Brighton & Hove City Council

Audit Committee

Title:	**Audit Committee**
Date:	**27 September 2011**
Time:	**4.00pm**
Venue	**Committee Room 3, Hove Town Hall**
Members:	**Councillors:** Hamilton (Chair), Follett (Deputy Chair), Jarrett, Mitchell, A Norman, Pissaridou, Smith, Sykes, Wakefield and Wealls
Contact:	**John Peel** Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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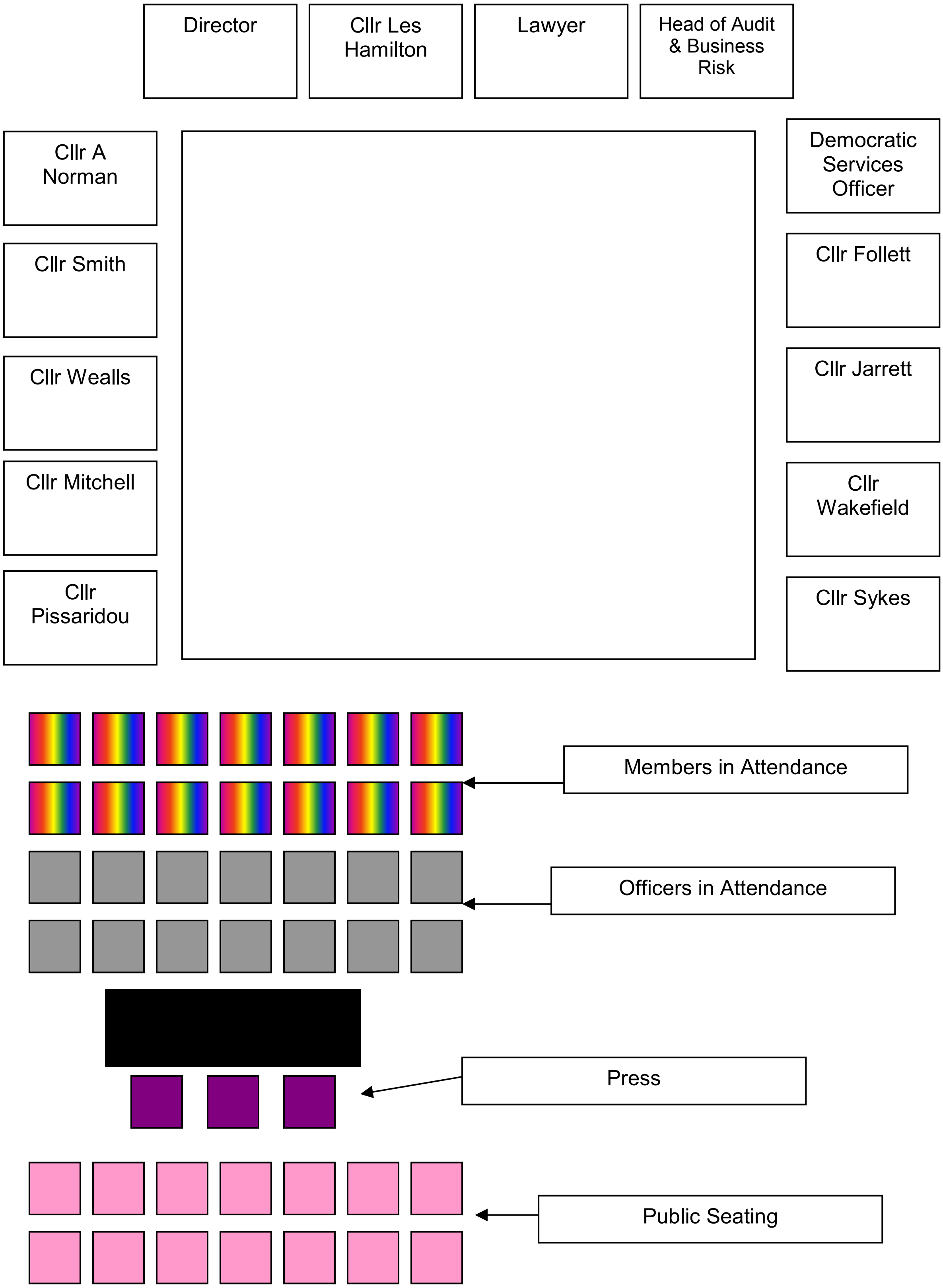

AGENDA

Part One	Page

34. INVESTIGATION INTO HOVE TOWN HALL INCOME LOSSES (EXEMPT- CATEGORY 3 & 7) **145 - 150**

Report of the Director of Finance (copy attached).

Contact Officer: Ian Withers Tel: 29-1323

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

Date of Publication - Monday, 19 September 2011

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 28 JUNE 2011

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chair), Follett (Deputy Chair), Jarrett, Mitchell, A Norman, Pissaridou, Smith, Summers, Wakefield and Wealls

PART ONE

1. PROCEDURAL BUSINESS

1a Declaration of Substitutes

1.1 Councillor Summers declared that she was substituting for Councillor Sykes.

1b Declarations of Interest

1.2 There were none.

1c Exclusion of the Press and Public

1.3 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the Committee considered whether the 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).

1.4 **RESOLVED** - That the press and public be excluded from the meeting during consideration of Item 16 onwards.

2. MINUTES OF THE PREVIOUS MEETING

2.1 **RESOLVED-** That the minutes of the previous meeting held on 5 April 2011 be approved and signed as the correct record.

2.2 As a matter arising, the Chair informed the Committee that he had provided a reply to the Audit Commission in response to their request for assurance from the Audit Committee as the body charged with governance. Copies of the letter were to be distributed at this meeting.

3. CHAIRMAN'S COMMUNICATIONS

3.1 The Chair welcomed the new Members attending the Committee. He explained that the main functions of the Audit Committee were to ensure good governance, monitor the management of risk, monitor actions on fraud, and maintaining and giving financial assurance. The Audit Committee was an apolitical body that could make decisions but could recommend items to Cabinet or Council for further consideration.

3.2 The Chair informed the Committee that in keeping with the meeting's apolitical status, Councillor Ann Norman would be attending pre-meetings along with the Deputy Chair and himself.

3.3 The Chair noted that Councillor Smith would be a permanent appointment to the Audit Committee in place of Councillor G Theobald.

4. PUBLIC QUESTIONS

4.1 There were none.

5. WRITTEN QUESTIONS FROM COUNCILLORS

5.1 There were none.

6. DEPUTATIONS

6.1 There were none.

7. PETITIONS

7.1 There were none.

8. LETTERS FROM COUNCILLORS

8.1 There were none.

9. AUDIT COMMISSION: PROGRESS REPORT AND UPDATE 2010/11

9.1 The Committee considered a Progress Report and update 2010/11 from the Audit Commission that detailed progress against their 2010/11 Audit Plan and was intended to provided a summary of progress made and any significant issues arising.

9.2 The Chair noted the District Auditor's satisfaction that some progress was being made in improving the payroll system as this had historically been a problem. He requested further information from the District Auditor on the future of the Audit Commission.

9.3 The District Auditor responded that the public consultation process was ongoing however, a letter from Sir Bob Kerslake, Permanent Secretary of the Communities and Local Government Department to local authority Chief Executives had provided further clarity to the issue. His letter had outlined that external advice had suggested that the best way to transfer the Audit Commission's work to the private sector was to out-source the in-house Audit Practice as it was believed that this would secure the best price. The District Auditor believed that the procurement process would include selection from four or five medium-sized firms and the Audit Commission had been asked by the Communities and Local Government Department to begin preparatory work for the transfer of the 2012/13 audits. The District Auditor added that she expected these contracts to be sold on a regional basis so local authorities would continue to work with much the same audit teams as before. Plans for an employee mutual were continuing.

9.4 **RESOLVED-** That the Audit Committee note the external audit progress report and briefing.

10. UNAUDITED STATEMENT OF ACCOUNTS 2010/11

10.1 The Committee considered a report of the Director of Finance that presented the unaudited Statement of Accounts for 2010/11. In previous years the Accounts and Audit Regulations 2003 legislation required the Statement of Accounts to be approved by Members by 30 June each year. Revisions to the regulations which came into force on 31 March 2011 meant that from 2010/11 onward, the unaudited Statement of Accounts were to be approved by the Chief Finance Officer by 30 June and the audited Statement of Accounts approved by Members by 30 September.

10.2 The Director of Finance supplemented that the change to the regulations reflected the challenges to Members in approving a Statement of Accounts that have yet to go through the audit process.

10.3 Councillor Follett enquired if there would be a significant impact from the net pension liability increasing as detailed in page seventy of the accounts.

10.4 The Director of Finance answered that the figure used for this item in the accounts was a 'snapshot' reflecting the financial market at the time. This figure would change daily in relation to stock market performance. Whilst the figure did show how well funded the pension scheme was, it had no impact upon council tax payers or the local authority. Liability could be properly assessed when the local authority were asked to produce an actuary figure. At this point, the authority may need to increase the pension contribution and incorporate this into its budget. The Director of Finance added that several factors, including increasing life expectancy, was causing a strain upon the pension fund.

10.5 Councillor Summers asked for further information on the increase in Right to Buy sales of Houses and Flats for 2010/11.

10.6 The Director of Finance noted this represented only a very small rise in the number of properties sold from ten during 2009/10 to sixteen in 2010/11. For information, she informed Members that seventy-five per cent of income from Right to Buy sales was retained by central government with twenty-five per-cent going to the local authority.

10.7 **RESOLVED-** That the Audit Committee note the Statement of Accounts for 2010/11 and note that these are subject to audit.

11. DRAFT ANNUAL GOVERNANCE STATEMENT 2010/11

11.1 The Committee considered a report of the Director of Finance that provided a comprehensive assessment of the governance arrangements and the internal control environment across all activities of the council. Once approved, the Annual Governance Statement would be signed by the Chief Executive and Leader of the Council and published on its own as a separate document. Also, to comply with the Accounts and Audit Regulations 2011 it would accompany the Statement of Accounts for 2010/11.

11.2 Councillor Mitchell enquired if the Annual Governance Statement was monitored externally.

11.3 The Head of Audit and Business Risk clarified that it was monitored by the Audit Commission. Where the Statement is inconsistent with work undertaken, changes can be made as had happened around two years ago.

11.4 Councillor Wealls asked if the Fraud Risk Analysis and Measurement review had been undertaken and any recommendations adopted.

11.5 The Director of Finance replied that a report and presentation by Deloitte Public Sector Internal Audit had been considered at the December 2010 meeting. This had provided an overview of the biggest fraud risks and had been incorporated into the work undertaken by Internal Audit.

11.6 The Head of Audit and Business Risk highlighted that Brighton & Hove were one of very few local authorities examining fraud risk as part of their audit workplan.

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

Approve the Annual Governance Statement for publication

Note the actions to further improve governance arrangements. The Committee will be updated during 2011/12 on progress made.

12. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

12.1 The Committee considered a report of the Director of Finance that presented the findings of the annual review of the effectiveness of Internal Audit. This report was also regarded as a part of the wider annual review of the council's governance arrangements and production of the Annual Governance Statement.

12.2 The Head of Audit and Business Risk supplemented that the review was undertaken in accordance with the proper standards of professional practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government (2006).

12.3 The Chair referred to the option for the Committee to establish a sub-group of the Committee to assist its effectiveness. If Members were agreed on establishing such a group, he suggested that representation be allocated on a cross-party basis.

12.4 Members were in agreement with the proposals put forward and confirmation of membership was to be made to the Head of Internal Audit and Business Risk.

12.5 Councillor Wealls noted that the assessment had been conducted internally then reviewed by the Assistant Director Audit for the London Borough of Bromley. He asked if this review had challenged any elements of the assessment.

12.6 The Head of Audit and Business Risk answered that no challenges had been made but more information was requested. The Director of Finance added that the test was very prescriptive in nature, requiring yes or no responses. She informed the Committee that it was her responsibility to sign off the report after assessing its findings.

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

Note the findings of the review of the effectiveness of the system of internal audit for 2010/11 and notes the actions arising for minor improvement.

Note that based upon the results, the council's Internal Audit is considered to be operating in accordance with accepted professional practice and remains effective and that the council can continue to place reliance on its Internal Audit arrangements for the purpose of the Annual Governance Statement.

13. AUDIT COMMITTEE ANNUAL REPORT 2010/11

13.1 The Committee considered a report of the Director of Finance that provided a summary of the Audit Committee's performance and achievements during 2010/11. The preparation of an annual report is recognised as best practice for an Audit Committee in providing assurance on its role as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

13.2 **RESOLVED-**

(1) That the draft Annual Report be noted; and

(2) That the draft Annual Report be referred to Full Council for information.

14. TARGETED BUDGET MANAGEMENT PROVISIONAL OUTTURN 2010/11

14.1 The Committee considered a report of the Director of Finance that set out the provisional outturn position (month 12) on the revenue and capital budgets for the financial year 2010/11. The report had been considered and approved by Cabinet on 9 June 2011.

14.2 Councillor Follet asked why concessionary fares had a significant variance of -12.3% for month 12.

14.3 The Director of Finance explained the local authority had secured a fixed price deal with the local providers. She was delighted that such a deal had been agreed as variables such as in-year changes in schemes and fares, made it very hard to determine a budget for the service leading to variance both plus and minus. This decrease would be applied in the budget of 2012/13.

14.4 Councillor Pissaridou enquired how underspends were incorporated into the budget.

14.5 The Director of Finance clarified that sometimes underspends, ideally within the threshold, were needed to off-set unexpected overspends in other sectors. The Director of Finance added that departments that regularly overspend were held to account for this by the Overview and Scrutiny Commission. In cases of an overall budget underspend, this was added to the unallocated general reserves unless there is a need to allocate funds to a specific reserve.

14.6 Councillor Wealls noted that he believed the Future Jobs Fund programme had stopped with immediate effect yet the report suggested funding for a future extension of this programme had been secured.

14.7 The Director of Finance replied that she too was unsure of the current status of the Future Jobs Fund. She would investigate the matter and provide clarification.

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

15. RISK & MANAGEMENT UPDATE: THE PERFORMANCE AND RISK MANAGEMENT FRAMEWORK

15.1 The Committee considered a report of the Director of Finance which set out the risk management aspects of the council’s Performance and Risk Management Framework.

