



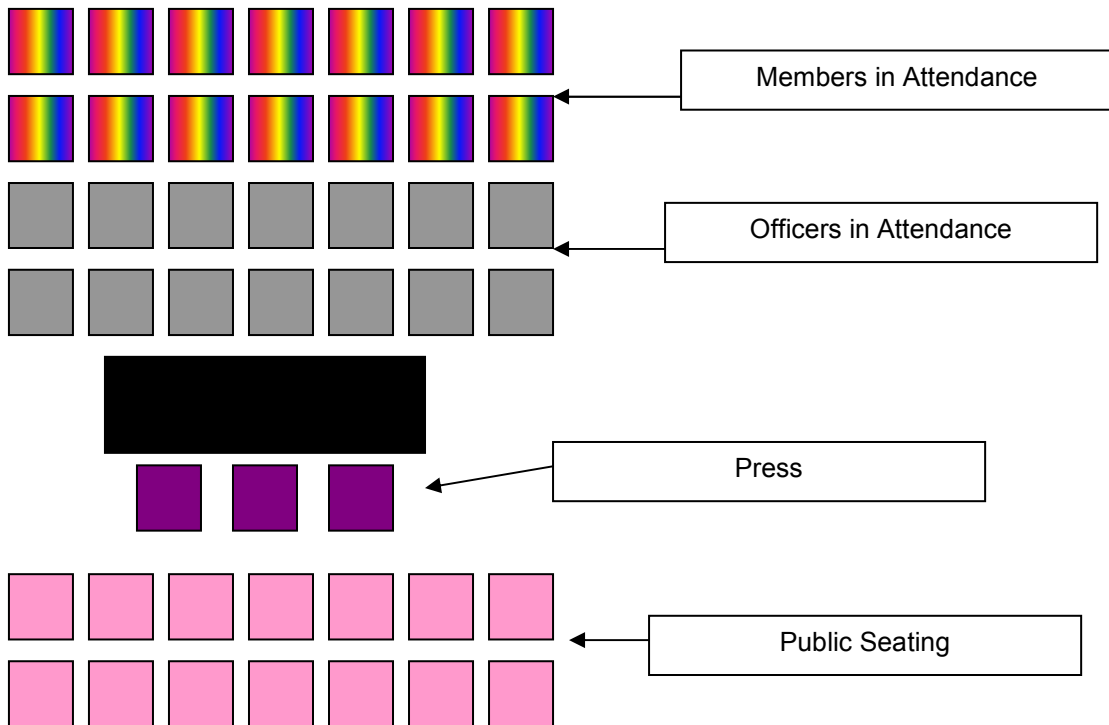
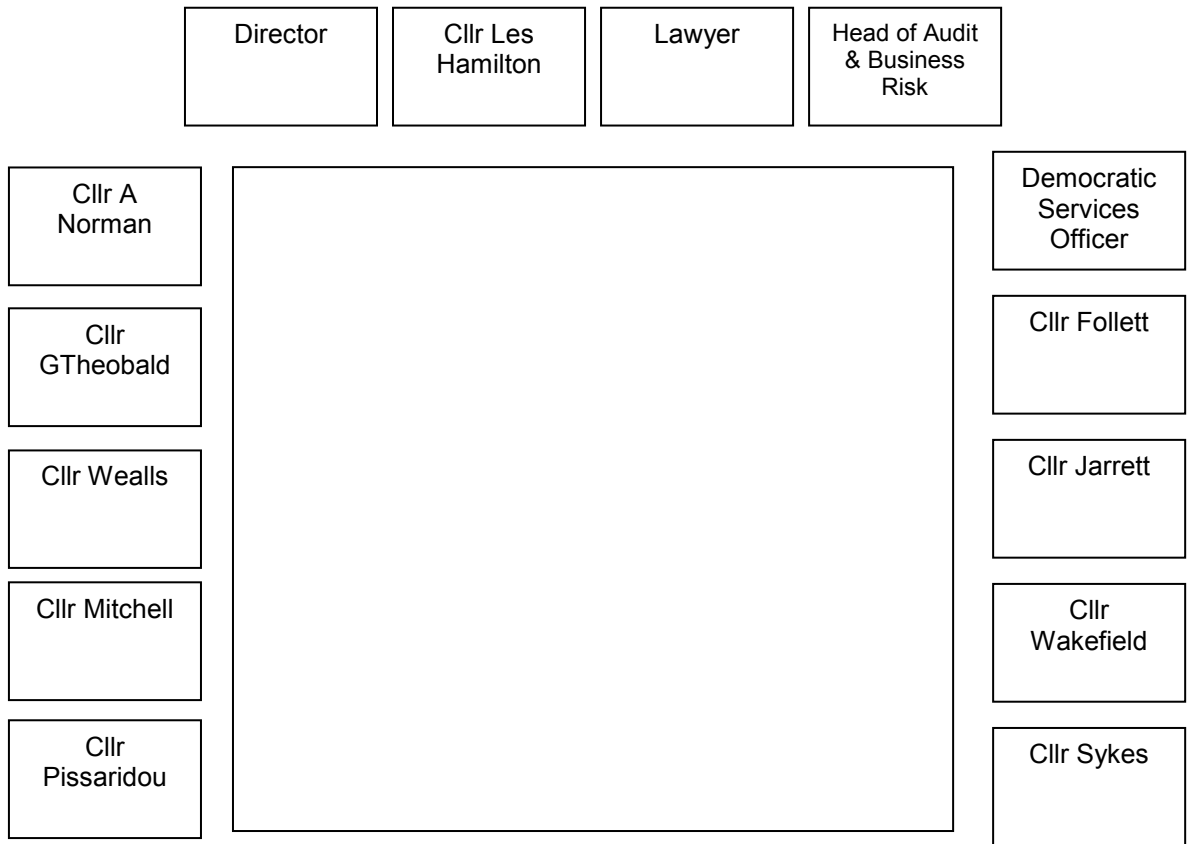
**Brighton & Hove
City Council**

Audit Committee

Title:	Audit Committee
Date:	20 December 2011
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chair), Follett (Deputy Chair), Jarrett, Mitchell, A Norman, Pissaridou, Smith, Sykes, Wakefield and Wealls
Contact:	John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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Democratic Services: Meeting Layout



AGENDA

35. 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.

36. MINUTES OF THE PREVIOUS MEETING

1 - 8

Minutes of the previous meeting held on 27 September 2011 (copy attached).

37. CHAIR'S COMMUNICATIONS

38. PETITIONS

No petitions received by date of publication.

39. PUBLIC QUESTIONS

(The closing date for receipt of public questions is 12 noon on 13 December 2011)

No public questions received by date of publication.

40. DEPUTATIONS

No deputations received by date of publication.

AUDIT COMMITTEE

41. LETTERS FROM COUNCILLORS

No letters have been received.

42. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions have been received.

43. TREASURY MANAGEMENT POLICY STATEMENT 2011/12 (INCLUDING ANNUAL INVESTMENT STRATEGY 2011/12) MID YEAR REVIEW- FOR INFORMATION 9 - 24

Report of the Director of Finance (copy attached).

44. TARGETED BUDGET MANAGEMENT (TBM) MONTH 7- FOR INFORMATION 25 - 64

Report of the Director of Finance (copy attached).

Contact Officer: Nigel Manvell Tel: 29-3104

45. AUDIT COMMISSION: 2011/12 PROGRESS REPORT AND BRIEFING 65 - 76

Report of the Audit Commission (copy attached).

46. AUDIT COMMISSION: ANNUAL AUDIT LETTER 2010/11 77 - 92

Report of the Audit Commission (copy attached).

47. REQUEST FOR ASSURANCES FROM THE AUDIT COMMITTEE TO SUPPORT THE AUDIT OF THE 2011/12 FINANCIAL STATEMENTS 93 - 98

Report of the Audit Commission (copy attached).

48. INTERNAL AUDIT PROGRESS REPORT 99 - 106

Report of the Director of Finance (copy attached)

Contact Officer: Ian Withers Tel: 29-1323

49. ANNUAL GOVERNANCE STATEMENT 2010/11 - ACTION PLAN PROGRESS UPDATE 107 - 114

Report of the Director of Finance (copy attached).

Contact Officer: Ian Withers Tel: 29-1323

Ward Affected: All Wards

50. STRATEGIC RISK REGISTER 115 - 128

Report of the Director of Finance (copy attached).

Contact Officer: Jackie Algar Tel: 29-1273

Ward Affected: All Wards

AUDIT COMMITTEE

- 51. REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE** **129 - 140**

Report of the Director of Finance (copy attached).

Contact Officer: Catherine Vaughan *Tel:* 29-1333
Ward Affected: All Wards

PART TWO

- 52. PART TWO MINUTES OF THE PREVIOUS MEETING (EXEMPT CATEGORY 3 & 7)** **141 - 144**

Part Two minutes of the previous meeting held on 27 September 2011 (copy attached).

- 53. STRATEGIC RISK MANAGEMENT ACTION PLANS FOCUS** **145 - 158**

Report of the Director of Finance (copy attached).

Contact Officer: Jackie Algar *Tel:* 29-1273
Ward Affected: All Wards

- 54. STRATEGIC RISK MANAGEMENT ACTION PLANS FOCUS- SAFEGUARDING VULNERABLE MEMBERS OF OUR COMMUNITY, INCLUDING LOOKED AFTER CHILDREN (SR6) & PROMOTING A SUSTAINABLE CITY (SR8) (EXEMPT CATEGORY 3)**

(Verbal Update)

- 55. PART TWO ITEMS**

To consider whether or not any of the above items and the decisions thereon should remain exempt from disclosure to the press and public.

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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Meeting papers can be provided, on request, in large print, in Braille, on audio tape or on disc, or translated into any other language as requested.

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

AUDIT COMMITTEE

Date of Publication - Monday, 12 December 2011

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 27 SEPTEMBER 2011

COMMITTEE ROOM 3, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chair), Follett (Deputy Chair), Jarrett, Mitchell, Pissaridou, Sykes, Wakefield, Cobb, Oxley and Wealls

PART ONE

PROCEDURAL BUSINESS

18a Declaration of Substitutes

18.1 Councillor Cobb declared that she was substituting for Councillor Norman and Councillor Oxley declared he was substituting for Councillor Smith.

18b Declarations of Interest

18.2 There were none.

18c Exclusion of the Press and Public

18.3 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the 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).

18.4 **RESOLVED** - That the press and public be excluded from the meeting during consideration of Item 33 onwards.

19. MINUTES OF THE PREVIOUS MEETING

19.1 **RESOLVED-** That the minutes of the previous meeting held on 28 June 2011 be approved and signed as the correct record.

20. MINUTES OF THE PREVIOUS MEETING

- 20.1 In his Communications, the Chair informed Members of revisions to Item 27 and of an additional item on the agenda, allocated the number 33a: 'Corporate Risk Management Action Plan Focus – SR4 City wide employability and SR5 Ability to attract new capital investment in the City under the auspices of the City Council' for which the Strategic Director, Place would be in attendance.

21. PETITIONS

- 21.1 There were none.

22. PUBLIC QUESTIONS

- 22.1 There were none.

23. DEPUTATIONS

- 23.1 There were none.

24. LETTERS FROM COUNCILLORS

- 24.1 There were none.

25. WRITTEN QUESTIONS FROM COUNCILLORS

- 25.1 There were none.

26. AUDIT COMMISSION: ANNUAL GOVERNANCE REPORT

- 26.1 The Committee considered a report of the Audit Commission that summarised the findings of their 2010/11 audit undertaken to assess the Council's arrangements to secure value for money in the use of its resources. The report issued an unqualified conclusion stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.
- 26.2 Councillor Oxley commended Officers for adapting to the International Financial Reporting Standards (IFRS) so effectively. However, he was disappointed that control weaknesses had again been identified within the Payroll system as significant resources

had been invested for improvement. He strongly recommended that Committee members strictly monitor this issue.

- 26.3 The Director of Finance stated that the transition to the Midland iTrent system had provided much greater potential for monitoring however, this potential was yet to be realised. Comprehensive work was planned to ease the back log in the storing of records which had been an issue however, the Director of Finance felt it would be appropriate for the Committee to request a formal update from the Head of Service on the matter.
- 26.4 The Chair agreed that an update was vital. It also felt that the Cabinet Member for Finance and Central Services be made aware of the Committee's concerns. Councillor Follett recommended that the Committee request a formal timeline of action.
- 26.5 Councillor Wealls enquired if the complex data associated with the calculation of pension payments had been checked for error.
- 26.6 The Director of Finance clarified that no errors had been identified from the tests undertaken. She added that, the variety of weekly and monthly payments as well as other allowances made the payroll system itself complex and gave scope for error. Work was beginning to simplify this process but would entail major discussions with staff and trade unions.
- 26.7 Councillor Wealls noted the report drew attention to the Council's costs being higher than similar authorities.
- 26.8 The District Auditor replied that this was an observation rather than an analysis. The Audit Commission were satisfied that the Council's costs adequately matched its priorities and good Value for Money methods were in place.
- 26.9 The Director of Finance advised the Committee on the reasons for not adjusting the misstatements suggested by the Audit Committee.
- 26.10 **RESOLVED-** That the Audit Committee:
- (1) Note the adjustments to the financial statements which are set out in Appendix 2 of the report.
 - (2) Refuse to adjust the errors in the financial statements which management has declined to amend set out in Appendix 3 of the report and agree to set out the reasons for not amending the errors.
 - (3) Approve the letter of representation on behalf of the Council before the audit opinion and value for money conclusion are given.
 - (4) Agree the action plan included at Appendix 5 of the report.
 - (5) That the Committee request a formal timeline of action undertaken to improve the Payroll system.

27. 2010/11 STATEMENT OF ACCOUNTS

- 27.1. The Committee considered a report of the Director of Finance that presented the revised 2010/11 Statement of Accounts following auditing. It outlined the amendments made to the statements since they were last presented to the Committee and provided assurances to the Committee in relation to the preparation of the Statement of Accounts.
- 27.2. Councillor Wealls noted that the carry forward in schools balances was high in value. He asked if schools were failing to spend money provided to them.
- 27.3. The Director of Finance answered that schools budgets were hard to analyse due to the overlapping periods in the financial year and school year. The carry forward figure was in fact, relatively low compared to similar authorities and an increase she welcomed. Of more concern were the deficit levels in particular school budgets.
- 27.4. Councillor Wealls asked why there was currently a deficit.
- 27.5. The Director of Finance replied that the current deficit was permitted in agreement with the Strategic Director, People due to falling pupil numbers in some schools. An action plan was currently in place to address this and she was of the opinion that schools were managing this effectively.
- 27.6. Councillor Oxley enquired about the large swing (£8.093m) from surplus to deficit in the Collection Fund.
- 27.7. The Director of Finance clarified that whilst the figure appeared large, as a percentage this movement was quite modest. She informed the Committee of the significant change in occupancy demographic city-wide and the resultant impact upon the collection fund. In response, a major programme of inspection of 1,000 premises was underway.
- 27.8. The Chair praised the significant work undertaken by Finance Officers and the Audit Commission in the preparation, composition and audit of this years Statement of Accounts. On behalf of the Committee, he passed thanks to all concerned.
- 27.9. **RESOLVED-** That the Audit Committee:
- (1) Note the findings of the Audit Commission in their Annual Governance Report (AGR)
 - (2) Note the adjusted misstatements to the 2010/11 Statement of Accounts (paragraph 8.3).
 - (3) Accept the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraphs 8.4).
 - (4) Note the results of the public inspection of the accounts (Section 10).
 - (5) Approve the letter of representation on behalf of the council (Appendix 1 of this report).

- (6) Approve the management responses to the action plan in the AGR
- (7) Approve the audited Statement of Accounts for 2010/11.

28. AUDIT COMMISSION: CHANGES TO THE LOCAL AUDIT REGIME

- 28.1. The Audit Committee considered a verbal update from the Audit Commission on changes to the local audit regime. The update provided current information on the transfer process of the Commission including expected timeframes.
- 28.2. **RESOLVED-** That the Audit Committee notes the update on the changes to the local audit regime.

29. TARGETED BUDGET MANAGEMENT (TBM): MONTH 4

- 29.1 The Committee considered a report of the Director of Finance that set out the revenue and capital forecast outturn position for 2011/12 as at Month 4. The report had been considered and approved at Cabinet on 22 September 2011.
- 29.2 Councillor Oxley commented that in the past the provisional outturn position had been accompanied by previous years figures so as to provide context to Members. He asked if it was possible that this could be re-introduced.
- 29.3 The Director of Finance agreed with Councillor Oxley as to the benefit of including such data and she would examine the possibility of doing so for future reports.
- 29.4 Councillor Wealls enquired why the uncertainty for Management Structures under the Value for Money Programme was of such high value.
- 29.5 The Director of Finance replied that the programme of Management and Administration savings underpinned by the Voluntary Severance Scheme had created this uncertainty. The programme was very ambitious and not expected to achieve 100% of the savings required. This was managed by the setting aside of ample risk provision. Continued savings would need to come from 'natural turnover', further service re-design and a prolongation of the tight controls upon recruitment.
- 29.6 **RESOLVED-** That the Audit Committee notes the report

30. RISK MANAGEMENT ANNUAL REPORT 2010/11 AND PROGRAMME 2011/12

30.1 The Committee considered a report of the Director of Finance that provided an annual report of the progress against the approved annual Risk and Opportunity Management (ROM) Programme 2010/11 and proposed Risk Management Programme for 2011/12.

30.2 **RESOLVED-** That the Audit Committee:

- (1) Notes the progress against the annual ROM programme 2010/11 at Appendix 1.
- (2) Approves the annual RM programme 2011/12 at Appendix 2.

31. INTERNAL AUDIT PROGRESS REPORT AND INTERNAL AUDIT PLAN 2011/12 UPDATE

31.1 The Committee considered a report of the Director of Finance that detailed progress against the Internal Audit Plan for 2011/12.

31.2 The Chair asked if the relevant Cabinet Members had been made aware of the audit reviews given limited assurance.

31.3 The Head of Audit and Business Risk clarified that Heads of Service had been requested to discuss audit reviews given limited assurance with their Cabinet Members.

31.4 Councillor Wealls noted the Performance Indicators and queried if a 72% implementation of agreed management actions against a target of 85% was of acceptable standard.

31.5 The Head of Audit and Business Risk replied that this was indicative of a changing strategic structure rather than poor performance. The Director of Finance added that the data was based upon work in progress and she would expect an increase on this figure.

31.6 **RESOLVED-** That the Audit Committee:

- (1) Notes the contents of this progress report, in particular the status of planned internal audit work for 2011/12.
- (2) Agrees the changes to the Annual Internal Audit Plan for 2011/12 as set out in paragraph 9.3 and Table 3.

32. THE BRIBERY ACT 2010

32.1 The Committee considered a report of the Director of Finance that summarised the key issues arising from the Bribery Act 2010 and it would impact upon the Local Authority.

32.2 **RESOLVED-** That the Audit Committee:

- (1) Notes the new legislation together with the Council's current response.
- (2) Notes the significant issues contained in the report

33. PART TWO MINUTES OF THE PREVIOUS MEETING (EXEMPT- CATEGORY 3)

33.1 **RESOLVED-** That the Part Two minutes of the previous meeting held on 28 June 2011 be approved and signed as the correct record.

33a. CORPORATE RISK MANAGEMENT ACTION PLAN FOCUS – SR4 'CITY WIDE EMPLOYABILITY' & SR5 'ABILITY TO ATTRACT NEW CAPITAL INVESTMENT IN THE CITY UNDER THE AUSPICES OF THE CITY COUNCIL'

33a.1 The Committee considered a verbal update from the Strategic Director, Place on two strategic risks- Strategic Risk 4 'City wide employability and Strategic Risk 5 'Ability to attract new capital investment in the city under the auspices of the City Council'.

