increase investments (£20.8m).

Prudential indicators

Budget Council approved a series of prudential indicators for 2010/11 at its meeting in February 2010. Taken together the indicators demonstrate that the council’s capital investment plans are affordable, prudent and sustainable.

In terms of treasury management the main indicators are the ‘authorised limit’ and ‘operational boundary’. The authorised limit is the maximum level of borrowing that can be outstanding at any one time. The limit is a statutory requirement as set out in the Local Government Act 2003. The limit includes ‘headroom’ for unexpected borrowing resulting from adverse cash flow.

The operational boundary represents the level of borrowing needed to meet the capital investment plans approved by the council. Effectively it is the authorised limit minus the headroom and is used as an in-year monitoring indicator to measure actual borrowing requirements against budgeted forecasts.

Table 4 compares both indicators with the maximum debt outstanding in the first half year.

Table 4 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2010/11

	Authorised limit	Operational boundary
Indicator set	£302.0m	£278.0m
Less PFI element	-£40.0m	-£40.0m
Indicator less PFI element	£262.0m	£238.0m
Maximum amount o/s in first half of year	£205.4m	£205.4m
Variance	(*)£56.6m	£32.6m

(*) can not be less than zero

Performance

The series of charts in Appendix 3 provide a summary of the performance for both the debt and investment portfolios.

In summary the key performance is as follows:

- Chart 1 shows the average cost of the long-term debt portfolio has remained unchanged at 4.56% during the half-year.

- Chart 2 shows that the level of investment managed by the cash managers and the in-house treasury team. The sum invested via the cash manager increases as investment income is reinvested, whereas investment by the in-house team includes cash flow investments and therefore fluctuates throughout each month. The chart reflects the increase in investments due to the cash surpluses in the first six months.

- Chart 3 compares the returns achieved on external investments with the benchmark rate of 7-day LIBID (London Inter-bank Bid Rate) rate for the in-house treasury team and 7-day LIBID rate (compounded) for the cash manager. The chart confirms that during the six months to September 2010:
 - the investment performance of the in-house treasury team has exceeded the target rate (which is 105% of the benchmark rate), and
 - the investment performance of the cash manager has exceeded the target rate (which is 115% of the benchmark rate).

Approved organisations – investments

No new organisations have been added to the list approved in the AIS 2010/11 and no changes were made to the investment parameters.

Performance and balances

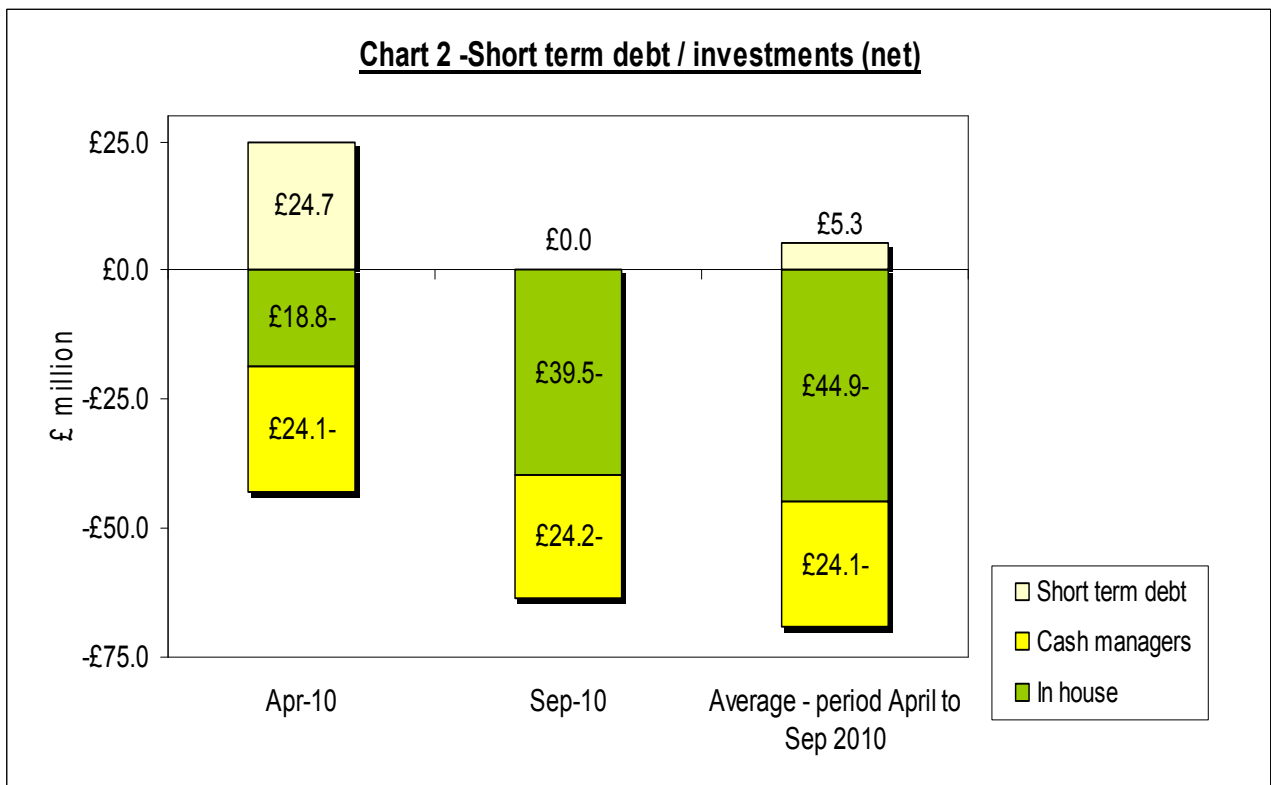
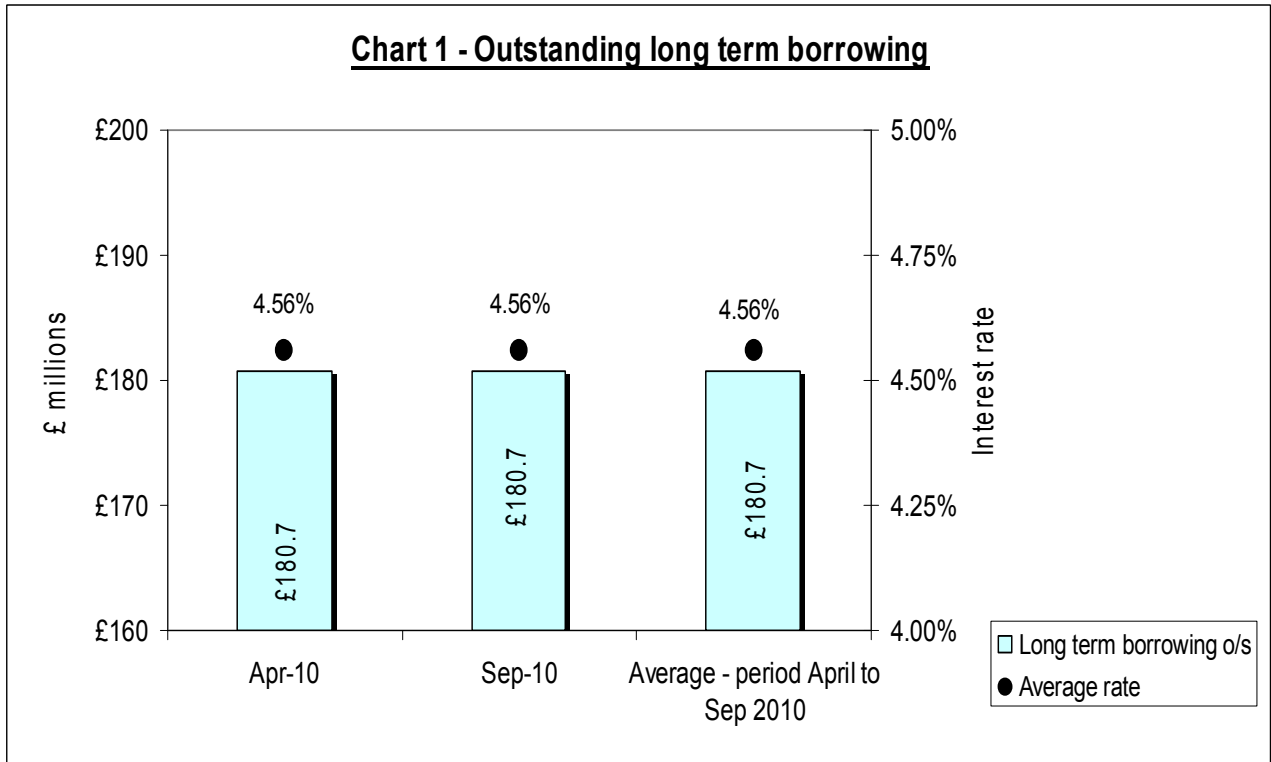
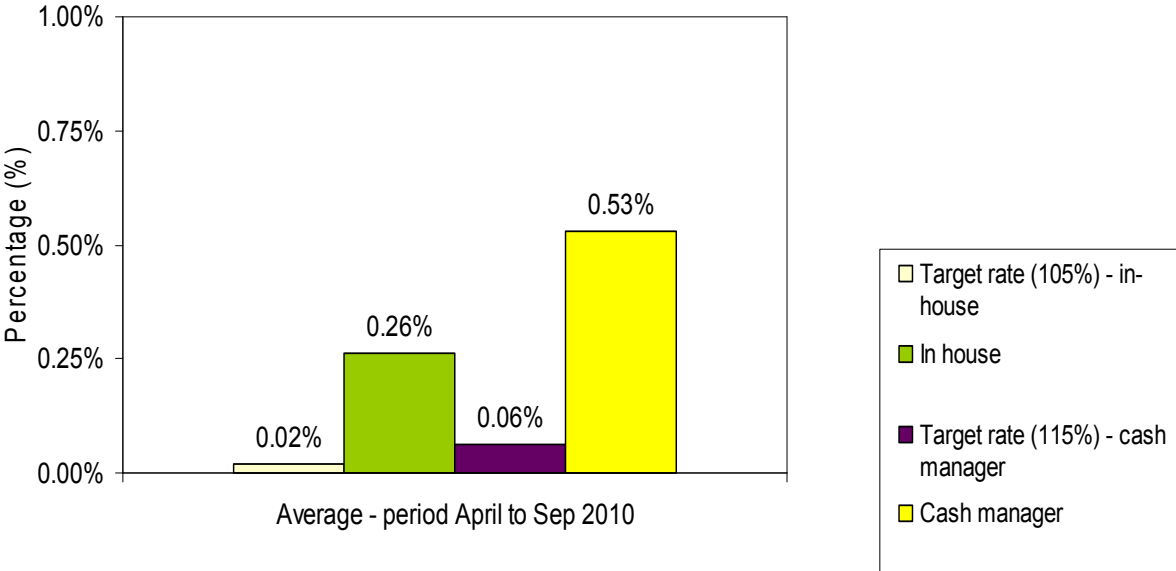


Chart 3 - Performance indicators (annualised) : variation from benchmark (x axis) and target rate (105% / 115% times benchmark)



Subject:	Proposed Review on the Effectiveness of the Audit Committee		
Date of Meeting:	14th December 2010		
Report of:	Director of Finance		
Contact Officer:	Name: Ian Withers	Tel: 29-1323	
	E-mail: ian.withers@brighton-hove.gov.uk		
Wards Affected:	All		

FOR GENERAL RELEASE

1. Summary and Policy Context

- 1.1 Good governance in local government has supported the introduction of Audit Committee. It is timely for a review of the effectiveness of the Audit Committee since its introduction in 2008, when it succeeded the previous Audit Panel.
- 1.2 This report provides the proposal for the review on the effectiveness that is planned to be completed by the end of February 2011 with a final report to the next meeting of the Audit Committee in April 2011.

2. Recommendation

- 2.1 That the Audit Committee members agree the proposal, make any comments and note their involvement.

3. Background Information

- 3.1 The Audit Committee succeeded the Audit Panel in April 2008. At the time a terms of reference was agreed based on the practical guidance publication produced by the Chartered Institute of Public Finance & Accountancy (CIPFA) in 2005. The guidance was written to assist local authorities establish effective Audit Committee functions to contribute to good governance.
- 3.2 Training has been provided to members of the Audit Committee on its role both at specific training sessions and as part of its meetings.
- 3.3 Since the CIPFA guidance produced in 2005, there has been a number of other best practice publications including handbooks and checklists to assist public sector organisations maintain and improve effective Audit Committees.

4. Review of Effectiveness

Approach

- 4.1 The review will be carried out by using a self-assessment checklist, taken from best practice produced by CIPFA, the National Audit Office and HM Treasury.
- 4.2 Desktop comparison will be made with other best practice and with other Audit Committees operating, principally in local authorities.
- 4.3 Interviews will be carried out with key officers and members.
- 4.4 The review will take into account the changing needs of the recently introduced council operating model, governance requirements and any future revision to the committee structure.

Outcomes

- 4.5 A full report on the outcomes of the review will be produced and circulated to key members and officers for comment and agreement before going as final to the April Audit Committee meeting.
- 4.6 To assist the Audit Committee in discharging its responsibilities. Update the Audit Committee Terms of Reference and introduce any other practical supporting guidance for members on their role.
- 4.7 To identify any training and awareness needs for members to be included in a training programme.

5. FINANCIAL & OTHER IMPLICATIONS

5.1 Financial Implications:

There are no direct financial implications associated with the review other than officer and member time. Any training requirements arising from the review would be met from existing budgets.

Finance Officer consulted: Anne Silley
Head of Business Engagement

2nd December 2010

5.2 Legal Implications:

There is no legal requirement for a review of the effectiveness of the Audit Committee. The results will, however, assist the Committee in identifying measures it may need to take in order to discharge its terms of reference more effectively; and, indeed, to determine whether those terms of reference need revising in any way

Legal Officer consulted: Oliver Dixon
Lawyer

2nd December 2010

5.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

5.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

5.5 Crime & Disorder Implications:

There no direct implications for the prevention of crime and disorder arising from this report.

5.6 Risk and Opportunity Management Implications:

There no direct implications

5.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Background Documents

1. Practical Guidance for Audit Committee, CIPFA (2005)
2. A Toolkit for Local Authority Audit Committees (2008)
3. HM Treasury Audit Committee Handbook (2008)
4. Audit Committee Checklist, National Audit Office (2009)

Subject:	Internal Audit Progress Report		
Date of Meeting:	14th December 2010		
Report of:	Director of Finance		
Contact Officer:	Name: Ian Withers	Tel: 29-1323	
	E-mail: ian.withers@brighton-hove.gov.uk		
Wards Affected:	All		

FOR GENERAL RELEASE

1. Summary and Policy Context

- 1.1 This report summarises the progress by the Audit & Business Risk against the Internal Audit Plan for 2010/11, provides the results from reviews completed since the report to the last Audit Committee meeting in September and reports the achievement against Internal Audit Key Performance Indicators.

2. Recommendation

- 2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2010/11.

3. Background Information

- 3.1 The Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006), require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.
- 3.2 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The internal audit work carried out by Audit & Business Risk is a key source of assurance that the internal control environment is operating effectively.
- 3.3 The audits contained in the Internal Audit Plan 2010/11 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

3.4 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports that include agreed actions to audit recommendations made, are issued to the responsible Director.

4. Progress against the Internal Audit Plan 2010/11

4.1 The progress against the amended Internal Audit Plan for 2010/11 for audit reviews is summarised in Table 2 below.

Table 1: Summary of progress against Internal Audit Plan 2010/11 (Audit Reviews)

Audit Stage	Explanation	No.	%
Not Started	Planned but not started	35	31
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	34	30
Draft Report	Draft audit report issued and being agreed with client	16	14
Final Report	Final agreed audit issued and audit complete	28	25
		113	100

4.1 There are currently two vacancies that have impacted on the achievement of the Annual Internal Audit Plan. This is partly due to normal staff turnover and market shortage of internal auditors restricting effective recruitment.

4.2 To ensure achievement of the Internal Audit Plan we are in the process of agreeing to outsource a number of audit reviews for the remainder of the year to Deloitte & Touche under a framework contract with the London Borough of Croydon.

4.3 We are also liaising with other local authorities to share staff resources in the future to provide a cost effective solution, in particular to back fill vacancies, meet peak demands and “specialist” audit staff such as computer and contracts audit.

4.4 We are confident in completing the Internal Audit Plan for 2010/11. This is however a dynamic plan and subject to change to address emerging risks and issues facing the council.

5. Final Audit Reports Issued

5.1 Since the last progress report at the end of September, a further seventeen audit reviews have been completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level.

5.2 Audit reports are issued as final where their contents have been agreed with client management, in particular management actions with responsibility and timescale. The audit is then effectively closed except for the scheduled implementation review of agreed actions.