15.2 **RESOLVED-** That the Audit Committee note the framework diagram which sets out the risk management aspects of the council’s Performance & Risk Management Framework.

16. STRATEGIC RISK MANAGEMENT ACTION PLANS FOCUS

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

Considered and provided comments on the Strategic Risk Assessment Report

That the Risk Owner for Strategic Risk SR6 ‘Safeguarding vulnerable members of our community including looked after children’ be requested to attend the next Audit Committee meeting on 27 September 2011.

That the Risk Owner for Strategic Risk SR1 ‘Readiness for opportunities and impacts of localism’ be requested to attend the Audit Committee meeting on 20 December 2011.

17. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2010/11

17.6 **RESOLVED-** That the Audit Committee notes the Internal Audit Annual Report and Opinion 2010/11 including the Head of Audit & Business Risk’s Opinion for 2010/11 on the adequacy and effectiveness of internal control and notes the internal audit coverage and any significant issues emerging.

18. PART TWO ITEMS

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

The meeting concluded at 6.34pm

Signed Chair

Dated this day of

AUDIT COMMITTEE	Agenda Item 26 Brighton & Hove City Council

Subject:		**2010/11 Annual Governance Report**	
Date of Meeting:		**27 September 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 The Annual Governance Report summarises the findings of the 2010/11 audit which is now substantially complete. It includes the key messages arising from the audit of the financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money in the use of its resources.

1.2 I plan to issue an unqualified opinion on the financial statements.

1.3 I intend to issue an unqualified conclusion stating you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

2. RECOMMENDATIONS:

2.1 To consider the annual governance report and:

- Take note of the adjustments to the financial statements which are set out in Appendix 2 of the report.

- Agree to adjust the errors in the financial statements which management has declined to amend set out in Appendix 3 of the report or set out the reasons for not amending the errors.

- Approve the letter of representation on behalf of the Council before the audit opinion and value for money conclusion are given. A draft of the letter of representation is included at Appendix 6 of the report. This contains management's reasons for not adjusting errors in the financial statements set out at Appendix 3 of the report.

- Consider and agree the action plan included at Appendix 5 of the report.

Annual governance report

Brighton & Hove City Council

2010/11

11

Contents

Traffic light explanation
Red Amber Green

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Traffic light
Unqualified audit opinion	
Adequate arrangements to secure value for money	

Audit opinion and financial statements

My audit of the financial statements is currently ongoing. As at 15 September 2011 the following areas of work are outstanding:

- final evidence for 1 item out of a sample of 42 payroll items tested has not yet been received; and
- work on your whole of government accounts return has not yet been fully completed.

I plan to issue an unqualified opinion on the financial statements.

The financial statements you submitted for audit were of a good standard and were supported by good quality working papers. In 2010/11 local government financial statements were required to be produced under International Financial Reporting Standards (IFRS) for the first time. Re-stating the accounts to comply with the requirements of IFRS is a complex task, which has caused significant difficulties for a number of local government bodies. My review has shown that your work to produce IFRS compliant financial statements was comprehensive, well planned and well supported. This meant that you were able to prepare good quality financial statements that met the requirements of IFRS with little slippage against your planned timetable.

Your internal financial control arrangements are sound except for the control environment within the two payroll systems operated in the year. I have raised recommendations for improvement where I have identified areas where weaknesses in the design or operation of controls exist.

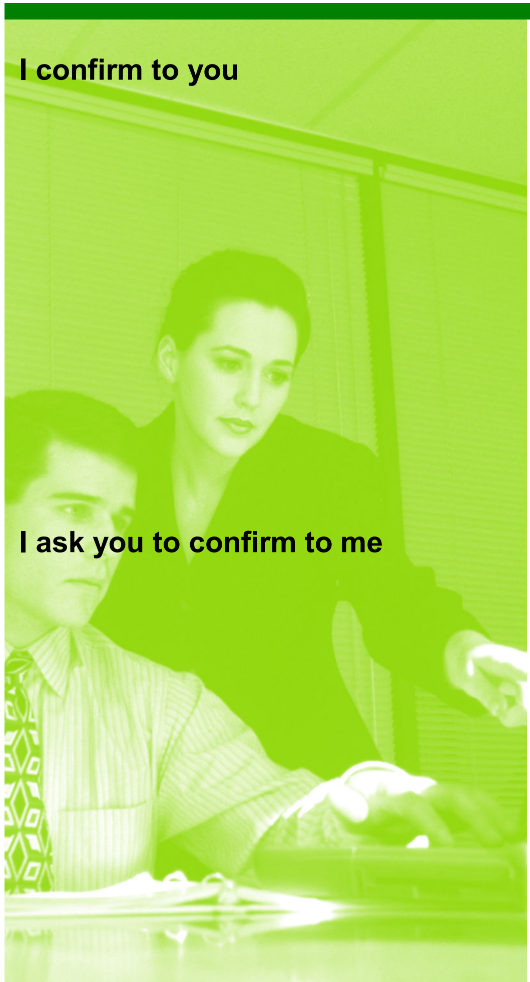
Value for money

My detailed work to inform my value for money conclusion is now complete. I intend to issue an unqualified conclusion stating you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

You responded well to the need to make cuts to both current and future year budgets without any significant short term impact on planned services or your high level priorities. However, you face significant challenges if you are to successfully deliver your medium term budget strategy. You plan to call on reserves to cover the transitional costs of changing the way you operate and managing the short-term impact this change has on services. I am satisfied that the planned use of reserves is prudent, but it is essential that your plans are successfully delivered if you are to achieve your balanced budgets and maintain sound financial standing. Your move to an intelligent commissioning operating model provides a mechanism through which further improvements in value for money can potentially be secured, particularly through better needs assessment and joining up service delivery across traditional boundaries. Where there is already an established commissioner / provider spilt you have been able to show that financial and performance management arrangements are operating effectively. There is, however, a continued need to further develop financial and performance modelling and forecasting to inform commissioning decisions.

You can demonstrate that your value for money programme is delivering improvement, and the programme has prompted service managers to challenge traditional ways of working to improve value for money. However, your overall costs remain relatively high. Given that, and the significant financial challenges you face over the medium term, it is essential that the implementation of the planned programme of value for money improvements is accelerated.

Before I complete my audit



I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified one threat to independence. The spouse of one of my team working on the audit of the financial statements is an employee of the Council working in the highways department. I took steps to ensure that the member of my team did no work directly relating to the highways department or payroll to reduce this threat to an acceptably low level.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £4,000. We reviewed the relative impact of public sector cuts on employment in Brighton & Hove and the potential affects on the Council's economic development plans.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion (Appendix 6); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

Opinion

I plan to issue an unqualified opinion on the financial statements. The draft financial statements submitted for audit were of a good quality and were supported by good quality working papers. Your arrangements to produce IFRS compliant statements were sound and only a relatively small number of errors were detected as part of my work.

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

I detected a relatively small number of errors during the course of the audit that I am required to draw to your attention. Full details of the errors that have been corrected during the course of the audit are set out in Appendix 2. Full details of errors that management has declined to correct are set out in Appendix 3.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified significant and specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Significant risk	Finding:
1. Implementation of IFRS 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. Due to the complexity of the changes involved I consider this to be a significant risk area. I have therefore tested whether your financial statements comply in all material respects with the requirements of IFRS.	Your work to produce IFRS compliant financial statements was comprehensive, well planned and well supported by good quality working papers. This allowed my team to undertake a large proportion of the audit of the IFRS restatement exercise in advance of the fully restated accounts being produced. It also allowed you to prepare good quality financial statements that met the requirements of IFRS with little slippage against the planned timetable. Re-stating the accounts to comply with the requirements of IFRS is a complex task, which has caused significant difficulties for many local government bodies. Both the level of disclosure and size of financial statements have increased significantly because of the introduction of IFRS. For example, your accounts have increased by approximately 50 per cent in length compared to the previous period. You have therefore performed well in producing good quality financial statements which comply with the requirements of IFRS in accordance with your planned timetable. Central Finance officers worked well with my team and were responsive to queries raised throughout the year, and I am grateful for their help.

Financial statements

Key audit risks and our findings *continued*

Specific risks	Finding:
2. Voluntary aided schools You have needed to review the accounting treatment adopted for voluntary aided and voluntary controlled schools following the introduction of IFRS. I have reviewed the accounting treatment adopted in the financial statements for voluntary aided and voluntary controlled schools to ensure it meets the requirements of accounting standards.	You have removed all voluntary aided schools, apart from some school playing fields, from the balance sheet in 2010/11. I am satisfied this is the correct accounting treatment. As part of the Building Schools for the Future programme you have constructed new premises at Falmer High School. The Falmer Academy premises opened in September 2010 and include a combination of existing buildings as well as new build accommodation. Since September 2010 the existing school has been leased to Brighton Aldridge Community Academy. Works required to complete the new academy will continue on to February 2012. I have reviewed the judgements you have made and proposed accounting treatment you have adopted in respect of this matter. I am satisfied that it is correctly accounted for in your financial statements.
3. Private Finance Initiative Assets Your 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 and balance sheet. You dealt well with the detailed changes to accounting requirements affecting 2009/10. I have engaged a technical specialist to attend	I am satisfied that you have accounted for your joint waste management scheme with East Sussex County Council correctly in the financial statements. In my 2009/10 AGR I reported that I was aware of a complaint to the European Commission from a local elector at East Sussex County Council about changes to the waste management contract. I liaised with the auditor of East Sussex County Council on the matter and was satisfied that no

meetings with officers from both councils during 2010/11 and have ensured that accounting entries in the 2010/11 financial statements are in line with my expectations and with relevant accounting standards.

4. Restructuring

You have started significant restructuring to move to an intelligent commissioning operating model to commission services based on need. This has included a realignment of portfolios and directorate structures.

I have considered whether the financial statements correctly reflect the financial impacts of the restructuring.

5. Pensions Fund

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 your balance sheet and the balance shown in the actuary's report. This occurred because of a difference between the contributions for unfunded benefits you paid and the figure used in the actuarial report.

I wrote to the auditor of the East Sussex County Council Pension Fund asking for specific work to be undertaken to examine the reason for the difference.

further disclosure was required in the Council's 2009/10 financial statements on this issue.

I have continued to liaise on this matter with the auditor of East Sussex County Council during 2010/11. I am now satisfied that the European Commission has decided to close the case against all parties and that this is properly disclosed at note 27 to the financial statements on contingent liabilities and contingent assets.

I am satisfied that the cost and other financial impacts of restructuring are correctly reflected in the financial statements.

You received further information on this issue from the East Sussex Pension Fund very close to your deadline for production and approval of the draft financial statements. You disclosed a non-adjusting post-balance sheet event at note 6 to the accounts based on the information received. This disclosure confirmed that there were historic errors in the split of responsibility for contributions for unfunded benefits between the Council and East Sussex County Council. These errors had resulted in differences between the actuary's initial assessment of the pension liability and associated entries which had been accounted for in the financial statements, and the amounts that should be accounted for based on the correct split of responsibilities for contributions for unfunded benefits.

Further consideration of this issue by your officers and my team revealed that the historic errors in the split of employer contributions between the

Council and East Sussex County Council extended to both unfunded and funded benefits. An updated assessment of the Council's pension liability and associated entries in the financial statements was therefore requested from the actuary.

As the conditions giving rise to this issue existed at the balance sheet date it should be accounted for as an adjusting, rather than non-adjusting, event under IAS 10. The actuary's revised assessment of the pension liability and associated entries in the financial statements has therefore now been fully reflected in the audited financial statements and general ledger, both for the year of account and previous year. See amendments to the draft financial statements set out at appendix 2.

6. Payroll

My work to document and walkthrough your new Midland iTrent payroll system showed that design of the control environment had improved compared to the outgoing system. I therefore planned to test and rely on controls in the new payroll system to gain assurance in relation to expenditure generated by the system. I relied on Internal Audit testing of controls in the new payroll system. The work has shown that I am not yet able to rely on the operation of controls in the new payroll system. This is because not all controls are operated consistently and insufficient evidence is retained for some controls to show the control has been operated. This issue is considered in more detail in the section of my report below dealing with significant weaknesses in internal control.

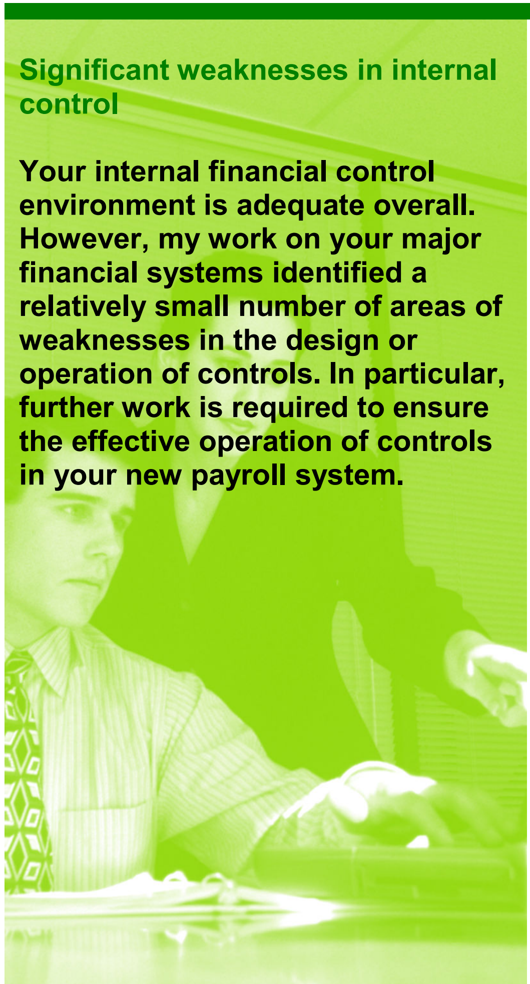
I have therefore needed to gain assurance in this area through a substantive approach.

I have substantively tested payroll expenditure and am satisfied that it is correctly reflected in the financial statements. However, you had significant difficulties in locating records to support the expenditure tested, which caused delays in finalising the audit. This difficulty in locating supporting records was caused by:

- a backlog in scanning payroll records and other supporting documentation into your Idox electronic document management system; and
- operational pressures within your People Centre caused by the implementation of the Midland iTrent payroll system and the relatively high level of complexity of your payroll.

