



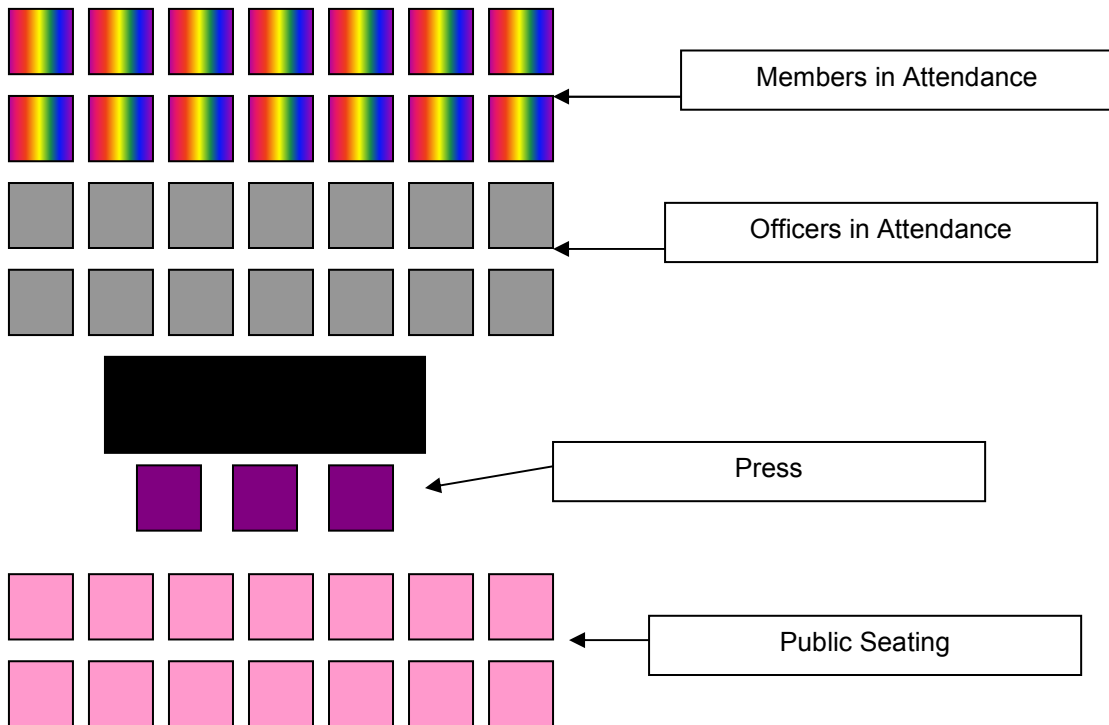
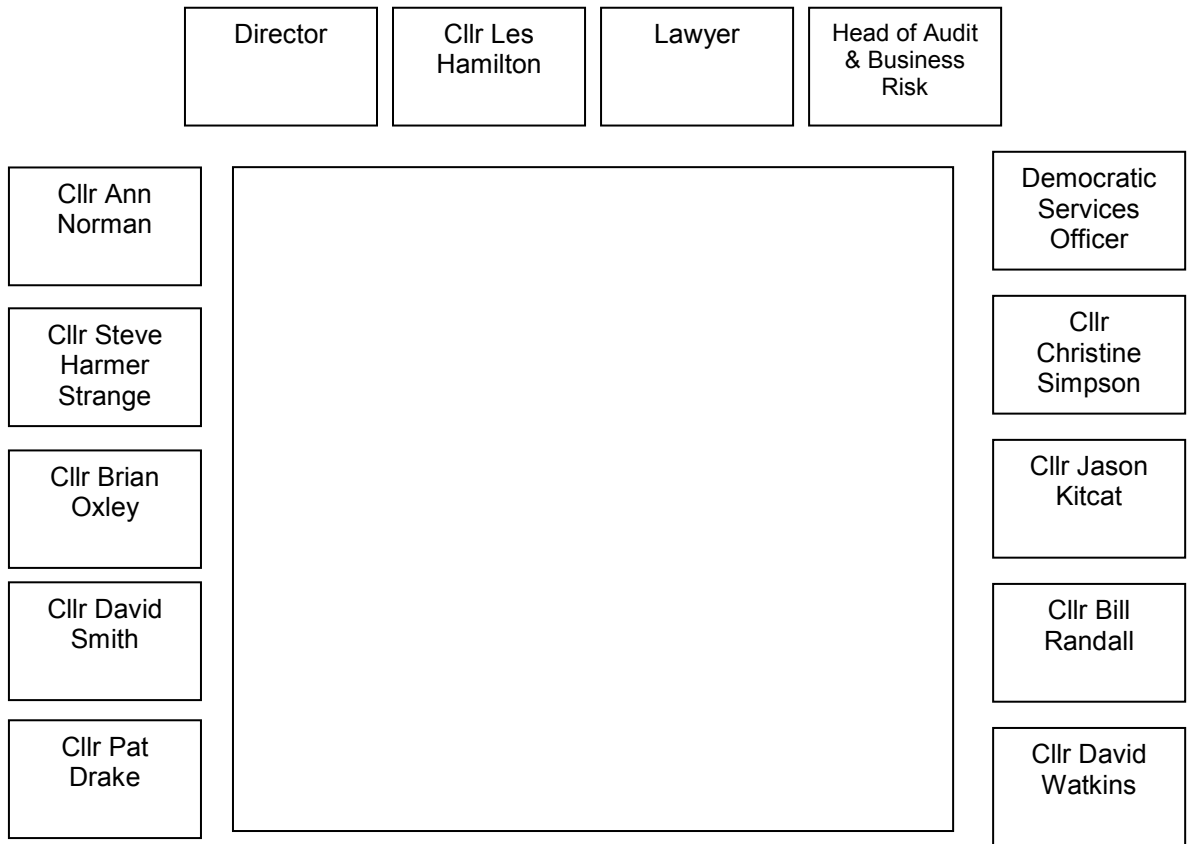
Brighton & Hove
City Council

Audit Committee

Title:	Audit Committee
Date:	5 April 2011
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chairman), Watkins (Deputy Chairman), Drake, Harmer-Strange, Kitcat, A Norman, Oxley, Randall, Simpson and Smith
Contact:	John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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Democratic Services: Meeting Layout



AGENDA

62. PROCEDURAL BUSINESS

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

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

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

63. MINUTES OF THE PREVIOUS MEETING

1 - 8

Minutes of the meeting held on 14 December 2010 (copy attached).

64. CHAIRMAN'S COMMUNICATIONS

65. PETITIONS

No petitions received by date of publication.

66. PUBLIC QUESTIONS

(The closing date for receipt of public questions is 12 noon on 29 March 2011)

No public questions received by date of publication.

67. DEPUTATIONS

(The closing date for receipt of deputations is 12 noon on 29 March 2011)

No deputations received by date of publication.

AUDIT COMMITTEE

68. LETTERS FROM COUNCILLORS

No letters have been received.

69. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions have been received.

70. ANNUAL STATEMENT OF ACCOUNTS 2010/11 PROGRESS UPDATE & INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) VERBAL UPDATE

Contact Officer: *Patrick Rice* Tel: 29-1268

71. TARGETED BUDGET MANAGEMENT (TBM) MONTH 9 9 - 62

Report of the Director of Finance (copy attached)

Contact Officer: *Patrick Rice* Tel: 29-1268

72. TREASURY MANAGEMENT POLICY STATEMENT 63 - 86

Report of the Director of Finance (copy attached)

Contact Officer: *Peter Sargent* Tel: 29-1241

73. ANNUAL INVESTMENT STRATEGY 2011/12 87 - 104

Report of the Director of Finance (copy attached)

Contact Officer: *Peter Sargent* Tel: 29-1241

74. INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2011/12 105 - 146

Report of the Director of Finance (copy attached)

Contact Officer: *Ian Withers* Tel: 29-1323

75. RISK & OPPORTUNITY UPDATE & STRATEGIC RISK REGISTER 147 - 164

Report of the Director of Finance (copy attached)

Contact Officer: *Jackie Algar* Tel: 29-1273

76. AUDIT COMMISSION: PROGRESS REPORT 20010/11 165 - 180

Report of the Audit Commission (copy attached)

77. AUDIT COMMISSION: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 181 - 194

Report of the Audit Commission (copy attached)

AUDIT COMMITTEE

- 78. AUDIT COMMISSION: FEES LETTERS 2011/12** **195 - 202**

Report of the Audit Commission (copy attached)

- 79. AUDIT COMMISSION: 2010/11 OPINION AUDIT PLAN** **203 - 228**

Report of the Audit Commission (copy attached)

- 80. AUDIT COMMISSION: ASSURANCES FROM THE AUDIT COMMITTEE AS THE BODY CHARGED WITH GOVERNANCE 2010/11** **229 - 232**

Report of the Audit Commission (copy attached)

PART TWO

- 81. PART TWO MINUTES OF THE PREVIOUS MEETING** **233 - 234**

Part Two minutes of the previous meeting held on 14 December 2010 (copy attached)

- 82. PART TWO ITEMS**

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

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

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

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

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

Date of Publication - Monday, 28 March 2011

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 14 DECEMBER 2010

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chairman), Watkins (Deputy Chairman), Kitcat, Oxley, Randall, Simpson, Smith, Simson and K Norman

PART ONE

41. PROCEDURAL BUSINESS

41a Declaration of Substitutes

41.1 Councillor Ken Norman was attending as substitute for Councillor Ann Norman and Councillor Simson was attending as substitute for Councillor Drake.

42b Declarations of Interest

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

42c Exclusion of the Press and Public

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

42.4 **RESOLVED** - That the press and public be excluded from the meeting during consideration of item 58 Non-Public Minutes of the Previous Meeting, item 59 Fraud Risk Analysis and 60 Corporate Risk Management Action Plan Focus as these items were exempt under Paragraph 3 of Schedule 12A of the 1972 Act (information relating to the financial or business affairs of the authority).

42. MINUTES OF THE PREVIOUS MEETING

- 42.1 **RESOLVED-** That subject to one amendment of grammatical error the minutes of the previous meeting held on 28 September 2010 be approved and signed as the correct record.

43. CHAIRMAN'S COMMUNICATIONS

- 43.1 The Chairman invited Members to a brief end of year function to be held after the meetings conclusion.

44. PUBLIC QUESTIONS

- 44.1 There were none.

45. WRITTEN QUESTIONS FROM COUNCILLORS

- 45.1 There were none.

46. DEPUTATIONS

- 46.1 There were none.

47. PETITIONS

- 47.1 There were none.

48. LETTERS FROM COUNCILLORS

- 48.1 There were none.

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

- 49.1 The Committee considered a report of the Director of Finance which informed Members of the action taken during the period April to September 2010 to meet the Treasury Management Policy Statement and practices and the investment strategy.

- 49.2 Councillor Kitcat queried that if, as addressed in item 3.3 of the report “the return on investments by the in-house treasury team and cash manager has significantly exceeded the target rate” why, as noted in item 5.1 “£150,000 from the reserve set up to offset the projected short term reductions in investment income will be needed during 2010/11”.

- 49.3 The Loans and Technical Manager responded that investment income, although higher than the benchmark, was below the projected return at the time the 2010/11 Budget was agreed. This was demonstrated in the performance table in item 3.9.
- 49.4 The Chairman asked if the increase in the risk indicator rating was expected to continue.
- 49.5 The Loans and Technical Manager clarified that there was very little risk within the investment portfolio overall as a result of limiting the maximum period for investments to 3 months. An extension to the maximum period was currently being considered to improve the return on investments. The proposal is likely to increase marginally the risk in the investment portfolio but still within the 0.05% indicator agreed within the Annual Investment Strategy.
- 49.6 **RESOLVED-** That the report is noted by the Committee.

50. PROPOSED REVIEW ON THE EFFECTIVENESS OF THE AUDIT COMMITTEE

- 50.1 The Committee considered a report of the Director of Finance on the proposed review of the effectiveness of the Audit Committee. It would be the first review of the Committee since its inception in 2008 and Member involvement was requested. The review would be completed by February 2011 and subsequently brought as a report to the April 2011 Audit Committee meeting.
- 50.2 Councillor Oxley conveyed his strong approval of the proposals and requested clarification of the definition of 'key officers and members' as addressed in the report.
- 50.3 The Chairman suggested this would entail himself and the Deputy Chairman as well as a nominated representative from each party. Members were in agreement with this proposal.
- 50.4 **RESOLVED-** the Audit Committee Members agree the proposed review on the effectiveness of the Audit Committee

51. INTERNAL AUDIT PROGRESS REPORT 2010/11

- 51.1 The Committee considered a report of the Director of Finance that summarised the progress by Audit and Business Risk against the Internal Audit Plan for 2010/11. The report provided results from the reviews completed since September and reported the achievement against Internal Audit Key Performance Indicators. The Audit and Business Risk Manager supplemented that no audits had been given limited or no assurance thus far.
- 51.2 The Chairman noted that 31% of audits were yet to have started and asked the Audit and Business Risk Manager if he could give assurance that these would be completed within the next three and a half months.

- 51.3 The Audit and Business Risk Manager concurred that there were a high number of reviews remaining but he anticipated that many of these would have a short timescale so he was confident that these would be completed within the required deadline.
- 51.4 Councillor Randall requested further information on the one high priority- Residential Care for the Elderly. The Audit and Business Risk Manger responded that he didn't have the details for this risk to hand but would provide them to Councillor Randall subsequent to the meetings conclusion.
- 51.5 Councillor Kitcat asked if there were still vacancy issues within Internal Audit and Business Risk and if this having an impact on the audit schedule.
- 51.6 The Audit and Business Risk Manager clarified that there were still vacancies within his department. These would be re-evaluated subsequent to an impending structural review.
- 51.7 Councillor Kitcat enquired if the audit arrangement with Deloitte would continue.
- 51.8 The Audit and Business Risk Manger responded that it was and further options relating to this partnership would also be examined as part of the stated structural review.
- 51.9 Councillor Watkins noted that 4.3 considered the sharing of resources with other authorities and asked for further clarity on the subject as he believed such agreements were already in place.
- 51.10 The Audit and Business Risk Manager answered that this related in particular to specialist staff the cost of whom could not be justified in relation to need as a permanent position.
- 51.11 **RESOLVED-** That the Audit Committee note the contents of the progress report, in particular the status of planned internal audit work for 2010/11.

52. ANNUAL GOVERNANCE STATEMENT 2009/10 ACTION PLAN UPDATE

- 52.1 The Committee considered a report of the Director of Finance that provided Members with a progress update on the implementation of actions agreed in the Annual Governance Statement for 2009/10.
- 52.2 Councillor Kitcat queried why staff development for Human Resources and Organisational Development was categorised at 0%.
- 52.3 The Audit and Business Risk Manager clarified that this figure had been given by the Head of Human Resources and Organisational Development.
- 52.4 The Acting Head of Financial Services added that the development of the new Human Resources payroll system had stunted progress and the training programme was now being rolled out.

52.5 **RESOLVED-** That the Audit Committee notes the Annual Governance Statement Action Plan.

53. RISK AND OPPORTUNITY MANAGEMENT (ROM): UPDATE

53.1 The Committee considered a report of the Director of Finance. The report detailed the reasons for the proposed change from a Corporate Risk Register to a Strategic Risk Register to be implemented from April 1st 2011. The report also outlined how Corporate Risks would continue to be managed up to that point and proposals on how a new Performance and Risk Management Framework would enable the better integration of risk management into the council's new operating model.

53.2 Councillor Kitcat asked if the move from a Corporate Risk Register to a Strategic Risk Register was simply highlighting the change of identity in the council operating model.

53.3 The Risk and Opportunity Manager replied that the Strategic Risk Register would reflect risk related to the council's new structural set-up. It would be based on risk assessment against achievement of objectives, as for the Corporate Risk Register it would no longer be aligned to Directors as before and instead be shared across the Corporate Management Team.

53.4 **RESOLVED-** That:

- 1) The Audit Committee notes that a new Strategic Risk Register to replace the current Corporate Risk Register is to be prepared for the Audit Committee's April 2011 meeting.
- 2) The Chair and Deputy Chair of the Audit Committee, between December and April 2011 will meet with the Risk Manager and Head of Audit & Business Risk to be provided with updates on:
 - Progress towards the new Strategic Register
 - Measures to enhance the integration of Risk Management as part of the new council structure

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

- 3) Note that the updated Risk Management Action Plans which detail work to address current Corporate Risks have been updated and will be reported under the name "Corporate Risk Management Action Plans Focus" in the confidential session of this meeting.

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

54.1 The Committee considered a report of the Director of Finance that set out the revenue and capital forecast outturn position as at month six.

54.2 **RESOLVED-** That the Audit Committee notes the report.

55. AUDIT COMMISSION: PROGRESS REPORT

55.1 The Committee considered a report of the Audit Commission that updated Members on audit progress for 2009/10 and changes to the 2010/11 audit approach.

55.2 The Chairman enquired as to developments surrounding the issue of mutualisation of the Audit Commission.

55.3 The District Auditor clarified that a business plan was currently being put together by those involved. The next stage would be to source agreement from the Secretary of State on the proposals which it was hoped would be confirmed by February 2011.

55.4 **RESOLVED-** That the Audit Committee note the report.

56. AUDIT COMMISSION: ANNUAL AUDIT LETTER 2009/10

56.1 The Committee considered a report of the Audit Commission that summarised their findings from the 2009/10 programme of audit work.

56.2 Councillor Oxley referred to the Audit Commission's national survey which rated the Council's performance as "amber" with reference to its project plan for implementation of the International Financial Reporting Standards (IFRS) and asked for further information.

56.3 The Audit Manager explained that due to the Council's transparent and helpful approach, he was very confident there would be progress made on this and a green rating achieved. He would bring this issue back to the Committee in the event this rating did not change.

56.4 **RESOLVED-** That the Audit Committee note the report.

57. AUDIT COMMISSION: REVIEW OF HOUSING REPAIRS AND MAINTENANCE CONTRACT 2009/10

57.1 The Audit Committee considered a report of the Audit Commission on its findings and conclusions from their review of the Council's housing repairs and maintenance contract. This report was now final and an action plan had been agreed with housing officers.

57.2 **RESOLVED-** That the Audit Committee note the report.

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

58.1 **RESOLVED-** That the Part Two minutes of the previous meeting held on 28 September 2010 be approved and signed as the correct record.

59. FRAUD RISK ANALYSIS AND LOSS MEASUREMENT (EXEMPT CATEGORY 3)

59.6 **RESOLVED-** That the Committee note the report.

60. CORPORATE RISK MANAGEMENT ACTION PLAN FOCUS (EXEMPT CATEGORY 3)

60.7 **RESOLVED-** That the Committee note the report.

61. PART TWO ITEMS

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

The meeting concluded at 5.50pm

Signed

Chair

Dated this

day of

**EXTRACT FROM THE PROCEEDINGS OF THE CABINET MEETING
MEETING HELD ON THE 17 FEBRUARY 2011****COUNCIL CHAMBER, HOVE TOWN HALL****MINUTES**

Present: Councillors Mears (Chairman), Brown, Caulfield, Fallon-Khan, K Norman, Simson, Smith, G Theobald and Young

Also in attendance: Councillors Mitchell (Opposition Spokesperson) and Randall (Opposition Spokesperson)

Other Members present: Councillors Hamilton, Hawkes, Kemble, Kitcat and A Norman

PART ONE**162. TARGETED BUDGET MANAGEMENT (TBM) 2010-11 MONTH 9**

- 162.1 The Cabinet considered a report of the Director of Finance concerning the council's revenue and capital forecast outturn position as at month 9.
- 162.2 In response to a question from Councillor Mitchell concerning proposals for a coach and lorry park in the city, the Chairman advised that possible sites were being identified and that she would write to Councillor Mitchell once more information was available.
- 162.3 Councillor Brown welcomed the work undertaken within Children's Services to reduce the overspend in their budget.
- 162.4 The Chairman thanked the finance officers and officers within individual departments for the significant work on achieving the position stated within the report.
- 162.5 **RESOLVED** – That, having considered the information and the reasons set out in the report, the Cabinet accepted the following recommendations:
- (1) That the provisional outturn position for the General Fund be noted
 - (2) That the provisional outturn for the Section 75 Partnerships and Housing Revenue Account (HRA) for 2010/11 be noted.
 - (3) That the changes to the capital programme, as set out in appendices 2 to 6, be approved

The meeting concluded at 7.40pm

ITEM 71 ON THE AUDIT COMMITTEE AGENDA

CABINET

Agenda Item 162

Brighton & Hove City Council

Subject:	Targeted Budget Management (TBM) 2010/11 Month 9		
Date of Meeting:	17 February 2011		
Report of:	Director of Finance		
Contact Officer:	Name: Jeff Coates	Tel: 29-2364	
	E-mail: jeff.coates@brighton-hove.gov.uk		
Key Decision:	Yes	Forward Plan No: CAB16791	
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report sets out the revenue and capital forecast outturn position as at month 9.

2. RECOMMENDATIONS:

- 2.1 That Cabinet notes the provisional outturn position for the General Fund.
- 2.2 That Cabinet notes the provisional outturn for the Section 75 Partnerships and Housing Revenue Account (HRA) for 2010/11.
- 2.3 That Cabinet approves the changes to the capital programme, as set out in appendices 2 to 6.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

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

Forecast Outturn Month 6 £'000	Directorate	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
366	Adult Social Care	38,145	37,915	(230)	-0.6%
538	S75 Learning Disability Services	24,112	24,370	258	1.1%
1,590	Children & Young People's Trust	56,184	56,491	307	0.5%
(9)	Finance & Resources	18,400	18,418	18	0.1%
97	Strategy & Governance	15,012	15,281	269	1.8%
170	Environment	39,084	39,765	681	1.7%
(7)	Housing, Culture & Enterprise	27,975	27,825	(150)	-0.5%
2,745	Sub Total	218,912	220,065	1,153	0.5%
(2,426)	Centrally Managed Budgets	4,213	1,347	(2,866)	-68.0%
319	Total Council Controlled Budgets	223,125	221,412	(1,713)	-0.8%
409	NHS Trust managed S75 Servs	13,434	14,016	582	4.3%
728	Total Overall Position	236,559	235,428	(1,131)	-0.5%

3.2 The Total Council Controlled Budgets line in the above table represents the total current forecast risk to the council's General Fund. This includes all directorate budgets, centrally managed budgets and council-managed Section 75 services. The NHS Trust-managed Section 75 Services line represents those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Trust and South Downs Health Trust and include health and social care services for Adult Mental Health, Older People Mental Health, Substance Misuse, AIDS/HIV, Intermediate Care and Community Equipment. The financial risk for these services generally lies with the relevant provider Trust. As detailed in Appendix 1 there is a proposal to share the Sussex Partnership Foundation Trust overspend between the Council and the Trust, if agreed the Council's contribution would be £0.248m and this would reduce the underspend on Council Controlled Budgets shown in the table above to £1.465m. The forecast outturn on the HRA is as follows:

Forecast Outturn Month 6 £'000	Housing Revenue Account	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Variance Month 9 %
(430)	Expenditure	48,202	47,419	(783)	-1.6%
284	Income	(48,202)	(47,821)	381	0.8%
(146)	Total	-	(402)	(402)	

Corporate Critical Budgets

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

Forecast Outturn Month 6 £'000	Corporate Critical	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
1,347	Child Agency & In House	22,328	22,579	251	1.1%
99	Sustainable Transport	(931)	(599)	332	35.7%
(290)	Housing Benefits	175,500	175,210	(290)	-0.2%
(412)	Concessionary Fares	7,712	6,885	(827)	-10.7%
153	Community Care	22,771	22,386	(385)	-1.7%
538	Section 75 Learning Disabilities	24,112	24,370	258	1.1%
1,435	Total Council Controlled	251,492	250,831	(661)	-0.3%
409	S75 NHS & Community Care	13,434	14,016	582	4.3%
1,844	Total Corporate Criticals	264,926	264,847	(79)	0.0%

Collection Fund

- 3.4 The Collection Fund position has improved due to increased collection of council tax income and it is now forecast to break even by the end of the financial year.

Value for Money Programme - Update

- 3.5 Efficiency savings (benefits realisation) from the council's six priority value for money projects for 2010/11 are fully incorporated in the above TBM forecast and Appendix 1. An update on the Value for Money Programme is included in the Budget Report being presented to this meeting.
- 3.6 Six priority areas were identified for Phase 2 of the council's Value for Money (VFM) programme with anticipated savings (gains) of circa £35 million anticipated over a 4 year period. Updates on the projects have been provided throughout the year to Cabinet. As at TBM Month 9, Phase 2 of the Value for Money Programme is expected to achieve savings of £3.575 million in 2010/11. This is a significant overachievement of £0.766 million compared with the target of £2.809 million. This will not only help the council to manage well within budget during 2010/11 but the ongoing impact of these higher savings will also contribute significantly to meeting the financial challenges inherent in the 2011/12 budget. Phase 2 of the VFM programme will contribute savings of £5.552 million to the 2011/12 budget, which is an additional £2.802 million compared to the original 4-year savings profile set out in the VFM Update report to Cabinet in July 2010.

Capital Budget 2010/11

- 3.7 This part of the report details the expected capital programme outturn for 2010/11, highlights any programme slippage, details new schemes and budget changes and seeks approval for slippage to the 2011/12 programme. Appendices 2 to 6 show in detail the proposed changes to the budget, resulting in a capital programme budget of £92.102m. These changes are summarised in Appendix 2.

Capital Overspends & Underspends

- 3.8 Where schemes are forecast to exceed their budget, budget holders must identify additional resources to finance the shortfall. Forecast overspends of greater than £0.050m or 10% of the original budget are required to be reported back to Members; either in detailed reports or through this capital monitoring report. Scheme delays or 'slippage' are also monitored in an effort to ensure schemes are delivered not only on budget, but also on time. Where a scheme is forecast to slip by £0.050m or more, the budget holder will report back to Members, on the amount and the impact of the delay on service delivery.
- 3.9 The Council's overall projection is a net overspend of £0.154m on all capital schemes..The Housing Revenue Account is forecasting a net underspend of £0.018m. These variances are set out in more detail in the appendices to this report.

Capital Slippage

- 3.10 Capital slippage into next year has been included this month on the schemes identified in Appendix 5. Project managers have forecast that £3.546m of the capital budget may slip into the next financial year. Of this, £0.596m relates to devolved school budgets – budgets over which schools control the timing of the expenditure. The net slippage on the directly controlled budgets therefore amounts to £2.950m, or 3.21% of the budget. Requests to reprofile capital budgets are also included in the appendices.

Capital Receipts

- 3.11 Capital receipts are used to support the capital programme. For 2010/11 the programme is fully funded, however, any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds such as the Strategic Investment Fund, Asset Management Fund and ICT Fund.
- 3.12 Capital receipts (excluding housing) were estimated to be £1.125m for 2010/11 and to date £1.189m has been received which includes the disposal of Cedars Lodge, the final balance on Pioneer House and the deposits for American Express and Charter Hotel. This currently exceeds the expected budget by £0.064m.
- 3.13 The level of sales of council homes through 'right to buy' has been severely affected by the current market conditions in house prices generally and the higher cost and availability of mortgages in the current economic climate. The Government receive 75% of the proceeds of 'right to buy sales'; the remaining 25% is retained by the Council and used to fund the capital programme. The estimated useable receipts for 'right to buy' sales is £0.492m for this financial year and to date £0.297m has been received.

Comments by the Director of Finance & Resources

- 3.14 The General Fund Revenue Budget elsewhere on this agenda requires the Chief Finance Officer to consider the robustness of estimates included in the budget. This review has been undertaken based on the financial projections included within this TBM 9 report, ensuring that service pressure funding has been

incorporated into the budget, savings or mitigating actions identified to reduce the pressures or risk provisions put in place.

- 3.15 It is pleasing to note that the council has been successful in delivering a planned underspend to assist with the budget setting process for 2011/12. The actions from the value for money programme and financial recovery plans have been a major contributory factor. Recently imposed spending constraints are also having an impact.

4. CONSULTATION

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

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Legal Implications:

- 5.2 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: 27/01/11

Equalities Implications:

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

Sustainability Implications:

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

Crime & Disorder Implications:

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

Risk & Opportunity Management Implications:

- 5.6 The council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a working balance of £9.000m to mitigate these risks as recommended by the Audit Commission and Chartered Institute of Public Finance & Accountancy (CIPFA). The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

Corporate / Citywide Implications:

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

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 The forecast outturn position on council controlled budgets is an underspend of £1.713m. Any end of year underspend will need to be carried forward to general reserves and will be used to support the 2011/12 budget setting process.

7. REASONS FOR REPORT RECOMMENDATIONS

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

SUPPORTING DOCUMENTATION

Appendices:

1. Directorate Revenue Outturn Forecasts
2. Capital Outturn Position
3. Summary of New Capital Schemes
4. Summary of Variations to Capital Budget
5. Summary of Capital Slippage Identified
6. summary of Capital Overspends / Underspends Identified

Documents in Members' Rooms

None

Background Documents

None

Adult Social Care

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
366	Adult Social Care	38,145	37,915	(230)	-0.6%
366	Total	38,145	37,915	(230)	-0.6%

Explanation of Key Variances

The forecast underspend of £0.230m against Adult Social Care (excluding Learning Disabilities) is after the achievement of a significant service improvement programme which includes the Value for Money project. This is expected to deliver planned savings of £1.711m which is in the main due to a very successful re-ablement strategy.

The forecast has improved by approximately £0.600m (1.5% of net budget) from Month 6, mainly due to Older People Community Care, reflecting a reduction of 30 WTE client numbers. The main improvement is within homecare where actions from the Personalisation agenda have helped to significantly reduce the number of clients and unit costs. There continues to be a systematic review of clients' packages of care, scrutiny at panel (including maximising benefits and financial contributions) and further savings from re-ablement (leading to lower packages of care). Also the previous growth assumptions have been revised to reflect actual activity data.

The overall forecast on the Community Care budget is an underspend of £0.385m. Within this the Physical Disabilities Community Care is forecast to overspend by £0.293m, which is an improvement on previous years. This is as a result of the complex caseload and expected 504 Whole Time Equivalent (WTE) placements compared with budget assumption of 474 WTE placements. Regular monitoring and reviews are being carried out to address the in year pressures. This is offset by an underspend of £0.678m on the Older People Community Care budget, which is due to 82 WTE placements less than budgeted.

There is a £0.125m pressure on staffing and income budgets relating to Carelink Plus. A management action plan is in place, which includes an agreed increase in charges from 1st January 2011 and the development of a Business Plan to address the future funding of Telecare equipment.

