



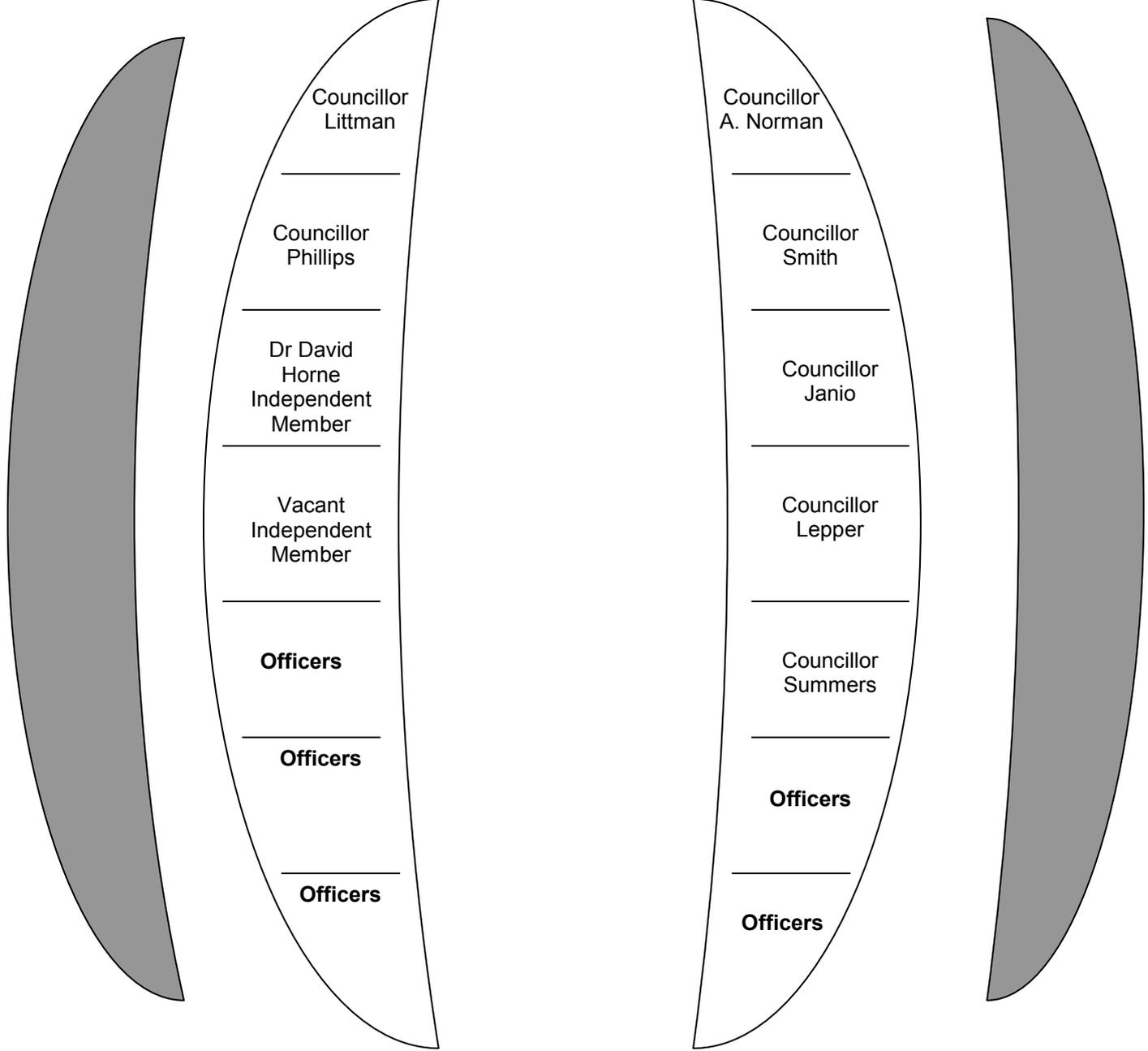
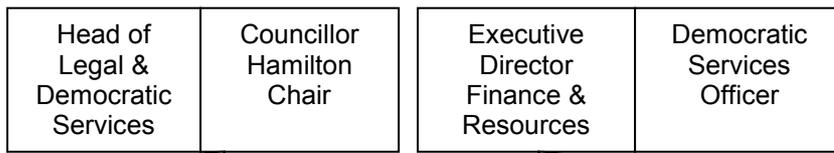
**Brighton & Hove
City Council**

Audit & Standards Committee

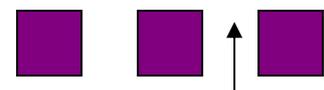
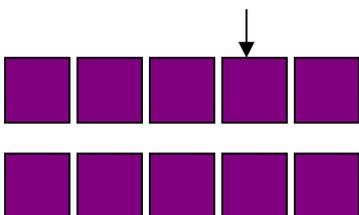
Title:	Audit & Standards Committee
Date:	23 September 2014
Time:	4.00pm
Venue	Council Chamber, Hove Town Hall
Members:	<p>Councillors: Hamilton (Chair), A Norman (Opposition Spokesperson), Janio, Lepper, Littman (Opposition Spokesperson), Smith, Summers and Phillips</p> <p>Co-opted Members: Dr David Horne and Vacancy</p>
Contact:	<p>Lisa Johnson Senior Democratic Services Officer 01273 291228 lisa.johnson@brighton-hove.gov.uk</p>

	The Town Hall has facilities for wheelchair users, including lifts and toilets
	An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter and infra red hearing aids are available for use during the meeting. If you require any further information or assistance, please contact the receptionist on arrival.
	<p>FIRE / EMERGENCY EVACUATION PROCEDURE</p> <p>If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:</p> <ul style="list-style-type: none"> • You should proceed calmly; do not run and do not use the lifts; • Do not stop to collect personal belongings; • Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions; and • Do not re-enter the building until told that it is safe to do so.

Democratic Services: Audit & Standards Committee



Public Seating



Press

AGENDA

22 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:**

- (a) Disclosable pecuniary interests not registered on the register of interests;
- (b) Any other interests required to be registered under the local code;
- (c) Any other general interest as a result of which a decision on the matter might reasonably be regarded as affecting you or a partner more than a majority of other people or businesses in the ward/s affected by the decision.

In each case, you need to declare

- (i) the item on the agenda the interest relates to;
- (ii) the nature of the interest; and
- (iii) whether it is a disclosable pecuniary interest or some other interest.

If unsure, Members should seek advice from the committee lawyer or administrator preferably before the meeting.

(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.

23 MINUTES

1 - 10

To consider the minutes of the meeting held on 24 June 2014 (copy attached).

24 CHAIR'S COMMUNICATIONS

25 CALL OVER

- (a) Items (28 – 35) will be read out at the meeting and Members invited to reserve the items for consideration.
- (b) Those items not reserved will be taken as having been received and the recommendations agreed.

AUDIT & STANDARDS COMMITTEE

26 PUBLIC INVOLVEMENT

To consider the following matters raised by members of the public:

- (a) **Petitions:** to receive any petitions presented to the full council or at the meeting itself;
- (b) **Written Questions:** to receive any questions submitted by the due date of 12 noon on the 16 September 2014;
- (c) **Deputations:** to receive any deputations submitted by the due date of 12 noon on the 16 September 2014.

27 MEMBER INVOLVEMENT

To consider the following matters raised by councillors:

- (a) **Petitions:** to receive any petitions submitted to the full Council or at the meeting itself;
- (b) **Written Questions:** to consider any written questions;
- (c) **Letters:** to consider any letters;
- (d) **Notices of Motion:** to consider any Notices of Motion referred from Council or submitted directly to the Committee.

STANDARDS ITEMS

28 MEMBER COMPLAINTS UPDATE 11 - 14

Report of the Monitoring Officer (Copy Attached)

Contact Officer: Brian Foley *Tel:* 291229
Ward Affected: All Wards

AUDIT ITEMS

29 STRATEGIC RISK MAP FOCUS REVIEW DATES; AND RISK MAP FOCUS ON SR19 IMPLEMENTATION OF THE CARE ACT; SR20 BETTER CARE FUND; AND SR13 SAFEGUARDING VULNERABLE ADULTS 15 - 22

Report of the Executive Director Finance & Resources (Copy Attached)

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

30 CORPORATE FRAUD UPDATE AND RISKS 23 - 28

Report of the Executive Director Finance & Resources (Copy Attached)

Contact Officer: Mark Dallen *Tel:* 29- 1314
Ward Affected: All Wards

AUDIT & STANDARDS COMMITTEE

31 INTERNAL AUDIT PROGRESS REPORT 2014/15 29 - 36

Report of the Executive Director Finance & Resources (Copy Attached)

Contact Officer: Mark Dallen

Tel: 29- 1314

Ward Affected: All Wards

32 EY 2013/14 AUDIT RESULTS REPORT 37 - 66

Report of the External Auditors EY (Copy Attached)

Contact Officer: Helen Thompson

Tel: 07974007332

Ward Affected: All Wards

33 STATEMENT OF ACCOUNTS 2013/14 67 - 94

Report of the Executive Director Finance & Resources (Copy Attached)

Contact Officer: Jane Strudwick

Tel: 01273 291255

Ward Affected: All Wards

INFORMATION ITEMS FROM THE POLICY & RESOURCES COMMITTEE

34 TARGETED BUDGET MANAGEMENT (TBM) 2014/15 MONTH 2 95 - 152

Extract from the proceedings of the Policy & Resources Committee meeting held on 11 July 2014; together with a report of the Executive Director of Finance & Resources (Copy Attached).

Contact Officer: Jeff Coates

Tel: 29-2364

Ward Affected: All Wards

35 TREASURY MANAGEMENT POLICY STATEMENT (INCORPORATING THE ANNUAL INVESTMENT STRATEGY) END OF YEAR REVIEW 2013/14 153 - 166

Extract from the proceedings of the Policy & Resources Committee meeting held on 11 July 2014; together with a report of the Executive Director of Finance & Resources (Copy Attached).

Contact Officer: James Hengeveld

Tel: 29-1242

Ward Affected: All Wards

36 ITEMS REFERRED FOR COUNCIL

To consider items to be submitted to the 23 October 2014 Council meeting for information.

AUDIT & STANDARDS COMMITTEE

In accordance with Procedure Rule 24.3a, the Committee may determine that any item is to be included in its report to Council. In addition, any Group may specify one further item to be included by notifying the Chief Executive no later than 10am on the eighth working day before the Council meeting at which the report is to be made, or if the Committee meeting take place after this deadline, immediately at the conclusion of the Committee meeting

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.

Agendas and minutes are published on the council's website www.brighton-hove.gov.uk. Agendas are available to view five working days prior to the meeting date.

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.

WEBCASTING NOTICE

This meeting may be filmed for live or subsequent broadcast via the Council's website. At the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed.

You should be aware that the Council is a Data Controller under the Data Protection Act 1988. Data collected during this web cast will be retained in accordance with the Council's published policy (Guidance for Employees' on the BHCC website).

Therefore by entering the meeting room and using the seats around the meeting tables you are deemed to be consenting to being filmed and to the possible use of those images and sound recordings for the purpose of web casting and/or Member training. If members of the public do not wish to have their image captured they should sit in the public gallery area.

If you have any queries regarding this, please contact the Head of Democratic Services or the designated Democratic Services Officer listed on the agenda.

For further details and general enquiries about this meeting contact Lisa Johnson, (Tel 01273 291228, email lisa.johnson@brighton-hove.gov.uk) or email democratic.services@brighton-hove.gov.uk.

Date of Publication - Monday, 15 September 2014

BRIGHTON & HOVE CITY COUNCIL

AUDIT & STANDARDS COMMITTEE

4.00pm 24 JUNE 2014

COUNCIL CHAMBER, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chair), Littman (Opposition Spokesperson), Janio, Lepper, Smith, Summers, Phillips and Simson

Independent Persons & Co-opted Members: Dr David Horne and Dr Lel Meleyal

PART ONE

1. PROCEDURAL BUSINESS

1.a Declarations of substitutes

1.1 Councillor Simson declared she was substituting for Councillor A Norman

1.b Declarations of interests

1.2 There were none

1.c Exclusion of the press and public

1.3 In accordance with Section 100A of the Local Government Act 1972 ("the Act"), the Committee considered whether the public should be excluded from the meeting during consideration of any item of business on the grounds that it is likely in view of the business to be transacted or the nature of the proceedings, that if members of the public were present during it, there would be disclosure to them of confidential information as defined in Section 100A (3) of the Act.

1.4 **RESOLVED** - That the public are not excluded from the meeting.

2. MINUTES

2.1 **RESOLVED** – That the Chair be authorised to sign the minutes of the meeting held on 25 March 2014 as a correct record.

3. CHAIR'S COMMUNICATIONS

- 3.1 The Chair welcomed the new members of the Committee, Councillors Janio, Littman and Phillips to the meeting.

4. PUBLIC INVOLVEMENT

- 4.1 There were no Petitions, Written Questions or Deputations

5. MEMBER INVOLVEMENT

- 5.1 There were no Petitions, Written Questions, Letters or Notices of Motion

6. AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT

- 6.1 The Committee considered the report of the Executive Director of Finance and Resources, which was presented by the Acting Head of Internal Audit. The report provided a summary of the Audit & Standards Committee's work, performance and achievements during 2013/14.

- 6.2 Dr Horne thanked officers for the report. He referred to paragraph 30 of the report and asked if the review of the Code of Conduct and forthcoming training for members of the Committee could be added. Officers agreed.

- 6.3 Councillor Simson referred to paragraph 21, and requested that consideration be given to providing additional resources for fraud prevention. The Executive Director of Finance and Resources said that the amount of resources available to address fraud were within the internal audit plan. However some of the work of the Corporate Fraud Team was being transferred to the Department for Works and Pension (DWP), and therefore the funding would need to be reviewed.

6.4 RESOLVED:

- (1) That the Committee had considered the report
- (2) That the finalised report be referred to Full Council for Information.

7. AUDIT & STANDARDS COMMITTEE WORK PROGRAMME 2014/15

- 7.1 The Committee considered the report of the Executive Director of Finance and Resources, which was presented by the Acting Head of Internal Audit. The report presented the proposed Audit & Standards Committee work programme for 2014/15 consideration.

- 7.2 The Head of Law suggested that the review of the Code of Conduct be added to the list of items for the meeting due to be held on 18 November 2014.

7.3 RESOLVED:

- (1) That the Committee noted the proposed work programme for 2014/15 as set out in Appendix 1 to the report.

(2) That the Committee noted that the acting Head of Internal Audit would update the work programme as new items and changes were identified.

8. COMPLAINTS UPDATE – MEMBERS AND CORPORATE (JUNE 2014)

8.1 The Committee considered the report of the Monitoring Officer, which was presented by the Standards and Complaints Manager. The report provided an update on allegations about Member conduct since March 2014, a breakdown of complaints received and any service improvement which had arisen following customer feedback, and commented on the processes being introduced to share customer feedback across the organisation. The Monitoring Officer said that the Localism Act 2011 had put a mandatory responsibility on Local Authorities to investigate complaints, and the majority of complaints were resolved informally.

8.2 Councillor Simson asked if there was a situation where a complaint was made by a member of the public against a councillor and it was unclear who was at fault, that there was an expectation that the councillor should have a higher standard of conduct. Officers said there was.

8.3 Councillor Janio asked what triggered contact from a resident being logged as a formal complaint. Officers said the decision was with the person who raised the complaint, but generally if the complainant wanted a resolution to an issue it would be listed as a complaint.

8.4 **RESOLVED:** That the Committee note the report.

9. STANDARDS PANEL TRAINING

9.1 The Committee considered the report of the Monitoring Officer, which was presented by a Senior Lawyer. The report informed the Committee about proposed training to enable members of the Committee to serve on Standards Panels, and to seek the Committee's approval to establish a cross-party working group to review the Council's Code of Conduct for Members.

9.2 The Chair suggested that the working group comprise of one member from each political group plus the two independent persons.

9.1 Councillor Simson asked what the legal position was of having a substitute member on the Committee and/or a Standards Panel. Officers advised that any Member could sit as a substitute on the Committee, but only substantive members of Audit & Standards Committee who had undergone the necessary training were permitted to sit on a Standards Panel. Any proposal to widen the pool of members qualified to sit on a Standards Panel, following suitable training, would require consideration and approval by Audit & Standards Committee at a future meeting.

9.3 **RESOLVED:**

(1) That the Committee noted the Standards Panel training scheduled for July 2014.

(2) That the Committee grant delegated authority to the Monitoring Officer to establish a cross-party member working group to review the Council's Code of Conduct

for Members and to submit recommendations to a subsequent meeting of the Committee.

10. GOVERNANCE OF VALUE FOR MONEY PHASE 4

- 10.1 The Committee considered the report of the Head of Law, which provided a copy of a report on Governance of Value for Money Phase 4, which had been to the Policy & Resources Committee and was being provided for information. The item was introduced by the Executive Director Finance & Resources.
- 10.2 Councillor Simson noted that the report suggested that £2-4m be invested in IT to produce savings through improved service provision, but proposed that that figure should be increased to £3-9m.
- 10.3 Councillor Janio asked what the incentive was for staff to make savings. Officers said that it could be demoralising for departments if their budget was reduced, but staff understood the need to make savings across the organisation and it was important for the Authority to discuss the budget for the whole of the Council.
- 10.4 **RESOLVED:** That the report be noted.

11. TARGETED BUDGET MANAGEMENT (TBM) PROVISIONAL OUT-TURN 2013/14

- 11.1 The Committee considered the report of the Head of Law, which provided a copy of a report on Targeted Budget Management (TBM) Provisional Out-turn 2013/14, which had been to the Policy & Resources Committee and was provided for information. The item was introduced by the Executive Director Finance & Resources.
- 11.2 Councillor Summers asked whether the Adult Social Care budget was now under the control of the Health and Wellbeing Board. Officers advised that Full Council decided on how the Adult Social Care budget was spent. The Health and Wellbeing Board looked to see how the Council worked with other local health providers
- 11.3 **RESOLVED:** That the report be noted.

12. HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT ANNUAL REPORT

- 12.1 The Committee considered the report of the Executive Director of Finance and Resources, which was presented by the Head of Human Resources and Organisational Development (HROD). The report highlighted the contribution the HROD service had made in supporting the organisation over the last 12 months and set out the focus of the service's activity in supporting the Council in delivering the Corporate Plan.
- 12.2 Councillor Janio noted that it appeared that the number of staff had increased by 1500 in the last few years and asked if that was correct. Officers said that the report noted headcount not full time equivalent staff. The figure provided in the report was the overall number of individuals working for the organisation and those staff working on a part time basis would increase headcount. Councillor Janio asked if the number of full time employees could be provided. Officers agreed.

- 12.3 Councillor Simson thanked officers for the report and asked if a regular report could be provided to the Committee. The Chair agreed.
- 12.4 Councillor Littman referred to the Staff Survey and asked if the responses regarding equalities had been broken down. Officers advised that they would be.
- 12.5 Dr Horne noted that there was no reference in the report to staff savings. Officers advised that Human Resources and Organisational Development were ensuring that savings were being implemented; staffing numbers had been reduced and some work was being carried jointly with other local authorities to produce savings.
- 12.6 **RESOLVED:**
- (1) That the Committee noted the report
 - (2) That the Committee agreed that key performance updates from HROD would be welcome on a regular basis.

13. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 13.1 The Committee considered the report of the Executive Director of Finance and Resources, which was presented by the Acting Head of Internal Audit. The report detailed the results of a self assessment of the system of Internal Audit against the UK Public Sector Internal Audit Standards.
- 13.2 Dr Horne noted that the report stated that the service had been self assessed as being 99% compliant but a later report stated that the only 82% of services had been delivered, and asked for clarification on the discrepancy. The Acting Head of Internal Audit advised that the self assessment looked at compliance with the provision of the service rather than the quality of the service. For example the self assessment could ask whether the Authority had a plan for a particular service and whether that plan had been audited, but didn't ask whether that service had been completed/provided.
- 13.3 **RESOLVED:**
- (1) That the Committee considered the findings of the review of the effectiveness of Internal Audit
 - (2) That the Committee noted the conclusion of the review that the system of internal audit for the Council continued to be effective and operated in accordance with proper professional practice, and that the council could place reliance on the system of internal audit for the purpose of its Annual Governance Statement.

14. INTERNAL AUDIT ANNUAL REPORT AND OPINION

- 14.1 The Committee considered the report of the Executive Director of Finance and Resources, which was presented by the Acting Head of Internal Audit. The report presented the Internal Audit Report and Opinion for 2013/14, and summarised the work of the Internal Audit Team for the financial year 2013/14 as well as the work of the Corporate Fraud Team. The report incorporated the Acting Head of Internal Audit's opinion on the system of internal control.

- 14.2 The Chair asked whether staffing issues had impacted on the work of the Internal Audit Team. Officers advised it had; the previous Head of Audit & Business Risk was absent for part of the year, and there had been a number of staff away from the office due to long-term sickness.
- 14.3 Councillor Simson noted that despite the absence of key members of staff that a huge amount of work had been undertaken. She suggested that the message to the city that the Council would not accept fraud was important as any sum recovered.
- 14.4 Dr Horne asked whether the changes to the funding for the Corporate Fraud Team were identified on the Financial Risk Register. Officers advised they were. Although most of the existing Corporate Fraud Team were likely to transfer to the Department of Work and Pensions (DWP), some funding would remain and the DWP would not remove any funding during this financial year. Dr Horne asked if the Committee could be kept up to date on any changes. Officers advised that a further report would be brought to the Committee later in the year.
- 14.5 **RESOLVED:** That the Committee note the report.

15. ANNUAL GOVERNANCE STATEMENT 2013/14

- 15.1 The Committee considered the report of the Executive Director of Finance and Resources and the Monitoring Officer, which was presented by the Executive Director of Finance and Resources. The report presented the Annual Governance Statement for 2013/14.
- 15.2 The Monitoring Officer said that a report providing an update on Corporate Governance would be brought to the Committee later in the year. One of the issues to be reviewed was the webcast of certain meetings. The Chair noted that the report listed the meetings which would be webcast and asked if that should be removed and was advised that it should.
- 15.3 Councillor Summers referred to paragraph 51 of The Statement and asked why those two principles had been selected and was advised that they underpinned the Authority's strategy.
- 15.4 **RESOLVED:** That the Committee approve the Annual Governance Statement subject to the amendment referred to above in paragraph 15.2

16. EY - 2014/15 AUDIT FEE LETTER

- 16.1 The Committee considered the report of the external auditors. The report was presented by Simon Mathers of EY.
- 16.2 The Committee were advised that his colleague Helen Thompson had been involved with the audit for Brighton & Hove City Council for seven years, and so would be replaced later in the year by Mr P King.
- 16.3 **RESOLVED:** That the Committee noted the 2014/15 Audit Fee Letter.

17. EY - AUDIT PROGRESS REPORT AND SECTOR UPDATE

17.1 The Committee considered the report of the external auditors. The report was presented by Simon Mathers of EY.

17.2 **RESOLVED:** The Committee noted the report.

18. STRATEGIC RISK REGISTER REVIEW 2014 -15 & RISK MANAGEMENT ACTION PLANS – UPDATED MAY 2014

18.1 The Committee considered the report of the Executive Director of Finance and Resources, which was presented by the Risk Manager. The report provided the Strategic Risk Register Review 2014/15 and details of the actions taken and the planned actions to manage each strategic risk.

18.2 RESOLVED:

(1) That the Committee noted the revised Strategic Risk Register

(2) That the Committee noted the Risk Management Action Plans contained in the Strategic Risk Assessment Report May 2014.

19. STRATEGIC RISK MANAGEMENT ACTION PLAN FOCUS: SR2 FINANCIAL OUTLOOK; AND SR18 EFFECTIVE USE OF TECHNOLOGY

19.1 The Committee considered the report of the Executive Director of Finance and Resources, in relation to the Strategic Risk Management Action Plans (MAPs) for the Strategic Risk 2 Financial Outlook; and Strategic Risk 18 Effective Use of Technology. The Committee had a role to monitor the effectiveness of risk management and internal control by oversight of the Strategic Risk Register and a Risk Management Action Plan (MAP) for each risk which was owned by a member of the Executive Leadership Team. The Committee had agreed to focus on two strategic risks at each meeting so that over the course of a year all the strategic risk MAPs received attention.

19.2 Dr Horne said that ensuring the future of service provision was a key part of the risk management strategy and asked what the Committee could do to make certain the services were delivered adequately. The Executive Director of Finance & Resources advised that the Committee should monitor the quality of the service provided. The scale of the challenges ahead were not yet fully understood. The Authority would look at which services needed to be provided and ensure that there was a sustainable budget to provide them. Dr Horne asked if a further report could be brought to the Committee in November. The Chair said the Authority would not know until December what the level of Council Tax would be. Central Government could allow Council Tax levels to rise above the 2% threshold, but that would not be known until later in the year. Executive Director of Finance & Resources said that the Institute of Fiscal Studies believed that even if there were a change in central Government next year there would not be any change to local government funding and so savings level requirements would be likely to continue.

19.3 Councillor Janio noted that the Corporate Accounts showed 250 members of staff were paid over £50k pa, and suggested that whilst salaries were so high, the Government

would continue to cut the Authority's budget. The Executive Director of Finance & Resources responded and said that for certain skill sets, such as ICT provision, the Authority currently paid well below the market rate.

- 19.4 With regard to the Effective Use of Technology the Executive Director of Finance and Resources introduced the Chief Technology Officer and continued to state that additional funding had been identified to bring the Council's ICT up to standard, and there had been a substantial investment this year. There were demands from all areas of the Authority for better and more efficient use of technology.
- 19.5 Councillor Summers said that the public asked why so much was invested in ICT. The Chief Technology Officer said the Authority was always looking to improve efficiency, for example enabling members of staff to access the Council's database remotely would allow those who worked predominantly away from the office to spend more time on their role and less time travelling to and from the office and simple things such as ensuring computers ran quickly would save a large amount of lost time.
- 19.6 Councillor Summers asked whether looking at efficiency was a means to mitigate the cuts or whether the Authority was always looking to improve efficiency. Officers said that the Authority was always looking at ways in which customer service and efficiency could be improved.
- 19.7 Councillor Simson said that efficiency was the key word. ICT had not kept up with technology and the Authority should be looking long term on how to embrace changes which in turn would provide a better service and improved efficiency. It would need a big investment, but there was a demand from the public to deal with issues electronically.
- 19.8 Councillor Janio asked that officers look at improving ICT service by service and not to take the approach which had been taken by some organisations, that one solution would suit all. The Chief Technology Officer assured Councillor Janio that that would not be the case.
- 19.9 The Chair referred to Citrix, which was software used by many officers and Members to access the Council's system remotely, and said that it was not reliable. Officers accepted that and said that Citrix had been used for a number of years and was now coming to the end of its life. Further investment in this type of software was needed. People's expectations had changed and as well as the reliance on and access levels expected from this type of software, ICT support was now needed out of traditional office hours
- 19.10 **RESOLVED:** That the report be noted.

20. STATEMENT OF ACCOUNTS 2013/14

20.1 The Committee considered the report of the Executive Director of Finance and Resources.

20.2 **RESOLVED:** That the report be noted.