33a.2 **RESOLVED** - That the Audit Committee accept the recommendations as detailed in the Part Two confidential report.

34. INVESTIGATION INTO HOVE TOWN HALL INCOME LOSSES (EXEMPT- CATEGORY 3 & 7)

34.1. The Committee considered a report of the Director of Finance that provided Members with information on an investigation undertaken into losses at the Hove Town Hall Drop Safe.

34.2. **RESOLVED** - That the Audit Committee accepts the recommendations as detailed in the Part Two confidential minutes.

35. PART TWO ITEMS

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

The meeting concluded at 6.20pm

Signed

Chair

Dated this

day of

BRIGHTON & HOVE CITY COUNCIL

CABINET

4.00PM 10 NOVEMBER 2011

COUNCIL CHAMBER, HOVE TOWN HALL

MINUTES

Present: Councillors Randall (Chair), Bowden, Davey, Duncan, Jarrett, Kennedy, J Kitcat, Shanks, Wakefield and West

Also in attendance: Councillors G Theobald (Opposition Spokesperson) and Mitchell (Opposition Spokesperson)

Other Members present: Councillors Bennett, Fitch, Janio, MacCafferty, A Norman, K Norman, Robins and Wealls

PART ONE

106. TREASURY MANAGEMENT POLICY STATEMENT (INCORPORATING ANNUAL INVESTMENT STRATEGY) 2011/12 - MID YEAR REVIEW

- 116.1 The Cabinet considered a report of the Director of Finance concerning action taken during the period April to September 2011 to meet the Treasury Management Policy Statement 2011/12 (TMPS) and the Treasury Management Practices (including the schedules) for the year commencing 1 April 2011 and the Annual Investment Strategy 2010/11.
- 116.2 Councillor Mitchell congratulated the officers for the continuing positive position with regard to treasury management.
- 116.3 In response to a question from Councillor Mitchell, the Head of Strategic Finance & Procurement explained that two changes to investment limits had been made as the credit ratings of the financial institutions in question had been reduced; as a result the council had reduce both the length and amount of investment.
- 116.4 In response to questions from Councillor G Theobald, the Director of Finance advised that it was difficult to predict interest rates; the council used a range of forecasts from institutions and followed the CIPFA guidelines. She confirmed that the Targeted Budget Management reporting schedule for 2011-12 provided for five reports instead of the usual four and that the council only invested in institutions detailed in the Annual Investment Strategy and approved by full Council.

116.5 **RESOLVED** - That, having considered the information and the reasons set out in the report, the following recommendations be accepted:

- (1) That Cabinet endorses the action taken during the half-year to meet the Treasury management policy statement and associated treasury management practices and the Annual investment strategy.
- (2) That Cabinet notes the maximum indicator for risk agreed at 0.05% has not been exceeded.
- (3) That Cabinet notes the authorised limit and operational boundary set by the Council have not been exceeded.

The meeting concluded at 6.30pm

Signed

Chair

Dated this day of

CABINET	Agenda Item 116
	Brighton & Hove City Council

Subject:	Treasury Management Policy Statement 2011/12 (including Annual Investment Strategy 2011/12) – Mid Year Review		
Date of Meeting:	10 November 2011		
Report of:	Director of Finance		
Lead Member	Cabinet Member for Finance & Central Services		
Contact Officer:	Name: Peter Sargent	Tel: 29-1241	
	E-mail: peter.sargent@brighton-hove.gov.uk		
Key Decision:	No		
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Treasury Management Policy Statement 2011/12 (TMPS) and the Treasury Management Practices (including the schedules) for the year commencing 1 April 2011 were approved by Cabinet on 17 March 2011. Full Council approved the Annual Investment Strategy 2010/11 (AIS), which forms part of the TMPS, on 24 March 2011. 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 2011 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 Treasury management policy statement and associated treasury management practices and the Annual investment strategy.
- 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 major financial turbulence within the global economy. Issues around Euro zone sovereign debt, in particular Greece, Portugal and Ireland, continue to affect the financial markets. The bail-out fund approved by various countries in September has brought temporary relief to financial markets but does not provide a credible remedy to the scale of the sovereign debt problem. In the United States the debate around, and eventual approval of, increasing the sovereign debt cap led to a downgrade of the US sovereign rating by the major rating agencies.
- 3.2 In the UK 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. With UK economic growth forecasts being revised downwards the Bank agreed at its meeting in October 2011 to increase QE by a further £75 billion.
- 3.3 A commentary on the markets is set out in Appendix 1 to this report.

Treasury management strategy

- 3.4 A summary of the action taken in the six months to September 2011 is provided in Appendix 2 to this report. The main points are:
- no new long-term debt has been raised. Two loans totalling £6 million matured on 30th September 2011;
 - no short-term debt has been raised in the half-year;
 - the level of investments made by the in-house treasury team as at 30 September 2011 totalled £31.4m, a decrease of £1.2m during the half-year;
 - the level of investments made by the cash manager as at 30 September 2011 totalled £24.5m, 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 March 2011 – the ‘authorised limit’ and ‘operational boundary’ – have not been exceeded in the first half of the year.
- 3.5 Treasury management activity in the half-year has focused on a short-term horizon as summarised in the table below.

	Amount invested 1 April to 30 Sept 2011		
	Fixed deposits	Money market funds	Total

Up to 1 week	£98.1m	£108.0m	£206.1m	70%
Between 1 week and 1 mth	£24.7m	-	£24.7m	8%
Between 1 month and 3 mths	£28.2m	-	£28.2m	10%
Over 3 mths	£33.8m	-	£33.8m	12%
	£184.8m	£108.0m	£292.8m	100%

- 3.6 Capital risk on the investment portfolio continues to be the primary objective for the council's investment strategy. The investment counterparty list approved by the Council in March 2011 reflected low risk investment parameters and these parameters have not changed during the first half-year. The majority of investments made in the half-year were for 7 days or less. The average period for fixed deposits (i.e. excluding money market funds) was around 13 days. The average amount invested in money market funds was £19.9 million.

Security of investments

- 3.7 A summary of investments made by the in-house treasury team and outstanding as at 30 September 2011 is tabled below. The table shows that investments continue to be held in high quality, short-term instruments.

	Balance o/s 30 Sept 2011	
Local authorities	£5.0m	16%
'AAA' rated institutions / funds	£13.4m	43%
'AA' rated institutions / funds	£8.0m	25%
Top 7 building societies not included above	£5.0m	16%
	£31.4m	100%
Period – less than one week	£13.4m	43%
Period – between one week and one month	£13.0m	41%
Period – between one month and three months	-	-
Period – over three months	£5.0m	16%
	£31.4m	100%

Risk

- 3.8 As part of the investment strategy for 2011/12 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 2011/12 is consistent with the investment parameters set out in the AIS.
- 3.9 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 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11
Maximum risk indicator	0.011%	0.011%	0.013%	0.014%	0.009%	0.005%

Performance

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

(*) <i>Annualised rates</i>	In-house investments		Cash manager investments	
	Average balance	Average rate (*)	Average balance	Average rate (*)
Budget 2011/12 – full year	£26.6m	0.94%	£24.3m	1.03%
Actual to end Sept 2011	£58.3m	0.80%	£24.4m	1.02%
Benchmark rate (i.e. average market rate) to end Sept 2011	-	0.46%	-	0.46%

Rating changes since end of September

- 3.11 On 7th October 2011 the rating agency Moody's announced its' well publicised change to the ratings of a number of UK financial institutions. These changes have been driven by the agency's review of the likelihood of financial support in the event of financial difficulties and follow similar reviews in Spain, France and the United States.
- 3.12 Appendix 2 to this report summarises the changes made and the impact on the council's approved investment schedule. In all bar two cases the change has made no difference to the investment limits previously advised – the two exceptions being:
- Santander (UK) plc – a reduction in the maximum investment period of investment from 2 years to 1 year;
 - Leeds Building Society – a reduction in the maximum investment period of investment from 1 year to 6 months.
- 3.13 The limit for the Co-operative Bank, although showing a reduction to £5m under the council's investment matrix, will continue to be £10m to reflect their role as the council's bankers and the maximum one month exposure on any investment.

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 an overspend of £185,000 due primarily to interest rates remaining lower for longer than forecast when the budget was set and thereby reducing investment income and the recharge of interest to the HRA.

Finance Officer Consulted: Peter Sargent

Date: 10/10/11

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: 10/10/11

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 2011/12 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 2011. 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 2011
2. A summary of the action taken in the period April to September 2011
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 2011/12 approved by Cabinet on 17 March 2011
3. The Annual Investment Strategy 2011/12 approved by full Council on 24 March 2011
4. Papers held within Strategic Finance, Finance
5. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2003

Summary of action taken in the period April to September 2011

Treasury Management Strategy

New long term borrowing

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

Debt maturity

Two loans totalling £6 million 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 increased (as a consequence of the two maturities notified above) from 34.7 years to 35.4 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 2011	30 Sept 2011	Movement in period
Capital financing requirement (CFR)	£294.5m		
Less PFI element	-£29.5m		
Net CFR	£265.0m	^(*) £290.8m	+£25.8m
Long-term debt	£185.7m	£179.7m	-£6.0m
Investments – in house team	-£32.6m	-£31.4m	+£1.2m
Investments – cash manager	-£24.4m	-£24.5m	-£0.1m
Net debt	£128.7m	£123.8m	-£4.9m
O/s debt to CFR (%)	79.3%	61.8%	-17.5%
Net debt to CFR (%)	48.6%	42.6%	-6.0%

^(*) projected 31 March 2012

Traditionally the level of borrowing outstanding is 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). However given the continued volatility and uncertainty within the financial markets, the council has maintained the strategy to keep borrowing at much lower levels (as investments are used to repay debt). Currently outstanding debt represents 62% 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 £4.8m. The surplus has been applied to part fund the repayment of long-term debt (-£6.0m), with the balance funded from a reduction in investments (+£1.2m) (Table 3).

Table 3 – Cash flow April to September 2011

	Payments	Receipts	Net cash
Total for period	£440.9m	£445.7m	+£4.8m
Long-term debt repaid			-£6.0m
Reduction in investments			+£1.2m
Net movement			-£4.8m

Prudential indicators

Budget Council approved a series of prudential indicators for 2011/12 at its meeting in March 2011. 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 2011/12

	Authorised limit	Operational boundary
Indicator set	£367.0m	£355.0m
Less PFI element	-£62.0m	-£62.0m
Indicator less PFI element	£305.0m	£293.0m
Maximum amount o/s in first half of year	£185.7m	£185.7m
Variance	(*)£119.3m	£107.3m

(*) 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 increased marginally (following the maturity of two loans at 3.99%) from 4.82% to 4.85% 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 marginal decrease in investments following the maturity of long-term loans 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 2011:
 - 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 2011/12.

A number of changes to the short-term and long-term ratings have been assessed by the credit rating agencies (most notably Moodys) in response to a review of the systemic support for UK financial institutions. The following table summarises these changes (highlighted in bold) and the impact on the council’s approved investment schedule.

F = Fitch M = Moodys SP = Standard & Poors	Short term			Long term			Maximum	
	F	M	SP	F	M	SP	Amt	Ped

BANKS

Clydesdale – AIS	F1+	P-1	A-1	AA-	A1	A+	£5m	1 yr
Clydesdale – Latest	F1	P-1	A-1	A+	A2	A+	No change	
Cooperative – AIS	F2	P-1		A-	A2		£10m	1 mth
Cooperative – Latest	F2	P-2		A-	A3		£5m	1 mth
Lloyds – AIS	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 yr
Lloyds – Latest	F1+	P-1	A-1	AA-	A1	A+	No change	
RBS – AIS	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 yr
RBS – Latest	F1+	P-1	A-1	AA-	A2	A+	No change	
Santander – AIS	F1+	P-1	A-	AA-	Aa3	AA	£10m	2 yr

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Santander – Latest	F1+	P-1	A-	AA-	A1	AA	£10m	1 yr
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BUILDING SOCIETIES

Leeds – AIS	F1	P-1		A	A2		£5m	1 yr
Leeds – Latest	F1	P-2		A	A3		£5m	6 mth
Nationwide – AIS	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 yr
Nationwide – Latest	F1+	P-1	A-1	AA-	A2	A+	No change	
Principality – AIS	F2	P-2		BBB+	Baa2		£5m	6 mth
Principality – Latest	F2	NP		BBB	Ba1		No change	
Skipton – AIS	F2	P-2		A-	Baa1		£5m	6 mth
Skipton – Latest	F2	NP		A-	Ba1		No change	
West Bromwich – AIS	F3	P-3		BBB-	Baa3		£5m	6 mth
West Bromwich – Latest	F2	NP		BBB-	B2		No change	
Yorkshire – AIS	F2	P-2	A-2	A-	Baa1	A-	£5m	6 mth
Yorkshire – Latest	F2	P-2	A-2	A-	Baa2	A-	No change	

ITEM 43 ON THE AUDIT COMMITTEE AGENDA

Item 116 Appendix 1

Market Overview – April to September 2011 (courtesy of Sector)

Global economy

The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the €440bn bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

This, coupled with political difficulties in the United States over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.

Growth prospects in the US, UK and the euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

UK economy

Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

The announcement by the Bank of England on 6 October 2011 of a second round of quantitative easing of £75bn emphasised how seriously the Bank's Monetary Policy Committee (MPC) now views recession as being a much bigger concern than inflation. Although inflation remains above target, the MPC's expectation of future falls resulting in an under-shoot of its 2% target opened the way for this new round of quantitative easing.

International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.

Outlook for the next six months

Sector, the council's external treasury consultants, have advised there remain huge uncertainties in economic forecasts, with the risks to economic growth on the downside (that is the risks could be understated). Sector's forecasts indicate a continuation of low growth in the UK, with the Bank Rate to remain at current levels (½%) until June 2013. Long-term rates are expected to increase primarily due to the need for a high volume of gilt / debt issuance in the UK and other major western countries (although the increase may be postponed until 2012 as the current safe haven status of the UK continues.)

Sector's interest rate forecast

The following table sets out Sector's interest rates forecasts to March 2015.

	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.25	2.50
3 month LIBID	0.75	0.70	0.70	0.70	0.70	0.70	0.75	0.80	0.90	1.20	1.40	1.60	2.10	2.40	2.60
6 month LIBID	1.00	1.00	1.00	1.00	1.00	1.00	1.10	1.20	1.40	1.60	1.80	2.00	2.50	2.70	2.90
12 month LIBID	1.50	1.50	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.20	2.40	2.60	3.10	3.20	3.30
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.10	3.30	3.50	3.70
10 yr PWLB	3.30	3.30	3.30	3.30	3.40	3.40	3.50	3.60	3.70	3.80	4.00	4.20	4.40	4.60	4.80
25 yr PWLB	4.20	4.20	4.20	4.20	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20
50 yr PWLB	4.30	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20	5.30

ITEM 43 ON THE AUDIT COMMITTEE AGENDA
Item 116 Appendix 3
Performance and balances

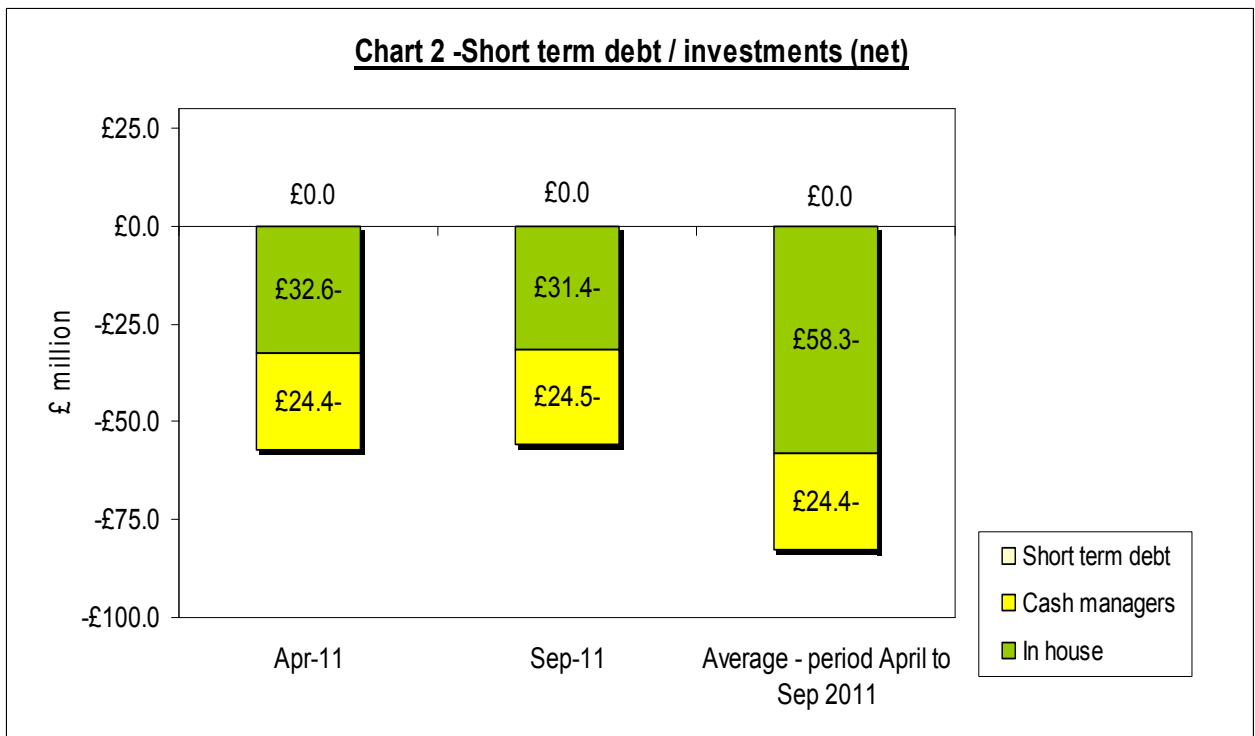
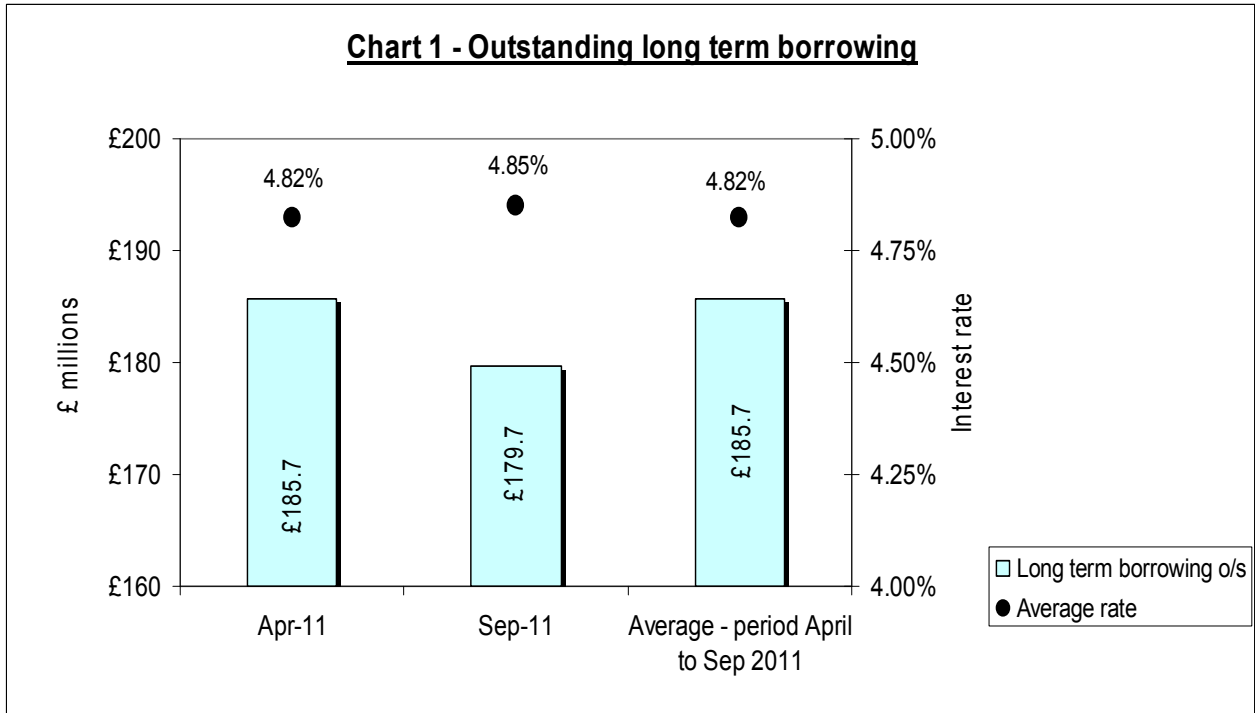
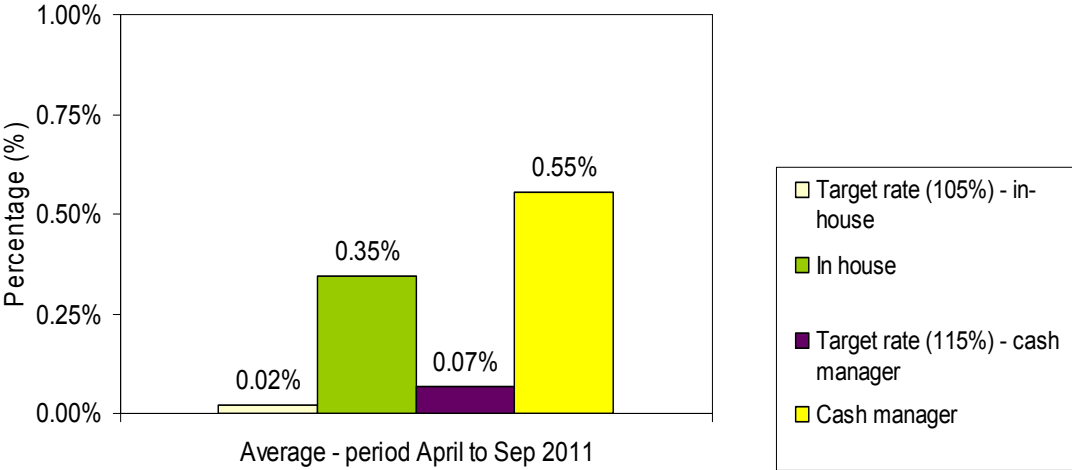