Children & Young People’s Trust

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
(455)	Director	3,309	2,854	(455)	-13.8%
438	Area Integrated Working	31,908	32,103	195	0.6%
340	Learning , Schools & Skills	5,894	6,009	115	-2.0%
1,267	Commissioning & Governance	15,073	15,525	452	3.0%
1,590	Total	56,184	56,491	307	0.5%

Explanation of Key Variances

Director (£0.455m underspend). The underspend mainly relates to the decision made by Cabinet in July to reprioritise £0.434m from unallocated Dedicated Schools Grant (DSG) money to offset the overall directorate overspend. Of this, £0.034m is being used to fund Information Management within the commissioning & Governance branch. In addition there are savings of £0.055m in other areas.

Area Integrated Working (£0.195m overspend), this branch leads on the development of integrated area working, including early intervention and prevention. Area working includes the Youth Service, Children’s Centres, Education Psychology Service (EPS), Education Welfare Service (EWS), frontline social work teams; Leaving Care team and the Fostering Service.

The overspend in this branch relates to two main areas: Legal fees and Area Social Work Teams. Legal fees are currently forecast to overspend by £0.257m. Legal expenses have increased due to changes in the law by the Public Law Outline (PLO). This is due to several factors, primarily the significant increase in the number of children being referred for care proceedings in line with national trends. In addition to this, the Court Fees have been increased by the Ministry of Justice and the cost of the Court issue Fee has increased from £175 to over £4,000 per fully contested case.

The children’s social work teams continue to be under pressure because of their statutory duties around child protection and looked after children’s duties. There also continues to be a churn in frontline social workers leaving from the most pressurised teams i.e. the children’s social work front doors. As a result of both of these factors the majority of the projected overspend within this area of £0.511m is due to agency social work staff. The branch has a robust rolling programme of recruitment and retention including a bursary scheme to attract newly qualified social workers from the universities. This intake of newly qualified social workers will help towards reduction on dependency on agency social workers.

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The overspends in this branch are partially off-set by underspends in In-House placements and services for care leavers totalling £0.506m. These underspends have primarily resulted from unit costs being significantly below the anticipated level.

Learning, Schools & Skills (£0.115m overspend), the main area of overspend in this area relates to disability agency placements £0.322m. This is partially off-set by underspends in Home to school transport (£0.096m) and Admin SEN team (£0.070m).

Commissioning and Governance (£0.452m overspend), this branch is responsible for producing and monitoring the Children and Young people's Plan and the effective operation of the council's Section 75 Agreements with our health partners for the joint commissioning and provision of integrated children's services. In addition the branch is responsible for the commissioning and procurement of fostering and residential agency placements for individual children and the oversight and monitoring of associated budgets. The number of placements, and level of expenditure, relates directly to the significant and sustained level of referrals to social care (at times up to 61%) following the Baby P. case and the Laming recommendations. This has resulted in a 46% increase in the number of children with a child protection plan and a 21% increase in the number of looked after children between April 2009 and September 2010. The main areas of overspend in this area relate to Independent Foster Agency Placements of £0.938m. The underspend in Secure accommodation of £0.504m reduces the overall overspend in this branch.

The projected spend on agency placements (excluding disability placements) fell by £0.796m between month 6 and month 9. The previously experienced levels of growth in placements was not repeated in the last quarter, leading to a projected reduction in FTE placements of 5.2. In addition, there was a reduction in the average unit cost of high cost secure placements by £43.56 per week to £1,161.09 per week.

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

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

Finance & Resources

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
(60)	Finance	6,042	5,979	(63)	-1.0%
(272)	Customers & Information	9,461	9,066	(395)	-4.2%
323	Property & Design	2,897	3,373	476	16.4%
(9)	Total	18,400	18,418	18	0.1%

Explanation of Key Variances

Within Finance there is a total forecast underspend of £0.063m, which is an improvement of £0.004m from Month 6. There is a staffing underspend and additional income in Audit & Business Risk of £0.033m. Strategic Finance are showing an underspend of £0.030m from Procurement rebate income.

Customers & Information are forecasting an underspend of £0.395m. This is an improvement of £0.123m from Month 6, due primarily to savings on ICT desktop renewals budget. There is a surplus of £0.290m relating to additional Housing Benefits income based on current subsidy arrangements. There are pressures on court costs and other supplies and services which are partially offset by additional land charges income of £0.083m, vacancy management savings and expenditure constraints across the division.

Property and Design are forecasting a shortfall on rental income of £0.282m (a movement of £0.138m from Month 6) from the commercial portfolio due to the national uncertain economic conditions. Rental income pressures and potential voids seem to be growing and although there are proactive measures in place to minimise the impact there is no scope for uplift on new and renewed lease agreements under these current market conditions. Property and Design will continue to secure the most advantageous rent settlements both for short term and long term gain. A sum of £0.207m has been set aside to invest in Automatic Meter Readers (AMR's) for non Housing sites which will support the Government and Council's commitment to reduce carbon emissions through lowering energy consumption as part of the 10.10 campaign, as well as legal commitments such as the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which specifically states the need for installing AMR's as part of its early action metrics.

Strategy & Governance

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
(5)	Equalities & Communities	3,028	3,028	-	0.0%
-	Performance & Analysis	1,043	1,043	-	0.0%
(4)	Legal & Democratic Servs	3,256	3,229	(27)	-0.8%
(10)	Policy Unit	1,098	1,087	(11)	-1.0%
47	Human Resources	4,458	4,696	238	5.3%
-	Executive Office	1709	1709	-	0.0%
69	Communications	420	489	69	16.4%
97	Total	15,012	15,281	269	1.8%

Explanation of Key Variances

An overspend of £0.269 million is forecast for the group of services previously within the Strategy & Governance Directorate, an increase of £0.172 million since month 6.

The Human Resources service pressures are being offset by income giving a net position of £0.238 million overspend (an increase of £0.191m from Month 6). The reason for the increased pressure partly relates to additional staffing costs and shortfalls in income from rechargeable services.

Within Communications there are salary and other service pressures - it is anticipated that these will largely be offset by income surpluses, project contributions from other directorates. The Communications Value for Money review continues to generate savings across service communications budgets in 2010/11 and plans are in place to consolidate budgets for 2011/12 which is expected to generate significant procurement savings.

Environment

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
81	City Services	30,131	30,500	369	1.2%
(105)	Sport & Leisure	2,012	1,907	(105)	-5.2%
99	Sustainable Transport	(931)	(599)	332	35.7%
95	City Planning	7,872	7,957	85	1.1%
170	Total	39,084	39,765	681	1.7%

Explanation of Key Variances

The forecast overspend in City Services relates to two main areas, Traveller Liaison and City Clean. The cost of providing 24 hour security at Horsdean Traveller Site is now estimated to be £0.085m, and the higher than budgeted costs of rubbish clearance have risen to £0.086m. In addition, £0.063m was spent repairing the damage to toilet/shower doors. The Traveller Liaison Service has identified underspends of £0.011m, leaving a net overspend of £0.223m. The remaining overspend of £0.146m relates to utility costs at the Depot and an adjustment for a missed accrual from the 2009/10 year end. Other overspends within City Clean are offset by underspends at City Parks.

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

Sustainable Transport is forecasting an overspend against budget. The position has worsened since the last forecast. The recent days of snow have had an adverse effect on the revenue forecasts within Parking, reducing income by approximately £0.200m. While an overspend has been created in this budget area from the adverse weather there is a reduction in expenditure on concessionary travel because of the snow which has created a compensating saving on centrally managed budgets. The main forecast variance against budget relates to a drop in the number of Penalty Charge Notices being issued, which follows a nationally recognised trend for improved compliance. There is now likely to be a budget pressure this year of £0.826m. On-street Parking income is forecast to be £0.215m below budget and income from the ex-leased car parks is expected to be £0.043m short of budget, but this is partially offset by additional permit income of £0.150m. In addition, the refurbished Lanes and London Road Car Parks are contributing an extra £0.347m due to increased income generation. Underspends in parking related expenditure accounts for £0.339m, while underspends in other Sustainable Transport budgets contribute £0.066m. A range of measures have been implemented across the division with the aim of trying to bring the forecast back to a break even position.

There is a forecast overspend in City Planning of £0.085m due to a shortfall in income generated by the Building Control Service, and loss of the Planning Delivery Grant. Public Protection budgets are expected to underspend against budget by £0.040m due

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to vacancy management savings. Further investments have been made this year as part of the review of Advertising and Sponsorship. However, due to enforced delays, no income will be realised this financial year, causing an overspend of £0.026m. The remaining overspend of £0.014m is due to employee costs.

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Housing, Culture & Enterprise

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
50	Tourism & Venues	1,642	1,682	40	2.4%
-	Libraries & Information Servs	4,173	4,173	-	0.0%
-	Royal Pavilion & Museums	2,555	2,555	-	0.0%
(57)	Culture & Economy	3,478	3,421	(57)	-1.6%
-	Major Projects & Regeneration	355	355	-	0.0%
-	Housing Strategy	15,772	15,639	(133)	-0.8%
(7)	Total	27,975	27,825	(150)	-0.5%

Explanation of Key Variances

The overspend of £0.040m for Tourism and Venues is mainly due to projected income shortfalls for the Brighton Centre of £0.170m and the Hove Centre of £0.150m. There is also a pressure on contract costs on the Brighton Centre partially offset by vacancy management. The underachievement of income is as a result of a reduced number of conferences during the year, reduced bookings at the Hove Centre and below target income from Holiday on Ice. Income potential will continue to be reviewed to address this pressure. The overspend is largely offset by a rates refund for the Brighton Centre of £0.310m.

The Royal Pavilion and Museums are projected to be on target. A rates refund has been received of £0.173m following the award of 80% charitable relief for Preston Manor and the Booth Museum, which is backdated to when NNDR was introduced in 1990, the majority of this refund will be applied to fund the capital lighting project at the Royal Pavilion.

The underspend of £0.057m in Culture & Economy is largely due to vacancy management savings.

Housing Strategy is forecasting an under-spend of £0.133m mainly due to improved collection of housing benefit on temporary accommodation within the leased accommodation budget. In particular this relates to the collection of any shortfalls where the housing benefit rate received is lower than the property charge.

There is however a pressure on the Housing Management Temporary Accommodation budget within the Housing Revenue Account of £0.160m.

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The loss of Supporting People Admin grant of £0.164m in 2010/11 is being covered within existing Housing Strategy budgets by vacancy management and one-off under-spends from the internal contracts within the Supporting People Welfare Grant.

Centrally Managed Budgets

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
(150)	Bulk Insurance Premia	3,019	2,844	(175)	-5.8%
(412)	Concessionary Fares	7,712	6,885	(827)	-10.7%
-	Capital Financing Costs	10,495	10,495	-	0.0%
-	Levies & Precepts	201	201	-	0.0%
(1,864)	Other Corporate Items	(17,214)	(19,078)	(1,864)	10.8%
(2,426)	Total	4,213	1,347	(2,866)	-68.0%

Explanation of Key Variances

The forecast saving of £0.175m on Insurance Premia is as a result of the review of annual insurance arrangements for 2010/11.

On Concessionary Fares there is an increase of £0.415m in the forecast underspend bringing the total for the year to £0.827m. The majority of this increase, £0.345m, relates to lower than projected journey numbers during the winter period. The final re-determination of the 2007/08 payment to Brighton & Hove Buses has been made by the Department for Transport and the council's share of the reduced payment from this re-determination is £0.070m.

On Corporate Items there is an ongoing risk provision within Contingency of £0.750m to cover risks identified in the Learning Disabilities budget and a further £0.750m to cover uncertainties in the budget. There is a one-off risk provision of £0.500m to support one-off risks and £0.500m is being released from contingency following a decision to reduce the 1% set aside to cover pay increases in 2010/11 to 0.5%.

Therefore the total provisions available in the budget is £2.500m of which £0.700m is being used to manage the implementation of the in year grant reductions and the remaining £1.800m is being used to off set in-year pressures identified elsewhere in the budget.

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

Section 75 Partnerships

Forecast Outturn Month 6 £'000	Division	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
538	Council managed S75 Servs	24,112	24,370	258	1.1%
409	NHS Trust managed S75 Servs	13,434	14,016	582	4.3%
947	Total S75	37,546	38,386	840	2.2%

Explanation of Key Variances

Council managed S75 services (Learning Disabilities) are forecast to overspend by £0.258m. The forecast overspend is attributed to:

- Learning Disabilities mainstream- staffing cost pressures £0.044m
- Learning Disabilities Community Care-forecast overspend of £0.214m equivalent to 4 Whole Time Equivalents (WTE's) in residential care

The forecast has improved by approximately £0.280m from Month 6, mainly due to the Community Care budget, reflecting a reduction of 5 WTE client numbers. This is due to managing growth more effectively, review of cases to cover level of need and care and ensure that appropriate funding is in place and robust management across in-house services costs.

The overspend of £0.258m assumes the achievement of £1.350m against a financial recovery plan of £1.420m to deliver savings identified within the budget strategy. The current forecast of the financial recovery plan assumes a further £0.083m to be delivered in addition to the £1.266m achieved to date.

NHS Trust managed S75 services are forecasting an overspend of £0.582m, which is an increase of £0.173m from Month 6. This is largely due to demand pressures against the Mental Health Community Care budget, reflecting further growth of 10 WTE client numbers.

The forecast is based on the following assumptions:

- Sussex Partnership Foundation Trust (SPFT) – forecast overspend of £0.496m after delivery of a financial recovery plan (see below). Significant overspends on community care budget (Adult Mental Health £0.475m, Older People Mental Health £0.436m and Substance Misuse £0.069m) due to the full year effect of 2009/10 placements offset by other savings of £0.034m and allocation of the joint commissioning pot of £0.450m for the development of mental health services.

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- Sussex Community Trust (SCT) – forecast overspend of £0.085m, due to a staffing pressures on intermediate care services. Options are being explored to deliver savings across a range of service provision.

Sussex Partnership Foundation Trust (SPFT) have developed a Financial Recovery Plan to work towards a reduced overspend position. Savings achieved to date are £0.465m against a target of £0.829m. There is ongoing dialogue with SPFT on management of placements.

Generally, the S75 Partnership Agreements require the Integrated Service Providers (Sussex Partnership Foundation Trust and Sussex Community Trust) to manage in-year cost pressures and carry this risk, subject to any agreement by the partners to vary risk-sharing provisions within the agreements. Sussex Partnership Foundation Trust has agreed the Financial Recovery Plan actions and to incentivise both partners to work together to achieve break even an agreement has been reached to share the 2010/11 financial risk 50:50. As part of this the council has recognised that pressures caused by demographic growth are the responsibility of the commissioning organisation to fund rather than the provider.

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Housing Revenue Account (HRA)

Forecast Outturn Month 6 £'000	Housing Revenue Account	2010/11 Budget Month 9 £'000	Forecast Outturn Month 9 £'000	Forecast Variance Month 9 £'000	Forecast Variance Month 9 %
(273)	Employees	9,187	8,754	(433)	-4.7%
(287)	Premises – Repair	11,468	11,093	(375)	-3.3%
63	Premises – Other	3,110	2,992	(118)	-3.8%
189	Transport & Supplies	2,031	2,098	67	3.3%
(26)	Support Services	2,153	2,128	(25)	-1.2%
-	Third Party Payments	54	54	-	0.0%
-	Revenue contribution to capital	3,543	3,724	181	5.1%
(135)	Capital Financing Costs	3,729	3,585	(144)	-3.9%
39	Subsidy Payable	12,927	12,991	64	0.5%
(430)	Net Expenditure	48,202	47,419	(783)	-1.6%
(4)	Dwelling Rents (net)	(41,613)	(41,619)	(6)	0.0%
60	Other rent	(1,318)	(1,238)	80	6.1%
181	Service Charges	(4,034)	(3,781)	253	6.3%
11	Supporting People	(497)	(478)	19	3.8%
36	Other recharges & interest	(740)	(705)	35	4.7%
284	Net Income	(48,202)	(47,821)	381	0.8%
(146)	Total	-	(402)	(402)	

Explanation of Key Variances

The forecast for month 9 is an underspend of £0.402m compared to a forecast underspend of £0.146m at month 6.

- The employees forecast underspend has increased from £0.273m in month 6 to £0.433m. This increase is mainly due to the latest forecasts relating to TUPE costs for Property & Investment staff being reduced by £0.120m. The balance of the underspend is due to vacancy management both in Housing Management and Property and Investment. This is partly due to some Property and Investment posts in the new structure, which came into effect from 1 April, being recruited to later in the financial year than anticipated. The budget had assumed a full year establishment for all posts, therefore resulting in an underspend.
- The Premises Repairs forecast is an underspend of £0.375m compared to the month 6 forecast underspend of £0.287m. This includes:
 - The responsive repairs and empty properties budget which is forecast to underspend by £0.175m of which £0.092m is in relation to unit cost

- efficiencies on the works carried out on empty properties due to Mears achieving a reduction in the budgeted unit costs of £387 per unit.
- Service contracts which are being procured over the next 18 months, included within cyclical maintenance are anticipated to underspend by £0.273m.
 - The Premises Other budget is now forecast to underspend by £0.118m which mainly relates to the reduction in costs for Gas and Electricity. This forecast underspend has been offset by a reduction of heating charges to tenants of approximately £0.080m included in the Service Charges income forecast.
 - Transport & Supplies includes £0.100m towards the phased introduction of Automatic Meter Readers in Housing sites that fall under the gas and electric contracts. These are being purchased in order to provide more accurate meter readings, support active management of usage and to support the Council's commitment to reduce carbon emissions and meet the requirements of the Carbon Reduction Commitment Energy Efficiency Scheme.
 - Revenue Contributions to the Capital Programme have been increased by £0.181m towards the costs of the Housing Centre, the detail of this is included in the capital appendices also included in this Cabinet report.
 - Capital Financing costs are forecast to underspend by £0.144m due to forecast interest rates for the year being lower than the assumptions used for budget setting. The reduced interest rates also reduce the amount of subsidy allowance for capital finance costs therefore resulting in an increased Subsidy payable to the Government of £0.064m.
 - Leaseholder service charges income is projected to underachieve by £0.160m. This projection has been forecast following analysis of last year's outturn which has shown that the charges are likely to be less than budgeted for.

CAPITAL OUTTURN POSITION

Directorate	2010-11 Budget £'000	2010-11 New Schemes £'000	2010-11 Variations £'000	2010-11 Slippage £'000	2010-11 Budget £'000	2010-11 Outturn £'000	2010-11 Overspends / (Underspends) £'000
Strategy & Governance	983		(265)		718	718	-
Housing, Culture & Enterprise	10,477	240	(400)		10,317	10,317	-
Housing Revenue Account (HRA)	25,845		(6,240)		19,605	19,587	(18)
Finance & Resources	3,792		43		3,835	3,835	-
Adult Social Care	3,334		(233)		3,101	3,101	-
Children & Young People's Trust	50,428		(9,658)	(596)	40,174	40,174	-
Environment	16,670	2,211	(1,579)	(2,950)	14,352	14,524	172
Total Council Budgets	111,529	2,351	(18,332)	(3,546)	92,102	92,256	154

Summary of new schemes

	2010/11 Budget £'000	2011/12 Budget £'000	Total Budget £'000
New Schemes Summary			
Environment			
New Schemes over £50,000 (detailed in appendix)	2,093		2,093
Section 106 works (see table in appendix)	118	704	822
Housing, Culture & Enterprise			
New Schemes over £50,000 (detailed in appendix)	240		240
Total Changes to Budgets	2,451	704	3,155

Environment

Directorate: Environment

New Budget: 1,993,000

Project Title: Shoreham Harbour Regeneration Project

Brighton & Hove City Council, with West Sussex County Council (WSSCC) and other partners, has successfully secured a £5.000m grant from the Government's Homes and Communities Agency (HCA) to support the Shoreham Harbour Regeneration Project.

The grant will enable delivery of vital transport infrastructure improvements that will unlock Shoreham Harbour's potential. A report was presented to the Enterprise, Employment and Major Projects Cabinet Member meeting which showed the funding available for this scheme. For the financial year 2010/2011, £0.129m was received in revenue funds and £1.043m in capital funds from the Department of Communities and Local Government Growth Point Programme. In addition £0.314m revenue and £0.645m capital was carried forward from the 2009/2010 Growth Point allocation. This funding is being used to undertake essential technical studies including flood risk modelling, transport studies and a capacity and viability assessment. It will also be used for background evidence studies to underpin the Shoreham Harbour Planning Document if required.

Eco-Town funding of £0.260m revenue and £0.490m capital has been received which has been earmarked for investigative studies and an ecodemonstration project (PortZED). The local authorities together contributed £0.095m (£0.065m capital and £0.030m revenue) to cover

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staffing resources in addition to direct staff input. Of the total capital funding received, £0.250m has been reclassified as revenue expenditure meaning that in total £0.983m revenue and £1.993m capital is available for the project in 2010/2011. At this stage it is unclear whether further funding under either the Growth Point programme or Eco-Town funding will be made available for 2011/2012 and thereafter. A bid has been submitted on 24 September 2010 for up to £0.500m 'PortTown' funding from the European Union. The money would be used to improve links between the successful ports and their surrounding communities and with the other successful bidders.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
1,993			1,993

Directorate: Environment

New Budget: £822,000

Project Title: Section 106 Works

There is £0.118m of new Section 106 capital works planned for completion in 2010/11. The largest element of this is £0.084m relating to parks works. The remaining £0.034m relates to a number of smaller schemes, none of which are over £0.013m. These relate to highway works. The allocation for 2011/12 relates to parks works.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
118	704	0	822

Directorate: Environment

New Budget: £100,000

Project Title: Coach Park

The need for a purpose-built coach (& lorry) park has been recognised for some time. This was confirmed in the council's Coach Strategy, approved in 2004, which was developed in response to the growing coach travel market and the significant beneficial impact it could have on the city's economy.

Work to date was carried out as part of the council's Park and Ride study in 2004, in which consideration was given to possible locations for a permanent, purpose built coach/lorry park for the city. In January 2005, it was agreed that further investigations should be made into the feasibility of the former gas works site on Marina Way for coach parking, as this site was recommended as being the best potential location for this use.

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Those investigations concluded that the gasworks site was not feasible for permanent coach parking as:-

- it is already allocated for other land uses (housing and employment) in the approved Local Plan and Planning Advice Note for the Marina area, and would therefore be contrary to those allocations;
- it is not in the city council's ownership and may therefore have to be compulsorily purchased if it was to be developed by the council;
- the costs associated with preparing the land (especially decontamination) are considered to be considerable and unaffordable, for such a use.

Therefore it is proposed to establish a temporary facility in the short term.

This will be funded from the CLG (Communities and local Government) Seaside Towns Grant.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
100	0	0	100

Housing, Culture & Enterprise

Directorate: Housing, Culture & Enterprise

New Budget: £240,000

Project Title: Royal Pavilion Lighting

The Royal Pavilion is Brighton & Hove's most important and most photographed building. Its contribution to the visitor economy has been estimated to be in excess of £50.000m. (Royal Pavilion: impact, values, perceptions and strategy Brighton University 2006). The existing Royal Pavilion external lighting was installed in the early 1990s and, at that time, was an award winning scheme.

The scheme has now become irreparable, with less than 50% of the lighting still in working order. This has left some areas of the building in almost complete darkness at night and impossible for those areas to be seen by staff at night on CCTV cameras and hence there was a security risk to the building. A decision was made to switch off the lighting scheme and simply rely on the security lighting for the building. With a lighting scheme in operation, there is more light generally in the Royal Pavilion Garden and hence a higher feeling of security for the building, for anyone leaving the building after an evening function and for anyone walking through the grounds.

The brief for the new scheme was based around: reduction in energy consumption; reduction in wasted light (light pollution); lower maintenance costs; improved versatility of lighting; the ability to light individual architectural components of the building; mindful of security and security cameras; design and installation in harmony with the architecture of the building. These elements will all be achieved with the new scheme achieving between 94-96% energy savings and a considerably lower running cost – this is estimated at £1,500 per annum in comparison with £9,000 for the existing scheme. The cost for this scheme is £0.240m.

It is not possible to predict what the maintenance costs of the new scheme will be but, as with other repairs currently, these will be covered from existing budgets.

Capital Funding Sources and Expenditure Profile

£0.100m funding for 2010/11 was approved by Council in February 2010 towards the cost. Since then a further £0.140m has been identified for the scheme drawing on a NNDR rebate within the Royal Pavilion & Museums budgets.

It is anticipated that the majority of the costs will be paid within the current financial year but a small percentage may carry over to 2011/12.

Summary of Variations to Capital Budget

Schemes	2010/11 Budget £'000	2011/12 Budget £'000	Total Changes £'000
Finance & Resources			
Detailed Variations (over £50,000)	222	(222)	0
ICT - Information Management	(43)	43	0
Asbestos	(12)	12	0
Corporate Accommodation	(30)	30	0
Corporate Fire	(13)	13	0
Legionella	(3)	3	0
New England House	(31)	31	0
Madeira Lift	(47)	47	0
Total Finance & Resources	43	(43)	0
Environment			
Detailed Variations (over £50,000)	(1,623)	1,623	0
Walpole Road Bus Stop	(1)	1	0
Hollingdean Depot	45	(45)	0
Total Environment	(1,579)	1,579	0
Housing, Culture & Enterprise			
Detailed Variations (over £50,000)	(269)	269	0
Falmer Community stadium	(10)	10	0
West Pier / i360	(47)	47	0
Preston Barracks	(45)	45	0
The Keep	(10)	10	0
Falmer Released Land	(19)	19	0
Total Housing, Culture & Enterprise Variations	(400)	400	0
Housing, Culture & Enterprise (HRA)			
Detailed Variations (over £50,000)	(6,240)	6,240	0
Adult Social Care			
Detailed Variations (over £50,000)	(233)	233	0
Strategy & Governance			
Detailed Variations (over £50,000)	(265)	265	0
CYPT			
Detailed Variations (over £50,000)	(9,658)	9,658	0

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Total Changes to Budgets	(18,332)	18,332	0
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Detailed explanations of the variations

Environment

Directorate: Environment	Approved Budget: £920,000
Project Title: Gritter Vehicles	Revised Budget: £0
	Variation: £(920,000)

The delay in spend is due to market testing to ensure a more advantageous unit rate through a framework agreement as well as extensive research to ensure the vehicles are best value for the city's needs. Maintenance specifications are currently being finalised and the bid will be submitted very shortly. Delivery of the gritters is expected to be Autumn 2011 at the latest.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(920)	920	0	0

Directorate: Environment	Approved Budget: £597,540
Project Title: Playbuilder	Revised Budget: £140,000
	Variation: £(457,540)

Government suspended funding by over 3 months and provided less funding after the suspension, the Council provided the difference but this has delayed the project by over 3 months, resulting in the slippage to next year. This slippage will enable the project to be better managed, and scheduled when ground conditions are suitable. Project was due to be completed by 31st March 2011, project will complete 10 playsites by July 2011, one additional site will complete in autumn 2011 due to timing of enabling works.

Play sites have not been affected up to now, however they will be unavailable during early summer while works are undertaken. We will make every effort to keep sites unavailable for as short a period as possible. The capital cost of the scheme remains the same, revenue costs have been absorbed into existing budgets.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(458)	458	0	0

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Directorate: Environment	Approved Budget: £244,870
Project Title: Volks Railway Shed	Revised Budget: £0
	Variation: £(244,870)

The original funding agreed for the scheme is not sufficient to undertake a full replacement of the siding sheds. Following consultation with HMRI (Her Majesty's Railway Inspectorate) a revised scheme is being developed to identify the minimal cost to meet health and safety requirements.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(245)	245	0	0

Housing, Culture & Enterprise

Directorate: Housing, Culture & Enterprise	Approved Budget: £66,000
Project Title: Circus Street	Revised Budget: £5,000
	Variation: £(61,000)

The continuing problems in the development market, affecting both values and access to development finance, have meant that the developers have been unable to progress the scheme. There have been ongoing discussions about both the mix of uses and the financial offer to the City Council, and although there has been progress these issues have not been fully resolved. As such, many of the ongoing project costs have been put on hold to ensure there is only spending once we are confident we have a viable scheme. This is likely to happen in 2011/2012.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(61)	61		0

Directorate: Housing, Culture & Enterprise	Approved Budget: £179,000
Project Title: Open Market	Revised Budget: £45,000
	Variation: £(134,000)

Funding from the 2010/11 Approved Budget has been committed to support costs associated with achieving vacant possession of the site to enable the Cabinet approved scheme to progress. Although agreement between the various parties has been reached in principle, full vacant possession is not now expected until 2011/12, at which time funding will be required to complete the enabling transactions. The project timetable now sees construction work commence in March 2011, subject to planning, and completion of the temporary facility in June 2011. The existing market will be maintained for service users until the temporary facility is ready for occupation.

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2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(134)	134		0

Directorate: Housing, Culture & Enterprise
Project Title: New England House

Approved Budget: £90,000
Revised Budget: £16,400
Variation: £(73,600)

The budget for the New England House project was based on an assumption that early in 2011 the City Council would commission a professional team(s) to undertake a condition survey, designs for the new facility and cost consultancy. However, the Council is now considering alternative options for progressing the project that will expose the City Council to less up-front expenditure and risk and the outcome of this will be reported in due course to Cabinet. There is no effect on service delivery and there should be no long term effect on the project delivery and its desired outputs and outcomes. This is a capital project aimed at securing the future of the building helping to build the digital/creative sectors in the city. Funding originally allocated for the project in 2010/11 needs to be re-profiled to take into account the revised programme of work which may involve a full procurement process in accordance with Official Journal of the European Union (OJEU) regulations.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(74)	74	0	0

Housing, Culture & Enterprise (HRA)

Directorate: Housing, Culture & Enterprise (HRA)
Project Title: Windows

Approved Budget: £875,160
Revised Budget: £587,080
Variation: £(288,080)

The window replacement programme has been delayed for the Bristol Estate and Kingfisher Court due to the integration of these window replacement programmes with the Cladding programme timetable for these properties, where works are due to start in April 2011.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(288)	288	0	0

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There has been no effect on the day to day service delivered to tenants. The integration of the windows and cladding programme on these properties will give additional energy efficiency and costs benefits to tenants. These are now planned for Spring 2011.

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Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £1,206,400
Project Title: Cladding	Revised Budget: £13,000
	Variation: £(1,193,400)

The Cladding Programme has been delayed due to the original tender process failing as a result of prices being higher than anticipated. To ensure that our Partner, Mears, could demonstrate value for money for the city, a new tender process was then undertaken.

Due to the cost to leaseholders being over £250, a statutory 30 days consultation with leaseholders needs to be conducted and concluded before the work can commence. The nature of the work is also heavily affected by weather conditions therefore work will now start in Spring 2011.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(1,193)	1,193	0	0

There has been no effect on the day to day service delivered to tenants. The re-profile of this programme is not expected to have an impact on next year's programme.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £2,340,000
Project Title: External decorations & Repairs	Revised Budget: £2,080,000
	Variation: £(260,000)

The mobilisation of the Repairs and Improvement Partnership contract and the adverse weather in 2010, has delayed the planned works for Year 1 of the 2 year programme in South Whitehawk & Hangleton area. These works will be completed in 2011/12 along with other planned works in this area.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(260)	260	0	0

There has been no effect on the day to day service delivered to tenants. Carrying out all planned works in this area in one year will limit the impact on residents and create cost efficiencies.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £560,000
Project Title: Aerial Upgrade	Revised Budget: £0
	Variation: £(560,000)

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Housing Management's Property & Investment team have procured a long term agreement for the installation and maintenance of new digital communal aerial systems across the city. In order to ensure that residents and leaseholders are provided with value for money, significant research and analysis has been undertaken on areas such as equipment specification, ownership of the equipment, and length of the contract prior to the contract being offered out to tender.