This difficulty in locating supporting records is consistent with my findings when I have substantively tested payroll expenditure in previous periods and highlights the weaker control environment in payroll compared to your other main financial systems. Given the high level of expenditure generated by the payroll system this needs to be addressed. I have raised a recommendation to improve the control environment in payroll in the section of my report where I consider significant weaknesses in internal control.

Financial statements



Significant weaknesses in internal control

Your internal financial control environment is adequate overall. However, my work on your major financial systems identified a relatively small number of areas of weaknesses in the design or operation of controls. In particular, further work is required to ensure the effective operation of controls in your new payroll system.

I have sought to co-ordinate my work to test financial controls with that of Internal Audit to maximise efficiency and minimise any duplication of effort. Where I sought to rely on the work of Internal Audit that work was delivered on time and to an acceptable standard.

The reliable operation of controls in all larger financial systems provides assurance to management and members, and also allows me to complete my audit more efficiently. Where weaknesses in internal control have been identified I was not able to rely on the operation of controls to gain assurance for my audit opinion. I therefore needed to take a more time consuming substantive approach. This was particularly true for the work I undertook to gain assurance on expenditure generated by the two payroll systems which you operated during the year.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect:	Management action:
Payroll You implemented a new Midland iTrent payroll system during the year. My work to document and walkthrough the system showed that controls had been established in the system that were capable of preventing and detecting material misstatement. However, when tested it	The control weaknesses identified create a risk that: • Expenditure generated by the payroll system is not correctly classified on the	Management action needs to continue to be taken to improve the internal control environment within the Midland iTrent payroll system. **See recommendation 1**

became clear that not all controls are operated consistently and insufficient evidence is retained for some controls to show the control has been operated. Specifically:

- The payroll section undertook sample checking of the input of starters, leavers and changes to details on the new system. Although evidence was retained for the check of starters and leavers, no evidence was retained for the checking of changes.

- The payroll section undertook a sample check of temporary changes on the new system. The desired level of checking was not achieved and sufficient evidence was not always retained to demonstrate that the checks were actually undertaken.

- The old and new payroll systems were run in parallel for a proportion of the year as a check on the accuracy of new system outputs. Where discrepancies were noted it was not clear that corrections were checked to ensure that errors were not repeated

general ledger.

- Expenditure generated by the payroll system is not accurately recorded on the general ledger.

- The payroll system transactions recorded on the system have not actually occurred or do not relate to the Council.

Journals processed on the general ledger Manual adjustment journals processed on the general ledger are not always subject to formal checking and authorisation. Staff are able to both raise and authorise journals processed on the general ledger. I raised similar weaknesses in journal controls as part of my 2009/10 annual governance report.	Weaknesses in the internal control environment for journals create a risk that income and expenditure is misclassified on the general ledger.	Ensure that manual adjustment journals are formally checked and approved by an appropriate officer separate to the raiser of the journal. **See recommendation 2**
Treasury management Investment and loan details on the general ledger are being reconciled to third party data on a regular basis. However, due to staff shortages, reconciliations were not being authorised by an officer separate to the preparer.	The introduction of proper separation of duties to ensure that the reconciliation is authorised by an officer separate to the preparer would strengthen the control.	Ensure that treasury management reconciliations are authorised by an appropriate officer separate to the reconciliation preparer. **See recommendation 3**
Accounts payable Although I have material assurance from the operation of controls within accounts payable, you are not effectively using the commitment accounting element of the system. This repeats a finding of Internal	The failure to use the commitment accounting element of the accounts payable system makes financial forecasting, and	Make full use of the commitment accounting element of the accounts payable system.

Audit from its review of the accounts payable system.	processes to accrue income and expenditure, more difficult and time consuming.	**See recommendation 4**
Accounts receivable		
The operation of two controls relating to periodic income in the accounts receivable system cannot be evidenced. This is because the controls are performed on-screen and no record is retained of the check undertaken. Specifically: • Invoice generation control reports are not always authorised to evidence they have been checked. • Evidence was not always retained to demonstrate that exception reports had been reviewed and cleared.	Although there is evidence that these controls have operated effectively during the period I have not been able to rely on them as evidence is not always retained to support their operation.	Ensure that evidence is retained to support the operation of all controls within the accounts receivable system. **See recommendation 5**
IT control environment		
As part of my work on the financial statements I undertake a risk assessment of your IT control environment. In doing this I have identified a small number of weaknesses. Although I am satisfied they are not capable of leading to material misstatement of the accounts I wish to bring them to your attention: • No documented business continuity	There are the following potential effects of the specific weaknesses in the IT control environment: • Delays in undertaking business continuity and disaster recovery testing of	Address the weaknesses identified in the IT control environment. Specifically: • Undertake planned business continuity and disaster recovery testing in a timely manner.

	or disaster recovery procedure was seen and evidenced as part of my work. No record is available that operating system software and key application systems have been fully restored from backup media in the year. • Windows AD password policy should be further strengthened by increasing the minimum password length and reducing the number of incorrect attempts possible.	your network reduce the level of assurance that your network could be recovered in the event of a disaster. • Inadequate access controls to the network creates data security and associated reputational risks.	• Ensure that access controls to your network are adequate. **See recommendation 6**

Financial statements

Quality of your financial statements

The Council's financial statements were of a good quality and were supported by good quality working papers. In particular, you have coped well with the requirement to produce statements that comply with IFRS for the first time. I have identified a relatively small number of qualitative aspects of your financial reporting that I wish to draw to your attention.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures	
Issue	**Findings and recommendations:**
There were a relatively small number of rounding, internal consistency, casting and disclosure errors in the draft financial statements. I am satisfied that these errors were made in the process of producing the financial statements and are not caused by underlying accounting errors.	• There was a minor rounding error in the narrative on capital expenditure in the explanatory foreword. • There were minor rounding errors on the face of the cash flow statement. • There were some minor errors in a table disclosed as part of note 2 to the financial statements showing the effect of the transition to IFRS on the comprehensive income and expenditure statement as at 31 March 2010. There were some other errors in the numeric disclosures within the narrative section of note 2. • Note 4, which sets out the critical judgements and assumptions made in preparing the statement of accounts, did not originally include any disclosure of your assumptions underpinning the financial models for your private finance initiative schemes. • There were some errors in the disclosure of capital grants and contributions applied for 2009/10 and 2010/11 in note 10 showing adjustments between accounting basis and funding basis under regulations within the movement in reserves statement. • There were rounding and casting errors in the table at note 17

showing 2010/11 movements in property, plant and equipment. There were rounding errors in the table at note 17 showing 2009/10 movements in property, plant and equipment.

- Note 20 on intangible assets did not cast.
- There were minor errors in note 22 on leases and lease type arrangements which affected 2010/11 and 2009/10 disclosures. The errors were caused by a transposition mistake and affected disclosure in the note only. Correct amounts were processed on the general ledger and accounted for in the comprehensive income and expenditure statement.
- There were minor rounding, casting and text disclosure errors in note 23 on private finance initiative and similar contracts.
- There was a minor error in the disclosure of the adjustment made for the difference between fair value depreciation and historical cost depreciation in the revaluation reserve disclosure at note 26.
- Additional narrative was added to the related parties disclosure at note 28 to make clear that the Council provided chief financial officer and other financial services to South Downs National Park Authority (SDNPA) during 2010/11. I note that the Council did not actually make any payments to SDNPA during the year.
- There were errors in the table at note 36 showing the reconciliation of departmental income and expenditure for the deficit on the provision of services disclosed in the comprehensive income and expenditure statement. These errors meant that the table at note 36 did not fully agree to the disclosure on the face of the income and expenditure statement itself. The errors were misclassifications between income and expenditure and had no overall impact on the integrity of the reconciliation as a whole.

The financial statements have been amended in respect of these findings.

There was also misclassification of internal recharges relating to financing and investment income and expenditure in the

	comprehensive income and expenditure statement. The financial statements have not been amended in respect of this finding which I consider further in Appendix 3.
Pooled budgets	Under Section 75 of the National Health Service (NHS) Act 2006, NHS bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets. You are involved in a number of these joint arrangements with local NHS bodies. The accounting entries for pooled budgets are complex and partly reliant on information provided by NHS partners. The pooled budgets should be accounted for as joint ventures under International Accounting Standard (IAS) 31. This requires each of the pool partners to account for its own share of pool income, expenditure, assets and liabilities. As part of my work in this area I noted the following issues: • None of the partners to the children and young people's trust pooled budget, which you host, account for it as a joint venture under IAS 31. You prepare a closing balance sheet for the children and young people's trust pool but a conscious decision is taken by the partners to the pool not to make adjustments to balance sheet entries in each body's statement of accounts. This has resulted in non-trivial errors in your balance sheet – see unadjusted misstatements set out at appendix 3. The financial statements have not been amended in respect of this finding. • None of the partners to adult social care pooled budgets, some of which you host, account for them as a joint venture under IAS 31. Closing balance sheets are prepared by you and Brighton & Hove Primary Care Trust but a conscious decision is taken by the partners to the pool not to make adjustments to

		balance sheet entries in each body’s statement of accounts. This has resulted in non-trivial errors in your balance sheet – see unadjusted misstatements set out at appendix 3. The financial statements have not been amended in respect of this finding. • You intend to work with your partners to draft new agreements for the children and young people’s trust and adult social care pools which allow for ongoing revision to how financial risks are shared. It is intended that the agreements will also consider the planned abolition of primary care trusts after 2012/13, and the likely future commissioning arrangements in the NHS. **See recommendation 7** There were some minor disclosure errors in the reporting of pooled budget and partnership arrangements at Note 9 to the financial statements. Disclosure in the financial statements has been amended in respect of this finding.
	Statement of accounting policies	Minor changes were made to the statement of accounting policies in the following areas to ensure that the stated policy fully disclosed the actual policy you applied: ○ The de minimis level for recognition of land and building assets. ○ Disclosure of your bank overdraft.

	Text in the statement of accounting policies was also amended so that it referred to the Accounts and Audit Regulations 2011 rather than 2003.
Housing benefit grant income	As part of my work to review revenue grant income I considered the year end reconciliation of housing benefit grant income to the general ledger. I also reviewed adjustments made to the general ledger following the reconciliation. I found that adjustments made overstated income and expenditure in the other housing services line in the comprehensive income and expenditure statement. The process for the year end reconciliation of housing benefit grant income to the general ledger and making related adjustments could be simplified and should be reviewed to ensure that it does not result in the overstatement of other housing services income and expenditure in the financial statements. Officers are reviewing the current year end reconciliation process so that this issue is addressed. A decision has been undertaken to not make adjustments to the general ledger or statement of accounts until this exercise has been completed. **See recommendation 8**

Financial statements

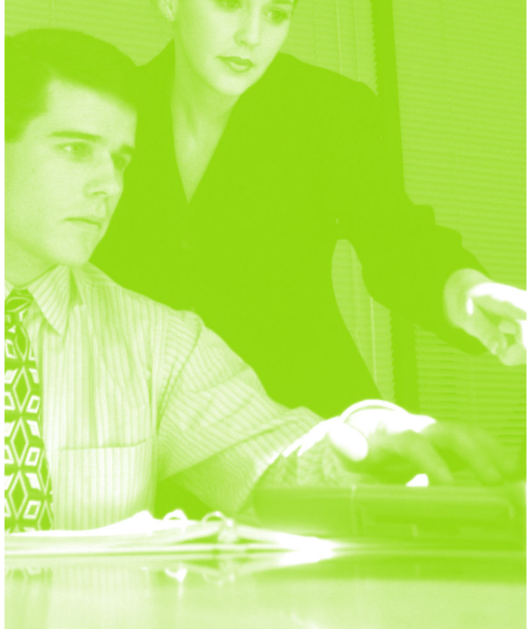
Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 6 contains the draft letter of representation.

Value for money

Value for money conclusion

I have concluded that you had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I therefore intend to issue an unqualified value for money conclusion.



I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating you had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings:
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	To assess your arrangements to secure financial resilience I specifically considered: • the changes you made to your 2010/11 budget as a result of in-year funding reductions; • the changes made to the 2011/12 budget to accommodate continued reductions in funding following the comprehensive spending review (CSR). In particular I considered the realism and achievability of those changes; and • the impact of funding reductions on your priorities. I have also considered your intention to move to an intelligent commissioning operating model as part of my work in this area. To do this I reviewed financial governance arrangements in adult social care,

where there is an established commissioner / provider spilt.

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

- You planned well for in-year cuts in funding, including undertaking scenario planning prior to CSR. Despite reductions in funding exceeding expectations you were able to respond quickly to make the necessary in-year cuts and revise the 2011/12 budget. The achievement of the 2011/12 budget will, in part, be dependant on the achievement of significant savings. Schemes are in place to secure these savings, although detailed plans did not always yet exist at the time of my review.

- You plan to call on earmarked reserves to cover the transitional costs of changing the way you operate and managing the short-term impact this change has on services. I am satisfied that you have undertaken work to satisfy yourself that plans to release some previously earmarked funds are prudent. However to deliver your financial strategy in the medium term and maintain sound financial standing you will need to secure reductions in spending through value for money improvements.

- Funding reductions have been accommodated in budgets without any significant planned short term changes in your high level priorities. This includes your work to ensure that council dwellings meet the requirements of the decent homes standard by the end of 2013.

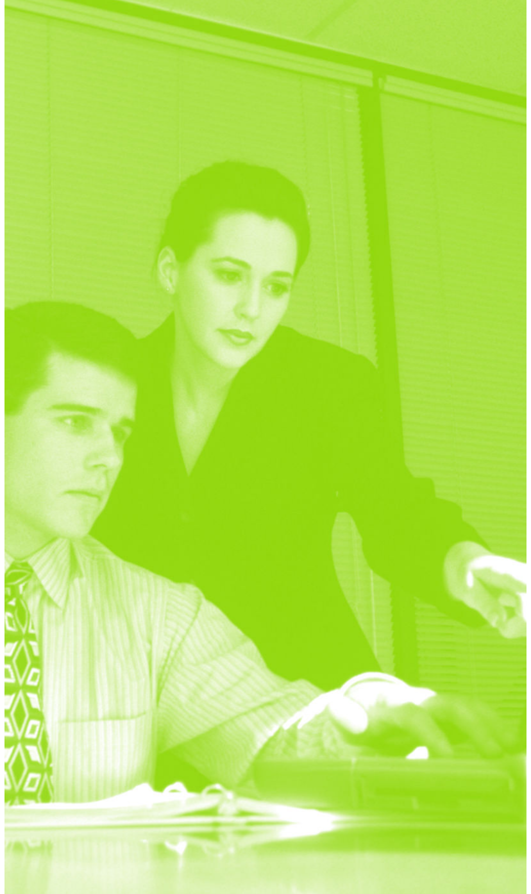
In my work to consider financial governance arrangements in adult social care, where there is an established commissioner / provider split, I found that:

- Both the commissioner and provider believe that better value service outcomes can be achieved from the intelligent commissioning model. In particular there is confidence that the model is providing a service that is better aligned to the needs of the individual.