Chart 3 - Performance indicators (annualised) : variation from benchmark (x axis) and target rate (105% / 115% times benchmark)



CABINET	Agenda Item 136 Brighton & Hove City Council
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Subject:	Targeted Budget Management (TBM) 2011/12 Month 7		
Date of Meeting:	8 December 2011		
Report of:	Director of Finance		
Lead Cabinet Member:	Cabinet Member for Finance & Central Services		
Contact Officer:	Name:	Jeff Coates	Tel: 29-2364
	Email:	jeff.coates@brighton-hove.gov.uk	
Key Decision:	Yes/No	Forward Plan No: CAB 21123	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report sets out the revenue and capital forecast outturn position for 2011/12 as at Month 7.

2. RECOMMENDATIONS:

- 2.1 That Cabinet notes the provisional outturn position for the General Fund, which is an underspend of £0.292m.
- 2.2 That Cabinet notes the forecast outturn for the Section 75 Partnerships and Housing Revenue Account (HRA) for 2011/12.
- 2.3 That Cabinet notes the provisional outturn position on the capital programme.
- 2.4 That Cabinet approves the following changes to the capital programme:
- i) The new schemes, variations and slippage as set out in Appendices 1 & 2.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 Reporting has been summarised by strategic budget areas with Appendix 1 providing details of the commissioning and delivery units aligned with these areas. This includes information on critical capital schemes (paragraph 3.16) and capital summaries are included for each of the strategic budget areas within Appendix 1.
- 3.2 The table below shows the provisional outturn forecast for Council controlled revenue budgets within the General Fund and the outturn on NHS managed S75 Partnership Services. Outturn forecasts provide a projection of the anticipated position as at the end of the current financial year (March 2012).
- 3.3 In depth work has been undertaken on the corporate critical budget forecasts and these are summarised in paragraph 3.6. Other budgets are reviewed on a rolling programme although it is expected that all major variances will have been identified. More detailed explanation of the variances can be found in Appendix 1.

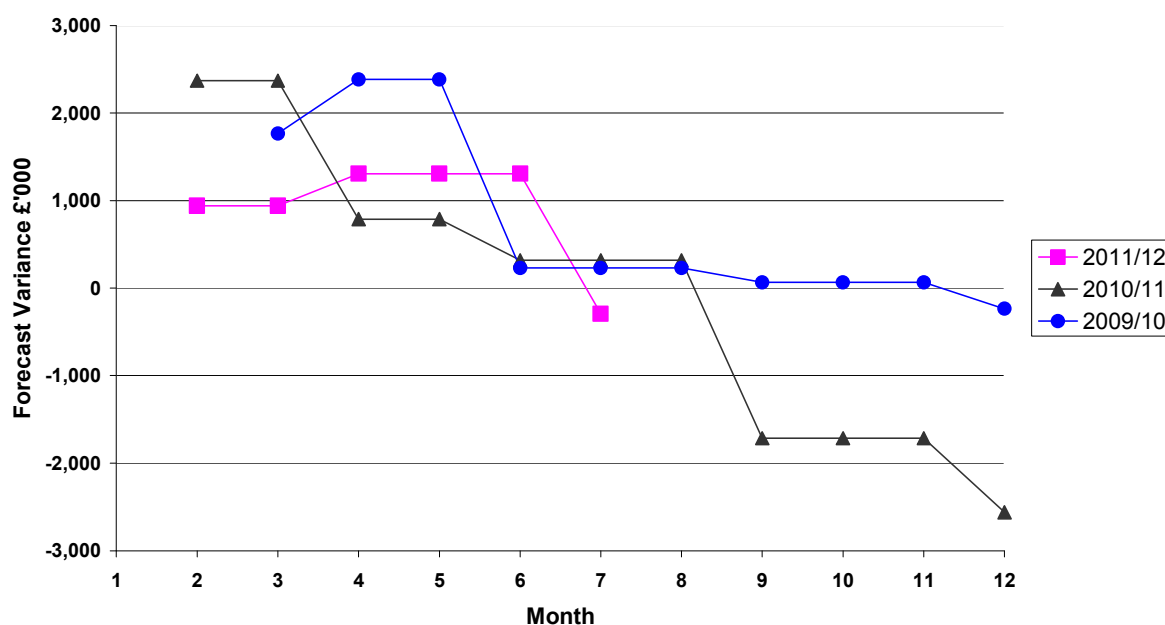
Forecast Variance Month 4 £'000	Directorate	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
302	People	132,818	132,099	(719)	-0.5%
531	Place	51,642	51,877	235	0.5%
151	Communities	13,019	13,191	172	1.3%
448	Resources & Finance	40,089	40,209	120	0.3%
1,432	Sub Total	237,568	237,376	(192)	-0.1%
(124)	Corporate Budgets	(4,191)	(4,291)	(100)	-2.4%
1,308	Total Council Controlled Budgets	233,377	233,085	(292)	-0.1%
162	NHS Trust managed S75 Services	14,175	14,223	48	0.3%
1,470	Total Overall Position	247,552	247,308	(244)	-0.1%

- 3.4 The Total Council Controlled Budgets line in the above table represents the total forecast outturn on the Council's General Fund. The General Fund includes Commissioning Units and Service Delivery Units, which are organised under the strategic areas of People, Place and Communities. These, together with Resource & Finance Units, corporate budgets and Council-managed Section 75 services, make up the Total Council Controlled Budgets. 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 Sussex Community NHS 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.

Comparison with Previous Years

- 3.5 The chart below provides a comparison of the forecasts reported to Cabinet for this and the previous two financial years.

TBM Projections Reported to Cabinet 2009/10 to 2011/12



Corporate Critical Budgets

- 3.6 Targeted Budget Management (TBM) is based on the principle 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.

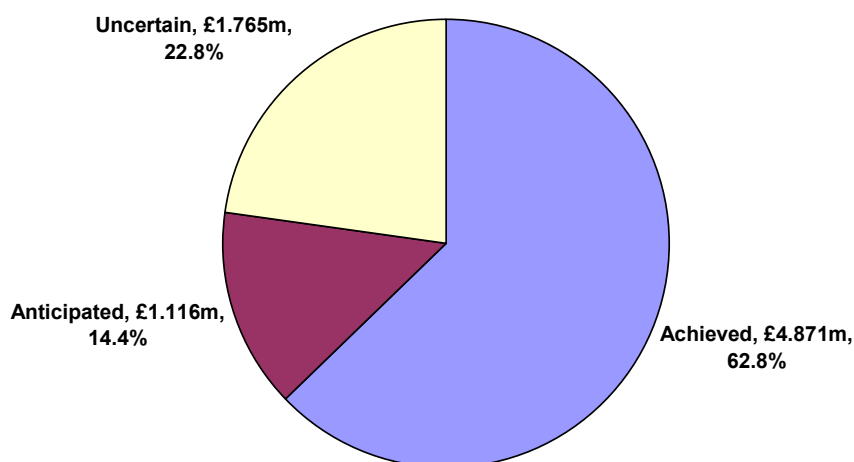
Forecast Variance Month 4 £'000	Corporate Critical	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
(47)	Child Agency & In House	21,777	21,812	35	0.2%
80	Sustainable Transport	(13,580)	(13,584)	(4)	0.0%
0	Housing Benefits	(738)	(1,093)	(355)	-48.1%
(146)	Community Care	43,817	43,538	(279)	-0.6%
(113)	Total Council Controlled	51,276	50,673	(603)	-1.2%
162	S75 NHS & Community Care	14,175	14,223	48	0.3%
49	Total Corporate Critical Budgets	65,451	64,896	(555)	-0.8%

Value for Money (VfM) Programme

- 3.7 The Value for money programme contains large, complex projects which are effectively resourced and planned in order to achieve the expected financial and non-financial benefits. However, the projects carry significant risks and therefore each month the TBM report will attempt to quantify progress on savings in terms of those savings that have been achieved, those that are anticipated to be achieved (i.e. low risk) and those that remain uncertain (i.e. higher risk).
- 3.8 There are no significant changes to the level of 'uncertain' savings since month 4, however, the proportion of achieved savings has increased from 33.5% to 62.8%. The overall council underspend position reported above indicates that recovery and other counter measures will more than offset uncertain VfM savings if these are not fully achieved in 2011/12. However, some of these measures are of a one-off nature and therefore every effort will continue to be made to achieve further VfM savings by the end of the financial year since this is critical for the next year's budget position and beyond. Further information about individual VfM projects is included in Appendix 1 under the relevant strategic area.
- 3.9 A summary of current progress toward VfM savings is shown below and a detailed breakdown for each project is provided at Appendix 3.

Value for Money Programme (All Phases) - 2011/12 Monitoring

Current VfM Target 2011/12 = £7.752m (Full Year = £10.002m)



Collection Fund

- 3.10 The collection fund is a separate account for transactions in relation to national non domestic rates, council tax and precept demands. Any deficit or surplus forecast on the collection fund is distributed between the council, Sussex Police and East Sussex Fire Authority in proportion to the value of the respective precept on the collection fund.
- 3.11 The council's share of the projected collection fund deficit position at 31st March 2012 remains at about £1.100m. Council tax collection remains above target so far this year so the deficit is still entirely as a result of a lower than anticipated liability. Further details of the reduced liability and its impact on the tax base for 2012/13 are included elsewhere on the agenda in the Budget Update and Savings 2012/13 report

Housing Revenue Account

- 3.12 The Housing Revenue Account is a separate ring-fenced account which covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents. The forecast outturn on the HRA is summarised in the table below. More detail is provided in Appendix 1.

Forecast Variance Month 4 £'000		2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
	Housing Revenue Account				
(635)	Expenditure	50,330	49,692	(638)	-1.3%
(21)	Income	(50,330)	(50,252)	78	0.2%
(656)	Total	-	(560)	(560)	

Capital Budget 2011/12

- 3.13 The table below provides a summary of the capital programme by strategic theme and shows an overall underspend of £0.916m. Within Appendix 1 for each budget area there is a breakdown of the capital programme by Unit.

Forecast Variance Month 4 £'000	Capital Budgets Budget Area	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	People	30,677	30,677	0	0.0%
0	Place	47,058	46,142	(916)	-1.9%
0	Communities	3,482	3,482	0	0.0%
0	Resources & Finance	8,680	8,680	0	0.0%
0	Total	89,897	88,981	(916)	-1.0%

- 3.14 Appendix 1 provides details of proposed new capital schemes which are included in the budget figures above. Cabinet approval for new capital schemes is required under the Council's Financial Regulations. It also provides written details of variations (including re-profiled schemes), slippage and underspends. Appendix 2 shows an analysis of these movements and is summarised in the table below.

Capital Budget Movements	2011/12 Budget £'000
Summary	
Approved Budget TBM 4	114,118
Changes reported to other Cabinet meetings	(797)
New Schemes	354
Variations to budget	(21,037)
Slippage	(2,741)
Total Capital Budget at TBM 7	89,897

- 3.15 Project managers have forecast that £2.741m of the capital budget may slip into the next financial year and this equates to 3.05% of the budget. This is reflected in the tables above.

3.16 Certain capital schemes have the potential to have significant revenue budget implications if they are not delivered according to timetable. Progress on these more critical schemes is reported regularly through the TBM reports. These schemes are shown in the table below and as at Month 7 no variances have been identified. More detail on these schemes is provided in Appendix 1 under the relevant budget area.

Budget Area	Scheme	Budget (£'000)	Description
People	New Primary School Places	11,272	Delivery critical to keep pace with anticipated increased demand for primary school places.
Place	Vehicle Replacement	554	Forms part of the VFM programme. Delivery is critical to enable planned revenue savings from improved fleet management.
Resources	Accommodation Strategy	2,847	Forms part of the Workstyles VFM programme. Delivery is critical to enable planned vacation of Priory House.
Resources	Solar Panel Implementation	2,600	Solar panels are timetabled to be installed before 31 March 2012 to qualify for the Feed in Tariff payments and deliver VFM savings.
Total		17,273	

Capital Receipts

3.17 Capital receipts are used to support the capital programme. For 2011/12 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. Capital receipts (excluding housing) are estimated to be £0.820m for 2011/12 and to date £0.763m has been received. This includes the receipts for the disposals of 47 Middle Street, Ovingdean, 34 Roedean Crescent and the second deposit instalment for Charter Hotel, Kings Road.

3.18 The Government receive 75% of the proceeds of 'right to buy sales'; the remaining 25% is retained by the council and used to fund the capital programme. The estimated useable receipts for 'right to buy' sales is £0.638m for this financial year and to date £0.270m has been received.

Comments by the Director of Finance

- 3.19 There is a significant improvement in the revenue forecast since month 4, demonstrating overall effective financial management and control. There was a thorough review of the position in preparing this report due to its links with the Budget Update and Savings report elsewhere on the agenda. The forecast underspend releases one off resources to support the budget planning for 2012/13. The trends on the corporate critical budgets remain encouraging and impact on the service pressure assumptions for the following two years. There will be a further detailed review of the position at Month 9 which will be reported to Cabinet and will impact on the final budget setting assumptions for 2012/13.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

- 4.1 No specific consultation has been 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 Decisions taken in relation to the budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and 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: 22/11/11

Equalities Implications:

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

Sustainability Implications:

- 5.4 The report includes progress in meeting energy savings targets set out in the VFM Phase 3 programme.

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 minimum working balance of £9.000m 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

Public Health Implications:

- 5.7 There are no direct public health implications arising from this report.

Corporate / Citywide Implications:

- 5.8 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 provisional outturn position on Council controlled budgets is an underspend of £0.292m. As mentioned above, underspending will release one-off resources that can be used to aid budget planning in 2012/13. Any overspend will need to be funded from general reserves which would then need to be replenished to ensure that the working balance did not remain below £9.000m.

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.
- 7.2 The capital budget changes are necessary to maintain effective financial management.

SUPPORTING DOCUMENTATION

Appendices:

1. Detailed Revenue & Capital Outturn Forecasts
2. Capital Programme Summary
3. VfM Programme Benefits Realisation

Documents in Members' Rooms

None

Background Documents

None

ITEM 44 ON THE AUDIT COMMITTEE AGENDA

Appendix 1

People - Revenue Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
-317	Commissioner - Children's Youth & Families	17,321	16,736	-585	-3.4%
21	Commissioner - Schools, Skills & Learning	10,386	10,328	-58	-0.6%
727	Delivery Unit - Children's & Families	39,335	39,751	416	1.1%
431	Total Children's Services	67,042	66,815	-227	-0.3%
-92	Commissioner - People	1,898	1,671	-227	-12.0%
-169	Delivery Unit - Adults Assessment	49,332	48,939	-393	-0.8%
132	Delivery Unit - Adults Provider	14,546	14,674	128	0.9%
-129	Total Adult Services	65,776	65,284	-492	-0.7%
302	Total Revenue - People	132,818	132,099	-719	-0.5%

Explanation of Key Variances

(Note: FTE/WTE = Full/Whole Time Equivalent)

Commissioner – Children, Youth & Families

There is an underspend of £0.646m in respect of residential agency placements resulting from lower than budgeted numbers of children placed and average unit costs. There is also a projected underspend of £0.319m on secure placements. However, this is a volatile service area with very high unit costs and one or two placements can have a significant impact on the budget position.

The numbers of children placed in independent foster agency (IFA) placements continues to rise. During 2010/11 there were 164.52 FTE placements representing a 23% increase on the previous year. Currently there are 188.98 projected FTE placements. Despite a significant reduction in the number of Parent & baby placements during October the overspend is still projected to be £0.817m.

Following the service review of early intervention grant funded services an underspend in 2011/12 of £0.377m has been identified.

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.

The 2011/12 children's services VFM savings target is £2.019m. Current activity indicates that all of these savings have been achieved.

Commissioner – Schools, Skills & Learning

There are underspends of £0.100m in home to school transport, £0.020m in the Ethnic Minority Achievement Service (EMAS) and £0.013m for Education Welfare assistants. The underspend on home to school transport reflects the continued reduction in the numbers of children being transported as well as the more favourable terms of the recently renegotiated contracts. This is offset by the overspend of £0.078m relating to the planned closure of the Learning Development Centre (LDC) at the end of January and the associated loss of booking income. This is related to planned changes across the service and links to the corporate accommodation strategy and will involve moving more office based staff into the LDC to generate service efficiencies and rationalise property use.

Delivery Unit – Children & Families

The corporate critical budget for agency disability placements is projected to overspend by £0.446m. The number of children with disabilities placed has increased over the last 12 months and now there are 18 children in placement compared with a budgeted level of 11 places.

Allowances and direct services for adopted children are currently projected to be overspent by £0.252m by the end of the year. This is predominantly caused by inter-agency adoption costs, where the Council belongs to a group of local authorities to obtain the best matches for adoptive parents. The net costs of these adoptions are then recharged between the group members and this year it is anticipated that BHCC will have a large net liability. This is a very volatile service area and may be subject to significant changes during the year.