5.3 Members should note that none of the final reports above have given assurance levels of limited or no assurance.

Table 2: Final Reports Issued

Audit	Assurance Level	Agreed Actions and Priority		
		High	Medium	Low
Museums Service	Substantial	0	7	2
Section 75 Agreements (Children's Services)	Substantial	0	3	0
Energy Grants	Reasonable	0	9	0
Parks & Open Spaces Income	Reasonable	0	10	6
Residential Care for the Elderly	Reasonable	1	7	1
Managing Commercial Properties	Reasonable	0	16	0
Property Legal Compliance	Reasonable	0	6	0
Seafront Services	Reasonable	0	5	0
Learning Development Centre	Substantial	0	4	1
ICT Contract Arrangements	Reasonable	0	7	0
Future Jobs Fund	Substantial	0	4	0
Hangleton School Governance Arrangements	Reasonable	0	4	0
iTrent interface to Authority Financials	Substantial	0	1	0
iTrent Parallel Run Process PG5	Reasonable	0	0	0
iTrent Parallel Run Process PG3	Reasonable	0	1	0
Management of Events	Reasonable	0	16	8
Capital Programme Management	Reasonable	0	8	0

5.4 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks for each audit is a professional practice requirement. Members should note that the assurance levels assigned and agreed are subjective and based on materiality and significance. They often therefore have no direct relationship with the number of agreed actions to audit recommendations made.

5.5 There are currently five levels of audit assurance used and these are summarised as follows:

FULL	There is a sound system of internal control designed to achieve system and service objectives. All major risks have been identified and managed effectively.
SUBSTANTIAL	Whilst there is basically a sound system of internal control, there are weaknesses that put system objectives at risk.
REASONABLE	Controls are in place but there are gaps in the process. There is therefore a need to introduce additional controls.
LIMITED	Weaknesses in the system of control and /or level of compliance are such to put the system objectives at risk.
NO	Control is significantly weak or non existent leaving the system open to high level of risk from abuse, fraud and error.

6. Advice and Support Corporate and Directorates

- 6.1 We have continued to be pragmatic in providing professional advice and support. This element of our work is seen as invaluable both corporately and service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 6.2 It is good to report an increasing level of demand for advice and support across the council. Areas include waste management, iTrent (HR and Payroll) implementation, equal pay, contract management, information security and schools.

7. Counter Fraud Work

- 7.1 Since April 2010 thirty five new cases of suspected irregularities have been referred to Audit & Business Risk and investigated.
- 7.2 We have recently completed a major review of Fraud Risk Analysis and Measurement with Deloitte & Touche and this is being reported separately to the Audit Committee..
- 7.3 We are currently scoping a major pro-active exercise on housing tenancy fraud. This will include involvement of the National Anti Fraud Network (NAFN) and Experian for providing intelligence information for the detection of fraudulent tenancies. It is also one of seven national pathfinders of the National Fraud Authority (NFA).

7.4 We have investigated/closed 98% of the 26k data matches from the National Fraud Initiative (NFI) 2008/09 exercise. This has so far resulted in additional income/overpayments of £516k. We are currently preparing for the NFI 2010 exercise which includes additional data sets. A separate report on the National Fraud Initiative will be made to the April meeting of the Audit Committee.

8. Implications for Governance

8.1 No control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year, considered having a significant impact on the governance of the council.

9. Performance of Internal Audit

9.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also included in our Service Business Plan and monitored regularly. Table 4 provides an overview of the performance of Audit & Business Risk against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	98%	99%
% implementation of agreed management actions	85%	84%
Efficiency		
% of planned direct days delivered for year	100%	53%
% of productive time	71%	74%
Achievement of Annual Internal Review to Final Report	100%	25%
% of draft reports issued within 10 days of fieldwork completion	90%	95%
% response by client to draft reports within 15 days	90%	93%
% of issue of final reports within 10 days of agreement	95%	98%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	98%

10. FINANCIAL & OTHER IMPLICATIONS:

10.1 Financial Implications:

The Internal Audit Plan for 2010/11 will be delivered within existing budgetary resources. In considering resources allocated to internal audit work this needs to be balanced against the need for financial probity, financial risks and achieving value for money.

Finance Officer consulted: Anne Silley
Head of Business Engagement

2nd December 2010

10.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2003 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon
Lawyer

2nd December 2010

10.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

10.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

10.5 Crime & Disorder Implications:

There no direct implications for the prevention of crime and disorder arising from this report.

10.6 Risk and Opportunity Management Implications:

The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.

10.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Background Documents

1. Internal Audit Plan 2010/11
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2003 (Amended 2006)

Subject:	Annual Governance Statement 2009/10 - Action Plan Progress Update		
Date of Meeting:	14th December 2010		
Report of:	Director of Finance		
Contact Officer:	Name: Ian Withers	Tel: 29-1323	
	E-mail: ian.withers@brighton-hove.gov.uk		
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and approving the Annual Governance Statement. The Annual Governance Statement includes an action plan for improvements to the council's governance framework and the Audit Committee should seek assurance over the effective implementation.
- 1.2 This report provides the Audit Committee with an update on the council's progress in implementing actions agreed in the Annual Governance Statement for 2009/10.

2. RECOMMENDATIONS

- 2.1 That the Audit Committee considers the Annual Governance Statement Action Plan at Appendix 1 and comment on any issues identified in relation to the work officers have undertaken to improve the council's corporate governance arrangements.

3. BACKGROUND INFORMATION:

- 3.1 The Annual Governance Statement for 2009/10 was approved by the Audit Committee in June 2010. The Annual Governance Statement included a number of "governance issues" and actions required.

- 3.2 The Accounts and Audit Regulations 2003 (amended in 2006) requires the council to undertake a review at least annually of the effectiveness of its governance arrangements and to publish the results in an Annual Governance Statement with the financial statements required by the Regulations.
- 3.3 The council has an effective process for preparing the Annual Governance Statement. This is in accordance with best practice and has been recognised by the Audit Commission.
- 3.4 The Officers Governance Board is responsible for the review and ongoing monitoring of implementation of actions. The Annual Governance Statement Action Plan is a standing agenda item for meetings of the Officers Governance Board.

4. ANNUAL GOVERNANCE ACTION PLAN

- 4.1 The Annual Governance Statement Action Plan is at Appendix 1 and shows the progress to date in implementing the agreed actions.
- 4.2 The Annual Governance Statement Action Plan includes RAG (Red, Amber, Green) status reporting, target dates and comments on progress.

5. CONSULTATION

- 5.1 Internal consultation has been carried out with Lead Officers identified in the Action Plan and the Officer's Governance Board.

6. FINANCIAL & OTHER IMPLICATIONS:

- 6.1 Financial Implications:

Sound corporate governance and proper systems of internal control are essential to the financial health and reputation of the council. The actions outlined to strengthen the governance arrangements, can be delivered within existing financial resources.

Finance Officer consulted: Patrick Rice
Acting Head of Financial Services

2nd December 2010

6.2 Legal Implications:

The Audit Committee has a duty to approve the Annual Governance Statement, following due consideration, (as provided for by regulation 4 of the Accounts and Audit Regulations 2003). The Committee thus has a legitimate interest in the actions underway to implement the improvement action plan stemming from that Statement

Legal Officer consulted: Oliver Dixon
Lawyer

2nd December 2010

6.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

6.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

6.5 Crime & Disorder Implications:

There no direct implications for the prevention of crime and disorder arising from this report.

6.6 Risk and Opportunity Management Implications:

The preparation of the Annual Governance Statement has been explicitly linked to the risk management framework of the City Council. One of three principles of good governance is “taking informed, transparent decisions and managing risk”.

6.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Appendices:


1. Annual Governance Statement 2009/10 Action Plan



Background Documents





1. Annual Governance Statement 2009/10
3. Brighton & Hove City Council's Code of Corporate Governance
4. Delivering Good Governance in Local Government – Guidance notes for English Authorities (CIPFA/SOLACE 2007)
5. Accounts & Audit Regulations 2003 (Amended 2006)


Annual Governance Statement 2009-10

Action Plan for Improvements to the City Council's Governance Framework

No	Area	Action Item	RAG Status	By When	Update at November 2010	Lead Officer/s
1.	Human Resources System – Improved management information for workforce management.	Improved system processes and controls for HR/Payroll including associated with the implementation of the new HR/Payroll Computer System, for the effective management of the council's workforce	 Amber	April 2011	<p>Current progress by process:</p> <p>Core HR and Payroll processes and controls – 75%, phased implementation of payrolls</p> <p>Recruitment – 100% complete including recruiting manager self-service.</p> <p>Learning – 90% complete. Final preparation to prepare next years learning events.</p> <p>Health & Safety – 80%, dependant on agreement for changing requirements for management incident reporting</p> <p>Staff Development – 0%, dependent on BHCC requirements for objectives and appraisal management.</p> <p>Employee Self-service – 90%, dependency on supplier to provide Web-based access for employees outside the BHCC firewall.</p> <p>Manager self-service – 100% pilot groups which will inform phased rollout from January 2011. Rollout dependent on organisation re-structure and E-learning completion.</p> <p>E-Learning – Employee Self-service 100%, Manager Self-service – 30%.</p>	Head of Human Resources & Organisational Development

No	Area	Action Item	RAG Status	By When	Update at November 2010	Lead Officer/s
					Management Information – 80%, dependency on BHCC reporting environment and standard reports catalogue production.	
2.	Partnership Agreements	Implement a formal Section 75 partnership agreement with the Sussex Partnership Trust (Adults) for 2010/11 to mitigate risk to the council and to seek a longer term strategic solution.	 Amber	April 2011	On target for meeting implementation date. Formal health and safety agreement with Sussex Partnership Trust now in place. Financial risk sharing agreement with Sussex Partnership Foundation Trust for 2010/11 now in place.. Full review of longer term arrangements underway.	Head of Legal and Democratic Services and Head of Service Adults' Provider
3.	Fraud Risk	Carry out a full fraud risk analysis and measurement review.	 Amber	January 2010	Fraud Risk Analysis completed by undertaking workshops with TMT and Directorate Management Teams. Fraud Loss Measurement completed to determine potential loss to the council from fraud. Final report agreed and now being reported to Corporate Management Team and Audit Committee.	Head of Audit & Business Risk

No	Area	Action Item	RAG Status	By When	Update at November 2010	Lead Officer/s
4.	Audit Committee – Effectiveness	Review of the role and effectiveness of the Audit Committee in the governance of the council	 Amber	February 2011	Identifying best practice and developing self assessment. A proposal for the effectiveness review being considered by Audit Committee at its December meeting.	Head of Audit & Business Risk
5.	Performance Management	Review the council's performance management framework	 Amber	April 2011	On track for meeting target date. New performance management framework has been devised for commissioning model which includes a system of performance compacts with delivery units. Risk management being incorporated into the new approach, currently being tested to go live from 1 st April 2011.	Performance Intelligence Project Board (Chaired by Director of Finance)
6.	Council's Constitution	Review and update the council's constitution and all related documents to reflect planned organisational changes	 Green	Completed	Full Council agreed 21 st October 2010	Head of Legal and Democratic Services
7.	Training & Development	Review and implement specific training and learning objectives for officers and Members.	 Amber	April 2011	New training programme developed for officer training.	Head of Human Resources & Organisational Development

No	Area	Action Item	RAG Status	By When	Update at November 2010	Lead Officer/s
					Specific training on Intelligent Commissioning provided to members. Attention now being given to improving member's induction training. Further workshops/seminars being run for members, on subjects relevant to their role.	
8.	Procurement	Improvement to procurement and contract management arrangements.	 Amber	April 2011	<p>A new model of category management is being tested with fleet and ICT with significant financial savings identified to date, full roll out is planned for 1 April 2011.</p> <p>A new contract management system is being introduced and procurement has been incorporated into the guidance on intelligent commissioning.</p> <p>Joint working with seven south east local authorities (SE7) to co-ordinate and potentially join procurement approaches.</p> <p>Implementation of revised Procurement Strategy to co-ordinate council's approach.</p> <p>Continued improvement and roll out of procurement toolkit providing advice and framework guidance.</p>	Procurement Strategy Manager

Subject: Risk & Opportunity Management Update
Date of Meeting: 14 December 2010
REPORT OF: Director of Finance
Contact Officer: Name: Jackie Algar Tel: 29-1273
E-mail: Jackie.algar@brighton-hove.gov.uk
Wards Affected: All

1. SUMMARY AND POLICY CONTEXT:

- 1.1 There is significant change across the public sector and the council's operating structure. It is recognised that increased focus on Risk Management will enable the successful management of challenges.
- 1.2 The council's new operating structure has begun since 1 November 2010, and it will continue to develop for full operation by 1 April 2011. During this transition period, the Audit Committee will not receive a new Corporate Risk Register but the existing Corporate Risks (reported to the Audit Committee in June 2010) still apply, are valued and continue to receive management attention and monitoring. This transitional approach to operating on "old structures" until April 2011 to minimise risk at this time of transition is the same approach as taken for Targeted Budget Management (TBM) and Performance Monitoring.
- 1.3 The existing Corporate Risk Management Action Plans (MAPs) have been updated to ensure currency and will be reported to this same Audit Committee meeting but in Part 2, confidential session.
- 1.4 Details of work in progress to further develop Risk Management and better integrate Performance and Risk Management into the council's new operating model are provided in this report.

2. RECOMMENDATIONS:

The Audit Committee are recommended:

- 2.1 Note that a new Strategic Risk Register to replace the current Corporate Risk Register will be prepared for the Audit Committee's April 2011 meeting. Appendix 1 provides a copy of the current Corporate Risk Register, reported in June 2010 which is based on based on "old structures" but has been updated in November 2010 to reflect key changes.

- 2.2 Agree that the Chair and Deputy Chair of the Audit Committee, between December 2010 and April 2011 will meet with the Risk Manager and the Head of Audit & Business Risk to be provided with an update on:
- progress towards the new Strategic Risk Register
 - measures to enhance the integration of risk management as part of the new council structure

in order that the Committee have an awareness of developments and are assured that risk management and internal control is working effectively during this transitional period.

- 2.3 Note that the updated Risk Management Action Plans (Risk MAPs) which detail work to address current Corporate Risks have been updated and will be reported under the item name “Corporate Risk Management Action Plans Focus” in part 2, confidential, session of this meeting.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The agreed Risk and Opportunity Management (ROM) Strategy 2008-11 provides that the Corporate Risk Register will be reviewed and reported to the Audit Committee on a six monthly basis, normally in May and November each year.
- 3.2 It was reported to Committee at their meeting in September 2010 that a number of significant changes during 2010/11 are affecting the council, including:
- Increasingly difficult financial climate
 - Government change and policy direction
 - Regulation and assessment change – particularly the abolition of the Comprehensive Area Assessment, which included the Use of Resources judgement that specifically judged the council’s performance on risk management and internal control
 - Significant organisational change – both within the council and other organisations
 - Enhanced need to explore potential for alternative means of public service delivery
 - Recognition of increased need to prioritise, use and channel available resources appropriately to provide outcomes for the local community

In order to meet these changes, the council has undertaken a new operating model for its service planning and delivery which started to be implemented on 1 November 2010. Given the extent of change both nationally and within the council, including significant change to budget and organisational structure, it could be considered premature to create a new highest level Risk Register which represents the priority risks affecting achievement within only weeks of implementation of the significant transformation that the council is undertaking.

- 3.3 There is increased focus and emphasis on risk management which is recognised as a key element of enabling the council's new organisational structure to pull together and manage the increasingly challenging operating environment. Current work includes:
1. Development of a new Performance and Risk Management Framework for council service delivery which has risk management at its core and integrates risk and performance at all levels
 2. A Strategic Risk Register to be set in December 2010 by the council's Corporate Management Team (comprising the Strategic Leadership Board, Lead Commissioners, Heads of Delivery Units, Heads of Resource Units, Heads of Finance Units)
 3. Proactively managing risk actions into relevant business plans (including partnership commissioning strategies, performance compacts and business plans)
 4. Developing risk "triggers" for incorporation into Service Level Agreements and Performance Compacts , to allow "management by exception" across all council services
 5. Working on the integration of risk management into Commissioning Decisions
 6. Development of a new Risk Management Standard to succeed the current Risk & Opportunity Management Strategy 2008-11.
- 3.4 Updates on the Risk Management development work (as above) will be reported via meetings with the Chair and Deputy Chair of the Audit Committee in order to inform the Committee's opinion on the effectiveness of risk management and internal control before the Committee's next meeting in April 2011.

4. CONSULTATION

- 4.1 The work to establish Risk Management as a key element of the council's new Performance & Risk Management Framework involves cross-discipline work by officers on the Performance & Intelligence Project Board, chaired by the Strategic Director Resources, and it is envisaged, ultimately will involve consultation with external partners, as part of Commissioning and Partnership Commissioning Strategies.
- 4.2 Consultation will take place on the new Risk Management Standard 2011 onwards will take place from early 2011.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 A number of heightened risks may have potential significant financial implications for the authority either directly or indirectly, these will be reflected in the Strategic Risk Register. The Corporate Management Team will be responsible for effective management of the risks through performance compacts and the new Performance & Risk Management Framework. As a result all potential financial impacts are properly considered and likely financial outcomes are reflected in medium term financial plans and budget strategies, which are continually updated to reflect changing assumptions and likelihood of risk.