- Financial and performance management arrangements are operating effectively. There is, however, a need to further develop financial and performance modelling and forecasting to better inform commissioning decisions. This is a complex and difficult task. In particular, data to inform the modelling comes from a range of different sources and can therefore be difficult to access and verify.

- The detailed agreement between the commissioner and provider, the compact, provides an explicit link to your over-arching priorities and clear accountability for delivery. The control that this provides needs to be balanced against the need to secure improved outcomes and not creating constraints as to how this might be achieved.

Value for money



Value for money criteria and our findings *continued*

Criterion	Findings:
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	To assess your arrangements to challenge how you secure economy, efficiency and effectiveness I: • audited in detail the savings you reported as achieved from the ongoing value for money programme in adult social care and the children and young people's trust; and • reviewed your costs using the Audit Commission's value for money profiles, both globally and specifically for the two service areas reviewed in detail. I found that: • The reported value for money programme savings in adult social care and the children and young people's trust are supported by evidence. Processes to monitor the achievement of value for money improvements are sound and the actual level of savings achieved exceeded targets for the year in both service areas reviewed in detail. However, further work is needed to completely identify and fully understand how changes made as part of the value for money programme have resulted in cost savings. It is recognised that further improvements in the use of financial and performance data are

essential to gain a better understanding of which initiatives have worked well, and which have worked less well.

- The use of external consultants to inform the value for money programme has been useful in identifying the potential for value for money improvements and suggesting possible changes to commissioning arrangements to achieve this. Although service managers have not always understood at a detailed level how value for money programme targets have been set, external challenge of your traditional approach to budget setting and ways of working has helped to prompt changes. The changes in the service areas considered have focused on better needs assessment, re-ablement and joining up service delivery across traditional boundaries. The introduction of the personalisation initiative in adult social care is a good example of more targeted needs assessment. Systematically linking social work with community services for children provides a good example of better integrated working across departments.

- Overall, your service costs remain relatively high. Although costs are falling, the planned spending per person in both the children and young people's trust and adult social care remain higher than your statistical nearest neighbours. There is, however, evidence for the services considered in detail that areas of higher comparative spending do match your priorities. Given the relatively high level of comparative costs, and the significant financial challenges you face over the medium term, it is essential that the implementation of the planned programme of value for money improvements is accelerated.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. There are no such significant matters.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIGHTON & HOVE CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Brighton & Hove City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Brighton & Hove City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Brighton & Hove City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Brighton & Hove City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Brighton & Hove City Council in accordance with the requirements of the Audit Commission

Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson
District Auditor

Audit Commission
Bicentennial Building
Southern Gate
Chichester, West Sussex PO19 8EZ

28 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Item of Account	Description of error
Primary financial statements and supporting notes.	There were a relatively small number of rounding, internal consistency, casting and disclosure errors in the draft financial statements that have now been corrected. These are explained more fully in the section of my report where I consider the quality of your financial statements. I am satisfied that these errors were made in the process of producing the financial statements and are not caused by underlying accounting errors.
Comprehensive income and expenditure statement.	In 2010/11 approximately £9.5 million of income from capital grants financing revenue expenditure financed from capital under statute (REFCUS) was disclosed in the taxation and non-specific grant income line of the comprehensive income and expenditure statement rather than as part of the cost of services. Capital grant income financing REFCUS of £10.2 million was misclassified in the same way in the 2009/10 comparatives.
Balance sheet	There were historic errors in the split of employer contributions between the Council and East Sussex County Council that were provided to the actuary and used to assess your pension liability. An updated assessment of your pension liability and associated entries in the financial statements has been obtained from the actuary and accounted for in your audited accounts. This resulted in an increase in the pension liability for 2010/11 of £11,008,000 and an increase in the pension liability for 2009/10 of £12,363,000.

Balance sheet. Comprehensive income and expenditure statement. Note 17 – Property, plant and equipment. Note 18 – Investment property.	£351,000 of 2010/11 capital expenditure was accounted for and disclosed as relating to investment properties. This capital expenditure actually related to property, plant and equipment assets. The closing value of investment properties disclosed at note 18 and on the face of the balance sheet is therefore overstated by £351,000 and the closing value of property, plant and equipment assets at note 17 and on the face of the balance sheet is understated by £351,000. As part of your work to remove assets from your balance sheet where assets are subject to finance leases and you are the lessor you incorrectly impaired one investment property that should not have been written out of your balance sheet. You have made correcting entries in the financial statements and accounting records based on my finding. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £101,000 and increase the value of investment property assets on the face of the balance sheet and note 18 by £101,000. A council property with a 2010/11 closing value of £255,000 was re-classified in error during the year from investment properties to property, plant and equipment. The closing value of investment properties disclosed at note 18 and on the face of the balance sheet was therefore understated by £255,000 and the closing value of property, plant and equipment assets at note 17 and on the face of the balance sheet was overstated by £255,000. As the property was re-classified as property, plant and equipment in error it was not revalued. It should have been revalued as an investment property. I have undertaken sufficient work to satisfy myself that this failure to revalue has a trivial impact on the financial statements.
Balance sheet. Comprehensive income and expenditure statement Note 17 – Property, plant and equipment.	As part of your 2010/11 fixed asset revaluation programme you correctly reclassified land at the Dome complex and Hove Museum as a community asset. In doing this you also impaired the carrying value of this land to zero. As community assets the value of the land should be accounted for at historic cost. You have made correcting entries in the financial statements and accounting records based on my findings. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £3,315,000, increase the value of property, plant and equipment assets on the face of the balance sheet by £3,315,000 and increase the value of community

	assets disclosed at note 17 by £3,315,000.
Balance sheet. Note 17 – Property, plant and equipment. Note 19 – Assets held for sale.	During 2009/10 you reclassified land in Edward Street as a non-current asset held for sale. During 2010/11 you impaired this land. Although you do intend to sell the land the sale is not expected to be completed until 2015. I disagreed with the categorisation of this land as a non-current asset held for sale based on my consideration of the accounting and disclosure requirements set out in IFRS 5. You have amended the financial statements and accounting records to disclose the land as operational land and buildings within property, plant and equipment in note 17 and on the face of the balance sheet, and to show the impairment as relating to operational land and buildings rather than non-current assets held for sale. The net value of these reclassifications was £7.9 million.
Balance sheet. Comprehensive income and expenditure statement. Note 17 – property, plant and equipment.	As part of your work to remove assets from your balance sheet where assets are subject to finance leases and you are the lessor you incorrectly impaired six property plant and equipment assets that should not have been written out of your balance sheet. You have made correcting entries in the financial statements and accounting records based on my findings. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £791,000 and increase the value of property, plant and equipment assets on the face of the balance sheet and note 17 by £791,000. As part of my audit work on property, plant and equipment I found that an asset valuation for part of your land and building assets at Stanmer had been applied in error to the whole of the site. This resulted in an understatement of revaluation gains on buildings and an overstatement of the impairment of land. You have made correcting entries in the financial statements and accounting records based on my findings. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £1.8 million and increase the value of property, plant and equipment assets on the face of the balance sheet and note 17 by £1.8 million.

Comprehensive income and expenditure statement.

Note 5 – Material items of income and expense.

A significant impairment of approximately £222 million arose from the change in valuation basis for council dwellings. A significant credit of £82.4 million arose from the decrease in the past service cost in respect of defined benefit pension schemes which is due to this cost now being based on the consumer prices index rather than the retail prices index. The impact of these material items of income and expense were disclosed at note 5 to the financial statements.

International Accounting Standard 1 requires material exceptional items such as this to also be disclosed on the face of the comprehensive income and expenditure statement. You did not initially make this disclosure.

Appendix 3 – Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Item of Account	Description of error
Children and young people's trust pooled budget.	The children and young people's trust pooled budget is not being accounted for as a joint venture under IAS 31. The Council's correct share of pooled budget debtors, creditors and imputed cash are therefore not disclosed on the balance sheet. The impact on the balance sheet is as follows: • creditors are overstated by £340,000; • debtors are overstated by £51,000; and • cash (imputed) is understated by £1,870,000.
Adult and social care trust pooled budgets.	The adult and social care trust pooled budget is not being accounted for as a joint venture under IAS 31. The Council's correct share of pooled budget debtors, creditors and imputed cash are therefore not disclosed on the balance sheet. The impact on the balance sheet is as follows: • creditors are overstated by £249,000; • debtors are overstated by £1,716,000; and • cash (imputed) is understated by £1,465,000.

Comprehensive income and expenditure statement.	Year end adjustments made to the general ledger to account for housing benefit grant income overstated other housing services gross income and expenditure disclosed in the comprehensive income and expenditure statement by approximately £3 million. This finding had no impact on the net expenditure disclosed or overall financial performance reported. Officers are reviewing the current year end reconciliation process for housing benefit grant income so that this issue is addressed. A decision has been undertaken to not make adjustments to the general ledger or statement of accounts until this exercise has been completed.
Comprehensive income and expenditure statement	In 2010/11 misclassification of internal recharges resulted in a £3 million overstatement of financing and investment income and expenditure in the comprehensive income and expenditure and an understatement of net cost of services by the same amount. The same misclassification, also with a value of £3 million, has been made in the 2009/10 comparatives. This finding has no impact on your overall financial performance reported in the comprehensive income and expenditure statement.
Note 17 – Property, plant and equipment.	As part of my work in this area I noted differences in the 2009/10 disclosures of revaluation, impairment and depreciation compared to other disclosures in the financial statements. These differences were caused by inherent errors brought forward from the 2009/10 financial statements. The gross value of errors relating to revaluation is £323,000. The gross value of errors relating to depreciation and impairment is £259,000. The net impact on the financial statements is £64,000.

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

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

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

Appendix 4 – Glossary

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘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.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Appendix 4 – Glossary

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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

Appendix 5 – Action plan

Page no.	Recommendation	Priority	Responsibility	Agreed	Comments	Date
	Recommendation 1 Continue to improve the internal control environment within the Midland iTrent payroll system. In particular ensure that all controls are operated consistently and evidence is retained to show that controls have been operated.	3	Head of People Centre	Agreed	The Head of People Centre agrees to the recommendation subject to available resource and the health and wellbeing of the staff undertaking this work	Ongoing
	Recommendation 2 Check and authorise manual adjustment journals on the general ledger prior to processing. Ensure there is proper separation of duties in the operation of this control so that staff cannot raise and authorise the same journal. I raised a similar recommendation on journal controls as part of my 2009/10 Annual Governance Report.	2	Head of Financial Services	Partially agreed	Following the 2009/10 accounts closure and the same recommendation in the 2009/10 AGR, journal control and authorisation was discussed by senior officers within financial services; it was agreed that no further controls were necessary and therefore the journal process would remain unchanged. It was agreed that if particular issues came to light then it would be reconsidered for either individual officers or across the board.	March 2012

				Development work has taken place to test the journal authorisation facility within the Council's financial system and it can be implemented immediately if required. These decisions have been reviewed and the Council will now introduce an authorisation process for journals which are considered to be high risk or more complex.	
Recommendation 3 Ensure that all treasury management reconciliations are authorised by an appropriate officer separate to the reconciliation preparer.	2	Loans and Technical Manager	Agreed	.	TBA
Recommendation 4 Make full use of the commitment accounting element of the accounts payable system.	2	Head of Central Financial Services	Agreed	Commitment accounting is derived from the purchasing system and not the accounts payable system. The council does have commitment accounting in place but this is dependent directly on how officers across the council are using the purchasing system. As a council, we do agree that we need to improve the use of the purchasing system to improve compliance which will lead directly to improvements in	TBA dependent on other developments required across the authority and the level of resources available

				commitment accounting; this is something that officers within financial services have recently been discussing in relation to streamlining the closedown support and implementing intelligent scanning within the accounts payable function. The council is already undertaking work on improving training and guidance documentation in relation to the purchasing system and designing training courses to support this.	
Recommendation 5 Ensure that evidence is retained to support the operation of all controls within the accounts receivable system, including controls relating to periodic income.	2	Principal Accountant (Central Financial Services – Income, Banking & VAT)	Agreed	We will start to print and sign the control reports that are automatically emailed with immediate effect.	Immediate
Recommendation 6 Address the weaknesses identified IT control environment. Specifically: • Undertake planned business continuity and disaster recovery testing in a timely manner. • Ensure that access controls to the Council's network are	2	Head of ICT	Agreed	There is an ICT Business Continuity Plan published on our Sharepoint site and a hard copy is kept by the Service Desk Manager. This needs to be reviewed on a regular basis. It covers the ICT Service Desk which is the central point for managing all ICT incidents. Some disaster recovery testing does take place. However, there is minimal documentation and no	TBA

adequate.				specific plan for all systems. All major ICT systems should be subject to a timetable for annual DR testing and be fully documented.	
			Agreed	The minimum password length is currently set to 8 alpha numeric, upper and lower case sensitive characters. All user passwords are automatically prompted to be changed after a 90 day period. We will investigate the option to reduce the number of attempts to login and the potential impact this may have on both the ICT Service Desk and the business.	TBA
Recommendation 7 You should continue to work with your partners to draft new agreements for the children and young people's trust and adult social care pooled budgets which: • allow for ongoing revisions to how financial risks are shared between parties to the pools; and • consider the likely future commissioning arrangements in the NHS following the planned abolition of primary care trusts.	2	Head of Financial Services	Agreed	Risk provision for 2011/12 has already been agreed across partnerships. Discussions about risk sharing provisions for 2012/13 will be incorporated into the annual budget setting process and timetable. Discussions about partnership arrangements are already ongoing between partners and potential changes to partnership agreements will be finalised when revised arrangements and timescales become clearer.	Sept 2011 Ongoing

Recommendation 8 The process for the year end reconciliation of housing benefit grant income to the general ledger and making related adjustments should be simplified and reviewed to ensure that it does not result in the overstatement of other housing services income and expenditure in the financial statements.	2	Principal Accountant (Integrated Financial Management and Planning)	Agreed	A process review of the year end reconciliation of housing benefit grant income will be undertaken.	March 2012

Appendix 6 – Draft letter of management representation

To:
Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ

Brighton and Hove City Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

Pooled budgets

- The accounting treatment adopted is consistent with that adopted in previous years;
- It matched the practice followed by our partners in the pooled budget arrangement and therefore provides a consistent approach;

Housing benefit grant claim income

- Due to the previous post holder leaving the authority, resources would need to be diverted to complete the housing benefit grant accounting, any changes would not have a material affect on the accounts or impact or impact on the net deficit in the comprehensive income and expenditure statement;
- A full review of the current year end reconciliation process will be undertaken for the 2011/12 accounts.