21. ITEMS REFERRED FOR COUNCIL

21.1 There were no items referred to Council.

The meeting concluded at 7.00pm

Signed

Chair

Dated this

day of

AUDIT & STANDARDS COMMITTEE

Brighton & Hove City Council

Subject: Member Complaints Update
Date of Meeting: 23 September 2014
Report of: Monitoring Officer
Contact Officer: Name: **Brian Foley** Tel: **293109**
E-mail: brian.foley@brighton-hove.gov.uk
Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This paper updates the Audit and Standards Committee on complaints we have received about Member conduct following the last report to Audit and Standards Committee on 24 June 2014.

2. RECOMMENDATION:

- 2.1 That the Committee note the report.

3. RELEVANT BACKGROUND INFORMATION

- 3.1 The current status of complaints about Member conduct is:

3.1.1 Active complaints

- a. Many members of the public complained about a tweet relating to Armed Forces Day written by an elected Member. They described the tweet as being offensive and showing a lack of judgment and understanding. This complaint is the subject of an investigation report that will be considered by a Hearing Panel of the Standards Committee.
- b. Members of the Local Muslim Community complained about a tweet written by an elected Member which they say was deeply distasteful, hurtful and unbecoming of a Brighton and Hove City Councillor. The complainants said it did more to divide communities than bring people together. This complaint is the subject of an investigation report that will be considered by a Hearing Panel of the Standards Committee.
- c. A member of the public complained that in making an objection to a Planning Application a Parish Councillor knowingly gave false information to a planning officer and failed to declare a personal

relationship. This complaint is the subject of an investigation report that will be considered by a Hearing Panel of the Standards Committee.

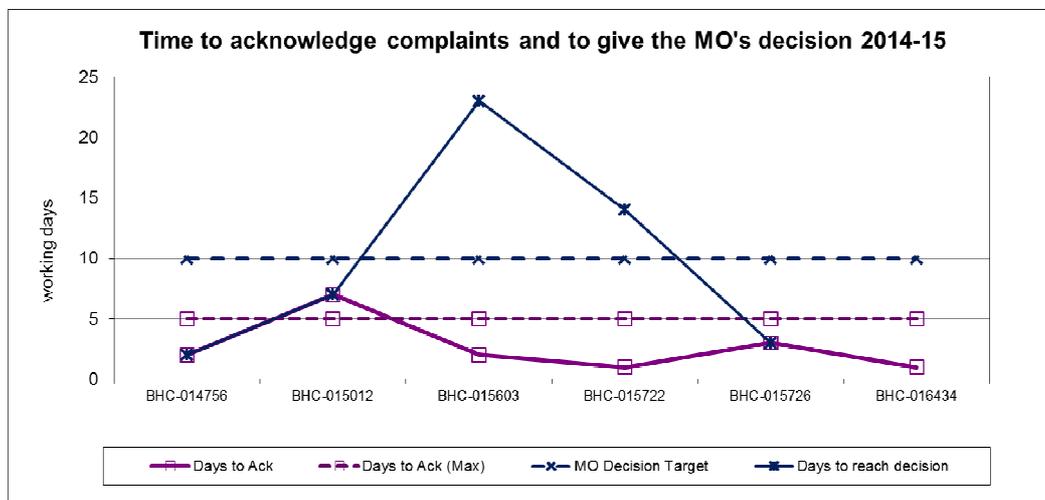
3.1.2 Closed complaints:

- a. An elected Member complained about a tweet that another member sent during a Council meeting. The Member found the tweet deeply offensive. At the end of the Council meeting the member who sent the tweet apologised to the member who had been offended but the apology was not taken as being sincere. The Monitoring Officer referred the matter for investigation. During the process of investigation an attempt was made to resolve the matter informally. The member complained about agreed to offer a further apology in public and it was agreed this should happen at the next Full Council. The apology was given in public at the last Council meeting and was duly accepted.
- b. A complaint was received from a member of the public that an elected Member actively discriminated against a minority of Brighton residents by offering support to a proposed motion to declare the city an area which would boycott Israeli goods and services. After consulting with an Independent Person the Monitoring Officer concluded that a Member is entitled to their opinion on whether to support such a motion and this could not represent a potential breach of the Code of Conduct. Therefore no action has been taken in respect of this complaint.

3.2 The Council's performance in dealing with individual complaints during 2014-15 is shown in the chart below.

3.2.1 Complaints about Member conduct should be acknowledged as soon as possible and within a maximum of 5 working days. This has been achieved in five out of six instances.

3.2.2 Complainants will where possible be informed within 10 working days how the matter will be dealt with. On two occasions there was delay in whilst additional background information was sought.



4. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 4.1 The costs of complaints in terms of administration and compensation awards (where appropriate) are met within the allocated budget.

Finance Officer Consulted: James Hengeveld Date: 12/09/14

Legal Implications:

- 4.2 The Council's arrangements under which complaints about Member conduct are investigated and decided comply with the relevant provisions of the Localism Act 2011.

Lawyer Consulted: Oliver Dixon Date: 10/09/14

Equalities Implications:

- 4.3 There are no Equalities implications

Sustainability Implications:

- 4.4 There are no Sustainability implications

Crime & Disorder Implications:

- 4.5 There are no Crime and Disorder implications

Risk and Opportunity Management Implications:

- 4.6 There are no Risk and Opportunity Management implications

Corporate / Citywide Implications:

- 4.7 There are no Corporate or Citywide implications

SUPPORTING DOCUMENTATION

Appendices:

1. None

Documents in Members' Rooms

1. None

Background Documents

1. None

Subject:	All Strategic Risk MAP Focus review dates; and Risk MAP Focus on SR19 Implementation of the Care Act; SR20 Better Care Fund; and SR13 Safeguarding Vulnerable Adults		
Date of Meeting:	23 September 2014		
Report of:	Executive Director Finance & Resources		
Contact Officer:	Name:	Jackie Algar	Tel: 29-1273
	Email:	Jackie.algar@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The Audit & Standards Committee has a role to monitor the effectiveness of risk management and internal control. This includes oversight of the Strategic Risk Register which is set and reviewed every six months by the Executive Leadership Team (ELT). Each Strategic Risk has a Risk Management Action Plan (a "risk MAP") to deliver action to address the risk by a Risk Owner, a member of ELT.
- 1.2 The Committee has agreed a schedule to focus on two Strategic Risk MAPs at each meeting, and to ask Risk Owners to attend in order to more fully explore the details of the actions to address each Strategic Risk. The Audit & Standards Committee have a work plan which will include Risk MAP Focus items as shown in Appendix 1.
- 1.3 This meeting will be attended by Denise D'Souza, Executive Director Adult Services, who is the Risk Owner for all three of the Strategic Risks, SR19; SR20 and SR13, to receive focus at this meeting. These Strategic Risk MAPs, at Appendix 2, have been updated specifically for this meeting to provide Members with the current position

2. RECOMMENDATIONS:

- 2.1 That the Committee's Work Plan scheduling for risk review focus items at Appendix 1 is noted.
- 2.2 That the Committee ask questions of the Risk Owner for Strategic Risks SR13, SR19 and SR20 based on the information provided in the Strategic Risk MAPS at Appendix 2.

- 2.3 That, having considered the Risk MAPs and the Risk Owner's response, the Committee make any recommendations it considers appropriate to the relevant council body.

3. FINANCIAL & OTHER IMPLICATIONS

3.1 Financial Implications

Each Strategic Risk MAP provides details of the actions already in place ("Existing Controls") or work to be done as part of business or project plans (the "Solutions") to address each strategic risk. Potentially these may have significant financial implications for the authority either directly or indirectly.

The associated financial risks are considered during the Targeted Budget Management process, the development of the Medium Term Financial Strategy and budget strategies.

Finance Officer Consulted: Rob Allen

Date 30/07/14

3.2 Legal Implications

The Committee is entitled to information, data and other evidence which enable it to reach an informed view as to whether the council's strategic risks are being adequately managed; and to make recommendations based on its conclusions.

Lawyer Consulted:

Oliver Dixon

Date: 30/07/14

SUPPORTING DOCUMENTATION

Appendices:

1. Strategic Risk Management Action Plan (Risk MAP) Focus Items in Audit & Standards Committee Work Plan 2014/15
2. Strategic Risk Assessment Report September 2014

Documents in Members' Rooms

None.

Background Documents

1. Strategic Risk Register 2014/2015 – reviewed by Executive Leadership Team, May 2014.



Strategic Risk Management Action Plan (Risk MAP) Focus items in Audit & Standards Committee Work Plan 2014/15

Category A = Statutory or other implied requirement
 Category B = Topics decided by the Committee
 Category C = Other
 Category D = Training & Awareness

Meeting Date	Agenda Item	Category	Decision Item Yes/No	Lead Officer/s
24 th June 2014	Strategic Risk Register Update	A	No	Jackie Algar
	Strategic Risk Map Focus - SR2 Financial Outlook - SR18 Effective Use of Technology	A	No	Jackie Algar Catherine Vaughan (and Mark Watson)
23 rd September 2014	Strategic Risk Map Focus - SR19 Implementation of the Care Act - SR20 Better Care Fund - SR13 Keeping Vulnerable Adults safe from harm and abuse	A	No	Jackie Algar Denise D'Souza
18 th November 2014	- SR10 Information Governance Management - SR21 Housing Pressures - SR 8 Becoming a more sustainable city	A	No	Jackie Algar Catherine Vaughan/Abraham Ghebre-Ghiorghis Geoff Raw
13 th January 2015	Strategic Risk Register Review & Risk MAP updates	A	No	Jackie Algar
	Strategic Risk Map Focus - SR12 Maintaining Seafront as an asset to the city	A	No	Jackie Algar Paula Murray/Geoff Raw
	- SR4 Economic Resilience and Sustainable Economic Growth -			Geoff Raw



Strategic Risk Management Action Plan (Risk MAP) Focus items in Audit & Standards Committee Work Plan 2014/15

Category A = Statutory or other implied requirement
 Category B = Topics decided by the Committee
 Category C = Other
 Category D = Training & Awareness

Meeting Date	Agenda Item	Category	Decision Item Yes/No	Lead Officer/s
10th March 2015	Risk Management Strategy Annual Progress Report 2014	B	No	Jackie Algar
	Strategic Risk Map Focus <ul style="list-style-type: none"> - SR17 School Places Planning - SR15 Keeping children safe from harm and abuse 	A	No	Jackie Algar Pinaki Ghoshal



Brighton & Hove City Council
Strategic Risk Assessment Report
Denise D'Souza

Risk Category - BHCC Strategic Risk;

ROM Issue:	Keeping vulnerable adults safe from harm and abuse	Responsible Officer:	Denise D'Souza
		Risk Code:	SR13

Identified Keeping vulnerable adults safe from harm and abuse is a responsibility of the council. Brighton & Hove City Council has a statutory duty to co-ordinate safeguarding work across the city and the Safeguarding Adults Board. This work links partnerships across the Police and Health and Social Care providers. Over 1400 concerns were raised last year about vulnerable people with over 1,000 going into investigation.

Potential Conseq Due to a national legal judgement in early 2014 on Deprivation of Liberty Safeguards (DoLS) the council has seen a significant increase in requests for Best Interest Assessments (BIAs); numbers have increased significantly testing the council's capacity to deliver. Generally cases are more complex and demands can vary. The council is able to respond appropriately at a time of change to protect those most vulnerable.

Initial:	High		Revised:	Significant		Future:	Significant	
Risk Identified Date:	8/5/2013		Date Modified:	10/6/2014		Date Modified:	23/5/2013	

Risk Category: - BHCC Strategic Risk
- Legislative

Existing Controls:

- * Awareness through messages and training;
- * Safeguarding Board workplan arising from review of Board;
- * Learning from serious case reviews, coroners concerns and case review from national work;
- * Good multi-agency work: Pilot role and access point from Police;
- * Audit of Safeguarding investigations and alerts (to check as appropriate);
- * Maintain the role and numbers of professional social workers through service redesign to ensure capacity;
- * Multi-agency training in place for better awareness, investigation management;
- * Highly motivated social workers;
- * Assessment of need using agreed threshold policies and procedures;
- * Staff provided with learning opportunities and undertake continuous professional development;
- * Working with ADASS (association of directors of adult social services) on the impact of recent legal judgement on DoLs ;
- * Working with Care Providers to ensure requests for Birth Certificates are appropriate and provides best and least restrictive practice;

Effectiveness of Controls: Adequate **Issue Type:** Threat **Risk Treatment:** Treat, Treat

Solutions: SR13 Risk Action: Continue to learn from serious case reviews, coroners inquests and case reviews
SR 13 Risk Action: Continue to raise awareness through messages and training
SR13 Risk Action: From multi-agency work with Police, review pilot to inform service delivery

ROM Issue:	Implementation of the Care Act	Responsible Officer:	Denise D'Souza
		Risk Code:	SR19

Identified Draft guidance has been received on many aspects of the Care Act although still awaited are details of future funding. The council's response to the draft guidance has been submitted with final guidance due in October 2014 for:

- Safeguarding;
- Funding of Social Care;
- Contributions for Care costs (Dilnot report) - Future Funding;
- Increased duties in respect of carers

The Council needs to have processes and systems in place to support changes to safeguarding, care, information and advice functions by April 2015.

Potential Conseq If we fail to meet our new statutory duties under the Care Act then:

- * Service delivery for individuals will be affected
- * Reputational damage
- * Financial risk

Initial:	High		Revised:	High	
Risk Identified Date:	21/5/2014		Date Modified:	10/6/2014	

Risk Category: - BHCC Strategic Risk
- Legislative

Existing Controls:

- * Adults Social Care Modernisation Board set up and considers detail on timelines and risk rating;
- * Workstreams in place working both locally, across the South East and nationally to ensure capacity to respond to the changes;
- * Local workstream identified and will link, where possible, to work on the Better Care Fund.

Effectiveness of Controls: Uncertain

Issue Type: Threat
Risk Treatment: Treat

Solutions:

- SR 19 Risk Action: Work with partners to inform and influence all parties involved in social care provision so that understanding, capacity and performance meets new requirements
- SR 19 Risk Action: Review progress at Adult Social Care Modernisation Board on a regular basis
- SR 19 Risk Action: Scan for changes of Care Act as more clarity emerges and assess implications to care delivery arrangements

ROM Issue:	Better Care Fund	Responsible Officer:	Denise D'Souza
		Risk Code:	SR20

Identified The changes to funding for Adult Social Care was introduced by the Better Care Fund and affect how the whole system of social care, across the public and private sectors, works together and how funding is agreed.

Potential Conseq The impact of funding changes of Better Care Fund combine with already significant changes to the NHS still being worked through with a submission to the NHS due in on 19 September 2014. This needs to deliver more integrated care and show real improvement in Accident & Emergency (A&E) performance.

If parties do not work together as agreed, or organisation's priorities change, it will affect delivery of performance targets in relation to the Better Care Fund. Any failure of delivery will impact on the Acute Trusts' costs and our ability to release efficiency savings to create new services.

Initial:	High		Revised:	Significant	
Risk Identified Date:	14/5/2014		Date Modified:	10/6/2014	

Risk Category: - BHCC Strategic Risk
- Economic / Financial

Existing Controls:

- * Health & Wellbeing Board reviewed and governance arrangements in place to help deliver an integrated approach, including oversight of the Better Care Fund;
- * Re-submission of the Better Care Plan due on 19 September following changes nationally;
- * Better Care Board established (high level and cross sector representation) and chaired by Executive Director Adult Social Care;
- * Partnership work agreed and submitted a Better Care Plan by the deadline in March 2014;
- * Agreement at Better Care Board to develop a Better Care implementation plan for delivery of Phase 1 from September 2014, based on an integrated model of delivery;

Effectiveness of Controls: Adequate **Issue Type:** Threat
Risk Treatment: Treat

Solutions: SR 20 Risk Action: Deliver Phase 1 Better Care implementation plan from September 2014
SR 20 Risk Action: Monitor and react to implications on the Better Care Fund arising from the Care Act

Subject:	Corporate Fraud Update and Risks		
Date of Meeting:	23 September 2014		
Report of:	Executive Director of Finance and Resources		
Contact Officer:	Name:	Mark Dallen, Acting Head of Internal Audit	Tel: 29-1314
	Email:	mark.dallen@brighton-hove.gcsx.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The purpose of this report is to update the Audit and Standards Committee on the proposed role and resourcing of the Corporate Fraud Team following the transfer of staff to the Department of Work and Pensions (DWP) under the Single Fraud Investigation Service (SFIS) programme
- 1.2 This report also details service priorities for the remainder of 2014/15.

2. RECOMMENDATIONS:

- 2.1 That the Committee notes the revised service arrangements and revised service priorities.

3. SFIS PROGRAMME UPDATE

- 3.1 As previously reported to this Committee in June, the DWP announced the timetable for the transfer of local authority housing benefit investigators to the DWP in May this year. Within this timetable, the council was given a transfer date of the 1st October 2014.
- 3.2 Council officers have been working with DWP staff to facilitate the transfer and ensure that both the human resource and operational aspects of the transfer are properly managed.
- 3.3 The project is on track with the transfer expected to take place on the 1st October as planned. It is expected that this will result in three members of staff transferring to the DWP. Four staff will be retained by the Council as part of a scaled down Corporate Fraud Team. Another member of the team has recently left the Council to take up an appointment with another local authority.
- 3.4 The residual team will be composed of:

- 1 x Corporate Fraud Manager
- 2 x Corporate Investigators
- 1 x Administrator primarily to support DWP requirements

3.5 The officers appointed to this team are all from the pre-existing service.

4. **RESIDUAL CORPORATE FRAUD TEAM –SERVICE PRIORITIES**

4.1 The short timetable of the SFIS transfer has meant that prompt decisions have been necessary to ensure that the Council retains an effective counter fraud capability. Specifically it was recognised that although the Council’s capacity to review and investigate allegations of fraud and irregularities is being reduced the *range* of allegations will not reduce.

4.2 Substantial fraud risks remaining with the Council include:-

- Housing Tenancy Fraud*
- Procurement Fraud*
- Council Tax Reduction Fraud*
- Council Tax SPD Fraud*
- Housing allocations*
- Right to Buy*
- Blue Badges*
- Concessionary Bus Passes
- Grant Awards*
- Theft of money and valuable assets*
- Bank Mandate frauds i.e. false requests to change bank account details.*
- Payroll Frauds

4.3 The council has received allegations and undertaken investigations into all those areas marked with an asterisk* in the past two years and it is expected that these areas will remain priorities for the team.

4.4 Communications with the DWP have also highlighted that whilst Council officers will no longer investigate housing benefit fraud, they will have a role in channelling housing benefit fraud referrals to the DWP and dealing with queries on an ongoing basis. This support will be delivered under a Service Level Agreement with the DWP and it is expected that this task will initially take up the majority of the time of the Administrative Officer in the team.

4.5 Commitments to corporate fraud work have been made in the Internal Audit Strategy and Plan and agreed by the Audit and Standards Committee. These include to:

- Develop fraud awareness throughout the Council through training and other initiatives.
- Revise, draft and communicate corporate policies including the Counter Fraud Strategy, Fraud Response Plan, the Bribery Act Policy and Money Laundering

- Carry out proactive work using data analytics to identify transactions indicating high fraud risk.
- To action intelligence obtained from the National Fraud Initiative data matching exercise.

5. **JOINT WORKING OPPORTUNITIES AND FUNDING ARRANGEMENTS**

- 5.1 To be successful it is essential that the team works closely with services across the Council, as well as other local authorities, public bodies and the police.
- 5.2 The team is already working closely with the Housing Department on both fraud awareness and investigations, particularly in relation to tenancy fraud. Although the team were successful in helping to secure the return of 10 properties in 2013/14, statistics produced by the Audit Commission in 2013 indicate that 2% of council tenancies outside of London may be fraudulent. If this is true it would apply to 240 tenancies in Brighton & Hove. Tenancy fraud will therefore remain a priority for the team, and the Housing Department are contributing to the cost of this element of the Corporate Fraud Service.
- 5.3 A bid for grant funding from the DCLG Counter Fraud Fund is being prepared. This is a joint proposal between Brighton & Hove, East Sussex and Sussex Police for funding to tackle Blue Badge misuse, free up spaces for the genuinely disabled and to manage offenders in a proportionate and cost effective way. The bid aims to educate the public about the correct use of Badges, the consequences of misuse through Police participation in high profile operations and other publicity.
- 5.4 A Council Tax Single Person discount exercise has already been planned by Revenues and Benefits for 2014/15. Meetings have recently taken place to identify additional opportunities for council services and the Corporate Fraud Team to prevent and detect this type of fraud.
- 5.5 The Corporate Fraud Team will work with Internal Audit, Legal Services and Human Resources to ensure that those genuine concerns about frauds and irregularities are raised through whistleblowing arrangements and fraud hotlines. It is expected that these mechanisms will continue to provide referrals in relation to procurement issues, housing allocations and other types of fraud.
- 5.6 The service is currently co-ordinating the preparation of data files for submission to the residual Audit Commission as part of the 2014/15 National Fraud Initiative Data matching exercise. The data sets requested include:-
- Payroll and Pensions
 - Creditors
 - Housing
 - Housing benefits and Council tax
 - Electoral register
 - Transport passes and permits (including residents' parking, blue badges and concessionary travel)

- Licences
- Personal budgets (direct payments).

6. EMERGING FRAUD RISKS

6.1 There are a number of areas where nationally fraud risks have been identified but this Council has not yet identified any losses or received significant allegations. These include:-

- Personal Budgets (Direct Payments) Fraud - Abuse of this system can occur as an overstatement of needs, by multiple claims across authorities and from third party abuse, for example posthumously - where the service user has died and payments continue to be fraudulently collected. Counter fraud arrangements in this area are particularly important as this type of fraud may directly impact on vulnerable members of the community. The Council's budget for direct payments for 2013/14 was £5.6m.
- Business Rates - This area has been identified as an emerging risk but the Corporate Fraud Team have received no referrals of this nature so far. Business Rate retention arrangements mean that any fraud losses now have a direct impact on this Council's finances.
- Right to Buy - The Right to Buy discount was increased to £75,000 from 1st April 2012 creating a significant financial incentive to purchase a council property. The Corporate Fraud Team have received a number of referrals of this nature since it was set up but none have led to the reclaiming of a property or the repayment of discount awarded.
- Schools – Individual schools may have multi-million pound budgets and a great deal of local autonomy. Although most schools have good financial governance nationally some schools have suffered losses running into hundreds of thousands of pounds.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 Funding for the residual Corporate Fraud Team will come from a number of different sources. This includes the current provision for the Corporate Fraud Manager (within the Internal Audit budget), a contribution from the Housing Department and residual Housing Benefit Subsidy Grant. External Funding is also being sought from the DCLG Counter Fraud Fund for a specific project associated with Blue Badge misuse.
- 7.2 The Corporate Fraud Team will provide services associated with the prevention of fraud within the Council's functions identified under paragraph 4.2 above. These areas potentially present the risk of significant financial loss to the Council

and the introduction of the Corporate Fraud Team will mitigate the risk of financial losses.

Finance Officer Consulted: Rob Allen

Date: 10/09/14

Legal Implications:

- 7.3 The council will, where appropriate and where permitted under specific legislation, continue to prosecute persons suspected of committing certain types of fraud. In other cases, allegations of fraud will be referred to the police or the relevant investigatory and prosecution authority.

Lawyer Consulted: Oliver Dixon

Date: 08/09/14

Equalities Implications:

- 7.4 There are no direct equalities implications arising directly from this report

Sustainability Implications:

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

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

- 7.7 Counter fraud arrangements are a key part of the Council's risk management process. Fraud risks can have a substantial impact on resources, customer confidence and the reputation of the Council.

Corporate / Citywide Implications:

- 7.8 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:

Documents in Members' Rooms

Background Documents

Subject:	Internal Audit Progress Report 2014/15		
Date of Meeting:	23 September 2014		
Report of:	Executive Director of Finance and Resources		
Contact Officer:	Name:	Mark Dallen, Acting Head of Internal Audit	Tel: 29-1314
	Email:	mark.dallen@brighton-hove.gcsx.gov.uk	
Ward(s) affected:	All		

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

- 1.1 The purpose of this report is to update Members of the progress made against the Internal Audit Plan 2014/15, including outcomes of specific audit reviews completed and tracking of the implementation of recommendations.
- 1.2 The Audit and Standards Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports.
- 1.3 A separate report is on the agenda for this meeting in relation to the Corporate Fraud Team work.

2. RECOMMENDATIONS:

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2014/15.

3. BACKGROUND INFORMATION:

- 3.1 The Accounts and Audit (England) Regulations 2011 require the Council to 'maintain an adequate and effective system for internal control in accordance with proper practices.' Proper practice is defined by Public Sector Internal Audit Standards.
- 3.2 The Internal Audit Strategy and Plan provides the framework to deliver this service ensuring the most appropriate use of internal audit resources to provide assurance on the Council's control environment and management of risks.
- 3.3 The Audit Plan sets out an annual schedule of those systems including core financial systems, governance frameworks, IT audits and other key operational systems.

3.4 Amendments to the plan are approved by the Executive Director of Finance and Resources and are reported as part of this monitoring report.

4. **PROGRESS AGAINST THE 2014/15 AUDIT PLAN:**

4.1 A total of 10 reports now been finalised for the year to date. These are detailed in the table below:

Final Audit Reports	Assurance Opinion*	Number of Recommendations and Priority
Highways Minor Works (Follow-up)	Limited Assurance	1 x High 4 x Medium
Brighton Centre - Ticketing and Catering	Reasonable Assurance	5 x Medium
School Meals Contract	Substantial Assurance	2 x Medium
Information and Data Sharing	Reasonable Assurance	2 x Medium
Mobile & Portable Devices	Reasonable Assurance	2 x Medium
Periodic Payments	Reasonable Assurance	6 x Medium
Bailiff Services	Reasonable Assurance	2 x Medium
Blue Badges	Reasonable Assurance	1x High Priority 8 x Medium Priority 5 x Low Priority
Grant Certification Work	Not Applicable	Not Applicable
Adoption Reform Grant 2013/14		
Stronger Families Stronger Communities Grant – June 2014		
Premises Security (Schools)	Reasonable Assurance	3 x Medium

Note.* A definition of the Assurance Opinions is provided in Appendix 1.

4.2 In addition there are 7 reviews where draft reports have been issued and are in the process of being finalised.

4.3 The total of draft and final reports is 17 at this point of the year which represents 19% of the approved audit plan. Another 26 audit reviews are allocated and/or in progress.

5. **LIMITED ASSURANCE REPORTS:**

5.1 One Limited assurance audit report has been issued for the year to date. This is the audit of the Highways Minor Works Contract.

5.2 The primary reason for the Limited Assurance opinion relates to payment controls. In a previous audit we identified a large overpayment arising from this

control weakness. The follow-up review provided some assurance of an improvement on controls but additional improvements are still required.

- 5.3 Two recommendations were made relating to the performance management of this contract.