A preferred contractor has now been agreed and work is due to commence in March 2011. There is a lead in period of customer liaison and mobilisation prior to installation therefore it is anticipated no costs to the council will be incurred in this financial year.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(560)	560	0	0

There are no likely effects on the service as the South East is not due for Digital Switchover of the TV aerials until 2012. The preferred contractor as part of the procurement process has provided a timetable of works to evidence that the installations will be complete by 2012.

Directorate: Housing, Culture & Enterprise (HRA)

Approved Budget: £214,000

Project Title: Door Entry Systems

Revised Budget: £50,000

Variation: £(164,000)

Housing Management's Property & Investment team are in the process of procuring a long term agreement for the installation and maintenance of new door entry systems across the city. There is already a contractor in place who carries out the day to day repairs and maintenance on the door entry systems and advises Property & Investment on the condition of them.

Under the new long term agreement residents and leaseholders should be provided with increased value for money, alongside this recruitment is currently taking place for two positions that will be involved in managing this contract to ensure that it will be run efficiently and effectively. This will enable the council to use its accumulated knowledge of the systems around the city to prioritise the work to be carried out

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(164)	164	0	0

There will be no effect on the service delivery as all required repairs are carried out once identified by existing Contractors.

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Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £605,000
Project Title: St James House	Revised Budget: £0
	Variation: £(605,000)

The St James House project consists of two elements: firstly the need to replace the existing communal gas boiler; and secondly the remedial work to the car-park. It has previously been reported that surveys and costs were to be updated prior to works being carried out (including finding an appropriate solution for the flue-dilution and location of the new boiler). The quotes for the specified works received were too high and did not deliver the required solutions.

The Council's Property & Investment team have been working with their Partner, Mears, to review the works to be carried out on St James House to ensure that the work meets the current requirements for the block, uses the most up-to-date and efficient technologies as well as providing value for money to leaseholders, residents and the city. It is anticipated that proposals for both the boiler replacement and the car park works will be prepared by mid-summer 2010.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(605)	605	0	0

There has been no effect on the day to day service delivered to tenants. The review of works is expected to be completed by March 2010. Once completed and a list of works agreed, a programme of works and financial forecast will be put together integrating both leaseholder and tenant consultation. In the meantime it is intended to re-open the car park temporarily until work commences.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £339,700
Project Title: Leach Court	Revised Budget: £0
	Variation: £(339,700)

The design and procurement process was completed in 2009/10 with works expecting to be carried out during 2010/11. However delays have occurred due to the prices quoted for the scope of the works specified being higher than expected and due to consultation with tenants to ensure their requirements are met.

To ensure that value for money is achieved and that an upgraded energy efficient heating system is provided, that meets tenant's requirements, further quotes have been requested. It is anticipated that works will now be carried out during the 2011/12 financial year.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(340)	340	0	0

The impact of the delayed upgrade of the heating system should have minimal impact to the residents at Leach Court, who are being consulted with during the process.

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Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £1,772,080
Project Title: Lift Replacement	Revised Budget: £455,280
	Variation: £(1,316,800)

This year's capital programme included the replacement of 6 lifts in the city. The procurement process for these lifts has been lengthy as there was significant work to be undertaken prior to the invitations to tender (ITT's) being issued. This included prioritising which lifts were to be replaced and providing prospective contractors with guidance as to our requirements to ensure all residents' needs are met whilst the lifts are being replaced. Procurement has now taken place and a preferred Contractor found. The work is due to start in March 2011 subject to Leaseholder consultation.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(1,317)	1,317	0	0

There will be no likely effects on the service delivery as the procurement for the lift replacements in 2011/12 has already started as part of a long-term maintenance and replacement contract.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £481,500
Project Title: Water Tank Replacement	Revised Budget: £170,000
	Variation: £(311,500)

Housing Management's Property & Investment team are in the process of procuring a long term agreement for the maintenance and replacement of communal water tanks across the city. There is already a contractor in place who carries out the day to day servicing, repairs and maintenance and advises Property & Investment on the condition of the tanks and any capital replacements that are required.

Under the new long term agreement, which is timetabled to be let in 2011/12 residents and leaseholders should be provided with increased value for money, alongside this recruitment is currently taking place for two positions that will be involved in managing this contract to ensure that it will be run efficiently and effectively.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(312)	312	0	0

There are no likely effects on the service delivery as all high-risk work has been identified and carried out. A Health & Safety Manager is in place and is continually monitoring the situation.

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Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £856,400
Project Title: Fire Safety & Asbestos management	Revised Budget: £580,000
	Variation: £(276,400)

The following factors have led to some of the Fire safety and Asbestos Management budget to be re-profiled into next financial year:-

- the additional time requirement for the reassessment of fire safety reports, meant that additional works could not be instructed and completed in this financial year.
- Consultation with tenants on their requirements has taken longer than anticipated, which meant that some of these works will not be completed in this financial year. These works will be added to next year's plan as a priority.

However, it should be noted that all of this year's planned works for this budget area will be completed in this financial year.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(276)	276	0	0

There has been no effect on the day to day service delivered to tenants. The new fire risk assessments will provide an updated list of works and priorities which will be planned into next years, and future year's programmes.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £2,107,140
Project Title: Rewires	Revised Budget: £1,182,060
	Variation: £(925,080)

The main reasons for the delays are:

- The original tender process took longer than anticipated to complete as additional time was required to find 3 companies able to carry out the works.
- Due to the cost to leaseholders of these works being over £250, a statutory leaseholder consultation (Section 20) must take place, which requires 30 days, plus any time period for dealing with objections.
- The lead in time for the approved contractor to acquire the specialist materials required to carry out the works. These cannot be ordered by the subcontractor until the award of the contract.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(925)	925	0	0

There has been no effect on the day to day service delivered to tenants.

Adult Social Care

Directorate: Adult Social Care	Approved Budget: £239,000
Project Title: ICT Infrastructure Grant	Revised Budget: £73,000
	Variation: £(166,000)

The ICT Infrastructure Grant is funding a range of projects. The smaller scale projects funded by the grant will be completed within 2010/11. However the Electric Care Monitoring Project is the most significant project and has most of the funding linked to it. It is this project which is subject to delay.

Originally it was thought that the requirements in the specification for the Electronic Care Monitoring System would only fit one provider and that the procurement process would therefore be completed within a short timescale. However the market has developed and to ensure that we achieved value for money it was decided to undertake a broader procurement process and to incorporate the tendering for the in-house rostering system within the same process to achieve further value for money. The tender was awarded subject to contract on 17 December 2010 since then BHCC have been trying to arrange the kick-off date with the preferred provider to move the project into the implementation stage. There has been a delay in achieving agreement on this date. Currently this is still unresolved and the contract has yet to be received from the supplier. This is presenting a significant risk to the timescale of the project. This was not something that was anticipated as the procurement process was conducted within the procurement framework.

The time table for the project had been adjusted to accommodate the joint procurement process however with the current delay in agreeing a contract and starting implementation means that the timetable is currently running approximately three months behind the original schedule. It is very likely that the implementation phase will now run into the next financial year and the spend pattern will need to be adjusted accordingly.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(166)	166	0	0

In addition the procurement process will also deliver financial efficiencies which will be confirmed when the contract is actually let. This funding, plus some funding provisionally allocated to a small project but no longer required, will be available to fund additional projects from the priorities identified. These priorities will be discussed at the next Adult Social Care Information Board in February. Until the new electronic care monitoring system is in place the present arrangements for care provision will continue so the delay in the project will have no adverse effects on service delivery. The delay will however mean that anticipated efficiencies to service delivery will also be delayed.

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Directorate: Adult Social Care	Approved Budget: £147,000
Project Title: Social Care Reform Grant	Revised Budget: £80,000
	Variation: £(67,000)

The project was given approval during October 2010, and the procurement evaluation process was completed just before Christmas 2010. The procurement was a joint one with the closely linked Electronic Monitoring Project, and the same provider won both the tenders. It had been anticipated that the contract with the supplier, which covers both projects, would be signed within the first few weeks of the New Year. But there has been a delay in the supplier submitting the final draft of the contract for approval and signature, and the Council has not yet had the supplier's project plan or their payment milestones and payment profile. It is hoped that this will be completed within the next couple of weeks.

The proposed timescale for the project was very tight with main implementation planned for just before the financial year end. However, it has not been possible to make the strong progress needed during early January to keep to this timetable, as the supplier is unwilling to commence any project work without the contract in place. It is likely, therefore, that the implementation period will now span the financial year end, with the result that some of the project costs currently under Year 1 will not fall due for payment until the new financial year. It is hard to anticipate the impact on the spend pattern without either the supplier's project payment profile or a formal commencement date. At this stage, it is only possible to make the broadest of estimates.

The present delay represents only 2-4 weeks in the final delivery of the project. The normal work of the service will be able to continue as at present with no diminishment to the quality of services. But the delay will mean that the service enhancements and efficiencies that the new system will deliver will be slightly later in coming in.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(67,000)	67,000	0	0

Strategy & Governance

Directorate: Strategy & Governance	Approved Budget: £958,000
Project Title: Human Resources System	Revised Budget: £693,000
	Variation: £(265,000)

The project start date was delayed from April 2009 to June 2009. Therefore the 2 year project timeframe moves to the end of June 2011. Phased payroll implementation over the year 2010 has prevented a speeding up of the timescale to complete within 21 months. There will be no impact on service delivery of this delay.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(265,000)	265,000	0	0

Children & Young People’s Trust

Directorate: CYPT	Approved Budget: £10,903,830
Project Title: Primary capital Programme	Revised Budget: £5,000,000
	Variation: £(5,903,830)

The project at Davigdor Infants has been successfully completed. The major extension and refurbishment at Somerhill Juniors is due for completion in March 2011. This project along with several others was delayed due to the poor weather and freezing temperatures in December. The major works at Goldstone, Westdene and Queens Park Primary Schools have all started on site at the beginning of January. Enabling works were undertaken in 2010 to assist the preparation and delivery of the schemes and take advantage of school holiday periods.

Large elements of funding allocated to Local Authorities can be formula based or in response to bids. Once funding is secured projects are designed, developed and construction started on site. However, cashflows for schemes rarely follow in year allocations. This is the case with Goldstone, Westdene and Queens Park Primaries. While all projects were designed and started on site in 2010/2011, completion dates are in September and December 2011. Forecast spend in 2011/2012 on these three projects is approximately £7.500m.

We are forecasting a spend of £5.000m in 2010/2011 for Primary Capital. As a result, we are seeking to re-profile £5.904m to 2011/2012 to assist in meeting our commitments next year.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(5,904)	5,904		0

Directorate: CYPT	Approved Budget: £3,914,000
Project Title: Targeted Capital fund	Revised Budget: £3,200,000
	Variation: £(714,000)

The major extension and refurbishment scheme at Longhill School was completed successfully in September 2010. In a report to the CYPT Cabinet Member meeting in April 2010 £0.500m was allocated from Targeted Capital to undertake alterations and improvements to the Cedar Centre. This work was delayed owing to uncertainties about in year savings requested by the Department for Education. In addition to this the works are dependent upon other moves/rationalisation within the Special School estate. These are still ongoing. It is now anticipated that these works will be undertaken during the 2011/2012 financial year.

An extension to Hillside School started on site in January and is due to complete in August 2011. Expenditure of £3.200m is forecast for 2010/2011 and therefore £0.714m needs to be re-profiled to 2011/2012 to meet commitments next year.

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2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(714)	714	0	0

Directorate: CYPT	Approved Budget: £1,804,390
Project Title: NDS Modernisation	Revised Budget: £1,700,000
	Variation: £(104,390)

The development of a number of schemes has taken longer than originally anticipated, in one case complicated by the presence of asbestos. As a result, work on some projects has been programmed for the Easter holiday. Expenditure of £1.700m is forecast in 2010/2011, and therefore £0.104m needs to be re-profiled to 2011/12 to meet commitments next year.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(104)	104	0	0

Directorate: CYPT	Approved Budget: £7,199,480
Project Title: Whitehawk Co-location	Revised Budget: £4,510,000
	Variation: £(2,689,480)

While there has been some delay due to the weather conditions experienced during December, overall completion of the final element of the project is still forecast for June 2011. As mentioned previously cashflows for projects rarely follow initial in year allocations. We are forecasting a spend of £4.510m in 2010/2011 and as a result it is necessary to re-profile £2.689m to meet the remaining commitments in 2011/2012.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(2,689)	2,689	0	0

Directorate: CYPT	Approved Budget: £367,000
Project Title: School Access Initiative 2010/11	Revised Budget: £120,000
	Variation: £(247,000)

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Funds from this project have been allocated to provide lifts and assist with the provision of other accessibility work at Somerhill Junior, Goldstone, Westdene and Queens Park Primary Schools. As stated previously the majority of these schemes will be completing in the Autumn of 2011. Expenditure this year is forecast to be £0.120m, therefore it is necessary to re-profile £0.247m to 2011/2012.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(247)	247	0	0

Finance & Resources

Directorate: Finance & Resources

Project Title: Accommodation Strategy

Approved Budget: £846,000

Revised Budget: £1,263,110

Variation: £417,110

The corporate Accommodation Strategy and Workstyles Phase One project has now reached the stage where the exit of Priory House and re-location of services to Bartholomew House and other subsidiary buildings is underway. The report to Cabinet on 9 December 2010 detailed the revised timetable and costs for 2010/11 and 2011/12 as well as reporting on the progress to date. The subsidiary works including Brighton Town Hall and Lavender Street have been completed and a large part of the works at Bartholomew House is programmed for 2010/11. The scheme is to be funded as part of a 'spend to save' scheme through a combination of borrowing and contributions from the Asset Management Fund and ICT Fund. The financing costs for the borrowing will be met from the savings generated from the operational costs of Priory House as detailed in the report to Cabinet on 9 December 2010.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
417	(417)	0	0

Directorate: Finance & Resources

Project Title: FIS Implementation

Approved Budget: £195,000

Revised Budget: £0

Variation: £(195,000)

It was intended to spend this money in this financial year on three key areas:-

- The implementation of Intelligent Scanning
- The implementation of Authority Web
- The implementation of e-budgeting

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The implementation of Intelligent Scanning has been delayed whilst the software providers (Civica and IDOX) design a suitable technical solution. There has been some progress, but the implementation is unlikely to be achieved before summer 2011.

The implementation Authority Web and e-budgeting has been delayed as other development work has been prioritised in order to support the restructure of both Financial Services (Summer 2010) and of the wider Council. It is anticipated that work will commence in these areas during the first quarter of 2011-12.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(195)	195	0	0

Summary of Capital Slippage Identified

	2010/11 Budget £'000	2011/12 Budget £'000	Total Changes £'000
Slippage Summary			
Environment			
Detailed Slippage (over £50,000)	(2,906)	2,906	0
DEFRA Waste Performance	(28)	28	0
Cedar Gardens Roadworks	(16)	16	0
Total Environment	(2,950)	2,950	0
CYPT			
Detailed Slippage (over £50,000)	(596)	596	0
Total Changes to Budgets	(3,546)	3,546	0

Environment

Directorate: Environment
Project Title: Downland Initiative

Approved Budget: £353,670
Revised Budget: £75,000
Variation: £(278,670)

The main reason for slippage is the current establishment of the South Downs National Park which is likely to bring additional partnership funding opportunities for land owned by the Council starting from 1 April 2011. This will be of greater benefit to the Downland Initiative programme than if the capital was to be fully spent in 2010/11.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(279)	279	0	0

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Directorate: Environment	Approved Budget: £1,093,000
Project Title: King Alfred Health & Safety Works	Revised Budget: £593,000
	Variation: £(500,000)

The extensive works are being carefully phased in order to minimise the impact on existing customers and subsequently income to the council. In addition the constraints imposed by an old building that has been reconfigured over many years adds to the complexity of undertaking the works. The priority over the current financial year has been the improvements to the new Gym which have been very successfully completed. As the aim of the works is to keep the centre open for as long as possible prior to redevelopment, it is important that flexibility is retained to enable works to be phased to increase of the life-span of the building rather than specify an end date.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(500)	500	0	0

Directorate: Environment	Approved Budget: £1,550,810
Project Title: Integrated Transport Schemes (LTP)	Revised Budget: £1,330,810
	Variation: £(220,000)

The underspend on the integrated transport schemes is related to the Woodingdean Junction Improvements. In order to ensure the Christmas trade was not affected it was necessary to suspend the work planned in December. This will now be completed in the new year.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(220)	220		0

Directorate: Environment	Approved Budget: £588,000
Project Title: Lanes / London Road Car Parks	Revised Budget: £42,380
	Variation: £(545,620)

London Road Car Park works is complete as is the main works at the Lanes. The main reason for the slippage of the pedestrian access works at the Lanes is due to the lead-time on purchasing the lift. We expect the project to complete by the middle of May this year.

Users will have to wait for a fully functional lift, better security and a more pleasant environment in the access areas. However, the car park remains fully open and so there is no loss of capacity. We are not aware of any significant increases to the cost of the project as a result of the slippage. Ensuring good preparation and proper risk management of both the procurement and implementation will help to ensure that the best value for money option is achieved. Usage and income have already increased significantly at both car park and we expect this to be reinforced by the improved pedestrian works.

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2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(546)	546		0

Directorate: Environment
Project Title: Ex Leased Car Parks

Approved Budget: £1,447,350
Revised Budget: £86,150
Variation: £(1,361,200)

The ex-leased car parks are at Regency Square, Trafalgar Street, Carlton Hill and Oxford Court. The main reason for the slippage is due to the results of feasibility studies for Regency Square and Trafalgar Street Car Parks. These have presented new issues to be considered in respect of the scope. Until these issues have been considered and agreed it would not be prudent to start works at these sites. Works to Oxford Court and Carlton Hill are agreed and will be completed this year.

We expect the Regency Square and Trafalgar Street elements to be completed by the end of March 2012. Users will have to wait for the standard of the car parks to be improved. Better security, improved traffic flows and a more pleasant environment are the key areas. However, the car parks remain fully open and so there is no loss of capacity.

We are not aware of any significant increases to the cost of the project as a result of the slippage. Ensuring good preparation and proper risk management of both the procurement and implementation will help to ensure that the best value for money option is achieved. We expect that there will be a higher usage and income after the works are complete.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(1,361)	1,361	0	0

Children & Young People's Trust

Directorate: CYPT
Project Title: Devolved Capital to Schools

Approved Budget: £2,409,110
Revised Budget: £1,812,990
Variation: £(596,120)

Devolved Formula Capital is a financial resource that is devolved to schools by the LA. Schools have the option to accrue the money for a maximum of 3 years. However, accrued funds are normally retained by the LA. The current projected outturn figures represent the amount schools are currently anticipated to request by the end of the financial year. Changes to budgets on these headings should not be made before the end of the financial year as schools can drawdown these funds at any time.

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2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(596)	596	0	0

Summary of overspends / underspends identified

Schemes	2010/11 Budget £'000	Total Changes £'000
Environment		
Detailed Overspend (over £50,000)	103	103
Horsdean Travellers Site	20	20
St Lukes Pool	49	49
Total	172	172
Housing, Culture & Enterprise (HRA)		
Detailed Overspend (over £50,000)	72	72
Energy Efficiency (Storage Heater Saving)	(41)	(41)
Fire safety and asbestos management	(49)	(49)
Total	(18)	(18)
Total Changes to Budgets	154	154

Environment

Directorate: Environment	Approved Budget: £340,000
Project Title: Controlled Parking	Revised Budget: £442,760
	Variation: £102,760

Spend is dependent on whether an area takes up the offer of a parking scheme - this is not known until the relevant consultation has taken place. It is also dependent on how large an area opts for a scheme, as the bigger the scheme, the greater initial expenditure on consultation and implementation, including signing, lining and provision of Pay & Display machines. The expenditure for 2010-11 is greater than forecast because, at the request of members, the consultations for all schemes in 2010-11 were extended to include additional areas/groups of roads. Both an extension of Area H (Royal Sussex County Hospital) and an extension of Area J (London Road Station area) have been implemented this year which has meant pay & display machine costs, signing, lining and extensive scheme design work with the help of Consultants.

The project timetable has not been affected; although larger areas have been consulted and some minor re-consultation of particular roads has taken place, this has all been done within the agreed timetable. Parking scheme consultations take up to 2 years from start to finish. The budget realignment will be calculated into the payback period from income generated by new parking schemes, over a period of 7 years.

Housing, Culture & Enterprise (HRA)

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £1,100,000
Project Title: Housing Centre	Revised Budget: £1,707,700
	Variation: £607,700

In December 2009, in order to deliver the new Repairs and Improvement Partnership Cabinet approved funding for the refurbishment of an industrial unit on the Fairway Trading Estate, Eastergate Road in Brighton as a Housing Centre. A budget of £1.100m for the Housing Centre, profiled over 3 years, was included in the Housing Revenue Account Capital Programme Budget report approved by Cabinet in February 2010.

The updated forecasts for the cost of refurbishment show that costs are expected to increase by £0.607m. As the project has progressed the potential for the building to provide a base for wider housing services in addition to the Council's Property & Investment team and Mears, has led to significant changes to the original plans. These include a 60% increase in the office space and incorporation of the housing Estates Service, and an improved heating and cooling solution. The changes in design are due to council's need to accommodate more staff within the office space and increase potential occupancy by over 100 members of council staff. These changes have increased the budget, but mean that the Housing Centre now provides great future potential for improving the service and providing accommodation savings. The centre will also take pressure off accommodation needs across the council; supporting the corporate SmartSpace initiative and associated financial savings.

The increased costs of £0.608m for the Housing Centre refurbishment are to be met from underspends of £0.427m identified in the capital programme ICT and Procurement budgets as detailed below with the balance of £0.181m being met by underspends identified in the HRA Revenue Budget 2010/11 Targeted Budget Management Report .

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £620,000
Project Title: ICT Fund	Revised Budget: £292,800
	Variation: £(327,200)

The ICT fund Budget included estimates for the review and replacement of the current Housing Management system. The review has shown that it will not be necessary to purchase a new system. Therefore current forecast costs in IT have been revised to reflect this and now include costs only for the development /upgrade of the existing system as well as upgrades in the asset management system. This leaves a variance of £0.327m available towards funding the increased costs of refurbishment of the Housing Centre.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £135,000
Project Title: Procurement	Revised Budget: £35,000
	Variation: £(100,000)

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The current HRA capital programme budget includes an amount of £0.135m which had been carried forward from the previous financial year relating to the procurement costs of long term contracts. Current forecasts are that only £0.035m of this budget is required and that there is a variance of £0.100m available towards funding the increased costs of refurbishment of the Housing Centre.

Directorate: Housing, Culture & Enterprise (HRA)	Approved Budget: £456,800
Project Title: Conversion of Shared Facilities / Minor Empty Properties	Revised Budget: £348,300 Variation: £(108,500)

There is an underspend on empty properties due to savings in unit costs of empty property works. This is partially offset by additional conversion of shared facility work.

**EXTRACT FROM THE DRAFT PROCEEDINGS OF THE CABINET
MEETING HELD ON THE 17 MARCH 2011****COUNCIL CHAMBER, HOVE TOWN HALL****MINUTES**

Present: Councillors Mears (Chairman), Alford, Brown, Fallon-Khan, K Norman, Simson, Smith, G Theobald and Young

Also in attendance: Councillors Mitchell (Opposition Spokesperson) and Randall (Opposition Spokesperson)

Other Members present: Councillors Hamilton, Harmer-Strange and A Norman

PART ONE**191. TREASURY MANAGEMENT POLICY STATEMENT 2011/12**

191.1 The Cabinet considered a report of the Director of Finance concerning the treasury management policy statement (TMPS) and treasury management practices for the financial year commencing 1 April 2011.

191.2 **RESOLVED** – That, having considered the information and the reasons set out in the report, the Cabinet accepted the following recommendations:

- (1) That the Treasury Management Policy Statement 2011/12 and subsequent years, as set out in Appendix 1 to the report, be approved.
- (2) That the Treasury Management Practices 2011/12 and subsequent years, as set out in Appendix 2 to the report, be approved.
- (3) That the Schedules to the Treasury Management Practices 2011/12, as set out in Appendix 3 to the report, be approved.

The meeting concluded at 6.15pm

ITEM 72 ON THE AUDIT COMMITTEE AGENDA

CABINET

Agenda Item 191

Brighton & Hove City Council

Subject:	Treasury Management Policy Statement 2011/12		
Date of Meeting:	17 March 2011		
Report of:	Director of Finance		
Contact Officer:	Name:	Peter Sargent	Tel: 29-1241
	E-mail:	peter.sargent@brighton-hove.gov.uk	
Key Decision:	Yes	Forward Plan No. CAB 16958	
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 Part 1 of the Local Government Act 2003, which introduced a new capital finance system with effect from April 2004, requires each local authority, inter alia, to:
 - comply with the requirements of 'the Code of Practice for Treasury Management in the Public Services' issued by CIPFA; and
 - comply with investment guidance issued by the Secretary of State
- 1.2 The Code of Practice requires each local authority to set out its strategy on treasury management for the forthcoming year. The purpose of this report is to recommend a treasury management policy statement (TMPS) and treasury management practices for the financial year commencing 1 April 2011.
- 1.3 The investment guidance relates to the annual investment strategy, which is subject to a separate report to Cabinet and full Council.

2. RECOMMENDATION:

- 2.1 That Cabinet approves:
 - (a) The Treasury Management Policy Statement 2011/12 and subsequent years as set out in Appendix 1 to this report.
 - (b) The Treasury Management Practices 2011/12 and subsequent years as set out in Appendix 2 to this report.
 - (c) The Schedules to the Treasury Management Practices 2011/12 as set out in Appendix 3 to this report.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The recommended TMPS at Appendix 1 is unchanged from the 2010/2011 Statement and follows the drafting format within the Code of Practice.

- 3.2 The treasury management practices at Appendix 2 identify the practices and procedures that will be followed to achieve the aims of the Statement. These practices remain unchanged from previous years with one exception and are considered 'best practice' under the Code.
- 3.3 The treasury management practices are supplemented by a number of "schedules" (Appendix 3). These schedules contain specific details of the systems and routines to be employed and the records to be maintained which underpin the treasury management function.
- 3.4 The 2011/12 Strategy concentrates on reconciling the need for new long-term funding with interest rate forecasts and the loss of investment income. The Strategy recommends that funding requirements are met by using internal reserves supplemented by short-term and variable rate borrowing. The Strategy also includes contingency measures should long-term interest rates increase earlier and quicker than projected.
- 3.5 The treasury management service is subject to detailed audit each year. The most recent audit in May 2010 carried out by Deloitte's concluded that "Full assurance is given to the control environment operating and management of risks for Treasury Management". The 2011/12 Strategy builds on this position.
- 3.6 Under the Prudential Code a number of prudential indicators must be set annually by the council prior to the commencement of the financial year. The 'General Fund Revenue Budget & Council Tax 2011/12' report to Cabinet on 17th February 2011 recommended, and full Council on 3rd March 2011 approved, the indicators for 2011/12. The schedules to the treasury management practices include, where appropriate, the approved 2011/2012 indicators.

4. REFORM OF COUNCIL HOUSING FINANCE

- 4.1 The Localism Bill published in December 2010 confirms the Government's intention to reform council housing finance with effect from April 2012. The Bill includes a proposal for the redistribution of debt amongst housing authorities and for a number of changes to separate the management of housing debt from non-housing debt. Consultation is currently in progress to determine the impact this would have on the council's treasury management policy statement and any revisions necessary to the Statement will be reported to Cabinet when known.

5. CONSULTATION

- 5.1 The council's external treasury advisor has been consulted. The council's Head of Audit & Business Risk has been consulted on the section on money laundering.

6. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 6.1 The financial implications arising from the recommendations in this report are included in the Financing Costs budget.

- 6.2 At Budget Council in 2009 reserves were earmarked to offset reductions in investment interest income whilst investment rates remain at all time lows. The report to Budget Council in March 2011 identified that £100k of the fund could be transferred back to reserves as a result of the action taken under this and previous treasury management policy statements.

Finance Officer consulted: Peter Sargent

Date: 16/02/11

Legal Implications:

- 6.3 The Code of Practice on treasury management is defined in regulations under Part 1 of the 2003 Act as 'guidance' that local authorities must take into account. The Director of Finance & Resources is satisfied that the recommendation in this report is consistent with the Code.

- 6.4 There are no direct human rights implications arising from this report.

Lawyer consulted: Abraham Ghebre-Ghiorghis

Date: 16/02/11

Equalities Implications:

- 6.5 None directly arising from this report.

Sustainability Implications:

- 6.6 None directly arising from this report.

Crime & Disorder Implications:

- 6.7 None directly arising from this report

Risk & Opportunity Management Implications:

- 6.8 Risk assessment is contained within the treasury management practices

Corporate / Citywide Implications:

- 6.9 An efficient & effective treasury management system will help to minimise the revenue impact of financing the council's capital investment plans

7. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 7.1 This report sets out the council's treasury management policy statement for the year commencing 1 April 2011. The TMPS continues with the strong emphasis on risk management and the impact this may have on the performance of the treasury management service.

8. REASONS FOR REPORT RECOMMENDATIONS

- 8.1 Codes of practice issued under the Local Government Act 2003 require the council to approve an annual treasury management policy statement. This report fulfils that requirement.

SUPPORTING DOCUMENTATION

Appendices:

1. Treasury Management Policy Statement 2011/12
2. Treasury Management Practices 2011/12
3. Schedules to the Treasury Management Practices 2011/12

Documents in Members' Rooms

None

Background Documents

1. Part 1 of the Local Government Act 2003
2. 'Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes' published by CIPFA second edition 2009
3. 'Treasury Management in the Public Services – Guidance notes for local authorities ...' published by CIPFA third edition 2009
4. 'The Prudential Code for Capital Finance in Local Authorities' published by CIPFA second edition 2009
5. Brighton & Hove City Council Anti-Money Laundering Policy approved by full Council on 19 January 2006

Brighton & Hove City Council
Treasury Management Policy Statement 2011/2012
and subsequent years

The following paragraphs set out the council's Treasury Management Policy Statement for the years commencing 1 April 2011

1. The council defines its treasury management activities as

“The management of the organisation’s cash flows, its bankings, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. The council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly the analysis and reporting of treasury management activities will focus on their risk implications for the council;
3. The council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

Brighton & Hove City Council
Treasury Management Practices ('TMPs') 2011/2012
and subsequent years

The council's treasury management practices identify the practices and procedures that will be followed to achieve the aims of the Treasury Management Policy Statement. The TMP's follow the guidance issued by the Chartered Institute of Public Finance & Accountancy and are unaltered from the 2010/2011 Statement.