Property, plant and equipment

- These errors were brought forward from the disclosure note to the 2009/10 financial statements;
- The impact to the 2010/11 statements is not material.

Financing and investment income and expenditure

- This adjustment has no impact on the overall financial performance reported in the comprehensive income and expenditure statement;
- The impact to the 2010/11 statements is not material.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Brighton & Hove City Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Brighton & Hove City Council

I confirm that the this letter has been discussed and agreed by the Council on 27 September 2011

Signed

Name: Catherine Vaughan

Position: Director of Finance

Date: 27 September 2011

AUDIT COMMITTEE	Agenda Item 27 Brighton & Hove City Council

Subject:		**Audit of Accounts ended 31 March 2011: Letter of Representation and Statement of Accounts 2010/11 Update**	
Date of Meeting:		**27 September 2011**	
Report of:		**Director of Finance**	
Contact Officer:	Name:	**Nigel Manvell**	**Tel: 29-3104**
	E-mail:	Nigel.manvell@brighton-hove.gov.uk	
Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

1.1 Under the Accounts and Audit Regulations 2011, the council's Statement of Accounts for 2010/11 must be approved by Members by the 30 September 2011. Under Brighton & Hove City Council's constitution, the Audit Committee is charged with this responsibility.

1.2 The Audit Commission are required to give assurance that the Statement of Accounts is free from material misstatement and to report significant matters arising from the audit.

1.3 The Audit Commission has conducted its audit of the Statement of Accounts and has recommended only a relatively small number of amendments prior to issuing their opinion and the publication of the accounts.

1.4 This report presents the revised 2010/11 Statement of Accounts following the audit. It outlines the amendments made to the statements since they were presented to the June committee and provides assurances to the Audit Committee in relation to the preparation of the Statement of Accounts. It also provides information regarding the summary accounts and informs the committee of the outcome of the public inspection of the accounts. Copies of the revised Statement of Accounts are available in the Members' rooms.

2 RECOMMENDATIONS:

The Committee is recommended to:

(1) Note the findings of the Audit Commission in their Annual Governance Report (AGR)

(2) Note the adjusted misstatements to the 2010/11 Statement of Accounts (paragraph 8.3).

(3) Consider the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraphs 8.4).

(4) Note the results of the public inspection of the accounts (Section 10).

(5) Approve the letter of representation on behalf of the council (Appendix 1 of this report).

(6) Consider and approve the management responses to the action plan in the AGR

(7) Approve the audited Statement of Accounts for 2010/11.

3 RELEVANT BACKGROUND INFORMATION

3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011 made under Section 27 of the 1998 Act.

3.2 It is a requirement that the annual accounts should be prepared as soon as practicable after the end of the financial year and considered by a committee or Full Council, and approved by a resolution of that committee or of Full Council by the 30 September.

3.3 The accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

4 FORMAT OF THE STATEMENT OF ACCOUNTS

4.1 As reported to the June committee, with effect from the 2010/11 financial year, the authority is required to present its financial statements on an International Financial Reporting Standards (IFRS) basis and adopt the IFRS based Code of Practice on Local Authority Accounting (the Code); the authority previously presented its financial statements on a UK Generally Accepted Accounting Practice (UK GAAP) basis and adopted the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (SORP).

4.2 The purpose of the Statement of Accounts is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the authority and to provide answers to basic questions such as:

- What did the council's services and capital programme cost in 2010/11?
- Where did the money come from?
- What does the council own?
- What commitments does the council have and what provisions and reserves has the council set against these?
- What amounts were due and what was owed at the end of the financial year?

4.3 In accordance with the accounts and audit regulations, the Statement of Accounts includes an explanatory foreword, a statement of responsibilities together with the core financial statements, supplementary statements and the notes to the accounts.

4.4 The Statement of Accounts would comprise both "Single Entity Accounts", which are in respect of wholly council controlled activities, and "Group

Accounts" in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, as in previous years, there are no other activities requiring the preparation of Group Accounts in 2010/11.

4.5 The new format of the financial statements shows less detail on the face of the statements and more analysis in the notes to the financial statements. In addition the authority's accounting policies are now included as a note to the financial statements.

4.6 The Single Entity core financial statements included within the Statement of Accounts comprise the following:-

- Movements in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet including the Balance Sheet at the beginning of the earliest comparative period (i.e. a third Balance Sheet as at 1 April 2009)
- Cash Flow Statement
- Notes to the Financial Statements

4.7 The supplementary statements comprise the following:-

- Housing Revenue Account
- Collection Fund Account

4.8 The explanatory foreword included in the Statement of Accounts aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2010/11 Statement of Accounts is included in Appendix 3 to this report.

4.9 The District Auditor (external audit) has completed work on the audit of the accounts and will be reporting their findings to this Committee through the Annual Governance Report. Following this report, the District Auditor will be able to issue their audit opinion and the accounts will be published.

4.10 In addition to publishing the Statement of Accounts, the council has produced summary accounts as has been the case in previous years.

5 PREPARATION OF THE STATEMENT OF ACCOUNTS

5.1 The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2010/11, issued by CIPFA. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2010/11 Statement of Accounts are in line with the requirements of the Code.

5.2 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken extensive training on the new requirements for preparing local government financial statements and notes under IFRS. Finance officers who are involved in the preparation of the Statement of Accounts attend regular training to ensure an up to date knowledge and continuous professional development. A number of finance staff are also undertaking professional qualifications.

5.3 Officers have made reference to CIPFA's practitioner's guidance notes, disclosure checklists and other technical guidance in preparing the Statement of Accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the financial statements, with external audit over proposed accounting treatment of the key changes under the new IFRS requirements.

5.4 The council makes a number of critical judgements, accounting estimates and assumptions in the preparation of the financial statements; the details are disclosed in note 4 to the financial statements.

5.5 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers within financial services. Following this review, the Statement of Accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit.

5.6 During the accounts audit process, officers liaise closely with external auditors in respect of audit queries and work closely to ensure prompt and successful resolution of these queries. During the audit of the 2010/11 accounts, there have been no disputes between council officers and external audit in the required amendments to the accounts.

6 CHANGES TO ACCOUNTING STANDARDS

6.1 The authority is required to account for the transition to International Financial Reporting Standards (IFRS) in accordance with IFRS1 *First Time Adoption*. The code requires accounting policy changes arising out of the adoption of the IFRS based code to be accounted for retrospectively unless the code requires an alternative treatment.

6.2 The authority has adopted a number of changes in accounting policies as a result of adopting the IFRS based Code. The authority has accounted for the accounting policy changes arising out of the transition to IFRS and adoption of the IFRS based Code retrospectively unless the Code requires an alternative treatment.

6.3 The transition from UK GAAP to IFRS has had a significant impact on the authority's financial statements in terms of accounting treatment, presentation and disclosure requirements. The significant areas of the financial statements affected by the transition are accounting for non current assets, leases, cash equivalents, grants and employee benefits.

6.4 Note 1 to the financial statements details the authority's revised accounting policies under IFRS. Note 2 to the financial statements provides an explanation of how the transition from UK GAAP to IFRS has affected its reported financial position, financial performance and cash flows.

6.5 The main changes for the 2010/11 accounting period as required by the transition to IFRS are summarised in Appendix 2 of this report.

7 PRIOR PERIOD ERRORS

7.1 The Code requires material prior period errors to be corrected except to the extent it is impracticable to determine either the period specific effects or the cumulative effect of the error.

7.2 The authority has made an adjustment for a prior period error in the financial statements in respect of the overstatement of income and expenditure in the Comprehensive Income and Expenditure Statement for 2009/10. This was in respect of the children's and education services. Income has reduced by £17.418m and expenditure has reduced by the same amount.

7.3 The authority has also made the following adjustments for prior period errors in the financial statements in respect of the council's pension liability and associated entries which arose following historic errors in the split of employer contributions between the authority and East Sussex County Council for both unfunded and funded benefits.

- an understatement in the actuarial loss on pension assets and liabilities in the Comprehensive Income and Expenditure statement of £10.200m;
- an overstatement in the pensions interest cost and expected return on pension assets in the Comprehensive Income and Expenditure statement of £0.018m;
- an understatement in the pension liability and pension reserve on the balance sheet of £2.183m in the 2009/10 opening balance sheet and £10.181m in the 2009/10 comparative balance sheet.

8 AUDIT OF THE STATEMENT OF ACCOUNTS 2010/11

8.1 The District Auditor has completed the audit of the council's accounts and their Annual Governance Report (AGR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.

8.2 The AGR for 2010/11 states that the draft financial statements were of a good standard supported by good quality working papers and the council's work to produce IFRS compliant financial statements was comprehensive, well planned and well supported.

8.3 During the course of the audit, the external auditors detected a relatively small number of errors in the financial statements. There were a number of amendments to the accounts discussed and agreed with council officers; details of these amendments and the financial statements affected are included in Appendix 4 of this report.

8.4 There were other misstatements identified from the audit which were discussed between officers and external audit; however, for reasons set out in the letter of representation (see Appendix 1 of this report), the council has elected not to adjust the financial statements. Details of these unadjusted misstatements are detailed in Appendix 5 of this report.

8.5 Compilation of the financial statements relies on data extracted from the financial systems operated by the council including those systems which interface into the financial system. It is therefore, important for the auditors to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them. The main control weaknesses identified by the auditors were within the payroll system. This is a key system as it generates a large part of the council's expenditure. The auditors undertook additional substantive testing, which did not identify any cases of error or fraud. Recommendations by the Audit Commission to improve the control environment within the payroll system are included in Appendix 5 of the AGR.

9 SUMMARY OF ACCOUNTS

9.1 Each year, the council produces a summary version of the accounts which aims to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main Statement of Accounts. The Summary of

Accounts will be published on the council's website alongside the 2010/11 Statement of Accounts.

10 PUBLIC INSPECTION OF THE ACCOUNTS

10.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four-week period to the council's unaudited Statement of Accounts and are invited to enquire on any aspect of these Accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the Accounts with the Audit Commission.

10.2 This year the council received an enquiry from two members of the public. These enquiries encompassed many areas of the Accounts. Responses to the queries have been compiled and sent. At the time of writing this report, the enquiries have not resulted in any objection to the Accounts.

11 EVALUATION OF ALTERNATIVE OPTIONS

11.1 After the Accounts have been made available for public inspection, alterations may only be made with the consent of the auditor, i.e. in this case the District Auditor. The alterations in this case have received her consent.

12 REASONS FOR REPORT RECOMMENDATIONS

12.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2010/11 Statement of Accounts should be approved by Members by the 30 September 2011.

12.2 To ensure that the Audit Committee is fully aware of the changes to the Accounts agreed with the auditor in response to the findings and recommendations arising from the audit of the accounts.

13 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

13.1 Included in the body of the report.

Finance Officer Consulted: Jane Strudwick Date: 7 September 2011

Legal Implications:

13.2 The legal framework for approving the council's statement of accounts is provided by regulation 8 of The Accounts and Audit (England) Regulations 2011 (statutory instrument 2011/817), relevant details of which are set out in the body of the report.

13.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit Committee which fulfils this statutory role. Lawyer consulted: Oliver Dixon Date: 12 September 2011

Equalities Implications:

13.4 There are no equalities implications arising directly from this report.

Sustainability Implications:

13.5 There are no direct environmental implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

13.7 There has been no direct risk assessment for this report.

Corporate / Citywide Implications:

13.8 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority. The quality and accuracy of the Statement of Accounts also impacts on the council's score under the Comprehensive Area Assessment framework.

SUPPORTING DOCUMENTATION

Appendices

Appendix 1: Letter of Representation

Appendix 2: Summary of the main changes for the 2010/11 accounting period as required by the transition to IFRS

Appendix 3: Commentary on the Statement of Accounts

Appendix 4: Details of amendments made to the Financial Statements

Appendix 5: Details of unadjusted misstatements

Documents in Members' Rooms

Statement of Accounts

Background Documents

None

Appendix 1

Letter of Representation

To:

Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ

Brighton and Hove City Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

<u>Pooled Budgets</u>

- The accounting treatment is consistent with that adopted in previous years;
- It matches the practice followed by our partners in the pooled budget arrangements and therefore provides a consistent approach;

<u>Housing Benefit Grant Income</u>

- Due to the previous post holder leaving the authority, resources would need to be diverted to complete a review of Housing Benefit grant accounting, any changes would not have a material affect on the accounts or impact on the net deficit of the Comprehensive Income & Expenditure Statement;
- A full review of the current year end reconciliation process will be carried out in time for the closing of the 2011/12 accounts

<u>Property, Plant and Equipment</u>

- These errors were brought forward from the disclosure note to 2009/10 financial statements.
- The impact to the 2010/11 statements is not material

Financing and Investment Income and Expenditure

- This adjustment has no impact on the overall financial performance reported in the Comprehensive Income and Expenditure Statement.
- A full review of the accounting for interest will be undertaken in time for the closing of the 2011/12 accounts

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Brighton & Hove City Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Brighton & Hove City Council

I confirm that the this letter has been discussed and agreed by the Council on 27 September 2011

Signed

Name: Catherine Vaughan

Position: Director of Finance

Date: 27 September 2011

Appendix 2

Summary of the main changes for the 2010/11 accounting period as required by the transition to IFRS

Non current assets

The authority has a range of non current assets held on its Balance Sheet which were previously under UK GAAP categorised as operational assets and non operational assets. The transition to IFRS has led to a number of reclassifications of individual assets.