The council's Section 151 Officer also has regard to risk assessments in developing the medium term financial strategy and budget strategy. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves and contingencies for which the budget provides. The Chief Finance Officer must be satisfied that the budget estimates contain adequate provision for those items of expenditure which might reasonably be expected to occur in the financial year.

Finance Officer consulted : Anne Silley

Date : 26 November 2010

Legal Implications:

- 5.2 Under the council's new operating structure the role of the Audit Committee is unchanged. It therefore continues to be responsible for monitoring and providing an opinion on the effectiveness of risk management and internal control.

Legal Officer consulted: Oliver Dixon

Date: 29 November 2010

Equalities Implications:

- 5.3 The new operating model for the council puts customers at the heart of our activities and there will be an Equalities Impact Assessment of the new Performance and Risk Management Framework.

Sustainability Implications:

- 5.4 The Risk Management methodology includes identification and management of sustainability.

Crime & Disorder Implications:

- 5.5 There are no direct implications.

Risk and Opportunity Management Implications:

- 5.6 This new approach to Risk Management as part of the Performance & Risk Management Framework will improve integration and embed risk management across the council's operations.

Corporate / Citywide Implications:

- 5.7 There are no direct implications.

SUPPORTING DOCUMENTATION

Appendices:

1. Update to current Corporate Risk Register 2010

Documents in Members' Rooms

1. None

Background Documents

1. British Standard for Risk Management BS31100
2. International Standards for Risk Management ISO31000


Brighton & Hove City Council

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Impact – 1 (Insignificant), 2 (Minor), 3 (Moderate), 4 (Major), 5 (Catastrophic or Fantastic)

Risk No.	Risk Summary	Risk Scenario A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives	Potential Consequences of the Risk or Opportunity	Control Actions include (but are not limited to)	Likelihood (L) Score	Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Officers	Council Priority
2	FINANCIAL OUTLOOK FOR THE COUNCIL	Projections of reduced funding from central government, combined with reductions in income streams and increased spending due to the prevailing national and economic climate may be greater than anticipated	Overspends within the financial year and higher savings targets may result in unplanned changes to service delivery	<ul style="list-style-type: none"> • Earliest possible updating and communication of resource projections and budget implications thereof • Robustness of budget savings and pressures estimates • Review adequacy of reserves and provision of risk contingencies in light of above • Critical budget reviews and reporting • Regular income collection, monitoring and reporting • Contingency planning for falling budgeted investment income • Extensive Value for Money reviews to contribute to future savings requirements 	5 ↕	4 ↕	20  RED	Mark Ireland, Nigel Manvell	2

Council priorities:

- 1 = Protect the environment while growing the economy
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Likelihood & Impact Arrows indicate



Downward



Static



Upward

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3	LONG TERM FUNDING FOR EDUCATIONAL PREMISES	To address the long term implications of the condition and deterioration of its educational premises in relation to delivering 21st century education the council is considering, evaluating and pursuing the available options to secure maximum investment for city schools	If the council does not gain extra investment, the city's educational offer, curriculum and premises may not be as good as other cities in the region which have been able to access funding	<ul style="list-style-type: none"> Falmer Academy building started Nov 2009 due for opening Aug 2011 with final completion in Feb 2012 Portslade Community College Academy Statement of Intent agreed, Expression of Interest in development, Community consultation started Possible sites for new primary schools under consideration and agreement for one reached Interim plan for expansion of existing primary schools agreed Review of emerging coalition government policy and associated funding stream announcements and a review of current resources, including Schools Futures reserves 	5 ↕	4 ↕	20 ● RED	Gill Sweetenham	2

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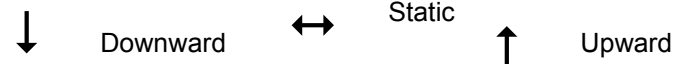
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5	BRIGHTON CENTRE	To deliver a world class convention centre as part of a comprehensive redevelopment of Churchill Square and the seafront, which will reinforce Brighton's reputation as a leading conference destination, enhance Brighton's retail offer and optimise the development potential of this prestigious seafront site	If the Brighton Centre is not redeveloped the city will lose its reputation as a leading conference destination and this will have a detrimental impact on the local economy	<ul style="list-style-type: none"> A positive ongoing working relationship is being maintained with Standard Life Investments. This remains key to delivery of the current concept scheme A series of interim viability exercises between Standard Life and their consultants took place during 2010. The Council are awaiting detailed feedback from Standard Life on this interim work and once received, it will be possible to begin to plan more effectively the next stages and key milestones for the project Ongoing review from key officers continues periodically, and currently, this is specifically in relation to funding and viability 	5 ↕	4 ↕	20 RED	Martin Randall, Katharine Pearce	1
9	MAJOR PROJECTS	The international financial climate could result in	If major projects do not proceed ,	<ul style="list-style-type: none"> A dedicated project management resource (Major 	4	4	16	Martin Randall, Max Woodford,	1

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		fewer investment opportunities for the city and may have a direct impact on the ability to secure funding to deliver high quality and sustainable developments on key infrastructure sites throughout the city	the benefits of additional jobs, housing and visitor spend will be lost to the detriment of the city's local economy and prospects for local residents	Projects and Regeneration Team) to co-ordinate resources, lead and manage delivery of prioritised projects for the City <ul style="list-style-type: none"> Regular meetings with Partners identify key issues to affect developments and how best and to what extent the council can support continued progression. e.g. pragmatic extension of project timetable, review of "mix of uses" Accessing external expertise where necessary to ensure opportunities are maximised for external funding 	↕	↕	 RED	Katharine Pearce	
19	EFFECTIVELY MANAGING TRANSFORMATION	In any period of significant organisational change, the following aspects need careful	* Service disruption during change process unless	* Robust project planning * Constant focus on all risks & opportunities via active risk review and management, co-	4	4	16	Chief Executive, all CMT	All

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W		<p>management:</p> <p><u>Financial</u></p> <ul style="list-style-type: none"> * control of current year spend * effectively planning for 11/12 budget <p><u>Safeguarding</u></p> <ul style="list-style-type: none"> * systems need to be clear and robust <p><u>Governance & Accountability</u></p> <ul style="list-style-type: none"> * Clear roles & responsibilities <p><u>Staffing Resources</u></p> <ul style="list-style-type: none"> * Ensuring staff availability is controlled & at appropriate levels 	<p>managed well</p> <ul style="list-style-type: none"> * Timescales affected * Additional overspends and financial risk. 	<p>ordinated across project streams</p> <ul style="list-style-type: none"> * Fortnightly budget group meetings * Reports planned for Governance Committee, Cabinet and Council * Communications and engagement work 			<p></p> <p>RED</p>		
13	WASTE REDUCTION & DISPOSAL	Increasing legislation and financial penalties for waste disposal requires sustainable & cost-effective solutions to	Impact of increased costs of waste disposal on council tax and	<ul style="list-style-type: none"> * Council has been active in lobby group to persuade DEFRA to change definition of waste legislation * Regular monitoring of legal and regulation changes affecting contract * Council's Municipal Waste 	3 ↔	4 ↔	<p>12</p> <p></p> <p>AMBER</p>	Gillian Marston. Mark Ireland	2

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		minimise waste and waste disposal	potential reduction of funds available for other council service delivery	Management Strategy was adopted in March 2010. It sets out action plans to reduce waste and increase recycling *Project Management of Waste PFI Contract					
54 20	INFORMATION GOVERNANCE	The council holds information relating to its citizens and must ensure sufficient governance and a culture of ownership and accountability, to prevent inappropriate disclosure of citizens' data	* Citizen safety compromised * Reputational damage * Legislative implications of personal records being breached	* Work underway to develop Corporate Management Information Strategy * Compliance with national requirements e.g. Government Connects (Csx) * Agreement that each Business Unit will self-audit practice and develop action plans as required	4 New	3 New	12  AMBER	Catharine Vaughan and Information Governance Group	All
1	COUNCIL HOUSING STOCK CONDITION	For the council to meet the Decent Homes Standard by the end of 2013, significant financial investment is required beyond the council's	Challenge to meet all aspects of the DHS by the end of 2013. Significant investments	<ul style="list-style-type: none"> New 10 year contract approved by Cabinet July 09, contract exceeds financial efficiency targets in HRA business plan Repairs & Improvement Partnership commenced April 2010 	4 ↔	3 ↔	12  AMBER	Nick Hibberd	4

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55	COUNCIL HOUSING STOCK CONDITION continued....	current resources	required beyond the councils resources	<ul style="list-style-type: none"> • Audit Commission review of Repairs Contract (Oct 10) acknowledged robust contract monitoring arrangements • 3 year investment programme developed to achieve just under 75% Decency by March 2011 and 90% by March 2013. Monthly monitoring of delivery of decent homes programme at strategic core group. 6.8% improvement in the number of Council homes that meet the decent homes target in the first six months of 2010/11 • Cabinet approval in November 2010, in response to revised proposal from Brighton & Hove Seaside Community Homes, to work with Brighton & Hove Community Seaside Homes to identify funding and bring to financial, legal and commercial 					

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				close.					

56

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15	EFFECTIVE PROCUREMENT PROCESS & CO-ORDINATED ORGANISATIONAL COMPLIANCE	Procurement practices are not consistently applied across the organisation	Value for Money and quality of service delivery may not be optimal, limited assurance on legal compliance, sustainability and best practice	<ul style="list-style-type: none"> Implementation of revised corporate procurement strategy to co-ordinate approach Continually updating the corporate register of contracts to inform procurement spend Continual improvement, adaptation and roll out of the Procurement Toolkit which provides advice on Health & Safety, EU procurement, sustainability etc. Continual liaison with legal services to ensure that legal requirements are met in procurement practice Work to improve links with council services, contract officer forums and steering/focus groups 	3 ↕	4 ↕	12  AMBER	Mark Ireland, Claire Jones	2

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17	INVESTING IN THE CITY'S SUSTAINABLE FUTURE	For the city to be sustainable, social & economic development must progress within environmental limits. There is an opportunity for the city to be a leading sustainable city in the UK, using extensive local expertise in the community	Negative impacts on city ecosystem services (air, water, biodiversity etc.) will impact on the city and its community in the future if insufficient priority is given to sustainability. City reputation and economic potential will be improved by strong leadership on sustainability and the city's wider environmental impacts	<ul style="list-style-type: none"> City Sustainability Partnership is focusing on performance against actions prioritised in the Sustainable Community Strategy The City Council leadership adopted Sustainable City priorities for 2010 included signing up the council to the 10:10 campaign to reduce emissions from our buildings, street lighting and fleet use by ten per cent (10%) in 2010/11; work with the community to set up and run a successful city-wide 10:10 campaign; more electric vehicle charging points across the city to give people more transport choices; support for the planned offshore windfarm development and work to maximise its local economic impacts 	3 ↕	4 ↕	12 ● AMBER	Richard Tuset, Thurstan Crockett	4, 2
18	PROTECTION	Impact of unprecedented	Increased	<ul style="list-style-type: none"> Existing CYPT service provision 	4	3	12	Steve Barton, Jo	2

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69	OF VULNERABLE CHILDREN	level of child protection activity on local arrangements to safeguard and protect vulnerable children resulting from national shifts in public perception, policy and practice following high profile cases (Baby P), the Laming Report recommendations and the introduction of the Public Law Outline	activity is sustained, including high level of legal and placement costs, impacts on CYPT budget strategy, operational structures and partnership arrangements	and detailed operational guidance <ul style="list-style-type: none"> • Pan Sussex Child Protection & Safeguarding Procedures (multi-agency working) • Review of Tiers of Intervention Underway • Interventions to strengthen service delivery and manage levels of demand including Value for Money/Impower work streams in the CYPT • Joint working with all partners on the Local Safeguarding Children Board • Strengthen quality assurance framework including self-assessment against external regulatory and inspection standards 	↕	↕	● AMBER	Lyons, James Dougan	

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Subject: Targeted Budget Management (TBM) 2010/11
Date of Meeting: 11 November (Cabinet)
14 December 2010
Report of: Director of Finance
Contact Officer: Name: Patrick Rice Tel: 29-1333
E-mail: patrick.rice@brighton-hove.gov.uk
Key Decision: Yes Forward Plan No: CAB16789
Wards Affected: All

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT**

- 1.1 This report sets out the revenue and capital forecast outturn position as at month 6.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the provisional outturn position for the General Fund.
- 2.2 That Cabinet notes the provisional outturn for the Section 75 Partnerships and Housing Revenue Account (HRA) for 2010/11.
- 2.3 That Cabinet notes progress against achievement of the 2010/11 efficiency savings as set out in Appendix 2.
- 2.4 That Cabinet approves the changes to the capital programme, as set out in appendices 3, 4 and 5.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS

- 3.1 The table below shows the provisional outturn position for council controlled budgets within the General Fund and the outturn on NHS managed S75 Partnership Services.

Forecast Outturn Month 4 £'000	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %	
	Directorate				
312	Adult Social Care	36,563	36,929	366	1.0%
626	S75 Learning Disability Services	23,200	23,738	538	2.3%
1,653	Children & Young People's Trust	50,827	52,417	1,590	3.1%
(349)	Finance & Resources	18,811	18,802	(9)	0.0%
115	Strategy & Governance	12,934	13,031	97	0.7%
797	Environment	38,108	38,278	170	0.4%
49	Housing, Culture & Enterprise	16,808	16,801	(7)	0.0%
3,203	Sub Total	197,251	199,996	2,745	1.4%
(2,415)	Centrally Managed Budgets	26,485	24,059	(2,426)	-9.2%
788	Total Council Controlled Budgets	223,736	224,055	319	0.1%
414	NHS Trust managed S75 Services	12,328	12,737	409	3.3%
1,202	Total Overall Position	236,064	236,792	728	0.3%

3.2 The Total Council Controlled Budgets line in the above table represents the total current forecast risk to the council's General Fund. This includes all directorate budgets, centrally managed budgets and council-managed Section 75 services. The NHS Trust-managed Section 75 Services line represents those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Trust and South Downs Health Trust and include health and social care services for Adult Mental Health, Older People Mental Health, Substance Misuse, AIDS/HIV, Intermediate Care and Community Equipment. The financial risk for these services generally lies with the relevant provider Trust. The forecast outturn on the HRA is as follows:

Forecast Outturn Month 4 £'000	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Variance Month 6 %	
	Housing Revenue Account				
(214)	Expenditure	48,202	47,772	(430)	-0.9%
252	Income	(48,202)	(47,918)	284	0.6%
38	Total	-	(146)	(146)	

Corporate Critical Budgets

3.3 Targeted Budget Management (TBM) is based on the principles that effective financial monitoring of all budgets is important. However, there are a small number of budgets with the potential to have a material impact on the council's overall financial position. These are significant budgets where demand or activity is difficult to predict with certainty and where relatively small changes in demand can have significant financial implications for the council's budget strategy. These

therefore undergo more frequent, timely and detailed analysis. Set out below is the forecast outturn position on the corporate critical budgets.

Forecast Outturn Month 4 £'000	Corporate Critical	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
1,361	Child Agency & In House	22,328	23,675	1,347	6.0%
406	Sustainable Transport	(1,321)	(1,222)	99	7.5%
(350)	Housing Benefits	175,500	175,210	(290)	-0.2%
(160)	Concessionary Fares	7,712	7,300	(412)	-5.3%
253	Community Care	22,921	23,074	153	0.7%
626	Section 75 Learning Disabilities	23,200	23,738	538	2.3%
2,136	Total Council Controlled	250,340	251,775	1,435	0.5%
414	S75 NHS & Community Care	12,328	12,737	409	3.3%
2,550	Total Corporate Criticals	262,668	264,512	1,844	0.7%

Collection Fund

- 3.4 There is a forecast in year deficit on the collection fund of £0.5m as a result of a reduced liability for 2010/11. The reasons for the reduced liability include an increased number of exemptions being claimed for vacant dwellings, increases in second home discounts and a higher than anticipated number of new single person discounts being claimed. The Council's share of the in year deficit is £0.426 million and this will need to be met from reserves as part of the 2011/12 budget setting process.

Annual Efficiency Savings

- 3.5 The Comprehensive Spending Review 2007 assumes that, nationally local authorities will deliver 3% cash releasing gains year on year. Progress made by authorities has so far been reported by National Indicator NI 179 which measured Value For Money gains since the start of the 2008/09 financial year. It should be noted that the requirement to report against this National indicator has now been removed.
- 3.6 The requirement to produce 3% cash releasing gains is reflected in the Medium Term Financial Strategy. Appendix 2 to this report summarises the efficiency savings agreed as part of the 2010/11 budget process and current progress against their achievement. Variances to the agreed efficiencies are included in the directorate forecasts.

Value for Money Programme – Update

- 3.7 Efficiency savings (benefits realisation) from the council's six priority value for money projects for 2010/11 are fully incorporated in the above TBM forecast and Appendix 1. A detailed update on the Value for Money Programme was reported to Cabinet at its October meeting.