Full details of all TMP's are held by the Director of Finance but in summary the Practices cover the following areas:

- TMP1: Risk Management
 - Includes a statement on the following risks
 - credit and counterparty risk management
 - liquidity risk management
 - interest rate risk management
 - exchange rate risk management
 - refinancing risk management
 - legal and regulatory risk management
 - fraud, error and corruption, and contingency management
 - market management risks
- TMP2: Performance Measurement
- TMP3: Decision-making & Analysis
- TMP4: Approved Instruments, Methods & Techniques
- TMP5: Organisation, Clarity & Segregation of Responsibilities & Dealing Arrangements
- TMP6: Reporting Arrangements & Management Information Arrangements
- TMP7: Budgeting, Accounting & Audit Arrangements
- TMP8: Cash & Cash Flow Management
- TMP9: Money Laundering
- TMP10: Training & Qualifications
- TMP11: Use of External Service Providers
- TMP12: Corporate Governance

Details of the systems and routines to be employed and the records to be maintained that underpin the treasury management function and match the above practices are set out in the Schedules attached to these practices.

Brighton & Hove City Council

Schedules to Treasury Management Practices 2011/2012

(Note – Prudential indicators are set out in Supplement 1 to this Appendix)

Abbreviations

AC (Audit Commission)	FS (Council's Financial Services)
AIS (Annual Investment Strategy)	FSA (Financial Services Authority)
BoE (Bank of England)	L&TM (Loans & Technical Manager)
CIPFA (Chartered Institute of Public Finance & Accountancy)	PWLB (Public Works Loan Board)
Director (Director of Finance)	TMPS (Treasury Management Policy Statement)

Schedule 1 – Risk management

Credit & counterparty policies

- Criteria to be used for creating / managing approved counterparty lists / limits

The AIS sets out the council's policy on investment criteria and counterparties. The Strategy is subject to separate approval by full Council and will be appended to this report when approved.

Investment for periods longer than 364 days will be in accordance with prudential indicator (E4) (see Supplement 1 to these Schedules).

Liquidity risk management

- Amounts of approved minimum cash balances and short-term investments

The level of cash balance, reserves and provisions will be determined annually by the council in accordance with the decision made in setting the council tax, housing rents and capital investment programmes.

The profile of cash investments will be determined by:

- spending programmes approved by the council;
- the need to balance daily cash flow surpluses with cash flow shortages;
- the need to balance investment risk with interest rate risk during the period of high uncertainty within the financial markets and low interest rates; and
- interest rates over the short- to medium-term.

Regular reviews will be undertaken throughout the year to ensure an optimum mix of maturity periods is maintained for all investments.

Fuller details on cash flow management and projections are contained in Schedule 8.

- Details of short-term funding facilities

The council has an overdraft facility with the Co-operative Bank plc of £1 million. In addition the council has access to the short-term money markets via a number of direct lines and money brokers.

Interest rate

- Details of approved interest rate exposure limits

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The council will maintain a debt portfolio on fixed rate terms. This will maintain the stability in the overall cost of borrowing. Exposure to variable rate loans will be considered where it can be justified that this offers a better alternative than fixed term loans.

The early repayment of debt in 2008/09 and 2009/10 has increased the interest rate exposure to the council (Table1)

Table 1 – Interest rate risk 2011/12 to 2013/14

Projected balances as at	31 March 2012	31 March 2013	31 March 2014
Borrowing requirement (Table 5)	£276m	£273m	£263m
Projected long-term borrowing	£190m	£190m	£190m
Projected balance subject to interest rate risk	£86m	£83m	£73m

Investment rates are expected to remain below long term borrowing rates over the next few years and therefore the Director will continue with the policy of using internal cash balances or short-term borrowing to finance new capital expenditure or to replace maturing external debt. This policy ensures value for money is achieved in the short-term and maximises short term savings.

However these short term savings need to be balanced against the potential for incurring additional interest costs by delaying new long-term borrowing until later years when PWLB long term rates are forecast to be significantly higher. The Director will monitor interest rates and market forecasts and where there is a significant risk of an earlier and sharper rise in long-term rates than expected then the policy will be re-appraised, with the possible action that new long-term borrowing will be raised whilst interest rates remain relatively low.

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

- Trigger points and other guidelines for managing changes to interest rate levels

The council will manage its debt and investment portfolios so that the financial impact of any adverse movement in interest rates on each portfolio is minimised.

Table 2 summarises the projected funding requirement not met by long-term borrowing and the projected level of investments available to reduce the requirement over the next three years.

Table 2 – Shortfall in borrowing requirement 2011/12 to 2013/14

Projected balances as at	31 March 2012	31 March 2013	31 March 2014
Projected balance not met from long-term borrowing (Table 1)	£86m	£83m	£73m
Projected investments	£24m	£25m	£25m

The Director considers it prudent to retain an investment portfolio to protect against unforeseen and immediate demands for cash. The council's strategy will therefore give consideration to new borrowing as follows:

- short-term borrowing (i.e. debt repayable within 12 months);
- PWLB variable rate loans for up to 10 years;
- PWLB fixed rate loans for periods up to 5 years (where rates are expected to be significantly lower than rates for longer periods); and

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- consideration to market loans that which offer comparable or better terms to that set out above.

The council will also seek to benefit from changes in interest rates:

- for borrowing, through a combination of debt restructuring and the timing and terms (e.g. fixed/ variable) of new borrowing, and
- for investments, through an adjustment to the average maturity profile of the investment portfolio.
- Minimum / maximum proportions of variable & fixed rate debt / interest

Exposure to fixed rate and variable rate loans will be in accordance with prudential indicators (E2) & (E2a) (see Supplement 1 to these Schedules).

The council will continue to review and, where appropriate, implement debt restructuring opportunities that:

- result in a reduction in the overall cost of the debt portfolio, and
- do not adversely affect the (a) stability of the portfolio or (b) exposure to interest rate movements.
- Interest rate prospects (source : Sector February 2011)

A projection of interest rates over the medium term is set out in Table 3 below. The Bank Rate (i.e. the rate set by the BoE) has been unchanged at 0.50% since March 2009 but is forecast to commence rising in the latter part of 2011. The risks to this forecast are:

- if economic growth is weaker than expected it is likely the Bank Rate will stay at current levels for longer;
- if inflation continues to exceed the target rate the BoE may increase the Bank Rate to contain inflation and the inflation expectations of the public.

Table 3 – Interest Rates April 2011 to March 2014 (annual averages)

	Bank Rate	Short-term rates		Long-term rates		
		3 mth	12 mths	5 year	25 year	50 year
2011/12	0.8%	1.1%	2.0%	3.8%	5.4%	5.3%
2012/13	1.8%	2.1%	3.3%	4.2%	5.5%	5.5%
2013/14	3.0%	3.3%	3.8%	4.7%	5.7%	5.7%

- Policies concerning the use of financial derivatives for interest rate management
The council has no statutory power to use financial derivatives.

Exchange rate

- Details of approved exchange rate exposure limits for cash investments / debt

The council does not undertake treasury activity in any currency other than Sterling. Any non-Sterling transactions effected in the course of service delivery will be subject to the appropriate currency exchange charges and risk, except in the case of fees and charges due to the council, where the council shall receive the full Sterling equivalent after exchange rate and other transaction costs. Non-sterling transactions will be converted at the point of payment or receipt to avoid any exchange rate risk.

- Approved criteria for managing changes in exchange rate levels

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The council has no approved criteria.

- Policies concerning the use of financial derivatives for exchange rate risk management

The council has no statutory power to use financial derivatives.

Credit & counterparty policies

- Criteria to be used for creating / managing approved counterparty lists / limits

The AIS sets out the council's policy on investment criteria and counterparties. The Strategy is subject to separate approval by full Council and will be appended to this report when approved.

Investment for periods longer than 364 days will be in accordance with prudential indicator (E4).

Refinancing

- Debt / other capital financing maturity profiling, policies and practices

Table 4 shows debt maturing at £6m over the next 3 years. The table also includes the loans where the lender may vary the interest rate and the council, then, has the right to repay. Based on the latest interest rate projections (Table 3) it is considered unlikely that these loans will be repaid early.

Table 4 – Projected debt maturity 2011/12 to 2013/14

		2011/12	2012/13	2013/14
Maturing debt		£6m	£0m	£0m
Debt subject to early repayment options		£35m	£35m	£30m
Debt maturing range	Minimum	£6m	£0m	£0m
	Maximum	£41m	£35m	£30m

Refinancing opportunities will be evaluated against the risk within the council's investment portfolio. Where it is considered prudent to do so, maturing debt may temporarily be met through a reduction in investments.

Debt restructuring will continue to be used where it meets the long-term objectives of the debt portfolio. The council will seek to minimise the level of debt that potentially could be repaid in any one year through the re-negotiation of existing terms.

- Projected capital investment requirements

Over the next three years the borrowing requirement is projected to fall by some £10m (i.e. the provision to repay debt is projected to exceed new debt requirements). A summary is shown in Table 5.

Table 5 – Projected annual borrowing requirement 2011/12 to 2013/14

Projected balances as at	2011/12	2012/13	2013/14
Borrowing requirement – start of year	£273m	£276m	£273m
Borrowing requirement – end of year	£276m	£273m	£263m
Increase in borrowing requirement	£3m	-£3m	-£10m

With long-term fixed interest rates at risk of being higher over the next few years ((Table 3) the Director will consider the most appropriate form of borrowing depending on the prevailing interest rates at the time, including:

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- borrowing in advance of need provided the projected borrowing requirement is not exceeded by March 2014;
- forward borrowing (i.e. agreeing to borrow at a future date).

The extent of new borrowing will be dependant upon improvements within the financial markets during the period. Total new borrowing will be on terms consistent with the long-term objectives of the debt portfolio.

- Maturity profile – borrowing

The maturity profile of fixed rate debt will be maintained in accordance with prudential indicator (E3). Other forms of funding such as leasing and private finance initiatives are subject to separate terms agreed under each arrangement.

- Policy concerning limits on revenue consequences of capital financing

The revenue implications of the capital investment programme are reported to the council under a separate process to treasury management. Supported debt is met corporately through the Financing Costs budget, whilst unsupported debt is met from service department revenue block allocations.

Legal & regulatory

- References to relevant statutes and regulations

Chapter 1, Part 1 of the Local Government Act 2003 (and related regulations, orders and guidance) govern the council in its treasury dealings. Details of the provisions within the 2003 Act are held within SF. The Act also imposes a duty on the council to comply with the prudential code and treasury management code, both issued by the CIPFA.

Sections 32 & 33 of the Local Government Act 1992 require the council to set a fully funded budget. This requirement has an impact on the council in setting its' limit on affordability borrowing.

All treasury operations will conform to industry and statutory codes of practice.

- Procedures for evidencing the council's powers / authorities to counterparties

The council will provide evidence of the council's power if requested to do so.

- Required information from counterparties concerning their power / authorities

The council will seek information on a counterparty only where that counterparty is new to the council and only to the extent not covered by its credit rating or information provided by a council money broker.

- Statement on the council's political risks and management of same

The council is governed by statute and investors in the council are protected against any failure to meet loan or other debt obligations by such statutes. The council has approved an ethical investment statement, which is included in the AIS.

Fraud, error & corruption & contingency management

- Details of systems and procedures to be followed, including Internet services

Details of the treasury management systems and procedures to be followed, including access to information regarding the councils' bank accounts, are contained in the treasury management manual held within SF. Access to the information for treasury management purposes via the council's electronic link to the Co-operative Bank is limited to a set number of persons within SF.

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Access to the council's accounts is also provided to the Banking Team within Finance but this is limited to day-to-day banking activity and not treasury management.

- Emergency and contingency planning arrangements

Details of the emergency and contingency planning arrangement for the access of bank account information and CHAPS payment transactions are contained in the treasury management manual held within SF.

- Insurance cover details

Treasury management activity is covered under the Professional Indemnity insurance up to the value of £10 million. Insurance cover is arranged, corporately, by SF.

Market value of investments

- Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CD's, etc)

As set out in the AIS.

Schedule 2 – Best value & performance measurement

- Methodology to be applied for evaluating the impact of treasury management decisions

There will be on-going reviews of the debt portfolio to ensure that the long-term objectives of the portfolio are maintained.

- Policy concerning methods for testing best value in treasury management

The council will review the performance of the treasury management function against the following long-term objectives:

- to increase Member and Officer understanding of the complex treasury management service so that a greater contribution can be made to policy formulation
- to manage the financial exposure to risk arising from fluctuations in interest rates and potential changes in Government policy
- to investigate options for improving performance and generating short and long term revenue savings
- to develop meaningful performance measures for borrowing and investment which can be reviewed and reported on a regular basis

- Methods to be employed for measuring the performance of the council's treasury management activities

The council will measure the performance of its' treasury management activities by reference to:

- the long-term objectives of the service;
- benchmark rates for short-term borrowing and investments;
- the trend in the average cost of long-term borrowing.

- Benchmarks and calculation methodology – debt management and investments

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One of the objectives for treasury management is to reduce, over the medium term, the average cost of the long-term debt portfolio. In the absence of any generally accepted market practice the benchmarking for borrowing will be assessed against this objective.

Investments are benchmarked against the 7-day LIBID rate. This rate is used as it traditionally represents an achievable return on short-term investments without active treasury management. The target rate – the margin above the benchmark – is as follows:

- for the in-house team: 105% of the benchmark rate (i.e. if the benchmark rate is 4% then the target rate is 4% times 1.05 which is 4.2%).
 - for the external cash manager: 115% of the benchmark rate. The higher margin reflects the long-term nature of the cash manager mandate and the potential higher returns from the specialist markets available to the manager.
- Banking services

The Banking & VAT Team undertakes banking. The separation of the function from SF is an essential element in the council's overall internal controls and security for treasury management activity. This team is responsible for maintaining detailed records of all cash transactions of the council and for reconciling cash to the council's accounting system. The team is also responsible for the selection of a financial institution that can provide a banking service to the council.

Schedule 3 – Decision-making & analysis

- Funding, borrowing, lending and new instruments / techniques – records to be kept, processes to be pursued and issues to be addressed
- Details are held within SF.

Schedule 4 – Approved instruments, methods & techniques

- Listings and individual limits for the use of approved investments, approved methods and approved techniques

The council shall use any instrument available under Chapter 1, Part 1 of the Local Government Act 2003 (and any relevant regulations, guidance and codes), including credit arrangements and operating leases, to raise finance.

Where practical the council will only transact with organisations that are registered with the FSA, but in all other respects the council adopts an unlimited market for borrowing purposes. Under the Financial Services and Markets Act 2000 (Exemption) Order 2001 (SI 2001/1201) made under the Financial Services and Markets Act 2000 the council is exempt from the general prohibition in relation to accepting deposits.

The council or its agents may use any instrument authorised under guidance issued by the Secretary of State to make investments. No other instrument may be used without the prior approval of the Director.

For the purposes of investments the council's in-house treasury team will use only cash deposits, including money market funds and, subject to certain conditions (see AIS), negotiable instruments and the Debt Management Account Deposit Facility.

Schedule 5 – Organisations, clarity & segregation of responsibilities & dealing arrangements

- Limits to responsibilities / discretion at committee / executive levels

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Full Council only has the statutory power to determine and revise the prudential indicators as required by the Prudential Code.

The council delegates responsibility for the implementation and monitoring of its treasury management policies, practices and the AIS to Cabinet. The execution and administration of all treasury management decisions is further delegated to the Director and more specifically to SF, who will act in accordance with the council's treasury management policy statement, TMPs and AIS (Part 8.2 of the Constitution).

Financial Regulations also set out the respective duties of the Head of Paid Service (Chief Executive), Monitoring Officer (Director of Strategy & Governance) and the Director. In respect of treasury management:

- the Monitoring Officer has a duty to report on any proposal, decision or omission that has given rise to or is likely to or would give rise to a contravention of the relevant legislation, including the codes of practice issued by CIPFA and the investment guidance issued by the Secretary of State;
- the Head of Paid Service has a duty to ensure that the number and grades of staff required to carry out treasury management is sufficient to discharge the function
- the Director has a responsibility for the financial affairs of the council, including assurance that adequate and effective treasury management procedures are in place (including compliance with the relevant codes of practice issued by CIPFA and investment guidance issued by the Secretary of State) at all times.

In accordance with the code of practice on treasury management monies held by locally managed schools is aggregated with council monies for treasury management purposes. The model scheme for the delegation (to school governing bodies) of financial powers requires a governing body to seek the approval of the Director to any proposal to borrow money and the banking arrangements of the school.

- Principles and practices concerning segregation of duties

The treasury management team within SF is responsible for the treasury management operation in totality. Long-term funding is undertaken on the expressed instruction of the L&TM; short-term funding and investment are undertaken after discussion with the L&TM.

Segregation of duties is achieved by the independent verification of transactions by the Banking Team.

- Treasury management organisation chart

A chart is detailed in Supplement 2 to these Schedules.

- State of duties / responsibilities of each treasury post

Details are held within SF.

- Absence cover arrangements

Details are held within SF.

- Dealing limits

Details of dealing limits are held within SF.

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Levels of outstanding borrowing will be monitored against the operational boundary (prudential indicator (D2)) and the authorised limit (prudential indicator (D1)) (see Supplement 1 to these Schedules).

- List of approved brokers / Policy on brokers services

Details of approved brokers are contained in the treasury management manual held within SF. The discretion to appoint brokers rests with the L&TM. The number of brokers at any one time is kept to a minimum, subject to achieving sufficient access to the money markets and competition.

- Policy on taping of conversation

It is strongly recommended by the BoE and the FSA for brokers and dealers to record telephone conversations with principals (such as the council). The council does not operate a specific policy on taping but is able to rely on the brokers and institutions with which it transacts.

- Direct dealing practices

Details of direct dealing are held within SF.

- Settlement transmission procedures / document requirements

Details are contained in the treasury management manual held within SF.

- Arrangements concerning the management of third party funds

Arrangements in accordance with the TMPS, subject to any special conditions.

Schedule 6 – Reporting requirements & management information arrangements

- Content and frequency of committee reporting requirements

The Director will prepare (a) an annual treasury management policy / strategy statement, (b) a mid-year report on the activity of treasury management in the first 6 months of the year and (c) an annual review of treasury activity. These reports will exclude banking services, which are subject to separate arrangements. Reports will be made to Cabinet.

The annual treasury management policy statement will include the treasury management prudential indicators agreed by full Council as part of the council tax setting process.

- Content and frequency of management information reports

A monthly bulletin will be produced which summarises the key indicators and events affecting borrowing and investment activity. The bulletin will include a section on the monitoring of the treasury management prudential indicators. The bulletin will be circulated to:

- members on the Audit Committee;
- other key members of the council, including the Cabinet Member - Finance; and
- senior managers within the council and Finance.

Schedule 7 – Budgeting, accounting & audit arrangements

- Statutory / regulatory requirements

The council will conform to the relevant statutory and legislative requirements in the preparation of budgets, accounting and audit arrangements. Details of these requirements are held in FS.

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- Accounting practices and standards

The council will bring together, for budgeting and management control purposes, all of the costs and revenues associated with its treasury management activities (with the exception of banking services). The costs and revenues associated with banking are recorded separately.

- Sample budgets / accounts

Details of the budgets relating to treasury management activities are held within SF.

- List of information requirements of external auditors

The information provided as part of the external audit of the council is subject to review on an annual basis between Finance and the AC. FS hold the list of information for the audit of the council's Accounts.

Schedule 8 – Cash & cash flow management

- Arrangements for preparing / submitting cash flow statements

One of the criteria for judgement used by the AC in assessing how well the council plans and manages its finances is that the council undertakes cash-flow monitoring which is used to inform short- and long-term investment decisions.

Cash flow statements are prepared by SF prior to the financial year in question. The statements are retained by SF to assist in providing liquidity of funds over the period.

The statements are prepared for the financial year, with the cash flows analysed on a week by week basis. The cash flow statement informs the L&TM in advance of key periods of cash flow shortages or surpluses. This in turn enables a planned approach to investing short-term funds. Details of the actual movement in cash flows are reported in the monthly treasury management bulletin.

- Content and frequency of cash flow budgets

The cash flow statements contain the major receipts and payments of the council for the relevant period. Statements are revised weekly, including an analysis of any significant variations from projections.

- Listing of sources of information

Details of the sources of information are held in SF.

- Bank statements procedures

Details of the procedures are held by the Banking Team.

- Payment scheduling and agreed terms of trade with creditors

Council Standing Orders and Financial Regulations require each service director to be responsible for the payment of creditors for his or her own department. The terms and conditions for such payments are negotiated and held within the relevant service directorate but the council is committed to paying suppliers invoices within 30 days of receipt.

- Arrangements for monitoring debtor / creditor levels

Systems are in place to ensure payment is received from council debtors within the prescribed time periods. Regular reports on income collection and recovery are made to the Cabinet Member – Finance. Systems are also in place to ensure creditors are paid within the contractual payment terms and are subject to a best value performance indicator.

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A review of data held on the council's accounting system is on-going to assess whether more accurate information on debtor / creditor levels can be obtained with the view to improving cash flow forecasting.

Schedules of creditor payments are received by SF each week for inclusion within the cash flow forecasts for that week.

- Procedures for banking of funds

As set out in the council's Standing Orders and Financial Regulations.

- Practice concerning prepayments to obtain benefits

Each instance will be reviewed on an ad-hoc basis to ensure the most cost efficient and effective approach is adopted.

Schedule 9 – Money laundering

- Procedures for establishing identity / authenticity of lenders

Where practical the council will only undertake treasury activity with organisations that are registered with the FSA.

The treasury team will immediately advise the council's Money Laundering Reporting Officer should an incidence of money laundering be suspected.

- Methodology for identifying sources of deposit

Membership of the FSA places, amongst other things, a duty on the member to set up and operate arrangements, including the appointment of a money laundering officer, to prevent money laundering. The council will rely on membership of the FSA to satisfy itself of the integrity of its counterparties to treasury management transactions.

The council has adopted a Counter Fraud strategy as part of the council's constitution. The strategy strengthens the council's existing measures on anti-fraud & corruption and meets the broader implications of money laundering introduced through various statutes such as the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007.

The council's Audit & Business Risk Section has actioned an implementation plan that included an assessment of the council's exposure to the risk associated with money laundering. Awareness training has also been provided to key members of staff. Systems and controls will be kept under review and further awareness training will be provided as appropriate. Fuller details of the systems and controls can be obtained from the Audit & Business Risk Section.

The council has appointed a Money Laundering Reporting Officer as required under the Money Laundering Regulations 2003. The named officer is the council's Head of Audit & Business Risk.

Schedule 10 – Training & qualifications

External training courses for the treasury management team will be considered for value and benefit. Records of individual training will be kept in accordance with the procedures introduced by the council for such purposes. Career development and succession arrangements will also be in accordance with council policy on such arrangement.

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Details of the qualifications for treasury staff are set out in the job descriptions and person specifications appertaining to each post. Secondments (if any) will be recorded in accordance with council policy on such instances.

Member training on treasury management is seen as an important tool in the scrutiny of the service. A course entitled “An introduction to treasury management”, which gives an overview of treasury management, is available. The course explains what treasury management is, the aims & objectives of the service and an understanding of the key risks. It also covers how the council manages investment risk.

Schedule 11 – Use of external service providers

- Details of contracts with service providers, including bankers, brokers, consultants, advisers

The council uses an external cash manager to administer part of its investment portfolio. The manager is able to use specialist markets with the aim to achieve higher investment returns. The current manager, Scottish Widows Investment Partnership, was appointed in March 2006 following a competitive selection process.

The council uses Sector as its treasury advisors (the former advisor, Butlers, was subject to a merger with Sector in October 2010). The advisors are expected to be proactive in analysing information to assist the in-house treasury team to meet its targets on the cost of long term borrowing and investment returns as well as advise on developments in the treasury management field.

- Procedures and frequency for tendering services

In accordance with council Standing Orders and Financial Regulations.

Schedule 12 – Corporate governance

- Treasury management procedures

The council has formally adopted the code of practice on treasury management issued by CIPFA. This demonstrates that the organisation of the council’s treasury function is open and transparent. Clear treasury policies and procedures have been developed to support the stewardship responsibilities of the Director.

- List of documents to be made available for public inspection

Various documents will be made available for public inspection, subject to confidentiality constraints.

- Procedures for consultation with stakeholders

In accordance with council policy.

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Supplement 1 to Appendix 3

Prudential indicators recommended for approval by full Council 3rd March 2011

Prudential indicator (E1) – Adoption of CIPFA Code

The CIPFA code of practice on treasury management is included within Part 8.2 (Financial Regulations) of the Council's new Constitution.

Prudential indicator (E2) – Upper limits on interest rate exposure 2011/12 to 2013/14

	2011/12	2012/13	2013/14
Upper limit on fixed interest rate exposure	110%	110%	111%
Upper limit on variable interest rate exposure	44%	44%	44%

The percentages in Indicator E2 are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit of 111% is a consequence of the council maintaining an investment portfolio. Indicator E2a exemplifies the indicator over borrowing and investment.

Prudential indicator (E2a) (supplemental) – Upper limits on interest rate exposure 2011/12 to 2013/14

	2011/12	2012/13	2013/14
Upper limit on borrowing – fixed rate exposure	100%	100%	100%
Upper limit on borrowing – variable rate exposure	40%	40%	40%
Upper limit on investments – fixed rate exposure	100%	100%	100%
Upper limit on investments – variable rate exposure	100%	100%	100%

Prudential indicator (E4) – Principle sums invested for periods longer than 364 days

	2011/12	2012/13	2013/14
Limit	£25m	£25m	£25m

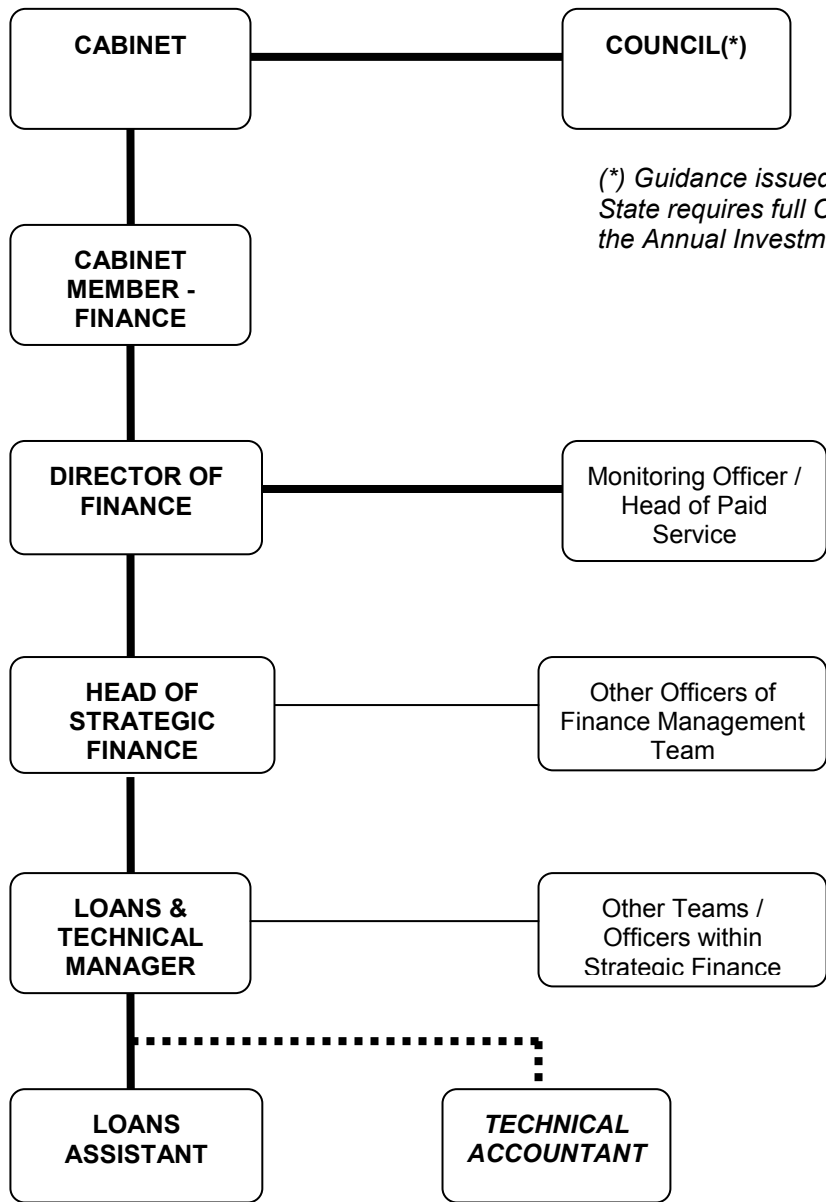
Prudential indicator (E3) – Upper and lower limits on the maturity structure of borrowing 2011/12

	Upper limit	Lower limit
under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

Prudential indicators (D1) “Authorised limit” and (D2) “Operational boundary 2011/12 to 2013/14

	2011/12 Estimate		2012/13 Estimate		2013/14 Estimate	
<u>Authorised limit</u>						
- Borrowing	£305m		£296m		£287m	
- Other Iterm liabilities	£61m	£366m	£60m	£356m	£58m	£345m
<u>Operational boundary</u>						
- Borrowing	£293m		£283m		£274m	
- Other Iterm liabilities	£61m	£354m	£60m	£343m	£58m	£332m

Brighton & Hove City Council
Treasury Management Organisational Chart



() Guidance issued by the Sec of State requires full Council to approve the Annual Investment Strategy*

The delegation of authority to make executive decisions on, and keep records of, treasury management activity is denoted by the bold line

**EXTRACT FROM THE DRAFT PROCEEDINGS OF THE CABINET
MEETING HELD ON THE 17 MARCH 2011****COUNCIL CHAMBER, HOVE TOWN HALL****MINUTES**

Present: Councillors Mears (Chairman), Alford, Brown, Fallon-Khan, K Norman, Simson, Smith, G Theobald and Young

Also in attendance: Councillors Mitchell (Opposition Spokesperson) and Randall (Opposition Spokesperson)

Other Members present: Councillors Hamilton, Harmer-Strange and A Norman

PART ONE**190. ANNUAL INVESTMENT STRATEGY 2011/12**

- 190.1 The Cabinet considered a report of the Director of Finance seeking endorsement of the Annual Investment Strategy 2011/12 and recommending its approval to Full Council.
- 190.2 Councillor Mitchell requested further information about the new Public Sector Deposit Fund and what the council would have to demonstrate in order to take advantage of the opportunities on offer. She also queried the implications of separating the council's housing debt from its non-housing debt.
- 190.3 Councillor Randall asked for more clarity about how the new system would work.
- 190.4 Councillor Young advised that the new fund was due to be launched in May and would be open to public bodies such as the council; capital security and liquidity would be its guiding principles and investment returns were expected to be competitive compared with other similar funds.