At the present time there is a projected overspend of £0.150m agency spend on social workers, but this is subject to considerable variation. A successful advertising campaign in the spring/early summer saw the recruitment of a dozen new staff but there is continuing churn of social workers. A particular challenge to the service is other local authorities including London boroughs offering a significant 'golden hello', drawing-in staff from across the south east. Frontline teams are, of course, significantly staffed by young people who have greater mobility. We also have four staff on maternity leave within the East Area Team and the resignation of a Practice Manager: we do not have the option of leaving these front line posts uncovered for any length of time

There is also a small overspend of £0.039m predicted on the corporate critical budget for services to care leavers.

The overspends mentioned above are partially off-set by the underspend of £0.302m in the corporate critical budget for in-house placements. The budget allows for 416 FTE placements of differing types and the current numbers are 21.41 FTE below this level. This is mainly due to less residence order and family & friends placements than budgeted. The average unit costs are slightly higher than budgeted mainly as a result of the mix of different placements with fewer children in the lower cost placement types (e.g. residence order & family & friends placements). There are also underspends of £0.096m on services for unaccompanied asylum seeking children and £0.080m for Sure Start services.

Commissioner - People

There is a forecast underspend of £0.227m, largely as a result of staff savings identified and one-off income streams of £0.090m. This is an improvement of £0.135m from Month 4.

Delivery Unit – Adults Assessment

Assessment Services are reporting an underspend of £0.393m (an improvement of £0.224m from Month 4), due to savings against the Community Care budget. The main reason for the improvement is within Learning Disabilities where growth has been less than expected, leading to a reduction of approximately 12 WTE clients from Month 4.

There is a significant underspend of £0.394m against Older People (80 WTE clients less than budgeted) offset by a pressure on Physical Disabilities of £0.413m (10 WTE clients more than budgeted). There are also underspends of £0.235m and £0.062m against Learning Disabilities and No Recourse to Public Funds (NRPF) respectively.

The forecast assumes delivery of the outstanding £0.130m against the financial recovery plan. Across mainstream services there is an underspend of £0.114m, largely from staff savings identified. Within this, the service has managed to achieve the £0.150m workforce savings identified in the budget strategy.

Delivery Unit – Adults Provider

Provider Services are reporting an overspend of £0.128m, due a variety of factors including a reduction in grants and inflationary pressures on income targets (approx. £0.300m) and staffing pressures linked to a workforce review. The pressures on grant reductions have been largely offset by a review of clients supported to cover level of need and ensure that appropriate funding is in place.

A management action plan is also in place to address the remaining pressure including achievement of management and admin efficiency targets, plans to increase income where possible, and on-going review of staffing levels where this can be done without impact on service delivery.

People – Capital Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	Delivery Unit - Children's & Families	508	508	0	0.0%
0	Commissioner – Schools, skills & Learning	29,263	29,263	0	0.0%
0	Total Children's Services	29,771	29,771	0	0.0%
0	Delivery Units – Adults Provider	30	30	0	0.0%
0	Delivery Unit - Adults Assessment	876	876	0	0.0%
0	Total Adult Services	906	906	0	0.0%
0	Total Capital - People	30,677	30,677	0	0.0%

Critical Budget - New Primary School Places

The budget for this scheme is £11.272m and is contained within the total budget for Commissioner – Schools, Skills & Learning. This does not yet include additional funding of £1.478m announced on 3 November. The numbers of children needing primary school places has increased significantly. Ongoing works are progressing at various schools in order to deliver this anticipated demand for primary school places. There are currently no variations forecast. Within this year's capital allocation are the following major works:

- Expansion of Goldstone, Queens Park, and Westdene Primary Schools.
- Work at the Connaught building to bring it up to an acceptable condition.
- West Blatchington Primary School has been taking additional pupils for the last few years. There is a need for accommodation on the junior part of the site as these additional children move into year 3

New Capital Schemes

There are no new capital schemes since month 4 was reported to Cabinet.

Variations

Commissioner – Schools, Skills and Learning

Portslade Aldridge Community Academy (PACA) (£12.514m)

Further to the Cabinet report of 17th February 2011 work has continued on creating the Portslade Aldridge Community Academy. The new Academy opened in the existing buildings on 1st September 2011. The Department for Education (DfE) granted £12.7m to this project to allow for improvements and extension of the main Chalky Road site of the school. Work has also progressed with the preferred bidder on design development for the proposed new extension and the internal remodelling and refurbishment of the existing school buildings on the Chalky Road site. The Main Works building programme is scheduled to start in 2012/13. The construction is scheduled to be completed by September 2013.

Delivery – Adults Assessment

Cromwell Road Development and Telecare £0.177m

The Adult Social Care Personal Social Services Capital grant for 2011/12 is £0.627m, of which £0.400m was allocated in the TBM2 report to Cabinet in July 2011. It is now proposed that the remaining £0.227m be allocated as follows: £0.150m to the Cromwell Road development and £0.077m (of which £0.050m is to be re-profiled to 2012/13) as additional Telecare and other equipment.

The proposed development at Cromwell Road is to convert a currently vacant basement property (formerly used as a Day Centre for people with learning disabilities) into two bedroom flats for use by people with learning disabilities. The remainder of the building is already used to house people with learning disabilities. This would provide additional local accommodation for people with complex needs and reduce the need to use out of area placements. This proposal is in accordance with the 3 Year Accommodation and Support Plan for People with Learning Disabilities that was approved by Adult Social Care CMM on 17th October 2011 and JCB on 14 November 2011 and the revenue implications are reflected in the Adult Social Care budget strategy currently being developed.

Delivery – Adults Provider £0.010m

An additional £0.010m is required for building works at Beach House that will be funded from revenue. This has been included in the TBM revenue projection figures for the Learning Disabilities Service.

Slippage

Adult Social Care IT Infrastructure Grant 2008-11 (£0.100m)

Adult Social Care (ASC) has a series of projects in the pipeline, which are unlikely to commence this financial year. The projects help to support the modernisation of our services, VfM and the personalisation agenda. There is a capacity issue in both ASC and corporately to progress all these at once within 2012/13 so the Council needs to phase them in over the 18 months to March 2013. The unspent grant is unringfenced and can be carried over to 2012/13.

Place - Revenue Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
107	Commissioner - City Regulation & Infrastructure	3,517	3,636	119	3.4%
115	Delivery Unit - City Infrastructure	25,126	25,172	46	0.2%
35	Delivery unit - Planning & Public Protection	5,491	5,442	(49)	-0.9%
(21)	Major Projects	317	296	(21)	-6.6%
236	Total City Regulation & Infrastructure	34,451	34,546	95	0.3%
137	Commissioner - Housing	16,892	16,862	(30)	-0.2%
158	Delivery Unit - Housing & Social Inclusion	299	469	170	56.9%
295	Total Housing	17,191	17,331	140	0.8%
531	Total Revenue - Place	51,642	51,877	235	0.5%

Explanation of Key Variances

Commissioner - City Regulation & Infrastructure

Sustainable Transport is forecasting an overspend against budget of £0.119m. Of this, £0.075m relates to a projected shortfall in income from recharging officer time to capital projects in Highway Engineering & Projects, and £0.030m is in respect of an expected contribution to Shopmobility. Of the remaining £0.014m overspend, £0.002m relates to a shortfall in income from advertising on bus shelters, £0.006m to Public Transport one off staff costs and the remainder to an overspend on Road Safety Education costs.

Delivery Unit - City Infrastructure

Parking Operations is now forecasting an underspend against budget of £0.004m, an improvement of £0.084m since month 4. There will be salary underspends of £0.080m due to vacancy management, and efficiencies in the removals service and other contract variations will lead to further expenditure savings of £0.015m. There has been a reduction in the level of on street pay and display income which is mainly mitigated by increases in permit income, but this has led to a shortfall against budget overall of £0.060m. There is an increase of £0.065m from penalty notices, due to concentrating enforcement in the areas most affected by poor parking. Income from the off street car parks reflects the poor condition of Regency Square Car Park which will be addressed by the agreed refurbishment works. The forecast for the HRA High Street Car Park has worsened by £0.008m as the car park has had to close for refurbishment works.

City Clean is predicting an overspend of £0.050m. This relates to savings to be achieved by the removal of a refuse crew that worked part time; that is not now to be made.

Delivery unit - Planning & Public Protection

Development Planning is forecasting an underspend against budget of £0.064m due to vacancy management savings.

Public Protection is forecasting an overspend of £0.015m which is an improvement of £0.020m since month 4.

There is still a pressure due to increased vet and kennelling costs of £0.030m. In addition there is a forecast overspend of £0.020m in Civil Contingencies owing to additional costs at New England House. These are partially offset by additional Gambling Act revenue of £0.035m.

Major Projects

There is a projected underspend of £0.021m relating to staffing costs.

Commissioner – Housing

The projected underspend of £0.030m includes an under-spend in staffing costs of £0.125m partly offset by increased running costs of £0.073m in respect of enlarged and refurbished office space at Palace Place/Old Steine. We have been experiencing difficulties with recruiting homelessness officers to clear the backlog of applicants. We are currently working with HR to recruit specialist officers to fill these vacancies.

Delivery Unit – Housing & Social Inclusion

The budget for Travellers is projected to overspend by £0.170m. This overspend is mainly due to costs for security (£0.120m) and for rubbish clearance (£0.054m). These costs are broadly similar to those incurred last year.

Place – Capital Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	Commissioner - City Regulation & Infrastructure	4,744	4,744	0	0.0%
0	Delivery Unit - City Infrastructure	4,436	4,307	(129)	-2.9%
0	Major Projects	1,142	1,142	0	0.0%
0	Total City Regulation & Infrastructure	10,322	10,193	(129)	-1.2%
0	Commissioner - Housing	5,488	5,488	0	0.0%
0	Delivery Unit - Housing & Social Inclusion (HRA Capital)	31,248	30,461	(787)	-2.5%
0	Total Housing	36,736	35,949	(787)	-2.1%
0	Total Capital - Place	47,058	46,142	(916)	-1.9%

Critical Budget – Vehicle Replacement

The budget for this scheme is £0.554m and is included within the total for the City Infrastructure delivery unit shown above. These vehicles have to be specially built and as such have a long lead time. Following a service review it is expected that some of the vehicles will be delivered in 2012/13. As a result, slippage of £0.650m into 2012/13 has been identified and reflected in the budget above.

New Capital Schemes**Commissioner - City Regulation & Infrastructure****City Parks Developments funded by S106 £0.165m**

The City Parks S106 Developments are as follows:

Fonthill Road / Newtown Road Junction £0.065m

This preferred option allows for removing the existing build-outs at this junction, constructing new ones with improved radius's etc. & installing the new raised table.

The Droveaway £0.044m

Provision of a new footway on the South side & improve existing facilities for pedestrians & cyclists. The approx cost for the cycle lane improvements between the entrance to 'Legal & General' & Hove Park is £0.016m, which is inclusive of the above estimate.

Nevill Road £0.030m

Installation of new kassell kerbs to the Northern bus stop on the east side and construction of a new pedestrian refuge island adjacent to the greyhound stadium pedestrian entrance.

Real Time Information Costs £0.028m

Installation of Real Time Passenger Information at two bus stops.

Delivery Unit – Housing & Social Inclusion. (HRA)

Installation of solar panels to Council Homes £0.140m

The Government announced at the end of October 2011 that it will halve the current rate of 43p Feed In Tariff (FIT) to 21p for Solar Photovoltaic (PV) Panel schemes registered after the 12 December 2011. The full outcome of their review will be announced in January 2012.

In order to take advantage of the higher FIT rate and energy savings the council is able to link Solar PV panels to roofing works currently being undertaken in Woodingdean and deliver Solar PV installations to around 20 council homes by the deadline of 12 December 2012. The cost of the installations will be met within the existing Housing Revenue Account Capital Programme underspend mentioned elsewhere in this report.

Variations

Commissioning Unit – City Regulation Infrastructure.

Integrated Transport Schemes £0.388m and Safer routes to schools £0.007m

The following schemes will be funded from S106 arrangements.

Scheme Description	2011/12 £'000
Quality Bus Partnership Initiatives	266
Walking Facilities (dropped kerbs and tactile)	49
Cycle Parking	9
Urban (including Brighton Station Gateway)	3
North Street	3
Preston Road / Argyle Road	36
New Road / Church Street Junction	22
Travel Awareness	7
Total	395

Delivery Unit – City Infrastructure

St Ann's Well Gardens S106 (£0.100m)

There has been a delay in tendering for the replacement play area for St Ann's Well Garden, due to some unavoidable delays in finishing the Playbuilder project which has upgraded 26 other play area refurbishments in the city. The site is also very wet and has restricted access for machinery in winter so we have programmed the work for the Spring when the area should have dried out.

The Level S106 Works (£0.288m)

This budget will be used as match funding for HLF/Big Lottery funding which if successful will only be available in the next financial year.

Commissioner - Housing

Disabled Facilities Grant £0.123m

The disabled facilities grant covers the cost of providing adaptations and facilities to disabled persons. Such grants are given by local councils under Part I of the Housing Grants, Construction and Regeneration Act 1996. The Department of Communities and Local Government have notified the Council of an increase in grant by £0.123m.

Local Delivery Vehicle (£1.006m)

There was a delay of approx 6 months in entering an agreement with Brighton and Hove Seaside Community Homes Ltd (BHSC) to transfer 499 properties over 5 years. This delay has meant that only 57 properties will be transferred to BHSC in 2011/12. This is a reduction of 76 properties or 57% from the batching projections provided in June 2011.

Delivery Unit – Housing & Social Inclusion (HRA)

Health & Safety – Lift Replacement (£0.500m)

Due to the timetable for procuring the long term lift maintenance and replacement contract the council has been unable to start the programmed work due under this contract. This work is due to start in January 2012 and will take approximately 32 weeks which means that an element of these works will not be completed in this financial year, 2011/12.

Lifts will be replaced in priority order and those which will be completed in 2012/13 have been identified as relatively reliable based on expert advice from our lift consultants, therefore there are no likely effects on the service delivery.

Decent Homes Work – Windows (£1.276m)

Court windows (£0.392m) – delays in the programme have occurred due to ensuring that value for money is received through the tendering process and due to the leaseholder consultation required as a result of the scope of the works.

Other North Whitehawk high-rise blocks (£0.884m) – delays have occurred with gaining planning permission and ensuring value for money through the tendering and specification process. Leaseholder consultation is required as per Kingfisher Court which contributes to the length of lead in time for programme delivery.

The delays are communicated with residents and other stakeholders through the Repairs & Improvement Partnership Core Group and other forums as required, and risk managed to ensure that any service delivery issues are understood and the impact mitigated.

Energy Efficiency Works (£2.488m)

Kingfisher Court cladding (£1.250m) – delays in the programme have occurred due to assuring that value for money is received through the tendering process and due to the leaseholder consultation required as a result of the scope of the works.

Structural repairs (various blocks) – these projects link to wider projects which are underway and ongoing, for example St James' House external works are delayed due to existing car park and boiler upgrades works (currently in progress) and potential planning requirements

Nettleton & Dudeney communal heating and boilers upgrade – works are delayed due to the complexity of the project, planning requirements and the link between these works and major external repairs due in 2012/13.

Citywide Loft Conversion and Extensions Programme (£0.100m)

The extensions programme is part of a new initiative in partnership with housing management colleagues. Processes for selecting the most appropriate dwellings and households to benefit from extensions needed to be put in place before the programme could commence. There have been delays gaining relevant statutory permissions in some cases due to changes in regulations. Also gaining access to some properties to discuss needs have caused further delays.

Ainsworth House (£1.200m)

The procurement stage of the project has taken 12 weeks longer than anticipated. This has meant that contract sums due to be released for construction in 2011/12 will now be released in 2012/13.

Ainsworth House is a design and build contract, where the council appoints a building contractor to provide a completed building to an agreed cost and programme. The council has always wished to transfer maximum risk to the contractor by ensuring we have a fixed price at the beginning of the contract so that the project delivers within budget constraints. In July, the selected contractors were unable to supply a fixed price tender and as a result the procurement team have been working to ensure contractors either take out or price the risk in their contract sums. This has taken an unanticipated 12 weeks while these points are clarified.

It is hoped that the impact of the delays in the procurement stage can be mitigated once a contractor is appointed and on-site. Completion is anticipated for winter 2012/13. The Grant allocation will not be affected.

Slippage

Delivery Unit – City Infrastructure

Vehicle Replacement (£0.650m)

See critical capital budget section in this appendix.

Ex Leased car Parks (£1.314m)

A revised scope for the major parts of this project (Regency Square and Trafalgar Street) was submitted to Cabinet on 22nd September. Additional time is needed to develop the Business Case. The project will deliver additional security, a more welcoming environment and better access.

Hollingdean Depot (£0.437m)

The following sets out the reasons for the slippage:

- The demolition of a building on site relating to administration offices which are still occupied by staff. The date for the building to be emptied ready for the demolition is still on hold. The costs relating to making good the surfaces/electrics are unknown until the demolition is completed.
- Awaiting the technology for the new alarm to be fitted. Phase 1 of these works is being completed for 2011/12.
- Waiting for the salt bay to reduce in size or for an alternative location to be found. The council is currently investigating other works to reduce the risk of underground water supplies being contaminated prior to major repairs being carried out.
- The works relating to the resurfacing and concrete slab are on hold until date of redevelopment of the site is known.

2011/12 £'000	2012/13 £'000	2013/14 £'000	Total £'000
613	362	75	1,050

Delivery Unit - Housing & Social Inclusion (HRA)**Housing ICT (£0.135m)**

The Housing ICT Budget includes a programme for introducing a system called IDOX, an electronic document management (EDM) and workflow system to improve business processes and customer service across all housing offices.

It has now been confirmed that the council will continue to use the IDOX system and Housing Management can now start to implement the system across the housing offices which will include one housing office this financial year and three offices in 2012/13.

There is no impact on current service delivery at the Housing Offices from the delay of the implementation of this system. The introduction of IDOX across the Housing officers will facilitate and improve customer service delivery.

Underspends**Delivery Unit – City Infrastructure****Lanes and London Road Car Park (£0.129m)**

The aim of this capital scheme was to preserve and enhance the Council's car park assets and protect their income generating potential. The Lanes Car Park project has come in under budget due to careful project management and a reduction in the scope of works.

Delivery Unit - Housing & Social Inclusion (HRA)**Water Tanks (£0.720m)**

The original budget approved for 2011/12 for Water Tanks was £0.482m with a carry forward of budget from the previous financial year of £0.401m. At the time of setting the

capital programme budget the Housing Property & Investment team were in the process of procuring a long term contract for the maintenance and replacement of communal water tanks across the city. Therefore until the process had been completed it was deemed prudent to retain the existing Water Tanks capital budgets.

As a result of the procurement of the new water systems contract and the subsequent water system risk assessments it has been identified that there is not as much capital works required as initially estimated for this financial year or the requirement to use the previous years budget.

There is minimal impact on service delivery and the Water Tanks capital budget estimates for future years will be updated for approval within the Housing 2012/13 to 2014/15 Capital Programme report to Cabinet in February 2012.

Other small underspends (£0.067m)

Door entry systems (£0.013m) and various overheads (£0.054m) take the total Housing Delivery Unit underspend to £0.787m.

ITEM 44 ON THE AUDIT COMMITTEE AGENDA

Appendix 1

Communities - Revenue Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	Commissioner - Communities & Equalities	3,446	3,446	0	0.0%
0	Community Safety	2,381	2,381	0	0.0%
0	Commissioner - Sports & Leisure	1,404	1,404	0	0.0%
0	Commissioner - Culture	2,039	2,039	0	0.0%
151	Delivery Unit - Tourism & Leisure	3,749	3,921	172	4.6%
151	Total Revenue - Communities	13,019	13,191	172	1.3%

Explanation of Key Variances

Commissioner – Communities & Equalities

The forecast for Month 7 is a break-even position.

Community Safety

The forecast for Month 7 is a break-even position.