Capital Budget 2010/11

- 3.8 This part of the report details the expected capital programme outturn for 2010/11, highlights any programme slippage, details new schemes and budget changes and seeks approval for slippage to the 2011/12 programme. Appendices 3, 4 and 5 to this report show in detail the proposed changes to the budget, resulting in a capital programme budget of £108.139 million.

Capital Forecast Outturn

- 3.9 As stated above, changes are proposed to the capital programme these are summarised in Appendix 4.

Capital Overspends & Underspends

- 3.10 Where schemes are forecast to exceed their budget, budget holders must identify additional resources to finance the shortfall. Forecast overspends of greater than £0.050 million or 10% of the original budget are required to be reported back to Members; either in detailed reports or through this capital monitoring report. Scheme delays or 'slippage' are also monitored in an effort to ensure schemes are delivered not only on budget, but also on time. Where a scheme is forecast to slip by £0.050 million or more, the budget holder will report back to Members, on the amount and the impact of the delay on service delivery.
- 3.11 The Council's overall projection is a net underspend of £0.022 million on all capital schemes. In Environment, project managers have identified a net overspend of £0.060 million of which the majority (£0.048 million) relates to the Horsdean Travellers site which has suffered from vandalism. The Housing Revenue Account is forecasting a net underspend of £0.082 million in respect of savings in unit costs of empty property works partly offset by additional roofing works.

Capital Slippage

- 3.12 No slippage has been identified at this time.

Capital Receipts

- 3.13 Capital receipts are used to support the capital programme. For 2010/11 the programme is fully funded, however, any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds such as the Strategic Investment Fund, Asset Management Fund and ICT Fund.
- 3.14 Capital receipts (excluding housing) are estimated to be £1.125 million for 2010/11 of which £1.065 million has been received to date which includes the disposal of Cedars Lodge, the deposit for American Express and the final

balance on Pioneer House. This leaves £0.060 million of receipts to be achieved during the remainder of the financial year.

- 3.15 The level of sales of council homes through 'right to buy' has been severely affected by the current market conditions in house prices generally and the higher cost and availability of mortgages in the current economic climate. The Government receive 75% of the proceeds of 'right to buy sales'; the remaining 25% is retained by the Council and used to fund eligible elements of the capital programme including council housing investment. The estimated total useable receipts for 'right to buy' sales is £0.492 million for this financial year and to date £0.152 million has been received.

Comments by the Director of Finance

- 3.16 The forecast outturn position on the revenue budget shows an improvement since month 4, the largest factors being an improved position on the corporate critical budgets for Sustainable Transport and Concessionary Fares. Prompt action was initiated following the month 2 forecast to ensure rigorous review of the delivery of the planned VFM savings targets and to develop further financial recovery plans. It is expected that those financial recovery plans will further improve the forecasts on individual directorate budgets.

4. CONSULTATION

- 4.1 No specific consultation was undertaken in relation to this report.

5. FINANCIAL & OTHER IMPLICATIONS

Financial Implications:

- 5.1 The financial implications are covered in the main body of the report.

Legal Implications:

- 5.2 In reaching its decisions in relation to its budget, the Council needs to have regard to a number of general points. It must provide the services, which, statutorily, it is obliged to provide. Where there is power to provide services, rather than a duty, it has discretion to provide such services. It must observe its other legal duties, such as the duty to achieve best value and comply with the Human Rights Act 1998. It must act in accordance with its general fiduciary duties to its Council Tax payers to act with financial prudence. Finally, it must bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

Lawyer Consulted:

Oliver Dixon

Date: 27/10/10

Equalities Implications:

- 5.3 There are no direct equalities implications arising from this report.

Sustainability Implications:

- 5.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

- 5.5 There are no direct crime & disorder implications arising from this report

Risk and Opportunity Management implications:

- 5.6 The council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a working balance of £9 million to mitigate these risks as recommended by the Audit Commission and Chartered Institute of Public Finance & Accountancy (CIPFA). The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

Corporate/Citywide Implications:

- 5.7 The Council's financial position impacts on levels of Council Tax and service levels and therefore has citywide implications.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S)

- 6.1 The forecast outturn position on council controlled budgets is an overspend of £0.319 million; any end of year overspend will need to be funded from general reserves which would then need to be replenished to ensure the working balance did not remain below £9 million. Directorates have developed financial recovery plans so that a break even position is achieved.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 Budget monitoring is a key element of good financial management, which is necessary in order for the council to maintain financial stability and operate effectively.

SUPPORTING DOCUMENTATION

Appendices

1. Directorate Revenue Outturn Forecasts
2. Achievement of 2010/11 Efficiency Savings
3. Capital Outturn Position
4. Summary of New Capital Schemes
5. Summary of Variations to Budget

Documents in Members Rooms

None

Background Documents

None

Adult Social Care

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
312	Adult Social Care	36,563	36,929	366	1.0%
312	Total	36,563	36,929	366	1.0%

Explanation of Key Variances

The forecast overspend of £0.366 million assumes the achievement of a significant service improvement programme of which the Value for Money programme is the most important element. The programme is expected to deliver planned savings of £1.711 million.

The Value for Money Project is budgeted to achieve £1.3 million of savings in the current financial year. Current forecast activity levels indicate that this saving will be largely achieved, this is in the main due to a very successful re-ablement strategy.

The overspend is mainly attributed to the Physical Disabilities community care budget. This is forecast to overspend by £0.253 million which is unchanged from TBM 4 and an improvement on previous years. This is as a result of the complex caseload and expected 508 Whole Time Equivalent (WTE) placements compared with budget assumption of 463 WTE placements. Regular monitoring and reviews are being carried out to address the in year pressures. The forecast assumes projected growth of 27 WTE which may not materialise and should reduce the forecast for subsequent months.

Children & Young People's Trust

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
(515)	Director	3,934	3,479	(455)	-11.6%
620	Area Integrated Working	28,552	28,990	438	1.5%
293	Learning , Schools & Skills	4,146	4,486	340	-8.2%
1,255	Commissioning & Governance	14,195	15,462	1,267	8.9%
1,653	Total	50,827	52,417	1,590	3.1%

Explanation of Key Variances

Director (£0.455 million underspend), this budget area relates to the staffing budget of the Director, Assistant Directors and admin support teams. The underspend mainly relates to the decision made by Cabinet in July to reprioritise £0.434 million from unallocated Dedicated Schools Grant (DSG) money to offset the overall directorate overspend. The remaining £0.034 million of this is being used to fund Information Management within the Commissioning & Governance branch. In addition there are savings of £0.055 million in other areas.

Area Integrated Working (£0.438 million overspend), this branch leads on the development of integrated area working, including early intervention and prevention. Area working includes the Youth Service, Children's Centres, Education Psychology Service (EPS), Education Welfare Service (EWS), frontline social work teams; Leaving Care team and the Fostering Service.

The overspend in this branch relates to two main areas: Legal fees and Area Social Work Teams. Legal fees are currently forecast to overspend by £0.340 million. Legal expenses have increased due to changes in the law by the Public Law Outline (PLO). This is due to several factors, primarily the significant increase in the number of children being referred for care proceedings in line with national trends. In addition to this, the Court Fees have been increased by the Ministry of Justice and the cost of the Court issue Fee has increased from £175 to over £4,000 per fully contested case.

The children's social work teams continue to be under pressure because of their statutory duties around child protection and looked after children's duties. There also continues to be a churn in frontline social workers leaving from the most pressurised teams i.e. the children's social work front doors. As a result of both of these factors the majority of the projected overspend within this area of £0.458 million is mainly due to agency social work staff. The branch has a robust rolling programme of recruitment and retention including a bursary scheme to attract newly qualified social workers from the universities. We are presently recruiting to this years bursary programme for Sept 2010. This intake of newly qualified social workers will help towards reduction on dependency on agency social workers.

Learning, Schools & Skills (£0.34 million overspend), the main area of overspend in this area relates to disability agency placements £0.387 million.

Commissioning and Governance (£1.267 million overspend), this branch is responsible for producing and monitoring the Children and Young people's Plan and the effective operation of the council's Section 75 Agreements with our health partners for the joint commissioning and provision of integrated children's services. In addition the branch is responsible for the commissioning and procurement of fostering and residential agency placements for individual children and the oversight and monitoring of associated budgets. The number of placements, and level of expenditure, relates directly to the significant and sustained level of referrals to social care (at times up to 61%) following the Baby P. case and the Laming recommendations. This has resulted in a 46% increase in the number of children with a child protection plan and a 21% increase in the number of looked after children between April 2009 and September 2010. The main areas of overspend in this area relate to Independent Foster Agency Placements of £1.08 million.

Children's Services have put in place a Value for Money action plan to address the level of activity and spend in IFA'S. The plan focuses on strengthening preventive services and streamlining social care processes including:

- increasing the use of the Common Assessment Framework to provide universal and tier 2 services to children and families in need
- driving the implementation of the 'Think Family' approach for families with the most complex needs
- introducing a tiered approach to manage social care referrals from other agencies including the remodelling of social work duty systems and the reinstatement of area and specialist resource panels or similar mechanisms
- improving the commissioning and procurement of expert assessments in care proceedings, strengthening arrangements for early permanence planning and increasing the numbers of in house foster placements able to provide tier 1 care

Finance & Resources

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
(188)	Finance	6,020	5,960	(60)	-1.0%
(312)	Customers & Information	9,324	9,052	(272)	-2.9%
151	Property & Design	3,467	3,790	323	9.3%
(349)	Total	18,811	18,802	(9)	0.0%

Explanation of Key Variances

Within Finance there is a total forecast underspend of £0.060million. Of, this £0.030 million relates to Financial Services and is due to the service winning the contract to supply financial services to the South Downs National Park, partly offset by one off office and staffing costs associated with a staffing restructure. The remaining £0.030 million relates to a staffing underspend and additional income in Audit & Business Risk.

Customers & Information are forecasting an underspend of £0.272 million. There are underspends of £0.357 million in respect of vacancy management, £0.290 million relating to additional Housing Benefits income based on current subsidy arrangements and additional land charges income of £0.067 million. Offset against these underspends are pressures of £0.253 million on Coroner's medical requisites, professional fees and other supplies and services and £0.119 million relating to an underachievement of Bereavement Services income. In addition there are a number of other smaller overspends including £0.066 million relating to Council Tax / NNDR courts costs and £0.030 million on ICT costs. The reduction in court costs is largely due to a 35% decrease in the number of summonses issued following success in encouraging council tax payers to pay by direct debit.

Property and Design are forecasting a shortfall on rental income of £0.144 million mainly due to lower than expected income from rent reviews. Property and Design will continue to secure the most advantageous rent settlements both for short term and long term gain. The saving from the under 100kw site electricity contract and from the gas contract which both started in April 2010 has been estimated to be approximately £0.028 million.

A sum of £0.0207 million has been set aside to invest in Automatic Meter Readers (AMR's) for non Housing sites. This expenditure is counted as revenue rather than capital under new International Financial Reporting Standards and so is showing against the Property & Design budget.

The installation of AMR's will support the Government and Council's commitment to reduce carbon emissions through lowering energy consumption as part of the 10.10 campaign, as well as legal commitments such as the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which specifically states the need for installing AMR's as part of its early action metrics.

Item 54 Appendix 1

By installing and using AMR's the Council will be able to actively monitor and manage its usage through the use of accurate actual reads from each meter. With this data to hand the reliance on estimated bills and gaps in data can be removed allowing for a detailed analysis of high consuming sites with the intention of making savings.

Strategy & Governance

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
(5)	Equalities & Communities	3,028	3,023	(5)	-0.2%
-	Performance & Analysis	871	871	-	0.0%
-	Legal & Democratic Services	3,109	3,105	(4)	-0.1%
-	Policy Unit	1,098	1,088	(10)	-0.9%
51	Human Resources	3,949	3,996	46	1.2%
-	Executive Office	379	379	-	0.0%
69	Communications	500	569	69	13.8%
115	Total	12,934	13,031	97	0.7%

Explanation of Key Variances

The directorate had a plan in place to deliver the savings of £0.412 million identified in the budget strategy. However, emerging pressures within Communications and Human Resources cannot be fully addressed as at TBM 6. Within Communications there are salary and other service pressures it is anticipated that these will be offset by income surpluses, project contributions from other directorates, and from the communications Value for Money review. Within Human Resources salaries service pressures are offset by income giving a net position of £0.046 million.

The directorate is reviewing all services in order to meet the £0.097 million projected overspend and the following additional management actions have been put in place to address the potential overspend.

- All services are ensuring that all internal and external income is maximised. Communications in particular is finalising the collection of payments for work streams
- Over 80% of all spend within S&G is on salaries. All service areas are actively managing vacant posts where possible in order to reduce costs. In particular HR are managing carefully the number of temporary staff as the new HR system comes into operation. The forthcoming introduction of the manager self serve will further increase the scope of greater in year savings and a reduction in the current projected overspends.
- The Communications Team are expecting to make further savings in year through their VFM programme.
- All service areas are committed to reducing all non essential expenditure internal and external expenditure.

Environment

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
81	City Services	29,912	29,993	81	0.3%
-	Sport & Leisure	1,937	1,832	(105)	-5.4%
406	Sustainable Transport	(1,321)	(1,222)	99	7.5%
310	City Planning	7,580	7,675	95	1.3%
797	Total	38,108	38,278	170	0.4%

Explanation of Key Variances

The forecast overspend in City Services is due to the cost of providing 24 hour security at Horsdean Traveller Site, £0.057 million, and the higher than budgeted costs of rubbish clearance, £0.031 million. The Traveller Liaison Service has identified underspends of £0.007 million to help offset these pressures.

The forecast underspend in Sport & Leisure is due to additional income achieved from the sale of beach huts, £0.048 million, and through underspends on expenditure budgets of £0.057 million.

Sustainable Transport are forecasting an overspend against budget. The main variance relates to a drop in the number of Penalty Charge Notices being issued; this follows a nationally recognised trend for improved compliance. Should the trend be maintained then the expected income shortfall will be £0.526 million, net of the bad debt provision. On-street Parking Income is forecast to be £0.090 million below target, and income from the ex-leased car parks is expected to be £0.100 million short of budget, owing to the reducing income levels at Regency Square car park. These pressures have been partially offset by a number of forecast underspends, the largest of which is improved income generation at the refurbished Lanes and London Road Car Parks, totalling £0.390 million. Other underspends include £0.150 million following the settlement of a legal dispute relating to coast protection and £0.079 million for other parking underspends. A range of measures have been implemented across the division with the aim of bringing the forecast back to a break even position.

The forecast overspend in City Planning of £0.135 million is due to a shortfall in income generated by the Building Control Service, and loss of the Planning Delivery Grant. Other Planning/Public Protection budgets are expected to underspend against budget by £0.040 million due to vacancy management savings.

The directorate is endeavouring to improve the financial position by keeping all services under constant review and taking action where feasible to reduce expenditure and raise additional revenue.

Housing, Culture & Enterprise

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
90	Tourism & Venues	1,637	1,687	50	3.1%
-	Libraries & Information Servs	4,173	4,173	-	0.0%
-	Royal Pavilion & Museums	2,568	2,568	-	0.0%
(41)	Culture & Economy	3,552	3,495	(57)	-1.6%
-	Major Projects & Regeneration	355	355	-	0.0%
-	Housing Strategy	4,523	4,523	-	0.0%
49	Total	16,808	16,801	(7)	0.0%

Explanation of Key Variances

Within Tourism & Venues the income forecast for the Brighton Centre is on target but there is an expected shortfall of income on the Hove Centre of £0.020 million and a pressure on contract costs on the Brighton Centre of £0.070 million which is offset by vacancy management savings of £0.040 million. Income potential will continue to be reviewed to address this pressure.

The Royal Pavilion & Museums are forecasting break even and are on target to achieve their income target for 2010/11.

The underspend on Culture & Economy is largely the result of vacancy management savings.

Housing Strategy is on target to breakeven, the loss of Supporting People Admin grant of £0.164 million is being covered by vacancy management and one-off under-spends on the Supporting People Welfare grant.

Centrally Managed Budgets

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
(225)	Bulk Insurance Premia	3,019	2,869	(150)	-5.0%
(160)	Concessionary Fares	7,712	7,300	(412)	-5.3%
-	Capital Financing Costs	10,446	10,446	-	0.0%
-	Levies & Precepts	201	201	-	0.0%
(2,030)	Other Corporate Items	5,107	3,243	(1,864)	-36.5%
(2,415)	Total	26,485	24,059	(2,426)	-9.2%

Explanation of Key Variances

The forecast saving on Insurance Premia is as a result of the review of annual insurance arrangements for 2010/11. The forecast saving has reduced since TBM 4 from £0.225 million to £0.150 million, due to an increase in the number of claims in the last couple of months.