6. CHANGES TO THE APPROVED AUDIT PLAN:

Addition: Whistleblowing Allegation: Related Party Declaration

- 6.1 We are continuing to provide resources to support work arising from the Whistleblowing allegation relating to a temporary accommodation supplier. This work incorporated undertaking additional control assurance work including work specifically requested to support the 2013/14 work of external audit. We have also been supporting internal management processes as well as Sussex Police.

Addition: Cash Collection Contract

- 6.2 An unplanned review requested by the Executive Director of Finance & Resources is being undertaken on the termination of the previous cash collection contract and the emergency award of the contract to a new provider. This work is ongoing and involves obtaining assurance over the arrangements to secure all outstanding monies from the outgoing contractor and that an effective service was provided immediately before and after contract handover.

Addition: VFM Phase 4 Project – Third Party Spend

- 6.3 Internal Audit has been requested to assist with the VFM Phase 4 Project by providing contract and procurement audit expertise. As part of this a contract auditor is being recruited on a temporary basis with additional input from a Principal Auditor. The contract audit is being funded from a programme budget but the Principal Auditor time comes from existing resources. This work is being aligned as far as possible to agreed Internal Audit priorities.

Deletions to Audit Plan

- 6.4 Contingencies have been built into the 2014/15 audit plan but it is likely that the additional work detailed in paragraphs 6.1 to 6.3 will exceed these contingencies. Proposed deletions to the audit plan (if necessary) will be brought before the November meeting of this Committee.

7. CORPORATE FRAUD TEAM WORK:

- 7.1 Outcomes for housing benefit fraud investigation for the year to date are:-

Outcome	Year to Date	This Period
Prosecutions	16	16
Cautions	5	5
Administration Penalties	11	11

Overpayments	£274,900*	£274,900*
--------------	-----------	-----------

Note. *Figure excludes cases under investigation but includes cases awaiting prosecution

7.2 This will be the last regular reporting of the housing benefit investigation outcomes as this function is transferring to the DWP from the 1st October 2014. Specific information will be reported when relevant.

7.3 With regard to housing tenancy fraud the position is as follows;-

Outcome	Year to Date	This Period
Housing Stock returned	5	5
Housing Association properties	1	1

National Fraud Initiative Update

7.4 The service is currently co-ordinating the preparation of data files for submission to the residual Audit Commission as part of the 2014/15 National Fraud Initiative Data matching exercise.

8. IMPLEMENTATION OF RECOMMENDATIONS:

8.1 For the year to date we have now followed-up on a total of 80 recommendations. The results of this exercise are summarised below.

Number of Recommendations Followed Up (Year to Date)	Implemented*	% Compliance
80	77	96%

* Includes both fully implemented and part implemented

8.2 Where recommendations have not been implemented further action is being considered on a case by case basis.

9. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

9.1 It is expected that the Internal Audit Plan for 2014/15 will be delivered within existing budgetary resources subject to the agreement of any proposed audit plan deletions described in paragraph 6.4. Progress against the Annual Internal Audit Plan and action taken in line with recommendations support the robustness and resilience of the councils practices and procedures and support the councils overall financial position.

Finance Officer Consulted: James Hengeveld

Date: 10/09/2014

Legal Implications:

- 9.2 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 & Standards Committee's role to review the level of work completed and planned by internal audit.

Lawyer Consulted: Oliver Dixon

Date: 08/09/14

Equalities Implications:

- 9.3 There are no direct equalities implications arising directly from this report

Sustainability Implications:

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

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

- 9.6 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.

Corporate / Citywide Implications:

- 9.7 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. Internal Audit Report Assurance Levels: Definitions

Background Documents:

1. Internal Audit Plan 2014/15
2. Public Sector Internal Audit Standards
3. Accounts and Audit Regulations 2011

APPENDIX 1.

Internal Audit Report Assurance Opinions: Definitions

FULL	There is a sound system of control designed to achieve the system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
SUBSTANTIAL	No significant improvements are required. Whilst there is a basically sound system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level on non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
REASONABLE	The audit has identified some scope for improvement of existing arrangements. Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and result in residual risk. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Council.
LIMITED	Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance will lead to an increased risk of loss or damage to the Council. Not all major risks are identified and/or being managed effectively.
NO	Control is generally very weak or non-existent, leaving the system open to significant error or abuse and high level of residual risk to the Council. A high number of key risks remain unidentified and/or unmanaged.

	Ernst & Young 2013/14 Audit Results Report		
Date of Meeting:	23 September 2014		
Report of:	Ernst & Young		
Contact Officer:	Name:	Helen Thompson	Tel: 07974 007332
	Email:	HThompson2@uk.ey.com	
Ward(s) affected:	All		

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Audit Results Report summarises the findings of the 2013/14 audit which is now substantially complete. It includes the key messages arising from the audit of the financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money in its use of its resources.
- 1.2 We plan to issue an unqualified opinion on the financial statements.
- 1.3 We intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

2. RECOMMENDATIONS:

- 2.1 To consider our findings set out in the 2013/14 Audit Results Report, ask questions as necessary and raise any other matters which you consider relevant to the audit.

Brighton & Hove City Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP



Building a better
working world

Private & Confidential
Audit & Standards Committee
Brighton & Hove City Council
Kings House
Grand Avenue
Hove
BN3 2LS

23 September 2014

Dear Members of the Audit & Standards Committee

Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Standards Committee. This report summarises our preliminary audit conclusion in relation to Brighton & Hove City Council's (the Council's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Audit & Standards Committee scheduled for 23 September 2014.

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Audit & Standards Committee and the Council. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Standards Committee meeting scheduled on 23 September 2014.

Yours faithfully
For and on behalf of Ernst & Young LLP

Helen Thompson
Ernst & Young LLP
United Kingdom
Enc.

Contents

1. Overview of the financial statement audit	1
2. Scope update	3
3. Significant findings from the financial statement audit	4
4. Economy, efficiency and effectiveness	6
5. Control themes and observations.....	11
6. Status of our work	13
7. Fees update.....	14
8. Summary of audit differences	15
9. Independence confirmation: update.....	16
Appendix A Required communications with the Audit & Standards Committee.....	17
Appendix B Letter of representation.....	19

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview of the financial statement audit

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

We also report to the National Audit Office (NAO) under its group instructions.

Summarised below are the conclusions from all elements of our work:

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Council's financial statements. Our findings are set out in section 3 of this report.

Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

-
- ▶ There are no uncorrected misstatements resulting from our work.
 - ▶ Our testing of finance leases where the Council acts as lessor identified two cases where the lease terms had been altered but the Council's detailed accounting records had not been updated accordingly. This resulted in a £200,000 increase in the associated long term debtors on the balance sheet and £200,000 reduction in other net operating expenditure in the consolidated income and expenditure statement. The change increased disclosure of the gross investment in the lease at Note 22 of the financial statements by approximately £10.4 million. A number of other changes to disclosures in the financial statements were made to fully correct for the error.
-

Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion. Our detailed findings and conclusions are set out in section 4 of this report.

Whole of Government accounts

We have completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.

As part of our work we noted that the Council had removed the £1 million threshold previously applied to the inclusion of intra-group counter party balances. It has not, however, set or consistently applied a replacement de minimis level leading to some inconsistency in the value of balances included in the consolidation pack. We are, however, satisfied based on our work that all counter party balances of greater than one £1 million have been included in the consolidation return.

Audit certificate

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan. We outlined the work we needed to complete to address the audit risks associated with the whistle blowing allegation received by the Council. The audit fee reported in our Audit Plan was predicated on there being no significant changes to the risks associated with the audit in previous years. We were required to amend our audit strategy, compared with previous years, through:

- ▶ A reduction in our materiality threshold. This increased the level of testing required in all areas of the audit, and especially in relation to testing housing expenditure.
- ▶ An increased focus on the Council's arrangements to identify and report related party transactions.
- ▶ Ongoing liaison with Internal Audit, including review and re-performance of its work in response to the allegation received.

We will need to quantify the extent of this additional work and discuss the impact on the planned fee. We will update the Audit & Standards Committee through the Annual Audit Letter.

3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

Significant risk 1 – Risk of Management Override

Risk

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Specifically, we have considered the impact of an allegation received by the Council from a whistle blower during the year, relating to a historic failure to declare a material related party interest, on our approach to the audit of the 2013/14 financial statements

We:

- ▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewed accounting estimates for evidence of management bias;
- ▶ evaluated the business rationale for significant unusual transactions;
- ▶ reviewed the Council's response to the issues arising from the allegation received from the whistle blower as they relate to our responsibilities;
- ▶ evaluated the Council's arrangements for identifying and properly disclosing significant related party transactions in its financial statements; and
- ▶ tested expenditure and other disclosures in the financial statements potentially affected by issues arising from the whistle blower's allegation.

Audit findings and conclusion

In addition to our response to the risk identified, the Council has undertaken other work. There has been an ongoing disciplinary investigation by the Council, police investigation and a detailed review by management designed to assess the impact of the issue on Council expenditure, the efficacy of internal controls and any potential failure in the Council's arrangements to secure value for money. We have considered and, where appropriate, placed reliance on the findings of the detailed work undertaken by management together with undertaking our own detailed testing. Our audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. The focus of our work has therefore been on discharging those responsibilities.

We found no material misstatement due to fraudulent financial reporting, or evidence of material fraud, impacting on the year of account. Note, however, that our audit is not designed to give absolute assurance and immaterial fraud does occur each year at the Council. Our work on the Council's financial statements is guided by the concept of materiality. Information is only material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

We undertook work to consider the impact on our responsibilities of the whistle-blowing allegation received on the historic failure of a senior employee to declare a material related party interest. The allegation related to the procurement of temporary accommodation by the Council's housing service. Specifically, we considered a joint piece of work undertaken by the Council's central finance, internal audit and procurement teams to gain assurance for our opinion on the financial statements. Our approach was to treat this work as a management control and to seek to place reliance on its findings. In order to do that it was necessary for us to review, challenge and re-perform on a sample basis the work undertaken by the Council.

The focus of the work undertaken by management was to identify those areas of 2013/14 expenditure potentially affected by the whistle-blowing allegation, and test that expenditure back to supporting evidence to show that a valid and supportable procurement route was followed in commissioning the spend. Based on our review we concluded that the work undertaken by management was properly performed. We therefore consider the overall findings and conclusions from that work to be reliable. Based on the findings of that work, and our re-performance of it, we are satisfied that there was no material misstatement of expenditure potentially affected by the whistle-blowing allegation.

However, the work undertaken by management, and our re-performance of it and additional testing, highlighted some weaknesses in the Council's arrangements which need to be addressed. Specifically, there are clear deficiencies in the Council's arrangements for the signing and sealing of leases it enters into. We found weaknesses in record keeping for leases, and the Council was not able to show that it was able to locate a significant minority of the leases considered by our work. There was also a lack of consistency and clarity in lease terms and conditions across similar lease agreements.

As part of our work in this area we considered both the accuracy of the disclosure made in the related party transactions note in the financial statements, and the adequacy of the Council's arrangements to identify and disclose related party transactions more generally. Based on our work we are satisfied that the disclosure of the issue in the related party transactions note in the financial statements is accurate. We are also satisfied the Council's

arrangements for the identification and disclosure of related party interests and transactions are reasonable overall. There is, however, scope for improvement. This is recognised by the Council and actions have already begun to improve the level of control in this area. We also considered the accuracy and adequacy of disclosure of the issue in the Council's annual governance statement. We are satisfied that the disclosures originally made were accurate and note that fuller disclosure of the issue in the annual governance statement has been made by management during the course of the audit.

Significant risk 2 – National Non Domestic Rates (NNDR) rateable value appeals provision

Risk

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils will be retained locally and half paid over to central government.

The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).

Where local businesses believe the current value for business properties is wrong they can:

- ▶ appeal to the VOA and ask them to correct details.
- ▶ appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal.

Where rating appeals are successful, monies to settle the appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes not only claims from 1 April 2013 but also claims that relate to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

We:

- ▶ sought to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date.
- ▶ considered both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Council on the likelihood of success.

Audit findings and conclusion

We are satisfied the Council has developed an approach to ensure that a materially accurate and complete provision is included in the financial statements, and the provision has been calculated correctly based on an analysis of available information and professional judgment.

Specifically, we are satisfied that management has used both available data from the VOA on appeals outstanding at the balance sheet date and a historic analysis of data covering both the volume of appeals raised and the percentage success rate to estimate the provision required. Officers have used professional judgment and their experience of the area to review and challenge the output of the model devised. We are also satisfied that the provision made correctly includes an element for potential future appeals against historic valuations not yet lodged at the balance sheet date.

We are required by ISA (UK&I) 260 and other ISAs specifying communication requirements, to report any significant issues to the Audit & Standards Committee as those charged with governance. The matters we have to report are set out in the table below.

Policy/practice/finding	EY comments
Significant matters discussed with management	<p>We received initial communications from the Executive Director of Finance & Resources in January 2014 alerting to the issue raised by a whistle-blower. Subsequently we have held ongoing meetings with the Acting Head of Internal Audit and the Executive Director of Finance & Resources to keep up to date with developments and their on our responsibilities.</p> <p>As appropriate we have also involved EY experts to help inform our response to the issue.</p>
Written representations	<p>Additional representations will be sought from management and those charged with governance in relation to:</p> <ul style="list-style-type: none"> ▶ the Council's Private Finance Initiative schemes; ▶ the Council's response to the whistle-blowing allegation; and ▶ the financial impact of the recent termination of the Council's contract for cash collection.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant risks to the value for money conclusion, but we did identify two other risks in our Audit Plan. The table below summarises the findings from our work and we include our findings in more detail below the table. In addition, we assessed whether there were value for money implications arising from the whistle blowing allegation received.

Other risks:	Impacts arrangements for securing:	Key findings:
Council spending		
<p>The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area.</p> <p>Review of the comparative VFM profile data in previous periods has suggested that the Council is high spending compared to its statistical nearest neighbours. This is true for both its overall per capita spending, and per capita spending in each of its main service areas.</p> <p>The Council continues to face significant financial challenges over the medium term. A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Council.</p>	<p>Economy, efficiency and effectiveness Financial resilience</p>	<p>The Council's financial position remains sound at the end of 2013/14 and it continues to be financially resilient.</p> <p>However, the scale of the financial challenge it faces continues to grow and, based on available comparative information at the end of 2012/13, its overall level of spending remains high relative to others. There is a significant budget gap over the medium term which will need to be addressed through more fundamental service prioritisation, re-design and commissioning and de-commissioning decisions.</p>

Better Care Fund

<p>The Council has a well-established value for money (VFM) programme and a good track record of delivering its planned savings. However, it is becoming increasingly difficult for the Council to continue to deliver good quality services against a backdrop of growing demand and increased financial challenges.</p> <p>The June 2013 Spending Round announced the creation of a £3.8 billion Integration Transformation Fund – now referred to as the Better Care Fund (BCF). The BCF is a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities.</p> <p>It therefore offers a substantial opportunity to the Council to build on its existing partnerships with NHS commissioners and providers to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care.</p> <p>This will create both risks and opportunities for the Council. The £3.8 billion is not new or additional money. £1.9 billion will come from clinical commissioning group (CCG) allocations (equivalent to around £10 million for an average CCG) in addition to NHS money already transferred to social care.</p>	<p>Economy, efficiency and effectiveness Financial resilience</p>	<p>We are satisfied there is evidence the Council is making good progress in developing arrangements to improve its system leadership, governance and level of integrated working across the city with NHS and other commissioners and providers in preparation for implementation of the Better Care Fund.</p>
--	---	---

Whistleblowing allegation

<p>We have considered the impact of an allegation received by the Council from a whistle blower during the year, relating to a historic failure to declare a material related party interest, on the Council's arrangements to secure value for money.</p>	<p>Economy, efficiency and effectiveness</p>	<p>Based on our work we have concluded there is evidence of historic weaknesses in the Council's arrangements to assess and take action on the value for money provided by providers of temporary accommodation.</p> <p>We are, however, satisfied that the financial value of the issue is not sufficiently significant to impact on our value for money conclusion.</p>
--	--	---

4.1 Council spending

In common with most public sector bodies, recent government spending reviews and financial settlements have had a significant impact on the Council. The financial challenge facing the Council is clearly set out in its medium term financial strategy (MTFS) which was refreshed

during the year and now covers the period 2014/15 to 2019/20. The impact of reductions in funding is the key driver of the projections in the MTFs. We are satisfied that the MTFs has been properly updated in light of the current economic climate, particularly projected reductions in available funding, inflation and the impact of recent legislative changes, for example welfare reform and the localisation of council tax support and business rates. However, the scale of the financial challenge faced by the Council continues to grow. The MTFs estimates that the Council will need to identify budget reductions of nearly £90 million over the five year period 2015/16 to 2019/20. This represents a reduction of almost 25 per cent in the General Fund gross budget which is a very significant challenge. The Corporate Peer Challenge review carried out in June 2014, at the request of the Council, reinforces the size of the task and highlights the need for more radical savings solutions.

The Council's financial position remains sound at the end of 2013/14. The minimum level of working balances deemed appropriate remains set at £9 million for the General Fund, representing about four weeks of council tax revenue; and £2.8 million for the Housing Revenue Account (HRA), representing five per cent of gross HRA expenditure. In both cases the actual level of unallocated balances at the end of 2013/14 is higher than the acceptable minimum, with approximately £11.2 million of General Fund and £5.5 million of HRA reserves held. Based on its financial statements, the Council also held a further £69 million of other usable reserves at the balance sheet date, although £53.5 million of those reserves were earmarked for specific purposes. A number of these reserves, such as the Local Management of Schools reserve, PFI reserves and Insurance reserve are not available to support the general spending of the Council.

Although the Council has a good track record of delivering its financial plans including its value for money improvement targets, and its financial position at the end of the year continues to be sound, the scale of the financial challenges are growing. As at month 2 of 2014/15, the Council is forecasting an outturn over-spend position for the General Fund of approximately £6 million. There is therefore a continuing imperative to change more radically, particularly considering the size of the budget gap during the remainder of the MTFs period. This will need to be addressed through more fundamental service prioritisation, re-design and commissioning and de-commissioning decisions.

The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative performance of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area. We have used the latest available VFM profile data, largely relating to financial year 2012/13, to review the cost and efficiency of Council services relative to both its statistical nearest neighbours and all other unitary authorities.

Our review of the updated VFM profiles suggests that the Council's spending relative to both its statistical nearest neighbours and all other unitary authorities remains high. This is true for both its overall per capita spending, and per capita spending in the majority of its main service areas, the only exception to this being environmental services. This is consistent with our findings in both 2011/12 and 2012/13. Spending is decreasing in the majority of areas, but given the Council's relatively high spending levels overall this does not appear to be at any faster rate than at statistically similar authorities. Spend per capita is particularly high in children's services and housing services, where the Council is in the top 5% relative to statistical nearest neighbours. The spend on adult social care, which is a key area of focus in the Council's current VFM improvement programme, is also above average overall.

As part of our work we also specifically considered three specific service areas which are either demand led and significant areas of Council spending by value, closely linked to its VFM improvement activity or directly linked to areas of audit risk. They were:

- ▶ adult social care;
- ▶ children & young people; and

► housing services.

In all cases the level of service spending was compared to statistical nearest neighbours.

For adult social care we found that spend remains above average overall and particularly high for older people. Spend is decreasing but this is having no significant impact on the level of spend relative to others suggesting that spending is not decreasing more quickly than elsewhere. The Council is, however, in the best 20 per cent of councils in terms of the percentage of social care clients receiving self-directed support.

For children and young people the main high spend areas continue to be planned spend on children's social care services per young person aged 0 to 17, which continues to be in the top five per cent, and planned spend on looked after children per young person aged 0 to 17.

Spend on total General Fund and Housing Revenue Account housing services per head remains in the top five per cent, but has decreased from the previous period. The Council's overall 2012/13 spend per head is nearly three times that of the comparator group average. Spend on homelessness services per head remains in the highest five per cent and is almost six times higher than at statistical nearest neighbours. Average weekly management costs per dwelling are in the top 20 per cent and the average weekly cost of maintenance per dwelling is above average.

Finally, we used the VFM profiles to consider the financial resilience of the Council relative to statistical nearest neighbours. We found that both the absolute value of the council tax financing requirements and the value of income from fees and charges remains in the top ten per cent, which is consistent with the high level of relative spend on services. The analysis also supported our conclusion that the Council's financial standing remains relatively sound, with an above average level of non-schools reserves as a percentage of spend, although the level of reserves relative to the comparative group has reduced year on year. Overall management and support costs are also below average and decreasing more rapidly than in other service areas.

4.2 Better Care Fund

We are satisfied overall there is evidence the Council is making good progress in developing arrangements to improve its system leadership, governance and level of integrated working across the city with national health service (NHS) and other commissioners and providers in preparation for implementation of the Better Care Fund.

Changes to funding through the Better Care Fund will affect how the whole system of social care, across the public and private sectors, works together. This is against a backdrop of reduced budgets for, and increased savings required from, local government and already significant changes to the NHS. The Council recognises this and all involved with health and social care service design and delivery for citizens in Brighton & Hove will need to be aware of the changes to funding, and the short timescale for funding changes with new, but emerging performance targets. The current statutory duties of organisations continue, but may be added to.

It is clear that the Council considers integration with the NHS, including the Better Care Fund, as a key opportunity to deliver both improved outcomes and financial savings. It is also aware there are potential negative impacts and risks have been raised in both the Council's own strategic risk register and the city-wide risk register in recognition of this. The Council already has well established joint working arrangements with NHS commissioners and providers. There are various pre-existing arrangements under section 75 of the NHS Act 2006 in relation to personal social care, community health and educational services for children and young people, and personal social services and community health care for adults.

The Council's Health & Wellbeing Board (HWB) has been in existence since April 2012, initially in shadow form, and since April 2013 as a statutorily constituted committee of the Council. The Council recognises that the expectation at the time HWBs were created was

that they would fundamentally change the way that local authorities and the health service work by bringing different players together and being a catalyst for change and deeper integration. The Council acknowledges that the HWB in Brighton & Hove, as with other HWBs, has not been as effective as it could potentially be. The pressure on resources, the increasing conditionality of central government funding through the better care system and the new requirements under the Care Bill meant there was an urgent need to examine the existing arrangements and identify a better way forward. The previous structures and governance arrangements were considered inadequate to deliver a more strategic, co-ordinated delivery of services. There was also an accepted need for system leadership across the Council and CCG to provide the necessary strategic direction and governance structure to achieve greater integration and co-ordinated approach resulting in better outcomes for residents. In May 2014, the Council therefore agreed significant changes to the role, purpose and ways of working of the HWB to reflect this need for greater co-ordination and integration of health and local authority functions.

Good progress has been made by the Council during the year in accelerating development of arrangements for implementation of the Better Care Fund. Every council and CCG is required to develop a plan in line with national guidance. The plan is expected to identify local priorities and demonstrate how the proposed arrangements meet six nationally specified conditions. The Brighton & Hove Better Care Plan was approved by the Health and Wellbeing Board in February 2014. As part of this detailed budget allocations were also agreed in partnership with the CCG. Feedback was received from NHS England on the initial plan submission which noted a good level of partnership working and use of existing service developments for improving user experience and outcomes. A revised submission of the plan is due on 19 September 2014.

A key part of its Better Care Plan is the Council's intention to scope and develop an integrated and holistic frailty model for residents who are vulnerable and who have complex needs. It is planned this will be delivered by a multi-disciplinary team who will consistently consider both the mental health, physical health and social care needs of the individual. As part of this a homeless integrated model is currently being developed and implemented in one geographical location.

4.3 Whistleblowing allegation

We considered the impact on our value for money conclusion of an allegation received by the Council from a whistle blower during the year, relating to a historic failure to declare a material related party interest. This involved consideration of relevant work undertaken by Internal Audit, including a specific review of controls in temporary accommodation, and other relevant reviews of the use of external suppliers of temporary accommodation by the Council. Based on our work we have concluded there is evidence of historic weaknesses in the Council's arrangements to assess and take action on the value for money provided by providers of temporary accommodation. Although some controls are in place and relevant data is available there is clear scope to use this data better to routinely produce and monitor management information to provide an indication of the value for money offered by external providers of temporary accommodation. We note that a number of the control weaknesses confirmed by our review of the Council's arrangements for temporary accommodation have previously been highlighted in reviews undertaken by Internal Audit, but have not been fully acted upon by service management.

We are, however, satisfied that the financial value of the issue is not sufficiently significant to impact on our value for money conclusion.

5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

5.1 Current year observations

Description	Recommendation
<p>Housing leases</p> <p>Based on our review of leases for temporary accommodation we found:</p> <ul style="list-style-type: none"> ▶ Weaknesses in the Council's arrangements for the signing and sealing of leases. ▶ Weaknesses in record keeping for leases. Specifically the Council was not able to show that it was able to locate a significant minority of the lease considered by our work. ▶ A lack of consistency and clarity in lease terms and conditions across similar lease arrangements. <p>Our testing of other disclosures in the financial statements relating to the Council as lessor has identified some further weaknesses in lease documentation and record keeping.</p>	<p>Improve documentation and internal control over leases having regard to the specific weaknesses in arrangements identified by both our review, and the findings from relevant Internal Audit work.</p>
<p>Related party transactions - officers</p> <p>The Council's arrangements for the identification and disclosure of related party interests and transactions for officers are reasonable overall. The Council circularises all senior employees as part of the year-end financial statements processes. Our testing noted that 4 responses (from a total of 57) were not received. In each case we are satisfied that the Council has taken appropriate follow-up action.</p> <p>The need to continue to improve arrangements in this area is recognised by the Council. Legal and Democratic Services have introduced an enhanced set of arrangements for officers designed to more fully capture related party transactions from 2014/15.</p>	<p>None required. We will review the revised arrangements introduced as part of our 2014/15 audit.</p>
<p>Related party transactions - members</p> <p>The Council's arrangements for the identification and disclosure of related party interests and transactions are reasonable overall. However, as part of our work we noted that the disclosure of related party interests for members is informed primarily by review of the members' register of interests. The Council is reliant on members keeping this information up to date. Quarterly reminders are issued, but there is no routine annual circularisation of members to check that the information is accurate. Our review of the members register of interest highlight some out of date information. We note, however, that the committee based system of decision making at the Council does offer some mitigation against the risk of any one member having significant influence over operating decisions taken by the Council.</p>	<p>Continue to improve arrangements to identify material related party transactions. Specifically consider whether active circularisation of members would provide a better level of assurance in this area.</p>

Description	Recommendation
<p>Debtors</p> <p>Our testing identified the Council has repeatedly raised and cancelled a £1 million invoice relating to the lessee of Shoreham Airport. This has been done as a mechanism to enforce the lessee to carry out its obligations under the terms of the lease agreement. There is no debt due to the Council unless the lease condition is not met. We are satisfied that the amount raised was cancelled by a credit note at the end of the year, does not appear as part of year end debtors and therefore is correctly excluded from the financial statements. However, the invoice been re-raised in the new financial year.</p>	<p>The Council should reconsider its current approach of raising and cancelling an invoice where it does not expect to collect a cash debt due to it.</p>

5.2 Status of previous year's recommendations

Description	Recommendations
<p>We made a relatively small number of recommendations as part of our 2012/13 audit results report. We are satisfied that action has been taken in respect of the recommendations raised.</p>	<p>None.</p>

5.3 Challenges for the coming year

Description
<p>Council cash collection contract</p> <p>The Council has experienced significant difficulties with its security carrier contract for cash collection and the value of cash in transit at the end of 2013/14 was approximately £2.2 million. Although we are satisfied that the majority of the cash in transit at the year-end has now been received, delays in the banking of cash collected on behalf of the Council by the contractor have continued into 2014/15. The Council terminated the contract with the security carrier on 2 August 2014, continues to seek full payment of the amounts owed to it and has obtained specialist debt recovery advice.</p>
<p>2014/15 financial performance and 2015/16 budget setting</p> <p>The increasing pressure on the Council's finances continues into the 2014/15 financial year. As at month 2 the Council is forecasting an outturn over-spend position for the General Fund and HRA of approximately £6 million, although there is approximately £1.9 million of unallocated risk provision that could be offset against this. The main cause is higher than expected costs in adult social care and the level of forecast over-spend is significantly higher than at an equivalent stage in previous years. This, coupled with the continuing need to secure further efficiency improvements and cost reductions, significantly increases the challenge faced by the Council in being able to deliver its budgeted 2014/15 outturn and set a balanced budget for 2015/16.</p>

6. Status of our work

6.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	▶ To be tabled at the Audit & Standards Committee on 23 September 2014.	Management and Audit & Standards Committee
Annual accounts	<ul style="list-style-type: none"> ▶ Approval of accounts by Audit & Standards Committee. ▶ Accounts re-certified by the Executive Director of Finance & Resources. 	Management, Audit & Standards Committee and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Council's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

6.3 Objections

At the date of writing this report we have received no objections from members of the public.