She explained that the council welcomed the opportunity for self financing within the Housing Revenue Account and that the preferred option was to split the debt between housing and general fund, enabling the council to manage each debt pools to the benefit of tenants and council tax payers; investments were primarily general fund reserves so there would be little impact and the housing account would continue to receive interest on its balances.

- 190.5 The Head of Strategic Finance & Procurement advised that opportunities available through the Public Sector Deposit Fund would be considered alongside existing financial institutions, with the rates of return balanced against risk.
- 190.6 **RESOLVED** – That, having considered the information and the reasons set out in the report, the Cabinet accepted the following recommendation:
- (1) That the Annual Investment Strategy 2011/12, as set out in Appendix 1 to the report, be agreed; and recommended to Council for approval at its meeting on 24 March 2011.

The meeting concluded at 6.15pm

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CABINET

Agenda Item 190

Brighton & Hove City Council

Subject:	Annual Investment Strategy 2011/12		
Date of Meeting:	17 March 2011	Cabinet	
	24 March 2011	Council	
Report of:	Director of Finance		
Contact Officer:	Name: Peter Sargent	Tel: 29-1241	
	E-mail: peter.sargent@brighton-hove.gov.uk		
Key Decision:	Yes	Forward Plan No: CAB21059	
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Local Government Act 2003 introduced a prudential capital finance system whereby levels of borrowing and investments are decided locally by each council.
- 1.2 Guidance issued under the Act requires a local authority to approve an annual investment strategy which gives priority to security and liquidity and requires the council to set out:
 - its policy on determining the credit-worthiness of its investment counterparties and the frequency at which such determinations are monitored;
 - its policy on holding investment instruments other than deposits held in financial institutions or government bodies;
 - its policy on determining the maximum periods for which funds may be invested;
 - its policy on the minimum level of investments to be held at any one time.
- 1.3 The purpose of this report is to seek Cabinet approval to the Annual Investment Strategy 2011/12 and to recommend the Strategy to full Council for adoption at its meeting on 24 March 2011.

2. RECOMMENDATIONS:

- 2.1 That **Cabinet** agrees the Annual Investment Strategy 2011/12 as set in Appendix 1 to this report; and recommends Council to approve the Strategy at the meeting on 24 March 2011.
- 2.2 That Council approve the Annual Investment Strategy 2011/12 as set out in Appendix 1 to this report.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Strategy 2011/12

- 3.1 The Annual Investment Strategy (AIS) for 2011/12 is set out in Appendix 1 to this report and covers investments made by the in-house treasury team and the council's external cash manager. The council uses a cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock. The AIS gives priority to security and liquidity.
- 3.2 Security is achieved by;
- selecting only those institutions that meet stringent credit rating criteria or, in the case of non-rated UK building societies, have a substantial asset base, and
 - having limits on the amount invested with any one institution.
- 3.3 The council uses independent credit rating agencies to assess the creditworthiness of investment counterparties. The AIS 2011/12 continues with the policy of assessing creditworthiness by applying the lowest rating issued by the three main rating agencies – Fitch, Moody's and Standard & Poor's. In the majority of cases the ratings issued by the three agencies are aligned but this is not always the case.
- 3.4 Rating criteria is only one factor taken into account in determining investment counterparties. Other factors, such as articles in the financial press, will continue to be monitored and action will be taken where it is felt the risk attached to a particular counterparty has or is likely to worsen. Action will include the suspension of a counterparty in appropriate circumstances.
- 3.5 Liquidity is achieved by limiting the maximum period for investment.

Revision to Strategy in 2011/12

- 3.6 The AIS 2011/12 includes one major change. The AIS 2010/11 recommended a reduction in the period of investment, from 12 months to 6 months, for institutions with a short-term rating of "F1" (or equivalent). This change was recommended to reflect the increase in risk in these institutions at that time. This risk has lessened over the past 12 months as a result of improvement in the financial markets. The AIS 2011/12 therefore recommends a return to the 12 month maximum with effect from April 2011 for "F1" rated institutions.

New investment counterparties in 2011/12

- 3.7 A new investment fund is due to be launched in the Spring 2011 by CCLA Investment Management Limited, a leading manager of UK charity investments.
- 3.8 The fund, which is subject to final regulatory approval, will be known as the "Public Sector Deposit Fund" and will be available to public sector organisations. The investment philosophy for the fund will be security, liquidity and yield in that priority order. It will offer investment opportunities that the council would be comfortable to consider had it the sufficient scale of resources to do so.

- 3.9 The AIS 2011/12 recommends that the Fund is added to the list of approved institutions provided the fund receives approval from the Financial Services Authority and is allocated a rating equivalent to triple A (“AAA”) by the independent rating authorities.

4. CONSULTATION

- 4.1 The council’s external treasury advisor has been consulted.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The financial implications arising from the recommendations in this report are included in the Financing Costs budget.

Finance Officer consulted: Peter Sargent Date: 16/02/11

Legal Implications:

- 5.2 The council must have regard to the guidance issued by the Secretary of State in determining its policies for investment. The Director of Finance is satisfied that the recommendations in this report are consistent with the guidance issued.

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

Lawyer consulted: Abraham Ghebre-Ghiorghis Date: 16/02/11

Equalities Implications:

- 5.4 None directly arising from this report.

Sustainability Implications:

- 5.5 The council’s ethical investment statement requests that institutions apply council deposits in a socially responsible manner.

Crime & Disorder Implications:

- 5.6 None directly arising from this report

Risk & Opportunity Management Implications:

- 5.7 The investment guidance issued under the 2003 Act requires the council to assess credit worthiness by reference to an independent rating agency. The AIS 2011/12 will use the ratings assigned by Fitch, Moody’s and Standard & Poor’s.

- 5.8 The ratings provide an opinion on the relative ability of an institution to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The council uses credit ratings as an indication of the likelihood of receiving its’ money back in

accordance with the terms of the investment. Other sources of information are used to supplement that provided by the rating agencies.

5.9 The minimum ratings set out in the AIS have the following meaning:

	<u>Generic criteria</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
<u>For investment up to 1 year</u>				
Short-term	Strong capacity for timely payment of financial commitments Where the credit risk is particularly strong, a "+" is added to the assigned rating	F1	P-1	A-1
<u>For investment in excess of 1 year</u>				
Long-term	Very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	AA-	Aa3	AA-

5.10 Investment risk is managed by selecting only institutions that meet the council's stringent credit rating criteria. Liquidity risk is managed by applying maximum investment periods to institutions.

Corporate / Citywide Implications:

5.11 Investment income is a resource used by the council to fund revenue expenditure. The recommendations in this report will help to minimise capital risk whilst optimising investment returns over both the short and longer term.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 This report sets out the council's annual investment strategy for the year commencing 1 April 2011. The AIS continues with the strong emphasis on risk management and liquidity, two cornerstones to the draft guidance issued by the Secretary of State and the impact these have on investment performance.

7. REASONS FOR REPORT RECOMMENDATIONS

7.1 Guidance issued under the Local Government Act 2003 requires the council to approve an annual investment strategy. This report fulfils that requirement.

SUPPORTING DOCUMENTATION

Appendix:

1. Annual Investment Strategy 2011/12

Documents in Members' Rooms

None

Background Documents

1. Guidance issued by the secretary of State under Section 15(1)(a) of the Local Government Act 2003 effective from 1st April 2010
2. The Prudential Code for Capital Finance in Local Authorities published by CIPFA – fully revised second edition 2009

BRIGHTON & HOVE CITY
COUNCIL

ANNUAL INVESTMENT
STRATEGY
2011/2012

The Annual Investment Strategy 2011/2012 is subject to approval by Cabinet on 17 March 2011 and full Council on 24 March 2011

Brighton & Hove City Council
Annual Investment Strategy 2011/2012

This Strategy complies with guidance issued by the Secretary of State on investments.

The following sets out the council's policy on investment criteria and counterparties. It should be noted that the minimum criteria set out in this document is only one factor taken into account for the investment of council funds. Other factors, such as Government guarantees and support and information available from the financial press and similar publications will also be taken into account when determining investment decisions. Counterparties that satisfy the minimum criteria are not automatically included on the council's approved investment list.

1 Criteria to be used for creating / managing approved counterparty lists / limits

Each counterparty included on the council's approved lending list must meet the criteria set out below. Without the prior approval of the council, no investment will be made in an instrument that falls outside the list below.

1.1 Capital security

Table 1 sets out the minimum capital security requirements for an investment to be made.

<u>Table 1 – Minimum capital security requirements</u>	
Banks/building societies with a credit rating	the institution must have a minimum short term rating of highest credit quality
Building societies that do not satisfy the minimum rating criteria above	the society must have an asset base in excess of £5 billion
Money market funds / CCLA Public Sector Deposit Fund	the rating of the fund meets the minimum requirement of triple A ('AAA' / Aaa)
Debt Management Account Deposit Facility	the deposit is made in accordance with the rules and regulations relating to such investment as issued by the Debt Management Office from time to time

1.2 Maximum permitted investment by sector

Table 2 sets out the maximum permitted investment for each sector.

<u>Table 2 – Maximum permitted investment by sector</u>	
<u>Sector</u>	<u>%age of total investment portfolio at the time the investment made</u>
Banking sector	100%
Building society sector	75%
Local authority sector	100%

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Money market funds / CCLA Public Sector Deposit Fund	100%
Debt Management Account Deposit Facility	50%
Maximum amount invested for more than 1 year	25% (excl funds administered by external cash manager)

1.3 Maximum permitted investment by counterparty

1.3.1 General

With the exception of money market funds, CCLA Public Sector Deposit Fund and the Debt Management Account Deposit Facility no one counterparty may have more than 75% of the relevant sector total at the time the investment is made.

1.3.2 Rated counterparties

Table 3 sets out the exposure limits and maximum periods for deposits based on various credit ratings.

<u>Table 3 – Exposure limits and maximum periods per counterparty (with rating)</u>				
	<u>A rating of at least (lowest of Fitch (F) / Moody's (M) / Standard & Poor's (SP))</u>			
Short-term rating	F = F1+ M = P-1 SP = A-1+	F = F1+ M = P-1 SP = A-1+	F = F1+ M = P-1 SP = A-1+	F = F1 M = P-1 SP = A-1
Long-term rating	F = AA+ M = Aa1 SP = AA+	F = AA- M = Aa3 SP = AA-	F = A M = A2 SP = A	F = A M = A2 SP = A
Exposure Limit	£10m	£10m	£10m	£5m
Maximum period – fixed deposits	3 years	2 years	1 year	1 year
Maximum period – negotiable instruments	5 years	5 years	1 year	1 year

In addition investment in money market funds and open ended investment companies with a rating of 'triple A' (i.e. AAA / Aaa) is permitted up to a value of £10 million per fund.

The only exception to Table 3 is investment in the council's banker, the Co-operative Bank plc. The maximum period and exposure limit for investment in this bank will be one month and £10 million respectively.

Where there is a significant or sudden deterioration in one or more of the other ratings (e.g. financial strength, support) allocated to a counterparty, the Director of Finance will undertake a review and, where necessary, suspend the counterparty from the council's approved lending list.

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1.3.3 Non-rated counterparties

Table 4 sets out the exposure limits and maximum periods for deposits for counterparties that are not rated.

<u>Table 4 – Exposure limits and maximum periods per counterparty / fund (with no rating)</u>		
<u>Counterparty</u>	<u>Exposure Limit</u>	<u>Maximum period</u>
Local authority	£5 million	1 year
Non-rated building society with an asset base in excess of £5bn	£5 million	6 months
Debt Management Account Deposit Facility	£10 million	6 months

1.3.4 Cash manager

For the purposes of investments made by the council’s external cash manager, the criteria in Table 5 will apply:

<u>Table 5 – Exposure limits and maximum periods per counterparty (Cash manager)</u>		
<u>Instrument</u>	<u>Exposure Limit</u>	<u>Maximum period</u>
Government stock	100% of Fund	10 years
Supra-national with minimum long-term rating of ‘AA-‘ / Aa3 / AA-“	100% of Fund	10 years
Regulation collective investment schemes	100% of Fund	n/a
Fixed term investments – minimum short-term rating of ‘F1 / P-1 / A-1’	10% of Fund or £2.5m whichever is the greater	1 year
Fixed term investments – minimum long-term rating of ‘AA- / Aa3 / AA-’	10% of Fund or £2.5m whichever is the greater	5 years

In addition to Table 5 the maximum average duration of the fund managed by the cash manager shall not exceed 4 years. All instruments used by the cash manager with a maturity of 3 months or more shall be negotiable.

1.4 Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the council to identify investments as either ‘specified’ or ‘non-specified’. Table 6 sets out the requirements for each type.

<u>Table 6 – Investment classification</u>		
<u>Requirement</u>	<u>Specified</u>	<u>Non-specified</u>

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Currency	Must be in Sterling	Any currency
Maturity period	Up to 12 months	Over 12 months
Credit worth	Counterparty with high credit rating or UK government or local authority	Other

All investments made by the council are denominated in Sterling and are made only in counterparties as set out in paragraph 1.3 above.

The maximum amount invested in non-specified investments will be 50% of the total value of investments. The use of non-specified investments is limited to:

- (a) investment in non-rated building societies with an asset base in excess of £5bn, or
- (b) investment for longer than 12 months in counterparties that meet the minimum long-term rating detailed in Tables 3 and 5 above.

2 Approved methodology for changing limits and adding / removing counterparties

A counterparty shall be removed from the council's list where a change in their credit rating results in a failure to meet the criteria set out above.

A new counterparty may only be added to the list with the written prior approval of the Director of Finance and only where the counterparty meets the minimum criteria set out above.

A counterparty's exposure limit will be reviewed (and changed where necessary) following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Director of Finance.

3 Full individual listings of counterparties and counterparty limits

For 2011/12 investment by the in-house treasury team will be restricted to UK banks and buildings societies only.

A full list of counterparties in which the council will invest surplus funds, together with limits and maximum investment periods is contained in Schedule 1 to this AIS.

There is no pre-determined list for investments made by the cash manager but all counterparties must meet the minimum criteria as set out in Table 5 above.

4 Details of credit rating agencies' services

Credit ratings will be based on those issued periodically by the Fitch Ratings Group, Moody's and Standard & Poor's.

5 Permitted types of investment instrument

All investments must be denominated in Sterling.

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The in-house treasury team may invest in fixed term and variable term cash deposits, money market funds and open ended investment companies. The in-house treasury team may only invest in negotiable instruments where to do so offers additional value in terms of investment return and appropriate and supporting advice has been sought from the council's external treasury advisors on the suitability of such an investment.

The cash manager may invest in government stock, supranational institutions, regulation collective investment funds and fixed term instruments. All investments with a maturity of 3 months or more shall be negotiable.

6 Investment risk

6.1 Assessment of credit risk

Whilst the AIS relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for the in-house treasury team to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

6.2 Investment risk matrix

The benchmark risk factor for 2011/12 is recommended at 0.05%, the same as 2010/11. This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid year or end of year review.

6.3 Investment advisors

The council appoints treasury advisors through a regular competitive tendering process. One of the services provided by Sector is the provision of updated credit ratings and "watches" issued by the three rating agencies. In addition Sector are proactive in providing additional market information as set out in paragraph 6.1 above.

6.4 Investment training

The council's advisors have a wide ranging programme of training giving council officers access to seminars and printed material. The council's in-house treasury team is experienced in dealing with investments but where necessary further training and updates will be provided. Cabinet has previously endorsed the need for Members who are involved in the treasury management decision-making process to receive training. A programme of events will be set for 2011/12.

6.5 Investment of money borrowed in advance

The Council has the flexibility to borrow funds in advance of need (i.e. to fund future debt maturities). The Director of Finance may do this where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial over the life of the loan or meet budgetary constraints.

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Borrowing in advance will be made within the constraints set out in the treasury management strategy. The risks associated with such borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or end of year reviews.

6.6 **Investment liquidity**

Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

7 **Ethical investment statement**

The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council

“Brighton & Hove City Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- *encouraging those institutions to adopt and publicise policies on socially responsible investments;*
- *requesting those institutions to apply council deposits in a socially responsible manner.”*

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.

8 **Glossary**

Long-term – period in excess of 12 months

Negotiable instrument – an investment where the council can receive back the amount invested earlier than originally agreed (subject to conditions)

Non-specified investment – see Table 6 above

Short-term – period up to and including 12 months

Specified investment – see Table 6 above

Supra-national – an organisation that encompasses more than one nation, such as the World Bank

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Schedule 1

Brighton & Hove City Council
Banks and Other Institutions
Annual Investment Strategy 2011/2012
In-house Treasury Team

Counterparty	Specified/ Non- specified ¹	Short-term (*)			Long-term (*)			Max amount	Max period – fixed deposit s ²
		F = Fitch	M = Moody's	SP = Standard & Poor's	F = Fitch	M = Moody's	SP = Standard & Poor's		
UK BANKS		F	M	SP	F	M	SP		
Barclays	Both (**)	F1+	P-1	A-1+	AA-	Aa3	AA-	£10m	2 years
Clydesdale Bank	Specified	F1+	P-1	A-1	AA-	A1	A+	£5m	1 year
Co-operative Bank plc	Non- Specified	F2	P-1		A-	A2		£10m	1 mth
HSBC Bank plc	Both (**)	F1+	P-1	A-1+	AA	Aa2	AA	£10m	2 years
Lloyds TSB Bank	Specified	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 year
Royal Bank of Scotland	Specified	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 year
Santander UK plc	Both (**)	F1+	P-1	A-1+	AA-	Aa3	AA	£10m	2 years
UK BUILDING SOCIETIES (+)									
Coventry (3)	Non- Specified	F1	P-2		A	A3		£5m	6 mths
Leeds (5)	Specified	F1	P-1		A	A2		£5m	1 year
Nationwide (1)	Specified	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 year
Principality (7)	Non- Specified	F2	P-2		BBB+	Baa2		£5m	6 mths
Skipton (4)	Non - Specified	F2	P-2		A-	Baa1		£5m	6 mths
West Bromwich (6)	Non- Specified	F3	P-3		BBB-	Baa3		£5m	6 mths
Yorkshire Society (2)	Non- Specified	F2	P-2	A-2	A-	Baa1	A-	£5m	6 mths
OTHER									
Other Local Authorities	Specified							£5m	1 year
Debt Management Acc Deposit Facility	Specified							£10m	6 mths
CCLA Public Sector Deposit Fund (++)	Specified							£10m	6 mths

(*) Ratings as advised by Sector January 2011

(**) investments repayable within 12 months are classified as 'Specified', investments for a longer period are classified as 'Non-specified'

(+) UK Building Societies ranking based on Total Asset size – Source: BSA factsheet February 2011

(++) subject to achieving final regulatory approval and minimum rating as set out in the investment strategy

¹ see para 1.4 of main report – distinction is a requirement under the investment regulations

² for negotiable instruments maximum period should read '5 years' instead of '2 years' and '3 years'. All other periods remain the same

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Subject: Internal Audit Strategy & Annual Audit Plan 2011/12
Date of Meeting: 5th April 2011
Report of: Director of Finance
Contact Officer: Name: Ian Withers Tel: 29-1323
E-mail: lan.withers@brighton-hove.gov.uk
Wards Affected: All

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

- 1.1 This report presents the council's Internal Audit Strategy and Annual Audit Plan for 2011/12. This includes both the operational internal audit and counter fraud work programmes together with updated Internal Audit Terms of Reference.
- 1.2 The Audit Committee and ultimately the Council, needs assurance that internal controls have been effectively designed and operates in practice. The audit coverage contained in the Annual Audit Plan aims to provide assurance over this.

2. RECOMMENDATION:

- 2.1 That the Audit Committee approves the Internal Audit Strategy and Annual Audit Plan for 2011/12 attached at Appendix 1 to this report.

3. BACKGROUND

- 3.1 The Accounts and Audit Regulations 2003 (as amended) require the council to 'maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practice'. The proper practice being the CIPFA Code of Practice for Internal Audit in Local Government 2006.
- 3.2 Under the Code, the Head of Audit & Business Risk is required to prepare and Internal Audit Strategy and Audit Plan for each financial year. The aim is to provide independent and objective assurance on the control environment consisting of internal control, risk management and governance. In particular that it is appropriate and operating effectively.
- 3.3 The Internal Audit Strategy and Annual Plan 2011/12 is at Appendix A and provides the mechanism through which the Head of Audit & Business Risk can ensure the most appropriate use of internal audit resources to provide assurance on the council's control environment and management of risks.

- 3.4 The Annual Audit Plan is effectively a work programme of audits, inclusion of which is primarily based on the greatest perceived inherent risk. Other reviews may also be included based on criteria other than risk, for example 'mandatory' audits or requested/commissioned by management.
- 3.5 There are considered to be sufficient resources available to achieve the Annual Audit Plan for 2011/12 subject to there being no greater levels of unplanned reactive work than envisaged.

4. ANNUAL AUDIT PLAN

- 4.1 In accordance with professional best practice the 2011/12 Annual Audit Plan, has been developed by:
- Using our risk based audit methodology which scores each audit entity against weighted risk scores including cumulative knowledge;
 - Ensuring coverage of core aspects of the council's governance and control environment in order to be able to support the Section 151 Officers and in providing an annual audit opinion for the council's Annual Governance Statement
 - Extensive consultations with members of Strategic Leadership Board, Corporate Management Team and other key officers in order to identify emerging risks and issues that are likely to have a significant impact on the control environment and opportunity to add value; and
 - Linking with Strategic and Operational Risk Registers and service plans.
- 4.2 In order to provide sufficient audit coverage, it has been agreed that the in-house team together with its partner Deloitte Public Sector Internal Audit Ltd will have sufficient resources to deliver 1,650 direct audit days (including 295 for counter fraud).
- 4.3 The Annual Audit Plan is a 'working document' and is both flexible and dynamic. As such it will be reviewed regularly throughout 2011/12 to ensure it adequately reflects emerging risks and issues. Any significant changes to the plan will be reported to the Audit Committee.

5. FINANCIAL & OTHER IMPLICATIONS:

5.1 Financial Implications:

Delivering the annual audit plan contributes towards the Chief Finance Officer meeting their Section 151 responsibilities (make arrangements for the proper administration of the Local Authorities financial affairs) by helping to achieve an effective control environment.

The financial implications of the Internal Audit Strategy and Annual Audit Plan have been fully costed and are within budget.

Finance Officer Consulted: Ann Silley

23rd March 2011

Head of Business Engagement

5.2 Legal Implications:

The recommendations in paragraph 2 are proper to be considered by the Audit Committee, in line with its terms of reference.

The statutory provisions relevant to this report are referred to in paragraph 3.1 .

Lawyer Consulted: Oliver Dixon

23rd March 2011

Acting Senior Lawyer

5.3 Equalities Implications:

When carrying out audit work, any equality issues identified are reported to the appropriate level of management. The Internal Audit Strategy and Annual Audit Plan recognises the council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

5.4 Sustainability Implications:

When carrying out audit work, any sustainability issues identified are reported to the appropriate level of management.

5.5 Crime & Disorder Implications:

When carrying out audit work, any crime and disorder issues identified are reported to the appropriate level of management.

5.6 Risk and Opportunity Management Implications:

The preparation of the Internal Audit Strategy and annual Audit Plan has taken into account the outcomes of the council's risk management and other assurance processes. The work of Internal Audit assists the council in improving controls to mitigate risks. The Annual Audit Plan will be flexible to take account of emerging risks and priorities of the council.

5.7 Corporate / Citywide Implications:

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

SUPPORTING DOCUMENTATION

Appendices:

1. Internal Audit Strategy and Annual Audit Plan 2011/12 (Draft)

Background Documents

1. Accounts & Audit Regulations 2003 (Amended 2006)
2. CIPFA Code of Practice for Internal Audit in Local Government 2006



Audit & Business Risk

Internal Audit Strategy and Annual Audit Plan 2011-12

March 2011

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Introduction & Overview

Purpose of this report

1. This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2011/12.
2. The council's internal audit function is provided by Audit & Business Risk, part of the Finance Unit, together with our 'Internal Audit Partner' Deloitte. The updated Internal Audit Terms of Reference are attached at Appendix B.
3. Internal Audit supports and contributes to the achievement of the council's priorities and in particular, *better use of public money*. Also the Finance Unit's Objectives, *to drive better value for money by transforming our services and supporting other services in their transformation* and to *ensure effective governance and management of resources within the council*.
4. Our strategic vision is to continually add value at corporate, departmental and service level by working with management to review and improve internal control, risk management, corporate governance and the achievement of value for money. Our service is customer focussed and our approach and performance standards support this.
5. We continue to innovate and adopt new approaches to ensure that the council receives an efficient and effective internal audit service that adds value. This includes the introduction of continuous auditing and data mining to deliver efficiency savings and safeguard the council from fraud whilst enhancing customer satisfaction.
6. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
 - Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Members, Strategic Leadership Board (SLB) and the Corporate Management Team (CMT);
 - Optimise the use of audit resources available, given that they are limited;
 - Identify the key risks facing the council to achieving its objectives and determine the corresponding level of audit resources;
 - Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
 - Support the Director of Finance in fulfilling obligations as the Council's nominated Section 151 Officer; and
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2003, as amended 2006.

Providing Assurance

7. The Internal Audit Strategy and Plan is aimed primarily at providing ongoing and annual assurance to the Council to provide confidence to its stakeholders. This is layered in order to achieve a more focussed and targeted assurance across a wide range of the council's systems and activities. The layers of assurance are spread across the thematic reviews and a mix of corporate, specialist, service and continuous audit reviews.

Key Core Deliverables for 2011/12

The Annual Audit Plan is expected to cover core deliverables as follows:

- To provide ongoing assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan in particular high risk audit reviews;
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To continue to develop our partnership working relationships;
- To further embed integration of internal audit work with governance and managing risk to produce a clearly co-ordinated risk-based approach to the audit of business/operational systems across the council;
- To ensure agreed management actions to audit recommendations made are fully implemented, in particular the high priority ones;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2003, as amended 2006;
- To continue to develop and have a lead in the council's corporate governance arrangements including review and production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.;
- To provide an effective reactive corporate counter fraud service in accordance with the council's Counter Fraud Strategy and maximise financial recovery;
- Continue to be proactive in counter fraud including delivery of a comprehensive fraud awareness training programme to assist managers and staff in the prevention and detection of fraud and irregularities;

- To continue to develop our role and work closely with the Audit Committee; and
- To significantly contribute and support the councils Value for Money Programme. In particular by ensuring our audit work is focussed on effective change and delivery of service improvements.

The Role and Purpose of Internal Audit in the Council

8. The statutory basis for internal audit in local government is provided in the Accounts and Audit Regulations 2003, as amended 2006 which states that *a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice*. The Council has recognised this statutory requirement in its financial regulations.
9. In addition to the above, the Director of Finance has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.
10. The standards for 'proper practice' in relation to internal audit are laid down in CIPFA's Code of Practice for Internal Audit in Local Government (Updated in 2006). We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.
11. The standard and quality of internal audit is principally scrutinised in three ways:
 - An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2003, as amended 2006 reported to the Audit Committee
 - The external auditor seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter
 - Customer feedback and perceptions

Protocol for Audit Reviews

12. For each audit review carried out, the responsible Head of Service, Lead Commissioner or Director (Lead Client) and Service Manager will be consulted in the scoping to ensure appropriately focussed on current key perceived risks and issues. Terms of reference will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

13. Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.
14. Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.
15. Agreed actions or recommendations will be followed-up, depending on their priority but this will usually be between three to six months from the issue of the final. A report will be completed and distributed in line with the final report.

Key Issues and Priority Areas for 2011/12

16. Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2011/12:

Governance Arrangements

17. The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, approved by the Audit Committee and signed by the Leader and Chief Executive.

Intelligent Commissioning

18. The move to an intelligent commissioning operating model results in significant changes to the council's governance and control framework. The Annual Audit Plan contains reviews that will support and inform the change. Examples of review include Performance Compacts & Business Planning, Data Quality, Budget Management and Third Sector Contracts.

Key Financial Systems

19. The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the council and to meet the requirements of the Audit Commission. We continue to develop our audit approach to give greater assurance and ensuring it meets the Audit Commission's standards for a 'Key Financial Audit'

Business Transformation and Value for Money

20. With the significant financial challenges facing the public sector, the council continuous to deliver a major Value for Money programme for the transformation of services and into Phase 3 for 2011/12. Our Annual Audit Plan will be flexible enough to respond to emerging issues and risks from change.
21. Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting in issues raised and agreed management actions from audit recommendations. In addition we will support VFM projects, considering changes to the control environment and risk exposure, provide assurance on programme management and realisation of benefits.

Risk Management

22. We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent it is embedded.

ICT and Information Governance

23. Information technology is fundamental to the delivery of the council's services and an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

Partnerships

24. The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and providing assurance.
25. A key area of our work on partnerships in 2011/12 will be on the upcoming changes to the NHS and its impact on the council. Specific examples include the emergence of GP Consortia and changes in responsibility for Public Health.

Contracts, Procurement and Major Projects

26. Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls.

External Audit

27. We work closely with the council's external auditors (currently the Audit Commission) to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to maximise opportunities for minimising the external audit fee.

Counter Fraud

28. We have a lead responsibility for corporate counter fraud and will continue to review and develop the robustness of the council's arrangements. We will continue to work closely, internally with other services involved in investigating fraud and externally with other anti-fraud agencies, Police and the Audit Commission.
29. A recent annual report by the National Fraud Authority gave a headline figure for indicative loss from fraud to the UK economy as £38.4B for 2011. For local government this was reported as £2.1B, an increase from £684M for 2011. In response to these headline figures, we have increased our counter fraud coverage, in particular proactive work to safeguard the council. The days allocated to the Counter Fraud Programme has increased by 27% from 2010/11.

Implementation of Agreed Audit Recommendations

30. At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all high priority audit recommendations and the majority of medium priority ones. This will confirm from officers responsible for implementation that required actions have taken place
31. During 2011/12 we will be utilising a new action tracking module of our Audit Management System to improve efficiency over monitoring and reporting on implementation.

Developing the Annual Audit Plan 2011/12

32. The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
 - Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
 - Materiality;
 - Value for money and service delivery; and
 - Corporate sensitivity and management concern.
33. The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned and therefore currently only medium and high priority risk reviews are included in the Annual Audit Plan. All low priority review areas are reassessed on an annual basis.
34. Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to changing needs and demands.
35. Our internal audit planning is linked to the council's business planning and risk management process. This will continue with the new Performance and Risk Management Framework.
36. The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the City Council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.
37. The Audit Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

Relationships with other Assurance Providers

38. In formulating the Annual Audit Plan, consideration has been given to the work of other assurance providers, both internal and external. Examples include:
- Operational managers identifying, managing risks and improvement actions;
 - Oversight functions such as Financial Services, Strategic Procurement, Legal, Performance and Health & Safety
 - Independent assurance providers such as external audit, inspectors and internal auditors of the partner organisations such as NHS.