On Concessionary Fares there is a £0.252 million increase in the forecast saving bringing the total for the year to £0.412 million. The increase is due to lower than anticipated concessionary journey numbers continuing through the second quarter of 2010/11, which in turn has led to the contingency held for potential increases in journey numbers being released as it is no longer needed.

On Corporate Items there is an ongoing risk provision within Contingency of £0.750 million to cover risks identified in the Learning Disabilities budget and a further £0.750 million to cover uncertainties in the budget. These two risk provisions which total £1.500 million are being used to offset in-year pressures identified elsewhere in the budget. An amount of £0.500 million is being released from contingency following a decision to reduce the 1% set aside to cover pay increases in 2010/11 to 0.5%.

In addition there is a further £0.064 million saving from contingency as a result of £0.030 million recovered from City College relating to Comart that was originally funded from contingency and £0.034 million from contingency for items no longer required.

The one off risk provision of £0.500m which is being used to manage the implementation of the in-year grant reductions.

Section 75 Partnerships

Forecast Outturn Month 4 £'000	Division	2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
626	Council managed S75 Servs	23,200	23,738	538	2.3%
414	NHS Trust managed S75 Servs	12,328	12,737	409	3.3%
1,040	Total S75	35,528	36,475	947	2.7%

Explanation of Key Variances

Council managed S75 services (Learning Disabilities) are forecast to overspend by £0.538 million. The forecast overspend is attributed to:

- Learning Disabilities mainstream- staffing cost pressures £0.016 million
- Learning Disabilities Community Care-forecast overspend of £0.522 million equivalent to 10 Whole Time Equivalents (WTE's) in residential care

The overspend of £0.538 million assumes the achievement of £1.420 million to deliver savings identified within the budget strategy. The current forecast of the financial recovery plan assumes a further £0.128 million to be delivered in addition to the £1.009 million achieved to date. These Learning Disability pressures are before the application of the corporate contingency of £0.750 million set aside to address identified risks within the budget strategy

NHS Trust managed S75 services forecast overspend of £0.409 million based on the following assumptions:

- Sussex Partnership Foundation Trust (SPFT) – forecast overspend of £0.288 million after delivery of a financial recovery plan (see below). Significant overspends on community care budget (Adult Mental Health £0.425 million, Older People Mental Health £ 0.386 million and Substance Misuse £0.044 million) due to the full year effect of 2009/10 placements offset by vacancy management savings of £0.179 million and assumes the allocation of the joint commissioning pot of £0.450 million held for the development of mental health services (of which a proportion has been allocated to Older People Mental Health).
- South Downs Health Trust (SDHT) – forecast overspend of £0.121 million, due to a staffing pressures on intermediate care services. Options are being explored to deliver savings across a range of service provision.

Sussex Partnership Foundation Trust (SPFT) have developed a Financial Recovery Plan to work towards a reduced overspend position as attached. Savings achieved to date are £0.494 million against a target of £0.829 million. There is ongoing dialogue with SPFT on management of placements.

Generally, the S75 Partnership Agreements require the Integrated Service Providers (Sussex Partnership Foundation Trust and South Downs Health Trust) to manage in-year cost pressures and carry this risk, subject to any agreement by the partners to

vary risk-sharing provisions within the agreements. A risk sharing agreement has been reached in principle for 2010/11.

Housing Revenue Account (HRA)

Forecast Outturn Month 4 £'000		2010/11 Budget Month 6 £'000	Forecast Outturn Month 6 £'000	Forecast Variance Month 6 £'000	Forecast Variance Month 6 %
	Housing Revenue Account				
(68)	Employees	9,187	8,914	(273)	-3.0%
(66)	Premises – Repair	11,468	11,181	(287)	-2.5%
21	Premises – Other	3,110	3,173	63	2.0%
19	Transport & Supplies	2,033	2,222	189	9.3%
(20)	Support Services	2,153	2,127	(26)	-1.2%
-	Third Party Payments	54	54	-	0.0%
-	Revenue contribution to capital	3,543	3,543	-	0.0%
(116)	Capital Financing Costs	3,729	3,594	(135)	-3.6%
16	Subsidy Payable	12,925	12,964	39	0.3%
(214)	Net Expenditure	48,202	47,772	(430)	-0.9%
(14)	Dwelling Rents (net)	(41,613)	(41,617)	(4)	0.0%
55	Other rent	(1,318)	(1,258)	60	4.6%
152	Service Charges	(4,034)	(3,853)	181	4.5%
22	Supporting People	(497)	(486)	11	2.2%
37	Other recharges & interest	(740)	(704)	36	4.9%
252	Net Income	(48,202)	(47,918)	284	0.6%
38	Total	-	(146)	(146)	

Explanation of Key Variances

The forecast for month 6 is an underspend of £0.146 million.

Further analysis of the variances as at month 6 are as follows:

- The employees forecast underspend has increased to £0.273 million due to vacancy management both in Housing Management and Property and Investment. The budget for the new structure for Property and Investment in order to support the new Mears contract, which came into effect from 1 April, assumed a full year establishment for all posts. However, some posts have been recruited to later in the financial year resulting in an underspend.
- The Premises Repairs forecast is an underspend of £0.287 million and includes:
 - Underspend of £0.126 million relating to service contracts which are being procured during 2011/12 and 2012/13 financial years.
 - Underspend of £0.092 million relating to unit cost efficiencies on the works carried out on empty properties due to Mears achieving a reduction in the budgeted unit costs of £387 per unit.
- Transport & Supplies includes £0.100 million towards the phased introduction of Automatic Meter Readers in Housing sites that fall under the gas and electric

contracts. These are being purchased in order to provide more accurate meter readings, support active management of usage and to support the Council's commitment to reduce carbon emissions and meet the requirements of the Carbon Reduction Commitment Energy Efficiency Scheme.

- Capital Financing costs are forecast to underspend by £0.135 million due to forecast interest rates for the year being lower than the assumptions used for budget setting.
- Leaseholder service charges income is projected to underachieve by £0.150 million. This projection has been forecast following analysis of last year's outturn which has shown that the charges are likely to be less than budgeted for.

PROGRESS AGAINST THE ACHIEVEMENT OF THE 2010/11 EFFICIENCY SAVINGS

	Budget £'000	Forecast £'000	Variance £'000	Explanation
Adult Social Care & Housing				
Adult Social Care	(1,811)	(1,711)	100	Refer to Appendix 1 for details.
Housing Strategy	(1,043)	(1,170)	(127)	Based on latest Financial Recovery Plan summary
Sub-Total	(2,854)	(2,881)	(27)	
CYPT				
Director	0	0	0	
Area Integrated Working	(461)	(461)	0	
Learning, Schools & Skills	(25)	(25)	0	
Strategic Commissioning & Governance	(976)	(976)	0	VFM Savings have been achieved through the work of the VFM Project Group. However the ongoing high number of Looked After Children has led to continuing budget pressures.
Sub-Total	(1,462)	(1,462)	0	
Finance & Resources				
Finance & Procurement	(250)	(250)	0	
ICT	(500)	(500)	0	
Customer Services	(106)	(106)	0	
Property & Design	(190)	(190)	0	
Sub-Total	(1,046)	(1,046)	0	
Strategy & Governance				
Director	(3)	(3)	0	
Policy Unit	(13)	(13)	0	
Communications	(145)	(110)	35	TBM 6 Forecast £0.065 million pressure of which £0.035 million related to efficiency target re Marketing
Member Allowances	0	0	0	
Improvement & Organ Development	(3)	(3)	0	
Legal & Democratic Services	(16)	(16)	0	
Executive Office	(6)	(6)	0	
Human Resources	(143)	(10)	133	Forecast at TBM 6 to overspend by £0.133 million.
Sub-Total	(329)	(161)	168	

	Budget	Forecast	Variance	Explanation
	£'000	£'000	£'000	
Environment				
City Services	(430)	(430)	0	
Sports & Leisure	(20)	(20)	0	
Sustainable Transport	(80)	(80)	0	
Public Safety	(146)	(146)	0	
City Planning	(80)	(80)	0	
Sub-Total	(756)	(756)	0	
Culture & Enterprise				
Directors Office	(25)	(25)	0	
Libraries & Information services	0	0	0	
Royal Pavilion & Museums	(300)	(300)	0	
Tourism & Venues	(68)	(68)	0	
Culture & Economy	0	0	0	
Major Projects and Regeneration	0	0	0	
Sub-Total	(393)	(393)	0	
Section 75 : Learning Disabilities				
Council Lead Learning Disabilities	(1,178)	(738)	440	Refer to Appendix 1 for details.
Sub-Total	(1,178)	(738)	440	
Health Led Section 75 arrangements				
SPFT	(560)	(494)	66	Refer to Appendix 1 for details
SDHT	(300)	0	300	
Sub-Total	(860)	(494)	366	
Total	(8,878)	(7,931)	947	

	Budget	Forecast	Variance	Explanation
	£'000	£'000	£'000	
Housing Revenue Account				
Housing Management - laundry service contract	(25)	(25)	0	
Housing Management - reduction in provision for bad debt	(51)	(51)	0	
Housing Management - Transport and Supplies & Services	(108)	(108)	0	
Property & Investment - New partnership contract efficiencies	(66)	(66)	0	
Temporary Accommodation Management costs savings from leasing to LDV	(176)	(52)	124	
Energy procurement contract efficiencies - electricity	(100)	(100)	0	
Support Services	(48)	(48)		
Total	(574)	(450)	124	

CAPITAL OUTTURN POSITION

Directorate	2010-11 Budget £'000	2010-11 New Schemes £'000	2010-11 Variations £'000	2010-11 Slippage £'000	2010-11 Budget £'000	2010-11 Outturn £'000	2010-11 Overspends / (Underspends) £'000
Strategy & Governance	983				983	983	-
Housing, Culture & Enterprise	13,387		(2,700)		10,687	10,687	-
Housing Revenue Account (HRA)	25,841				25,841	25,759	(82)
Finance & Resources	4,313		(171)		4,142	4,142	-
Adult Social Care	834				834	834	-
Children & Young People's Trust	50,303	19			50,322	50,322	-
Environment	14,235	568	527		15,330	15,390	60
Total Council Budgets	109,896	587	(2,344)	0	108,139	108,117	(22)

Summary of new schemes

New Schemes Summary	2010/11 Budget £'000
Children & Young People's Trust	
New Schemes over £50,000 (detailed in Appendix 5)	-
Intensive Placement Team vehicle	19
Environment	
Detailed Reprofiles in Appendix 5 (over £50,000)	554
Coastal Protection Grant - Bridges & Seafront Structures	14
Total Changes to Budgets	587

Environment

Directorate: Environment

New Budget: £267,000

Project Title: Traffic Control Centre

The equipment and systems serving the City's Traffic Control Centre (TCC) have been added at different times over the years. A specialist survey has been carried out and some of the oldest components are the "Tele-8" telephone lines that link the TCC with traffic signals across the city. The Tele-8 components are at the end of their useable life and the supplier has recently announced that it will no longer be supporting Tele-8. The impact of a failure would be to make it impossible for us to control traffic signals across the city and this could lead to severe traffic disruptions.

On this basis, failure of the Tele-8 components is considered to be a critical business risk both in terms of probability and impact. To mitigate this risk these components need to be upgraded to a modern broadband solution at a cost of £0.267 million. A broadband solution presents an "invest to save" opportunity as the system will deliver significant ongoing annual savings over traditional telephone lines (estimated at £0.016 million per annum). In addition, savings on staff costs (£0.016 million per annum) will fund the upgrade. This will be funded from unsupported borrowing and repaid over a 7 year period.

Directorate: Environment
Project Title: Various S106 works

New Budget: £286,780

In total there is £0.287 million of Section 106 capital works planned for completion in 2010/11. The largest element of this is £0.101 million relating to improvements at Richmond Parade. This would include the removal of a traffic island and the realignment of the street to a scale more in keeping with a residential area. Associated works would include the relocation of and/or provision of new lighting and 'de-cluttering' (removal of redundant street furniture). There would also be provision for raised parking/ loading bays.

The remaining £0.186 million relates to a number of smaller schemes, none of which are over £0.032 million. These mainly relate to bus stop flags, solar bus stops and kerb improvements.

Summary of variations to budget

Schemes	2010/11 Budget £'000	2011/12 Budget £'000	Total Changes £'000
Finance & Resources			
Detailed Variations in Appendix 6 (over £50,000)	(171)	171	-
Environment			
Detailed Variations in Appendix 6 (over £50,000)	527	-	527
Housing, Culture & Enterprise			
Detailed Variations in Appendix 6 (over £50,000)	(2,700)	2,700	-
Total Changes to Budgets	(2,344)	2,871	527

Detailed explanations of the variations

Finance & Resources

Directorate: Finance & Resources	Approved Budget: £265,000
Project Title: ICT – Planning System & Information Security Upgrades	Revised Budget: £195,000
	Variation: £(70,000)

Planning System Upgrade (£0.050 million)

The original proposal to upgrade and/or replace the City Planning IT systems has been revised following detailed analysis of critical business processes. Alternative proposals have been submitted to Planning outlining an approach for development of a Web Enabled IT solution with greater use of Electronic Documents and Records Management. These revised proposals are currently being reviewed by the City Planning Improvements Project to ensure they are consistent with the plans for the Improving Customer Experience programme and Coalition Government's expectations around Transparency. This has introduced delays in starting the procurement process to commission the development of an improved IT system.

Information Security Upgrade (£0.020 million)

ICT is reviewing the emerging requirements for protecting personal and sensitive information. Requirements continue to emerge to share secure information with external partners and for making information available via our website (identified as a requirement under Improving Customer Experience (ICE) Web-Enabling Stage 2).

Examples of expected investment include the provision of Encrypted Data Sticks and provision of secure email to care homes; however effective solutions to these needs require proper evaluation and design before they can be implemented. Risk levels are being assessed and options will be presented to the Information Governance Steering Group to ensure we build safe practices within the Council.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(70)	70	0	0

Directorate: Finance & Resources	Approved Budget: £184,000
Project Title: ICT – Telephony System Upgrade	Revised Budget: £83,000
	Variation: £(101,000)

The decision to carry out an in-house upgrade of our existing telephony system to support mobile and flexible working has been deferred pending the re-tender of the current Voice and Data contract in 2011. Discussions with existing partners and SE7 Chief Information Officers indicates that a more cost effective option for an organisation wide telephony solution supporting mobility will be possible by including the requirement as part of the tender process. Reprofiling existing funds provides ICT the ability to tailor a more cost effective voice solution that matches the emerging demands for flexible working expected in 2011.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(101)	101		0

Environment

Directorate: Environment	Approved Budget: £70,970
Project Title: Playbuilder	Revised Budget: £597,540
	Variation: £526,570

In July 2010 the Playbuilder Project was put on hold by Central Government pending the budget review as reported to Cabinet in TBM4. On the 20th of October the council was informed that it would receive a revised grant settlement of £0.373 million. In July 2010 the Playbuilder Project was put on hold by Central Government as reported to Cabinet in TBM4. On the 20th of October the council was informed that it would receive a revised grant settlement of £0.373 million. It is intended to review accrued interest on negotiated Section 106 agreements for Open Space Schemes to identify

any appropriate funding that can be legitimately used to support the remainder of this project.