Commissioner – Sports & Leisure

The forecast for Month 7 is a break-even position.

Commissioner – Culture

The forecast for Month 7 is a break-even position.

Delivery Unit – Tourism & Leisure

The forecast overspend of £0.172m, an increase of £0.021m from TBM month 4, relates mainly to two areas where there are risks on income achievement. On Seafront and Sports facilities the projected overspend is £0.022m relating to a predicted shortfall on income from seafront leases. On Venues the projected overspend is £0.116m which includes £0.075m in respect of an ongoing income risk against the Hove Centre, as last year, and £0.036m against the Brighton Centre based on confirmed business. The increase since TBM 4 mainly relates to a projected overspend of £34k across Tourism and Marketing. This is caused by pressures on partnership income and maternity cover costs. In all areas, actual and forecast income is closely reviewed and action is being taken to maximise any business opportunities.

Communities - Capital Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	Commissioner - Sports & Leisure	744	744	0	0.0%
0	Delivery Unit - Tourism & Leisure	2,738	2,738	0	0.0%
0	Total Capital - Communities	3,482	3,482	0	0.0%

Variations

Delivery Unit – Tourism and Leisure

New Historical Records Office (£2.270m)

East Sussex County Council have now provided a cashflow schedule and agreed with Brighton & Hove a payment schedule which gives a far lower capital contribution in 2011/12. As a result, £2.270m needs to be re-profiled into future years. This has led to reduced capital financing costs which are referred to under Risk Provisions in the Corporate Budgets section of this appendix.

Resources & Finance - Revenue Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
(71)	Delivery Unit - City Services	14,449	14,368	(81)	-0.6%
0	Housing Benefit Subsidy	(738)	(1,093)	(355)	48.1%
541	Resources	19,012	19,683	671	3.5%
(22)	Finance	6,106	5,991	(115)	-1.9%
0	Strategic Leadership Board	1,260	1,260	0	0.0%
448	Total Revenue – Resources & Finance	40,089	40,209	120	0.3%

Explanation of Key Variances

Delivery Unit – City Services

The forecast for Month 7 is an underspend of £0.081m, which is an improvement of £0.010m from Month 4.

Housing Benefit Subsidy

The corporate critical Housing Benefit budget is expected to generate an additional £0.355m in subsidy as local authority errors are predicted to be held below the government threshold and therefore attract additional subsidy. This is a large and complicated budget area and the forecast will be kept under review as new data becomes available from the Housing Benefit system over the remainder of the year.

Resources

The net overspend across Resources is £0.671m, of which the main variances are on the following areas: -

Human Resources (£0.300m overspend)

Human Resources have previously managed year-on-year savings but this has been subsidised by savings made elsewhere and the use of one-off funding sources. In the current financial year there is a projected shortfall of £0.300m. This shortfall is made up of £0.162m unachievable income from recruitment advertising and use of the new HR system by external organisations, and additional costs associated with the running of the new HR/Payroll system. Vacancies are being held to try and manage the projected overspend but staff pressures are being caused as a result of supporting significant corporate and service-led changes across the council with associated staffing implications. A recovery plan has been agreed and work has started to systemically reduce costs. A systems thinking review is planned across the service, which is expected to deliver efficiencies from 2013/14.

Communications (£0.111m overspend)

The forecast overspend of £0.111m is an improvement from the overspend of £0.459m in 2010/11 as a result of holding staff vacancies, a reduction in spend on City News, greater management of demand, more efficient procurement and revenue generated from greater

use of in-house design, print & sign functions. It may be possible to reduce the variance to £0.070m if the peak in work that is historically experienced in the final quarter can be completed within this financial year.

Total spend on communications continues to reduce across the organisation as a result of the work done to focus communications, improve consistency, reduce the number of communications suppliers and integrate communications from different parts of the council. Savings in service budgets are projected to be £0.421m against budget in 2011/12 in addition to the reduction in spending of £0.650m made in 2010/11. Total spend on communications across the council is now running below budget and continues to deliver better value to the organisation overall.

The advertising and sponsorship tender is on track to award contracts before the end of this financial year - as previously reported, due to uncertainty around the £0.250m savings in this financial year a risk provision of £0.250m has been allocated to this budget on a one off basis.

Property & Design (£0.265m overspend)

Property & Design are forecasting a shortfall on rental income of £0.144m mainly due to lower than expected income from rent reviews. Property & Design will continue to secure the most advantageous rent settlements both for short term and long term gain in an increasingly difficult market.

The Open Market is transferring to the contractor in December and trade has declined leaving an income loss of £0.048m.

There is an income pressure of £0.073m in the print area due to a reduction in confidential Member printing and the cost of temporary cover for the Facilities and Premises Manager.

ICT

The forecast for Month 7 is an overspend of £0.020m.

Legal & Democratic Services

The forecast for Month 7 is an underspend of £0.025m.

Finance

The forecast for Month 7 is an underspend of £0.115m. Within this, Audit are forecasting an underspend of £0.062m, largely as a result of staff vacancies now confirmed to the end of the financial year. There is also an underspend of £0.053m across Financial Services and Strategic Finance & Procurement.

Strategic Leadership Board

The forecast for Month 7 is a break-even position.

Resources & Finance - Capital Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	Delivery Unit - City Services	204	204	0	0.0%
0	Resources	8,281	8,281	0	0.0%
0	Finance	195	195	0	0.0%
0	Total Capital – Resources & Finance	8,680	8,680	0	0.0%

Critical Budget – Accommodation Strategy

Significant investment is being made into Bartholomew House and associated subsidiary buildings for the implementation of the first phase of the Workstyles project (called Smartspace) that will enable the re-location of services and staff from Priory House and the subsequent surrender of the Priory House lease. It will also radically improve the Council's customer access points in the centre of the City and make considerable efficiency savings for the council. There are currently no variations forecast.

Critical Budget – Solar PV Implementation

Brighton & Hove City Council is planning to install solar photovoltaic (solar PV) roof mounted systems suitable for Feed In Tariff (FIT) payments onto a range of its properties. The works were timed to take advantage of the Feed in Tariff available until 31st March 2012, however this is currently subject to a government review, the outcome of which will be announced in December 2011.

Each set of panels will generate green electricity for the sites they are installed upon. The overall effect of this will be a reduction in the carbon footprint for the Council. Additional benefits will include a reduction in Carbon Reduction Commitment payments due to the reduced carbon emissions that the solar panels will contribute to. A programme of site surveys is currently underway to ascertain the solar photovoltaic capacity at each site and there are therefore no variations forecast.

New Schemes

Delivery Unit – City Services

Replacement of Coroner's Vehicle £0.050m

The Coroner's Transfer Service (CTS) has been operating for around 10 years now. The existing vehicle used by the service is now 5 years old and is starting to require additional maintenance and repair work. It is proposed that a new Coroners Transfer Service Ambulance is purchased, which will be a 4 wheel drive vehicle. Recent harsh winters have highlighted the need for a 4 wheel drive vehicle, to ensure safe travelling around the city for CTS staff. CTS work requires essential travelling whenever a call-out is received. Any new vehicle will be of ambulance standard in its design, and will comply with the current standards for vehicles purchased by the council, including emissions criteria.

Slippage

Resources - ICT

City Planning Migration Project (£0.045m)

It is taking longer than originally estimated to complete the data transfer. Payment to the supplier is staged according to the successful delivery of milestones within the project, with largest sum at full project acceptance. Some of these milestones have slipped into the early part of 2012/13.

Customer Access (£0.060m)

Due to the significant work involved in developing the Customer Access and ICT Strategies, there has been a delayed start in the procurements in this area. There is therefore a requirement to slip £0.060m into 2012/13 to accommodate this delayed start.

ITEM 44 ON THE AUDIT COMMITTEE AGENDA

Appendix 1

Corporate Budgets - Revenue Budget Summary

Forecast Variance Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
100	Bulk Insurance Premia	3,009	3,069	60	2.0%
(380)	Concessionary Fares	9,660	9,280	(380)	-3.9%
185	Capital Financing Costs	10,427	10,582	155	1.5%
0	Levies & Precepts	166	166	0	0.0%
1,521	Corporate VfM Savings	(2,772)	(1,282)	1,490	53.8%
(1,550)	Risk Provisions	3,816	2,361	(1,455)	-38.1%
0	Other Corporate Items	(28,497)	(28,467)	30	0.1%
(124)	Total Revenue - Corporate Budgets	(4,191)	(4,291)	(100)	-2.4%

Explanation of Key Variances

Bulk Insurance Premia

The forecast overspend is £0.060m which is a decrease of £0.040m from month 4. This overspend relates to increased costs rather than volume of claims. The most significant increase is in claimant solicitors' costs and their success fees.

Concessionary Fares

The forecast underspend remains at £0.380m. This mainly relates to fixed deal agreements with Brighton & Hove Bus & Coach Company and Stagecoach South, agreed by Cabinet on 9th June, being lower than the budget provision.

Capital Financing Costs

The overspend in capital financing costs has reduced by £0.030m to £0.155m as a result of increased income. This is because higher interest rates have been achieved, partly as a result of locking in some cash with a Local Authority on a longer term basis than previously. The overall overspend is due mainly to a lower than projected recharge to the Housing Revenue Account for interest on borrowings. HRA borrowing in 2010/11 was some £6.000m lower than projected and coupled with short-term interest rates remaining lower than projected at the time of the 2011/12 budget, has resulted in a reduction in the recharge.

Levies & Precepts

The forecast for Month 7 is a break-even position.

Corporate VFM Projects

A number of VFM projects relate to council-wide projects which will deliver savings across many, if not all, service areas. The associated savings target is shown under Corporate Budgets and is awaiting allocation to individual service budgets as and when savings are

identified and/or confirmed. If all savings are identified and achieved, the Corporate VFM Projects savings target above will reduce to zero by the end of the financial year.

- The implementation of other initiatives including Workstyles, Customer Service changes (mainly on-line developments) and many other service changes (e.g. some emanating from other Value for Money projects) have meant that the capacity to undertake Systems Thinking reviews at the same time has been severely hampered. Undertaking such reviews without the right commitment, capacity and support could do more harm than good to service quality and efficiency. The reviews are therefore behind schedule and will need to be carefully prioritised on those services that are in a position to take them forward effectively with full commitment. It is now expected that these reviews will be used to 'enable' services to deliver efficiency and other related savings in 2013/14.
- The achievement of the Management & Administration savings has been underpinned by a Voluntary Severance Scheme (VSS) which is now closed for the purposes of this saving. The outcome of the Scheme, in financial terms, indicates that approximately £0.960m has been achieved and £0.790m is uncertain at present. This is broadly in line with expectations as the VSS was not expected to achieve 100% of the savings required (£1.750m (revised) in 2011/12). As set out in the Revenue Budget report to Full Council in March 2011, some savings will need to come from 'natural turnover' over the remainder of the financial year and there may also be a need for further redesign in some service areas to accommodate the impact of staff released through the scheme. The main challenge now is to ensure that where people have been released but the post retained in the service structure, these are filled through redeployments across the council wherever possible. Full-year savings in 2013/14 are subject to confirmation and further actions described above but currently stand at circa £2.5m against a revised target of £3.5m.
- Carbon Reduction initiatives will be designed to reduce both energy use and costs. A scheme to pursue the installation of Solar PV panels was agreed at Cabinet in June 2011, however, the anticipated cash savings will not now be realised due to changes to the Feed-in Tariff regime. There is however potential for future savings against Carbon Reduction Commitment (CRC) payments and the initiative will reduce the council's carbon footprint via the production of green electricity.
- The Procurement project has identified an increased risk resulting partly from a reduction in overall procurement activity due to spending constraints, which has reduced potential savings opportunities compared with previous years. In addition, longer than expected lead-in times for some categories of procurement are being experienced. This is generally due to the complexity of aggregating procurement categories and packaging these as coherent or attractive tender invitations for the commercial marketplace. As at Month 7, the level of 'uncertain' savings has improved by £0.050m to £0.200m. Further procurement reviews are continuing to close this gap over the remainder of the year.

Risk Provisions

The overall position on Risk Provisions is an underspend of £1.455m which is a reduction of £0.095m from month 4. This is due to £0.125m being allocated to VfM savings and an increased underspend of £0.030m on financing costs for the new historic records centre.

There are one-off risk provisions of £0.800m and it is forecast that these will be fully spent. It is anticipated that £0.192m of this will be needed for the preparatory works for the Prince Regent and Withdean Sports Complex schemes subject to further planning

confidence and with the expectation of payback once the schemes are successfully implemented. The remainder will be required for one-off costs associated with Criminal Records Bureau (CRB) compliance following OFSTED inspection, costs associated with compliance with Microsoft licence requirements following an audit process, and additional costs associated with the Carbon Reduction Commitment (CRC) scheme implementation.

There is a permanent risk provision of £0.750m relating to grants ending and this will not be required in the current financial year. It is therefore being released to support the overall position.

There is £1.250m of permanent risk provision, of which £0.500m is being released to support the overall position. Of the remainder £0.625m is being used on a one-off basis to offset the shortfall in the Advertising and Sponsorship contract income target (£0.250m) the VfM Phase 3 Stretch target (£0.250m) and VfM Management & Administration savings (£0.125m). There remains a further £0.125m available to offset adverse movements in the forecast between TBM 7 and outturn.

In addition, there is £0.400m of one-off risk provision for children's and adults services which is currently being retained corporately.

An underspend of £0.330m is forecast on the financing costs for the new Historic Records Centre. The budget projections assumed the majority of the capital funding would be needed this financial year and as this expenditure is funded from borrowing the financing costs were set aside in contingency. East Sussex County Council (ESCC) have now provided a cashflow schedule and agreed with Brighton & Hove a payment schedule which gives a far lower capital contribution this year and therefore lower financing costs. The cashflow from ESCC is subject to change but experience shows that expenditure is generally lower than projected.

ITEM 44 ON THE AUDIT COMMITTEE AGENDA

Appendix 1

NHS Trust Managed S75 Budgets - Revenue Budget Summary

Forecast Outturn Month 4 £'000	Unit	2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
162	NHS Trust managed S75 Services	14,175	14,223	48	0.3%
162	Total Revenue - S75	14,175	14,223	48	0.3%

Explanation of Key Variances

(Note WTE = Whole Time Equivalent)

NHS Trust Managed S75 Services (£0.048m overspend)

There is a pressure of £0.379m on the Mental Health Community Care budget, where WTE client numbers are approximately 20 more than budgeted. A financial recovery plan (FRP) has been developed to focus on reducing the pressure, particularly against long-term placement spend and a project is underway to review the high-cost placements. The current forecast assumes delivery of FRP targets of £0.025m between now and the end of the financial year. Savings of £0.283m have already been identified against the mainstream budget from vacancy management and a review of social care input into Access Services. There is a 50/50 risk-share agreement with Sussex Partnership Foundation Trust, which is reflected in the overall pressure of £0.048m reported.

Sussex Community NHS Trust is forecasting a breakeven position, which is an improvement of £0.069m from Month 4. Within this, there are staffing pressures identified within the Intermediate Care service (£0.094m) and pressures on the equipment budget within the Integrated Community Equipment Store (ICES) (net £0.058m pressure) due to an increase in demand. These have been offset by savings of £0.153m against the HIV budget. The first meeting has been held to help develop a management action plan for ICES based on current trends and monthly budget meetings are also taking place for Intermediate Care.

Housing Revenue Account - Revenue Budget Summary

Forecast Outturn Month 4 £'000		2011/12 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
	Housing Revenue Account				
(227)	Employees	9,187	8,816	(371)	-4.0%
(220)	Premises – Repair	11,031	10,960	(71)	-0.6%
23	Premises – Other	3,070	3,119	49	1.6%
(80)	Transport & Supplies	2,037	1,908	(129)	-6.3%
(18)	Support Services	2,195	2,188	(7)	-0.3%
-	Third Party Payments	54	54	-	0.0%
-	Revenue contribution to capital	3,778	3,778	-	0.0%
(113)	Capital Financing Costs	4,268	4,145	(123)	-2.9%
-	Subsidy Payable	14,710	14,724	14	0.1%
(635)	Net Expenditure	50,330	49,692	(638)	-1.3%
-	Dwelling Rents (net)	(44,213)	(44,222)	(9)	0.0%
-	Other rent	(1,240)	(1,205)	35	2.8%
-	Service Charges	(3,354)	(3,307)	47	1.4%
-	Supporting People	(465)	(484)	(19)	-4.1%
(21)	Other recharges & interest	(1,058)	(1,034)	24	2.3%
(21)	Net Income	(50,330)	(50,252)	78	0.2%
(656)	Total	-	(560)	(560)	

Explanation of Key Variances

The forecast outturn for 2011/12 is an underspend of £0.560m, compared to a forecast underspend of £0.656m at Month 4. Further analysis of the forecast outturn variances are as follows:

- The employees budget is forecast to underspend by £0.371m compared to an underspend of £0.227m at month 4. Of this, £0.227m relates to TUPE costs for Property & Investment staff not being required as the final costs were less than originally forecast and fully paid in the last financial year. There are further underspends due to vacancies and reduced pensions costs within Property and Investment (£0.100m) and other areas of the service.
- The Premises Repairs forecast is an underspend of £0.071m compared to a month 4 forecast underspend of £0.220m. The underspend includes the following significant variances:
 - Service Contracts: A projected saving on the gas servicing and maintenance contract of £0.146m from the rebasing of the open book contract value, which reflects the achievement of savings during the last financial year. There is a

further underspend (£0.040m) on the cost of fire alarm servicing and call-outs. This has been offset by a forecast overspend on essential health and safety works to water tanks of £0.090m.

- A reduction in the overhead costs for the Repairs Partnership contract of £0.059m resulting from efficiencies in the contract.
- A reduction in the costs of repairs to empty properties by £0.146m due to a reduction in the number of empty properties.
- A projected overspend on responsive repairs of £0.250m which is partly due to works amounting to £0.165m that were undertaken in the last financial year but have been charged to this financial year (It should be noted that the responsive repairs underspend last year was £0.300m). There has also been an increase in the volume of responsive repairs as a result of works being undertaken to satisfy tenants and make good existing facilities where surveys to tenants' homes indicate decency criteria have been met and a new kitchen or bathroom is not considered necessary.
- The Premises-other budget is forecast to overspend by £0.049m compared to an overspend of £0.023m at month 4. This variance relates to the following:
 - A recent review by the Council's insurance team has identified a £0.329m recharge to the HRA in relation to the costs of repairing homes damaged by fire, flood etc. below the insurance excess of £25k. In recent years the number of cases of damage to dwellings has increased which has prompted the Council's insurance team to review how they charge the HRA. This recharge relates to costs borne over the last three years which were in excess of the budget. Provision (estimated at £0.120m) will be made for the additional on-going costs in the 2012/13 budget strategy.
 - A forecast underspend of £0.218m in relation to the accruals for gas and electricity. Prudent accruals were made in the last financial year that are no longer required under the new contractual arrangements.
 - A further underspend of £0.048m is forecast on the rental cost of the Housing Centre due to it opening later than expected this year.
- Transport & Supplies is forecast to underspend by £0.129m compared to a forecast underspend of £0.080m at month 4. This is mainly due to a reduction in the requirement for the provision for bad debt (£0.100m) resulting from the improvement in the collection of rent which has led to a reduction in the rent arrears total.
- Capital Financing forecast costs have reduced by £0.123m due to reduced forecasts for repayment of debt compared to the original budget. The reduced interest rates also reduce the amount of subsidy allowance for capital finance costs resulting in an increased subsidy payable to the Government of £0.014m.