7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
Total Audit Fee – Code work	To be determined	210,330	210,330	
Certification of claims and returns	21,602*	21,602**	21,602**	
Non-audit work: Advisory services for value for money through modernisation	73,900	75,000		

*Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Annual Certification Report for 2013/14.

**Note: the Audit Commission altered the scale fee for the certification of claims and returns after our 2013/14 Audit Plan was finalised and presented to the Audit & Standards Committee in March 2014. The scale fee reduced from £26,300 to £21,602 to reflect the removal of certain claims from the regime.

Our final fee is yet to be determined. The changes to the audit strategy required as a consequence of the whistle blowing allegation received led to a significant increase in the volume of testing required. We will assess what effect this had on our fee, taking into account the significant support received from the Council's Central Accounting Team.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

Non-audit work

The Council appointed EY, through a competitive process, to provide support for its programme to identify savings opportunities spanning 2014/15 to 2018/19. We assessed this proposal against the potential threats set out above and concluded there were no threats, and appropriate safeguards had been put in place. The assessment was shared with the Audit Commission which provides a regulatory role in relation to safeguarding the independence and objectivity of auditors. The Audit Commission also concluded that appropriate safeguards were in place, and the work did not pose an independence threat.

8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have asked the Council to correct all misstatements over £387,000. We have included all amounts greater than approximately £3.9 million relating to the Council in our summary of misstatements below.

We highlight in particular the following misstatements identified during the course of our audit that have been corrected by management. Our testing of finance leases where the Council acts as lessor identified two cases where the lease terms had been altered but the Council's detailed accounting records had not been updated accordingly. This resulted in a £200,000 increase in the associated long term debtors on the balance sheet and £200,000 reduction in other net operating expenditure in the consolidated income and expenditure statement. The change increased disclosure of the gross investment in the lease at Note 22 of the financial statements by approximately £10.4 million. A number of other changes to disclosures in the financial statements were made to fully correct for the error.

There were no uncorrected misstatements.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit & Standards Committee on 23 September 2014.

Appendix A Required communications with the Audit & Standards Committee

There are certain communications that we must provide to the Audit & Standards Committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit plan
Significant findings from the audit	Audit results report
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process) 	
Misstatements	Audit results report
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	
Fraud	By correspondence with the Chair of the Audit & Standards Committee.
<ul style="list-style-type: none"> ▶ Enquiries of the Audit & Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Audit results report. We have raised a recommendation that the Council should continue to improve its arrangements to identify material related party transactions.
<ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	
External confirmations	Audit results report. We have obtained all external confirmations sought
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit & Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to management and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit plan and update in section 9 of this report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Audit results report</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit results report</p>
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). 	<p>Audit plan, audit results report and annual audit letter</p>
<p>Summary of certification work undertaken</p> <ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken 	<p>Annual certification report – to be issued in December 2014.</p>

Appendix B Letter of representation

To:
Helen Thompson
Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Brighton & Hove City Council - Audit for the year ended 31 March 2014

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2014:

A. Financial Statements and Financial Records

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that as the Responsible Officer I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

B. Fraud

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

C. Compliance with Laws and Regulations

I have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ additional information that you have requested from us for the purpose of the audit; and
- ▶ unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 23 September 2014.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

I have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

F. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent.
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- ▶ The assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Segmental reporting

I have reviewed the operating segments reported internally to the Board and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products and services
- ▶ The methods used to distribute their products

I. Going Concern

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Specific Representations

There have been no significant changes to the Council's Private Finance Initiative schemes during 2013/14 and contractual arrangements, including any material variations, and the accounting model used are not significantly changed from the end of the last accounting period.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit & Standards Committee on 23 September 2014

Signed:

Name: Catherine Vaughan

Position: Executive Director Finance & Resources

Date: 24 September 2014

Name: Leslie Hamilton

Position: Chairman, Audit & Standards Committee

Date: 24 September 2014

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

AUDIT & STANDARDS COMMITTEE

Agenda Item

Brighton & Hove City Council

Subject:	Audited Statement of Accounts 2013/14		
Date of Meeting:	23 September 2014		
Report of:	Executive Director of Finance & Resources		
Contact Officer:	Name:	Jane Strudwick	Tel: 29-1255
	Email:	jane.strudwick@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report provides information about the audit of the council's 2013/14 Statement of Accounts (i.e. accounts), and recommends approval of the 2013/14 accounts and the Letter of Representation on behalf of the council. It also provides information about additional disclosure in the Annual Governance Statement.
- 1.2 Under the Accounts and Audit Regulations 2011, the council's accounts for 2013/14 must be approved by Members by the 30 September 2014. Under the council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 1.3 The council's external auditors (Ernst & Young LLP (i.e. EY)) are required to give assurance that the accounts are free from material misstatement and to report significant matters arising from the audit.
- 1.4 EY has conducted its audit of the accounts and has identified one material misstatement in respect of finance leases where the council acts as lessor, together with a relatively small number of presentation and disclosure amendments prior to issuing their opinion and the publication of the accounts.
- 1.5 This report presents the revised 2013/14 accounts following the audit. It outlines the amendments made to the accounts since they were presented to the June committee and provides assurances in relation to the preparation of the accounts. It also provides information regarding the summary accounts and informs the committee of the outcome of the public inspection of the accounts. Copies of the revised accounts are available in the Members' rooms.
- 1.6 Following the approval of the Annual Governance Statement on the 24 June 2014, there have been some small changes to this document. The revised Annual Governance Statement is attached as Appendix 5.

2. RECOMMENDATIONS:

It is recommended that the Audit & Standards Committee:

- 2.1 Notes the findings of EY in their Audit Results Report (ARR). The ARR is a separate item on this agenda.
- 2.2 Notes the adjusted misstatements to the 2013/14 accounts (paragraph 6.3 and Appendix 4).
- 2.3 Notes the results of the public inspection of the accounts (Section 9).
- 2.4 Approves the Letter of Representation on behalf of the council (Appendix 1).
- 2.5 Approves the audited accounts for 2013/14.
- 2.6 Approves the revised Annual Governance Statement subject to any comments or amendments as they consider appropriate.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011 made under Section 27 of the 1998 Act.
- 3.2 It is a requirement that the annual accounts be prepared as soon as practicable after the end of the financial year and considered by a committee or Full Council, and approved by a resolution of that committee or Full Council by the 30 September.
- 3.3 The accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

4. FORMAT OF THE STATEMENT OF ACCOUNTS

- 4.1 The purpose of the accounts is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the council and to provide answers to basic questions such as:
 - What did the council's services and capital programme cost in 2013/14?
 - Where did the money come from?
 - What does the council own?
 - What commitments does the council have and what provisions and reserves has the council set against these?
 - What amounts were due and what was owed at the end of the financial year?
- 4.2 In accordance with the Accounts and Audit Regulations, the accounts include:
 - an explanatory foreword;
 - a statement of responsibilities;
 - the core financial statements (Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement);

- supplementary statements (Housing Revenue Account and Collection Fund);
 - the notes to the accounts; and,
 - accounting policies.
- 4.3 The explanatory foreword aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2013/14 accounts is included in Appendix 3 to this report.
- 4.4 The statement would normally comprise both “Single Entity Accounts”, which are in respect of wholly council controlled activities, and “Group Accounts” in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, there are no activities requiring the preparation of Group Accounts in 2013/14.
- 4.5 EY has completed their work on the audit of the accounts and will be reporting their findings to this Committee through the ARR. Following this report, EY will be able to issue their audit opinion and the accounts will be published.

5. PREPARATION OF THE STATEMENT OF ACCOUNTS

- 5.1 As reported to the June committee, the council is required to prepare its accounts on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2013/14 accounts cover the period 1 April 2013 to 31 March 2014. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2013/14 accounts are in line with the requirements of the Code.
- 5.2 As reported to the June Committee, there have been two significant changes in the 2013/14 accounts in respect of the accounting for non domestic rates and post employment benefits. The main changes are summarised in Appendix 2 to this report.
- 5.3 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken extensive training on the requirements for preparing local government accounts. Finance officers who are involved in the preparation of the accounts attend regular training to ensure an up to date knowledge and continuous professional development.
- 5.4 Officers have made reference to CIPFA’s practitioner’s guidance notes, disclosure checklists and other technical guidance in preparing the accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the accounts, with EY over the proposed accounting treatment of the key changes affecting the 2013/14 accounts.
- 5.5 In preparing the accounts, the council makes a number of critical judgements, accounting estimates and assumptions; the details are disclosed in note 3 to the accounts.
- 5.6 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior

officers within Finance. Following this review, the accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review formed part of the working papers produced for EY.

- 5.7 During the accounts audit process, officers liaised closely with EY in respect of audit queries and worked closely to ensure prompt and successful resolution of these queries. During the audit of the 2013/14 accounts, there have been no disputes between council officers and EY in relation to the required amendments to the accounts.

6. AUDIT OF THE STATEMENT OF ACCOUNTS 2013/14

- 6.1 EY has completed the audit of the council's accounts and their Audit Results Report (ARR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.

- 6.2 The ARR for 2013/14 states "changes made to the audit scope led to extensive additional testing compared with previous years across all aspects of the financial statements. As in previous years the financial statements have been well prepared and supported, and the Audit & Standards Committee should take assurance that increased testing, and reduced materiality thresholds, has not led to an increase in the number of reported corrected and uncorrected errors compared with previous years".

- 6.3 During the course of the audit, EY identified one material misstatement in respect of finance leases where the council acts as lessor. The misstatement related to two cases where the lease terms had been altered but the council's detailed accounting records had not been updated accordingly. EY also detected a relatively small number of other presentation and disclosure errors in the financial statements. All misstatements identified from the audit have been discussed and agreed with council officers and amendments have been made to the financial statements for all identified misstatements. Details of these amendments and the financial statements affected are included in Appendix 4 of this report.

- 6.4 A number of additional disclosures have been made to the Annual Government Statement which were identified as part of the audit. The updated Annual Government Statement is included in Appendix 5 of this report.

7. SUMMARY OF ACCOUNTS

- 7.1 Each year, the council produces a summary version of the accounts which aims to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main accounts. The Summary of Accounts will be published on the council's website alongside the 2013/14 accounts.

8. ANNUAL GOVERNANCE STATEMENT

- 8.1 A revised Annual Governance Statement for 2013/14 is attached as Appendix 5 to this report. This document was previously approved by this committee on the 24 June 2014. The revised paragraphs are numbered 60 to 64. Additional disclosure has been provided to include the most up to date information in

relation to the whistleblowing investigation in relation to the undisclosed related party transaction connected to procurement of temporary accommodation.

9. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 9.1 Under the Accounts and Audit Regulations 2011, the council's accounts are to be approved by the Chief Finance Officer by 30 June and following the audit process are to be approved by Members by 30 September each year. Under Brighton & Hove City Council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 9.2 After the accounts have been made available for public inspection, alterations to the accounts may only be made with the consent of EY. The alterations in this case have received their consent.

10. COMMUNITY ENGAGEMENT AND CONSULTATION

- 10.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four-week period to the council's unaudited accounts and are invited to enquire on any aspect of these accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the accounts with EY.
- 10.2 The council received enquiries from three members of the public. These enquiries encompassed many areas of the accounts. Responses to the queries have been compiled and sent. At the time of writing this report, the enquiries have not resulted in any objection to the accounts.

11. CONCLUSION

- 11.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2013/14 accounts should be approved by Members by the 30 September 2014 and published by the same date.
- 11.2 EY have carried out their audit of the 2013/14 accounts and have reported their findings and recommendations arising from the audit of the accounts as a separate item on this agenda.
- 11.3 The main changes resulting from the audit are included in this report to ensure members are aware of the changes to the accounts agreed with EY prior to the approval of the accounts.

12. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 12.1 The financial implications are included in the body of the report.

Finance Officer Consulted: Jane Strudwick *Date: 09/09/14*

Legal Implications:

- 12.2 The legal framework for approving the council's statement of accounts is provided by regulation 8 of The Accounts and Audit (England) Regulations 2011

(statutory instrument 2011/817), relevant details of which are set out in the body of the report.

- 12.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit & Standards Committee which fulfils this statutory role.

Lawyer Consulted:

Oliver Dixon

Date: 10/09/14

Equalities Implications:

- 12.4 There are no equalities implications arising directly from this report. The accounts are a statutory publication and were made available for public inspection at the council's main offices and on the council's website. Information on the accounts will, as far as possible, be provided in a manner that meets the needs of those requesting information

Sustainability Implications:

- 12.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's financial control framework and its ability to demonstrate sound financial management could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability

Other Significant Implications:

- 12.6 The quality of a public authority's accounts is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the accounts present fairly the financial position of the council.

SUPPORTING DOCUMENTATION

Appendices:

1. Letter of Representation
2. Summary of the main changes for the 2013/14 accounting period
3. Commentary on the Accounts
4. Details of amendments made to the Accounts
5. Revised Annual Governance Statement

Documents in Members' Rooms

1. Statement of Accounts

Background Documents

None

Letter of Representation

Helen Thompson
Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Brighton & Hove City Council - Audit for the year ended 31 March 2014

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2014:

A. Financial Statements and Financial Records

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that, as the Responsible Officer, I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and,
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

B. Fraud

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

C. Compliance with Laws and Regulations

I have disclosed to you all known actual or suspected non compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ additional information that you have requested from us for the purpose of the audit; and,
- ▶ unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 23 September 2014.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements. I have drawn your attention to issues in connection with the related party transaction declaration by the Head of Housing. This has been disclosed in the relevant note to the Statement of Accounts and in the Annual Governance Statement.

I have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

F. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent;
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework;
- ▶ The assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Segmental reporting

I have reviewed the operating segments reported internally to the management team and the Council and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services;
- ▶ The nature of the production processes;
- ▶ The type or class of customer for their products and services;
- ▶ The methods used to distribute their products.

I. Going Concern

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Specific Representations

There have been no significant changes to the Council's Private Finance Initiative schemes during 2013/14 and contractual arrangements, including any material variations, and the accounting model used are not significantly changed from the end of the last accounting period.

The Council has experienced difficulties with its security carrier contract for cash collection and there was a significant value of cash (£2.2m) due to the Council at the end of the 2013/14 financial year which had not been banked by the contractor on behalf of the Council (i.e. cash in transit). The majority of the cash in transit as at 31 March 2014 has now been received by the Council; however, delays in the banking of cash collected have continued into 2014/15. The Council terminated the contract with

the security carrier on 2 August 2014 and continues to seek full repayment of the amounts owed.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit & Standards Committee on 23 September 2014.

Signed:

Catherine Vaughan
Executive Director Finance & Resources
Date: 23 September 2014

Signed:

Leslie Hamilton
Chairman
Audit and Standards Committee
Date: 23 September 2014

Summary of the main changes for the 2013/14 accounting period

Accounting for Business Rates

The Government introduced a new Business Rates Retention Scheme with effect from 1 April 2013 which effectively enables the authority to retain 49% of the non domestic rates income it collects. Of the remainder, 50% is paid over to central government and 1% to the East Sussex Fire Authority. This funding is supported by a new Revenue Support Grant which reflects reducing central government spending in line with the government's deficit reduction approach. This change led to the council amending its accounting policy for non domestic rates. The collection of non domestic rates income, under the localisation of business rates, is now very similar to the collection of council tax in that the council, as a billing authority, recognises its proportion of the locally retained non domestic rates income in its Comprehensive Income and Expenditure Statement on a full accruals basis. A creditor is also recognised by the council for the income that has been collected from non domestic rate payers but not yet paid over by the council to central government and the East Sussex Fire Authority.

Accounting for Employee Benefits (Pensions)

The Code introduced changes to the classification, recognition, measurement and disclosure requirements of employee benefits introduced by the June 2011 amendments to IAS 19 "*Employee Benefits*". The key change is the combination of the interest cost and the expected return on assets into a single net figure.

In effect this means that the expected return has been replaced by a figure that would be applicable if the expected return on assets assumption was equal to the discount rate. Therefore, where a pension scheme invests in assets expected to generate higher returns, these higher profits can no longer be shown (or lower profits where it invests in assets expected to generate lower returns). This has resulted in a reclassification change to the Comprehensive Income and Expenditure Statement. There is no impact on the level of the net pension liability reported in the accounts. This change also requires significant changes to the information disclosed in the accounts in respect of post employment benefits; these are set out in the Pension Liability section of the Explanatory Foreword to the accounts together with an explanation of the impact of the change on the 2012/13 published accounts.

Transfer of Public Health

As a result of the Health and Social Care Act 2012, some of the responsibilities of Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs) passed to local authorities on 1 April 2013 with the council taking on the responsibility for public health. The accounting transactions in respect of public health are now included in the council's accounts.

Commentary on the Accounts

General Fund

The level of General Fund working balance and general reserves held at 31 March 2014 was £11.196 million; this represents the working balance of the council and is deemed appropriate by the council's Chief Finance Officer. In addition, there are also General Fund earmarked reserves of £51.026 million.

Housing Revenue Account (HRA)

This account reflects the statutory requirement to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure – maintenance, administration, and capital financing costs - and how these are met by rents and other income.

The 2013/14 outturn for the HRA shows a net deficit of £0.575 million. The HRA reserves now stand at £5.486 million, which is well in excess of the recommended minimum level of balances of £2.8 million. In addition, there are also HRA earmarked reserves of £4.231 million.

Balance Sheet (BS)

This statement is particularly technical, which is unavoidable given the requirement to observe the Code of Practice and the complex capital accounting, financial instrument and pension reporting standards. There are explanatory notes to the Balance Sheet in the Statement of Accounts.

Non Current Assets

Total non current assets (including current assets held for sale) have increased from £2,079.399 million as at 31 March 2013 to £2,143.160 million as at 31 March 2014. The in year movement in non current assets is detailed in notes 16 to 20 to the core financial statements. The movement of £63.761 million relates to the following:

- An increase of £73.000 million in respect of capital expenditure incurred on to PPE, heritage assets and intangible assets which reflects the significant capital investments made;
- PPE and heritage assets upward revaluation transactions of £87.772 million;
- Depreciation, impairment and revaluation losses transactions of £69.458 million;
- Downward movement in the fair value of investment properties of £3.644 million;
- Disposal of non current assets of £23.909 million, part of which related to disposals under finance leases.

Borrowing

In accordance with the CIPFA Code on Treasury Management, the management of the council's borrowing portfolio is based on a consolidated approach and not by individual

services. At 31 March 2014, the council's level of borrowing (including the bank overdraft) was £215.514 million, an increase in the year of £2.396 million. The council has raised new loans of £3.644m during 2013/14; no borrowings were repaid. Note 35 to the financial statements provides further information on borrowings.

Investments

At 31 March 2014, the council held investments of £77.832 million. Investments are made by the in-house treasury team and the council's external cash manager. The council uses an external cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock.

The level of investment has increased in year by £22.386 million. The council has placed new short term investments of £623.185 million in 2013/14 and has realised cash from the maturity of short term investments of £601.121 million. Note 35 to the financial statements provides further information on investments.

Revaluation Reserve

This represents any upward revaluations of assets in accordance with the Code. Any impairment of assets is also reflected in this account only to the extent that it can be offset against previous upward revaluation of the asset. Any excess impairment is charged to the Comprehensive Income and Expenditure Statement. The reserve stands at £598.500 million as at 31 March 2014. Note 26 to the financial statements provides more details on the movement in this reserve.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose. As at 31 March 2014, the council held earmarked reserves of £55.257 million, an increase in the year of £1.783 million. Details of Earmarked Reserves held can be found in note 10 to the financial statements.

Pension Liability

The estimated pension liability (net of pension assets) for future pension payments increased in 2013/14 by £68.510 million from £198.205 million at 31 March 2013 to £266.715 million at 31 March 2014.

There are a number of contributory factors to the significant increase in the pension liability; these are detailed in the Pensions Liability section of the Explanatory Foreword.

The council also recognises a reserve for the estimated net pension liability. Therefore, amounts included in the council's accounts in relation to post employment benefits have no effect on the council tax requirement as the liability is offset by a Pensions Reserve.

Details of the Pension Liability can be found in note 33 to the financial statements.

Collection Fund

As at 31 March 2014, there was an in year surplus of £1.428 million on the Collection Fund in respect of council tax and an in year surplus of £11.347 million in respect of non domestic rates.

Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2014 that are reasonably certain and can be estimated with reasonable accuracy. Significant provisions are included for the following:-

Accumulated Absences – The council is required to make provision for accumulated compensated absences (e.g. annual leave and ‘flexi’ leave entitlements) that are carried forward for use in future periods if the current period’s entitlements are not used in full. The provision as at 31 March 2014 is £4.028 million.

Business Rates Appeals Provision - The council has made provision for its share of the amount that it anticipates to repay ratepayers in the future following successful appeals against the rating lists. The provision as at 31 March 2014 is £2.978 million.

Contingent Liabilities are included where there is a possible loss which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss is not considered sufficiently certain. Note 27 provides details of the council’s contingent liabilities as at the Balance Sheet date.

Details of Amendments to the Accounts

Finance leases where the council acts as lessor

There was a requirement to amend the accounting records for two finance leases which resulted in an adjustment to the Comprehensive Income and Expenditure Statement (CIES) and the Balance Sheet. The effect was to decrease Other Operating Net Expenditure in the CIES by £200,000 with a corresponding increase in the long term debtor held on the Balance Sheet; this adjustment reflected the miscalculation of the gain / loss from the disposal of the asset under a finance lease in the preceding financial periods. The amendment also increased the calculated disclosure of the value of the gross investment in the lease (i.e. an amount equal to the expected lease rental payments due over the life of the lease) as disclosed in note 22 to the financial statements; the value of the increase was approximately £10.4 million.

Events after the Reporting Period

The following additional event after the reporting period has been included in respect of the council's security carrier contract for cash collection:

"The Council has experienced difficulties with its security carrier contract for cash collection and there was a significant value of cash (£2.2m) due to the Council at the end of the 2013/14 financial year which had not been banked by the contractor on behalf of the Council (i.e. cash in transit). The majority of the cash in transit as at 31 March 2014 has now been received by the Council; however, delays in the banking of cash collected have continued into 2014/15. The Council terminated the contract with the security carrier on 2 August 2014 and continues to seek full repayment of the amounts owed. The council has not amended its financial statements in relation to this and reports this as a non adjusting event".

Revised Annual Governance Statement

Annual Governance Statement 2013/14

Brighton & Hove City Council
King's House
Grand Avenue
Hove BN3 2SR

Scope of Responsibility

1. Brighton & Hove City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper practice standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively to secure continuous improvement.
2. In discharging this accountability, the Council is responsible for putting in place proper arrangements for the governance of its affairs and effective exercise of its functions, which includes the management of risk.
3. The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and Guidance Note. This is included in the Constitution of the Council and will be updated in 2014/15.
4. This Annual Governance Statement explains how the Council has complied with its Code of Corporate Governance and also meets the requirements of the Accounts & Audit Regulations 2011.

The Purpose of the Governance Framework

5. Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.
6. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives as set out in the Corporate Plan, and to consider whether those objectives have led to the delivery of appropriate, cost effective services. These objectives are underpinned by the Council's corporate values.
7. The governance framework is designed to manage risk to a reasonable level, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework

8. The governance framework has been in place at the Council for the year ended 31st March 2014 and up to the date of approval of the Statement of Accounts.
9. Maintaining the governance framework is an on-going process, and one to which the Council is committed in order to ensure continual improvement and organisational learning.
10. The key elements of the systems and processes that comprise the Council's governance arrangements are shown below together with explanations of how they are embedded.

Council's Purpose, Vision, Values and Performance Management

11. During 2013/14 the Council has been developing and strengthening work on new delivery models for public service reform and the additional responsibilities from new legislation. This includes the Localism Act 2011, the Health & Social Care Act 2012, the Welfare Reform Act 2012 and the Care Bill (now an Act). The Council continues to review its governance structures and systems to support its

on-going modernisation and to ensure that it is well positioned to deliver its new responsibilities effectively.

12. The Corporate Plan 2011-15, approved by Full Council in October 2011, was reviewed and updated during 2013/14 and sets out the Council's purpose, ambition, values and priorities.

Our purpose

- To represent citizens through democratic processes
- To ensure and assure services for the city including statutory responsibilities
- Safeguarding of the most vulnerable
- Leadership and co-ordination of council and the capacity and capability of partners
- Value for money ensuring a best deal for council taxpayers

Our ambition

- A high performing authority, a fantastic and distinctive place to live, work and visit
- A leader of the city region
- Demonstrably making best use of all resources. Seeking to become a self-sustaining organisation serving its customers well

Our priorities

- Tackling inequality
- Creating a more sustainable city
- Engaging people who live and work in the city
- Modernising the council

13. During 2012/13, the Council introduced new organisational values (six) as follows which have been incorporated into the Council's constitution, codes of conduct for Members and Officers and the performance management framework:

Respect: Embrace diversity with kindness and consideration and recognise the value of everyone;

Collaboration: Work together and contribute to the creation of helpful and successful teams and partnerships across the Council and beyond;

Efficiency: Work in a way that makes the best and most sustainable use of resources, always looking at alternative ways of getting stuff done;

Openness: Share and communicate with honesty about our service and self, whenever appropriate;

Creativity: Have ideas that challenge the 'tried and tested', use evidence of what works, listen to feedback and come up with different solutions; and

Customer Focus: Adopt our 'Customer Promise' to colleagues, partners, members and customers.