We are still waiting for the detailed terms and conditions associated with the grant, however the ring fencing has been removed. The design work and consultation on all the sites has nearly been completed. We are working on revising the project plan which will schedule the work to ensure that:

- It is completed as soon as practicable, with as many sites as possible opening in the spring
- The timing of landscaping and planting is optimum for new vegetation establishing
- Where possible the number of play areas closed at any one time for construction work is minimised.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
527	0	0	527

Housing, Culture & Enterprise

Directorate: Housing, Culture & Enterprise	Approved Budget: £9,305,000
Project Title: Private Sector Housing Grants (BEST)	Revised Budget: £6,605,000
	Variation: £(2,700,000)

BEST funds a major component of Private Sector Housing. As funding ends in March 2011 the service is proposing to carry forward £2.7 million into 2011/12 to ensure sufficient funding is available for ongoing commitments for major projects and to ensure performance targets are achieved around decent homes, empty properties, energy efficiency and disabled adaptations.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(2,700)	2,700	0	0

Brighton & Hove City Council

To	Audit Committee
From	Simon Mathers, Audit Manager, Audit Commission
Subject	Progress Report 2010/11
Purpose	<p>Why is this paper here? The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as the Council's external auditors.</p> <p>What do we want to be agreed/decided? The Committee to consider progress and ask questions.</p>
Date	14 December 2010

Progress report and briefing

December 2010

Brighton & Hove City Council

Audit 2010/11

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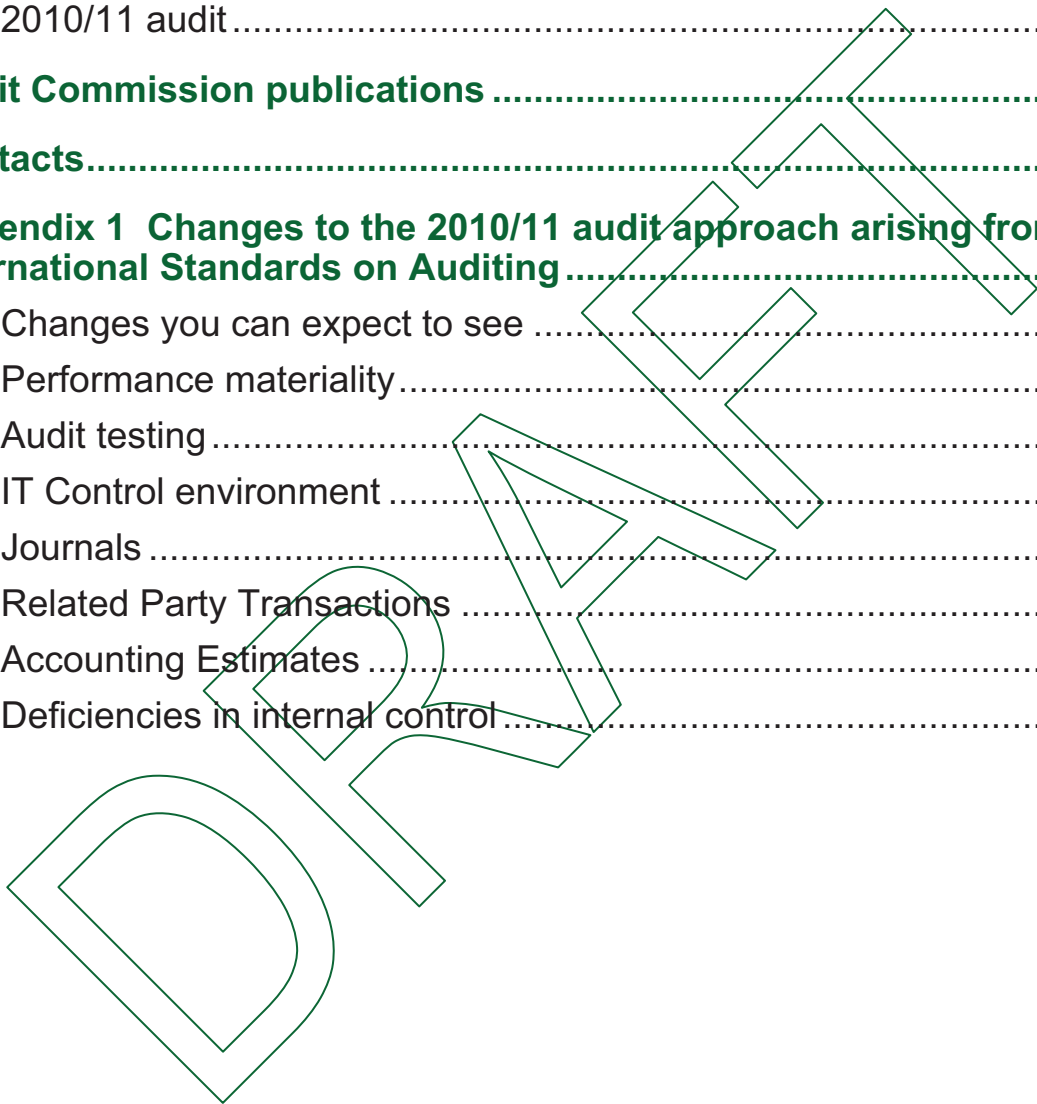
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Audit progress

Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering my responsibilities as the Council's external auditor.

2 If you require any additional information regarding the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team using the contact details at the end of this update.

2009/10 audit

3 My work on the 2009/10 audit is now virtually complete. I have not yet been able to formally conclude the audit and issue the audit certificate. This is because I am currently considering an objection made by a local elector to the Council's 2009/10 financial statements. I am, however, satisfied the matters raised do not have a material effect on the Council's accounts and I have therefore been able to issue the audit opinion.

2010/11 audit

Financial Statements

4 The proposed timing for my audit work is set out in table 1.

Table 1: **Audit time line**

Work Flow	Date of completion	Reports
Documentation and walkthrough of key financial systems	January 2011	None.
Review of 2010/11 re-stated IFRS accounts	February 2011	No specific report. I will draw any significant issues to your attention in my 2010/11 Audit Opinion Plan which I aim to present to the April 2011 Audit Committee meeting.

Work Flow	Date of completion	Reports
Audit Commission controls testing. Review of IA controls testing.	February/March 2010	I will draw control weaknesses to your attention in my 2010/11 Audit Opinion Plan which I aim to present to the April 2011 Audit Committee meeting. Recommendations for the improvement of internal control will be made in my 2010/11 annual governance report.
Post statement audit and financial statements opinion	by 30 September 2010	The results of my work on the 2010/11 financial statements will be reported in my annual governance report which I will present to the September 2011 Audit Committee meeting.
VFM work	by 30 September 2010	The results of my work on the 2010/11 VFM conclusion work will be reported in my annual governance report which I will present to the September 2011 Audit Committee meeting.

5 My audit approach is governed by International Standards on Auditing (ISAs). These standards set out the basic principles and actions I must take. They also govern my professional conduct as your auditor.

6 The ISAs were revised in 2009 as part of the Clarity Project and the new approach applies to your 2010/11 audit. As a result there will be some changes to the audit approach this year. The main changes relate to:

- the concept of materiality;
- audit testing;
- the IT control environment;
- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

More details are set out in appendix 1 of this progress report.

7 I have agreed with officers that my team will take a different approach to the delivery of the audit of the 2010/11 financial statements. I intend to deliver my work in a shorter period of time using a larger audit team. It is my intention that the majority of my post-statement work will be delivered during July 2011. This type of approach has benefits for both officers and my team, but will require some revision to working methods.

VFM conclusion

8 I assess whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

9 From 2010/11, the Commission has introduced new requirements for VFM audit work at local authorities. Auditors will give their statutory VFM conclusion based on the following two criteria specified by the Commission:

Table 2: **Specified criteria for the auditor’s VFM conclusion:**

Criteria 1	Criteria 2
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
Focus of criteria for 2010/11:	
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

10 I am discussing with officers to agree the precise nature of the work I will undertake to discharge my responsibilities in this area.

Audit Commission publications

In this section I summarise recent Audit Commission publications and tools. If you require more information please contact the local audit team.

Against the odds: Re-engaging young people in education, employment or training (November 2010)

11 This report is directed at Children's Trusts and is included here to assist the Council and its partners improve services for young adults.

12 Since 1990, a yearly government survey has indicated that between 9 and 10 per cent of 16 to 18 year olds is without a wage, schooling or training. This new study looks at the financial, personal and social cost of teenagers who are so-called NEET - not in education, employment or training. The study has found that the problem may be worse than the annual 'snapshot' survey shows, but that a new approach can make scarce resources work harder for those at greatest risk.

13 The report summary document gives an overview of the main findings from the research, complete with a series of questions to help commissioners and members of 14-19 partnerships, children's trusts and local strategic partnerships explore what local issues may be for young people not in education, employment or training and how to work more effectively to help them.

Financial management of personal budgets: Challenges and opportunities for councils (October 2010)

14 Councils are undergoing a major transition from being providers of adult social care services to becoming providers of personal budgets. The latest Audit Commission report, Financial Management of Personal Budgets, highlights how some councils will need to make a significant effort to achieve the milestones agreed by the Department of Health, Association of Directors of Adult Social Services and the Local Government Association in 2009.

15 The report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

16 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment

checklist to help councils review progress in implementing personal budgets and identify areas for improvement.

Learning lessons from the audit of IFRS-compliant NHS accounts 2009/10 (September 2010)

17 On 9 September we published our briefing paper 'Learning lessons from the audit of IFRS-compliant NHS accounts 2009/10' ([AC external link](#)). It is included here to highlight potential issues for the Council as it moves towards the production of IFRS compliant accounts in 2010/11.

18 This briefing aims to support continuous improvement in financial reporting, and provide lessons for NHS bodies as well as help those in other sectors that are reporting under IFRS for the first time in 2010/11.

19 We found that:

- overall, NHS bodies coped well with producing their IFRS-compliant accounts for 2009/10;
- disclosures, property, plant and equipment issues, and accounting for leases were the most significant financial reporting issues; and
- most NHS bodies engaged effectively with auditors to resolve IFRS reporting issues.

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Contacts

The key members of the audit team for the 2010/11 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
District Auditor	Helen Thompson	Tel: 0844 798 1790 e-mail: Helen-Thompson@audit-commission.gov.uk
Audit Manager	Simon Mathers	Tel: 0844 798 1776 e-mail: s-mathers@audit-commission.gov.uk
Co-Team Leader	Jeremy Jacobs	Tel: 0844 798 6121 e-mail: j-jacobs@audit-commission.gov.uk
Co-Team Leader	Jessica Grange	Tel: 0844 798 6116 e-mail: j-grange@audit-commission.gov.uk

Appendix 1 Changes to the 2010/11 audit approach arising from clarified International Standards on Auditing

Changes you can expect to see

20 As your appointed auditor, the audit of the financial statements I deliver is governed by International Standards on Auditing (ISAs). These standards set out the basic principles and actions I must take. They also govern my professional conduct as your auditor.

21 All guidance and frameworks are updated. In 2009 the auditing profession completed a project to enhance the clarity of all the ISAs. This is known as the Clarity Project.

22 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and making them easier to read and understand.

23 The new clearer IFA framework will apply to my audit of your 2010/11 financial statements. There will be some changes in the way my audit team delivers your audit and the information they request from you. The purpose of this document is to tell you the main changes and how they will impact on you.

24 The main changes relate to:

- our concept of materiality;
- the amount of audit testing we must undertake;
- how we audit the IT control environment;
- the level of audit work on journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

Performance materiality

25 A new concept of performance materiality is used at the planning stage to identify material audit items and risks of material misstatement. This is in addition to the headline materiality limit. Performance materiality is set at a lower level than headline materiality. The range is 70-90%. This change may increase the number of material information systems identified or the number of audit risks identified.

Audit testing

26 ISA (UK&I) 330 requires auditors to undertake some substantive procedures on all material entries in the financial statements. This applies irrespective of whether controls assurance is being obtained. Auditors are still required to obtain controls assurance as this is often the most efficient way of gaining audit assurance. In addition auditors have to carry out some substantive work on all material figures in the accounts.

27 There are also some changes to the sampling formula used. The lower performance materiality is used in the formula as are new risk factors. The impact is that testing samples sizes will increase.

IT Control environment

28 The audit work required to evaluate the IT control environment is more detailed and must be carried out by specially trained IT auditors. In addition to understanding the IT systems and policies in place, auditors need to test the operation of the relevant controls. Auditors will need to ask you for additional information and carry out additional audit work in this area.

Journals

29 ISA (UK&I) 330 (the auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using computer interrogation tools such as IDEA software or excel, depending on the compatibility of your general ledger software. I will discuss a suitable approach to this work soon.

Related Party Transactions

30 ISA (UK&I) 550 (related parties) requires me to review your procedures for identifying related party transactions. I need to understand the controls that you have in place to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions. I will also need to carry out audit work to assure myself that all related party transactions are set out in the financial statements.

Accounting Estimates

31 ISA (UK&I) 540 (auditing accounting estimates, including fair value accounting estimates, and related disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;

- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

32 ISA (UK&I) 265 (communicating deficiencies in internal control to those charged with governance and management) is a new standard.

33 If I identify a deficiency in any of your internal controls during the audit, I will need to carry out further audit testing to understand whether the error is significant. If I decide it is significant, I will report it in writing to your Audit Committee as those charged with governance.

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Brighton & Hove City Council

To	Audit Committee
From	Simon Mathers, Audit Manager, Audit Commission
Subject	Annual Audit Letter 2009/10
Purpose	<p>Why is this paper here? This report summarises the findings from our 2009/10 programme of audit work, and will be published on the Council's website. The contents of the report have been discussed and agreed by officers. It includes messages arising from:</p> <ul style="list-style-type: none"> • the audit of the financial statements. More detailed findings were issued in the 2009/10 annual governance report; • the work undertaken to assess the Council's arrangements to secure value for money in its use of resources. More detailed findings were issued in the 2009/10 annual governance report; and • summary findings from our 2009/10 programme of local risk based performance work. <p>What do we want to be agreed/decided? The Committee to receive and note the report.</p>
Date	14 December 2010

Annual Audit Letter

Brighton and Hove City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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Summary

This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (page 4) and my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 9).

Audit opinion and financial statements

1 The financial statements submitted for audit were of a good standard and my audit work detected only a small number of errors and uncertainties. Working papers to support the financial statements were also good. I was able to issue an unqualified opinion by the required deadline.

Value for money

2 I gave an unqualified value for money conclusion. This means that I am satisfied the Council has satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Following the government's announcement in May 2010 work on the comprehensive area assessment (CAA), which included use of resources, stopped with immediate effect. I have reported my summarised findings in this letter as they contribute to the value for money conclusion, which is statutory requirement of the Code of Audit Practice.

Audit certificate

4 I have not yet been able to formally conclude the audit and issue the audit certificate. This is because I am currently considering an objection made by a local elector to the Council's 2009/10 financial statements. I am, however, satisfied the matters raised do not have a material effect on the Council's accounts and I have therefore been able to issue the audit opinion.

Current and future challenges

5 The Council continues to plan and manage its finances well, and service efficiencies and financial savings have been delivered over the last year. The economic downturn and the recent comprehensive spending review (CSR) are, however, imposing unprecedented financial pressures on the public sector. Although the Council's medium term financial strategy already considered expected cuts in funding this is being revisited, and it is likely that further difficult choices will need to be made by members and

officers to secure the necessary reductions in spending. The success of the recent management restructure and move to a new operating model, which is more focused on the strategic commissioning of services, will be critical to the future of the Council.

Financial systems and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, which is the statutory target date.

Overall conclusion from the audit

6 Good quality financial statements were submitted for audit and I did not identify any significant errors or uncertainties. The draft financial statements were available over a week before the Council's internal deadline for approval of the accounts. This allowed for proper officer and member review of the statements, which helps to ensure the statements approved by committee and presented for audit are of a good quality. Queries arising during the audit were addressed quickly and comprehensively by officers.

7 Accounting practice at the Council is sound. In particular, it coped well with the complex accounting required for its joint waste management private finance initiative (PFI) scheme with East Sussex County Council. This is a complex contractual arrangement that has changed significantly since it began. The Council is making reasonable progress towards implementing international financial reporting standards (IFRS) in 2010/11. The good level of accounting competence demonstrated by the Council suggests it is well placed to implement IFRS successfully.

Significant weaknesses in internal control

8 I concluded that the Council's internal financial control environment is satisfactory overall. However, my work on the Council's significant financial systems identified some areas of weakness in the design or operation of controls. In particular, improvements are required to the control environment within the payroll system, which produces a large part of the Council's total expenditure. The reliable operation of effective controls provides assurance to management and members and allows me to complete my work more efficiently. I therefore raised recommendations in this area as part of my annual governance report.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

9 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on CAA would end with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

10 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

11 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

12 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year which key lines of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

13 I reported my detailed findings as part of my 2009/10 annual governance report to the Audit Committee, as those charged with governance, on 28 September 2010. This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	N/A
Strategic asset management	Yes
Workforce	Yes

14 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

15 The Council continues to plan its finances effectively, has sound financial standing and has shown that it is able to manage spending within available resources. Expected cuts in public sector funding are included in medium term financial plans, although this will need to be revisited now that the full details of the CSR are known.

16 The Council is responding well to secure financial savings and has a good track record of improving efficiency. However, overall costs exceed the national average and more needs to be done in this area. This is recognised by the Council. The success of the recent management restructure and move to a new operating model, which is more focused on the strategic commissioning of services, will be critical to Council's future ability to secure savings.

17 Internal and external financial reporting arrangements are good. The Council's financial statements are produced to a good standard and budget reporting is clear, timely and focused on risk areas.

Governing the business

18 The Council has a clear vision for the future of the city and is using this to develop a strategic commissioning role in partnership with other service providers. Procurement practices are satisfactory although the Council has yet to support the voluntary sector actively to create a social enterprise initiative agenda.

19 Performance reports covering all key services are produced to a high standard, and performance monitoring is good. Data quality spot checks have confirmed that performance indicators and other management information are based on good quality data which is processed accurately.

20 Governance arrangements at the Council have improved and are sound. The Council has also continued to strengthen its risk management arrangements.

Managing resources

21 Asset management arrangements for Council assets are generally good. The Council has a well established database of information that summarises the condition, energy use, maintenance requirements and revenue costs for each of its properties.

22 The Council has a good track record of developing staff and recruiting and retaining good people. There are, however, weaknesses in some areas. Sickness levels remain high and not all staff benefit from formal performance appraisals.