ITEM 44 ON THE AUDIT COMMITTEE AGENDA

Appendix 1

SUMMARY CAPITAL OUTTURN POSITION AS AT MONTH 7

	2011/12 Approved Budget £'000	2011/12 Reported to Other Cabinets £'000	2011/12 New Schemes £'000	2011/12 Variations £'000	2011/12 Slippage £'000	2011/12 Budget £'000	2011/12 Outturn £'000	2011-12 Over / Underspends £'000
People	44,181	(1,077)	0	(12,327)	(100)	30,677	30,677	0
Place	55,730	0	304	(6,440)	(2,536)	47,058	46,142	(916)
Communities	5,752	0	0	(2,270)	0	3,482	3,482	0
Resources & Finance	8,455	280	50	0	(105)	8,680	8,680	0
Total Council Budgets	114,118	(797)	354	(21,037)	(2,741)	89,897	88,981	(916)

ITEM 44 ON THE AUDIT COMMITTEE AGENDA

Appendix 3

**Value for Money Programme:
Benefits Realisation as at Month 7**

Projects	Target £m	Achieved £m	Anticipated £m	Uncertain £m
VFM Phase 2 Projects				
Adult Social Care	1.801	0.729	0.822	0.250
Children's Services	2.019	2.019	0.000	0.000
ICT	0.218	0.218	0.000	0.000
Procurement	0.789	0.352	0.237	0.200
Fleet Management	0.150	0.150	0.000	0.000
Sustainable Transport	0.115	0.083	0.032	0.000
Outdoor Events	0.060	0.010	0.025	0.025
Workstyles	0.100	0.100	0.000	0.000
Total VFM Phase 2	5.252	3.661	1.116	0.475
VFM Phase 3 Projects				
	Target £m	Achieved £m	Anticipated £m	Uncertain £m
Systems Thinking	0.250	0.000	0.000	0.250
Leaner Management	1.150	0.631	0.000	0.519
Admin & Business Support	0.600	0.329	0.000	0.271
Consolidation of Spend	0.250	0.250	0.000	0.000
Carbon Reduction Initiatives	0.250	0.000	0.000	0.250
Total VFM Phase 3	2.500	1.210	0.000	1.290
Total All VFM Projects	7.752	4.871	1.116	1.765

Subject:	2011/12 Progress Report and Briefing		
Date of Meeting:	20 December 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Simon Mathers	Tel: 0844 798 1776	
	E-mail: s-mathers@audit-commission.gov.uk		
Wards Affected:	All		

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

- 1.1 We would like the Committee to review the 2011/12 external audit progress report and briefing.

2. RECOMMENDATIONS:

- 2.1 To receive the 2011/12 external audit progress report and briefing and note the progress made.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 This is our first report detailing progress against the 2011/12 audit plan. It follows the same format as progress reports issued in 2010/11 and is intended to provide the Committee with a summary of progress made and any significant issues arising.
- 3.2 We welcome feedback from the Committee on any improvements it would like to either the format or content of the report.

Progress report and briefing

December 2011

Brighton & Hove City Council

Audit 2011/12

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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 more information about the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team. Contact details are set out at the end of this update.

2010/11 audit

3 My work on the 2010/11 audit is now complete. I formally concluded the audit and issued the audit certificate on 28 September 2011.

2011/12 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 / Progress
Documentation and walkthrough of key financial systems	January 2012	Work to document and walkthrough your key financial systems has started during December 2011.
Audit Commission controls testing. Review of Internal Audit controls testing.	April 2012	I have liaised with Internal Audit to plan my detailed testing of controls in your key financial systems. Wherever possible I will seek to rely on the work of Internal Audit to minimise any duplication of effort. I will draw control weaknesses to your attention in my 2011/12 audit opinion plan which I aim to present to the April 2012 meeting of the

Work Flow	Date of completion	Reports / Progress
		<p>Audit Committee. Recommendations for the improvement of internal control will be made in my 2011/12 annual governance report.</p>
<p>Post statement audit and financial statements opinion.</p>	<p>By 30 September 2012</p>	<p>As in 2010/11, 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 2012. This approach in general worked well last year and has benefits both for officers and my team.</p> <p>The one main area of delay in delivering my post-statement audit last year was caused by difficulties in testing detailed transactions produced by your payroll system. My team therefore plans to work with your officers undertake this work early in the audit cycle and before you have produced your 2011/12 financial statements.</p> <p>The results of my work on the 2011/12 financial statements will be reported in my annual governance report which I will present to the September 2012 Audit Committee meeting.</p>
<p>VFM work.</p>	<p>By 30 September 2012</p>	<p>I will report the results of my detailed work to inform the 2011/12 VFM conclusion in my 2011/12 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2012. My aim is to</p>

Work Flow	Date of completion	Reports / Progress
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complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.

VFM conclusion

5 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.

6 From 2010/11, the Commission introduced new requirements for VFM audit work at local authorities. Auditors 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 2011/12:

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.
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7 I am discussing with officers the precise nature of my work to support my VFM conclusion in 2011/12.

Outsourcing of audit work

8 You are aware that the Commission is outsourcing the work done by its in-house audit practice. 13 accountancy firms have been accepted as bidders for the work. The deadline for bids to be submitted is 16 December 2011. Contract awards will be decided by the Commission's board in late

February 2012. I will inform you of the winning bidder for the contract containing the Council's audit as soon as I am able to do so.

2012/13 work programme and audit fees

9 Consultation on the proposed work programme and audit fees started on 5 September 2011 and ended on 24 October 2011. In line with the Commission's aim to reduce its costs by £70 million (30 per cent) over a three-year period, the 2011/12 scale fees will be reduced by 10 per cent for principal bodies. Publication of the final programme and fees will be in April 2012.

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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.

Protecting the public purse 2011: fighting fraud against local government

This report [<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/ppp2011.aspx>] uses the Audit Commission's 2011 national survey of local authorities and compares the findings to 2010. The Commission reported that English councils succeeded in detecting £185 million worth of fraud, an increase of 37 per cent on last year's figure of £135 million.

There were about 59,000 housing benefit and council tax benefit fraud cases, resulting in a £110 million loss to the public purse. These fraud cases represent more than half the total value of frauds detected in 2010/11. In 2009/10 there were 63,000 cases with losses of £99 million. In 2009/10 about 56,000 council tax discount frauds costing £22 million were found, which compared to 48,000 frauds costing £15 million in 2009/10.

Tenancy fraud identification led to repossession of 1,800 council homes. To build this number of homes has an estimated cost of £250 million.

You are looking into potential fraud identified through data matches from the Commission's National Fraud Initiative and Internal Audit is making reasonable progress in following up data matches identified. I will continue to monitor Internal Audit's progress in this area.

The report includes a checklist on counter-fraud and corruption and encourages audit committees to use it.

Tough times: councils' responses to a challenging financial climate

This report [<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes.aspx>] uses a survey of English councils and shows that while most councils are managing well in the face of unprecedented decreases to their income, services have been affected and a few councils may struggle to balance their books.

You have considered the impact of Coalition Government's grant settlement for 2011/12 and beyond in your financial plans and have positioned yourself well to ensure that you remain financially resilient. In 2010/11 you responded quickly to in-year grant reductions and other funding decreases resulting from the comprehensive spending review (CSR). However, you will

continue to face financial challenges and risks through the CSR period and will need to maintain your focus on financial management.,

The Commission has recommended that councils use its value for money profiles to see how each council compares with the national picture set out in the report, identify other councils facing similar challenges, and learn from others' approaches.

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Contacts

The key members of the audit team for the 2011/12 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
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AUDIT COMMITTEE**Agenda Item 46**

Brighton & Hove City Council

Subject: 2010/11 Annual Audit Letter
Date of Meeting: 20 December 2011
Report of: Audit Commission
Contact Officer: Name: **Helen Thompson** Tel: **0844 798 1790**
E-mail: helen-thompson@audit-commission.gov.uk
Wards Affected: All

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

- 1.1 I would like the Committee to consider and note the Annual Audit Letter which summarises my work for the 2010/11 audit year.

2. RECOMMENDATIONS:

- 2.1 To receive and note the 2010/11 Annual Audit Letter.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The Annual Audit Letter summarises the findings from my 2010/11 audit which was comprised of the audit of your financial statements and my assessment of your arrangements to achieve value for money in your use of resources. It also summarises the current and future challenges you face as a Council.

Annual Audit Letter

Brighton and Hove City Council

Audit 2010/11



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Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk

Unqualified audit opinion

Proper arrangements to secure value for money

Our findings



Audit opinion and financial statements

I gave an unqualified audit opinion on your financial statements on 28 September 2011.

This year you had to produce financial statements which fully comply with the requirements of International Financial Reporting Standards (IFRS) for the first time. Restating the accounts to comply with IFRS has been a complex task that caused significant difficulties for many local government bodies. By properly planning your work in this area you were able to produce good quality financial statements, which were supported by good working papers, with little slippage against your planned timetable.

Value for money

I gave an unqualified value for money conclusion on 28 September stating that you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

You responded well to government funding reductions and the need to adjust current and future budgets. You have good financial governance, financial planning is effective and forward looking and internal financial control is generally sound. However, your overall costs remain high compared with similar councils with your 2009/10 total net spending per head in the top 20 per cent of your statistical nearest neighbours. You are aware of the significant financial challenges you face over the medium term and your move to an intelligent commissioning operating model is challenging both service commissioners and providers to challenge traditional ways of working and improve value for money.

Current and future challenges

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains difficult. Since taking office in May 2010 the Coalition Government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding.

You face significant challenges in the context of this broader economic downturn and increased pressure on the public sector. These include reducing funding, increasing demographic pressures and demand, and rising customer expectations. You will therefore need a continued focus on improving the value for money of the services you deliver.

You have ambitious medium term plans to bring the Council closer to residents, businesses and visitors to achieve a stronger, healthier and thriving city. The Coalition Government's comprehensive spending review (CSR) is requiring all public sector bodies to consider the way they work and you, like many other local councils, are exploring new ways of working to achieve your ambitions with decreasing resources. As part of your transformation programme you are seeking to develop your approach to how you commission services. Your aim is to maximise the benefits offered by working in partnership and better understand exactly what needs to be delivered and how that can be best achieved.

You have positioned yourself well to ensure that you remain financially resilient. In 2010/11 you responded quickly to in-year grant reductions and other decreases resulting from CSR. You delivered an underspend against the general fund budget of around £2.5 million, and an underspend against housing revenue account budgets of around £1.4 million. However, at the end of month 4 of 2011/12 you are predicting a full-year general fund overspend of approximately £1.3 million. You are putting actions into place to address the overspending, have some risk provisions to mitigate against it and have a good track record of managing in-year over-spending to achieve your budget by the end of the year.

Changes to local government financing

The Department for Communities and Local Government (DCLG) is consulting councils on a number of proposed technical reforms to council tax. The proposed changes are intended to further empower local communities as part of the Coalition Government's wider agenda for decentralisation and localism, and keep the overall level of council tax down. You have responded to the consultation on a joint basis with other councils in East and West Sussex and have expressed some concerns about the proposed changes.

The Coalition Government is also proposing to make further changes to local government financing. One of these changes would allow councils to keep locally collected business rates. Although you support the intention to provide greater financial incentives for local authorities to encourage business growth, you have concerns about the current proposals. In particular, you believe the proposed scheme is too complicated and transfers too much financial risk to you relative to the levers you have available to promote business growth.

Council housing

April 2012 spells the end of the housing revenue account subsidy system. Under plans in the Localism Bill, English councils will take control of their housing rental income enabling them to plan effectively for the long-term management of these key assets. In return councils will take on a share of the national £28 billion housing debt as part of the self-financing settlement. The financial impacts of this change in financing are potentially significant to the Council.

Plans to transfer 499 properties to Seaside Community Homes (Seaside) are also now approaching fruition, with the initial transfer of properties starting in November 2011. Seaside, which is a charitable company limited by guarantee, will be responsible for providing accommodation and services for certain disadvantaged client groups. It will also have responsibility for management of the transferred properties. You plan to use the receipt arising from the transfer to help fund works to your remaining council homes with the aim of achieving compliance with the requirements of the Decent Homes Standard by the end of 2013. The transfer of properties and resulting receipt creates some detailed accounting issues which I plan to consider as part of my 2011/12 audit.

Other legislative changes

In addition to the planned changes to local government financing the Coalition Government has announced a significant number of other wide-ranging reforms to the public sector since taking office in May 2010. The Localism Bill is advanced in its parliamentary progress and if passed will have a significant impact on local government. Key aspects of the bill are:

- the abolition of the Standards Board regime;
- introducing a general power of competence for local authorities;
- introducing rights for communities to buy local assets threatened with closure and challenge the way services are provided; and
- substantial reforms of the planning system.

In addition other government reforms are planned to the welfare system, which will impact on your future work in managing housing and council tax benefits.

You will need to continue to monitor and forecast the impact of these changes to fully assess the challenges and opportunities they create.

Financial statements and annual governance statement

Your financial statements and annual governance statement are an important means by which you account for your stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified opinion on your financial statements on 28 September 2011.

The quality of accounting practice and financial reporting at the Council is good. You were able to provide me with high quality draft financial statements, which were supported by comprehensive working papers, before the 30 June deadline. This was a particular achievement given the need to produce IFRS compliant accounts in 2010/11, which was a time-consuming and complex task requiring significant input from council officers both within and outside the finance team. Your approach was well planned and coordinated. I identified a relatively small number of errors and other qualitative weaknesses from my work. I reported detailed findings from my audit of your financial statements, including details of adjustments made and recommendations for improvement, in my 2010/11 annual governance report at the Audit Committee on 27 September 2011.

Significant weaknesses in internal control

Your internal financial control arrangements are sound overall. However, I was not able to rely on the operation of controls within your new Midland iTrent payroll system to support my work on the financial statements. As a result I needed to test detailed payroll transactions to gain assurance. This is a time-consuming process which reduces the efficiency of my audit. I found that you had significant difficulties in locating records to support the expenditure tested, which caused delays in completing my work. This difficulty in locating supporting records is consistent with my findings in previous years. Given the high level of expenditure generated by the payroll system this needs to be addressed.

I raised recommendations to improve internal financial control, including recommendations to address the control weaknesses in the payroll system, 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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that you have adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion

1. Financial resilience
The organisation has proper arrangements in place to secure financial resilience.
Focus 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.

Key messages

To assess your arrangements to secure financial resilience I specifically considered:

- the changes you made to your 2010/11 budget because of in-year funding reductions;
- the changes made to the 2011/12 budget to accommodate continued reductions in funding following the comprehensive spending review (CSR). In particular I considered the realism and achievability of those changes; and
- the impact of funding reductions on your priorities.

I have also considered your plan to move to an intelligent commissioning operating model as part of my work in this area. To do this I reviewed financial governance arrangements in adult social care, where there is an established commissioner/ provider split.

In my work to consider changes to budgets I found that:

- you planned well for in-year cuts in funding, including undertaking scenario planning before CSR;
- you plan to call on earmarked reserves to cover the transitional costs of changing the way you operate and managing the short-term impact this change has on services. I am satisfied that this approach is prudent; and
- funding reductions have been accommodated in budgets without any significant planned short-term changes in your high level priorities.

In my work to consider financial governance arrangements in adult social care, where there is an established commissioner/ provider split, I found that:

- both the commissioner and provider believe that better value service outcomes can be achieved from the intelligent commissioning model. In particular there is confidence the model is providing a service that is better aligned to the needs of the individual;
- financial and performance management arrangements are operating effectively. However, you need to further develop financial and performance modelling and forecasting to better inform commissioning decisions; and
- the detailed agreement between the commissioner and provider, the compact, provides an explicit link to your overarching priorities and clear accountability for delivery. The control that this provides needs to be balanced against the need to secure improved outcomes and not creating constraints about how this might be achieved.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

To assess your arrangements to challenge how you secure economy, efficiency and effectiveness I:

- audited in detail the savings you reported as achieved from the continuing value for money programme in adult social care and the children and young people’s trust; and
- reviewed your costs using the Audit Commission’s value for money profiles, both globally and specifically for the two service areas reviewed in detail.

I found that:

- The reported value for money programme savings in adult social care and the children and young people’s trust are supported by evidence. Processes to oversee the achievement of value for money improvements are sound and the actual level of savings achieved exceeded targets for the year in both service areas reviewed in detail. However, further work is needed to completely identify and fully understand how changes made as part of the value for money programme have resulted in cost savings. You recognise that further improvements in the use of financial and performance data are essential to gain a better understanding of which initiatives have worked well, and which have worked less well.
- The use of external consultants to inform the value for money programme has been useful in identifying the potential for value for money improvements and suggesting possible changes to commissioning arrangements to achieve this. Although service managers have not always understood at a detailed level how value for money programme targets have been set, external challenge of your traditional approach to budget setting and ways of working has helped to prompt change.
- Overall, your service costs remain relatively high, although costs are falling. There is, however, evidence for the services considered in detail that areas of higher comparative spending do match your priorities.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 20 December 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee letter	March 2010
Opinion plan	April 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank your staff for their support and co-operation during the audit.

Helen Thompson
District Auditor
November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee ⁱ	£389,500	£389,500	-
Non-audit work	£4,000	£4,000	-
Total	£393,500	£393,500	-

ⁱ During 2010/11, the Commission issued a rebate of £23,240 against the one-off cost of audit work relating to the first year of IFRS. In addition, the Commission issued a further rebate to unitary councils of 3 per cent of their 2010/11 scale fee. This is £14,470 for the Council.

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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



Subject:	2010/11 Assurances from the Audit Committee as the body charged with governance		
Date of Meeting:	20 December 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Simon Mathers	Tel: 0844 798 1790	
	E-mail: s-mathers@audit-commission.gov.uk		
Wards Affected:	All		

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

- 1.1 To review the December 20th correspondence sent to the Chair of the Committee requesting assurances from the Audit Committee the body formally charged with governance at the Council. These assurances are needed to comply with the requirements of International Standards on Auditing.

2. RECOMMENDATIONS:

- 2.1 To provide a response on behalf of the Audit Committee to the specific questions set out in the December 20th letter to the Chair of the Committee.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 We are required to conduct our audit under the framework of international standards of auditing. In several instances these standards require us to formally seek information from management and those charged with governance, in this case the Audit Committee.
- 3.2 In planning our work on the 2011/12 financial statements we are required to obtain an understanding of management arrangements and oversight by those charged with governance in relation to fraud, compliance with relevant laws and regulations and assessment of the going concern assumption.
- 3.3 The purpose of this correspondence is to gain an understanding of the Audit Committee's oversight of management's processes in these areas.

Our reference HT/BR006/1112statements

20 December 2011

Les Hamilton
Chairman of the Audit Committee
Brighton & Hove City Council
King's House
Grand Avenue
Hove
BN3 2LS

Direct line 0844 798 1776
Email s-mathers@audit-
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— Dear Les

2011/12 Audit of Brighton & Hove City Council Financial Statements - Compliance with International Standards on Auditing

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

- 1) How the Audit Committee, as the body charged with governance, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behavior; and
 - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.
- 3) Whether you have knowledge of any actual, suspected or alleged frauds
- 4) How you gain assurance that all relevant laws and regulations have been complied with.
- 5) Have you carried out a preliminary assessment of the going concern assumption and if so, have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?