Internal Audit Resources and Skills Required

39. In order to achieve the Annual Audit Plan, the appropriate level of resources is made available to Audit & Business Risk and includes the required mix of skills, experience and specialisms required. This includes general audit skills in respect of systems and internal control reviews and appropriate coverage in specialist areas such as ICT, contract audit and counter fraud.
40. The Annual Audit Plan is resourced by calculating the number of productive days available within the Internal Audit Team supplemented by Deloitte LLP our Internal Audit Partner. The Internal Audit Team's establishment for 2011/12 11.2 FTEs comprising the Head of Audit and Business Risk (proportion), Audit Manager, Principal Auditors and Auditors. The projected productive internal audit days available for 2011/12 are 1,840 that include the counter fraud programme. This represents a reduction of 7% from 2010/11.
41. Our professional judgement has been applied in assessing the level of resource required to deliver the Annual Audit Plan. The level of resource applied is a product of:
 - The complexity of the areas to be reviewed;
 - Factors such as number of locations, number and frequency of transactions; and
 - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
42. Staff development needs are continually assessed to ensure we maintain the level and mix of skills required to deliver a highly professional and added value internal audit service

Annual Audit Plan 2011/12

43. Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas. The plan also shows the significance of each review in terms of risk (high, medium and low) and where relevant, cross referenced to the council's corporate risks. The allocation of the 1,840 audit days is summarised in Table 1 below together with the number of specific audit reviews.
44. The Counter Fraud Programme is included in the plan and includes both proactive and reactive audit work.
45. Contingency has been provided for unplanned work reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

Table 1 – Summary of Annual Audit Plan 2011/12

Thematic Area	Number of Specific Reviews	Audit Days
Corporate Governance Arrangements	9	127
Corporate Cross Cutting Audits	14	189
Fundamental and Key Financial Systems	11	184
Procurement & Contract Management	9	108
Information Technology	14	179
Service Specific	32	330
Counter Fraud Programme	9	325
Corporate Support	-	135
Grants	-	50
Other Direct Audit Activity	-	213
Totals	98	1840

46. The Annual Audit Plan includes the quarter when the audit review is planned to be undertaken. Wherever possible this has been agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.
47. In addition to the Audit Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit & Business Risk and/or Audit Manager will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

Our Performance Management

48. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.
49. Performance indicators and targets are shown at Appendix C for six aspects of our service:
- Cost and quality of input;
 - Productivity and process efficiency;
 - Quality of output;
 - Compliance with professional standards;
 - Outcomes and degree of influence; and
 - Our Staff.

50. We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with both other public and private sector providers to ensure efficient, effective and competitive.

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Appendix A

DETAILED ANNUAL AUDIT PLAN 2011/12

Governance Arrangements

This part of the Annual Audit Plan covers key areas of the council's governance arrangements and part of the wider review to produce the Annual Governance Statement.

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A026	Business Continuity Management	High	5	Follow-up to 2010/11 review on the effectiveness of arrangements in place for how the council prepares for recovery from a major incidence to ensure continuity of services.	Head of Service Planning & Public Protection	Quarter 4
A181	Risk Management	Medium	12	Assessment of the effectiveness of risk management arrangements throughout the council. This will include both the management of strategic and operational risks and the level of risk maturity of the council.	Director of Finance	Quarter 2
A007	Annual Governance Statement	High	20	Annual review of overall governance to assess the adequacy across the council. To produce Annual Governance Statement with action plan.	Chief Executive	Quarters 1 - 4
A053	Corporate Framework Governance	High	20	To review the council's corporate governance framework with the changes from the new operating model. To include comparison to new standards and partnership	Director of Finance	Quarter 2
A304	Health Partnerships	High	20	In response to changes to the NHS due in 2011/12, this review will examine the impact to the council and partnership working. Particular areas include GP Consortia and the transfer of Public Health.	Director of Finance	Quarters 1-4
A027	Performance Compacts & Business Planning	Medium	25	To review the effectiveness of controls in the new framework and achievement of objectives.	Head of Policy, Performance & Analysis	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A054	Corporate Health & Safety	Medium	8	This function is high profile and of corporate importance. The review will include overall management and compliance with health and safety requirements including the new safety management system.	Head of HR and Organisational Development	Quarter 4
A068	Declarations of Interest, Gifts & Hospitality	Medium	12	To review processes to ensure robust, clearly communicated and complied with. This will include effective approval and monitoring of registering declarations of interest, gifts and hospitality. The review will include both officers and members.	Head of Legal & Democratic Services	Quarter 3
A305	Corporate Complaints Management	Medium	5	To review the effectiveness of controls in managing complaints.	Head of Policy, Performance & Analysis	Quarter 2
			127			

Corporate Cross Cutting Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A306	Workforce Planning & Pay Modelling	Medium	30	To review the effectiveness of controls including project management and job families.	Head of HR and Organisational Development	Quarter 1
A162	Payrolls	Medium	10	To review the operation and efficiency of payrolls to the council.	Head of HR and Organisational Development	Quarter 2
A002	Attendance/Absence Management	Medium	8	Post implementation review of the operation of the new policy and Trent for effective control and management.	Head of HR and Organisational Development	Quarter 2
A202	Transport Fleet Management	Medium	10	Review of the robustness for new arrangements for procurement, utilisation and general management of the council's transport fleet.	Head of Service City Infrastructure	Quarter 2
A022	Budget Management	Medium	20	To review the effectiveness of controls for budget management and in particular for the council's new operating model. The review will include budget setting, monitoring, reporting and include budget holder's "self serve" ,	Director of Finance	Quarter 3
A206	Value for Money Programme – Realisation of Benefits	Medium	10	To review the monitoring and reporting of financial savings and other efficiencies achieved from value for money projects.	Director of Finance	Quarter 3
A248	Energy Management	Medium	12	To review the controls over energy management, including carbon management (i.e. meeting obligations under the Commitment), tariffs and billing.	Director of Finance	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A267	Financial Regulations	Medium	5	Review for the new operating model	Director of Finance	Quarter 3
A061	Data Quality	High	25	For Intelligent Commissioning. Including policy and specific areas such as Children's Services and Adult Social Care.	Strategic Director of Resources	Quarter 2
A172	Property Management	Medium	15	To review the effectiveness of controls over the council's management of its property including the move to a corporate landlord function.	Head of Property & Design	Quarter 3
A193	Staff Expenses	Medium	12	To review the systems and processes for the claiming and disbursement.	Head of HR & Organisational Development	Quarter 2
A162	Staff Overtime & Allowances	Medium	12	To review the effectiveness of system processes and controls over staff overtime and allowances focussing on risk areas across the council.	Head of HR & Organisational Development	Quarter 1
A277	Grants to Voluntary Organisations	Medium	12	To review the effectiveness of controls including rationale for giving grants and how usage and compliance with grant conditions are monitored. The review will include the corporate recording of all grants to ensure no duplication.	Director of Finance	Quarter 2
A169	Provision of Print Facilities	Medium	8	To review the control and effectiveness of the council's print facilities and service, in particular expenditure.	Head of Communication	Quarter 2
			189			

Fundamental and Key Financial System Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A146	Main Accounting System/General Ledger	High	12	Systems based audit to document, evaluate and test key system controls including controls to ensure all expenditure is correctly stated, suspense accounts are being managed effectively, controls around the use of journal transfer, operation of key interfaces and key account reconciliations between the feeder systems and general ledger.	Director of Finance	Quarter 4
A056	Creditors/Accounts Payable	High	25	Systems based approach considering key risk exposures and including process mapping of key controls. Controls testing to provide assurance those accurate, timely payments are made only to legitimate creditors for goods and services provided to the council. The approach will include continuous auditing of key controls through the year using techniques such as data mining.	Director of Finance	Quarter 1 - 4
A067	Debtors/Accounts Receivable	High	20	Systems based approach considering key risk exposures and including process mapping of key controls. Control testing to provide assurance that accurate, timely debtor's invoices are raised and there is effective collection and recovery of income due.	Director of Finance	Quarter 3
A034	Cash Collection and Banking	High	10	Systems based approach considering key risk exposures, including process mapping of key controls and compliance testing to provide assurance.	Director of Finance	Quarter 4
A204	Treasury Management	Medium	10	Systems based approach considering key risk exposures, including process mapping of key controls and compliance testing to provide assurance. The review will also include the Council's compliance with recent Audit Commission Guidance.	Director of Finance	Quarter 4
A154	NNDR (Business Rates)	Medium	10	Systems based audit to document, evaluate and test key system controls and risk exposures. To include liability, charging, billing, collection and recovery.	Head Service City Services	Quarter 4

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A115	Housing & Council Tax Benefits	High	25	Systems based audit to document, evaluate and test key system controls and risk exposures. In particular verification of claimant data and assessment of entitlement to benefits, reconciliation and management reporting to reduce the risk of fraud, error and inefficiency. The approach will include continuous auditing of key controls through the year using techniques such as data mining.	Head of Service City Services	Quarter 1-4
A117	Housing Rent Collection and Debt Management	High	18	Systems based audit to document, evaluate and test process, key controls and risk exposures.	Head of Service Housing & Social Inclusion	Quarter 4
A029	Capital Accounting and Expenditure	High	12	Systems based approach considering key risk exposures and including process mapping of key controls. The review will include the accuracy of forecasting, performance reports identifying slippage and cost overruns accurately, project outcomes and lessons learnt for future projects. The audit will include the system for the management of fixed assets, recording and mechanisms for valuing and depreciating.	Director Finance	Quarter 4
A011	Management of Fixed Assets	Medium	12	Review of the system operating for the handling, recording and accounting for fixed assets including the verification and valuation processes. The scope will include the recently implemented IT system, disposals and changes in valuations.	Director Finance	Quarter 3
A162	Payroll/HR	High	30	Systems based approach considering key risk exposures and controls. The review will examine HR records to ensure the completeness and accuracy of the establishment, HR records and contractual evidence. The approach will include continuous auditing of key controls through the year using techniques such as data mining.	Head of HR & Organisational Development	Quarter 1-4
			184			

Procurement and Contract Management Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A131	Integrated Waste Management Contract (IWMC)	High	20	The specific scope of coverage to be agreed as part of a joint audit plan with East Sussex County Council and the IWMC Project Board.	Head of Service City Infrastructure	Quarter 3
A174	Category Management	Medium	12	Post implementation review on the effectiveness and Controls to mitigate the risks.	Director of Finance	Quarter 3
A206	Value for Money – Procurement	Medium	8	To review the robustness of the value for money project and outcomes.	Director of Finance	Quarter 3
A185	School Meals Contract	Medium	8	Review the effectiveness of contract management arrangements and processes including testing the accuracy and validity of contract payments. This will be part of a rolling programme of audits for the council's major contracts.	Lead Commissioner Schools, Skills and Learning	Quarter 3
A110	Home to School Transport Contract	Medium	8	Review the effectiveness of new contract management processes. This will be part of a rolling programme of audits for the council's major contracts.	Lead Commissioner Schools, Skills and Learning	Quarter 3
A142	Leisure Management Contract	Medium	8	Review the effectiveness of new contract management processes. This will be part of a rolling programme of audits for the council's major contracts.	Lead Commissioner Communities	Quarter 3
A118	Housing Repairs Contract	High	20	To review the adequacy of controls and management of risks in the new contract procurement arrangements for housing repairs.	Lead Commissioner Housing	Quarter 3
A050	Contract Compliance	High	12	Including compliance with Contract Standing Orders	Director of Finance	Quarter 4
A306	Commissioning and contract management with the Third Sector	Medium	12	To review the effectiveness of controls to ensure value for money is achieved.	Director of Finance	Quarter 3
			108			

Information Technology Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A307	CITRIX Implementation	Medium	12	To review the effectiveness of controls over the implementation and use for remote working.	Head of ICT	Quarter 1
A148	Mobile & Portable Devices	High	12	To evaluate the security in relation to mobile devices for remote working including protecting data held.	Head of ICT	Quarter 2
A077	Email	Medium	5	To review the effectiveness of controls over email including compliance with the council's policy, usage (e.g. electronic authorisation) and ability to maximum the benefits.	Head of ICT	Quarter 3
A124	ICT Governance	High	18	To review the effectiveness of management and security arrangements over in particular critical/sensitive data, including testing to validate controls in place and review of existing and required guidance to staff on acceptable practice for data handling. The review will also include controls around data sharing in particular with the council's partners, use of crest and compliance with standards for connectivity e.g. N3.	Head of ICT	Quarter 4
A153	Network Security & Infrastructure	High	12	To review the council's network security including consideration of perimeter security, network architecture, network performance and monitoring. The review will include network penetration testing by a third party provider and compliance to meet existing Government Code of Connection Standards (CoCo) and additional ones for 2011/12.	Head of ICT	Quarter 1
A134	Internet Security	High	15	Review of robustness of the council's firewall shielding and firewall management, and internet protection against malicious cyber attacks. Testing of the adequacy and effectiveness of incident response plans to ensure system integrity is promptly maintained.	Head of ICT	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A074	Disaster Planning and Recovery	High	12	To review the effectiveness of disaster recovery arrangements in particular for business critical systems. The review will include back-up and off-site storage arrangements to ensure security of the council's data.	Head of ICT	Quarter 3
A189	Software Licensing Management	Medium	8	To review the effectiveness of controls and protection of the council.	Head of ICT	Quarter 2
A060	Data Protection	Medium	8	To review the council's arrangement and ensure compliance with the current Data Protection Act and planning for the revised one in particular data sharing.	Head of ICT	Quarter 2
A308	Financial Model for ICT	Medium	15	To review the financial model operating including cost identification and recharging to ensure incentivise optimal use of ICT.	Head of ICT	Quarter 2
A247	Human Resource Implementation (iTrent)	High	30	Post implementation review of Phase 1 implementation of the new HR and Payroll System (iTrent) including data migration and error rectification and reconciliation from parallel. The review will further examine the effectiveness of controls in Phase 2 of the implementation in particular self-serve..	Head of HR & Organisational Development	Quarter 1-2
A262	Recruitment System (iGrasp)	High	6	Post implementation of the recruitment system (iGrasp) in terms of controls and fulfilling the business needs of the council.	Head of HR & Organisational Development	Quarter 1
A309	CIVICA Financials	Medium	14	To review the effectiveness of the application controls This will include security around the application including access control, security of data sets, segregation of duties, change control and admin user access.	Head of Financial Services	Quarter 2
A155	Northgate Revenues & Benefits	Medium	12	To review the effectiveness of the application controls This will include security around the application including access control, security of data sets, segregation of duties, change control and admin user access.	Head of City Services	Quarter 3
			179			

Service Specific Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A197	Supporting People	Medium	15	To review the financial management and controls operating to ensure in line with the supporting people programme.	Lead Commissioner Housing	Quarter 2
A209	Youth Service	Medium	12	The review will evaluate the control framework and effectiveness for the delivery of commissioning for the service. This will include the process and how the council ensures that services of an appropriate quality are obtained.	Lead Commissioner Children's, Youth and Families	Quarter 3
A139	Learning Disabilities	Medium	15	To review the effectiveness of controls in particular for assessing clients for mitigating high unit costs of both in-house and private sector provision.	Head of Service Adults' Provider	Quarter 2
A265	Personalisation/Self Directed Support	High	18	To seek to provide early assurance on the robustness of systems to be developed and embedded during 2011/12. This review will include the Resource Allocations System (RAS) for the effectiveness of controls for resource allocations to clients.	Lead Commissioner People	Quarter 1-4
A250	Residential Care Homes – Private and Local Authority	Medium	15	To review the effectiveness of controls over placements including assessment, contracts and payments.	Lead Commissioner People	Quarter 3
A072	Personal Budgets & Direct Payments	High	10	This to include those to have personal budgets, the allocation of funds based on authorised need and monitoring the use of funds to ensure they are used for intended purpose.	Lead Commissioner People	Quarter 2
A113	Housing Local Delivery Vehicle	Medium	5	Follow-up to the 2010/11 audit and include review of current control issues and emerging risks.	Lead Commissioner Housing	Quarter 1
A181	Schools Thematic Review – Application of Risk Management Arrangements	Medium	12	To review the effectiveness of risk management arrangements across a number of schools.	Lead Commissioner Schools, Skills & Learning	Quarter 3

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A302	Schools - Probity Reviews and , Control Risk Self Assessments.	Medium	50	Financial and Governance reviews of a sample of eight schools selected based on risk methodology. Controls Risk Assessments (CRSA) will be also be used to increase efficiency and coverage.	Lead Commissioner Schools, Skills & Learning	Quarter 1 -4
A099	DFES Standard for Schools Financial Management	Medium	12	To embed the replacement standard for the new DFES standard replacing the former FMSIS.	Director of Finance	Quarter 2
A310	Fostering & Adoption	Medium	15	To review the effectiveness of controls in particular payments made.	Head of Service Children & Families	Quarter 3
A031	On-Street and Off Street Parking Income	High	20	To review the systems for collecting, controlling and monitoring of parking income from on-street pay and display machines and car parks. The review will include new management arrangements for car parks.	Head of Service City Infrastructure	Quarter 4
A202	Council Transport Fuel	Medium	8	To review the controls over the management of fuel. The review will include the recently implemented fuel management information system.	Head of Service City Infrastructure	Quarter 1
A201	Regulatory /Enforcement Services	Medium	10	To review the effectiveness of controls including where applicable trading accounts.	Head of Service Planning & Public Protection	Quarter 3
A070	Development Control	Medium	7	To review the effectiveness of system processes and procedures introduced for customer service improvement.	Head of Service Planning & Public Protection	Quarter 1

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A310	Community Safety	Medium	8	To review the control framework operating for the service, in particular the councils partnership arrangements, grant funding and associated risks to the council.	Head of Service Planning & Public Protection	Quarter 1
A019	Brighton Centre	Medium	10	To review adequacy of systems for income and expenditure, in particular for events.	Head of Service Tourism & Leisure	Quarter 4
A021	Royal Pavilion	Medium	8	To review adequacy of systems for income, expenditure and trading systems.	Head of Service Tourism & Leisure	Quarter 4
A311	Management of Events	Medium	10	To review the adequacy of systems and control for management of events including over external providers.	Head of Service Tourism & Leisure	Quarter 1 (June)
A312	Concessionary Bus Fares	Medium	7	This review will review the effectiveness of controls in the scheme including out of City users.	Director of Finance	Quarter 3
A272	Seafront Services	Medium	8	Property management issues and maximising income	Head of Service Tourism & Leisure	Quarter 3
A312	Housing Revenue Account	Medium	12	This review will examine the impact and control issues around the impact and changes from self financing.	Head of Service Housing & Social Inclusion	Quarter 1

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A313	Election Expenses	Medium	5	To review the effectiveness and adequacy of the system and controls. The review will include any reimbursement of expenses from the Electoral Commission/Home Office and identification of full costs.	Chief Executive/ Returning Officer	Quarter 1
A143	Libraries Service	Medium	12	To review controls operating at a sample of libraries including stock control, income, expenditure and usage.	Head of Service City Services	Quarter 3
A059	Council Tax Single Persons Discounts	Medium	12	To review the system controls and robustness of validation checks regarding entitlement to single persons discounts from Council Tax Bills. It will further make comparisons with best practice and where applicable use third part data sources to test for abuse and fraud.	Head of Service City Services	Quarter 1
A274	Bereavement Services	Medium	10	This review will follow-up the 2009/10 review on the controls in operation over the service.	Head of Service City Services	Quarter 2
A176	Registrars Service	High	5	Follow-up to 2010-11 audit and review the effectiveness of control improvements.	Head of Service City Services	Quarter 1
			330			

Counter Fraud Programme

The counter fraud programme includes reactive investigations into suspected fraud and corruption and proactive reviews.

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		Lead Client	Timing
				Overview			
F001	Investigations into Fraud & Corruption (Reactive)	High	120	Carrying out investigations as and when required into referrals received into suspected cases of fraud and irregularities. Referrals may be received: <ul style="list-style-type: none"> ▪ From management ▪ Received via the confidential anti fraud hotline and website ▪ Found from internal audit reviews carried out ▪ Received under the Whistleblowing Policy Referrals will be risk assessed and investigated accordingly.	Director of Finance	Quarters 1 - 4	
F277	Fraud Risk Assessment and Loss Measurement	High	8	Follow-up to the review carried out in 2010/11 to embed fraud risk registers, measurement, reporting and actions resulting.	Director of Finance	Quarter 3	
F278	Counter Fraud Strategy, Fraud Response Plan, and other Protocols and Guidance.	High	20	Ongoing review of policies, protocols and guidance to ensure effective and current. Where considered necessary appropriate ones will be revised, approved and implemented.	Director of Finance	Quarters 1 - 4	
F314	Bribery Act 2010	Medium	15	To examine the implications for the council of the Bribery Act and review the adequacy of compliance with the defined 'adequate procedures'. The review will further identify higher risk areas and provide awareness and actions required.	Director of Finance	Quarter 2	
F280	National Fraud Initiative (NFI) 2010/11	High	50	To lead on the National Fraud Initiative exercise for the council. This will include co-ordinating, investigating significant data matches, where applicable instigating sanctions and financial recovery. To further consider improvement to controls to mitigate future fraud risk.	Director of Finance	Quarter 1-4	
F281	Data Mining	Medium	12	This review will use data mining tools for example data matching and exception reporting to monitor effectiveness of system controls and identify potential fraud and error.	Director of Finance	Quarter 1	

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		Timing
				Overview	Lead Client	
F282	Money Laundering Strategy and Arrangements	Medium	8	Review of money laundering arrangements (including Policy) and compliance with 2007 regulations. Further guidance is expected during 2011/12.	Director of Finance	Quarter 3
F283	Fraud Awareness Training	-	12	To provide awareness training across the council using e-learning modules developed for staff and managers.	Director of Finance	Quarters 2-3
F284	Agency Liaison and intelligence exchange	-	8	Liaison and information exchange with Police and other Anti Fraud Agencies including Police, DWP, NHS and UK Borders Agency.	Director of Finance	Quarters 1 - 4
F279	RIPA/Surveillance Compliance	Medium	8	To review the adequacy of compliance, comparison to good practice and the implications of the forthcoming Freedom Act for the council.	Head of Services Planning & Public Protection	Quarter 2
F285	Employee vetting and Recruitment Process	Medium	10	To review the robustness of the council's employee vetting procedures and recruitment process making comparison with best practice and third party data sources. The review will include compliance with the Information Safeguarding Authority's requirements and employees rights to work in the UK..	Head of HR & Organisational Development	Quarter 1
F396	Blue Badges	High	10	To review the controls over the blue badge scheme and undertake proactive fraud tests. The review will also consider implications and system changes required with the introduction of a national scheme.	Head of Service City Infrastructure	Quarter 3
F175	Residents' Parking Permits	Medium	6	This review will be a follow-up to the 2010/11 review to ensure control improvements introduced are effective in particularly eligibility criteria and reduce the risk of fraud.	Head of Service City Infrastructure	Quarter 4
A275	Housing Tenancy Management	High	30	This review will use data matching for the identification of unauthorised occupancy including subletting. It will further investigate suspected cases and work with Housing Management on actions required. The review will also be part of a National Fraud Authority's Pathfinder.	Head of Housing & Social Inclusion	Quarters 1 - 2

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
F216	Whistleblowing	Medium	8	To review the effectiveness of the council's whistleblowing arrangements following the improvement introduced in 2009.	Director of Finance	Quarter 3
			325			

Corporate Support

This area of work provides support to both key officers and members.

Ref.	Audit/Area	Risk Assessment	Audit Days	Audit Details		
				Broad Scope	Lead Client	Timing
A286	Audit Committee Support	-	20	Providing support including advice and reporting to Audit Committee.	Audit Committee	Quarters 1 - 4
A287	Section 151 Officer Support	-	20	To provide the necessary assurance and evidence that will allow the Director of Finance and Property to discharge her statutory 151 responsibilities. The support will include that given to the Finance & Resources Management Team.	Director of Finance	Quarters 1 - 4
A288	Committee/Members Support General	-	15	Providing support to other members of executive, regulatory and overview and scrutiny functions..	Various	Quarters 1 - 4
A206	Value for Money Programme Support	-	30	Providing support including advice.	Director of Finance	Quarters 1 - 4
A289	Advice & Information to Directorates	-	50	To provide ad hoc advice and information to directorates as required, including participation in programme boards and working groups.	Various	Quarters 1 - 4
			135			

Grants Received Audit Reviews

Ref.	Audit Review	Risk Assessment	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A115	Housing Benefit Subsidy	-	20	Auditing the grant claim to ensure the accuracy and completeness of the subsidy claimed. In particular the robustness of information on the housing benefit system and subsidy claim.	Director of Finance	Quarter 2
A291	Contingency for other Grants	-	30	Auditing other grants as required for certification purposes.	Director of Finance	Quarters 1 - 4
			50			

Other Direct Audit Activity

Ref.	Audit Review	Risk Rating	Audit Days	Audit Details		
				Overview	Lead Client	Timing
A293	External Liaison	-	8	External liaison with partners and other public sector organisations to share and compare information on best practice and areas of significant risk.	None	Quarters 1 - 4
A294	Audit Commission Liaison	-	10	Liaison and support to external audit including ISAs impact, CPA, Anti Fraud & Corruption.	None	Quarters 1 - 4
A126	Implementation Reviews	-	45	This work will assess the progress made in implementation agreed audit recommendations, in particular high priority.	Various	Quarters 1 - 4
-	Contingency for unplanned audit work	-	120	Contingency for reactive work not planned, in response to emerging risks and issues.	Various	Quarters 1 - 4
-	Residual audits brought forward from 2010/11	-	30	Contingency to cover the completion of reviews brought forward to agreement and issue of final audit reports.	Various	Quarter 1
			213			

Appendix B

Terms of Reference for the provision of Internal Audit Services

1. Purpose

- 1.1 The Terms of Reference is for the provision of Internal Audit Service within Brighton & Hove City Council. It is reviewed and approved on an annual basis to ensure that current needs are met.

2. Role and Function

- 2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion and adds value to the council on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The service is delivered by Audit & Business Risk within the Finance Unit.
- 2.2 The control environment comprises the systems of governance, risk management and internal control.

3. Reporting Lines & Relationships

- 3.1 Audit & Business Risk provide the council's internal audit function and are part of the Finance Unit. The Head of Audit & Business Risk reports functionally to the Chief Executive, Director of Finance (Section 151 Officer), other Strategic Directors and members of the Audit Committee. Administratively the Head of Audit & Business Risk also reports to the Director of Finance.
- 3.1 The Audit Committee is responsible for approving the Internal Audit Strategy and Annual Audit Plan. The Head of Audit & Business Risk reports regularly to the Audit Committee on progress against the Annual Audit Plan and key issues arising.

4. Independence and Accountability

- 4.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibility.
- 4.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has unrestricted access to officers, members, council records and to report in its own name.

- 4.3 The existence of an internal audit function within the council does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.

5. Statutory Role

- 5.1 Internal auditing is provided as a statutory service in the context of the Accounts & Audit Regulations 2003, as amended 2006, which states that a relevant body shall maintain an adequate and effective system of internal audit of its accounting systems and its system of internal control in accordance with the proper Internal audit practices.

- 5.2 The statutory role is recognised and endorsed within the council's Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation necessary.

6. Consultancy and Advisory Role

- 6.1 Audit & Business Risk also perform a consultancy or advisory role on an ad hoc basis or as part of the Annual Audit Plan, as commissioned by management. Reports from this type of work contain findings and recommendations particularly to add value to the council's services in achieving value for money in its use of resources. Any consultancy and advisory work carried out shall not jeopardise the Internal Audit independence.

7. Internal Audit Standards

- 7.1 There is a statutory requirement for Audit & Business Risk to work in accordance with the 'proper audit practices'. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government that accompanies the Accounts & Audit Regulations 2003 (as amended 2006).

8. Internal audit Scope

- 8.1 The scope for Audit & Business Risk is 'the control environment comprising risk management, control and governance'. This means that the scope of Audit & Business Risk includes all of the council's operations, resources, services and responsibilities in relation to associated partner organisations. The priorities for Audit & Business Risk will be determined by a process of risk assessment.

9 Internal Audit Skills and Resources

- 9.1 Audit & Business Risk will ensure as far as possible that it appropriately staffed in terms of numbers, skills and experience. The Head of Audit & Business Risk is responsible for appointing of staff and will ensure these are made in order to achieve the appropriate mix of qualifications, experience and skills.

- 9.2 The Head of Audit & Business Risk is responsible for ensuring that the resources of Audit & Business Risk are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Director of Finance (Section 151 Officer) and the Audit Committee.
- 9.3 Where necessary to provide an adequate, effective and professional service the Head of Audit & Business Risk will outsource internal audit work to supplement internal resources but will ensure quality is not compromised.
- 9.4 If Internal auditors are appointed from operational roles elsewhere within the council, they do not undertake an audit in that area directly within one year unless by prior agreement.
- 9.5 In line with the CIPFA Statement on the Role of the Head of Internal Audit (2010), the Head of Audit & Business Risk is a professional qualified CIPFA Accountant. In addition there is a high mix of professionally qualified staff throughout the Internal Audit Team to meet delivery requirements of the service.

10. Fraud and Corruption

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit & Business Risk will, however be alert in all their work to risks and exposures that could allow fraud or corruption.
- 10.2 The Head of Audit & Business Risk has lead responsibility for corporate counter fraud activities including proactive initiatives, maintaining and developing an effective framework, and advising management.

11. Reporting Accountabilities

- 11.1 The majority of audit reviews include a formal audit report being produced and issued to management. The primary purpose of the audit report is:
- To provide an opinion on the effectiveness of the control framework operating for the mitigation of risks;
 - To make practical audit recommendations and agree management actions;
 - To prompt management action to implement audit recommendations for change leading to improvements in control and where applicable value for money and performance; and
 - To provide a formal record of points arising from an audit review and agreement with management.
- 11.2 Management are expected to implement all agreed recommendations within a reasonable timeframe. Each internal audit will be followed up normally within six months of issue, in order to ascertain whether agreed actions have been implemented effectively.

- 11.3 The Head of Audit & Business Risk reports regularly to the Audit Committee on progress made against the Annual Audit Plan and the summarised outcomes of individual audits.
- 11.4 The Head of Audit & Business Risk provides an Annual Internal Audit Report to the Audit Committee that includes an opinion on the adequacy and effectiveness of the control environment.