There is now a much tighter definition of what constitutes an investment property and this has led to a number of assets being reclassified from investment property to property, plant and equipment. IFRS also introduces a new category of asset "Assets Held for Sale" which can be classed as either a current asset or long term asset depending on when sale transactions are likely to be completed.

As part of the transition to IFRS, the authority also removed its voluntary aided schools from its Balance Sheet although playing fields owned by the authority has remained.

Although no formal revaluations took place in respect of these changes, there was an impact on the revaluation reserve. With the re-categorisation of assets, there was also an impact on the level of charge made in respect of assets to the Comprehensive Income and Expenditure Statement (e.g. depreciation, impairment and revenue expenditure funded from capital) and the Capital Adjustment Account.

Leases

The IFRS code of practice introduced a number of changes in the way the authority accounts for leases.

Leases on property are accounted for separately as leases on land (usually operational) and leases on buildings (finance). Previously there was no such split;

One of the factors that indicate a lease is a finance lease is if "the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset". Prior to IFRS substantially all meant 90% or more, this 90% rule has been removed under IFRS.

The authority leases out a number of its properties and the transition to IFRS has led to a number of these leases being reclassified from operating leases to finance leases with a decrease in property, plant and equipment and investment property categories on the balance sheet and an increase in long term debtors to recognise the lease as a long term debtor.

Short term investment and cash equivalents

The IFRS code of practice introduced a new definition of cash equivalents. Cash surpluses lent to cover cash shortages with maturities of no longer than three months were reclassified from short term investments to cash equivalents

Grants and Contributions

The authority receives a number of capital and revenue grants and contributions. The transition to IFRS required the authority to implement revised accounting treatment for grants and contributions dependent upon whether there is a condition(s) (as opposed to restrictions) attached to the grant or contribution (the condition being that grant or contribution is returned to the transferor if a specified future event does or does not occur). The authority is required to maintain an account for unapplied grants and assess, at the end of the financial year, whether a condition is outstanding in considering whether the grant or contribution should be recognised as income in the Comprehensive Income and Expenditure Statement.

Employee Benefits – Short term accumulated absences

Accumulating compensated absences are those that can be carried forward for use in future periods if the current period's entitlements are not used in full. The Code describes annual leave and flexi-time arrangements as usually being accumulating. The authority has made provision for short term accumulated absences by accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

Appendix 3

Commentary on the Statement of Accounts

Comprehensive Income and Expenditure Account (CI&E)

The level of General Fund working balance and general reserves held at 31 March 2011 was £16.137 million; this represents the working balance of the council and is deemed appropriate by the council's Chief Finance Officer. In addition there are also General Fund earmarked reserves of £67.918 million.

Segmental Reporting

The adoption of IFRS and the Code introduces segmental reporting with the aim to disclose information to enable users of the authority's financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates. Information on reportable operating segments is presented in note 36 and includes the following;

- An analysis of the income and expenditure for each segment which includes those items of income and expenditure that are reported as part of the authority's internal management reporting;
- A reconciliation between the segment reporting analysis and the cost of services in the Comprehensive Income and Expenditure Statement;
- A reconciliation between the segment reporting analysis and an analysis of total income and expenditure (i.e. a subjective analysis);
- Information on services included within each operating segment.

Reportable operating segments are based on the authority's internal management reporting.

Housing Revenue Account (HRA)

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

The 2010/11 outturn for the HRA shows a net deficit of £1.377 million. The HRA reserves now stand at £4.700 million, which is well in excess of the recommended minimum level of balances of £2 million. In addition there are also HRA earmarked reserves of £2.498 million.

Balance Sheet (BS)

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

Non Current Assets

Total non current assets (including current assets held for sale) have decreased from £1,944,223 million as at 31 March 2010 to £1,846,036 million as at 31 March 2011. The in year movement in non current assets is detailed in notes 17 to 20 to the core financial statements. The movement of £98,187 million relates to the following:

- An increase of £72.525 million for additions to PPE which reflects the significant capital investments;

- PPE revaluation transactions of £97.995 million;
- Depreciation and Impairment transactions of £38.001 million;
- Downward movement in the fair value of investment properties of £5.571m
- Reduction in the value of housing stock due to a decrease in social housing factor leading to an impairment loss of £222.077 million
- Disposal of non current assets of £3.060 million;
- Other movements of £0.002 million;

Gains and losses on the disposal of fixed assets are charged to the comprehensive Income & Expenditure Statement but then reversed back out through the Movement in Reserves Statement on to ensure they do not impact on the Council Tax demand. However, the cost of disposal remains as a charge to revenue.

Borrowing

In accordance with the CIPFA Code on Treasury Management, the management of the council's borrowing portfolio is based on a consolidated approach and not by individual services. The level of borrowing has reduced in the year by £17.909 million.

During 2010/11, the authority entered into three forward borrowing deals totalling £30m of which two of these deals totalling £20m became operational in February 2011. The authority made a net repayment of £19m. Note 37 to the financial statements provides further information on borrowings.

Investments

At 31 March 2011, the authority held investments of £56.993m. Investments are made by the in-house treasury team and the authority's external cash manager. The authority uses an external cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock.

The level of investment has increased in year by £13.971m. Note 37 to the financial statements provides further information on investments.

Revaluation Reserve

This represents any upward revaluations of assets in accordance with the Code of Practice. Any impairment of assets is also reflected in this account only to the extent that it can be offset against previous upward revaluation of the asset. Any excess impairment is charged to the Income and Expenditure Account. The reserve stands at £299.970 million as at 31 March 2011.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose. The balance of £72.506 million at 31 March 2010 decreased to £70.416 million at 31 March 2011. Details of Earmarked Reserves held can be found in the notes to the core financial statements.

Schools' balances

Schools' balances have increased by £1.312 million from £2.567 million at 31 March 2010 to £3.879 million at 31 March 2011. All schools have the right to carry forward surpluses and overspends, within agreed limits, which will be added to, or taken from their school budget share. The £3.879 million balance includes phases as follows: - primary schools £2.644 million, secondary schools £1.088 million, special schools £0.079 million and nursery schools £0.068 million.

There is an overall increase in carry forwards; and, the movement across phases shows variations as follows: - primary schools increased by £0.771m, secondary schools increased by £0.315m, special schools increased by £0.192m and nursery schools increased by £0.034m.

In total there are 9 schools (out of 70) with deficit balances (13% of total schools) and the split of these is as follows: - 5 primary schools (9% of primary schools), 2 secondary schools (25% of secondary schools) and 2 special schools (33% of special schools). School budget plans for 2011/12 will incorporate these overspends and the Council's Schools' Finance team have worked closely with schools to identify and support those requiring licensed deficits (approval to overspend) in the 2011/12 financial year

Pension Liability

The pension liability (net of pension assets) was £353.698 million at 31 March 2010 and it decreased by £247.141 million to £106.557 million at 31 March 2011.

A combination of changes in salary increase assumptions, the switch to CPI, the increased life expectancy assumptions and changes in the current service cost has made a significant net reduction in the authority's pension liability.

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

Collection Fund

In 2010/11 there was an in year deficit of £3.271m on the Collection Fund, a movement of £8.093m from 2009/10 which had an in year surplus of £4.822m. The in-year deficit related mainly to a higher than anticipated entitlement to exemptions and discounts with £2.685m relating to the budgeted distribution of the previous years forecast collection fund surplus.

Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2011 that are reasonably certain and can be estimated with reasonable accuracy. Provisions are included for the following:-

Accumulated Absences – Following the introduction of IFRS this is a new provision which relates to the accumulated compensated absences (e.g. annual leave and flexi leave) that are carried forward for use in future periods if the current period's entitlements are not used in full.

Single Status Liability Provision - The authority made proactive offers to groups of staff in relation to potential equal pay back pay liabilities and has implemented the outcome of a pay and grading review. The provision relates to potential outstanding liabilities that the authority is very likely to incur in relation to these matters. To help establish the potential liability, a legal review was conducted of all outstanding employment tribunal and internal grievance claims. This provision is separate to the single status earmarked reserve which is to meet potential liabilities that cannot be estimated with any certainty.

Voluntary Severance Scheme Provision - The authority has established a voluntary severance scheme to allow its officers to consider leaving their employment with the authority in return for a severance package. This scheme has been established to assist the authority in meeting its tough financial targets in 2011/12 whilst avoiding the need for compulsory redundancies. A provision has been set up to fund these costs.

Other Provisions – the authority has a number of other provisions which are individually insignificant. These include provisions for: Maintenance of Graves, Land Charges, Modern Records unit and Priory House Dilapidations.

Contingent Liabilities are included where there is a possible loss which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss is not considered sufficiently certain. The majority of these claims are not considered material and will therefore have no material effect on the council's financial position. Contingent liabilities are included for the following:-

Insurance claims – a contingent liability is recognised in respect of outstanding and potential insurance claims where it is not possible to accurately estimate the timing or value of claims. However, the council's Insurance Reserve includes cover for potential liabilities based on past experience and professional assessment of current and potential liabilities.

Appendix 4

Details of Amendments to the Statement of Accounts

Primary financial statements and supporting notes

There were a relatively small number of rounding, internal consistency, casting and disclosure errors in the draft financial statements that were made in the process of producing the financial statements and not caused by underlying accounting errors. These are explained more fully in the section of the AGR which considers the quality of your financial statements.

Non Current Assets

£351,000 of 2010/11 capital expenditure was accounted for and disclosed as relating to investment properties. This capital expenditure actually related to property, plant and equipment assets.

As part of the work to remove assets from the balance sheet where these assets leased by the council are subject to finance leases, an investment property and a further six property, plant and equipment assets were incorrectly written out of the balance sheet.

A council property with a closing value of £255,000 was re-classified in error during the year from investment properties to property, plant and equipment. As the property was re-classified as property, plant and equipment in error it was not revalued. It should have been revalued as an investment property.

As part of the 2010/11 fixed asset revaluation programme, land at the Dome complex and Hove Museum was reclassified as a community asset and impaired the carrying value of this land to zero. As this was a community asset the value of the land should have been accounted for at historic cost not nil value.

During 2009/10, land in Edward Street was reclassified as a non-current asset held for sale. Although it is the council's intention to sell the land, the sale is not expected to be completed until 2015 and should have been reclassified as property, plant and equipment.

The asset valuation for part of the land and building assets at Stanmer had been applied in error to the whole of the site.

Material items of income and expense

A significant impairment of approximately £222 million arose from the change in valuation basis for council dwellings. A significant credit of £82.4 million arose from the decrease in the past service cost in respect of defined benefit pension schemes which is due to this cost now being based on the consumer prices index rather than the retail prices index. The impact of these material items of income and expense were disclosed in note 5 to the financial statements. International Accounting Standard 1 requires material exceptional items such as this to also be disclosed on the face of the comprehensive income and expenditure statement. The council did not initially make this disclosure.

Pension Costs

As part of the 2009/10 Statement of Accounts, external audit identified a cumulative difference between the net pension liability and reserve reported in the council's Balance Sheet and the balance shown in the actuary's report.

Further information on this issue was received by the council from the East Sussex Pension Fund very close to the deadline for production and approval of the draft financial statements. In the draft financial statements, the council disclosed a non-adjusting post-balance sheet event in note 6 to the accounts based on the information available at the time. This disclosure confirmed that there were historic errors in the split of responsibility for contributions for unfunded benefits between the council and East Sussex County Council. These errors had resulted in differences between the actuary's initial assessment of the pension liability and associated entries which had been accounted for in the financial statements, and the amounts that should be accounted for based on the correct split of responsibilities for contributions for unfunded benefits.

Further consideration of this issue by council officers and external audit revealed that the historic errors in the split of employer contributions between the council and East Sussex County Council extended to both unfunded and funded benefits. An updated assessment of the council's pension liability and associated entries in the financial statements was therefore requested from the actuary.

As the conditions giving rise to this issue existed at the Balance Sheet date it should have been accounted for as an adjusting, rather than non-adjusting, event under IAS 10. The actuary's revised assessment of the pension liability and associated entries in the financial statements has therefore now been fully reflected in the audited financial statements, both for the year of account and previous year. A prior period error for this issue has been disclosed in the financial statements (see paragraph 7.3 above).

Capital grants and REFCUS

The council included capital within the taxation and non specific grant income line of the Comprehensive Income and Expenditure Statement. Capital grants financing Revenue Expenditure funded from Capital under Statute (REFCUS) should be matched to the service revenue account to which the REFCUS is being charged and be included within the cost of services within the Comprehensive Income and Expenditure Statement. There is no impact on the net deficit on the provision of services reported in the Comprehensive Income and Expenditure Statement. The council has elected not to make an adjustment as the time spent to make the adjustment is excessive compared to the benefit of making it.

Details of Financial Statements Affected by Amendments

Non Current Assets

The effect of various amendments described above in respect of non current assets on the Balance Sheet was:

The closing value of investment properties disclosed at note 18 and on the face of the balance sheet was overstated by £197,000, the closing value of property, plant and equipment assets at note 17 and on the face of the balance sheet was understated by £13,925,000 and non current assets held for sale disclosed in note 19 and on the face of the Balance sheet was overstated by £7,900,000.

The effect of the various amendments regarding the Comprehensive Income and Expenditure Statement was:

Expenditure charged to the comprehensive income and expenditure statement has reduced by £5,828,000.

Pension Costs

The effect of various amendments described above in respect of pension costs on the Balance Sheet was:

The pension liability disclosed in note 34 and on the face of the balance sheet (within the other long term liabilities line) was understated by £11,008,000 and the pension reserve on the face of the balance sheet (within unusable reserves) and various notes understated by the same amount.

The effect of various amendments regarding the Comprehensive Income and Expenditure Statement was:

Total Other Comprehensive Income and Expenditure has increased by £1,356,000.