In addition to the above questions about how you gain assurance from management, I have included at Appendix 1, 8 questions about your views on fraud. Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

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Please provide a response by 31 March 2012 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Simon Mathers
Audit Manager

Appendix 1

No.	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?	
2	<p>Do you suspect fraud may be occurring within the council?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the council? ➤ Do you have any concerns that there are areas within your council that are at risk of fraud? ➤ Are there particular locations within the authority where fraud is more likely to occur? 	
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ➤ What concerns about fraud are staff expected to report? 	
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your council?</p> <ul style="list-style-type: none"> ➤ How are the risks relating to these posts identified, assessed and managed? 	
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	
7	<p>Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the council? ➤ Could a false accounting entry escape 	

	<p>detection? If so, how?</p> <ul style="list-style-type: none"> ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues which are high risk of fraud? 	
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	

Subject: Internal Audit Progress Report
Date of Meeting: 20th December 2011
Report of: Director of Finance
Contact Officer: Name: **Ian Withers, Head of Audit & Business Risk** 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 made against the Internal Audit Plan 2011/12, including outcomes of specific audit reviews completed, agreed management actions and Internal Audit Key Performance Indicators.
- 1.2 The Audit Committee has a role in monitoring activity and outcomes of internal audit work against the plan, receiving regular progress reports. Also to monitor the implementation of agreed actions to internal audit recommendations for improvement to controls and operations.
- 1.3 Progress continues to be made in the delivery of the Internal Audit Plan 2011/12 and the objective is to delivery it by the end of March 2012. We continue to achieve some positive outcomes from our Counter Fraud work and these have been summarised within the report

2. Recommendations

- 2.1 That members note the progress made in delivering the Annual Internal Audit Plan 2011/12, outcomes achieved and current arrangements going forward to 31st March 2012.

3. Background Information

- 3.1 The Accounts and Audit Regulations 2011 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 Internal Audit Plan 2011/12 detailing the programme of work, was submitted to approved by the Audit Committee in April 2011.
- 3.4 The programme of audit reviews contained in the Internal Audit Plan 2011/12 is 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 Head of Service, Lead Commissioner or Strategic Director.

4. Progress against the Internal Audit Plan 2011/12

- 4.1 During the period 1st April to 2nd December 2011, the Internal Audit Team has commenced or completed 68 audit reviews, an increase of 20 audit reviews since the last progress report submitted to the Audit Committee on 27th September 2011. Table 1 below provides a summary of the progress made with delivering the Internal Audit Plan 2011/12.

Table 1: Internal Audit Plan 2011/12 Progress (Audit Reviews)

Audit Status	Explanation	No.
Not Started	Planned but not started	27
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	31
Draft Report	Draft audit report issued and being agreed with client	14
Final Report	Audits completed and final report issued	23
		95

- 4.2 In addition to the above, there has been unplanned audit work since April responding to emerging control and risk issues.
- 4.3 There are currently two staff vacancies within the Internal Audit Team of Principal Auditor (ICT) and Auditor. These are however being considered as part of service review and restructure to ensure it effectively continues to meet the needs of the council.
- 4.4 We are confident in completing the Annual Internal Audit Plan for 2011/12 through re-profiling and outsourcing a number of audit reviews to Deloitte under contract arrangements.

5. Audit Reviews Completed

- 5.1 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.
- 5.2 Since the last progress report at the end of September, a further sixteen audit reviews have been completed and final reports issued. These are shown in table 2 below which includes the overall level of assurance, number and classification of agreed management actions to audit recommendations made.

Table 2: Summary of Completed Audit Reviews (Final Reports)

Audit	Assurance Level	Agreed Actions and Priority		
		High	Medium	Low
Risk Management	Reasonable	0	4	0
Corporate Complaints Management	Reasonable	0	2	2
Staff Overtime & Allowances	Limited	0	12	2
VFM Programme – Benefits Realisation	Reasonable	0	2	0
VFM Programme – Procurement	Limited	2	6	0
iTrent Implementation Review	Reasonable	0	4	0
Contract Compliance	Reasonable	0	8	0
Leisure Management Contract	Substantial	0	3	0
Community Safety	Substantial	0	2	0
Development Control	Limited	2	1	3
Fostering & Adoption	Substantial	0	3	2
Transport Fleet Management	Reasonable	0	3	0
Income System – Cash and Cheques	Limited	2	4	0
Risk Management Arrangements in Schools	Reasonable	0	2	0
Registrars	Limited	1	3	1
iTrent Implementation Phase 1	-	-	-	-

- 5.3 Member's attention is drawn to five final audit reports giving limited assurance. Management actions have been agreed to audit recommendations made and further audit follow-up work will be carried out to ensure implemented and effective.
- 5.4 The number of audit reviews giving limited assurance is increasing and the Internal Audit Team is working closely with management to introduce

control improvements. Examples include HR/Payroll and Income Management systems. A report will be made to the Audit Committee meeting on the 21st February 2012 on those audits giving limited assurance over the past year and actions taken to improve controls.

- 5.5 Due to control problems encountered earlier in the year, the completed audit reviews include one on the Income System – Cash and Cheques. The Audit Committee agreed to its inclusion in this unplanned audit review in this year’s programme at its meeting on 27th September. It was therefore timely in identifying further control weaknesses and corresponding recommendations for improvement.
- 5.6 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.
- 5.7 There are currently five levels of audit assurance used by the Internal Audit Team 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 Service Units

- 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. Significant areas include information governance, procurement, income control and adult social care.

7. Counter Fraud Work

- 7.1 Since April 2011 114 new cases of suspected irregularities have been identified by or referred to the Internal Audit Team for investigation. This is a significant increase on the same period for the previous year as Managers are becoming more aware as to what cases should be reported and the council's policy of zero tolerance to fraud.. Of these 50 related to housing fraud and the illegal subletting of council housing. The increase is however in line with the national increase in fraud against local authorities.
- 7.2 The council is undertaken a substantial amount of proactive work to publicise and raise the issue of housing tenancy fraud and has or in the process of recovering a number of properties. We are continuing with a major proactive exercise on housing tenancy fraud. This includes the involvement of 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).
- 7.3 We have continued to investigate data matches from the latest National Fraud Initiatives (NFI) exercise has so far indentified savings from error, overpayments and fraud of £369k.
- 7.4 The National Fraud Authority (NFA) are in the process of launching the "Fighting Fraud Locally: Every Penny Counts" which is a fraud strategy for local government. The strategy estimates the cost of fraud and error to local government at £2.1 billion a year or £100 for every household.
- 7.5 The strategy is based around the principles of Acknowledge, Prevent and Enforce and is expected to have a significant impact on counter fraud work by local authorities. The Head of Audit & Business Risk has been advising on the development of this as part of an Expert Advisory Group. S full report will be submitted to the Audit Committee on the strategy and the council's response at its meeting on the 21st February.

8. Implementation of Agreed Management Actions

- 8.1 When unacceptable risks are identified in audit reviews, recommendations are made and agreed management actions to mitigate these through improvement of system controls.
- 8.2 Implementation reviews for agreed management actions to audit recommendation made, are usually carried out within six months of the issue of the final report.
- 8.3 Since April 12 implementation reviews have been carried out on agreed management actions (54) from previous completed audit reviews. The level of implementation of agreed management actions is 71% fully, 23% partial/in progress and 6% not implemented yet. Of these all 95% of high priority actions have been implemented, the remaining 5% partial/in progress.

8.4 We are concerned over the low level of fully implemented agreed actions to audit recommendations at 71% against a target of 85%. We will continue to follow-up on the outstanding management actions to ensure fully implemented.

9. Changes to the Internal Audit Plan 2011/12

9.1 The Internal Audit Plan is a dynamic document and consistently reviewed to ensure responsive to emerging risks, issues facing the council and ensuring audit resourced are focussed on key areas.

9.2 Changes were reported to and agreed by the Audit Committee at its September meeting. Since then there have been no significant changes to the Internal Audit Plan 2011/12.

10. Performance of Internal Audit

10.1 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 part of our business planning process and monitored regularly. Table 3 provides an overview of the performance of the Internal Audit Team against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	98%	95%
% implementation of agreed management actions	85%	71%
Efficiency		
% of productive time	71%	67%
% of draft reports issued within 10 days of fieldwork completion	90%	91%
% response by client to draft reports within 15 days	90%	82%
% of issue of final reports within 10 days of agreement	95%	96%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	93%

11. FINANCIAL & OTHER IMPLICATIONS:

11.1 Financial Implications:

It is expected that the Internal Audit Plan for 2011/12 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

8th December 2011

11.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective 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

8th December 2011

11.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

11.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

11.5 Crime & Disorder Implications:

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

11.6 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.

11.7 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 2011/12

2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2011

Subject:	Annual Governance Statement 2010/11 - Action Plan Progress Update
Date of Meeting:	20th December 2011
Report of:	Director of Finance
Contact Officer: Name:	Ian Withers, Head of Audit & Business Risk
	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 2010/11.

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 2010/11 was approved by the Audit Committee in June 2011. The Annual Governance Statement included a number of "governance issues" and actions required.

- 3.2 The Accounts and Audit Regulations 2011) requires the council to undertake a review at least annually of the effectiveness of its system of internal control 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 (not commenced), Amber (in progress), Green (complete) status reporting, target dates and comments on progress to date..

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 progress on the action plan to strengthen the governance arrangements was delivered within existing financial resources.

Finance Officer consulted: Anne Silley
Head of Business Engagement

8 December 2011

6.2 Legal Implications:

The Audit Committee has a duty to approve the annual statement of accounts which are accompanied by an annual governance statement. 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

8th December 2011

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 2010/11 Action Plan






Background Documents


1. Annual Governance Statement 2010/11
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 2011)

Annual Governance Statement 2010-11

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

No	Area/Issue	Action Item	RAG Status	Target Date	Update at November 2011	Lead Officer/s
1.	HR Management	Improved system processes and controls for HR/Payroll including those associated with the implementation of a new HR/Payroll Computer System, for the effective management of the council's workforce	 Amber	End of December 2011	Action plan agreed for improvement to system controls. Head of HR Operations leading on systems thinking review of HR.	Head of HR and Organisational Development
2.	Procurement	A more centralised and compliance approach to procurement and contract management including category management and contract management information system;	 Green	End of March 2012	Action completed.	Procurement Strategy Manager
4.	Risk & Performance Management	Implement a new Performance and Risk Management Framework that will include regular 'Organisational Health Reports';	 Green	End of December 2011	Action completed.	Head of Policy, Performance & Analysis
5.	Business Planning	Implement a new Business Planning process and use of dedicated software.	 Amber	End of December 2011	Process agreed as part of the Performance & Risk Management Framework. Use of Interplan agreed and being implemented.	Head of Policy, Performance & Analysis

No	Area/Issue	Action Item	RAG Status	Target Date	Update at November 2011	Lead Officer/s
6.	HR Management	Introduce a new People Strategy for effective workforce planning	 Amber	End of February 2012	Strategy currently at staff consultation stage.	Head of HR and Organisational Development
7.	Partnership Working	Review longer terms changes to partnership with Health in particular structures and processes and revising Section 75 agreements;	 Amber	End of March 2012	Holding position now established with the Sussex Partnership Trust and a draft agreement prepared. Negotiations will begin with the Sussex Partnership Trust in December 2011.	Head of Law and Director of Adult Social Services/Lead Commissioner ASC and Health
8.	Corporate Planning	Introduce a new Corporate Plan and Medium Term Financial Strategy for new priorities and response to financial pressures;	 Green	End October 2011	Approved by Cabinet on 22 nd September 2011 and Council on 20 th October 2011. Plan published and communicated.	Head of Policy, Performance & Analysis
9.	Financial Management	Implement a new approach to budget consultation and engagement	 Amber	End of December 2011	Action completed	Director of Finance and Head of Financial Services
10.	Localism	Respond to challenges and opportunities from the Localism Bill currently going through Parliament, including standards of conduct	 Amber	End of March 2012	Localism Bill introduced to Parliament in December 2010 and received Royal Assent in November 2011, becoming an Act. Key provisions of the Act have been circulated and the Head of Law will be presenting a report to Council in December.	Head of Policy, Performance & Analysis and Head of Law

No	Area/Issue	Action Item	RAG Status	Target Date	Update at November 2011	Lead Officer/s
11	Risk Management	Embedding risk management software for effective recording and reporting of strategic and operating risk including partnership	 Amber	End of March 2012	In progress but dependent on business planning process and populating Interplan..	Risk and Opportunity Manager

Subject:	Strategic Risk Register		
Date of Meeting:	20 December 2011		
Report of:	Director of Finance		
Contact Officer:	Name:	Jackie Algar	Tel: 29-1273
	Email:	Jackie.algar@brighton-hove.gov.uk	
Ward(s) affected:	All		

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

- 1.1 The Audit Committee has a role to monitor and form an opinion on the effectiveness of risk management and internal control.
- 1.2 A key way to discharge this role is for the Committee to review the Council's Strategic Risk Register which was updated by the Strategic Leadership Board on 16 November 2011.

2. RECOMMENDATIONS:

The Audit Committee are requested to:

- 2.1 Note the revised Strategic Risk Register (Appendix 1).

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The Strategic Risk Register details the current prioritised issues which affect the achievement of the Council's priorities, including in relation to its work with others across the city. It is set by the Strategic Leadership Board and reviewed every six months, usually in May and November each year
- 3.2 This Strategic Risk Register provides evidence of a risk aware and risk managed organisation. Generally, it reflects risk scenarios that will be common to comparable local authorities in this current period of change and financial challenge for the public sector.
- 3.3 Strategic Risk Management Action Plans will be updated or developed for each Strategic Risk and reported to the Committee in Part 2 of this meeting.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

- 4.1 Consultation has taken place with the council's Strategic Leadership Board, the Corporate Management Team and with Cabinet Members in accordance with recommendations of the Audit Committee.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The Strategic Risk Register reflects a number of risks which have potential significant financial implications for the authority either directly or indirectly. The risk owners are responsible for overseeing the effective management of the risks through performance compacts and the Performance & Risk Management Framework. The Risk Management Action Plans will detail work required to address the strategic risks. This should ensure that 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: Michelle Herrington Date: 17/11/11

Legal Implications:

- 5.2 This report comes before Audit Committee in order for the Committee to discharge its function of providing independent assurance of the adequacy of the council's risk management and associated control environment.

Having reviewed the latest Strategic Risk Register, the Committee may, if it considers it appropriate, make recommendations to Council, Cabinet, senior officers or another relevant body in the council.

Lawyer Consulted: Oliver Dixon Date: 17/11/11

Equalities Implications:

- 5.3 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 issues. There is a specific Strategic Risk, SR 8, which relates to Sustainability. However, Sustainability will be incorporated as appropriate across all Strategic Risks and Risk MAPs

Crime & Disorder Implications:

- 5.5 There are no direct implications.

Risk and Opportunity Management Implications:

- 5.6 The Strategic Risk Register is evidence of risk management in operation and relates to changes to the council's operating framework.

Public Health Implications:

- 5.7 There are no direct implications.

Corporate / Citywide Implications:

- 5.8 There are no direct implications.

SUPPORTING DOCUMENTATION

Appendices:

1. Strategic Risk Register 2011-12 (update 16 November 11)

Documents in Members' Rooms

1. None

Background Documents



1. None

Brighton & Hove City Council Strategic Risk Register 2011/2012

APPENDIX 1

Risks are set out in order of Residual Risk Score (a combination of likelihood and impact)

See final page for information on risk scoring and terms used



Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
2	Financial Outlook for the Council <i>Catherine Vaughan - Director of Finance</i>	ALL	<p>Background: The financial settlement for the whole of local government results in a 30% cash reduction in formula grant over the spending review period at national level. Funding reductions in local health budgets will also impact on the council's financial position.</p> <p>Risk Scenario:</p> <p>The implementation of the agreed 2011/12 budget is challenging. Robust financial planning is required to manage the impact of the budget reductions over the longer term. Ongoing collaboration with health partners is essential.</p>	Economic/ Financial	5	4	20  RED	<ul style="list-style-type: none"> ▪ Ongoing risk based approach to budget monitoring through TBM ▪ Rigorous continued implementation of the VFM programme ▪ Design of two year budget process for 2012/13 and 2013/14 ▪ Publication of new Medium Term Financial Strategy ▪ Broader consultation and engagement plan for budget setting ▪ Use of commissioning to ensure services are planned on the basis of need and deliver priority outcomes 	4	4	16  RED ↕

APPENDIX 1

Brighton & Hove City Council Strategic Risk Register 2011/2012

Risks are set out in order of Residual Risk Score (a combination of likelihood and impact)

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Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
9	Changes to Local Government Finance <i>Catherine Vaughan - Director of Finance</i>	ALL	<p>Background: The government is proposing major changes to the way local government is funded, reforms to the welfare benefits system and support for council tax.</p> <p>Risk Scenario: The proposed changes are complex to understand and plan for and have significant implications for the resources available to the council and how it organises itself in the medium term.</p>	Economic/ Financial	4	4	16  RED New	<ul style="list-style-type: none"> Detailed responses on all major consultation documents produced Joint response on council tax benefits agreed across all Sussex authorities Ongoing lobbying on the critical issues for the city Further analysis of potential impacts and options for managing the risks 	4	4	16  RED New

Brighton & Hove City Council Strategic Risk Register 2011/2012

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3	<p>Pace and Volume of public sector change</p> <p>Charlie Stewart - Strategic Director, Resources</p>	ALL	<p>Background: All public services are affected by national reductions in spending and the wider reform agenda.</p> <p>Risk scenario: Financial constraints and significant reform affecting partner organisations, e.g. NHS, may lead organisations to reframe their budgets and ways of working and therefore affect their ability to deliver plans as envisaged.</p> <p>Enhanced communication and joined up planning will be needed to ensure that the impacts on the city are well managed and there is clear agreement on the role of each organisation and its responsibilities</p>	Customer/citizen	5	4	<p>20</p> <p>RED</p>	<ul style="list-style-type: none"> Effective prioritisation through the Sustainable Communities Strategy and the Corporate Plan recently agreed by Council The Public Service Board (PSB) continues its work on joint commissioning: <ul style="list-style-type: none"> - Needs analysis which includes review of government reforms and their impacts; - Community Engagement - Intelligent Commissioning Pilots Better joint resourcing Ongoing work on "Total Place" PSB meet every 6 weeks to oversee the programme of work to tackle city issues, close working ensures that issues are known including those relating to financial constraints 	5	3	<p>15</p> <p>RED</p> <p>↕</p>

Brighton & Hove City Council Strategic Risk Register 2011/2012

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Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
1	<p>Readiness for opportunities and impacts of localism</p> <p>David Murray - Strategic Director, Communities</p>	Engaging People Who Live & Work in the City	<p>Background: The broad remit of the localism agenda provides opportunities for all councils to deliver public services in new ways with greater involvement of communities in local issues. The council's approach to the implementation of neighbourhood governance has been designed to take advantage of this and manage its risks and impacts.</p> <p>Risk scenario: If the localism agenda is not responded to, consequences could include lack of: * innovation and creativity in service redesign * community and partner support for the council's plans * skills and capacity to assess the costs and benefits of different options</p>	Professional/ Managerial/ Partnerships	4	5	<p>20</p> <p>RED</p>	<ul style="list-style-type: none"> Neighbourhood Council Working Group oversees development of new opportunities which will be out to consultation soon City wide consultation ongoing to ensure that any plans make sense within the context of Brighton & Hove Clear link between community development commissioning and neighbourhood governance established Options for considering financial impacts of different service models being developed 	3	4	<p>12</p> <p>AMBER</p> <p>↕</p>

APPENDIX 1

Brighton & Hove City Council Strategic Risk Register 2011/2012

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Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
4	Ability to attract new capital investment in the City under the auspices of the City Council Geoff Raw - Strategic Director, Place	Creating a more Sustainable City	<p>Background: The council has a significant role to play in championing the City economy. It can use its own land and property portfolio to contribute to this and also use a range of policy levers for example in respect of housing, planning, leisure and tourism.</p> <p>Risk scenario: If the council does not do this effectively there is a risk the city fails to attract inward investment, its reputation is affected and it does not make optimal use of its own assets.</p>	Economic/ Financial	4	4	16 RED	<ul style="list-style-type: none"> Agreement with Public Sector Board/Local Strategic Partnership to set up an Economic Development Commission, chaired by Strategic Director Place, to focus on three strands - Employment & Skills, Business & Enterprise, Development & Investments. Core Strategy will take account of new legislation affecting planning, including S106 requirements, and impacts on citizens, developers and businesses The City Council made an expression of interest to Growing Places Fund in December 2011 The Economic Development Commission completed its report to the PSB in September 2011. From a number of recommendations, there was agreement for production of an Investment Prospectus for the city and support for an expo event. 	3	4	12 AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012