14. The Council introduced an ambitious modernisation programme in 2012 and continued activity in 2013/14 with the Chief Executive leading with a strong focus on improving performance management and quality of leadership across the Council. The priority to modernise the Council included specific reference to the

governance framework. The Council uses a variety of mechanisms within its overall approach to performance management and service improvement to measure quality of service to users, ensuring service delivery is in accordance with its objectives, and for ensuring the best use of resources. These include national and local performance indicators, residents' perceptions, measurable improvements in value for money, benchmarking, identification and management of key risks. These are incorporated into the Council's Performance and Risk Management Framework.

15. Performance management processes are embedded throughout the Council and regularly reported in accordance with agreed timescales. During 2013/14, Organisational Health Reports were used and included a set of key measures around finance and general organisational management, workforce and meeting the needs of the customer. Regular reports are produced to compare actual performance against targets to aid decision making.

Members' and Officers' Capacity and Development

16. The success of the Council services relies substantially on the contribution of officers to the planning, development and delivery of services. The Council recognises that the value of staff contributions will be enhanced through clear communication of the Council's expectations, developing staff skills and abilities, providing a safe, healthy, supportive and inclusive working environment.
17. The Council is committed to developing the capacity of officers through its Performance Development and Planning Scheme. A complete programme of learning and development is available to officers and Members from the Learning and Development Team. Where applicable, officers are also expected to undertake continuing professional development (CPD) of their professions. There are corporate induction processes including governance for both Members and officers starting with the Council.
18. The Council continued to monitor the embedding of its refreshed Performance & Development Plan (PDP) process for staff to ensure all have a clear and shared understanding of what is meant by performance management, behaviours and the Council's values. In February, as part of its commitment to improving our managers' leadership and performance management skills, the Council launched a new mandatory management development programme as part of its wider culture change programme called Living our Values Every Day.
19. The Council has a Member training and development programme which is accredited under the South East Employers' Charter for the Member Development Framework. This starts with an extensive induction and is followed by a generic development programme. There is further, more specific, training provided as required (for example for Members serving in Planning, Audit and Standards and Personnel Appeals Panels) as well as bespoke training and development opportunities for Members with special responsibilities.

Roles, Responsibilities and Behaviour

20. To ensure effective leadership throughout the Council, Members and officers work together to deliver common objectives with clearly defined functions and roles through the following:

- The Council's Constitution includes details of the roles and responsibilities of all its committees, the full Council and Chief Officers and the rules under which they operate including protocols;
 - The Council's political structure, including roles and responsibilities, are detailed on the Council's website; and
 - The Council's constitution and associated guidance are reviewed regularly to ensure they remain up-to-date, relevant and effective. In 2013/14 there were 3 such reviews undertaken to streamline the decision-making process, incorporate the Council's values into codes of conduct and refine the officer delegation.
 - The Council's Head of Law is the designated Monitoring Officer with responsibilities for ensuring the lawfulness of decisions taken by the Council, its committees and officers, providing support and advice on the maintenance of ethical standards and advising the Council's Audit & Standards Committee.
21. The Officer's Executive Leadership Team (ELT) includes, among its members, the Chief Executive, the Executive Director of Finance and Resources (section 151 Officer) and the Monitoring Officer (who all have special responsibility regarding governance.) This ensures leadership of, and support to, good corporate governance at the highest level of the organisation. Other members of ELT include the Executive Directors for Children, Adults and Public Health as well as the Assistant Chief Executive. They all bring additional perspectives that support legislative compliance and good governance generally.
 22. The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of Members and officers. These are communicated as part of the induction process, ongoing awareness training and made available via the Council's intranet. These include codes of conduct covering conflicts of interest and gifts and hospitality.
 23. The Audit & Standards Committee remit includes promoting and maintaining high standards of conduct and ethical governance. During 2013/14 the Council revised and updated the Code of Conduct for Members and the complaints process to require Complaints Panels to be chaired by an Independent Person and simplify the process. This followed detailed work undertaken by a cross-party working group chaired by an Independent Person.

Communication and Consultation

24. The Community Engagement Framework for the City, introduced by the Brighton & Hove Strategic Partnership (now known as Brighton & Hove Connected) aims to improve the ways in which citizens and communities can influence and shape services through improved communication.
25. Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. These include the Council Tax leaflet containing budget details, the Council's website and social media. The Council continued to develop more open and transparent budget consultation during 2013/14 'Your Money, Your Services, Your Say') including the use of an on-line budget tool and budget consultations with the community.

26. To complement the general rules under the Codes of Conduct for Members and Officers, the Council introduced a Social Media Protocol for Members and Social Networking Policy for Employees to address this increasingly important means of communication for individuals and businesses. These documents are published on the Council's website and staff intranet respectively.
27. There are a wide range of access channels and opportunities for all parts of the community and key stakeholders to engage in dialogue and consultation. This includes tenants and residents forums and through consultation events and surveys. The Council's Corporate Plan and the Annual Statement of Accounts are made available via the Council's website and distributed to certain key points across the City.
28. As part of its openness and transparency of decision making, advance notices, agendas, minutes and web-casts are available for Council meetings. The Council makes available a large amount of information through several means and is also committed to meeting its obligations to give rights of public access to information held, through the Freedom of Information Act 2000 and the wider transparency agenda. Most key decision-making meetings of the Council, including full Council, Policy & Resources Committee, Housing Committee, Planning Committee, Environment, Transport and Sustainability committee meetings are webcast. The Council has also implemented the open government licence scheme.
29. The Council has a Corporate Complaints Policy and Procedures which are in line with Local Government Ombudsman guidelines. A centrally managed process ensures consistency of receipt, investigation, responding, monitoring and reporting.

Control Framework, Risk Management and Audit & Standards Committee

30. The Council's high-level policies and procedures are updated and regularly communicated to officers and Members.
31. The principal documents include the Council's Financial Regulations and Contract Standing Orders both of which were reviewed and updated during 2013/14. There are other corporate policies on key governance topics, including Business Planning, Counter Fraud, Information Security, Equalities & Diversity, Health & Safety and Whistleblowing. These documents and related guidance and support are also available to the majority of staff through the Council's Intranet site.
32. Risk management is embedded throughout the Council and in its partnership working arrangements. The Council's Risk Management Strategy 2014-17 was consulted on and approved in January 2014 and sets out an annual programme of risk management activity for each of the three years. During 2013/14, the Council and its partners continued to work together to further develop and refresh the City Wide Risk Register and implementation of actions by the city's strategic partnerships.
33. The Council's internal audit arrangements are reviewed annually and considered to be effective, for 2013/14 conforming to the governance requirements of the Public Sector Internal Audit Standards. The Acting Head of Audit & Business Risk works closely with key members of the Executive Leadership Team and Corporate Management Teams to give assurance and improve the Council's

financial control framework, give advice and promote good governance throughout the Council.

34. The Council has a separate Corporate Fraud Team. A large proportion of the teams work is the investigation of Housing Benefit and Council Tax Benefit Fraud but in addition significant successes have been achieved in the investigation of housing tenancy fraud.
35. The Council's Whistleblowing Policy, was reviewed and refreshed during the year, aims to encourage officers, contractors and agency workers to report any instances of unlawful conduct, health and safety risks, damage to the environment, possible fraud and irregularities and unauthorised use of Council funds. The Policy is available on the Council's intranet and website, and provides the mechanisms to raise concerns and receive appropriate feedback without the fear of victimisation.
36. The Head of Health & Safety produced an Annual Report for 2013/14 to demonstrate how the Council is improving the management of health, safety and welfare across all services.
37. The Audit & Standards Committee is independent of the Council's scrutiny functions and embedded as a key part of the Council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice guidance for Audit Committees. The membership is politically proportionate and the Chair is an opposition Member. The Committee also has two Independent Persons with extensive experience and who, under the revised complaints process, will chair all Member complaints panels.

Compliance with Established Policies, Procedures, Laws and Regulations

38. All officers of the Council have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided as necessary and appropriate induction sessions are carried out. For example, in the important area of Financial Management there is a mandatory e-learning course and follow-up workshop which all Budget Holders must attend.
39. Compliance assessments are carried out by management, auditors and through the work of statutory inspectors, including the Care Quality Commission and Ofsted.
40. The Head of Law (the Monitoring Officer) has overall responsibility for ensuring the Council acts lawfully and without maladministration. This includes reporting on any proposal, decision or omission by the Council likely to contravene any enactment or rule of law or any maladministration. No such reports were necessary during 2013/14.

Economic, Effective and Efficient Use of Resources

41. As part of the Council's modernisation programme, it has a Value for Money Programme, which is focussed on developing modernised services that can achieve substantial efficiency savings. Other objectives include delivering services in new and better ways to increase user satisfaction. To provide objective analysis of the Council's approach, EY consultants were appointed in 2013 to help identify ways in which the Council can address the enhanced need

for Value for Money, given the significant challenges as a result of reductions in central government funding which are expected to continue through to 2020.

42. Actual value for money savings achieved under the Phase 3 VFM Programme for 2013/14 were £9.417m. The programme covers a wide range of service related and cross-cutting initiatives including better procurement, preventative measures relating to social care services, and accelerated service redesign to achieve staffing efficiencies backed by a voluntary severance scheme.
43. The Council has an Information Management Board to oversee ICT Governance and includes the Monitoring Officer as 'Senior Information Responsible Officer' and two Caldicott Guardians responsible for protecting the confidentiality of service user information.

Financial Management and Reporting

44. The Council's financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). As Chief Financial Officer (CFO), the Executive Director of Finance & Resources is a key member of the Executive Leadership Board and Corporate Management Team and is responsible for the proper administration of the Council's financial arrangements and leads a suitably qualified and experienced Finance Function.
45. The Executive Director of Finance & Resources (as Section 151 Officer) has overall statutory responsibility for the proper administration of the Council's financial affairs, including preparation of the Statement of Accounts and making arrangements for appropriate systems of financial control. No reports were made during 2013/14 on any case of unlawful expenditure, loss or deficiency.
46. The Council's Medium Term Financial Strategy (MTFS) sets out the resource projections for the forthcoming five years, the financial challenges and opportunities that it faces and the approach planned to meet the priorities set out in the Corporate Plan. During 2013/14 the MTFS was updated and now includes a longer term resource projection up to 2019.
47. The Council published a detailed budget book for 2013/14 to enable a greater understanding of how the Council spends its money. It published all payments to suppliers over £250 from April 2013.

Partnership Working and Governance Arrangements

48. The governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report Governing Partnerships: Bridging the Accountability Gap (2005), are defined in the Council's Financial Regulations. Regular audit reviews are carried out on the overall governance arrangements within the Council's key partnerships.
49. The Council has a leading role in Brighton & Hove Connected (formerly known as Brighton & Hove Strategic Partnership) the local strategic partnership for the City... During 2013/14 the Brighton & Hove Strategic Partnership produced a new sustainable community strategy entitled 'Brighton & Hove – The Connected City'. The vision for Brighton & Hove was agreed as:

"Brighton & Hove- the connected city. Creative, dynamic, inclusive and caring. A fantastic place to live work and visit."
50. The new community strategy has 5 priorities as follows:

- a. Economy
 - b. Children & young people
 - c. Health & wellbeing
 - d. Community safety & resilience and
 - e. Environmental sustainability
51. The strategy is underpinned by two principles which run through all of our work. These are
- f. Increasing our equality
 - g. Improving our engagement.
52. Brighton & Hove Connected and the City Management Board have created a range of specialist partnerships that take responsibility for the creation, implementation and monitoring of key city strategies. These include Employment and Skills, Economy, Housing etc.
53. The City Management Board (CMB) is chaired by the council's Chief Executive and is the delivery arm of Brighton & Hove Connected. The board is made up of the key public service decision makers in the city in order to focus on delivery improvements city-wide including performance and risk management. Each board member is accountable to their parent body and to Brighton & Hove Connected.

The Member organisations of CMB are:

- h. Brighton & Hove City Council
 - i. Brighton & Sussex University Hospitals
 - j. City College Brighton & Hove
 - k. Clinical Commissioning Group
 - l. East Sussex Fire & Rescue Service
 - m. Jobcentre Plus
 - n. Office of the Sussex Police & Crime Commissioner
 - o. Sussex Police
 - p. University of Brighton
 - q. University of Sussex
 - r. Surrey & Sussex Probation Trust
54. The Council, in partnership with other public sector organisations at the City Management Board, has also developed the City Wide Risk Register to manage the wider risks impacting on the City.
55. In 2013/14 the Council, in close collaboration with the Clinical Commissioning Group (CCG,) undertook a fundamental review of the Health & Wellbeing Board leading to a more enhanced role for the Board that will enable it to provide system leadership across health and local authority social services. The Board is chaired by the Leader of the Council has equal voting representation between the Council and the CCG. The different component parts of the arrangement, with the Health & Wellbeing Board at its centre, are illustrated in the diagram below.



Review of Effectiveness

56. The Council has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the systems of internal control. The review of effectiveness is informed by the work of executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Business Risk's Internal Audit and Opinion Report and also by comments made by the external auditors, other review agencies and inspectorates.
57. Through evaluation and analysis during the 2013/14 review, the Council has good assurance that its governance arrangements and systems of internal control are robust and reflect the principles of its Code of Corporate Governance.
58. An Officers' Governance Board oversees the review of effectiveness of governance arrangements including monitoring actions arising.
59. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework 2013/14 includes the following:
 - Evaluation of the robustness of governance arrangements against the six principles of good governance in the CIPFA/SOLACE Delivering Good Governance Framework;
 - The Annual Opinion of the Head of Audit & Business Risk which has reached a reasonable assurance level judgement;
 - Review and maintenance of the Constitution by the Monitoring Officer;
 - The provision of an effective Internal Audit Service, including compliance with professional standards, risk based approach, individual internal audit reports providing levels of assurance and monitoring actions to audit recommendations made for improvement;
 - Review of the role and responsibilities of the Chief Financial Officer;
 - Risk management process outcomes including strategic risk management actions plans and service risk registers; and

- Comments made by external auditors and outcomes of external assessments carried out by regulatory bodies.

Governance Issues

60. The annual effectiveness review of governance arrangements referred to above has identified the following significant weaknesses:
- a previously undisclosed related party transaction has been identified in relation to a substantial contract for temporary accommodation.
 - arrangements to ensure compliance across the organisation with Contract Standing Orders are not sufficiently robust; and
61. The undisclosed related party transaction was identified following a whistleblowing allegation. The financial statements set out that there was £3.000m contractual and non-contractual spend with KEM in 2013/14, a supplier of temporary accommodation to the authority. A sibling of the Head of Housing is a Director of KEM. There is an ongoing disciplinary investigation by the council into this matter and it has also been referred to Sussex Police.
62. A review has been undertaken by the council's internal audit team, procurement team and finance team to ensure that the council received services for the payments made to KEM. This review also considered other areas of housing expenditure. This has provided sufficient assurance that the financial statements are not materially misstated. However it did identify clear weaknesses in the arrangements for signing and sealing leases for temporary accommodation in cases not dealt with directly by Legal services and in record keeping. It also identified a lack of consistency and clarity in lease terms and conditions across similar lease agreements. Furthermore it identified evidence of historic weaknesses in the Council's arrangements to assess and take action on the value for money received from providers of temporary accommodation.
63. Procedures for disclosure of third party transactions have also been enhanced and the Council recently introduced a compulsory scheme for annual return of declarations of interests (including NIL returns) by all Senior Officers and contract officers. This supplements the annual related party transaction declarations undertaken as part of the accounts and the combination of these should assist in minimising incidents of non-disclosure.
64. The Council's legal and procurement teams are working with contract officers in service departments by providing training, encouraging standardisation of terms and conditions and overseeing their practical application to ensure high levels of compliance with Contract Standing Orders and best practice. As part of the third party spend VFM workstream, the resourcing of the procurement function is being reviewed. This, together with other initiatives to improve the effectiveness of Council's approach to procurement, is anticipated to result in higher levels of compliance.
65. In considering the governance issues contained in the Annual Governance Statement for 2012/13, enhancements to the Council's governance arrangements have been achieved during 2013/14 including:
- improvements to the links between the Corporate Plan and Medium Term Financial Strategy and service and financial planning in business plans;

- developing and commencing the roll-out of a culture change programme – Living our Values, every Day with a clear focus on performance of self, others and service;
- reviewing our constitution to streamline decision-making and provide better tailored guidance on ethical governance.
- conducting a review of the effectiveness of the Audit & Standards Committee in accordance with new guidance issued by CIPFA in December 2013;
- reviewing the Council’s whistleblowing arrangements to ensure these continue to provide a robust and effective mechanism for officers, and others who work in close association with the Council, to raise concerns of alleged malpractice so they can be investigated;
- the formation of an Early Retirement Compensation Panel to oversee and monitor the Council’s use of early retirement options and employer discretions to ensure consistent and cost effective business decisions are made;
- reviewing the Council’s approach to the use of Settlement Agreements (formerly known as Compromise Agreements) to ensure they are used only in circumstances where there is a robust and valid business case for doing so;
- reviewing the arrangements for officers to declare interests they may have that could potentially conflict with their role with the Council to ensure these remain robust and effective in preventing fraud and corruption.
- improving the accessibility of corporate governance information on the council’s intranet, the Wave;
- met the requirements, compliance and zero tolerance approach of the Government’s Code of Connection (CoCo) for accessing the Government Public Services Network (PSN);
- undertook a full review of the Council’s ‘family’ of partnerships across the City and introducing a City Management Board, chaired by the Chief Executive to replace the Public Services Board;
- created a Corporate Counter Fraud Team to provide more effective response to fraud risk with a particular emphasis on housing tenancy fraud;
- introduced a local ethical standards regime in accordance with the requirements of the Localism Act 2011; and
- introduced effective systems of internal control for changes related to the introduction of the Council Tax Reduction Scheme and other relevant welfare reforms.

66. In response to the significant financial challenges facing the Council, new actions have been identified to ensure continuous improvement in the Council’s governance arrangements:

- i. To embed the refreshed approach to Fraud & Corruption awareness across the council including whistleblowing arrangements and declarations of interest;

- ii. Develop a new approach to the management of corporate fraud following the transfer of housing benefit related work and associated staff to the new national Single Fraud Investigation Service.
 - iii. Further Information Governance focused work to maintain compliance with the Public Service Network (PSN) Code of Compliance and to meet the requirements of the Information Commissioners Office (ICO);
 - iv. Improve compliance with Contract Standing Orders to be incorporated into the Value for Money Programme in relation to third party spend;
 - v. Review of Code of Corporate Governance, prioritised refresh of council policies and communication methods to take account of the pace of change;
 - vi. Focus on the adequacy of Business Continuity arrangements and work to embed understanding of its practice in council service delivery;
 - vii. The continued roll out of the Living our Values Every Day culture change programme;
 - viii. Refreshing the Value for Money Programme and ensuring that its governance is fit for purpose;
 - ix. Introducing the reformed Health and Wellbeing Board and new Greater Brighton Economic Board;
 - x. Improving how we use a range of financial and non-financial information including customer insight to make improvements to service delivery.
67. All new planned and actions in progress will be monitored by the Officers' Governance Board and Audit & Standards Committee during 2014/15.
68. We are satisfied that the actions required, when fully completed, will address the need for improvements that were identified in the review of effectiveness. We will monitor their implementation and operation as part of the next annual review.
69. We propose over the coming year to take actions to address the above matters to further enhance our governance arrangements. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation during 2014/15.

Signed

Signed

Penny Thompson
Chief Executive

Councillor Jason Kitcat
Leader of the Council

Dated: 2014

Dated: 2014

Subject: Targeted Budget Management (TBM) 2014/15 Month 2
Date of Meeting: 23 September 2014
Report of: Head of Law
Contact Officer: Name: **Ross Keatley** Tel: **29-1064**
E-mail: ross.keatley@brighton-hove.gov.uk
Wards Affected: All

FOR GENERAL RELEASE

Action Required of the Audit & Standards Committee:

To receive the item referred from the Policy & Resources Committee for information:

Recommendation:

That the report be noted.

BRIGHTON & HOVE CITY COUNCIL

POLICY & RESOURCES COMMITTEE

2.00pm 11 JULY 2014

COUNCIL CHAMBER, HOVE TOWN HALL

MINUTES

Present: Councillor J Kitcat (Chair) Councillors Sykes (Deputy Chair), G Theobald (Opposition Spokesperson), Morgan (Group Spokesperson), Davey, Hamilton, A Norman, Peltzer Dunn, Randall and Robins

PART ONE

30 TARGETED BUDGET MANAGEMENT (TBM) 2014/15 MONTH 2

30.1 The Committee considered a report of the Executive Director for Finance & Resources in relation to Targeted Budget Management (TBM) 2014/15 (Month 2). TBM was a key component of the Council's overall performance monitoring and control framework; the

report set out the forecast outturn position (Month 2) on the Council's revenue and capital budget for the financial year 2013/14. The position indicated significant pressures across social care budgets; however, it was noted that there were many months remaining in which to take mitigating actions or develop other recovery measures to improve the position and reduce potential risks.

- 30.2 Councillor Sykes thanked Officers for the report, and recognised the significant pressures outlined in it. It was noted that the Council would be expected to make savings in the region of £25m as part of the 2015/16 budget, and it was hoped the forecast position in relation to Adult Services and Children's Services would improve and reduce the pressure on the 2015/16 budget.
- 30.3 Councillor A. Norman thanked Officers for their continued commitment to the organisation, but went on to note her concerns that underspend in the 2013/14 budget had been turned around. Reference was made to the comments in conclusion at paragraph 6.1 of the report, and queried if the decision taken at the last Committee to not progress a Local Authority Trading Company would be revisited. Councillor A. Norman added that the Conservative Group had been unsuccessful in convincing the other political groups look more at market assessments; she noted that other proposed savings in relation to partnership and commissioning had not come started coming forward, and the percentage of uncertain 'value for money' savings was 50%.
- 30.4 In response to queries from Councillor A. Norman the Executive Director for Finance & Resources agreed that in previous in years the organisation had successfully reduced an early forecast overspend; however, the scale of that challenge was substantially greater at this point in time. It was not recommended that the Committee revisit the previously proposed Local Authority Trading Company for Adult Social Care, but alternative proposals needed to be developed and it was important there be a focus on Adult and Children's Services. Some of the solutions, in terms of commissioning, were much more long term and would need more planning; therefore these were not explicit as they would be difficult to implement this financial year.
- 30.5 The Executive Director for Environment, Development & Housing stated, in response to Councillor A. Norman, that Officers were meeting with the Department for Communities & Local Government (DCLG) in relation to potential innovations with private sector housing.
- 30.6 Councillor Morgan noted that, whilst the early forecast overspend was higher than the previous year, the Council had addressed this through the financial year, but he added he was cautious not to down play the risk to the authority. He stated he did not agree with market assessments, but agreed that there were alternative ways to do things that could not be delayed until after the local election in 2015. Councillor Morgan went on to note the reference in the report to the underachievement of some car parks in the city, and asked that if the road works on King's Road were to continue through the summer the area be kept as tidy and presentable as possible due to the prominent seafront location: the Executive Director for Environment, Development & Housing agreed to pick this matter up.
- 30.7 Councillor G. Theobald asked specific question in relation to level of trade union contributions made by the Council; in response the Executive Director for Finance & Resources explained there were options to negotiate a different level. There was

currently a budget pressure in HR in relation to trade unions, but these were long standing arrangements that would need addressing.

30.8 Councillor Davey noted that, despite some underspend, the car parking revenue was doing well; this was combined with increasing numbers of visitors to the city.

30.9 Councillor Hamilton noted that finance management in Children's Services had been very good in recent years, and he felt confident that the forecast overspend would be managed by the end of the financial year.

30.10 The Chair noted his concerns that the budget pressures in Adult's and Children's services was growing; there was an acknowledgment that social care was one of the most significant budgetary pressures, and the administration was seeking a moderate increase in Council Tax to address this. He expressed concern in relation to overconfidence that the forecast overspend would be adjusted through the financial year.

30.11 Councillor A. Norman commended the talent of the Executive Leadership Team, and she appealed to all Members to very carefully consider their advice very carefully.

30.12 The Chair then put the recommendation to the vote.

30.13 **RESOLVED:**

- 1) That the Committee note the total forecast outturn position for the General Fund, which is an overspend of £6.031m. This consists of an overspend of £5.851m on council controlled budgets and an overspend of £0.180m on the council's share of the NHS managed Section 75 services.
- 2) To agree the transfer of £0.500m recurrent risk provision to Adult Social Care following the decision not to progress a Local Authority Trading Company, thus reducing the forecast overspend to £5.531m.
- 3) That the Committee note that there is a further £1.890m of as yet unallocated risk provision that could be used to mitigate against this overspend.
- 4) That the Committee note the forecast outturn for the Housing Revenue Account (HRA), which is an underspend of £0.029m.
- 5) That the Committee note the forecast outturn position for the Dedicated Schools Grant which is an overspend of £0.007m.
- 6) That the Committee note the forecast outturn position on the capital programme.
- 7) That the Committee approve the following changes to the capital programme.
 - i) The variations and reprofiles in Appendix 3 and the new schemes as set out in Appendix 4.
- 8) That the Committee delegate authority to the Executive Director of Finance & Resources in consultation with the Chair of Policy & Resources Committee and the Opposition Leaders to commit a maximum of £50,000 capital expenditure as an

investment in the Municipal Bonds Agency subject to the conditions set out in paragraph 3.15.

Subject:	Targeted Budget Management (TBM) 2014/15 Month 2		
Date of Meeting:	11 July 2014		
Report of:	Executive Director of Finance & Resources		
Contact Officer:	Name:	Jeff Coates	Tel: 29-2364
	Email:	Jeff.coates@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1 PURPOSE OF REPORT AND POLICY CONTEXT:

- 1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out the forecast outturn position as at Month 2 on the council's revenue and capital budgets for the financial year 2014/15.
- 1.2 This is a very early forecast based on information available as at the end of May 2014. While seasonal and other factors have been taken into account in projecting expenditure and income for the year, the accuracy of projections at this early stage is likely to be more variable. In addition, as this is the first forecast for the year and will have only been available to services for a matter of days, corrective action or recovery measures will not have been fully developed. The forecast for Month 2 should therefore be regarded as a forecast of the level of potential risk that could arise if no further action were taken. Although a significant overspend is forecast, there are many months remaining in which to take mitigating actions or develop other recovery measures to improve the position and reduce potential risks. However, the position clearly indicates significant pressures across social care budgets.

2 RECOMMENDATIONS:

- 2.1 That the Committee note the total forecast outturn position for the General Fund, which is an overspend of £6.031m. This consists of an overspend of £5.851m on council controlled budgets and an overspend of £0.180m on the council's share of the NHS managed Section 75 services.
- 2.2 To agree the transfer of £0.500m recurrent risk provision to Adult Social Care following the decision not to progress a Local Authority Trading Company, thus reducing the forecast overspend to £5.531m.
- 2.3 That the Committee note that there is a further £1.890m of as yet unallocated risk provision that could be used to mitigate against this overspend.
- 2.4 That the Committee note the forecast outturn for the Housing Revenue Account (HRA), which is an underspend of £0.029m.