Capitals Grants and Revenue Expenditure funded from Capital under Statute (REFCUS)

The effect of various amendments described above in respect of capital grants and REFCUS on the Comprehensive Income and Expenditure Statement was:

£9.5 million income was moved from the Taxation and Non Specific Grant Income line to Cost of Services. Various notes were amended in respect of this adjustment.

There was no impact on the Balance Sheet

Notes

1) The above adjustments in respect of non current assets and pension costs also had an impact on the Movement in Reserves Statement and the Cash Flow Statement
2) The figures above include the cumulative effect of adjustments, some adjustments required amendment to prior year comparatives. The figures above show the adjustment on the Balance Sheet as at 31 March 2011.

Appendix 5

Details of Unadjusted Misstatements to the Statement of Accounts

Pooled Budgets

External audit highlighted that none of the partners in the pooled budgets in which the council participates are accounting for pooled budgets as a joint venture under IAS 31. External audit recommended that the financial statements should be adjusted; however the council has elected to not adjust for this as the changes are not material to the accounts and the council's treatment of the arrangements is consistent with previous year's accounts and with the accounting treatment followed by our partners.

Housing Benefit Grant Income

As part of a review of revenue grant income, external audit considered the year end reconciliation of housing benefit grant income. Adjustments were made to the accounts following the reconciliation which external audit are of the opinion overstate income and expenditure in the other housing services line of the comprehensive income and expenditure statement.

It is not possible to accurately verify these adjustments without a great deal of officer time being spent and the council will be undertaking a full review of the current year end reconciliation process so that this issue is addressed. This adjustment has no impact on the net expenditure disclosed in the financial statements or overall financial performance reported. For these reasons, the council declined to make the adjustment to the accounts.

Non Current Assets

Following the restatement work of Property, Plant and Equipment differences of net £64,000 were noted in the prior year (2009/10) disclosures in the financial statements. These errors were brought forward from the 2009/10 financial statements. The impact to the 2010/11 statements is not material and for this reason the council has elected not to make an adjustment to the accounts.

Financing and Investment Income and Expenditure

Internal recharges of external interest was misclassified in the Comprehensive Income and Expenditure Statement which resulted in a £3 million overstatement of financing and investment income and expenditure and an understatement of net cost of services by the same amount. This adjustment has no impact on your overall financial performance reported in the Comprehensive Income and Expenditure Statement.

ITEM 29 ON THE AUDIT COMMITTEE AGENDA
(FOR INFORMATION)

CABINET	**Agenda Item 68** Brighton & Hove City Council

Subject:		**Targeted Budget Management (TBM) 2011/12 Month 4**	
Date of Meeting:		**22 September 2011**	
Report of:		**Director of Finance**	
Lead Cabinet Member:		**Cabinet Member for Finance & Central Services**	
Contact Officer:	**Name:**	**Jeff Coates**	**Tel: 29-2364**
	Email:	**jeff.coates@brighton-hove.gov.uk**	
Key Decision:	**Yes**	**Forward Plan No: CAB21119**	
Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 This report sets out the revenue and capital forecast outturn position for 2011/12 as at Month 4.

2. RECOMMENDATIONS:

2.1 That Cabinet notes the provisional outturn position for the General Fund, which is an overspend of £1.308m.

2.2 That Cabinet notes the forecast outturn for the Section 75 Partnerships and Housing Revenue Account (HRA) for 2011/12.

2.3 That Cabinet notes the provisional outturn position on the capital programme.

2.4 That Cabinet approves the following changes to the capital programme:

i) The new schemes and variations as set out in Appendices 1 & 2.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 Reporting has been summarised by strategic budget areas with Appendix 1 providing details of the commissioning and delivery units aligned with these areas. This includes information on critical capital schemes (paragraph 3.14) and capital summaries are included for each of the strategic budget areas within Appendix 1.

3.2 The table below shows the provisional outturn forecast for Council controlled revenue budgets within the General Fund and the outturn on NHS managed S75

Partnership Services. Outturn forecasts provide a projection of the anticipated position as at the end of the current financial year (March 2012).

3.3 In depth work has been undertaken on the corporate critical budget forecasts and these are summarised in paragraph 3.5. Other budgets are reviewed on a rolling programme although it is expected that all major variances will have been identified. More detailed explanation of the variances can be found in Appendix 1.

Forecast Variance Month 2 £'000	**Budget Area**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
227	People	133,240	133,542	302	0.2%
610	Place	51,621	52,152	531	1.0%
152	Communities	12,973	13,124	151	1.2%
877	Resources & Finance	39,678	40,126	448	1.1%
1,866	Sub Total	237,512	238,944	1,432	0.6%
(925)	Corporate Budgets	(4,227)	(4,351)	(124)	(2.9%)
941	Total Council Controlled Budgets	233,285	234,593	1,308	0.6%
182	NHS Trust managed S75 Services	14,179	14,341	162	1.1%
1,123	Total Overall Position	247,464	248,934	1,470	0.6%

3.4 The Total Council Controlled Budgets line in the above table represents the total forecast outturn on the Council's General Fund. The General Fund includes Commissioning Units and Service Delivery Units, which are organised under the strategic areas of People, Place and Communities. These, together with Resource & Finance Units, corporate budgets and Council-managed Section 75 services, make up the Total Council Controlled Budgets. The NHS Trust-managed Section 75 Services line represents those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Trust and Sussex Community NHS Trust and include health and social care services for Adult Mental Health, Older People Mental Health, Substance Misuse, AIDS/HIV, Intermediate Care and Community Equipment. The financial risk for these services generally lies with the relevant provider Trust.

Corporate Critical Budgets

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

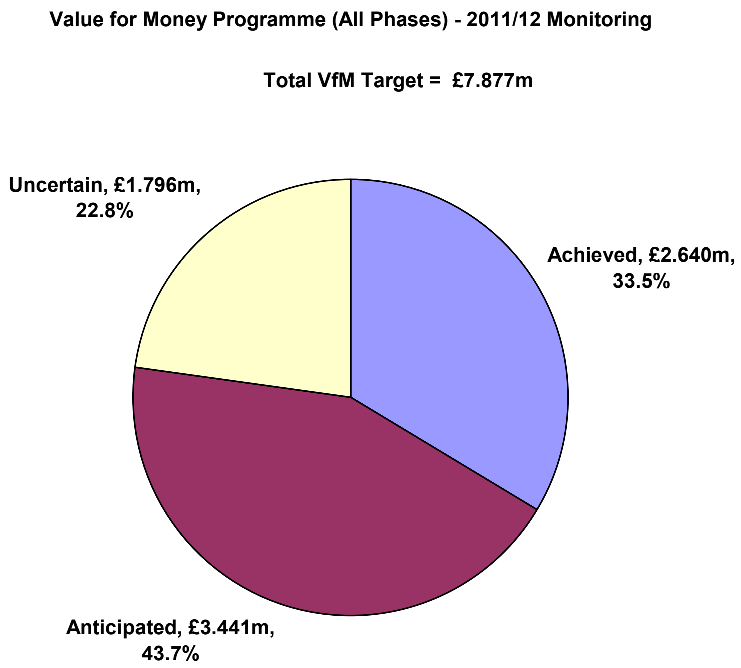
Forecast Variance Month 2 £'000	**Corporate Critical**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
(116)	Child Agency & In House	21,780	21,733	(47)	(0.2%)
209	Sustainable Transport	(13,569)	(13,489)	80	0.6%
-	Housing Benefits	177,624	177,624	-	0.0%
-	Community Care	43,827	43,681	(146)	(0.3%)
93	Total Council Controlled	229,662	229,549	(113)	0.0%
182	S75 NHS & Community Care	14,179	14,341	162	1.1%
275	Total Corporate Critical	243,841	243,890	49	0.0%

Value for Money (VfM) Programmes

3.6 Value for money projects are managed as two programme phases as detailed in previous TBM reports. The programmes contain large, complex projects which are effectively resourced and planned in order to achieve the expected financial and non-financial benefits. However, the projects carry significant risks and therefore each month the TBM report will attempt to quantify the achievement of savings in terms of those savings that have been achieved, those that are anticipated to be achieved (i.e. low risk) and those that remain uncertain (i.e. higher risk).

3.7 The main changes since Month 2 relate to the Management and Administration project areas, which have a combined efficiency target of £1.875m, the Procurement project and Adult Social Care. Detailed information about these projects is provided in Appendix 1 under the relevant service area.

3.8 A summary of current progress toward VfM savings is shown below and a detailed breakdown for each project is provided at Appendix 3.



Collection Fund

3.9 The collection fund is a separate account for transactions in relation to national non domestic rates, council tax and precept demands. Any deficit or surplus forecast on the collection fund is distributed between the council, Sussex Police and East Sussex Fire Authority in proportion to the value of the respective precept on the collection fund.

3.10 The council's share of the projected collection fund deficit position at 31st March 2012 is still about £1.100m. Council tax collection remains above target so far this year so the deficit is entirely as a result of a lower than anticipated liability. This is mainly due to increases in the number of discounts awarded and exemptions for unfurnished properties being higher than anticipated. Inspectors in the Revenues Team are looking at the validity of key exemption categories. In addition to this the projected number of student exemptions is increased, however the information on numbers of students occupying properties for the remainder of the year will only become available after the new college / university year starts this autumn. Members will be kept informed of any revisions to the forecasts as and when new information becomes available

Housing Revenue Account

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

Forecast Outturn Month 2 £'000	**Housing Revenue Account**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Variance Month 4 %
(515)	Expenditure	50,430	49,795	(635)	(1.3%)
(21)	Income	(50,430)	(50,451)	(21)	0.0%
(536)	Total	-	(656)	(656)	

Capital Budget 2011/12

3.12 The table below provides a summary of the capital programme by strategic theme. Within Appendix 1 for each budget area there is a breakdown of the capital programme by Unit.

Budget Area	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
People	44,181	44,181	0	0.0%
Place	55,730	55,730	0	0.0%
Communities	5,752	5,752	0	0.0%
Resources & Finance	8,455	8,455	0	0.0%
Total Capital Budget	114,118	114,118	0	0.0%

3.13 Appendix 1 also provides details of proposed new capital schemes which are included in the budget figures above. Cabinet approval for new capital schemes is required under the Council's Financial Regulations. Appendix 2 shows an analysis of movements in the capital budget including new schemes, re-profiled schemes (carry forwards) to the 2012/13 programme and 'slippage'.

3.14 Certain capital schemes have the potential to have significant revenue budget implications if they are not delivered according to timetable. Progress on these more critical schemes is reported regularly through the TBM reports. These schemes are shown in the table below and as at Month 4 no variances have been identified. More detail on these schemes is provided in Appendix 1 under the relevant budget area.

Budget Area	Scheme	Budget (£'000)	Description
People	New Primary School Places	11,272	Delivery critical to keep pace with anticipated increased demand for primary school places.
Place	Vehicle Replacement	1,204	Forms part of the VFM programme. Delivery is critical to enable planned revenue savings from improved fleet management.
Resources	Accommodation Strategy	2,847	Forms part of the Workstyles VFM programme. Delivery is critical to enable planned vacation of Priory House.
Resources	Solar Panel Implementation	2,600	Solar panels need to be installed before 31st March 2012 to maximise Feed in Tariff payments and deliver VFM savings.
Total		17,923	

Capital Receipts

3.17 Capital receipts are used to support the capital programme. For 2011/12 the programme is fully funded, however, any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds such as the Strategic Investment Fund, Asset Management Fund and ICT Fund. Capital receipts (excluding housing) are estimated to be £0.760m for 2011/12 and to date £0.058m has been received.

3.18 The Government receive 75% of the proceeds of 'right to buy' sales of council houses; the remaining 25% is retained by the council and used to fund the capital programme. The estimated useable receipts for 'right to buy' sales is £0.638m for this financial year and to date £0.202m has been received.

Comments by the Director of Finance

3.19 There is a significant overspend forecast at Month 4 and clear action is needed to reduce this to ensure that it does not have create additional challenges for the 2012/13 budget setting process. There are a range of measures that can be taken to reduce this overspend and which are likely to have some beneficial impact including continued tight controls over recruitment and over any non-essential spend. However these will require careful monitoring to ensure delivery. There are also some real complexities in tracking some of the corporate and cross-cutting VFM programme savings because of their interrelationships with service financial plans. This continues to be an area of risk and has partly contributed to the increased overspend shown in this report. However that risk was understood at budget setting time and over £3.000m risk provisions included. Most of those have been allocated to offset the pressures included in this report, but there remains a further £0.250m recurrent funding and £0.400m non-recurrent funding which could be used to offset this overspend if required and if there is no further worsening of the position.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

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

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Legal Implications:

5.2 Decisions taken in relation to the budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

Lawyer Consulted: Oliver Dixon Date: 25/08/11

Equalities Implications:

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

Sustainability Implications:

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

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

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

Public Health Implications:

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

Corporate / Citywide Implications:

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

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 The provisional outturn position on Council controlled budgets is an overspend of £1.308m. Any overspend will need to be funded from general reserves which would then need to be replenished to ensure that the working balance did not remain below £9.000m.

7. REASONS FOR REPORT RECOMMENDATIONS

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

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

SUPPORTING DOCUMENTATION

Appendices:

1. Detailed Revenue & Capital Outturn Forecasts

2. Capital Programme Summary

3. VfM Programme Benefits Realisation

Documents in Members' Rooms

None

Background Documents

None

ITEM 29 ON THE AUDIT COMMITTEE AGENDA
(FOR INFORMATION)

Item 68 Appendix 1

People - Revenue Budget Summary

Forecast Outturn Month 2 £'000	**Unit**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
(473)	Commissioner - Children's Youth & Families	17,278	16,961	(317)	(1.8%)
0	Commissioner - Schools, Skills & Learning	10,374	10,395	21	0.2%
680	Delivery Unit - Children's & Families	39,518	40,245	727	1.8%
207	Total Children's Services	67,170	67,601	431	0.6%
0	Commissioner - People	2,363	2,271	(92)	(3.9%)
20	Delivery Unit - Adults Assessment	48,971	48,802	(169)	(0.3%)
0	Delivery Unit - Adults Provider	14,736	14,868	132	0.9%
20	Total Adult Services	66,070	65,941	(129)	(0.2%)
227	Total	133,240	133,542	302	0.2%

Explanation of Key Variances

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

Commissioner – Children, Youth & Families

There is an underspend of £0.473m in respect of residential agency placements resulting from lower than budgeted numbers of children placed and average unit costs.