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Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
5	<p>City wide employability</p> <p>Geoff Raw - Strategic Director, Place</p>	Creating a more Sustainable City	<p>Background: The Council has an important role in supporting education and training providers in strengthening the labour force offer to employers & in addressing the legitimate employment aspirations of local communities.</p> <p>Risk Scenario: Failure to do this effectively could impact on the performance of the city's economy and employment resilience. There would be social and economic costs for individuals and overall costs to the public purse.</p>	Physical	4	4	16  RED	<p>The council continues to work via the Public Service Board (PSB), Local Strategic Partnership "LSP" (Economic Partnership) & the Learning & Education Partnership with education, training & employment agencies including:</p> <ul style="list-style-type: none"> - Promoting the City as a business location; - Supporting the analysis of employer skills needs information; - Informing the business planning of education, training & employment agencies; <p>Co-ordinating public sector policy & interventions which optimise opportunities particularly for dis-advantaged people.</p> <ul style="list-style-type: none"> • Engagement in Education Commission • Council support for City College in setting up a shop front on Western Road for an Apprenticeship Training Academy. Due to open in 2012. 	3	4	12  AMBER ↕

APPENDIX 1

Brighton & Hove City Council Strategic Risk Register 2011/2012

Risks are set out in order of Residual Risk Score (a combination of likelihood and impact)

See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
9	Safeguarding vulnerable members of our community, including looked after children Terry Parkin - Strategic Director, People	Tackling Inequality	Background: Increased awareness of risk within the community leads could lead to an unmanageable level of referrals to social care particularly below the accepted threshold. Risk Scenario: If this happened it would reduce the council's ability to respond in a timely manner to the needs of the most vulnerable.	Customer/ citizen	3	5	15  RED	<ul style="list-style-type: none"> Revised processes being put in place to manage work of Local Safeguarding Children Board (LSCB) to ensure it is more responsive, and that the wider system understands thresholds. Looked After Children (LAC) a clear corporate priority with regular updates to Elected Members on their Corporate responsibilities. Co-produce with partners a Child Poverty Strategy to ensure a co-ordinated approach across public, private and Community & Voluntary Sectors to reduce family poverty Continue to provide practical support to enable individuals to stay in their homes for as long as possible. This includes ensuring that new homes meet lifetime standards 	3	4	12  AMBER ↕

APPENDIX 1

Brighton & Hove City Council Strategic Risk Register 2011/2012

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Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
8	<p>Becoming a more sustainable city</p> <p>Geoff Raw - Strategic Director, Place</p>	Creating a more Sustainable City	<p>Background: The Council has an important civic leadership role in:</p> <ul style="list-style-type: none"> a) Contributing to national carbon reduction objectives & targets; b) Take up of renewable energy & other city wide infrastructure investment opportunities; c) Working with others to prepare the city for severe weather and other impacts of climate change locally d) Promoting the City's brand, economic vitality & positive reputation <p>Risk Scenario: The economy & infrastructure of the city may not achieve competitive advantage resulting in relatively higher public and commercial sector operating costs. There is a potential impact on residents and the reputation of the council and city if city partners fail to deploy resources in the best way, at the appropriate time, to deal with the effects of severe weather, climate change, the increasing costs of energy, food and materials, and continuing patterns of car use.</p>	Environmental/ Sustainability	3	4	<p>12</p> <p>AMBER</p>	<p>The council has been working via the PSB, the LSP and the City Sustainability Partnership (CSP) to develop sustainable investment strategies for :</p> <ul style="list-style-type: none"> - enabling the planned off shore wind farm development & maximising the economic impacts; - reducing waste produced, to landfill, and increasing reuse and recycling - devising investment proposals to increase the proportion of residential & commercial buildings returning energy to the grid <ul style="list-style-type: none"> • The City Sustainable Partnership has prioritised One Planet Framework and Biosphere Reserve and presented this to BHSP in May 11 • Invested in Winter Gritters suitable for the city to mitigate the effects of heavy snow & keep highways clear • Sea Defences are reviewed against the UK Climate Impact Projections 	3	3	<p>9</p> <p>AMBER</p> <p>↕</p>

Brighton & Hove City Council Strategic Risk Register 2011/2012

APPENDIX 1

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See final page for information on risk scoring and terms used

SLB agreed on 16 November 2011 to remove SR7 from the Strategic Risk Register due to action taken to manage this risk, e.g.:

- Open budget consultation involves citizens and stakeholders in determining council services
- Open Government licence obtained for City Council
- ICT Strategy approved in November 2011 which clearly sets out the council's approach to data management and information governance, and roles and responsibilities

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
7	One Council, open and transparent <i>Charlie Stewart - Strategic Director, Resources</i> RISK NOW REMOVED FROM STRATEGIC RISK REGISTER	Engaging People Who Live & Work in the City	Background: The council must ensure openness and transparency, and a corporate approach to good data management and information governance. Risk Scenario: Failure to do so could mean that citizens and partners do not trust the council's decision making and use of resources. This could lead to sub-optimal decision making and a lack of effective engagement with stakeholders.	Customer/ Citizen	3	4	12 AMBER	<ul style="list-style-type: none"> ▪ Participation in LSP and PSB ▪ Head of ICT has been designated as the Council's Chief Information Officer ▪ The first stage of the redesign of the council's website has been undertaken ▪ The information governance arrangements and information management strategies are being revised 	3	3	9 AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012

APPENDIX 1

Risks are set out in order of Residual Risk Score (a combination of likelihood and impact)
See final page for information on risk scoring and terms used

Risk Scoring

The City Council uses this risk matrix to “score”, i.e. assess the likelihood and impact of the risk scenario occurring and its potential consequences if it did, and how it would affect achievement of the council’s objectives.

LIKELIHOOD	MOST LIKELY IMPACT				
	Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Almost Impossible (1)	1	2	3	4	5

Terms Used

- Strategic Risk Register – a document which details the current prioritised issues which affect the achievement of the Council’s objectives, including in relation to its work with others across the city to address city priorities
- Strategic Risk No. – a unique number allocated to each strategic risk. As these risks are managed, these unique risks may be removed from the Strategic Risk Register and in that case, a gap in sequential numbering will arise
- 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 – those which may arise if the risk scenario occurs
- Initial Likelihood/Impact Scores – the initial score for the risk scenario before the current Mitigating Controls and Actions are considered
- RAG rating – a way to colour code risks to prioritise them. “RAG” derives from the initials of Red, Amber, Green although for risk management it is common to have the extra colour of Yellow
- Mitigating Controls and Actions – these are already in place and operating to reduce/mitigate the likelihood and/or impact of the risk scenario and potential consequences
- Residual Likelihood/Impact Scores – assessed after taking into account the Mitigating Controls & Actions to provide a more “realistic” prioritisation of risks compared against each other
- Risk Category – there is a standard list of risk categories which are designed to ensure a “rounded” consideration of risks from a number of different perspectives. By recording the Risk Category, it enables analysis across the risks contained in a risk register

Subject:	Review of the Effectiveness of the Audit Committee		
Date of Meeting:	20th December 2011		
Report of:	Director of Finance		
Contact Officer:	Name:	Catherine Vaughan Ian Withers	Tel: 29-1333 29- 1323
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Ward(s) affected:	All		

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

- 1.1 Strong and effective governance arrangements contribute to the achievement of the council's priorities and the Audit Committee has a key role to play in this. .
- 1.1 Best practice now suggests that there should be a regular review of the effectiveness of the Audit Committee. This report is the first stage in conducting that review and sets out the key issues to explore based on a preliminary evaluation against the National Audit Office publication entitled "The Audit Committee Self-Assessment Checklist". It is proposed that those findings form the basis for further assessment undertaken directly by members of the Audit Committee itself.

2. RECOMMENDATIONS:

- 2.1 That the Audit Committee considers the preliminary findings against "The Audit Committee Self-Assessment Checklist".
- 2.2 That a workshop of Audit Committee Members be set up to explore the key issues raised in more detail.
- 2.3 That a report be brought to the meeting of the Audit Committee on 21 February 2012 that feeds back from that workshop, concludes the review, and incorporates an action plan to enhance the effectiveness of the Audit Committee.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 There is no statutory obligation for a local authority to establish an audit committee. However there is a wide range of guidance and best practice which shapes and informs the operation of this committee including the Combined Code on Corporate Governance (2003) and the Good Governance Standard for Public Services (2004).

3.2 CIPFA (The Chartered Institute of Public Finance & Accountancy) produced a Toolkit for Local Authority Audit Committees in 2006. In that document it states:

“Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation’s corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. CIPFA believes that these functions are best delivered by an audit committee separate from executive functions.”

3.3 A formal review of the effectiveness of the audit committee has not previously been undertaken. However when the Audit Committee was established, replacing the previous Audit Panel in 2008, best practice at the time was taken into account. It is timely therefore to undertake this review, particularly in the context of the consideration being given to the council’s overall constitution in the light of the power given to local authorities under the Localism Act 2011 to adopt a committee system of governance.

3.4 The National Audit Office produced The Audit Committee Self-Assessment Checklist in 2009 (“The Checklist”). It was designed to help Audit Committees in central government assess how well they apply good practice. While this document is not specific to local government and indeed needs some contextualising to make it relevant to our circumstances it is a more recent publication than the CIPFA equivalent toolkit. It also has a style that is particularly suited to self-assessment, workshop style discussion, and continuous improvement. It is therefore recommended that this checklist be the starting point for the Review of Effectiveness of the Audit Committee. A range of other information can be drawn on to supplement and support it.

3.5 A preliminary review has been conducted against the Checklist. The findings are summarised in Appendix 1. The key issues to explore arising from that review are:

- Should there be an agreed frequency for the Audit Committee to formally review its effectiveness?
- Should the Audit Committee’s terms of reference be reviewed and updated annually?
- How might the relationship between the Audit Committee and the Executive be enhanced?*

- What might be the ideal number of members on the Audit Committee to ensure effectiveness?*
- Should the Audit Committee broaden its skills mix through the appointment of independent members or co-optees?*
- Should any elements of training and induction for members of the Audit Committee be compulsory and what is the best style and method of delivering that training?
- Should the Annual Report of the Audit Committee to Full Council be assurances based rather than activities based?
- Should there be a more formal opportunity for members to contribute to agenda planning?

* Within the constraints of the council's constitution

3.6 CIPFA has recently conducted a survey of local authority audit committees (including Brighton & Hove) and some of its findings are relevant to this review; they are attached at Appendix 2. The government has recently consulted on the Future of Local Public Audit and this also has relevance. While a response has been issued in relation to arrangements for the provision of external audit, there has been no response as yet to some of the other issues brought up by the consultation including for example issues of audit committee independence.

3.7 It is suggested that a workshop for members of the Audit Committee who are interested in exploring these issues further be scheduled for January 2012. That workshop could also consider other relevant guidance and best practice as desired. It is proposed to then report back to the next meeting of this committee to finalise the review, including an action plan where appropriate.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

4.1 A workshop for Audit Committee members is proposed for January 2012 to explore this topic further.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 There are no direct financial implications arising from the recommendations. The Audit Committee supports the Council to maintain financial integrity through its assurance role.

Finance Officer Consulted: Name Anne Silley

Date: 06/12/11

Legal Implications:

5.2 As indicated in paragraph 3.3 above, the Localism Act 2011 gives the council the option of adopting a committee system of governance from May 2012. Should full Council pass a resolution to that effect, a review of council committee terms

of reference will take place as part of broader constitutional amendments to support the new form of governance. The proposed review of the effectiveness of the Audit Committee will feed into this wider constitutional review.

Lawyer Consulted: Oliver Dixon

Date: 07/12/11

Equalities Implications:

- 5.3 No direct equalities implications.

Sustainability Implications:

- 5.4 No direct sustainability implications.

Crime & Disorder Implications:

- 5.5 No direct crime and disorder implications.

Risk and Opportunity Management Implications:

- 5.6 An effective audit committee will ensure that the council has adequate arrangements for risk and opportunity management.

Public Health Implications:

- 5.7 No direct crime and disorder implications.

Corporate / Citywide Implications:

- 5.8 An effective audit committee is an essential part of good corporate governance.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 There are a range of tools that could be used to evaluate the effectiveness of the Audit Committee.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 To ensure that there is an effective audit committee contributing to the effective governance of the council.

SUPPORTING DOCUMENTATION

Appendices:

1. Appendix 1 – Preliminary findings against the NAO “Audit Committee Self Assessment Checklist”
2. Appendix 2 – CIPFA Results of the Audit Committee Survey

Background Documents

1. NAO The Audit Committee Self-Assessment Checklist 2009

Appendix 1 – Preliminary findings against the NAO “Audit Committee Self-Assessment Checklist”

Good Practice Principle	Description*	Preliminary Conclusion	Key issues to explore
1. The Role of the Audit Committee	<p>The Audit Committee should support the Council and the Chief Finance Officer by reviewing the comprehensiveness of assurances in meeting the Council's assurance needs and reviewing the reliability and integrity of these assurances</p>	Complies with most of the suggested good practice	<p>Should there be an agreed frequency for the Audit Committee to formally review its effectiveness?</p> <p>Should the Audit Committee's terms of reference be reviewed and updated annually?</p>
2. Membership, Understanding, Independence, Objectivity and Understanding	<p>The Audit Committee should be independent and objective, in addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as an Audit Committee member</p>	Complies with some of the suggested good practice	<p>Within the constraints of the council's constitution:</p> <p>How might the relationship between the Audit Committee and the Executive be enhanced?</p> <p>What might be the ideal number of members on the Audit Committee to ensure effectiveness?</p>

Good Practice Principle	Description*	Preliminary Conclusion	Key issues to explore
3. Skills	The Audit Committee should collectively possess an appropriate skills mix to perform its functions well	Complies with some of the suggested good practice	<p>Within the constraints of the council's constitution:</p> <p>Should the Audit Committee broaden its skills mix through the appointment of independent members or co-optees?</p> <p>Should any elements of training and induction for members of the Audit Committee be mandatory and what style and format of training is most appropriate?</p> <p>None identified</p>
4. Scope of work	The scope of the Audit Committee's work should be defined in its Terms of Reference and encompass all the assurance needs of the Council and Chief Finance Officer. Within this, the Audit Committee should have particular engagement with the work of Internal Audit, the work of the External Auditor, and Financial Reporting issues.	Complies with all of the suggested good practice	
5. Communication	The Audit Committee should ensure it has effective	Complies with most of the suggested	Should the Annual Report of the Audit Committee to Full Council be

Good Practice Principle	Description*	Preliminary Conclusion	Key issues to explore
	communication with the Council, the Head of Internal Audit, the External Auditor and other stakeholders.	good practice	assurances based rather than activities based?
The Role of the Chair	The Chair of the Audit Committee has particular responsibility for ensuring that the work of the Audit Committee is effective that the Committee is appropriately resourced, and that it is maintaining effective communication with stakeholders	Complies with most of the suggested good practice	Should there be a more formal opportunity for members to consider agenda planning?
Committee support	The Audit Committee should be provided with appropriate administrative support to enable it to be effective. This is more than a minute-taking function – it involves providing proactive support for the work of the Committee, and helping its members to be effective in their role.	Complies with all of the suggested good practice (note provided both by Democratic Services and directly by the Head of Internal Audit)	None identified

* terminology adjusted for local government where appropriate

Appendix 2 - CIPFA Survey Results

Earlier this year heads of internal audit in local government were sent a survey by CIPFA to ask about the current arrangements for audit committees in local government. 366 surveys were sent out and 44% were returned. The aim of the survey was to find out how the audit committee role was currently being delivered in local government and to see what topics are regularly on the audit committee agenda. Heads of internal audit were also asked where their audit committee was most effective and to identify any barriers to improvement. CIPFA will use the results to inform its development of guidance and support to audit committees. For audit committee members and those who support audit committees the survey provides a useful snapshot of where we are now, what is working well and what could be better.

Key findings from the survey

Structure and role

The most common structure for the audit committee was a stand alone committee reporting to full council (58%) and a further 23% had joint audit and governance committees. The majority of committees are made up of councillors, but 30% do include at least one co-opted independent representative. One third of committees currently include a member of the executive or cabinet. Current recommended practice is that a member of the executive should not chair the committee; however a minority (9%) do have this arrangement. In 57% of cases the audit committee chair was a member of the ruling party group on the council.

Audit committee agendas

We asked a number of questions to find out what topics were on audit committee agendas. The Annual Governance Statement was reviewed by almost all English, Welsh and Northern Irish audit committees whereas 67% of Scottish authorities reviewed the Statement on Internal Financial Control. Reviews of internal audit reports and plans were reviewed almost universally.

73% of councils follow the recommended practice of reviewing the financial statements prior to their approval but 75% of councils were also approving them. With the recent changes under the Accounts and Audit Regulations 2011 it might be an appropriate time to review the role of the audit committee in relation to approving the accounts.

Other agenda areas received a significant response but perhaps still provide opportunities for improvement. Strategic risk registers were seen by 77% of committees but only 53% also reviewed specific risk areas. It is perhaps of concern that some committees reviewing the Annual Governance Statement are not keeping up to date with the council's strategic risks.

48% of committees reviewed value for money arrangements and only 41% reviewed a fraud risk assessment. However, 67% would review the results of a fraud investigation. Again this highlights areas where audit committees could be more aware of the risks and performance of their council.

Effectiveness

We asked heads of internal audit for their opinions on the effectiveness of the audit committee.

The strongest results were for the committees' support for the internal and external audit process. However few found the committee to be very effective in promoting good governance (11%) or providing accountability to the public (15%). The weakest areas overall were those relating to partnerships. The survey has highlighted areas for improvement, in particular to develop how the committee interacts with partner organisations and provides leadership on good governance and accountability.

Barriers to improvement

The most common barriers to improvement were the limited knowledge or experience of the audit committee members (50%) and turnover of committee membership (44%). Clearly there is a linkage between these two factors as it is difficult to develop knowledge and experience if a member's time on the committee is short. Unitary councils highlighted the greatest number of barriers, for example 65% of respondents highlighted limited knowledge and experience as a barrier.

The intrusion of political interests was only cited as a factor by 27% overall, but in unitary councils the response was greater at 42%.

Future changes

The survey was undertaken before the publication of the Government's consultation document on the Future of Local Public Audit. The majority of respondents (78%) were not planning any major changes to their audit committee. Over half expected the role of the audit committee to stay the same, whilst 43% expected it to expand. Only 1% expected the role to shrink.

Further information

A more detailed breakdown of the results will be available on the Better Governance Forum website. Where now for audit committees? CIPFA will make use of the information to ensure that its guidance, training and support for audit committees will help to address key development needs. In local government changes to the role of audit committees will come about as a result of the Local Government Measure in Wales and the government's proposals in its current consultation. CIPFA will be able to use the survey to identify the changes required to meet future requirements. It is recommended that audit committees regularly review their terms of reference and their effectiveness. The results of this survey will provide a useful input to that process and may help the committee to identify areas where it could improve. I have included a few key questions to help this self assessment and reflection process.

- Does our current structure still meet the council's needs? Does it meet recommended practice and is it a good base on which to build for the future?
- Are our agendas looking at the right things? Do we get assurance on everything we need?
- Are we effective in promoting good governance and providing accountability? How could we improve?
- What are our barriers to improvement? What can be done about them?
- How will our audit committee be affected by government proposals? Are there any steps we should start to take now?

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