- 2.5 That the Committee note the forecast outturn position for the Dedicated Schools Grant which is an overspend of £0.007m.
- 2.6 That the Committee note the forecast outturn position on the capital programme.
- 2.7 That the Committee approve the following changes to the capital programme.
 - i) The variations and reprofiles in Appendix 3 and the new schemes as set out in Appendix 4.
- 2.8 That the Committee delegate authority to the Executive Director of Finance & Resources in consultation with the Chair of Policy & Resources Committee and the Opposition Leaders to commit a maximum of £50,000 capital expenditure as an investment in the Municipal Bonds Agency subject to the conditions set out in paragraph 3.15.

3 CONTEXT / BACKGROUND INFORMATION

Targeted Budget Management (TBM) Reporting Framework

- 3.1 The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from Budget Managers through to Policy & Resources Committee. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending together with more regular monitoring of high risk 'corporate critical' areas as detailed below.
- 3.2 The TBM report is normally split into 8 sections as follows:
 - i) General Fund Revenue Budget Performance
 - ii) Housing Revenue Account (HRA) Performance
 - iii) Dedicated Schools Grant (DSG) Performance
 - iv) NHS Controlled S75 Partnership Performance
 - v) Capital Investment Programme Performance
 - vi) Capital Programme Changes
 - vii) Implications for the Medium Term Financial Strategy (MTFS)
 - viii) Comments of the Executive Director of Finance & Resources (statutory S151 officer)

General Fund Revenue Budget Performance (Appendix 1)

- 3.3 The table below shows the forecast outturn for Council controlled revenue budgets within the General Fund. More detailed explanation of the variances can be found in Appendix 1.

2013/14 Provisional Outturn £'000	Directorate	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(1,676)	Children's Services	57,629	59,564	1,935	3.4%
1,826	Adult Services	62,080	65,849	3,769	6.1%
(687)	Environment, Development & Housing	43,021	42,795	(226)	-0.5%
164	Assistant Chief Executive	17,249	17,368	119	0.7%
(21)	Public Health	4,567	4,614	47	1.0%
(959)	Finance, Resources & Law	31,072	31,121	49	0.2%
(1,353)	Sub Total	215,618	221,311	5,693	2.6%
163	Corporate Budgets	5,747	5,905	158	2.7%
(1,190)	Total Council Controlled Budgets	221,365	227,216	5,851	2.6%

- 3.4 The General Fund includes general council services, corporate budgets and central support services. Corporate budgets include centrally held provisions and budgets (e.g. insurance) as well as some cross-cutting value for money savings targets. General Fund services are accounted for separately to the Housing Revenue Account (Council Housing). Although part of the General Fund, financial information for the Dedicated Schools Grant is shown separately as this is ring-fenced to education provision (i.e. Schools).

Corporate Critical Budgets

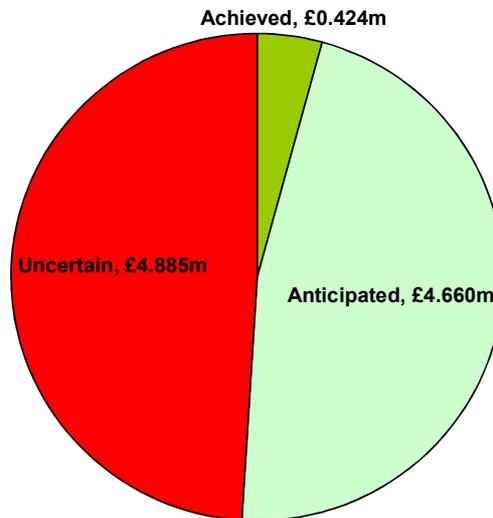
- 3.5 There are a number of budgets that carry potentially higher financial risks and therefore could have a material impact on the council's overall financial position. These are significant budgets where demand or activity is difficult to predict and where relatively small changes in demand can have significant implications for the council's budget strategy. These therefore undergo more frequent and detailed analysis.
- 3.6 They are based on current activity levels and commitments but these can fluctuate significantly over the year. Mitigating recovery actions can change the financial outlook substantially, even for small changes in activity levels but the opposite also applies, hence the reason for closer scrutiny of these areas.

2013/14 Provisional Outturn £'000	Corporate Critical	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(1,271)	Child Agency & In House	19,578	21,368	1,790	9.1%
1,634	Community Care	40,251	42,505	2,254	5.6%
(233)	Sustainable Transport	(16,245)	(16,615)	(370)	-2.3%
(865)	Temporary Accommodation	1,593	1,365	(228)	-14.3%
(137)	Housing Benefits	(613)	(613)	-	0.0%
(872)	Total Council Controlled	44,564	48,010	3,446	7.7%

Value for Money (VfM) Programme (Appendix 2)

- 3.7 Policy & Resources Committee received a report on the next stage of the council's Value for Money Programme (Phase 4) at the committee's June meeting. The savings and resources attaching to Phase 4 are still being refined and will predominantly focus on savings for 2015/16 although some part-year savings are expected in 2014/15. In the meantime, current Phase 3 VfM projects will continue with the savings targets identified and approved by Council as part of the 2014/15 budget.
- 3.8 VfM projects generally carry significant risks and may need specialist advice or skills that can be in short supply or they may need to navigate complex procurement or legal processes. Therefore, each month the TBM report quantifies progress 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). The chart below shows that there is considerable risk at present in relation to social care related VfM workstreams. More detail is provided in Appendix 1 and Appendix 2.

Value for Money Programme (All Phases) - 2014/15 Monitoring



VfM Target 2014/15 = £9.969m

Housing Revenue Account Performance (Appendix 1)

- 3.9 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 provisional outturn on the HRA is summarised in the table below. More detail is provided in Appendix 1.

2013/14 Provisional Outturn £'000		2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 12 %
	HRA				
55,565	Expenditure	58,780	58,751	(29)	0.0%
(56,331)	Income	(58,780)	(58,780)	-	0.0%
(766)	Total	-	(29)	(29)	

Dedicated Schools Grant Performance (Appendix 1)

- 3.10 The Dedicated Schools Grant (DSG) is a ring-fenced grant which can only be used to fund expenditure on the schools budget. The schools budget includes elements for a range of services provided on an authority-wide basis including early years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget (ISB) which is divided into a budget share for each maintained school. The forecast outturn is currently an overspend of £0.007m and more details are provided in Appendix 1. Under the Schools Finance Regulations any underspend must be carried forward to support the schools budget in future years.

NHS Managed S75 Partnership Performance (Appendix 1)

- 3.11 The NHS Trust-managed Section 75 Services represent those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Foundation Trust (SPFT) and Sussex Community NHS Trust (SCT) and include health and social care services for Adult Mental Health, Older People Mental Health, Substance Misuse, AIDS/HIV, Intermediate Care and Community Equipment.
- 3.12 These partnerships are subject to separate annual risk-sharing arrangements and the monitoring of financial performance is the responsibility of the respective host NHS Trust provider. Risk-sharing arrangements can result in financial implications for the council should a partnership be underspent or overspent at year-end and hence the performance of the partnerships is reported as a memorandum item under TBM throughout the year.

2013/14 Provisional Outturn £'000		2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
	Section 75				
105	NHS Trust managed S75 Services	11,695	11,875	180	1.5%

Capital Programme Performance and Changes

- 3.13 The table below provides a summary of capital programme performance by Directorate and shows that overall it is forecast to break even at this early stage.

2013/14 Outturn Variance £'000		2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Outturn Month 2 %
	Capital Budgets				
(7)	Children's Services	19,633	19,633	0	0.0%
3	Adult Services	530	530	0	0.0%
(46)	Environment, Development & Housing – General Fund	20,364	20,364	0	0.0%
(73)	Environment, Development & Housing - HRA	34,566	34,566	0	0.0%
(14)	Assistant Chief Executive	17,996	17,996	0	0.0%
0	Public Health	252	252	0	0.0%
(76)	Finance, Resources & Law	9,678	9,678	0	0.0%
(213)	Total Capital	103,019	103,019	0	0.0%

- 3.14 Appendix 3 shows the changes to the budget and Appendix 4 provides details of new schemes for 2014/15 to be added to the capital programme. Policy & Resources Committee's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval at Budget Council.

Capital Budget Movement	2014/15 Budget £'000
Summary	
Budget approved at Budget Council	79,975
New schemes included in the Budget above where further reports to Policy & Resources are needed before inclusion in the programme	(3,545)
Slippage and reprofiles approved in the Outturn report	10,465
New schemes approved in the Outturn report (£1.763m in report less £0.686m Brighton Digital Exchange as funding met from the Super Connected Cities programme already in the approved budget)	1,077
Reported at other Policy & Resources committees for inclusion in 2014/15 year (i360 £17m, additional Local Transport Programme £1.420m and a Dorothy Stringer school scheme of £0.142m)	18,562
New schemes to be approved in this report (Appendix 4)	365
Reprofiles and variations to be approved in this report (Appendix 3)	(3,880)
Slippage	0
Total Capital Budget	103,019

- 3.15 The Local Government Association is seeking investment from all local authorities in the Municipal Bonds Agency that it is establishing. Its purpose is described more fully in the Treasury Management report elsewhere on this agenda. The investment would be an equity stake and thus should be treated as capital expenditure. At the time of writing this report there was insufficient information on which to provide proper advice to members about the merits of the proposed investment which does carry significant risk but which may be beneficial to the wider local government community as a whole. However there is a deadline for commitment of x September, prior to the next Policy & Resources Committee. Therefore delegated authority to commit a maximum of £50,000 to the Agency is requested in consultation with the Chair and the Opposition Leaders and subject to identifying sufficient capital funding

Implications for the Medium Term Financial Strategy (MTFS)

- 3.16 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to Policy & Resources Committee and Full Council. This section highlights any potential implications for the current MTFS arising from in-year TBM monitoring above and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.
- 3.17 Details of risk provisions currently held are given in the Corporate Budgets section of Appendix 1. It is recommended to release £0.500m recurrent risk provision to Adult Social Care following the decision at the previous committee not to progress the development of a Local Authority Trading Company for which a savings target of this value had been included in the 2013/14 Budget. At this very early stage of the year no further risk provisions are recommended to be deployed as mitigating actions and recovery plans need to be implemented before re-assessing the financial position and the level of forecast risk.

Capital Receipts Performance

- 3.18 Capital receipts are used to support the capital programme. 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 and projects such as the Strategic Investment Fund, Asset Management Fund, ICT Fund and the Workstyles VFM projects. There have been no receipts to date for 2014/15.

The forecast for the 'right to buy sales' 2014/15 (after allowable costs, repayment of housing debt and forecast receipt to central government) is that an estimated 60 homes will be sold with a maximum useable receipt of £0.474m to fund the corporate capital programme and net retained receipt of £2.727m available to re-invest in replacement homes. To date 4 homes have been sold in 2014/15.

Collection Fund Performance

- 3.19 The collection fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police and East Sussex Fire Authority whereas any forecast deficit or surplus relating to business rates is shared between, the council, government and East Sussex Fire Authority.
- 3.20 The collection fund surplus position at 31st March 2014 on council tax was (£1.925m) and the council's share of this was (£1.644m). This was £0.243m lower than anticipated when setting the 2014/15 budget. This shortfall will need to be taken into account in estimating any deficit or surplus during 2014/15. At this stage of the year it is too early to predict any trends or changes in collection fund performance but at this stage a year end break even position is assumed.
- 3.21 The council's share of the surplus on the collection fund for business rates at 31st March 2014 was £1.590m after taking into account the repayment of Safety Net Grant. These resources will be available when setting the 2015/16 budget. The 2014/15 business rates income assumption included projected growth of 0.5% in rateable value as well as a further 1.0% increase through a review of the register. At this stage of the year it is too early to predict whether these assumptions will be delivered and therefore no variance is currently reported.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The provisional outturn position on council controlled budgets is an overspend of £5.851m which would be reduced to £5.351m after the transfer of £0.500m recurrent risk provision to Adult Social Care. In addition, the council's share of the provisional overspend on NHS managed Section 75 services is £0.180m. Any overspend at year end 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. Any underspend would release one off resources that can be used to aid budget planning for future years.

5 COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 No specific consultation has been undertaken in relation to this report.

6 CONCLUSION AND COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE & RESOURCES (S151 OFFICER)

- 6.1 This is clearly an early forecast that indicates a significant level of forecast financial risk that must be urgently attended to, particularly in relation to Adult Social Care and Children's Services. In addition to the decision not to progress the Local Authority Trading Company for Adult Social Care there are other savings included in the budget for Adult Social Care which have been delayed or deferred. It is vital for both the immediate and long term financial position that these are now progressed. There are concerning trends on the corporate critical budgets for Community Care and for Looked After Children which will need further analysis. Mitigating actions and recovery plans are being developed and implemented which should reduce the forecast risk but it is not clear at this stage by how much.

- 6.2 The Executive Leadership Team (ELT) will keep the position under close scrutiny and will take appropriate action to reduce spending, manage vacancies and develop financial recovery plans where necessary.

7 FINANCIAL AND OTHER IMPLICATIONS

Financial Implications:

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

Finance Officer Consulted: Jeff Coates Date: 24/06/14

Legal Implications:

- 7.2 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: 24/06/14

Equalities Implications:

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

Sustainability Implications:

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

Risk and Opportunity Management Implications:

- 7.5 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 recommended minimum working balance of £9.000m to mitigate these risks. The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

SUPPORTING DOCUMENTATION

Appendices:

1. Revenue Budget Performance
2. Value for Money Programme Performance
3. Capital Programme Performance
4. New Capital Schemes

Documents in Members' Rooms:

None.

Background Documents

None.

Children’s Services - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(6)	Director of Children's Services	118	118	0	0.0%
511	Education & Inclusion	3,835	3,845	10	0.3%
(412)	Disability & SEN	5,493	5,703	210	3.8%
(975)	Children's Health, Safeguarding and Care	29,468	29,572	104	0.4%
(794)	Stronger Families, Youth & Communities	18,715	20,326	1,611	8.6%
(1,676)	Total Revenue – Children’s Services	57,629	59,564	1,935	3.4%

Explanation of Key Variances

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
Education & Inclusion			
10	Home to School Transport	The overspend of £0.010m reflects the latest numbers of children being transported (476). A detailed analysis has been undertaken with the budget holder for each area of the budget and the latest position reflects the estimated outturn position.	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring these budgets back in balance where possible
Children’s Health, Safeguarding & Care			
(42)	Corporate Critical-In House Foster Payments	As part of the children’s VFM programme, there is an ongoing attempt to increase the recruitment of ‘in-house’ foster carers. This has not progressed as well as anticipated and currently there are 22.13 FTE less children placed than allowed in the budget. However, there are significantly more children placed with family and friends carers or under special guardianship orders than provided in the budget and the combination of these	

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
		factors results in a projected underspend of £0.042m in in-house placements.	
186	Corporate Critical 16+Services	The budget for 16+ services is split across 4 client types - Care Leavers, Ex Asylum Seekers, Looked After Children and Preventive. Across these services the budget allows for 53.65 FTE young people and currently the projection is based on 64.04 FTE young people. This together with a slightly higher than budgeted average unit cost and overspends on non-accommodation costs result in an overall overspend of £0.186m	The new joint commissioning arrangements between children's services and Housing start in June and it is anticipated that the improved commissioning of placements, work on reducing the numbers of young people being accommodated and more rigorous monitoring of non-accommodation budgets will reduce the overspend.
(190)	Social Work Teams	The projected Social Work Teams underspend of £0.190m reflects a number of vacant posts within the Advice, Contact & Assessment service (ACAS) and Children in Need (CIN) teams. At this stage it is anticipated that the 2014-15 savings within the teams will be achieved pending completion of the current restructure and after taking into account the additional cost attached to the Multi Agency Safeguarding Hub (MASH) premises. We will continue to undertake detailed monthly analysis of these areas to ensure that we're aware at the earliest stage as to any movement from the projected underspend position.	
(100)	Contact Supervision	The underspend in this service is predominantly due to the use of sessional staff being considerably less than anticipated in the budget. In addition, there is a smaller underspend in the car mileage budget, which also reflects the more efficient use of resources than was anticipated in the budget.	
188	CIC- Children In Care	The overspend relates predominantly to the use of locum social workers. Due to the increase in the number of children in care, it was felt necessary, in order to maintain a safe level of service to increase the number of social workers in this team. As this was deemed a crisis and recruitment procedures were unable to	This overspend may be reduced following agreement of the social work restructure which increases the social work establishment in the Children In Care Team, enabling

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
		meet the demand a number of locum social workers have been engaged.	additional recruitment which should result in the cessation of the use of locums.
50	Section 17 Preventive	This overspend of £0.050m relates to the increased costs of the housing recharge due to a higher number of homeless families.	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring these budgets back in balance where possible.
12	Other	Minor overspend variances.	
Disability & SEN			
130	Direct Payments	This early estimate based on expenditure in months 1 & 2 and taking into account the 2013-14 outturn indicates, for Direct Payments - Disabled Children, an overspend of approximately £0.130m. Cases are considered against certain criteria by an independent panel to assess entitlement to receive direct payments.	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring this budgets back in balance where possible.
72	Preventive Payments	This early estimate based on expenditure in months 1 & 2 and taking into account the 2013-14 outturn indicates, for Preventive Payments – Disabled Children, an overspend of approximately £0.072m. This area will need to be monitored closely on a monthly basis as it is subject to a significant element of variation dependent on identified need.	Finance will liaise with the budget holder with a view to ensuring that an up to date projection based on current agreed cases is provided monthly.
8	Other	Minor overspend variances	
Stronger Families, Youth & Communities			
1,646	Corporate Critical - Children's Agency Placements	The projected number of residential placements (29.38FTE) is broken down as 23.70FTE social care residential placements (children's homes), 4.92 FTE schools placements, 0.76 FTE family assessment placements and 0.00 FTE substance misuse rehabilitation placements. The budget allowed for 21.20 FTE social care residential care placements, 5.00 FTE schools placements, 1.25 FTE family assessment placements and 0.50 FTE substance misuse rehab placements. The average unit cost of these placements is £261.36 per week below the	The Children's Services Value for Money (VfM) programme has two workstreams: The VfM Early Help Workstream objective is to deliver, review and rationalise evidence based early help services to reduce the need for specialist interventions. Key initiatives

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
		<p>budgeted level, with the most significant unit cost saving in residential homes. Overall the number of placements are 1.43 FTE above the budgeted level, and this combined with the unit cost savings described above results in an underspend of £0.181m.</p> <p>The numbers of children placed in independent foster agency (IFA) placements began to fall during 2012/13 and that trend continued in the early months of 2013/14, however, numbers have started to increase in recent weeks. During 2013/14 there were 165.76 FTE placements but the current projected number of placements in 2014/15 is 173.96 FTE, an increase of 4.9%. The budget for IFA placements was based on the falling trend of the previous two years and was set at 135.80 FTE which is being exceeded by 38.16 FTE placements resulting in an overspend of £1.107m.</p> <p>The anticipated number of disability placements is 18.71 FTE with an average unit cost of £2,039.52. The number of placements is 5.21 FTE above the budgeted level. The average weekly cost of these placements, however, is £223.06 lower than the budgeted level and the combination of these two factors together with the underspend of £0.019m on respite placements, results in an overspend of £0.378m.</p> <p>During 2014/15 it is estimated that there will be 2.80 FTE secure (welfare) placements and 2.13 FTE secure (justice) placements. The budget allowed for 1.00 FTE welfare and 0.75 FTE justice placements during the year. There are currently 2 children in a secure (welfare) placement and 2 in a secure (criminal) placement resulting in a projected overspend of £0.342m.</p>	<p>include:,</p> <ul style="list-style-type: none"> • developing an Early Help Hub to create a single integrated system for identification, referral, assessment, delivery and monitoring of effective early help interventions. • delivering evidence based interventions (such as family coaching by Stronger Families Stronger Communities, Functional Family Therapy, Family Nurse Partnership, Triple P). <p>The VfM Placement Workstream objective is to strengthen social work systems so that care plans for individual children can be delivered by lower cost interventions and placements and/or by reducing the time children require statutory interventions. Key initiatives include:</p> <ul style="list-style-type: none"> • developing the Multi Agency Safeguarding Hub to ensure appropriate and timely responses to safeguarding concerns; • strengthening the social work transformational programme including developing a clear practice model; • strengthening pre-proceedings work by social work/legal/

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
			<p>Clermont Family Assessment Centre to prevent care proceedings.</p> <p>As part of both workstreams, changes in commissioning arrangements/ service redesign are being identified and implemented including working with partners in their approaches to commissioning for vulnerable adults who are parents.</p> <p>In addition, a task & finish group has been set up to review and strengthen Special Education Needs (SEN)/Disability services.</p>
(35)	Other	Minor underspend variances	

Appendix 1 – Revenue Budget Performance

Adult Services – Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
1,693	Adults Assessment	47,952	50,206	2,254	4.7%
1,113	Adults Provider	13,897	15,650	1,753	12.6%
(980)	Commissioning & Contracts	231	(7)	(238)	-103.0%
1,826	Total Revenue - Adult	62,080	65,849	3,769	6.1%

Explanation of Key Variances

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
		The key variances across Adult Social Care are as detailed below:	Further plans are being developed and mitigating action is being taken to reduce these forecast overspends.
Adults Assessment			
see below	Assessment Services	Assessment Services are showing an overspend of £2.254m (4.7% of net budget) at Month 2. There are increased levels of complexity and need being experienced across all client groups and the overspend is broken down as follows: -	
769	Corporate Critical - Community Care Budget (Learning Disabilities)	Learning Disabilities are reporting a pressure of £0.769m at Month 2 due largely to an anticipated shortfall of £0.558m against budget savings targets and projected commitments of approximately £0.400m for Ordinary Residence claims.	Increased scrutiny of all Learning Disability placements/care package requests has been put in place to assure value for money against eligible care needs across different types of placement.
832	Corporate Critical - Community	Under 65's are reporting a pressure of £0.832m at Month 2, due to a continuation of the cost pressures experienced during 2013-14 from increased complexity in need of clients.	Increased panel scrutiny of all complex or high cost care package requests to assure value for money

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
	Care Budget (Physical & Sensory Support - Under 65's)		against eligible care needs. Where possible no placements will be made above the agreed local authority rates. The VfM Phase 4 programme includes a specific project focussing on high cost placements to reduce costs.
653	Corporate Critical - Community Care Budget (Physical & Sensory Support -Over 65's)	Over 65's are reporting a pressure of £0.653m, of which the majority relates to the balance of unacheivable previous year savings against Extra Care Housing.	As above, there will be increased scrutiny of complex or high cost care packages. An independent Extra Care business case has been commissioned to establish demand/need projections to enable ASC commissioners to work with their housing partners to identify the types of provision that will most appropriately meet the objective of reducing residential care costs.
Adults Provider			
1,753	Adults Provider	<p>Provider Services is reporting a pressure of £1.545m from under-achievement of savings targets (2014/15 targets and previous years targets in 2012/13 and 2013/14). The Policy & Resources Committee decision not to proceed with alternative service models results in the savings target of £0.500m not being deliverable. The recommendation in this report is that £0.500m recurrent risk provision is released to offset this saving which will not now be delivered. Achievement of other savings is dependent on the commissioning review of day options and the Learning Disabilities accommodation review. These are on-going but are now delayed.</p> <p>The overspend also includes staffing pressures against Respite Services of £0.152m reflecting increased occupancy levels and</p>	Vacancy control measures will be tightened and recruitment to posts made only where this is required to ensure CQC compliance, with the use of agency staff to be signed off by senior managers. This will have an impact on service delivery.

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
		the complexity and compatability of service users.Other pressures across the service of £0.056m.	
Commissioning & Contracts			
(238)	Commissioning & Contracts	The underspend of £0.238m relates to the HIV Preventative contracts now being funded by the Public Health Grant.	

Environment, Development & Housing - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
101	Transport	(4,424)	(4,698)	(274)	6.2%
(5)	City Infrastructure	29,435	29,463	28	0.1%
(1)	City Regeneration	1,258	1,258	0	0.0%
3	Planning	1,965	1,965	0	0.0%
98	Total Non Housing Services	28,234	27,988	(246)	-0.9%
(785)	Housing	14,787	14,807	20	0.1%
(687)	Total Revenue - Environment, Development & Housing	43,021	42,795	(226)	-0.5%

Explanation of Key Variances:

Key Variances £'000	Service	Description	Mitigation strategy
Transport			
(370)	Corporate Critical – Parking Operations	<p>Overall the corporate critical parking budget is forecast to underspend by £0.370m. The main components of this are:</p> <ul style="list-style-type: none"> A £0.259m surplus from on-street parking income. This forecast incorporates new parking zones being introduced and a 2.5% increase in transactions in April and May compared to last financial year. Evidence from various major event organisers in the city, including the Brighton Festival/ Fringe and Brighton Marathon, have suggested increased 	<ul style="list-style-type: none"> Actual income is monitored and reported on a monthly basis as part of the TBM process. There are a range of factors that can impact on parking activity and therefore any significant variations to the forecast are reported and acted upon regularly. Minor percentage variations in activity could result in significant financial implications. An updated tariff model exercise will be developed for the off-street car parks using updated usage data and following some minor

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation strategy
		and a pressure on professional fees for highways inspection which are not fully covered by the income received.	pressure as these costs are likely to be recoverable in the future under a proposed highways permit scheme. The service is exploring ways of reducing the current cost of this service.
City Infrastructure			
28	City Parks	Rottingdean mini golf course has been let at a peppercorn rent resulting in an income pressure of £0.023m and £0.005m additional costs of managing the site as a nature reserve.	Several attempts have been made to remarket the site with an appropriate use on a commercial basis but no viable commercial proposal has been forthcoming.
City Regeneration			
0	City Regeneration	Break even position forecast at Month 2.	
Planning			
0	Planning	Break even position forecast at Month 2.	
Housing			
(228)	Corporate Critical - Temporary Accommodation & Allocations	Current trends reflect an increase in the number of properties being returned to landlords due to contracts ending and at the landlord's request in view of the improving property market. This has led to an increase in voids and the use of alternative spot purchase accommodation and/or more expensive leased properties. It also impacts on the ability to collect housing benefit income. At this stage, increasing costs and pressures on income are currently being offset by service pressure funding of £0.500m from 2013/14 and £0.440m from 2014/15. This leaves approximately £0.200m currently un-utilised service pressure funding within this service area which is included in the forecast underspend.	New properties are being acquired as soon as possible to replace those being handed back in order to manage the number of more expensive spot purchase placements. There is a potential delay in the impact of Welfare Reform on this service as eligible clients are currently awarded Discretionary Housing Payments. Costs and income are continually under review and improvements to forecasting are being developed.
0	Travellers	This budget includes £0.100m 2014/15 service pressure funding. A break even position is forecast	Council Officers meet with police and other agencies to review operational management and

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation strategy
		subject to periodic reviews of operational management.	service cost implications.
122	Supported Accommodation	This includes the 2014/15 savings target of £0.080m plus £0.060m budget pressure from delayed rent renegotiation for West Pier Hostel.	A number of efficiency measures have been identified and are being assessed in order to reduce the projected year end budget risk.
125	Private Sector Housing	The further expansion of the Private Sector Licensing Scheme was projected to achieve savings in 2014/15 of £0.125m. The timetable for introducing the scheme including public consultation and decision by Members has slipped.	The timetable for consultation and decision by Members is being reviewed by the Housing Leadership Team.