12. Responsibilities

- 12.1 In meeting its responsibilities, the activities of Audit & Business Risk will be conducted in accordance with the council's objectives, established policies and procedures. In addition, internal auditors comply with the Code of Practice for Internal Audit in Local Government (CIPFA).
- 12.2 Audit & Business Risk will co-ordinate effectively with the Audit Commission (as the council's appointed external auditors) for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.
- 12.3 Audit & Business Risk will work the internal audit functions of the council's partner organisations to ensure the robustness of controls and risk management arrangements, to protect the council's interests.

Appendix C**Service Performance Targets**

Aspect of Service	Performance Indicators	Target
Cost and Quality of Input	<ul style="list-style-type: none"> Service costs Productive/direct time as % of total time 	<ul style="list-style-type: none"> Within budget 71%
Productivity and Process Efficiency	<ul style="list-style-type: none"> Achievement of annual plan by 30th April 2012 (%) Issue of draft report after completion of fieldwork Client responses received to draft audit reports from issue Issue of final report after agreement with client of draft Time between start of audit (entry meeting) and exit meeting Audit reviews delivered within budgeted time 	<ul style="list-style-type: none"> 100% Within 10 Days Within 15 Days Within 10 Days Days not exceeding 3 X total planned time for audit review 100%
Quality of Output	<ul style="list-style-type: none"> Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires External audit reliance on work of internal audit 	<ul style="list-style-type: none"> 90% of scores within good to very good Reliance placed
Compliance with Professional Standards	<ul style="list-style-type: none"> CIPFA Code of Practice for Internal Audit in Local Government (2006) 	<ul style="list-style-type: none"> 100% compliant
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of agreed recommendations 	<ul style="list-style-type: none"> 98% of High Priority Recommendation 85% of Medium Priority Recommendations
Our Staff	<ul style="list-style-type: none"> Professionally Qualified and Undertaking CPD Annual Training & Development Received (Minimum) 	<ul style="list-style-type: none"> 80% 5 Days

AUDIT COMMITTEE

Agenda Item 75

Brighton & Hove City Council

Subject: Risk & Opportunity Management Update and Strategic Risk Register

Date of Meeting: 5th April 2011

REPORT OF: Director of Finance

Contact Officer: Name: Jackie Algar Tel: 29-1273

E-mail: jackie.algar@brighton-hove.gov.uk

Wards Affected: All

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Audit Committee has a role to form an opinion on the effectiveness of risk management and internal control and provide an opinion to the Council Leader and Chief Executive. Therefore, the Risk & Opportunity Management (ROM) Update report to the Audit Committee on 10 December 2010, detailed that a Strategic Risk Register would be developed and reported to their next meeting.
- 1.2 This report also gives an update on the risk management input to the council's new Performance & Risk Management Framework.

2. RECOMMENDATIONS:

The Audit Committee are requested to:

- 2.1 Note the Strategic Risk Register 2011/12 at Appendix 1 and its improved format and clarity of text.
- 2.2 Note that Risk Management Action Plans (Risk MAPs) which detail work to address Strategic Risks will be reported to the next Audit Committee meeting in June 2011.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

The Strategic Risk Register 2011/12

- 3.1 The agreed Risk and Opportunity Management (ROM) Strategy 2008-11 provides that the Corporate Risk Register (now replaced by the Strategic Risk Register) will be reviewed and reported to the Audit Committee on a six monthly basis, normally in May and November each year. It has now been completed and is attached at Appendix 1.

- 3.2 This Strategic Risk Register provides evidence of a risk aware and risk managed organisation. Generally, it reflects risk scenarios that will be common to comparable local authorities in this current period of financial challenge and change for the public sector.
- 3.3 Due to organisational re-structuring and the changing operating environment for the council it was reported, in December 2010, that there would be a delay in producing a refreshed Risk Register to report to the Audit Committee.
- 3.4 In the meantime, in order to provide assurance to the Audit Committee on the effectiveness of risk management and internal control on the risk management development work, it was agreed at the December meeting that the Chair and Deputy Chair of the Audit Committee would meet with the Risk & Opportunity Manager and Head of Audit & Business Risk. This meeting took place on 17 February 2011.
- 3.5 The timetable and consultation process for the reporting of the Strategic Risk Register is shown at Appendix 2.
- 3.6 The new improved format and clarity of text in the Strategic Risk Register 2011-12 is designed to provide more understandable information on the strategic risks and the risk management methodology used by the City Council. The improvements are summarised as:

- Clear indication of initial risk score (a combination of impact and likelihood) and the residual risk level which takes into account the mitigating actions and controls that the council already has in place;
- Consistent and more clear presentation of text for each strategic risks to describe the particular background, potential risk (the risk scenario) and its potential consequences; and
- To enable better public understanding and improve information for customers, a new final page has been added to the Strategic Risk Register which sets out the Risk Matrix and an explanation of terms used.

Risk Management input into the new Performance & Risk Management Framework

- 3.7 Other work continues to integrate risk management more closely with the council's new Commissioning model. Current work to date has included:
- Development of a new Performance and Risk Management Framework for council service delivery which has risk management at its core and integrates risk and performance at all levels;
 - Providing guidance to enable proactive management of risk actions through relevant business plans (including partnership commissioning

strategies, performance compacts and business plans);

- Addition of a risk “trigger” in any type of agreement between Lead Commissioners and Heads of Delivery/Resource Units; and
- Performance Compacts for Heads of Delivery/Resource Units to allow “management by exception” across all council services.

3.8 Further planned work includes:

- Working on the integration of risk management into Commissioning Decisions; and
- Development of a new Risk Management Standard to succeed the current Risk & Opportunity Management Strategy 2008-11.

4. CONSULTATION

4.1 The work to establish Risk Management as a key element of the council’s new Performance & Risk Management Framework involves cross-discipline work by officers on the Performance & Intelligence Project Board, chaired by the Strategic Director Place, and it is envisaged, ultimately will involve consultation with external partners, as part of Commissioning and Partnership Commissioning Strategies.

4.2 Consultation will take place on the new Risk Management Standard 2011 during 2011.

4.3 The process to create the Strategic Risk Register involved consultation and work with the council’s Corporate Management Team (CMT) and a small CMT focus group. Further taking on board comments from Cabinet Members on the initial draft of the Strategic Risk Register to improve the format and information for stakeholders.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 The Strategic Risk Register reflects a number of risks which have potential significant financial implications for the authority either directly or indirectly. The risk owners are responsible for overseeing the effective management of the risks through performance compacts and the Performance & Risk Management Framework. The Risk Management Action Plans will detail work required to address the strategic risks. This should ensure that all potential financial impacts are properly considered and likely financial outcomes are reflected in medium term financial plans and budget strategies, which are continually updated to reflect changing assumptions and likelihood of risk.

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

Finance Officer consulted : Anne Silley

Date : 22 March 2011

Legal Implications:

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

Legal Officer consulted: Oliver Dixon

Date: 22 March 2011

Equalities Implications:

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

Sustainability Implications:

- 5.4 The risk management methodology includes identification and management of sustainability issues. There is a specific Strategic Risk, SR 8, which relates to Sustainability. However, Sustainability will be incorporated as appropriate across all Strategic Risks and Risk MAPs.

Crime & Disorder Implications:

- 5.5 There are no direct implications.

Risk and Opportunity Management Implications:

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

Corporate / Citywide Implications:

- 5.7 There are no direct implications.

SUPPORTING DOCUMENTATION

Appendices

1. Strategic Risk Register 2011-12
2. Timetable for reporting of Strategic Risk Register 2011-12 (SRR)

Documents in Members' Rooms

1. None

Background Documents

1. None



Brighton & Hove City Council Strategic Risk Register 2011/2012
Risks are set out in order of Initial Risk Score (a combination of likelihood and impact)
See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
1	Readiness for opportunities and impacts of localism Strategic Director, Communities	All	<p>Background: The broad remit of the localism agenda provides opportunities for all councils to deliver public services in new ways. The implementation of intelligent commissioning needs to be designed to take advantage of this and also manage its risks and impacts.</p> <p>Risk scenario: The potential consequences of not responding to the localism agenda include risks of lack of:</p> <ul style="list-style-type: none"> • innovation and creativity in service redesign • community and partner support for the council's plans • skills and capacity to assess the costs and benefits of different options 	Professional/ Managerial/ Partnerships	4	5	20 RED	<ul style="list-style-type: none"> ▪ Intelligent Commissioning Board oversees development of new processes and includes partner and voluntary sector membership ▪ Strategic Directors that look out, not in ▪ New Community Engagement Strategy in place ▪ Options for considering financial impacts of different service models being developed 	3	4	12 AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012

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

See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
2	Financial Outlook for the Council <i>Director of Finance</i>	2	<p>Background: The financial settlement for the whole of local government results in a 30% cash reduction in formula grant over the spending review period at national level, front loaded in 2011/12. The implications of changes to specific grant funding are complex to understand.</p> <p>Risk Scenario: There is a risk that the 2011/12 budget plans will not be effectively implemented without close monitoring and review. A new focus is required for the development of strategies for the subsequent 3 years.</p>	Economic/ Financial	5	4	20  RED	<ul style="list-style-type: none"> ▪ Budget planning process for 2011/12 revised to identify significant additional savings ▪ Reconciliation of all changes in specific grants and their impact ▪ Rigorous implementation of VFM 2 programme and development VFM 3 plans ▪ Review of all reserve requirements ▪ Finance support for implementation of intelligent commissioning as part of plans to deliver savings from 2012/13 	4	4	16  RED

Brighton & Hove City Council Strategic Risk Register 2011/2012

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

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Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
3	Pace of public sector change <i>Strategic Director, Resources</i>	All	<p>Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)</p> <p>Background: All public services are affected by national reductions in spending and the wider reform agenda.</p> <p>Risk scenario: Financial constraints may adversely impact on the delivery plans of different organisations and will require more joined up planning to ensure that the impacts on the city are well managed.</p>	Customer/citizen	5	4	20 RED	<p>Effective prioritisation through the Sustainable Communities Strategy</p> <ul style="list-style-type: none"> • Oversight by the PSB and LSP • Ongoing work on "Total Place" 	5	3	15 RED

Brighton & Hove City Council Strategic Risk Register 2011/2012

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

See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
4	Ability to attract new capital investment in the City under the auspices of the City Council <i>Strategic Director, Place</i>	2, 4, 5	<p>Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)</p> <p>Background: The council has a significant role to play in championing the City economy. It can use its own land and property portfolio to contribute to this and also use a range of policy levers for example in respect of housing, planning, leisure and tourism.</p> <p>Risk scenario: If the council does not do this effectively there is a risk the city fails to attract inward investment, its reputation is affected and it does not make optimal use of its own assets.</p>	Economic/ Financial	4	4	16 RED	<ul style="list-style-type: none"> ▪ Review of major projects to assess: project objectives; viability, deliverability & value for money. ▪ Review of asset management strategy to provide commercial benchmarks to decision-makers. ▪ Re-commissioning planning enabling & economic development to enhance the capacity to manage development and investment opportunities. 	3	4	12 AMBER



Brighton & Hove City Council Strategic Risk Register 2011/2012
Risks are set out in order of Initial Risk Score (a combination of likelihood and impact)
See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
5	City wide employability <i>Strategic Director, Place</i>	1, 4, 5	<p>Background: The Council has an important role in supporting education and training providers in strengthening the labour force offer to employers & in addressing the legitimate employment aspirations of local communities.</p> <p>Risk Scenario: Failure to do this effectively could impact on the performance of the city's economy and employment resilience. There would be social and economic costs for individuals and overall costs to the public purse.</p>	Physical	4	4	16 RED	The council continues to work via the Public Service Board (PSB), Local Strategic Partnership "LSP" (Economic Partnership) & the Learning & Education Partnership with education, training & employment agencies including: <ul style="list-style-type: none"> Promoting the City as a business location; Supporting the analysis of employer skills needs information; Informing the business planning of education, training & employment agencies; Co-ordinating public sector policy & interventions which optimise opportunities particularly for disadvantaged people. 	3	4	12 AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012

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



See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
9	Safeguarding vulnerable members of our community, including looked after children <i>Strategic Director, People</i>	5, 2, 4	Background: Increased awareness of risk within the community leads could lead to an unmanageable level of referrals to social care particularly below the accepted threshold. Risk Scenario: If this happened it would reduce the council's ability to respond in a timely manner to the needs of the most vulnerable.	Customer/ citizen	3	5	15  RED	<ul style="list-style-type: none"> ▪ Revised processes being put in place to manage work of Local Safeguarding Children Board (LSCB) to ensure it is more responsive, and that the wider system understands thresholds. ▪ Review of children and adult quality assurance mechanisms, and supporting staffing structures. ▪ Looked After Children (LAC) a clear corporate priority with regular updates to Elected Members on their Corporate responsibilities. 	3	4	12  AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012

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

See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
7	One Council, open and transparent Strategic Director, Resources	5	<p>Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)</p> <p>Background: The council must ensure openness and transparency, and a corporate approach to good data management and information governance.</p> <p>Risk Scenario: Failure to do so could mean that citizens and partners do not trust the council's decision making and use of resources. This could lead to sub-optimal decision making and a lack of effective engagement with stakeholders.</p>	Customer/ Citizen	3	4	12  AMBER	<ul style="list-style-type: none"> ▪ Participation in LSP and PSB ▪ Head of ICT has been designated as the Council's Chief Information Officer ▪ The first stage of the redesign of the council's website has been undertaken ▪ The information governance arrangements and information management strategies are being revised 	3	3	9  AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012
Risks are set out in order of Initial Risk Score (a combination of likelihood and impact)
See final page for information on risk scoring and terms used

Strategic Risk No.	Risk Title and Owner	Council Priority	Background and Risk Scenario and Potential Consequences	Risk Category	Initial Likelihood (L) Score	Initial Impact (I) Score	Risk Score L x I (Dot indicates RAG rating)	Mitigating Controls and Actions currently include (but are not limited to)	Residual Likelihood (L) Score	Residual Impact (I) Score	Residual Risk Score L x I
8	Promoting a sustainable city Strategic Director, Place	1, 2, 5	<p>Background and Risk Scenario and Potential Consequences A potential or actual risk or opportunity which needs to be managed in order to better achieve the Council's objectives (including contribution to the Sustainable Community Strategy)</p> <p>Background: The Council has an important civic leadership role in:</p> <ul style="list-style-type: none"> a) Contributing to national carbon reduction objectives & targets; b) Take up of renewable energy & other city wide infrastructure investment opportunities; c) Promoting the City's brand & positive reputation. <p>Risk Scenario: If the council does not fulfil this effectively there is a risk that the City's economy and infrastructure does not achieve competitive advantage resulting in relatively higher public and commercial sector operating costs. It would also impact on the council and city's reputation.</p>	Environmental/ Sustainability	3	4	12 AMBER	The Council continues to work via the PSB & LSP (Sustainability Partnership) to develop sustainable investment strategies & initiatives including: <ul style="list-style-type: none"> ▪ Implementing the adopted Sustainable City priorities for 2010; ▪ Promoting the 10:10 commitments as a council and city-wide ▪ Enabling the planned offshore wind farm development & maximising the economic benefits ▪ Reducing waste landfill ▪ Devising investment proposals to increase the proportion of residential & commercial building returning energy to the grid 	3	3	9 AMBER

Brighton & Hove City Council Strategic Risk Register 2011/2012
Risks are set out in order of Initial Risk Score (a combination of likelihood and impact)
See final page for information on risk scoring and terms used

Risk Scoring

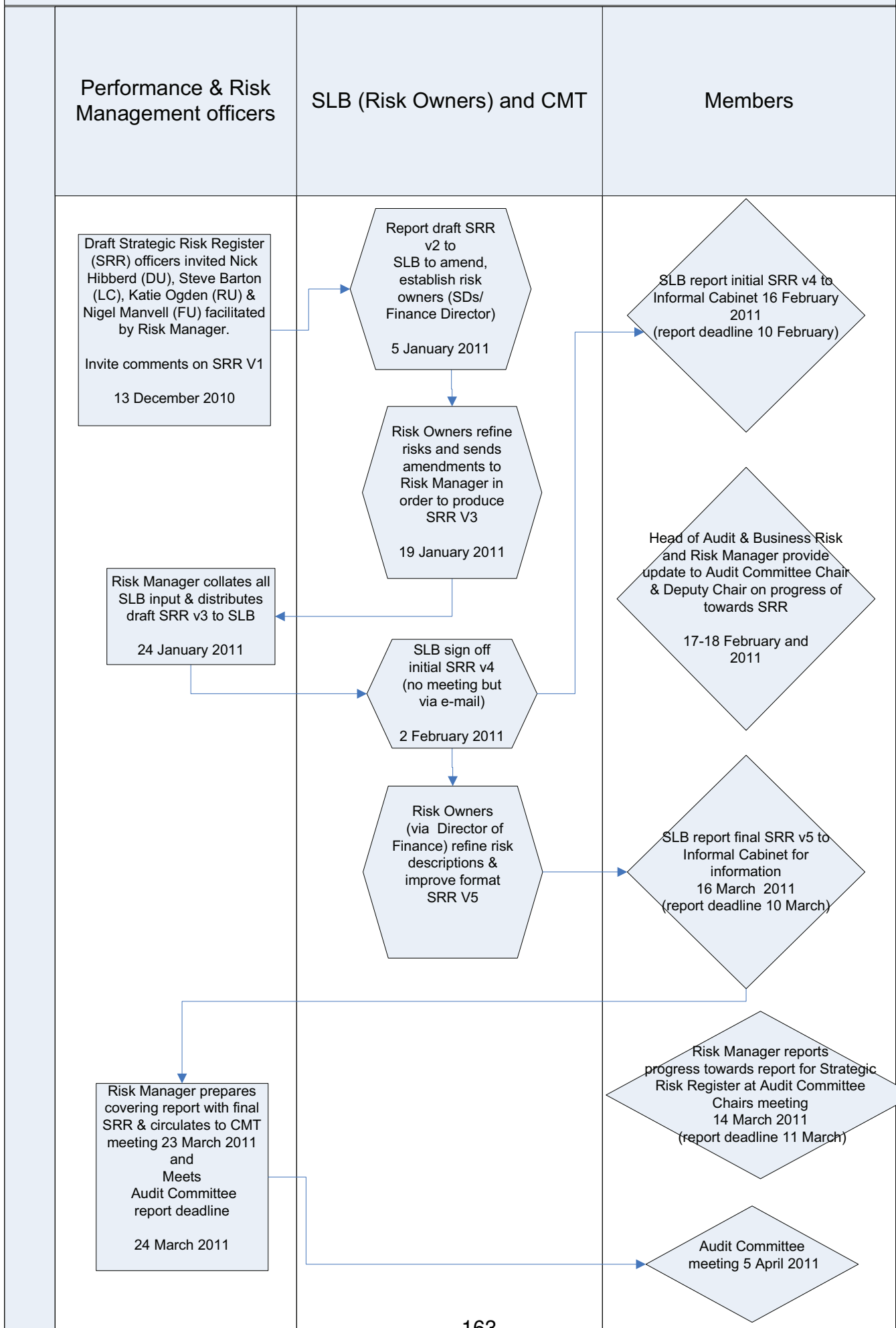
The City Council uses this risk matrix to “score”, i.e. assess the likelihood and impact of the risk scenario occurring and its potential consequences if it did, and how it would affect achievement of the council’s objectives.

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

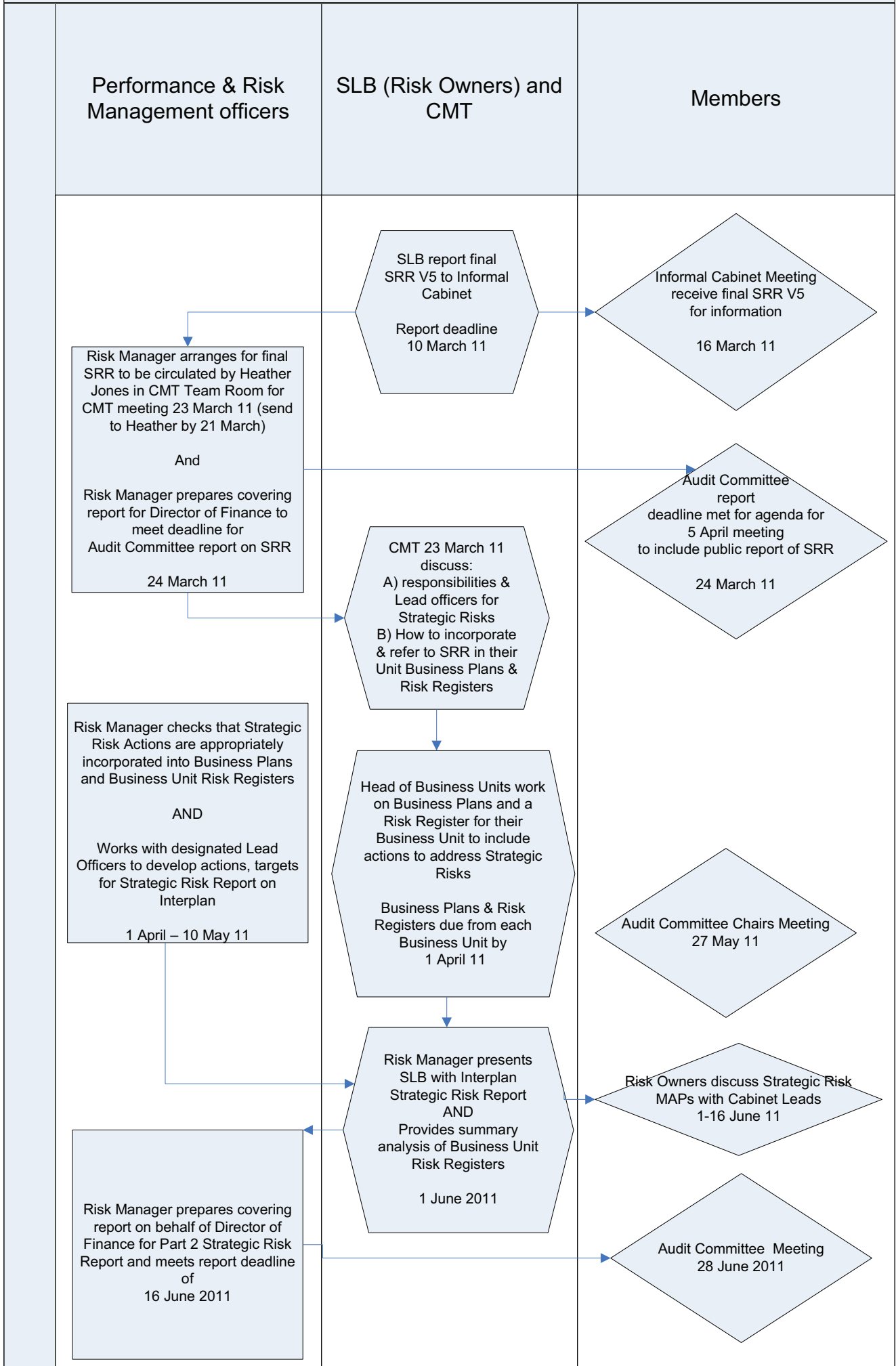
Terms Used

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

Timetable for reporting of Strategic Risk Register (SRR) 2011-12



Creating Strategic Risk MAPs and incorporating actions into Unit Risk Registers



Subject:	2010/11 Progress Report and Briefing		
Date of Meeting:	5 April 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Simon Mathers	Tel: 0844 798 1776	
	E-mail: s-mathers@audit-commission.gov.uk		
Wards Affected:	All		

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

- 1.1 We would like the committee to review the 2010/11 external audit progress report and briefing.

2. RECOMMENDATIONS:

- 2.1 To receive the 2010/11 external audit progress report and briefing and note the progress made.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 This is our usual report detailing progress against the 2010/11 audit plan. It is up to date to the end of March 2011 and is intended to provide the Committee with a summary of progress made and any significant issues arising.
- 3.2 We welcome feedback from the Committee on any improvements it would like to either the format or content of the report.

Progress report and briefing

April 2011

Brighton & Hove City Council

Audit 2010/11

DRAFT

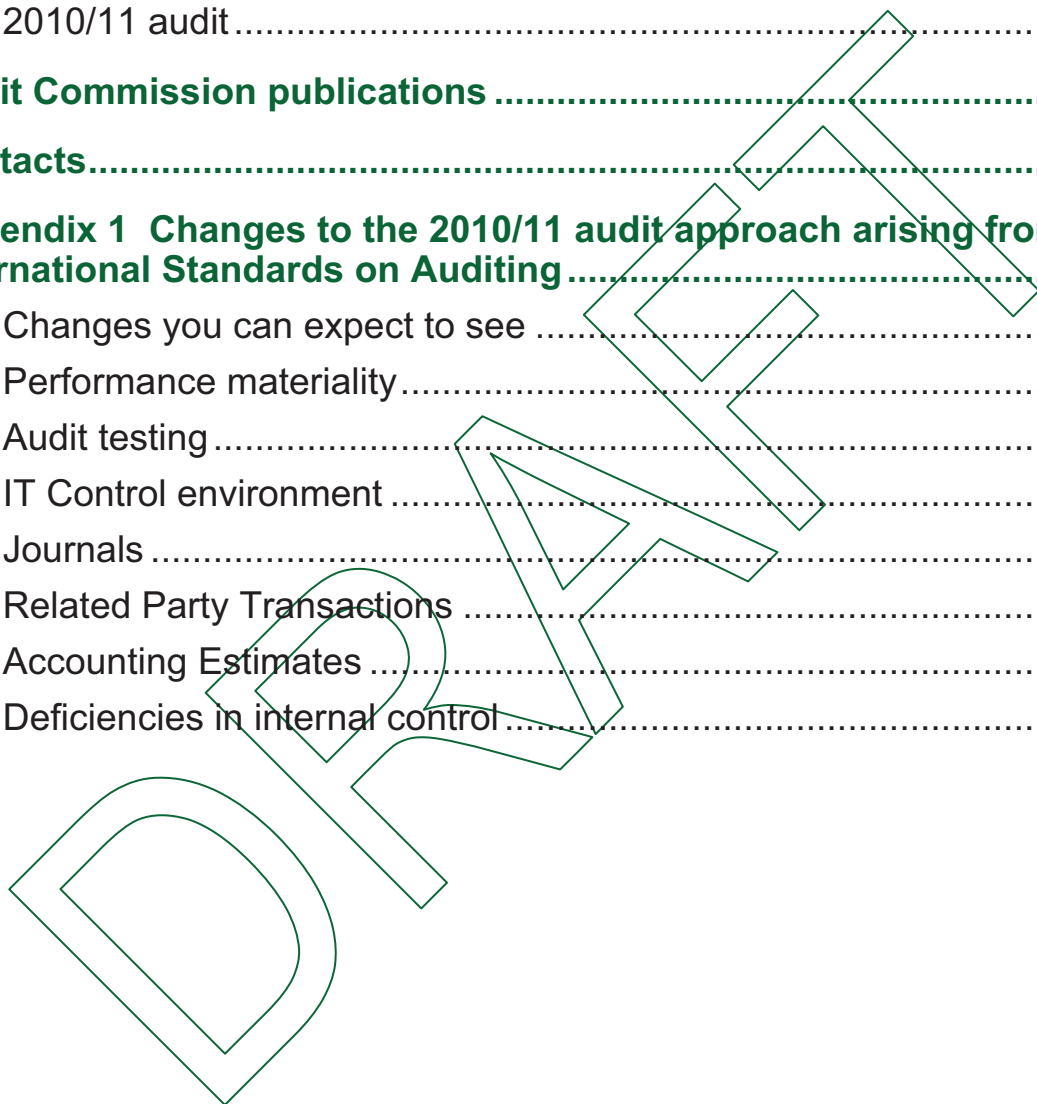
The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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

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

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Audit progress

Introduction

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

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

2009/10 audit

3 My work on the 2009/10 audit is now almost complete. I have not yet been able to formally conclude the audit and issue the audit certificate. This is because I have had to consider two objections raised by a local elector to the Council's 2009/10 financial statements. I have determined one of those objections and am currently considering the second objection. I am, however, satisfied the matters raised do not have a material affect on the Council's accounts and I have therefore been able to issue the audit opinion.

2010/11 audit

Financial Statements

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

Table 1: **Audit time line**

Work Flow	Date of completion	Reports / Progress
Documentation and walkthrough of key financial systems	January 2011	Completed. My work to document and walkthrough the Council's new Midland iTrent payroll system suggests the control environment has improved compared with that in the outgoing Team Spirit system. I therefore intend to rely on controls in the Midland iTrent system to gain assurance over 2010/11 payroll spending produced by the new system.

Work Flow	Date of completion	Reports / Progress
		<p>Internal Audit is testing controls in the new systems and I intend to review and rely on this work. I will report the results of this work in my annual governance report.</p>
<p>Review of 2010/11 restated International Financial Reporting Standard (IFRS) accounts</p>	<p>April 2011</p>	<p>No specific report. I have audited most of the work done by the Council to be able to restate the 2010/11 financial statements to comply with the requirements of IFRS. Good quality working papers have been produced to support the transition to IFRS and I am satisfied the Council is making good progress. There has, however, been some slippage against the Council's planned timetable for this and fully restated accounts have yet to be produced (as at March 2011). The delays have been caused by the added workload placed on valuers caused by the recategorisation of assets in the Council's financial statements.</p>
<p>Audit Commission controls testing. Review of Internal Audit controls testing.</p>	<p>April 2011</p>	<p>Work received so far from Internal Audit has been delivered on time and is of an acceptable standard. My team's review of Internal Audit testing of financial controls is underway. I will report any significant weaknesses in internal control and associated recommendations in my annual governance report.</p>

Work Flow	Date of completion	Reports / Progress
Post statement audit and financial statements opinion.	By 30 September 2011	The results of my work on the 2010/11 financial statements will be reported in my annual governance report which I will present to the September 2011 Audit Committee meeting.
VFM work.	By 30 September 2011	Detailed work to inform the 2010/11 VFM conclusion is currently taking place. I will report the results of the work in my 2010/11 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2011. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.

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

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

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

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

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

VFM conclusion

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

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

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

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

10 Detailed work to inform the 2010/11 VFM conclusion is currently taking place.

Audit Commission publications

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

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

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

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

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

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

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

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

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

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

Countdown to IFRS - final briefing paper (March 2011)

17 The Commission has published the final briefing paper in its Countdown to IFRS series, reporting on findings from a January 2011 auditor survey on implementation of IFRS in local government.

18 The briefing paper covers IFRS implementation in councils, police authorities and fire and rescue authorities.

19 In this paper the Commission:

- makes comparisons with an overall assessment taken in November 2009 and July 2010;
- looks at how far authorities have progressed with key steps such as the restatement of 2009/10 accounts;
- highlights the technical aspects of financial reporting that have raised issues for authorities; and
- sets out key actions for authorities at this stage.

20 The overall message is that even those authorities with issues to resolve still have time to implement IFRS successfully, if they take appropriate action. However, they need to act now, as problems that arise later in the final accounts period may lead to added costs for the authority or material errors in draft accounts.