Risk-based performance reviews

23 I have undertaken work and maintained a watching brief on a number of risks and issues to inform my work of the VFM conclusion:

- I considered the effect of the recession in Brighton & Hove and its impact on the activities of the Council. I concluded that the Council had in general coped well with the impacts of the recession. This work also helped to inform an Audit Commission national report.
- My team regularly attended meetings with officers from the Council and East Sussex County Council to consider the adequacy of contract management and consider accounting arrangements proposed by the Councils for the joint waste management PFI.
- My team attended meetings with officers to maintain a watching brief on the Council's participation in the building schools for the future programme prior to its cancellation by government.

Review of the housing repairs and maintenance contract

24 To support my assessment of the VFM conclusion I also undertook a review of the Council's contract to deliver its housing repairs and maintenance and capital works with a long term partner contractor. As part of this, I assessed the risk of council dwellings not meeting the decent homes standard (DHS) by the government target of 2013, and risks created by the Council's plans to transfer some of its housing stock to a local delivery vehicle (LDV) to partly finance delivery of the 2013 DHS target. I have reported my detailed findings in this area to the Council in a separate report. This is a summary of my findings.

25 I concluded that the housing management service has made good progress over the last 18 months. Delivering decent homes is a key priority for the Council and its partners, and the contractor is strongly committed to working with the Council to meet the DHS. Resources have been shifted to support delivery of the DHS target by 2013.

26 The repairs and maintenance contract includes suitable aims and objectives. Arrangements for monitoring the outcomes of the contract are defined, although they are not yet fully in place. There is an effective approach to risk management.

27 The Council, in partnership with the contractor and residents, is improving services. This has already led to improved customer satisfaction. There has also been some improvement in value for money delivered. Housing management costs have reduced to average when compared to other councils. Outcomes are also improving, although from a low base, and there is more work to do to improve performance.

28 Financial planning to ensure the long term viability of the Council's housing revenue account is based on prudent assumptions. Delays to the start of the LDV are likely to impact on the timing of capital receipts the Council can realise to finance its plans. This raises a risk to achieving the DHS target by 2013, which is recognised and actively managed by the Council.

Approach to local value for money work from 2010/11

29 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

30 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

31 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Current economic climate

32 During 2009/10 the Council has demonstrated good financial management in difficult circumstances. However, in common with the rest of the public sector, it is facing significant financial challenges ahead. The scale of the financial savings required by the government's CSR are unprecedented.

33 The government has reported in the CSR that Councils will face a significant grant loss in real terms each year for the next four years. Alongside the grant reduction, the Secretary of State has announced a number of reforms affecting the administration of local authorities designed to reduce the burdens on authorities and promote innovation and flexibility. I will work with you over the coming months, sharing good practice where appropriate and providing support as a 'critical friend' where possible during my 2010/11 audit.

Future developments

34 In addition to the uncertainties as a result of the CSR, the Council is faced with a substantial change in the financial reporting regime in 2010/11. From 2010/11 the statement of accounts of all public sector organisations will be prepared under an IFRS based code of practice on local authority accounting. This is part of a wider public-sector move to international standards. It is a complex area and will require significant input from staff in finance and across the Council over the next year.

35 The Audit Commission carried out a national survey during 2010 and I assessed the Council's performance as 'amber'. The Council has a clear plan for implementation of IFRS as the basis of preparation for its 2010/11 financial statements. Members also have a reasonable understanding of the impact of IFRS implementation. There has, however, been some slippage against the Council's project plan in this area and successful implementation remains a key challenge for finance. I will continue to work with the Council over the coming months as it finalises its restated accounts.

Closing remarks

36 I have discussed and agreed this letter with the Chief Executive and the Director of Finance on 22 November 2010. I will present this letter at the Audit Committee on 14 December 2010.

37 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan fee letter	April 2009
Opinion audit plan	June 2010
Annual governance report	September 2010
Review of the housing repairs and maintenance contract	September 2010

38 The Council has taken a positive and helpful approach to my audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Helen Thompson
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£196,585	£196,585	£0
Whole of Government Accounts	£3,670	£3,670	£0
Value for money including Use of Resources and local risk based performance work	£167,640	£167,640	£0
Total	£367,895	£367,895	£0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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November 2010

Brighton & Hove City Council

To	Audit Committee
From	Simon Mathers, Audit Manager, Audit Commission
Subject	Review of the housing repairs and maintenance contract 2009/10
Purpose	<p>Why is this paper here? This is the report of findings and conclusions from our review of the Council's housing repairs and maintenance contract. It is now final, has an agreed action plan and has been presented to a group of housing officers and members.</p> <p>What do we want to be agreed/decided? The report is being presented to the committee for information.</p>
Date	14 December 2010

Review of the housing repairs and maintenance contract

Brighton and Hove City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction and background

1 In 2008 the Council approved a new procurement strategy that allowed it to set up longer term partnering arrangements. As a result, in July 2009 the Council approved the selection of a private contractor to deliver its housing repairs and maintenance and capital works (as part of a repairs, refurbishment and improvement strategic partnership contract). Officers have developed and will implement a partnering contract over time to deliver the target pricing framework. The contract started on 1 April 2010.

2 The anticipated savings from the new procurement strategy also include the separate procurement of long term specialist service contracts. For example, lift servicing, repair and maintenance, ventilation, water tanks, fire alarms and emergency lighting, TV aerials, door entry and CCTV. The Council is now procuring these contracts and they will award them by the end of March 2011.

3 The Council forecast in 2007/08 the combined housing procurement contracts would deliver savings of £156 million (including inflation) over 30 years. The projected breakdown of these savings is as follows.

- £91.6 million – on scheduled rates for capital works.
- £20.1 million – on consultant fees.
- £44.6 million – responsive repairs and maintenance.

4 The Council believes these savings will arise from economies of scale achieved by agreeing longer term contracts, rather than using inefficient ad hoc annual capital contracts.

5 It anticipates the new housing repairs and maintenance contract will improve the repairs and maintenance services provided to residents and also produce large savings. These will be reinvested in those properties that are not meeting the Decent Homes Standard (DHS). Currently about 40 per cent of the Council's houses do not meet the DHS.

6 The Council is placing significant reliance on the new contract to improve the council's housing stock and achieve the DHS by the government target of 2013. If the contract is not successful some of the Council's houses will remain below the DHS resulting in some of the most vulnerable people in the city continuing to live in homes that do not meet minimum standards.

7 The Council has not met the DHS target for 2010. It has a track record of long waiting times for repairs and maintenance. Up until recently the Council's year-on-year comparative performance deteriorated relative to others. However, the Council has now improved its repairs and maintenance response times. Unaudited figures for 2009/10 show the Council completed 98.3 per cent of urgent repairs in the target time compared with 96.9 per cent in 2008/09 and 89.3 per cent in 2007/08. The Council has also improved its response time for emergency repairs with 98.4 per cent completed on time in 2009/10 compared to 96.8 per cent in 2008/09 and 83 per cent in 2007/08.

8 The Council's plans to fund the delivery of the 2013 DHS target place significant reliance on generating large capital receipts from the transfer of some of its housing stock to a local delivery vehicle (LDV) over the next three years.

9 In 2009 the Brighton and Hove area assessment published on the Oneplace website included a red flag identifying serious concerns about Council homes not meeting basic standards. The inspectorates concluded that the projected achievement of minimum standards by 2013 was not certain and that more needed to be done to ensure contingency plans are in place so that minimum standards are met at the earliest opportunity. Work to review the red flag ceased following the Government's announcement to abolish Comprehensive Area Assessment (CAA) in May 2010. The Council's organisational assessment published in December 2009 as part of CAA also judged that too many Council homes are failing to meet minimum government standards and as a consequence too many low income tenants and their families continue to live in unsuitable conditions.

10 Members support the need to improve. They are keen to ensure the new contract delivers the projected savings, increases the number of homes meeting the DHS and recent improvements to the response times for repairs and maintenance are sustained.

Audit approach

11 To complete the performance review we undertook:

- a document review; and
- interviews and focus groups involving councillors, officers and partners.

12 The field work was carried out between April 2010 and June 2010.

Executive summary

13 The housing management service has made good progress over the last 18 months. It is working effectively with a clear commitment from all partners to deliver improvement in the repairs and maintenance service for Council residents. There is collective ownership from members, partners and the senior managers to deliver the improvements needed and to maximise value for money. Delivering decent homes is a key priority for the Council and its partners. Resources have been shifted to support delivery of the DHS target by 2013. Key plans are aligned and this is helping to drive improvement and support delivery of the DHS.

14 The Council has addressed historic shortfalls in management capacity and skills and is strengthening arrangements through new structures and frameworks. Transformation of services for residents is at the heart of changes to structures and frameworks. There are people in place with the right skills supported by robust structures to deliver and manage the contract, particularly in terms of service delivery and contract administration. Staff are committed to the creation of the new housing management team.

15 The repairs and maintenance contract includes suitable aims and objectives. There is a clear commitment to, and focus on, robust management and monitoring of the new repairs and maintenance contract to achieve the DHS target by 2013. Arrangements for monitoring the outcomes of the repairs and maintenance contract are defined, although they are not yet fully in place. There is an effective approach to risk management.

16 The Council in partnership with the contractor and residents is improving services. The contract has been in place since April 2010 and there is already evidence of the contractor responding to concerns raised by the Council and residents. Customer satisfaction is improving. Arrangements for monitoring user satisfaction are in place although customer feedback arrangements are not fully developed. Complaints are not systematically informing and improving service delivery. Service standards for the repairs and maintenance service are not in place, but the Council is reviewing its service standards to reflect the new contract. However, the new repairs and maintenance partnership is helping to improve relationships with the Council's residents. The consultation carried out on the LDV and new repairs and maintenance contract is good, and residents have been fully involved in procuring and setting up the new repairs and maintenance contract.

17 Performance management is developing and arrangements for managing the contract are emerging. Members and service managers know the strengths and weaknesses of the service and the Council is setting up a rigorous approach to monitoring and challenging performance. A robust framework is in place to address underperformance quickly, decisively and effectively. Some key performance measures are not yet in place and improvements are needed to the arrangements for monitoring some aspects of the new property and investment service. Some team plans lack action milestones and outcome measures. Business planning and the property and investment team's plans are not yet fully integrated. Monthly performance reports using information from the contractor and client IT systems have been developed, but performance reporting is still at an early stage. Quarterly scrutiny of performance is carried out by residents and members through a number of groups. Cabinet and the senior management team (TMT) review the quarterly performance of the housing management service, and the directorate as a whole.

18 The Council has put in place arrangements for producing good quality performance information and data quality has improved. However, some key IT systems are not linked and this is a risk to the quality of the data the Council uses to manage performance and plan activity. Plans are in place to address this.

19 Commitment to and understanding of value for money and the need to improve services is in place. Arrangements for managing the financial performance of the contract, especially unit costs, are emerging. A budget model is in place which enables a forecast for each phase of the work including material and labour resources. This ensures that resources are shifted immediately to meet any shortfalls.

20 The Council is improving value for money. Housing management costs have reduced to average when compared to other councils. The Council has also increased its income through improved management of tenant rent. This has allowed it to reduce its bad debt provision. The time taken to re-let properties has also improved.

21 Outcomes are improving although from a low base and there is more work to do to improve performance. Since 2008, the Council has made steady progress in improving the repairs and maintenance service for residents and response times are now shorter. There has also been a decline in the number of non-decent homes. However this improvement is from a very low base. Previous key decisions made by the Council affected the Council's progress in reducing the number of non-decent homes. The Council failed to meet the DHS government target for 2010 and it did not meet its own internal target of achieving 36 per cent of homes being non-decent in 2009/10, missing the target by 3.5 per cent. The Council also missed its target in 2008/09. The Council accepts that it needs to do more to reduce the number of non-decent homes over the next three years. As a result of increased investment and targeted programmes decency levels have steadily improved between 2008 and 2010.

22 The Council needs to identify £77 million to fund major works over the next three years as part of its 30-year financial plan to ensure the long term viability of its Housing Revenue Account. Of this £44.6 million has been specifically identified as being needed to achieve the DHS by 2013. The LDV is one of the methods the Council has selected to raise some of the funds needed to achieve the DHS by 2013. £15 million of capital receipts arising from the transfer of properties to the LDV between 2011 and 2013 are planned. The financial plan also includes the need to raise £22.5 million of unsupported borrowing and make £7.7 million of revenue contributions to capital over years 1 to 3.

23 Delays to the start of the LDV are likely to impact on the timing of capital receipts it can realise. This raises a risk to achievement of the DHS target by the required timetable of 2013 without entering into further borrowing. Any additional need to borrow would result in additional revenue costs. This would put further pressure on the Council's finances and potentially puts other essential capital works, and the longer term viability of the financial plan, at risk. However, the consultation proposals for self financing, if implemented by the current government, have the potential to mitigate this risk and offer opportunities for future investment in housing. It is not clear, however, that the consultation proposals will proceed. The scale and timing of any positive impact on the Council's plans arising from self-financing is also not clear.

24 The contractor is strongly committed to working with the Council to meet the DHS. The schedule of rates agreed by the partnership for repairs and maintenance work including decency work is extensive and complex. While this approach is prudent there is a risk of miscoding resulting in inaccurate data and incorrect charges being made for completed repairs. However, the newly created Quantity Surveyor post will be responsible for ensuring the quality of this data, which should help to mitigate this risk.

Next steps

25 The Council should consider the detailed findings set out in the report. Responses should be given to associated recommendations for improvement set out in the action plan at Appendix 1.

26 We would like to take this opportunity to thank officers for the assistance and support provided during the course of the audit.

Main findings

Housing repairs and maintenance contract arrangements

27 The repairs and maintenance contract includes suitable aims and objectives. Staff roles and responsibilities are clearly defined in the contract management and compliance strategy, with an emphasis on securing quality and excellence. There is strong political commitment across parties to improving housing management performance with a focus on achievement of the DHS and delivery of value for money.

28 Consultation and involvement of residents and stakeholders in developing the contract as set out in the draft resident involvement strategy is good. In setting up the contract there was effective use of a representative residents' asset management panel. This is a panel consisting of 12 tenants and leaseholders which provides service user views to help shape and monitor the contract. It was involved in setting the type and quality of services to be delivered. For example, in developing the 2010-2013 HRA capital programme residents have proposed extras to the DHS such as additional electrical sockets in kitchens. Residents were also involved in both the procurement and evaluation of the contract, playing an active role in interviewing potential contractors. This means residents are clear about how the Council proposes to achieve the DHS by December 2013.

29 The Council has people with the right skills supported by robust structures to deliver and manage the contract. It has created a contract compliance team to monitor the works and ensure repairs are carried out to the specified standards set out in the contract. This team includes a clerk of works whose role is to ensure quality standards. The property and investment service has also been set up to oversee and monitor the new contract. Staff have been appointed or transferred to all the new posts, except the head of property and investment post which is currently filled by a consultant. The Council is currently recruiting to this post and recognises the importance of it to the success of the service. The bid by the contractor also demonstrated the capacity to manage and deliver the contract's requirements.

30 Internal audit has provided positive assurances about the procurement arrangements and the mobilising of the contract. It carried out two independent assessments and identified no areas in the procurement arrangements for improvement. However, it did identify five areas for improvement for the implementation of the contract which the Council is addressing. These relate to filling key posts in the new property and investment service, ensuring IT links between the contractor and Council and the need for close monitoring of the outgoing contract with the previous contractor.

31 Arrangements for monitoring the outcomes of the contract are clear although they are not yet fully in place. The contract sets out expectations for customer service, diversity, quality and cost, value for money, sustainability and energy efficiency. It also includes five clear objectives:

- improve value for money;
- improve residents' homes;
- improve service delivery;
- improve sustainability; and
- further community regeneration and add value.

However, arrangements to deliver these objectives are not yet fully in place.

32 The contract includes incentives aimed at driving service improvements and efficiencies. The duration of the ten-year partnership with the contractor is dependant on achievement of key performance indicators (KPIs) and the Council's objectives. The incentive scheme includes gain and risk shares for project under or overspends and adjustments to profit levels dependent on performance against KPIs.

Performance management and risk

33 Key plans are aligned and this is helping to drive improvement and is supporting delivery of the DHS. Improving the housing quality is a key strategic priority for the Council and the local strategic partnership and is included in the:

- sustainable community strategy;
- housing strategy 2009-2014;
- three year investment plan;
- joint investment strategy;
- HRA 30-year business plan;
- asset management of the housing stock - strategic overview 2010/11; and
- housing service improvement plan.

34 Performance management arrangements for the contract are emerging. The Council has produced a framework for contract compliance - the contract management & compliance strategy. This is aimed at ensuring required standards of work are met and maintained within budgets and agreed timescales. Performance of day to day repairs, voids repairs and services contracts standards are monitored by the repairs and maintenance monitoring group. This consists of resident representatives, councillors and officers.

35 Performance management arrangements within the new property and investment service are not fully in place. Business planning and the property and investment team's plans are not integrated. The new partnering and performance team is driving performance management arrangements forward by refining the strategic direction of the service through the development of robust performance management information, including better use of benchmarking information. The Council has developed performance reports to enable it to manage the contractor's financial and service delivery performance. Monitoring will be carried out by the partnership core group, which consists of the assistant director of housing management, senior managers from the property and investment service, the contractor and two residents.