Appendix 1 – Revenue Budget Performance

Assistant Chief Executive - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
8	Communications	790	792	2	0.3%
22	Royal Pavilion, Arts & Museums	3,680	3,717	37	1.0%
237	Tourism & Venues	1,581	1,661	80	5.1%
(10)	Libraries	5,295	5,295	0	0.0%
(89)	Corporate Policy & Communities	5,167	5,167	0	0.0%
(4)	Sport & Leisure	736	736	0	0.0%
164	Total Revenue - Assistant Chief Executive	17,249	17,368	119	0.7%

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy
Communications			
2	Communications	Minor Overspend.	
Royal Pavilion, Arts & Museums			
37	Royal Pavilion, Arts & Museums	Royal Pavilion & Museums is reporting an overspend of £0.037m at Month 2, mainly due to a continuation of pressures against the achievement of retail income.	Measures have already been implemented to improve the performance of retail, including restructuring, new products and investment in the shop. These are reflected in the latest forecast.
Tourism & Venues			
80	Tourism & Venues	The closure of Hove Centre on 24 th December 2014 is forecast to result in a reduction in budgeted hire fees from both external and internal hirers of £0.129m. In addition, this is forecast to create a shortfall in catering commission of	All expenditure at Hove Centre is under review for the remaining 6 months. There may be savings in other areas of the service to help offset this shortfall but it is too early to forecast. A better assessment of the position will be

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy
		£0.013m. Employee savings from the closure will however reduce the impact of this to £0.080m.	known at Month 5.
Libraries			
0	Libraries	Break-even position forecast at Month 2.	
Corporate Policy & Communities			
0	Corporate Policy & Communities	Break-even position forecast at Month 2.	
Sport & Leisure			
0	Sport & Leisure	Break-even position forecast at Month 2.	

Appendix 1 – Revenue Budget Performance

Public Health – Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
0	Public Health	607	607	0	0.0%
(10)	Community Safety	1,451	1,451	0	0.0%
(3)	Public Protection	2,329	2,376	47	2.0%
(8)	Civil Contingencies	180	180	0	0.0%
(21)	Total Revenue - Public Health	4,567	4,614	47	1.0%

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy
Public Health			
0	Public Health	The ring-fenced Public Health grant is £18.695m for 2014-15 and the expectation is that these funds will be fully utilised in year. There was an underspend of £0.576m against the grant last year, mainly as a result of costs against Sexual Health Contracts being less than anticipated. In line with the grant conditions this was carried forward to 2014-15 and spending plans have been reformulated.	
Community Safety			
0	Community Safety	Break even position expected at Month 2.	
Public Protection			
47	Public Protection	Public Protection is forecasting a pressure of £0.038m against the staffing budget and £0.009m for one-off costs for the need to investigate potentially contaminated land.	Any vacancies arising during the remainder of the year will be closely managed on a case-by-case basis to help bring down the pressure.

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy
Civil Contingencies			
0	Civil Contingencies	Break even position expected at Month 2.	

Appendix 1 – Revenue Budget Performance

Finance & Resources and Law - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(238)	City Services	7,678	7,783	105	1.4%
(137)	Housing Benefit Subsidy	(613)	(613)	0	0.0%
(1)	HR & Organisational Development	4,010	4,083	73	1.8%
326	ICT	6,443	6,443	0	0.0%
(520)	Property & Design	4,793	4,664	(129)	-2.7%
(172)	Finance	5,217	5,217	0	0.0%
(42)	Performance & Improvement	500	500	0	0.0%
(175)	Legal & Democratic Services	3,044	3,044	0	0.0%
(959)	Total Revenue - Resources & Finance	31,072	31,121	49	0.2%

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy
City Services			
105	City Services	Revenues and Benefits is forecasting an underspend of £0.050m for 2014/15. The service is managing its staff budget and recruitment strategy very carefully because of the pending introduction of Universal Credit and the associated transfer of work. It is currently thought that this will result in an underspend of approx. £0.120m. There are likely to be further underspends in other areas, notably Council Tax discretionary discounts and exemptions (approx. £0.100m) and computer maintenance	

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy
		<p>costs (£0.030m). These underspends are likely to be offset by reductions of approximately £0.200m in recovered income, largely brought about by a transitional period whilst new bailiff legislation takes effect. These are early forecasts, and the situation will be monitored regularly through the year.</p> <p>Life Events is forecasting an overall income shortfall of £0.155m. The cremation fees and burial fees are estimated to underachieve by £0.200m this year. The shortfalls in Bereavement Services income are somewhat offset by expected overachievements in Land Charges fee income (£0.020m) and an expected increase in income from nationality checking fees (£0.025m). The service has also made a contribution corporately through the launch of same-sex wedding ceremonies, resulting in an increase in bookings for these at the Royal Pavilion.</p>	<p>Work is on-going to address this income pressure, and a new plan of action is being drawn up within the service, with involvement and assistance from Finance. The measures include a staff time analysis similar to that undertaken for the Registrar's service, a review of fees and charges with a view to reporting to October P&R, and a number of small service delivery changes some of which have already been implemented. It is expected that these changes will take some time to have an effect, and the projected shortfalls will be re-calculated monthly through the TBM process.</p>
Housing Benefit Subsidy			
0	Corporate Critical - Housing Benefit Subsidy	Break even position forecast at Month 2.	
HR & Organisational Development			
73	HR & Organisational Development	A projected £0.073m overspend has been reported within the service, due to a gap between the cost of the current level of full time corporate release for union activities and the available budget.	
ICT			
0	ICT	Break even position forecast at Month 2.	

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy
Property & Design			
(129)	Property & Design	The commercial rent forecasts within Property & Design are being maintained with income collection performing well for the rental properties on the high street.	
Finance			
0	Finance	Break even position forecast at Month 2.	
Performance & Improvement			
0	Performance & Improvement	Break even position forecast at Month 2.	
Legal & Democratic Services			
0	Legal & Democratic Services	Break even position forecast at Month 2.	

Corporate Budgets - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Service	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(364)	Bulk Insurance Premia	0	0	0	0.0%
44	Concessionary Fares	10,615	10,515	(100)	-0.9%
0	Capital Financing Costs	8,904	8,904	0	0.0%
(1)	Levies & Precepts	161	161	0	0.0%
1,355	Corporate VfM Savings	(250)	(250)	0	0.0%
(531)	Risk Provisions	4,720	4,720	0	0.0%
(340)	Other Corporate Items	(18,403)	(18,145)	258	1.4%
163	Total Revenue - Corporate Budgets	5,747	5,905	158	2.7%

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy
Bulk Insurance Premia			
0	Bulk Insurance Premia	Break even position forecast at Month 2.	
Concessionary Fares			
(100)	Concessionary Fares	Underspend as a result of conclusion of negotiations on fixed deal arrangements with Brighton & Hove Buses and Stagecoach.	
Capital Financing Costs			
0	Capital Financing Costs	Break even position forecast at Month 2.	
Corporate VFM Projects			
0	Corporate VFM Projects	This savings associated with the Third Party Spend corporate VFM project are currently still being finalised and are expected to be	

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy
		achieved through additional procurement/third party spend savings on contract renewals and renegotiations across a range of services.	
Risk Provisions			
0	Risk Provisions & contingency	<p>The risk provision budget includes the following main items:</p> <ul style="list-style-type: none"> • £2.500m risk provisions of which it is recommended that £0.500m be released recurrently to support Adult Social Care and £0.110m set aside centrally to cover the in-year additional costs of the new security carrier contract referred to elsewhere on this agenda which otherwise would be recharged across all users of the service; • £0.800m held centrally for social care reforms and temporary funding for ICT contract funding shortfalls (the use of £0.300m of this has been included within the ICT forecast); • £0.700m for Modernisation Funds which will be allocated throughout the year; • £0.720m for other contingency items. <p>A break-even position is reported at Month 2, however the Month 2 position indicates a number of forecast risks which may result in a call on risk provisions if these cannot be mitigated by recovery actions.</p>	

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy
Other Corporate Items			
180	Pension Costs	This overspend relates to the budget for additional compensation payments to former employees of the Council or its predecessor authorities. The benefits are subject to annual increases in line with the September Retail Price Index (RPI) which is generally higher than our corporate inflation rates for pay costs. This had been expected to be offset by a reduction in the number of beneficiaries but this has remained fairly static. All related reserves that were being used to fund yearly fluctuations have now been exhausted.	
78	Unringfenced Grants	The shortfall relates to lower than anticipated income from the Education Services Grant.	

Appendix 1 – Revenue Budget Performance

Housing Revenue Account - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Housing Revenue Account	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
8,591	Employees	8,610	8,608	(2)	0.0%
10,837	Premises – Repair	11,199	11,199	-	0.0%
3,066	Premises – Other	2,836	2,761	(75)	-2.6%
2,000	Transport & Supplies	2,524	2,572	48	1.9%
2,021	Support Services	2,740	2,740	-	0.0%
127	Third Party Payments	183	183	-	0.0%
23,203	Revenue contribution to capital	22,124	22,124	-	0.0%
5,720	Capital Financing Costs	8,564	8,564	-	0.0%
55,565	Net Expenditure	58,780	58,751	(29)	0.0%
(49,180)	Dwelling Rents (net)	(50,423)	(50,423)	-	0.0%
(1,387)	Other rent	(1,382)	(1,382)	-	0.0%
(5,358)	Service Charges	(6,583)	(6,583)	-	0.0%
(406)	Other recharges & interest	(392)	(392)	-	0.0%
(56,331)	Net Income	(58,780)	(58,780)	-	0.0%
(766)	Total	-	(29)	(29)	

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy
Housing Revenue Account			
(75)	Premises - Other	Forecast savings on electricity costs. Latest available consumption data suggests lower expenditure than originally calculated at budget setting time.	
48	Transport & Supplies	Invest-to-save engagement of external expertise to undertake a Lean Thinking Review to ensure that income collection can be maximised, £0.025m. Additional security sweeps around blocks night and day, £0.023m.	This is currently being managed within the service by underspends elsewhere in the HRA. Security costs are being monitored closely and this overspend could increase.

Dedicated Schools Grant - Revenue Budget Summary

2013/14 Provisional Outturn £'000	Dedicated Schools Grant (DSG)	2014/15 Budget Outturn £'000	Forecast Outturn £'000	Forecast Variance Outturn £'000	Forecast Variance Outturn %
0	Individual School Budgets (ISB) <i>(This does not include the £7.219m school balances brought forward from 2013/14)</i>	119,971	119,971	0	0
59	Early Years Block (including allocations to schools); including; Private, Voluntary & Independent (PVI) (Early Years 3 & 4 year old funding for the 15 hours free entitlement and 40% of 2 year olds from September 2014) <i>(This includes £0.050m brought forward from 2013/14)</i>	11,934	11,934	0	0
(862)	High Needs Block (excluding delegated to schools); <i>(This includes £1.079m brought forward from 2013/14)</i>	19,043	19,043	0	0
(644)	Exceptions and Growth Fund; <i>(This includes £0.318m brought forward from 2013/14)</i>	5,836	5,843	7	0.1
0	Grant income	(155,337)	(155,337)	0	0
(1,447)	Total DSG	1,447	1,454	7	0.5

Explanation of Key Variances

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
High Needs Block			
91	Sick Children	Estimated overspend on staffing costs in the budget for educating children who are unable to attend school due to	Costs will be monitored closely over the year and efforts made to reduce costs

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy
		illness and are taught in hospital.	or identify mitigating savings to bring these budgets back in balance where possible.
13	Education Other than at School (EOTAS)	The overspend on General EOTAS relates to Looked After Children's education costs in agency placements being £0.013m more than anticipated.	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring these budgets back in balance where possible.
(104)	Unspent balance brought forward from 2013/14	Unallocated balance brought forward used to cover identified overspends.	
Exceptions & Growth Fund			
		The total overspend of £0.007m in this area relates to items specifically approved by the Schools Forum.	
40	Schools central costs	Overspend mostly relates to premature retirement costs.	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring these budgets back in balance where possible.
(33)	Admissions & Transport	Staffing savings.	

NHS Trust Managed S75 Budgets - Revenue Budget Summary

2013/14 Provisional Outturn £'000	S75 Partnership	2014/15 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
117	Sussex Partnership Foundation NHS Trust (SPFT)	11,048	11,228	180	1.6%
(12)	Sussex Community NHS Trust (SCT)	647	647	-	0.0%
105	Total Revenue - S75	11,695	11,875	180	1.5%

Explanation of Key Variances

Key Variances £'000	Service	Description (Note WTE = Whole Time Equivalent)	Mitigation Strategy
Sussex Partnership Foundation NHS Trust			
180	SPFT	Sussex Partnership NHS Foundation Trust is reporting an overspend of £0.360m at Month 2. The overspend reflects continuing pressures from a lack of affordable residential and nursing placements across the board, potentially leading to increased use of high cost placements and waivers within Memory & Cognition Support. There continues to be a pressure from an increase in need and complexity in Mental Health and forensic services across residential and supported accommodation. In line with the agreed risk-share arrangements for 2014/15 any overspend will be shared 50/50 between SPFT and BHCC and this is reflected in the figure of £0.180m reported here.	As for Adult Social Care, there will be increased panel scrutiny of all complex or high cost placement requests to assure value for money against eligible care needs. Where possible, no placements will be made above the agreed local authority rates.
Sussex Community NHS Trust			
0	SCT	The Integrated Community Equipment Store (ICES) budget is reporting a break-even position at Month 2.	

Value for Money Programme Performance (All Phases)

Projects	Savings Target £m	Achieved £m	Anticipated £m	Uncertain £m	Achieved %
Adult Social Care	2.903	0.000	0.000	2.903	0.0%
Children's Services	2.539	0.093	0.464	1.982	3.7%
Third Party Spend	2.591	0.000	2.591	0.000	0.0%
Workstyles	0.060	0.000	0.060	0.000	0.0%
Accelerated Service Redesign (FYE)	1.626	0.331	1.295	0.000	20.4%
VfM Phase 4 Additional Saving	0.250	0.000	0.250	0.000	0.0%
Total All VfM Projects	9.969	0.424	4.660	4.885	4.3%

Explanation of 'Uncertain' VfM Savings:

Uncertain Savings £'000	Description	Mitigation Strategy for Uncertain Savings
Adult Social Care		
2,903	The Adult Social Care service has been under pressure throughout the previous financial year and this pressure is currently showing a continuing upward trend. This may place the achievement of VfM savings under serious threat unless immediate remedial action can be identified.	Additional scrutiny has been put in place in relation to care packages, particularly out-of-area and high cost packages, to ensure VfM and reduce costs. Extra care and other supported care provision are also being explored where possible.
Children's Services		
1,982	Appendix 1 provides details of the current pressures across Children's Services. The main pressures are arising from an upward trend in Independent Foster Agency placements (IFAs) and lower than expected recruitment of 'in-house' foster carers.	VfM and partnership work are continuing in the hope that trends can be halted and reversed through measures including Early Help strategies, recruitment of 'in-house' foster carers, and the SEN/Disability task & finish work.
VfM Phase 4 Additional Saving		
0	Although not regarded as uncertain, this saving is currently still being finalised and is expected to be achieved through	

Uncertain Savings £'000	Description	Mitigation Strategy for Uncertain Savings
	additional procurement/third party spend savings on contract renewals and renegotiations across a range of services.	

Children's Services – Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at Other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage / reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
(3)	Children's Health Safeguarding & Care	509	0	0	0	509	509	0	0.0%
(1)	Education and Inclusion	17,090	0	0	0	17,090	17,090	0	0.0%
0	Disability & SEN	489	0	0	0	489	489	0	
(3)	Schools	1,220	142	183	0	1,545	1,545	0	0.0%
(7)	Total Children's Services	19,308	142	183	0	19,633	19,633	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Adult Services – Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at Other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage/ reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
0	Adults Assessment	423	0	0	0	423	423	0	0.0%
0	Adults Provider	81	0	0	0	81	81	0	0.0%
3	Commissioning and Contracts	26	0	0	0	26	26	0	0.0%
3	Total Adult Services	530	0	0	0	530	530	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Appendix 3 – Capital Programme Performance

Environment, Development & Housing (General Fund) – Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at Other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage/ reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
34	City Infrastructure	2,628	0	0	0	2,628	2,628	0	0.0%
(18)	City Regeneration	3,996	0	0	0	3,996	3,996	0	0.0%
2	Planning	0	0	0	0	0	0	0	0.0%
12	Transport	10,054	1,420	182	50	11,706	11,706	0	0.0%
(76)	Housing GF	3,469	0	0	(1,435)	2,034	2,034	0	0.0%
(46)	Total Environment, Development & Housing GF	20,147	1,420	182	(1,385)	20,364	20,364	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Detail Type	£'000	Project	Description	Mitigation Strategy
Transport				
Variance	50	Access to South Downs National Park	The overall capital grant allocation for this scheme has been increased by £0.050m to £0.330m. In 2013/14 expenditure of £0.110m was incurred leaving a budget in 2014/15 of £0.220m including this £0.050m increase.	
Housing GF				
Variance	(1,435)	Empty Homes Programme	Further to the update report to Housing Committee on 30th April 2014, the Homes and Community Agency (HCA) grant funding allocation for the Empty Homes Programme has been declined and returned to the HCA for re-allocation. This is due to the fact that despite extensive efforts to make the scheme work, homeowners did not proceed to the point of taking the funding on offer and consequently the deadlines and guarantees required by the HCA could not be met.	

Appendix 3 – Capital Programme Performance

Detail Type	£'000	Project	Description	Mitigation Strategy
			The capital programme will therefore be updated and the budget in 2014/15 removed. No funds had actually been received.	

Appendix 3 – Capital Programme Performance

Environment, Development & Housing (Housing Revenue Account) – Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage/ reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
0	City Regeneration	3,272	0	0	0	3,272	3,272	0	0.0%
(73)	Housing HRA	32,990	0	0	(1,696)	31,294	31,294	0	0.0%
(73)	Total Environment, Development and Housing HRA	36,262	0	0	(1,696)	34,566	34,566	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Detail Type	£'000	Project	Description	Mitigation Strategy
Housing HRA				
Reprofile	(1,696)	Cladding	<p>Holmstead – These works had originally been planned to start in 2013/14. To allow detailed options appraisals to be carried out, these works were delayed from 2013/14 and have now been included in the 2015/16 programme.</p> <p>Bristol Estate - The original timeline for these works were based on the experience gained from similar blocks within the council housing stock. Following initial surveys it was found that, unlike the other blocks, further intrusive surveys were required on the concrete which has caused delay.</p> <p>Clarendon Road - Additional cost breakdown information was required to ensure the best value for money was being achieved.</p>	<p>No impact for residents – covered by Responsive Repairs budget.</p> <p>No impact for residents – but additional surveys will assist targeted resources and assure Value For Money (VFM).</p> <p>No impact for residents – but further detail around costing will assist in targeting resources and assure VFM.</p>

Assistant Chief Executive - Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage/ reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
0	Corporate Policy Performance & Communities	92	0	0	0	92	92	0	0.0%
200	Royal Pavilion Arts & Museums	362	0	0	0	362	362	0	0.0%
(214)	Sports & Leisure	925	0	0	(792)	133	133	0	0.0%
0	Libraries	233	0	0	0	233	233	0	0.0%
0	Tourism & Venues	176	17,000	0	0	17,176	17,176	0	0.0%
(14)	Total Assistant Chief Executive	1,788	17,000	0	(792)	17,996	17,996	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Detail Type	£'000	Project	Description	Mitigation Strategy
Sports & Leisure				
Variance	(792)	Volks Railway	The Council was unsuccessful in the bid for Coastal Communities Funding so the Solar Trees and Railway Shed capital schemes will not proceed. The Capital programme will be updated and the budgets will be	

Appendix 3 – Capital Programme Performance

Detail Type	£'000	Project	Description	Mitigation Strategy
			<p>removed (£0.888m in 2014/15 and £0.299m in 2015/16). However, the Volks Railway has won a successful first round bid from the Heritage Lottery Fund (HLF) of £0.096m to draw up plans to bid for £1.5m to restore the historic Volks Railway and provide new and upgraded facilities.</p>	

Appendix 3 – Capital Programme Performance

Public Health – Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage/ reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
0	Public Health	252	0	0	0	252	252	0	0.0%
0	Total Public Health	252	0	0	0	252	252	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Finance, Resources and Law - Capital Budget Summary

Provisional Outturn Variance £'000	Service	2014/15 Original Budget £'000	Reported at other Committees £'000	2014/15 New Schemes £'000	Variation, Slippage/ reprofile £'000	2014/15 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
(18)	City Services	286	0	0	(36)	250	250	0	0.0%
(7)	HR Organisational Development	165	0	0	0	165	165	0	0.0%
0	ICT	2,758	0	0	0	2,758	2,758	0	0.0%
(52)	Property & Design	6,476	0	0	29	6,505	6,505	0	0.0%
1	Finance	0	0	0	0	0	0	0	0.0%
(76)	Total Finance, Resources and Law	9,685	0	0	(7)	9,678	9,678	0	0.0%

Details of Variation requests and explanations of significant Forecast Variances, Slippage or Reprofiles are given below:

Detail Type	£'000	Project	Description	Mitigation Strategy
City Services				
Variance	(36)	Customer Experience Management (CEM) Parking	Variation to budget under £0.050m.	
Property & Design				
Variance	29	External Improvement Works	Variation to budget under £0.050m.	

New Capital Project Approval Request				
Unit:	Transport			
Project title:	Upgrade of CCTV notice processing system and ANPR cameras			
Total Project Cost (All Years)	£74,000.			
Purpose, benefits and risks:				
<p>To replace the CCTV capture system for bus lane and parking enforcement (which is redundant and no longer supported). To procure 2 Automatic Number Plate Recognition (ANPR) cameras to improve service efficiency and improve compliance with the bus lane regulations. The government is currently consulting on proposals to ban the use of CCTV for parking enforcement. The cameras are to be used for bus lane enforcement and enforcement of the new Low Emission Zone which is due to be implemented on 1 January 2015.</p>				
Capital expenditure profile (£'000):				
Year	2014/15	2015/16	2016/17	TOTAL
Revenue Contributions	74	0	0	74
Total estimated costs and fees	74	0	0	74
Financial implications:				
<p>The improved efficiency of using ANPR cameras will mean that more bus lane contraventions will be captured. It is anticipated that the new systems and cameras will result in annual maintenance costs of approximately £0.015m, which will be funded from additional income generated from Penalty Charge Notices. This was reported at Environment, Transport & Sustainability Committee on 8th October 2013 but the scheme is about to start in the year 2014/15.</p>				

New Capital Project Approval Request				
Unit:	Transport			
Project title:	Severe Weather Recovery scheme			
Total Project Cost (All Years):	£108,270			
Purpose, benefits and risks:				
<p>On 21 March 2014 the Secretary of State for Transport confirmed the funding for highway flood recovery. The amount allocated to Brighton & Hove City Council was £0.295m (£0.108m is capital and £0.187m is revenue). The allocation is to provide funding for integrated transport measures and capital highway schemes within the Council.</p>				
Capital expenditure profile (£'000):				
Year	2014/15	2015/16	2016/17	TOTAL
Grant – DFT Severe Weather Recovery scheme	108			108
Total estimated costs and fees	108			108
Financial implications:				
<p>The capital element of this funding is being provided under a specific grant determination from the Department of Transport. The severe weather recovery scheme has been allocated on 21 March 2014 and will be used in 2014/15 for the purposes of highway flood recovery.</p>				

New Capital Project Approval Request				
Unit:	Schools			
Project title:	Patcham WiFi Installation			
Total Project Cost (All Years):	£32,000			
Purpose, benefits and risks:				
<p>To provide a safe, secure and robust wireless network solution which includes complete site access for staff, students and visitors to the school. The network needs to be able to be accessed by many mobile devices including; laptops, tablets, netbooks and smartphones. Procurement will be prior to the end of the academic year with the installation over the summer during the school holiday.</p>				
Capital expenditure profile (£'000):				
Year	2014/15	2015/16	2016/17	TOTAL
Unsupported Borrowing	32			32
Total estimated costs and fees	32			32
Financial implications:				
<p>The three year budget plan will include the budget allowances of £0.017m in 2015/16 and £0.017m 2016/17 to cover the loan repayments including interest. Should the school convert to an academy during the lifetime of the loan, liability for any outstanding repayments would normally transfer to the academy, subject to the necessary terms and conditions being contractually agreed between parties.</p>				

New Capital Project Approval Request				
Unit:	Schools			
Project title:	Hove Park School Art Huts			
Total Project Cost (All Years):	£151,000			
Purpose, benefits and risks:				
Hove Park is a vibrant school where the children come first. The curriculum, teaching and structure of the school day are all designed to support students' learning and development. In order to achieve this goal the school needs to procure new Art huts to replace the existing ones which are dilapidated.				
Capital expenditure profile (£'000):				
Year	2014/15	2015/16	2016/17	TOTAL
Unsupported Borrowing	151			151
Total estimated costs and fees	151			151
Financial implications:				
The school has obtained a number of quotes for purchase and installation and have selected the most suitable in terms of quality and price. The school were planning to enter into a five year lease agreement but it is better value for money for the school to borrow from the Council. The school will factor into their budget the borrowing costs over the term of the contract with the Council. Should the school convert to an academy during the lifetime of the loan, liability for any outstanding repayments would normally transfer to the academy, subject to the necessary terms and conditions being contractually agreed between parties.				

Subject	Treasury Management Policy; End of Year Review		
Date of Meeting:	23 September 2014		
Report of:	Head of Law		
Contact Officer:	Name: Ross Keatley	Tel: 29-1064	
	E-mail: ross.keatley@brighton-hove.gov.uk		
Wards Affected:	All		

FOR GENERAL RELEASE

Action Required of the Audit & Standards Committee:

To receive the item referred from the Policy & Resources Committee for information:

Recommendation:

That the report be noted.