21 We suggest the following actions for authorities at this stage. Authorities should:

- complete any key outstanding IFRS implementation tasks, such as restatement work, without further delay;
- integrate any remaining tasks into their accounts closedown timetable;
- leave enough time to prepare the increased number of IFRS disclosures and to resolve any remaining financial reporting issues;
- ensure their accounts closedown timetable is realistic, building in enough time and staff resource to deal with issues that will inevitably arise during the closedown period;
- keep their auditors informed on their progress in resolving IFRS financial reporting issues and seek to agree time in advance to review work as they enter the closedown period;
- continue to discuss progress of IFRS implementation with their audit committees; and
- take steps now to ensure that IFRS knowledge and skills are captured and embedded, to enable good financial reporting in future years.

Contacts

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

Table 3: **Audit team contacts**

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

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

Changes you can expect to see

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

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

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

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

26 The main changes relate to:

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

Performance materiality

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

Audit testing

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

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

IT Control environment

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

Journals

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

Related Party Transactions

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

Accounting Estimates

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

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

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

Deficiencies in internal control

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

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

DRAFT

Subject:	2009/10 Certification of Claims and Returns – Annual Report		
Date of Meeting:	5 April 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Simon Mathers	Tel: 0844 798 1776	
	E-mail: s-mathers@audit-commission.gov.uk		
Wards Affected:	All		

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

- 1.1 We would like the committee to review the 2009/10 annual report on the certification of claims and returns.

2. RECOMMENDATIONS:

- 2.1 To note the 2009/10 annual report on the certification of claims and returns.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 This report summarises findings and conclusions from our 2009/10 audit of claims and returns prepared by the Council. The Council receives more than £489 million in funding from various grant paying departments. The grant payment departments attach conditions to many of these grants. The Council must show that it has met these conditions. If it cannot evidence this, the funding can be at risk. It is therefore important that the Council has sound arrangements in this area to avoid funding being lost.
- 3.2 Our work to certify claims and returns during 2009/10 showed that the Council has good arrangements for preparing and managing grant claims and that it submits its claims on time supported, in general, by good quality working papers. There were no qualification issues identified during 2009/10 claim audits.

Certification of claims and returns - annual report

Brighton and Hove City Council

Audit 2009/10



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

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

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Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to show to its auditors that it has met the conditions that attach to these grants.

This report summarises the findings from certifying 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that I amended or qualified.

Certification of claims

1 In September 2009 the Audit Commission published its report: Review of Arrangements for Certifying Claims and Returns. As a result of the national report, auditors are required to report each year on the results of certification work to those charged with governance. This report will be discussed with the Director of Finance and taken to the next meeting of the Audit Committee.

2 Brighton and Hove City Council receives more than £489 million funding from various grant paying departments. The grant paying departments attach conditions to many of these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important the Council manages certification work properly and can prove to me, as your auditor, that it has met the relevant conditions.

Significant findings

3 In 2009/10, my audit team certified nine claims with a total value of £298 million. Of these, my team carried out a limited review of one claim and a full review of eight claims. Appendix 2 explains the certification arrangements.

4 I am pleased to report that:

- the Council has good arrangements for preparing and managing grant claims;
- the Council submits its claims on time; and
- there were no qualification issues or material weaknesses identified during the audits.

5 Audit work carried out found three claims requiring full certification that needed to be amended for minor errors. My audit team was able to certify all claims audited without needing to issue a qualification letter to the grant-paying body. Appendix 1 sets out a full summary of the claims audited.

6 I have raised one recommendation relating to the timeliness of provision of working papers on one claim. In all other cases officers provided good quality working papers and responded to queries promptly.

Certification fees

7 Table 1 shows the fee charged for grant certification work in 2009/10.

Grant Claim	Certification fee 2009/10	Certification fee 2008/09
Housing Benefit and Council Tax Benefit Subsidy Claim	£32,187	£34,141
Other claims	£23,308	£26,549
Total	£55,495	£60,690

Actions

8 Appendix 3 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

Detailed findings

Control environment

9 My assessment of the control environment for each of the claims or returns certified includes;

- consideration of the expertise and continuity of staff responsible for compiling claims, review of issues arising in previous years;
- complexity of the scheme and volume of transactions;
- the quality of associated working papers; and
- the general arrangements in place for identifying eligible expenditure and running the schemes in accordance with the detailed guidance applicable to them.

10 In most cases my team assessed the control environment as medium risk due mainly to changes in staffing or the inherent complexity of the particular scheme. The Sure Start, early years and childcare grant and the HRA Housing Subsidy grant have strong control environments.

Specific claims

Housing and Council Tax Benefit

11 This is a complex and high value claim. The Council's arrangements covering production of the claim have improved year-on-year.

12 My audit approach for 2009/10 was to undertake a significant part of the detailed testing in February and March and revisit later in the year to take the sample testing through to the year end. During the interim visit, my team identified an error in respect of the local authority non-housing revenue account cells. A community mental health team (CMHT) client had been processed as a homeless person causing the benefit to be allocated to an incorrect cell.

13 This was possible because both CMHT and the homeless persons unit may allocate clients to similar short term leased properties. Officers undertook a test of all 264 cases allocated to addresses that are common to both teams and found 15 errors. As the errors were identified and corrections made to the relevant cases before the year-end, the claim did not require amendment. Undertaking some audit work earlier in the year helps both the Council and my team. In general doing the work early leaves fewer issues to resolve later in the year. My team will aim to continue this approach for the 2010/11 audit.

14 Testing for 2009/10 also identified one minor error of £350 requiring a change to two cells on the claim. I made amendments to the claim as a result of this finding.

15 I am grateful to officers involved with housing benefits for support provided during the audit. The claim was certified and submitted without qualification within the deadline set by DWP.

Housing Subsidy, Housing Subsidy base data return and Pooling of Capital Receipts

16 The working papers provided in support of these claims were of a high-quality and queries were resolved quickly. All three claims were certified and submitted within the deadlines set by CLG and without amendment or qualification.

National Non-Domestic Rates

17 The testing for this grant includes checking that exemptions and reliefs are properly granted. Testing did not find any errors. The claim was submitted by the CLG deadline without amendment or qualification. I am grateful to staff for their help during the audit.

Teachers' Pensions Return

18 This is a significant and complex return and the information for some cells is difficult to obtain from the current HR Payroll system. One error was identified that affected the amount due by £1,032. Officers agreed the necessary adjustment and amended the return.

19 As in 2008/09 there were some delays in obtaining information and audit queries took a considerable time to resolve. I recommend that detailed working papers to support all the cells in the return and enable the selection of samples for testing are made available when the return is submitted for audit and that officers preparing the return are aware of the timescales involved, so queries are responded to more promptly.

20 Ultimately the return was certified and submitted within the deadline set by Teachers' Pensions without qualification.

Recommendation

R1 Ensure that detailed working papers to support all the cells in the Teachers Pensions return are made available when the return is submitted for audit. Workings papers should contain enough detail to allow samples to be selected for detailed audit testing. All queries arising should be responded to promptly.

Sure Start early years and childcare

21 The control environment for this claim was assessed as low risk. This meant that more limited testing was needed. The claim was supported by good working papers and was certified and submitted without amendment or qualification and within the deadline set by the Department for Education.

Disabled Facilities Grant

22 My team found no errors during work done on this claim. The claim was certified and submitted within the deadlines set by CLG and without amendment or qualification. This represents a significant improvement over the previous year when several errors were identified and the claim was both amended and qualified.

Coastal Protection Scheme

23 This grant related to coastal defence work carried out over several financial years. Following completion of the work the final claim form required certification. Audit checks carried out found a minor error of £359 on the claim form which did not affect the total amount due. Officers agreed the adjustment needed and amended the claim. The certified claim was submitted within the timescales specified in the grant conditions.

Appendix 1 Summary of 2009/10 certified claims

Claims and returns above £500,000

Claim	Value £,000	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	171,916	Yes	Yes	No
Pooling of housing capital receipts	719	Yes	No	No
HRA subsidy	2,866	Yes	No	No
HRA subsidy base data return	N/A	Yes	No	No
National non-domestic rates return (NNDR3)	89,983	Yes	No	No
Teachers' pensions return	13,539	Yes	Yes	No
Sure start, early years and childcare	8,588	Yes	No	No
Disabled Facilities Grant	1,114	Yes	No	No
Coastal Protection Scheme	10,169	Yes	Yes	No

Claims between £100,000 and £500,000

There were no claims between £100,000 and £500,000 which required audit.

Appendix 2 Background

I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Brighton and Hove City Council.

I charge a fee to cover the full cost of certifying claims. The fee depends on the work required to certify each claim or return.

The Council is responsible for compiling grant claims and returns in line with the requirements and timescale set by the grant paying departments.

The key features of the current certification arrangements are as follows.

Table 1: **Certification arrangements**

Audit work is reduced if the control environment for the claim or return is strong

Claim value	Certification arrangements
Below £100,000	Arrangements are not certified
Between £100,000 and £500,000	Auditors undertake limited tests to agree form entries to underlying records; testing will not include checks on the eligibility of spending.
Over £500,000	Assess the control environment If reliance can be placed on it, auditors undertake limited tests to agree claim form entries to underlying records; testing will not include checks on the eligibility of spending. Where reliance cannot be placed on the control environment, auditors undertake all tests in the certification instruction.

Source: Audit Commission

For claims spanning over more than one year, the financial limits above apply to the amount claimed over the entire life of the claim and influences the amount of testing carried out. The approach governs the amount of grants work we undertake, placing more emphasis on the high value claims.

Appendix 3 Action Plan

Recommendation

Recommendation 1

Ensure that detailed working papers to support all the cells in the Teachers Pensions return are made available when the return is submitted for audit. Workings papers should contain enough detail to allow samples to be selected for detailed audit testing. All queries arising should be responded to promptly.

Responsibility	Head of People Centre
Priority	Medium
Date	January 2011
Comments	Working Papers will be provided at the time of submission in accordance with audit requirements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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- any third party.



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www.audit-commission.gov.uk

January 2011

Subject:	2011/12 Audit Fee Letter		
Date of Meeting:	5 April 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Helen Thompson	Tel: 0844 798 1790	
	E-mail: helen-thompson@audit-commission.gov.uk		
Wards Affected:	All		

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

- 1.1 We would like the committee to review the Audit Commission 2011/12 fee letter.

2. RECOMMENDATIONS:

- 2.1 To note the fee letter and 2011/12 audit fee.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 2011/12 audit fees have been calculated following discussions with DCLG regarding the costs associated with the demise of the Audit Commission. The 2011/12 fee for the Council has reduced by 10 per cent. Following consultation on the 2011/12 fees the Commission has agreed, subject to affordability, to make additional rebates of up to £7.2 million. It has also committed to making further reductions in scale fees of up to 15 per cent for 2012/13.
- 3.2 The impact of stopping the Comprehensive Area Assessment, including the cost of making several hundred staff redundant, has limited the level of rebates the Commission can afford to give in 2010/11. However, in April 2010, the Commission issued a rebate of £23,240 against the one-off cost of audit work in relation to the first year of the International Financial Reporting Standards (IFRS). In addition, the Commission has issued a rebate to unitary councils of a further 3 per cent of their 2010/11 scale fee. This is £14,470 for the Council.

Our reference HT/BHCC/1112fee

11 March 2011

John Barradell
Chief Executive
Brighton & Hove City Council
King's House
Grand Avenue
Hove
BN3 2LS

Direct line 0844 798 1790
Email helen-
thompson@audit-
commission.gov.uk

— Dear John

Brighton & Hove City Council Audit Fee 2011/12

I am writing to confirm the audit work that I propose to undertake for the 2011/12 financial year at the Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Audit Commission for 2011/12. The audit fee covers:

- the audit of your financial statements;
- the value for money conclusion; and
- the whole of government accounts return.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission has set the 2011/12 scale fee for each audited body. This is a change from previous years when fees were calculated using fixed and variable elements. The 2011/12 scale fee shows reductions in the total audit fee because there is:

- no inflationary increase in 2011/12 for the audit scale of fees or the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local value for money audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing the international financial reporting standards.

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The scale fee for Brighton & Hove City Council is £350,550. It is based on the planned 2010/11 fee, adjusted for the proposals summarised above. Variations from the scale fee will only occur where my 2011/12 assessment of audit risk and complexity has changed. At this time, I have concluded that no variation is needed.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£350,550	£389,500
Certification of claims and returns (estimate)	£58,000	£60,000

The Audit Commission Act 1998 requires me to charge fees for certification work that cover the costs of the work undertaken. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. Certification work may vary depending on the requirements of grant paying bodies.

I will issue a separate opinion audit plan by March 2012. This will set out the risks identified in the financial statements and value for money conclusion audit. The audit plan will detail the audit procedures I will undertake and the reasons for any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Finance. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Audit Committee.

At this stage I propose to continue to review how successful the Council has been in introducing its strategic commissioning model. This review will consider how this is impacting on meeting the needs of service users within a financial environment of decreasing resources. I intend to undertake this work to support the value for money conclusion. I will issue a detailed project plan before work begins.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work you may ask the Commission to undertake using its advice and assistance powers. If you ask for any such work I will discuss and agree a project specification with you separately.

Audit team

Your audit team seeks to provide you with a high quality service and must:

- understand you and your priorities;
- provide you with fresh, innovative and useful support;
- be independent and challenging in delivering a rigorous audit as well as being readily accessible and responsive to your needs;
- understand national developments that impact on you; and

- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Helen Thompson District Auditor	helen-thompson@audit-commission.gov.uk 0844 798 1790	I am responsible for the overall delivery of the audit including the quality of outputs, and I sign the auditor's report. I liaise with the Chief Executive, Director of Finance and Chair of the Audit Committee.
Simon Mathers Audit Manager	s-mathers@audit-commission.gov.uk 0844 798 1776	Simon manages and coordinates the different elements of the audit work. He is the key point of contact for the Director of Finance and leads on the value for money conclusion work.
Jeremy Jacobs Co-Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Jeremy, the current Co-Team Leader, has experience of auditing your financial statements and delivering project work. Together with Jessica Grange he will lead the on-site team in delivering the audit.
Jessica Grange Co-Team Leader	j-grange@audit-commission.gov.uk 0844 798 6116	Jessica, the other current Co-Team Leader, has experience of auditing your financial statements and delivering project work. Together with Jeremy Jacobs she will lead the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how I can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Helen Thompson
District Auditor

cc Catherine Vaughan, Director of Finance.
Cllr Les Hamilton, Chair of the Audit Committee.

Appendix 1- Planned outputs

I will discuss and agree reports with officers before issuing them to the Audit Committee.

Table 1

Planned output	Indicative date
Opinion audit plan	March 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

Subject:	2010/11 Opinion Audit Plan		
Date of Meeting:	5 April 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Helen Thompson	Tel: 0844 798 1790	
	E-mail: helen-thompson@audit-commission.gov.uk		
Wards Affected:	All		

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

1.1 We would like the committee to review the 2010/11 Opinion Audit Plan.

2. RECOMMENDATIONS:

2.1 The Committee to receive the plan and note the risks and proposed approach to the 2010/11 audit of financial statements and VFM conclusion.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 The plan sets out the risks we will consider and audit work that we propose to undertake for the 2010/11 audit of financial statements and value for money conclusion.

3.2 Specifically it sets out:

- the significant and specific risks that are being considered in delivering the opinion audit;
- the testing strategy that is being followed for the opinion audit;
- the work being undertaken to support the value for money conclusion;
- key milestones and deadlines in the audit; and
- details of the audit team and fee.

Opinion audit plan

Brighton & Hove City Council

Audit 2010/11

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

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

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

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 I base this plan on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

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Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

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Fee for the audit

The fee for the audit is £389,500, as set out in my fee letter of 30 March 2010.

4 The Audit Commission scale fee for the Council is £413,460. The fee proposed for 2010/11 is 5.8 per cent below the scale fee and is within the normal variation specified by the Commission.

5 In April 2010, the Commission issued a rebate of £23,240 against the one-off cost of audit work in relation to the first year of the International Financial Reporting Standards (IFRS).

6 In addition, the Commission has issued a rebate to unitary councils of a further 3 per cent of their 2010/11 scale fee. This is £14,470 for the Council.

7 In setting the fee, I have assumed that:

- risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit.
- The Council will supply good quality working papers to support restatement of 2009/10 balances to comply with IFRS; and
- Internal Audit undertakes reliable work on all material systems and this is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will need to undertake extra work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 More information on the basis for the fee is set out in Appendix 1.

Specific actions Brighton & Hove City Council could take to reduce its audit fees

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions the Council could take and to provide continuing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

11 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

12 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion. The concept of materiality has been revised in International Standard on Auditing (UK&I) 320 by the introduction of performance materiality, which operates at a lower level than headline materiality. I have assessed these levels as set out in Table 1 below. I will continue to review the level of performance and headline materiality as the audit progresses.

Table 1: **Materiality levels**

Materiality levels applicable to the 2010/11 audit	£000
Headline materiality	9,205
Performance materiality	8,285

Identifying opinion audit risks

13 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

I have considered the risks that are relevant to the current opinion audit and have set these out below.

Table 2: **Significant risk**

I have identified one significant opinion risk.

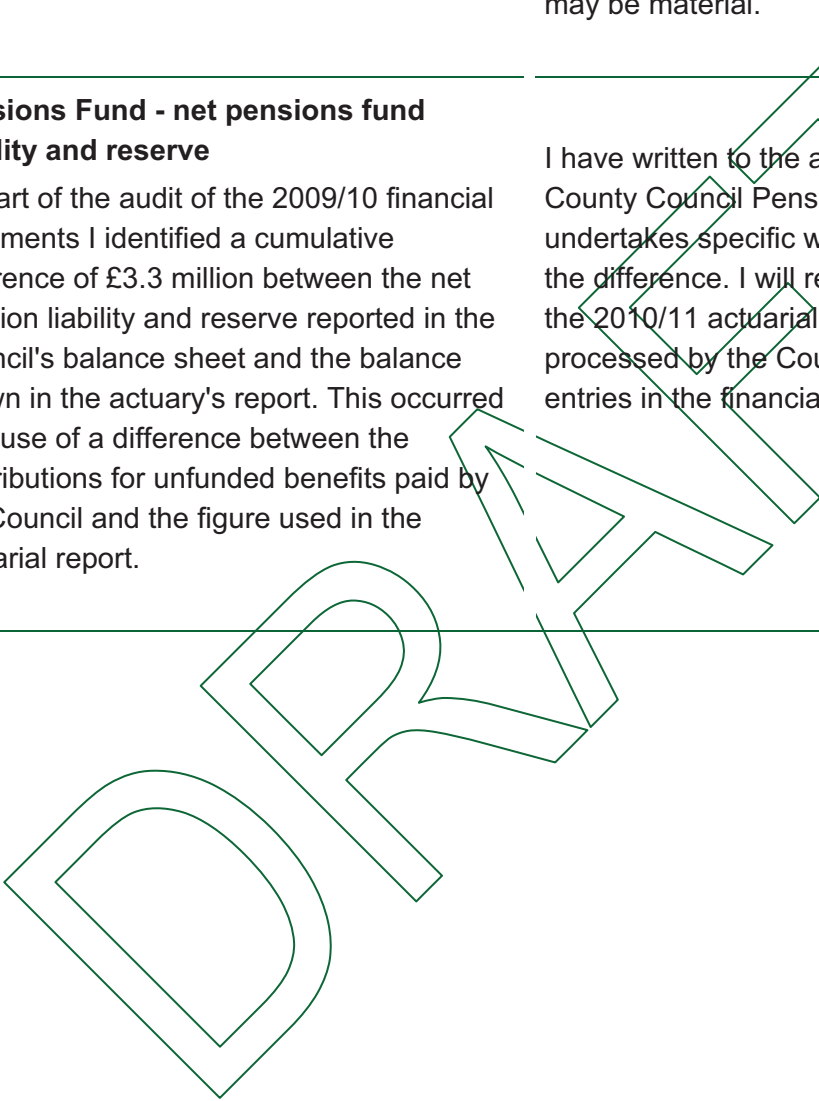
Risk area	Audit response
<p>Implementation of IFRS</p> <p>Local government financial statements must fully comply with IFRS in 2010/11 for the first time. The implementation involves fundamental changes and there are several specific areas where misinterpretation of the standards could result in material misstatement.</p>	<p>Because of the complexity of the changes involved I consider this to be a significant risk area. I have held discussions with finance officers about the proposed changes in accounting treatment. As part of the introduction the Council will restate the comparative 2009/10 financial statements. My audit team undertakes detailed testing of the changes to ensure compliance with the requirements of the new standards. This work is already well progressed. There are no issues to report at this stage.</p>

Table 3: **Specific risks**

I have identified specific opinion risks as follows.

Risk area	Audit response
<p>Voluntary Aided Schools</p> <p>The Council will need to reassess the accounting treatment it adopts for voluntary-aided and voluntary-controlled schools which may be affected by the introduction of IFRS.</p>	<p>I will review the Council's proposed accounting treatment and the basis of the judgements on which it is based to ensure it meets the requirements of the accounting standards.</p>
<p>Private Finance Initiative Assets</p> <p>The Council's joint waste management scheme with East Sussex County Council is a complicated contractual arrangement. The accounting treatment is also complex and transactions have an impact on the comprehensive income and expenditure account as well as on the balance sheet.</p>	<p>The Council dealt well with the detailed changes required in 2009/10. I will review the movements for 2010/11. Our technical specialist attends meetings with officers from both councils during the year. I will ensure the accounting entries are in line with my expectations and with the relevant accounting standards.</p>

Risk area	Audit response
<p>Restructuring</p> <p>The Council is undertaking a major restructuring which will enable it to commission services based on need. This will include a realignment of portfolios and directorate structures. Some redundancies are likely.</p>	<p>I will consider whether the financial statements correctly reflect any financial impacts of the restructuring. In particular I will consider whether any provisions are needed at the year-end for redundancy and restructuring costs and how the Council treats these costs in the statements. At this stage we are unable to predict whether any provisions or contingent liabilities will be required or may be material.</p>
<p>Pensions Fund - net pensions fund liability and reserve</p> <p>As part of the audit of the 2009/10 financial statements I identified a cumulative difference of £3.3 million between the net pension liability and reserve reported in the Council's balance sheet and the balance shown in the actuary's report. This occurred because of a difference between the contributions for unfunded benefits paid by the Council and the figure used in the actuarial report.</p>	<p>I have written to the auditor of the East Sussex County Council Pension Fund asking that he undertakes specific work to examine the reason for the difference. I will review the figures provided in the 2010/11 actuarial report and the adjustments processed by the Council to ensure the accounting entries in the financial statements are correct.</p>



Testing strategy

Based on risks identified above I will produce a testing strategy which will consist of testing key controls or substantive tests of transaction streams and material account balances at year-end.

14 I can carry out the testing both before and after the Council produces the draft financial statements (pre- and post-statement testing).

15 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- restatement of the accounts to comply with the requirements of International Financial Reporting Standards, including restatement of balances and accounting policies;
- substantive testing of transactions produced by the (outgoing) Team Spirit payroll system;
- substantive testing of transactions produced by the Carefirst system; and
- substantive testing of the Council's fixed asset register.

Where I identify other possible early testing, I will discuss it with officers.

16 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I intend to use the results of the testing of controls in the following systems;

- accounts payable;
- accounts receivable;
- treasury management;
- car park income; and
- the new Midland iTrent payroll system.

17 Work received so far from Internal Audit has been delivered on time and is of an acceptable standard. My team's review of Internal Audit testing of financial controls is underway. I will report any significant weaknesses in internal control and associated recommendations in my annual governance report.

18 My work to document and walkthrough the Council's new Midland iTrent payroll system suggests the control environment has improved compared with that in the outgoing Team Spirit system. I therefore intend to rely on the operation of controls in the Midland iTrent system to gain assurance over 2010/11 payroll spending produced by the new system. Internal Audit is

testing controls in the new systems and I intend to review and rely on this work. I will report the results of this work in my annual governance report.

19 I will also seek to rely on the work of other auditors and experts to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas:

- PKF LLP, the auditor of the East Sussex County Council (ESCC) Pension Fund, to undertake a programme of work under International Accounting Standard (IAS) 19 to gain assurance on material pensions disclosures made in the City Council's financial statements.
- The Audit Commission auditor of Brighton & Hove City Primary Care Trust, who will provide assurances over the jointly hosted adult and older people's pooled budgets.

20 I plan to rely on the work of experts in the following areas:

- IAS19 entries: Hymans Robertson, the actuary of the ESCC pension scheme, values pension fund assets and liabilities.
- The Audit Commission has engaged Gerald Eve to provide guidance to auditors on the valuation of property.

21 I also plan to rely on the work of the following experts on property valuations:

- Housing Revenue Account properties - Wilkes Head and Eve.
- Other operational properties - in-house property team plus Denis O'Leary, an independent consultant.
- Investment properties - Cluttons.
- Agricultural properties - Smiths Gore.

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Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

22 I base this on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

23 The economic downturn and recent comprehensive spending review (CSR) impose unprecedented financial pressures on the public sector. In the period to 2014/15 central government funding to local government will decrease by 28 per cent, with the deepest cuts made in the earliest part of the CSR period. Funding for local government in 2010/11 will reduce by more than £1 billion. All councils therefore face a significant challenge to deliver their original 2010/11 budgets, and set balanced and sustainable budgets in the future.

24 As well as the financial challenges faced by all councils, there are major structural changes underway at Brighton & Hove. Rather than having directors being responsible for specific services, the Chief Executive and strategic directors now lead a commissioning team looking at needs across the city, with eight teams delivering front-line services. The intention is to strengthen how effective the Council is at meeting needs with the resources it has, ensuring that it is efficient in the way it uses its resources and improving engagement with residents and communities.

25 The success of the recent management restructure and move to a new operating model is critical to the future of the Council. Effective implementation of the new operating framework during a time of decreasing funding is critical in preserving the Council's current, and future, financial resilience and ability to secure good VFM from the services it provides.

26 I have devised and agreed work with the Council to consider these issues in more detail and to test a sample of the savings already achieved by the Council in 2010/11 as part of its continuing VFM programme. This work will collect evidence to inform the two 2010/11 VFM conclusion criteria.

27 This detailed work to inform the 2010/11 VFM conclusion is currently taking place. I will report the results of the work in my 2010/11 annual

governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2011. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.

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Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue my opinion and value for money conclusion by 30 September 2011.

28 The key stages in producing and auditing the financial statements are in Table 2.

29 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependant on the timely receipt of accurate working papers.

30 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 4: **Proposed timetable**

Activity	Date
Control and early substantive testing	February - April 2011
Receipt of accounts	20 June 2011
Sending audit working papers to the auditor	24 June 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Meeting with officers to agree the annual governance report	12 September 2011
Present report to those charged with governance at the audit committee	27 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Helen Thompson District Auditor	helen-thompson@audit-commission.gov.uk 0844 798 1790	Responsible for the overall delivery of the audit including audit quality, signing the opinion and conclusion, and liaison with the Chief Executive.
Simon Mathers Audit Manager	s-mathers@audit-commission.gov.uk 0844 798 1776	Manages and coordinates the different parts of the audit. Key point of contact for the Director of Finance, Head of Internal Audit and Head of Central Financial Services.
Jessica Grange Co-Team Leader	j-grange@audit-commission.gov.uk 0844 798 6116	Responsible for the day-to-day running and detail of the audit. Key point of liaison with Central Financial Services Officers.
Jeremy Jacobs Co-Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Responsible for the day-to-day running and detail of the audit.

Independence and objectivity

31 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

32 I comply with the ethical standards issued by the APB and with the Commission's requirements on independence and objectivity as summarised in Appendix 2.

Meetings

33 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

34 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice (c-westwood@audit-commission.gov.uk). He will look into any complaint quickly and to do what he can to resolve the position.

35 If you are still not satisfied you may of course take-up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

36 My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 6: **Planned outputs**

Planned output	Indicative date
Annual governance report	27 September 2011
Presentation of VFM conclusion findings	28 June 2011
Auditor's report giving an opinion on the financial statements	30 September 2011
Annual audit letter	30 November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council based on:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and current audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- the fee for the value for money conclusion is the same as for 2009/10
- you will inform me of significant developments relevant to the audit;
- Internal Audit meets the proper professional standards;
- Internal Audit undertakes work on those systems detailed in paragraph 16 above, and that we can place reliance on this work for our audit;
- you provide:
 - good quality working papers and records to support the financial statements;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will need to undertake more work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fees the auditor has charged the client; and
- confirms in writing the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the relevant addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be important.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively. This is to ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 7: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Finance	DA and AM	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Head of Central Financial Services	AM and TL	Quarterly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Directors

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

NHS bodies are required to publish a statement on internal control (SIC) with their financial statements. Specific guidance on the preparation of the SIC is issued by the Department of Health. The chief executive, as accountable officer, is required to sign the SIC on behalf of the board. The disclosures in the SIC are supported and evidenced by the body's assurance framework.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
 - for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
 - for local probation boards and trusts – the board or audit committee;
- and

- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

In NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board. Audit committees are mandatory in NHS bodies and are non-executive committees of the board. The main objective of the audit committee is to contribute independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

Subject:	2010/11 Assurances from the Audit Committee as the body charged with governance		
Date of Meeting:	5 April 2011		
Report of:	Audit Commission		
Contact Officer:	Name: Helen Thompson	Tel: 0844 798 1790	
	E-mail: helen-thompson@audit-commission.gov.uk		
Wards Affected:	All		

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

- 1.1 To review the March 2nd correspondence sent to the Chair of the Committee requesting assurances from the Audit Committee as the body formally charged with governance at the Council. These assurances are needed to comply with the requirements of International Standards on Auditing.

2. RECOMMENDATIONS:

- 2.1 To provide a response on behalf of the Audit Committee to the specific questions set out in the March 2nd letter to the Chair of the Committee.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 External auditors are required to conduct their audit under the framework of international standards of auditing. In several instances these standards require auditors to formally seek information from management and those charged with governance, in this case the Audit Committee.
- 3.2 In planning our work on the 2010/11 financial statements we are required to obtain an understanding of management arrangements, and oversight of management by those charged with governance, in relation to fraud and compliance with relevant laws and regulations.
- 3.3 The purpose of this correspondence is to gain an understanding of the Audit Committee's oversight of management's processes in these areas.

Our reference HT/BR006/1011statements

2 March 2011

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

Direct line 0844 798 1790
Email helen-
thompson@audit-
commission.gov.uk

Dear Les

2010/11 Audit of Brighton & Hove City Council Financial Statements - Compliance with International Standards on Auditing

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

- 1) How the Audit Committee, as the body charged with governance, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behavior; and
 - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.
- 3) Whether you have knowledge of any actual, suspected or alleged frauds
- 4) How you gain assurance that all relevant laws and regulations have been complied with.

A brief response by letter or e-mail, by 2 May 2011 will suffice. Please contact me if you wish to discuss anything in relation to this request.

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Yours sincerely

Helen Thompson
District Auditor

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