36 A culture of managing performance is emerging. Performance coordination, management and monitoring are being strengthened, but this is work in progress and is not yet fully in place. There is more work to do to show improved outcomes and the provision of performance information to the contractor is not yet fully in place. Performance reports will consist of a scorecard showing current performance against targets, historical performance, benchmark performance, year to date performance, direction of travel, improvement actions required and progress against actions. Specific, measurable, accurate, relevant and time-bound (SMART) improvement actions will be approved by the partnership core group and reviewed monthly.

37 The Council has put in place robust arrangements for reviewing the yearly performance of the contract. Annual performance reviews will be carried out which will include a review of KPIs, value for money, safety and sustainability performance, local employment levels and diversity of workforce. The reviews will be used to develop an annual performance plan which will include SMART actions and targets to deliver continuous improvements. A monthly performance review carried out by the core group will also address poor performance and implement service improvement plans where required. Quarterly scrutiny of performance is carried out by residents and members at the asset management panel, the repairs and maintenance monitoring group, housing management consultative committee and the housing management group management team. Cabinet and TMT review the quarterly performance of the housing management service and the directorate as a whole. However, because the team has only recently been created service improvement plans do not currently

cascade into the team improvement plans. This means improvement plans are not consistently supporting continuous improvement.

38 The Council in partnership with the contractor is improving services for residents. The contract has been in place since April 2010 and there is already evidence of the contractor responding to concerns raised by the Council and residents. For example, the contractor is carrying out a major review of the repairs desk to improve customer service and accessibility. The outcome of the review will strengthen recent improvements such as the supercentre repairs desk, which provides a single access point 24 hours a day, seven days a week. Requests for reports can be made by text message, email or by the internet. In one area of the city, Whitehawk, residents can report repairs face-to-face to the contractor and customer and community manager at the 'our neighbourhood' local base. Proposals to roll this service out across the city are in place. The contractor has also pledged to deliver extra benefits such as a training academy, kitchen workshop and a carbon reduction plan.

39 Arrangements for monitoring user satisfaction are in place. However, customer feedback arrangements are not fully developed. The Council and the contractor have put arrangements in place to survey user satisfaction and to assess the quality of the service. This is done through a variety of methods such as surveys, complaints, compliments, and mystery shopping. The contractor carries out customer care surveys by telephone following completion of works and a mystery shopping exercise will be carried out in the summer of 2010. Repairs desk performance is reported regularly to residents. Reporting and feedback from the outcomes of the mystery shopping exercise in November 2009 was limited and did not result in service improvements. The Council recognises the need to improve feedback arrangements from customer surveys and mystery shopping exercises.

40 Customer satisfaction is improving. During 2009/10 the Council reported that the service has achieved a high-level of resident satisfaction. There was a 93 per cent satisfaction level across the whole service and 98 per cent for the responsive repairs service. When benchmarked against similar housing providers the Council's performance is in the top 25 per cent. Initial results for April 2010 show that 96 per cent of residents are satisfied with the service and 88 per cent of residents rated the service as 8 out of 10 or above.

41 Complaints do not systematically inform and improve service delivery. Complaints trends and patterns are not effectively reported to residents and other stakeholders, and are not being consistently used to change and improve services. The Council has a well publicised complaints process in place. In 2009/10 there were 177 first stage complaints, 15 stage 2 complaints and four local government ombudsman complaints about repairs and maintenance. There is some evidence that the Council evaluates complaints to determine whether services need to change. A culture of valuing complaints is developing.

42 Service standards for the repairs and maintenance service are not in place. The Council is reviewing its service standards to reflect the new contract. Residents will be involved in setting the standards and in reviewing performance against them. The Council aims to have service standards in place by April 2011. This means that residents are not fully clear about what levels of service they can expect.

43 Risk management arrangements for the contract are in place. There are two risk registers. The core group maintains and monitors the partnership risk register which forms part of the contractual documentation. The Council's improvement project board also regularly reviews a Council risk log to monitor specific risks.

44 The Council has put in place arrangements for ensuring good quality performance information. There is a data quality statement which includes quality audits of performance information. During the year the core group will commission a series of audits of performance information by the partnering and performance team. The audits will test and assess the quality and robustness of performance information, the appropriateness of indicators and the delivery of improved outcomes for residents.

45 The Council has improved the quality of its housing data and now has reliable data to inform management decisions. Ownership of the data and collective responsibility for its quality is increasing. In 2007/08 and 2008/09 an Audit Commission data quality spot check of the decent homes performance indicator found that data was unreliable. This was because of a backlog in un-entered repairs information and the very small number of properties surveyed to inform the indicator. Since then restructuring, clearance of the backlog and a much higher level of surveys have resulted in significant improvement in the quality of data.

46 The quality of the data the Council uses to manage performance of the contract may be at risk. Whilst the main IT systems (the Council's OHMS and the contractors MCM system) are linked the Council's asset management system (Apex) is currently not linked to the Contractor's MCM system. This means data is not automatically updated as repairs and improvements are completed and IT systems are not therefore supporting strategic planning. Plans are in place to address this.

47 Arrangements for managing the financial performance of the contract, especially unit costs, are emerging. The Council has set up robust cost management and monitoring arrangements for the DHS programme. A budget model is also in place which enables a forecast for each phase of the work including material and labour resources. The target rates for key work areas are integrated into the partnership performance management reports. These monthly reports are used by the core group alongside detailed financial management and cost information to ensure delivery of efficiency savings. As each phase is completed the model is updated to reflect real costs. This ensures that resources are shifted immediately to meet any shortfalls and that funds to achieve the DHS are available. This approach will foster a value for money culture.

48 Commitment to and understanding of value for money is in place. Making better use of public money is a Council priority in the corporate plan 2008-11. The Council is developing a value for money culture among staff. Teams are required to show how they can save money, increase efficiency, create income, improve quality and benchmark service performance. A value for money review of housing services in 2008 and resulting action plan have been reported to tenant and leaseholder representatives at the housing management consultative committee. An outcome of this review was the development of the repairs and maintenance partnership.

49 The Council is improving value for money. Housing management costs have reduced from £18.58 a unit a week in 2005/06 to £17.11 in 2008/9. This brings management costs as a percentage of management allowances to average when compared to other councils. The Council has increased its income through improved management of tenant rent. Income increased from £1,379,960 in November 2005 to £776,443 at January 2010. The Council also reduced its bad debt provision by £51,000. The time taken to re-let properties has also improved from 35 days in 2006/7 to 26 days in 2009/10.

Recommendations

R1 Provide residents and stakeholders with robust information:

- about action taken as a result of complaints to keep better informed them about how the Council and contractor have responded to complaints and how services have been improved as a result; and
- from activities, such as mystery shopping and user satisfaction surveys and how services have been changed as a result.

R2 Introduce comprehensive service standards as a matter of urgency so that residents are clear about what levels of service they can expect and standards can be monitored.

R3 Provide clear links between the property and investment team improvement plans and the service and the directorate plans so that teams can be held to account for their performance.

Current service performance - decent homes and waiting times for repairs and maintenance

50 Since 2008, the Council's new housing management service has steadily improved service performance for residents. Waiting times for housing repairs and maintenance and the number of non-decent homes have reduced. This improvement is from a very low base. In the past residents experienced long waiting times for repairs and maintenance and when compared to other similar Councils performance was below average. There has been limited year-on-year improvement and the Council accepts there is more to do to achieve further improvement. It also recognises that insufficient progress or action taken to improve its housing stock between 2000 and 2008 seriously hampered its performance.

51 Changes in services are leading to some improvements. The Council is now making steady progress in improving the quality of the housing stock and improving the repairs and maintenance service for residents. The Council has improved the balance between responsive and planned maintenance and has recently improved repairs and maintenance response times. Improvements to assessing responsive repairs have resulted in a decrease in the volume of emergency repairs and an improvement in the number of repairs completed within target times. The number of routine repairs has increased from 44 per cent in 2007/08 to 62.4 per cent in 2009/10. The number of urgent repairs has reduced from 29 per cent in 2007/08 to 14 per cent in 2009/10. Unaudited figures for 2009/10 show the Council completed 98.3 per cent of urgent repairs in the target time compared to 96.9 per cent in 2008/09 and 89.3 per cent in 2007/08. The Council has also improved its response time for emergency repairs with 98.4 per cent completed on time in 2009/10 compared to 96.8 per cent in 2008/09 and 83 per cent in 2007/08.

52 The Council failed to meet the Decent Homes government target for 2010 and did not meet its own 2009/10 internal target of reducing non-decent homes to 36 per cent of its total stock. During 2009/10 the Council delivered a 9.4 per cent reduction in the number of non-decent homes, missing its target by 3.5 per cent. The Council also missed its target in 2008-09. However, as a result of increased investment and targeted programmes to replace failed heating systems, kitchens, bathrooms and doors, decency levels have steadily improved between 2008 and 2010. At the end of March 2010, 39.5 per cent of the Council's housing stock was non-decent compared to 49 per cent at the end of March 2009 and 56 per cent at the end of March 2008.

53 In the past, the Council repeatedly failed to keep pace with similar authorities' performance. Comparative performance with other unitary authorities in England consistently placed the Council in the bottom 25 per cent and performance was worsening year-on-year. The table overleaf shows the poor progress made by the Council in reducing the number of non-decent homes between 2000 and 2008.

Year on year improvement in non-decent homes

Year	Non-decent homes (%)	Year on year improvement (%)	Comparison with other unitary councils
2004/05	50%	-	Bottom 25%
2005/06	58%	-8%	Bottom 25%
2006/07	58%	0%	Bottom 25%
2007/08	56%	2%	Bottom 25%
2008/09	48.9%	7.1%	Bottom 25%
2009/10	39.5%	9.4%	Bottom 25%
2010/11	26% (target)	13.5% (anticipated)	
2011/12	12% (target)	14% (anticipated)	
2012/13	5%(target)	7% (anticipated)	
December 2013	0%	5% (anticipated)	

Financial outturn, forecasting and sustainability

54 Over the last two years the Council has carefully considered solutions to financing its capital investment programme. Over the next three years the Council estimates that an additional £77 million is needed to maintain its housing stock. Of this £44.6 million is needed to meet the DHS by 2013.

55 The Council has developed a 30-year financial plan to ensure the long term viability of the HRA and the shorter term need to achieve the DHS by 2013. The Local Delivery Vehicle (LDV) is one of the methods that the Council has selected to raise some of the funds needed to achieve the DHS target. The 30-year financial plan also includes £22.5 million of unsupported borrowing and £7.7 million of revenue contribution to capital over years 1 to 3, and capital receipts from the Local Delivery Vehicle (LDV) totalling £15 million in years 2 and 3.

56 The Council is reliant on the success of the LDV to provide a significant part of the funding to meet the DHS by 2013. The LDV was originally designed to provide £45 million capital receipts. Despite extensive negotiations by the Council the failure to secure express permission for the LDV from the Secretary of State means that it will only now provide receipts of £15 million. The financial plan has been adjusted to account for this. It is intended that the LDV will also cover the cost of refurbishment of up to 499 Council homes over five years. The financial plan assumes properties will all be transferred in three years between 2011 and 2013.

57 The LDV board and a firm offer from the Council for the transfer of the properties to the LDV is now in place. Funding is anticipated to be secured by December 2010. The Council offer made to the LDV is comprehensive and thorough. It sets out the business case including a 30-year cash flow forecast which profiles the rental income according to the transfer of properties to the LDV. The Council has also completed a thorough and detailed review of all Council homes to identify a pool of properties which meet the criteria for transfer to the LDV. Residents, the contractor and the LDV board have agreed the criteria for identification of these properties and an estimated average cost of refurbishment of £27,000.

58 Achievement of the DHS by 2013 is at risk due to delays in the start of the LDV. There were a number of reasons for the delays. The economic recession had an impact and delays in gain permission to establish the LDV has slowed progress. Under the offer 499 properties should transfer to the LDV between June 2010 and October 2013. They should all be refurbished and occupied by April 2014. However, it is now estimated that the first properties will not be transferred to the LDV until April 2011. This could delay refurbishment and occupation of the final properties until April 2015 and places the Council at risk of not achieving the DHS target. The delayed timing of the transfer also does not support the Council's financial model for achieving DHS. It results in a risk of the Council not securing sufficient capital receipts to fund the DHS programme. It is therefore important that the properties are transferred in as short a timescale as possible to guarantee the capital receipts to fund achievement of the DHS target by 2013. The Council recognises this risk and could borrow to replace the receipts if the risk is realised. While this would enable the Council to achieve the decency standard by its target date additional borrowing costs potentially place sustainability of the standard and other essential capital works at risk.

59 The contractor is strongly committed to working with the Council to meet the DHS. There are, however, risks around the transfer of Council staff to the contractor, which has different terms and conditions for its own employees. Any future changes in terms and conditions for transferred staff may have a knock-on impact on the service and the experience of residents.

60 The schedule of rates agreed by the partnership for repairs and maintenance work including decency work is extensive and complex. The repairs and improvement partnership has agreed a list of about 900 individual tasks and costs. Monitoring the use of these rates is time-consuming and whilst the approach is prudent there is a risk of miscoding, the potential for inaccurate data and incorrect charges being made for completed repairs. Unless the data is robustly monitored there is a financial risk to both the Council and contractor.

Recommendations

R4 Continue to review the current schedule of rates based on actual experience of its operation. It should be sufficiently detailed to allow accurate billing and the production of detailed management information. This should be balanced against avoiding over-complexity which could lead to billing error, manipulation or an excessive amount of management time being spent on monitoring.

R5 Continue to monitor and actively manage the risk of not securing sufficient funding to achieve DHS compliance by 2013.

R6 Transfer properties to the LDV in as short a timescale as possible. Ensure that the impact of any slippage in the timing of capital receipts from the LDV is fully reflected in:

- the Council's 30-year financial plan for the HRA; and
- risk assessment and monitoring of the Council's prospects of achieving DHS by 2013.

Appendix 1 Action plan

Recommendations

Recommendation 1

Provide residents and stakeholders with robust information:

- about action taken as a result of complaints to keep better informed them about how the Council and contractor have responded to complaints and how services have been improved as a result; and
- from activities, such as mystery shopping and user satisfaction surveys and how services have been changed as a result.

Responsibility	Partnering & Performance Manager
Priority	2
Date	30 November 2010
Comments	<p>Summary information on complaints and more detailed information around user satisfaction surveys will be integrated into the performance report used to monitor the Repairs & Improvement Partnership.</p> <p>Results of the recent mystery shopping exercise and an action plan for improvement have been reported to the Core Group in detail and will be summarised in a six monthly progress report to resident representatives and Councillors through the Housing Management Consultative Committee. A feedback session with the mystery shoppers has also been scheduled.</p>

Recommendation 2

Introduce comprehensive service standards as a matter of urgency so that residents are clear about what levels of service they can expect and standards can be monitored.

Responsibility	Partnering & Performance Manager
Priority	2
Date	1 April 2011
Comments	<p>BHCC are in the process of developing service pledges with residents. Initial surveys are being sent out to residents and we will then work with resident groups to put together service pledges. These pledges will come in to place from 1 April 2011.</p>

Recommendation 3

Provide clear links between the property and investment team improvement plans and the service and the directorate plans so that teams can be held to account for their performance.

Responsibility	Head of Property & Investment
Priority	2
Date	31 October 2010
Comments	Team improvement plans which link to the Housing Management Service Improvement Plan and the Repairs & Improvement Business Development Plan will be implemented over the coming weeks.

Recommendation 4

Continue to review the current schedule of rates based on actual experience of its operation. It should be sufficiently detailed to allow accurate billing and the production of detailed management information. This should be balanced against avoiding over-complexity which could lead to billing error, manipulation or an excessive amount of management time being spent on monitoring.

Responsibility	Assistant Director Housing Management
Priority	2
Date	31 March 2011
Comments	A review of the pricing framework for the Partnership is scheduled in the Partnership Time Table and will be carried out ahead of Year 2 of the Partnership. This task is owned by the Core Group.

Recommendation 5

Continue to monitor and actively manage the risk of not securing sufficient funding to achieve DHS compliance by 2013.

Responsibility	Assistant Director Housing Management
Priority	2
Date	Ongoing
Comments	BHCC will continue to monitor and manage these risks.

Recommendation 6

Transfer properties to the LDV in as short a timescale as possible. Ensure that the impact of any slippage in the timing of capital receipts from the LDV is fully reflected in:

- the Council's 30-year financial plan for the HRA; and
- risk assessment and monitoring of the Council's prospects of achieving DHS by 2013.

Responsibility	Assistant Director Housing Management
Priority	2
Date	Ongoing
Comments	<p>Any slippage with the LDV will be reflected in updates to the 30-year financial plan.</p> <p>Monthly targets for tracking decent homes progress are in place and reported to Core group on a monthly basis, these are supported by detailed projections of improvements planned for our stock.</p>

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