BRIGHTON & HOVE CITY COUNCIL

POLICY & RESOURCES COMMITTEE

2.00pm 11 JULY 2014

COUNCIL CHAMBER, HOVE TOWN HALL

MINUTES

Present: Councillor J Kitcat (Chair) Councillors Sykes (Deputy Chair), G Theobald (Opposition Spokesperson), Morgan (Group Spokesperson), Davey, Hamilton, A Norman, Peltzer Dunn, Randall and Robins

Other Members present: Councillors

PART ONE

29 TREASURY MANAGEMENT POLICY STATEMENT (INCORPORATING THE ANNUAL INVESTMENT STRATEGY) END OF YEAR REVIEW 2013/14

- 29.1 The Committee considered a report of the Executive Director for Finance & Resources in relation to the Treasury Management Policy Statement 2013/14 – End of Year Review. The 2013/14 Treasury Management Policy Statement (TMPS) practices and schedules were approved by the Committee on 21 March 2013. The TMPS set out the role of Treasury Management; whilst the practices and schedules set out the annual targets and methods by which those targets would be met. The TMPS included the Annual Investment Strategy (AIS) which set out the key parameters for investing Council cash funds and was approved by Council on 28 March 2013 and amended on 12 December 2013. Good practice recommended that Members receive biannual reports and reviews, and endorse the treasury management actions during the year.
- 29.2 Councillor Sykes thanked Officers for the report, and welcomed the prudent management of the organisation's finances. He supported the establishment of the Municipal Bonds Agency in view to it creating competition in public sector borrowing.
- 29.3 Councillor A. Norman noted the consistent high standard of the work undertaken by Officers; she went on to add that she also welcomed the creation of the Municipal Bonds Agency to provide local authorities more opportunities to borrow. In response to a query the Executive Director for Finance & Resources explained that the minimum capital raising requirement had been met for the Municipal Bonds Agency, but the agency was still requesting further contributions. The TBM report listed at Item 30 on the agenda would give the Executive Director authority, in consultation with the Leader and Leaders of the Oppositions Groups, to allocate additional funding as more information came forward.
- 29.4 Councillor G. Theobald welcomed the creation of the agency as means to allow local authorities to be more proactive.
- 29.5 Councillor Hamilton noted that he agreed with the comments made by Councillor A. Norman and added that internal audit had provided 'substantial assurance' in January 2014.
- 29.6 The Chair then put the recommendation to the vote.
- 29.7 **RESOLVED:**
- 1) That the Committee endorses the key actions taken during the second half of 2013/14 to meet the treasury management policy statement and practices (including the investment strategy) as set out in this report.
 - 2) That the Committee notes that the approved maximum indicator for investment risk of 0.05% has been adhered to and the authorised limit and operational boundary have not been exceeded.

Subject: Treasury Management Policy Statement 2013/14 –
End of year review

Date of Meeting: 11 July 2014

Report of: Executive Director of Finance & Resources

Contact Officer: Name: James Hengeveld **Tel:** 29-1242

Email: james.hengeveld@brighton-hove.gov.uk

Ward(s) affected: All

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 The 2013/14 Treasury Management Policy Statement (TMPS), practices and schedules were approved by Policy & Resources on 21 March 2013. The TMPS sets out the role of Treasury Management, whilst the practices and schedules set out the annual targets and methods by which these targets will be met.
- 1.2 The TMPS includes the Annual Investment Strategy (AIS) which sets out the key parameters for investing council cash funds and was approved by Full Council on 28 March 2013 and amended by full Council on 12th December 2013.
- 1.3 It is recommended good and proper practice that Members receive half yearly reports and review and endorse treasury management actions during the year. The mid-year review was presented to Policy and Resources on 5th December 2013.

2. RECOMMENDATIONS:

- 2.1 That Policy & Resources Committee endorses the key actions taken during the second half of 2013/14 to meet the treasury management policy statement and practices (including the investment strategy) as set out in this report.
- 2.2 That Policy & Resources Committee notes that the approved maximum indicator for investment risk of 0.05% has been adhered to and the authorised limit and operational boundary have not been exceeded.

3. CONTEXT/ BACKGROUND INFORMATION

Overview of Markets

- 3.1 The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the 2013/14. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. There is much speculation that

the base rate may increase later this year but the Governor of the Bank of England has made it clear that any increase will be small and further increases will happen slowly. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9%. In April, CPI had fallen to 1.5% however it is also expected to remain slightly below the target rate for most of the two years ahead.

3.2 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

3.3 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising.

Treasury Management Strategy

3.4 A summary of the action taken in the six months to March 2014 is provided in Appendix 1 to this report and further information on borrowing and investment performance is shown in the end of year Bulletin at Appendix 2. The main points are:

- The council did not enter into any new borrowing arrangements during the period;
- The highest risk indicator during the period was 0.018% which is well below the maximum set of 0.05%;
- The return on investments by the in-house treasury team and cash manager has exceeded the target rates.
- The two borrowing limits approved by full Council have not been exceeded.

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 st Oct 2013 to 31 Mar 2014			
	Fixed deposits	Money market funds	Total	
Up to 1 week	£2.3m	£193.1m	£195.3m	71%
Between 1 week & 1 month	£7.0m	£3.0m	£10.0m	4%
Between 1 month & 3 months	£38.5m	£22.5m	£61.0m	22%
Over 3 months	£8.0m	-	£8.0m	3%
	£55.8m	£218.6m	£291.2m	100%

Budget vs Outturn 2013/14

- 3.6 The following table summarises the performance achieved on investments compared to the budgeted position and approved benchmark for the whole year.

	In-house Investments		Cash Manager investments (net of fees)	
	Aver Bal	Aver rate	Aver Bal	Aver rate
Budget 2013/14	£52.9m	0.63%	£24.6m	0.75%
Actual 2013/14	£78.9m	0.51%	£24.9m	0.82%
Benchmark Rate		0.36%		0.36%

- 3.7 The Financing Costs budget has seen higher than anticipated cash balances, offset in part by lower than anticipated investment rates. This, combined with the funding of large projects (such as The Keep and the Workstyles project) temporarily from internal reserves as opposed to external borrowing, has resulted in a net saving of £0.2m to the Financing Costs budget. The council will eventually have undertake external borrowing to fund these projects at a time when market conditions are assessed to be optimal. The underspend has therefore been transferred to the Financing Costs reserve which covers future borrowing and investment rate risks.

Summary of Treasury activity October 2013 to March 2014

- 3.8 The table below summarises the treasury activity in the half-year to March 2014 with the corresponding period in the previous two years.

October to March	2011/12	2012/13	2013/14
Long-term borrowing raised – Capital	£10.0m	-	-
Long-term borrowing raised – HRA	£18.1m	-	-
Long-term borrowing repaid	-	-	-
Short-term borrowing raised	-	-	-
Short-term borrowing repaid	-	-	-
Investments made	£316.7m	£313.7m	£274.3m
Investments maturing	(£320.0m)	(£359.8m)	(£291.2m)

- 3.9 The following table summarises how the day-to-day cash flows in the second half-year have been funded compared to the same period in the previous two years.

October to March	2011/12	2012/13	2013/14
Cash flow shortage – general	-£13.0m	-£34.9m	-£23.8m
HRA Settlement Payment	-£18.1m	-	-
Net cashflow shortage/surplus	-£31.1m	-£34.9m	-£23.8m
Represented by:			
Increase in long-term borrowing	+£28.1m	-	-
Change in short-term borrowing	-	*-£2.0m	*£2.0m
Change in investments	£3.3m	£37.5m	£16.9m
Change in bank balance	-£0.3m	-£0.6m	£4.9m

*South Downs National Park

Security of Investments

- 3.10 A summary of investments made by the in-house treasury team and outstanding as at 31 March 2014 in the table below shows that investments continue to be held in good quality, short term instruments. The funds invested in BBB institutions included in the table below are invested in the part-nationalised banks which are backed by Government guarantee in line with the AIS.

'AAA' rated money market funds	£10.61m	20%
'A' rated institutions	£17.01m	32%
'BBB' rated institutions	£24.90m	47%
Total	£52.52m	100%
Period – less than one week	£26.27m	50%
Period – between one week and one month	£8.00m	15%
Period – between one month and three months	£5.01m	10%
Period – between three months and six months	£9.24m	18%
Period – between 6 months and 1 year	£4.00m	8%
Total	£52.52m	100%

Municipal Bonds Agency Investment

- 3.11 The Local Government Agency's (LGA's) is developing a new initiative, the Municipal Bonds Agency (MBA). Currently, 75% of Local Authority borrowing is sourced from the government's Public Works Loans Board (PWLB). The establishment of a Bonds Agency will potentially inject some competition and diversity into the Local Authority borrowing marketplace. Additionally, the MBA estimates that once established, councils will be able to access borrowing at rates that could be somewhat lower than the PWLB borrowing rates. At this stage it is not clear whether this will be suitable for future long term borrowing by the Council and this will be assessed as more information becomes available.
- 3.12 The LGA is currently looking for Local Authorities to provide equity investments in the MBA. An equity investment will help enable the establishment of the MBA, which will allow the council to benefit from lower future borrowing rates. However, there are associated risks with the investment which must be treated as capital expenditure, and there is a considerable amount of due diligence work required before an investment is recommended. Officers are meeting with the LGA in July 2014 to discuss the initiative further.
- 3.13 The Targeted Budget Management (TBM) Month 2 report included elsewhere on this agenda recommends that Policy and Resources delegate the authority of entering into a £50,000 equity investment into the Municipal Bonds Agency to the Executive Director of Finance and Resources in consultation with the Chair of Policy and Resources Committee and Opposition Leaders if further investigation demonstrates that the investment is sound.

Risk

- 3.14 As part of the investment strategy for 2013/14 the Council agreed a maximum risk benchmark of 0.05% i.e. there is a 99.95% probability that the council will get

its investments back. The benchmark is a simple target that measures the risk based on the financial standing of counterparties and length of each investment based on historic default rates. The actual risk indicator has varied between 0.009% and 0.018% between October 2013 and March 2014. It should be remembered however that the benchmark is an average risk of default measure, and does not constitute an expectation of loss against a particular investment.

- 3.15 In January 2014, Internal Audit and Business Risk undertook an audit of the treasury management function. The audit concluded that “substantial assurance” is provided on the effectiveness of the control framework operating and mitigating risks for treasury management.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 This report sets out action taken in the six months to March 2014. Treasury management actions have been carried out within the parameters of the AIS, TMPS and Prudential Indicators. Therefore no alternative options have been considered.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The council’s external treasury advisors have been consulted over the content of this report. No other consultation was necessary.

6. CONCLUSION

- 6.1 Treasury management is governed by a code that is recognised as “best and proper practice” under the Local Government Act 2003. The Code requires a minimum of two reports per year, one of which is required to review the previous year’s performance. This report fulfils this requirement.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The financial implications of treasury management activity are reflected in the financing costs budget set out in paragraph 3.6.

Finance Officer Consulted: James Hengeveld

Date: 17/06/14

Legal Implications:

- 7.2 The TMPS and associated actions are exercised under powers given to the council by Part 1 of the Local Government Act 2003 which includes the power for a local authority to invest for the purposes of the prudent management of its financial affairs (section 12).

Lawyer Consulted: Oliver Dixon

Date: 18/06/14

Equalities, Sustainability and other significant implications:

7.3 There are no direct implications arising from this report.

SUPPORTING DOCUMENTATION

Appendices:

1. A summary of the action taken in the period October 2013 to March 2014
2. March 2014 Treasury Management Bulletin

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 2013/14 approved by Policy & Resources on 21 March 2013
3. The Annual Investment Strategy 2013/14 approved by full Council on 28 March 2013
4. Treasury Management Policy Statement 2013/14 (including Annual Investment Strategy 2013/14) – End of year Review approved by Policy & Resources Committee on 5 December 2013 and full Council on 12 December 2013
5. Papers held within Financial Services, Finance & Resources Directorate
6. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2011

Summary of action taken in the period October 2013 to March 2014

New borrowing

No new long term borrowing was raised in the second half of 2013/14

Debt maturity

No debt matured during second the half year.

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 five loans were due in the 6 month period but no option was exercised.

Weighted average maturity of debt portfolio

With no movement in the long-term debt portfolio the weighted average maturity period of the portfolio has decreased naturally by 6 months, from 31.8 years to 31.3 years.

Debt rescheduling

No debt rescheduling was undertaken during the second half-year.

Capital financing requirement

The prudential code introduces a number of indicators that compare borrowing with the capital financing requirement (CFR) – the CFR being amount of capital investment met from borrowing that is outstanding. Table 1 compares the CFR with actual borrowing.

Table 1 – Capital financing requirement compared to debt outstanding

	1 April 2013	31 March 2014	Movement in period
<u>Capital financing requirement (CFR)</u>	<u>£341.8m</u>		
<u>Less PFI element</u>	<u>-£59.5m</u>		
<u>Net CFR</u>	<u>£282.3m</u>	<u>£278.4m</u>	<u>-£4.9m</u>
<u>Long-term debt</u>	<u>£207.8m</u>	<u>£207.8m</u>	<u>£0.0m</u>
<u>O/s debt to CFR (%)</u>	<u>73.6%</u>	<u>74.6%</u>	<u>+1.0%</u>

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 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). The 2014/15 Treasury Management Strategy (approved by Policy and Resources Committee in March 2014) includes a borrowing strategy with a view to increase borrowing levels. Currently outstanding debt represents 74.6% of the capital financing requirement.

Cash flow debt / investments

The TMPS states the profile of any short-term cash flow investments will be determined by the need to balance daily cash flow surpluses with cash flow shortages. An analysis of the cash flows reveals a net shortfall for the 2nd half-year of £23.8 million which is consistent with the normal annual pattern of higher levels of income in the earlier part of the year and higher levels of spending in the latter.

Table 2 – Cash flow October 2013 to March 2014

	October 13 to March 14			Apr 13 to Mar 14
	Payments	Receipts	Net cash	Net cash
Total cash for period	£442.0m	£418.2m	-£23.8m	+£14.2m
Represented by:				
Movement in in-house investments			-£16.9m	+£22.0m
Increase in long-term borrowing			£0.0m	£0.0m
Decrease in Short term borrowing (SDNPA)			-£2.0m	-£2.5m
Movement in balance at bank			-£4.9m	-£5.3m
			-£23.8m	+£14.2m

Overall the cash position for the financial year is a net surplus of £14.2 million.

Prudential indicators

Budget Council approved a series of prudential indicators for 2013/14 at its meeting in February 2013. 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 3 compares both indicators with the maximum debt outstanding in the second half year.

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2013/14

	Authorised limit	Operational boundary
Indicator set	£371.0m	£360.0m
Less PFI element	-£60.0m	-£60.0m
Indicator less PFI element	£311.0m	£300.0m
Maximum amount o/s in second half of year	£207.8m	£207.8m
Variance	(*)£103.2m	£92.2m

(*) can not be less than zero

Performance

Details of the performance of both the in-house and external cash managers are shown in graphs 4a and 4b in Appendix 2. The actual investment rates achieved have exceeded the benchmarks set.

Approved organisations – investments

Council approved an expansion to the AIS 2013/14 in December 2013 to include a small number of Non-UK banks.

The changes to the AIS 2013/14 also specified additional liquid instruments that the in-house Treasury Team were able to invest in. This included Certificates of Deposit (CDs) and Enhanced Money Market Funds (EMMF).

No investments in CDs or EMMFs were undertaken in 2013/14. The in-house Treasury Team have since invested in Certificates of Deposit in Standard Chartered Bank during 2014/15. The council currently holds a total of £11m over three separate Certificates of Deposit with Standard Chartered Bank, the last of which matures in November 2014.

No other changes have been made to AIS 2013/14

The graphs below show the monthly averages of borrowing and investments outstanding, monthly cashflows and the average monthly cost/return on debt/investments, over a thirteen month period.

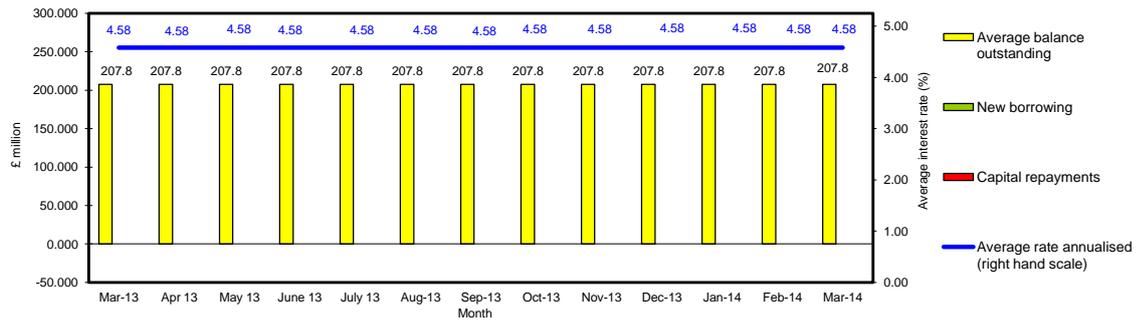
Graph 1

This graph shows the average monthly balance outstanding on long term debt, together with the average cost.

It also shows the amount of new long term debt raised and the repayment of long term borrowing. There has not been any new or repayment of long term debt during the past twelve months

Graph 1 Long Term Debt Outstanding

Monthly averages



Graph 2

This graph shows the average monthly balance outstanding for:

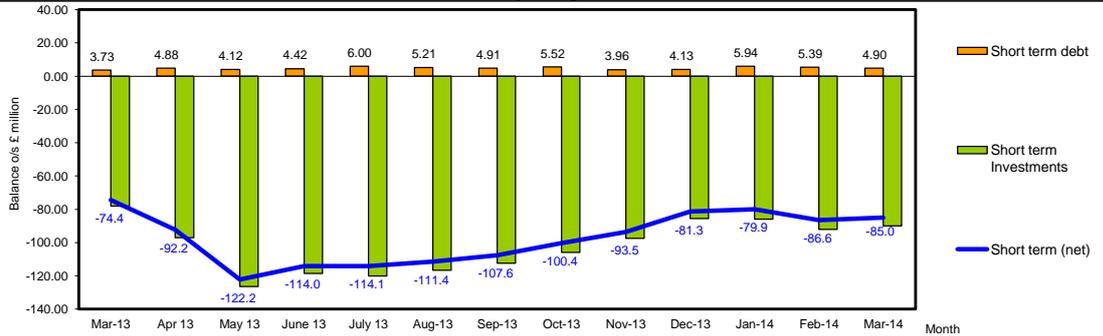
- short term debt
- short term investments

The graph also shows the net monthly cash position, excluding long term borrowing

Short term debt includes the monies held on behalf of South Downs National Park Authority.

Graph 2 - Short Term Borrowing / Investments (all)

Monthly Averages

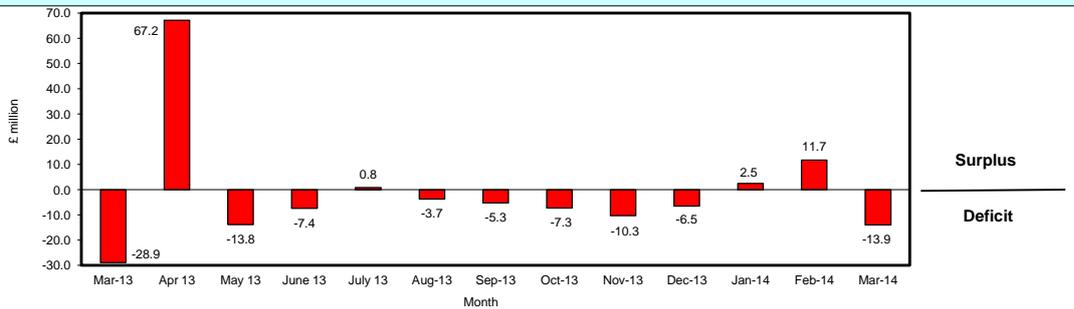


Graph 3

This graph shows the net monthly cash flow position, excluding movement in borrowing and investments.

Cashflow movements have resulted in a small deficit for the month

Graph 3 - Monthly Cash Flows



Graph 4a

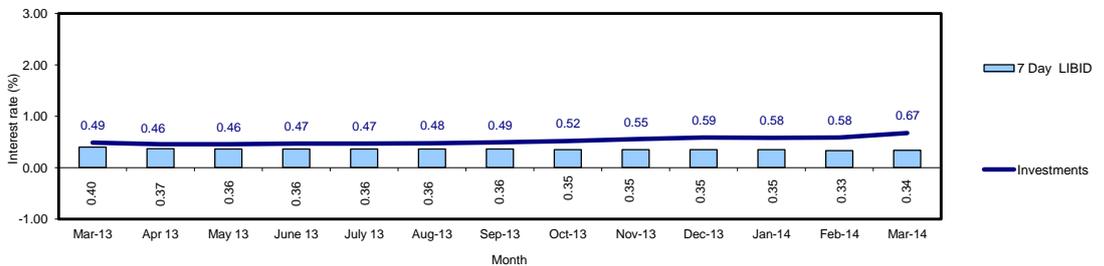
This graph compares the average return on short term investments with the average 7 Day LIBID rate.

The target is for the return on short term investments to exceed the 7 Day rate by 5% in a 12 month period

In house investments continue to meet the benchmark target rate of return.

Graph 4a - Short Term Investments -v- 7 Day LIBID (In house)

Monthly averages - annualised (to 2 dec pl)



Graph 4b

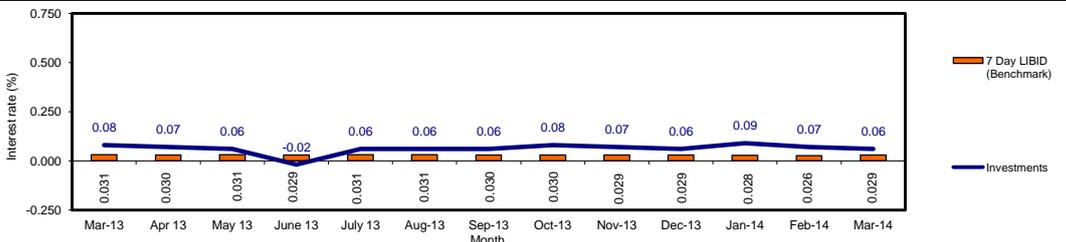
This graph compares the average return on the fund with a benchmark of 7 Day LIBID (compounded weekly).

The target is for the return on investment to exceed the benchmark rate by 5% in a 12 month period.

The cash manager performance fluctuates due to changes in the value of the investments. Performance has been equal to or above benchmark target levels in 11 of the past 12 months.

Graph 4b Short Term Investments -v- Benchmark Rate (Cash Managers)

Monthly actuals (to 2 dec pl)



Investments by Sector

The 2013/14 Treasury Policy Statement states that with the exception of the banking sector and money market funds, no one sector shall have more than 75% of the investment portfolio at the time an investment is made. As at end of March 2014 investments were made as follows:-

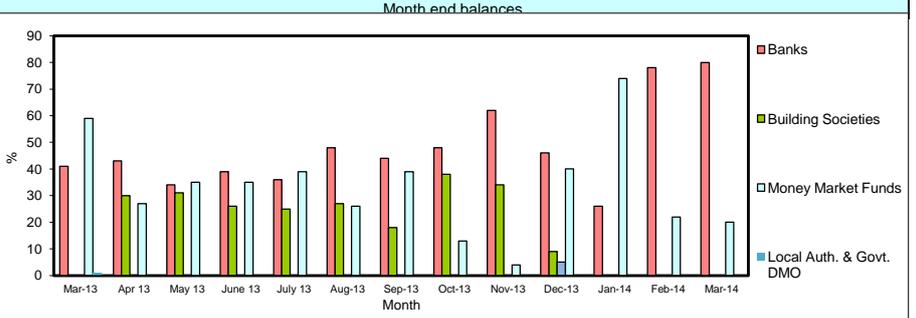
SWIP External Managers	£m	
		25.287
In-house Investments - Banks		
Lloyds Bank plc	5.007	
Lloyds Bank plc	4.000	
Royal Bank of Scotland	9.243	
Royal Bank of Scotland	15.658	
Santander UK plc	8.001	
	<u>41.909</u>	79.8 %

Money Market Funds		
CCLA - Public Sector Deposit Fund	0.199	
Goldman Sachs Funds Plc	0.255	
Ignis Liquidity Fund	9.620	
Insight Liquidity Funds Plc	0.250	
Morgan Stanley Sterling Liquidity Fund	0.282	
State Street services	0.000	
SWIP GLF	0.009	
	<u>10.614</u>	20.2 %

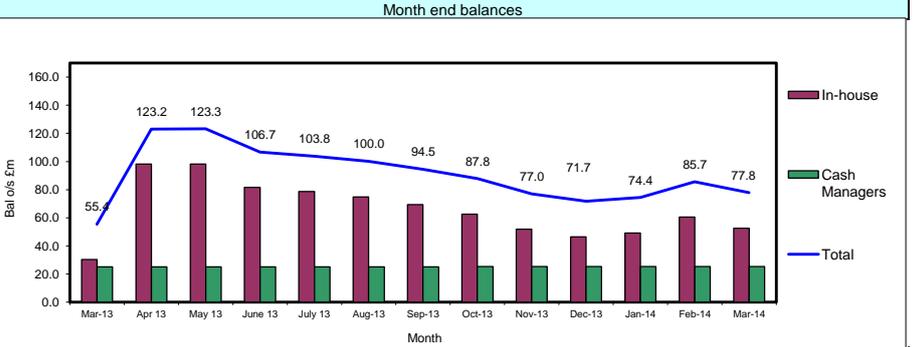
In-house Investments - Building Societies		
	<u>0.000</u>	0.0 %
TOTAL - In-house Investments	<u><u>52.523</u></u>	100.0 %

Graph 6
Members agreed, as part of the 2013/14 Treasury Policy Statement, to set a maximum indicator for risk at 0.05%. Table 6 shows the risk factor to be well below the maximum set. Recent increases in the risk factor are due to lending for slightly longer periods with good quality counterparties to maintain investment returns as short-term rates in the market are falling.

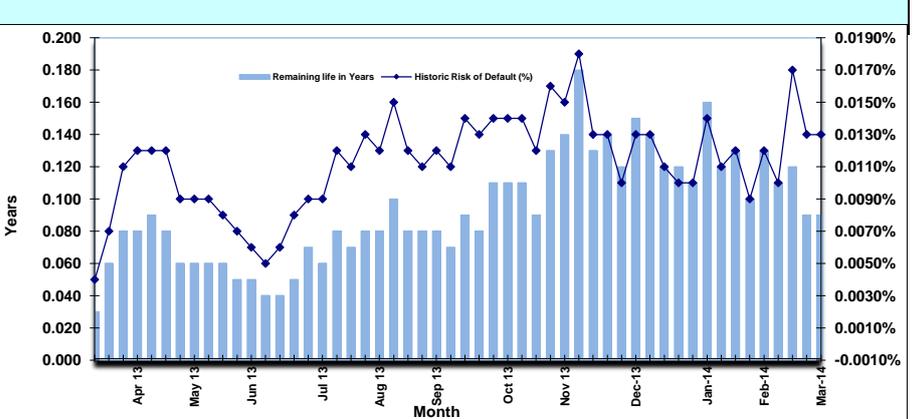
Graph 5a - Investments by Sector (In-house)



Graph 5b - Investments In-house -v- Cash Manager



Graph 6 - Security & Liquidity of Investments



Prudential Indicators (Treasury Management)

The Council sets each year a number of prudential indicators for treasury management. The following tables show that these indicators have not been exceeded in the month of March 2014.

Gross Outstanding Debt (£millions)		
	Debt	PFI
Authorised limit	311	60
Operational boundary	300	60
Minimum o/s	208	-
Maximum o/s	208	-

Variable Rate Debt (%age)	
Maximum limit	40.0
Maximum amount o/s	0.0
<i>(NB. The maximum limit for fixed rate debt is 100% and cannot therefore be breached.)</i>	

Net Outstanding Debt (£millions)		
	Debt	PFI
Minimum capital financing requirement	282	60
Maximum net debt o/s	130	-

Debt Maturity Profile (%ages)					
	<12 mths	1-2 yrs	2-5 yrs	5-10 yrs	>10 yrs
Maximum limit	40.0	40.0	50.0	75.0	100.0
Minimum limit	0.0	0.0	0.0	0.0	40.0
Maximum o/s debt	0.0	1.9	3.4	8.0	86.7