The numbers of children placed in independent foster agency (IFA) placements continues to rise. During 2010/11 there were 164.52 FTE placements representing a 23% increase on the previous year. Currently there are 191.68 projected FTE placements. If nothing else changed this would imply an overspend of £1.045m. However it is anticipated that the outstanding VFM savings target of £0.929m will be achieved over the remainder of the year and this results in a forecast overspend of £0.116m on the IFA budget.

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

- increasing the use of the Common Assessment Framework to provide universal and tier 2 services to children and families in need

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

The 2011/12 children's services VFM savings target is £2.019m. Current activity indicates that £1.090m is a projected saving based on current trends, leaving £0.929m to be achieved over the remainder of the financial year.

Commissioner – Schools, Skills & Learning

There is an overspend of £0.078m relating to the planned closure of the Learning Development Centre (LDC) at the end of January and the associated loss of booking income. This is related to planned changes across the service and links to the corporate accommodation strategy and will involve moving more office based staff into the LDC to generate service efficiencies and rationalise property use. This is offset by an underspend of £0.057m in home to school transport. The underspend reflects the continued reduction in the numbers of children being transported as well as the more favourable terms of the recently renegotiated contracts.

Delivery Unit – Children & Families

The overspending services in this delivery unit relate to two main areas: Agency placements for children with disabilities and Area Social Work Teams. Disability placements are projected to overspend by £0.455m; the number of children with disabilities placed has increased over the last 12 months and now there are 16 children in placement compared with a budgeted level of 11 places.

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

Commissioner - People

The forecast for Month 4 is an underspend of £0.092m as a result of staff savings identified.

Delivery Unit – Adults Assessment

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Assessment Services are reporting an underspend of £0.169m, due to a reduction in spend against the Community Care budget. This is largely due to a continuation of the trends experienced over the last couple of years where there is a significant underspend of £0.469m against Older People (79 WTE clients less than budgeted) offset by a pressure on Physical Disabilities of £0.364m (13 WTE clients more than budgeted). The forecast assumes delivery of the outstanding £0.753m against the financial recovery plan.

Across mainstream services there is an underspend of £0.023m from staff savings identified. Within this the service has managed to achieve the £0.150m workforce savings identified in the budget strategy.

Delivery Unit – Adults Provider
Provider Services are reporting an overspend of £0.132m, due a variety of factors including a reduction in grants, inflationary pressures on income targets (approx. £0.300m) and staffing pressures linked to the workforce review. The pressures on grant reductions have been largely offset by a review of clients supported to cover level of need and ensuring that appropriate funding is in place. A management action plan is also in place to address the remaining pressure including achievement of management and admin efficiency targets, plans to increase income where possible, and on-going review of staffing levels where this can be done without impact on service delivery.

People – Capital Budget Summary

Unit	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
Delivery Unit - Children's & Families	508	508	0	0.0%
Commissioner – Schools, skills & Learning	42,854	42,854	0	0.0%
Total Children's Services	43,362	43,362	0	0.0%
Delivery Units – Adults Provider	20	20	0	0.0%
Delivery Unit - Adults Assessment	799	799	0	0.0%
Total Adult Services	819	819	0	0.0%
Total Capital - People	44,181	44,181	0	0.0%

Critical Budget – New Primary School places

The budget for this scheme is £11.272m and is contained within the total budget for Commissioner – Schools, Skills & Learning. The numbers of children needing primary school places has increased significantly. Ongoing works are progressing at various schools in order to deliver this anticipated demand for primary school places. There are currently no variations forecast. Within this year's capital allocation are the following major works:

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

New Capital Schemes

Included in the budget above for Delivery Unit – Children's & Families are the following new capital schemes:

Short Breaks for Disabled Children (£0.379m)

Brighton & Hove City Council has been given £0.379m of capital grant funding relating to Short Breaks for Disabled Children. This will be used to fund capital equipment or adaptations in the voluntary sector or other parts of the Council. In previous years bids have been invited for this funding which has been used to pay for items such as play/park equipment, mini-buses, a holiday caravan, beach wheelchairs, and swimming pool adaptations.

Carlton Hill School Section 106 (£0.306m)

The development at American Express included a S106 agreement for Carlton Hill School of £0.306m. Of this, £0.160m will be used in 2011/12 to fund playground development with a further 0.146m being used in 2012/13 to fund a flint wall and shelter.

New Capital Schemes (Under £0.050m)

New capital schemes under £0.050m included in the People Capital Budget table are schools transport vehicles (£0.027m) and Fairlight Primary School IT Equipment (£0.020m).

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Place - Revenue Budget Summary

Forecast Outturn Month 2 £'000	Unit	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
105	Commissioner - City Regulation & Infrastructure	3,524	3,631	107	3.0%
209	Delivery Unit - City Infrastructure	25,198	25,313	115	0.5%
35	Delivery unit - Planning & Public Protection	5,502	5,537	35	0.6%
0	Major Projects	317	296	(21)	(6.6%)
349	Total City Regulation & Infrastructure	34,541	34,777	236	0.7%
139	Commissioner - Housing	16,779	16,916	137	0.8%
122	Delivery Unit - Housing & Social Inclusion	301	459	158	52.5%
261	Total Housing	17,080	17,375	295	1.7%
610	Total	51,621	52,152	531	1.0%

Explanation of Key Variances

Commissioner - City Regulation & Infrastructure

Sustainable Transport is forecasting an overspend against budget of £0.107m which is an increase of £0.002m compared to month 2. This increase is caused by a shortfall in income from advertising on bus shelters. The remainder of the overspend is unchanged from month 2 and consists of a £0.075m projected shortfall in income from recharging officer time to capital projects and £0.030m in respect of the expected contribution to Shopmobility.

Delivery Unit - City Infrastructure

Parking and Traffic is forecasting an overspend against budget of £0.080m, an improvement of £0.129m since month 2. There has been a reduction in the level of on street pay and display income but a more than corresponding increase in permit income, causing an improvement of £0.030m to the forecast. Additional income of £0.014m is expected overall from the off street car parks There has been a small increase in the number of penalty notices issued, as a result of concentrating enforcement in areas where problems have been experienced, leading to an additional £0.050m. The remaining improvement of £0.035m relates to efficiencies in the parking enforcement contract.

Other Sustainable Transport is now forecasting an overspend of £0.029m in Highways, of which £0.010m relates to a shortfall in income and the remaining £0.019m relates to pressures in expenditure budgets.

City parks is predicting a small overspend of £0.006m relating to Health and Safety requirements at Stanmer Nursery.

Delivery unit - Planning & Public Protection

The projected overspend remains at £0.035m and relates to Public Protection budgets. The overspend of £0.035m is due to increased vet and kennelling costs and unachievable taxi licensing income.

Major Projects

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

Commissioner – Housing

The projected pressure of £0.137m includes an increase in running costs of £0.073m in respect of enlarged and refurbished office space at Palace Place/Old Steine. An increase in rent with effect from April 2011 has been agreed with Property services (and reflected in their income) and higher utility bills are expected.

Delivery Unit – Housing & Social Inclusion

The budget for Travellers is projected to overspend by £0.158m. This overspend is mainly due to costs for security (£0.120m) and for rubbish clearance (£0.042m). These costs are broadly similar to those incurred last year.

Place – Capital Budget Summary

Unit	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
Commissioner - City Regulation & Infrastructure	4,185	4,185	0	0.0%
Delivery Unit - City Infrastructure	7,225	7,225	0	0.0%
Major Projects	1,142	1,142	0	0.0%
Total City Regulation & Infrastructure	12,552	12,552	0	0.0%
Commissioner - Housing	6,371	6,371	0	0.0%
Delivery Unit - Housing & Social Inclusion (HRA Capital)	36,807	36,807	0	0.0%
Total Housing	43,178	43,178	0	0.0%
Total Capital - Place	55,730	55,730	0	0.0%

The figures in the table above do not include budgets for the additional work included in the Investment in City Infrastructure – Car Park Improvements Phase 2 report elsewhere on the agenda for this meeting. This is because the main works are not expected to start until 2012/13.

Critical Budget – Vehicle Replacement

The budget for this scheme is £1.204m and is included within the total for the City Infrastructure delivery unit shown above. A review of the waste strategy is taking place and until this has been completed the purchase of 4 refuse collection vehicles is on hold. As a result £0.650m needs to be re-profiled into 2012/13. This has been reflected in the budget above. All other vehicles are being purchased this year in line with the business plan.

New Capital Schemes

Included in the budget above for Commissioner – City Regulation & Infrastructure are the following new capital schemes:

Old Shoreham Road Cycle Facilities (£0.330m)

The objectives of the Local Transport Scheme cycle facilities along Old Shoreham Road are to achieve long term and measurable increases in cycling to benefit the community and pupils travelling to schools in the area. This is to be achieved by creating a safe and legible cycle route which encourages people to cycle, thereby increasing the potential for physical activity, reducing obesity in children, reducing congestion and improving local air quality and reducing carbon emissions.

In accordance with national policy objectives Brighton & Hove's Local Transport Plan 3 (LTP3) has considered a significant number of local strategies and plans resulting in a number of key themes and principles, which include the need to:

- Manage – increasing transport choices for everybody and making the transport network more efficient through information and innovation and technology;

- Improve –providing additional infrastructure to assist travel and improve environments e.g better air quality levels and residents' health;

- Maintain – repairing roads, pavements and street lights.

A consultation for cycle and pedestrian facilities along the full length of Old Shoreham Road was held in 2009. The results were presented to Environment Cabinet on 25th March 2010 with 66% of those responding being in favour of dedicated cycle facility provision along the full length of the Old Shoreham Road. Concerns regarding safety have been addressed through an enhanced design. Approval to consult will be sought at a Special Cabinet Member Meeting on 17th August 2011.

The scheme will be funded from the Department for Transport Sustrans links to schools grant and must be fully allocated and accounted for during 2011/12 and as such any delays to the current schedule will be problematic for allocation of spend.

Local Sustainable Transport Fund (LSTF) (£1.840m)

The LSTF project is the result of a successful bid to central government and will provide £4.030m revenue and capital funding for transport initiatives over the next 4 years. The bid focuses on the Lewes Road Corridor and consists of tried and tested smarter choices measures in combination with infrastructure improvements. This combined package approach is designed to deliver significant economic benefits and reduce carbon outputs in the area. The smarter choices measures include a sustained community led Personalised Travel Planning project with residents in the area as well as travel planning with the Universities, local schools and employers. The targeted infrastructure measures will include upgrades to public transport infrastructure, cycling improvements, traffic signal upgrades, pedestrian improvements, and improved links to the newly formed South Downs National Park. The figures below show the amount we have been successful in receiving for capital projects.

2011/12 £'000	2012/13 £'000	2013/14 £'000	Total £'000
250	830	760	1,840

Included in the budget above for Delivery Unit – City Infrastructure are the following new capital schemes:

Controlled Parking Schemes (£0.060m)

Following extensive public consultation, the majority of residents who voted wished to make changes or become an addition to existing schemes. This includes a change in Area C from Monday-Saturday restrictions to 7 days a week restrictions, and the addition of Tivoli Crescent to Area A.
The benefits are that the parking in these areas will now be better controlled in accordance with the majority vote from the local community and in line with council's transport strategy for managing car use within the city. This is a self-financing project. The changes require capital outlay on signing, lining and pay & display machines but these should be recouped from the additional income generated by the changes/addition to existing schemes. This will be funded by unsupported borrowing with the financing costs being charged to the Unit's revenue budget.

Street Lighting Energy and Carbon Reduction Lantern Change Programme

The council currently has in excess of 1200 fittings operating on its lighting network using an inefficient 250w bulb, each of which costs the council almost £130 per year in electricity costs. The Council has identified an opportunity to replace 1000 of these with a more efficient and modern light fitting using a lower 140w bulb to replace the 250w version, enabling a reduction of 40% energy usage and carbon output.

In addition to this there may be the potential to introduce part-night dimming to certain of the locations which would further increase the savings to 50%.

High energy efficiency and a reduction in our carbon footprint are high priorities for all local authorities, with new legislation and standards coming into place to enforce this. This is combined with the issue of rising and unknown future energy costs and concern over the security of existing energy sources – they are finite, and thus this is a very serious area of concern. Energy prices have risen by over 15% this year and it is expected that they will continue to increase over the coming years. The estimated cost is £0.400m to be funded from unsupported borrowing. While this will increase costs initially it is expected that it will be more than offset by the benefits of avoiding assumed higher energy price rises.

Variations

The following variations are requested to capital schemes within Delivery Unit – Housing & Social Inclusion.

Window Replacements (£0.100m)

It is requested that £0.100m is transferred from the External Decoration budget to the Window Replacement budget in order to enable window renewal to take place alongside external repairs and decorations in the Tillstone Street and Clarendon Road areas. This will result in better coordination of programmes, a reduction in responsive repairs and improved energy efficiency. There will also be less disruption to tenants.

Roofing (£0.506m)

It is requested that £506,100 is transferred from the External Decoration and Repairs budget to the roofing budget in order to enable phase 1 of a re-roofing programme to take place alongside external repairs and decorations in the Woodingdean area. This will result in better coordination of programmes, a reduction in responsive repairs and improved energy efficiency. There will also be less disruption to tenants.

Door Replacement (£0.100m)

It is requested that £0.100m is transferred from the Fire Risk management budget to the door replacement budget in order to enable fire doors to be replaced in the Craven Vale and other areas of the city. This capital investment will help enable the fire risk management strategy to be implemented in an effective way, and the risk reduced.

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Communities - Revenue Budget Summary

Forecast Outturn Month 2 £'000	**Unit**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
0	Commissioner - Communities & Equalities	3,430	3,430	0	0.0%
0	Community Safety	2,383	2,383	0	0.0%
0	Commissioner - Sports & Leisure	1,401	1,401	0	0.0%
0	Commissioner - Culture	2,014	2,014	0	0.0%
152	Delivery Unit - Tourism & Leisure	3,745	3,896	151	4.0%
152	Total	12,973	13,124	151	1.2%

Explanation of Key Variances

Commissioner – Communities & Equalities
The forecast for Month 4 is a break-even position.

Community Safety
The forecast for Month 4 is a break-even position.

Commissioner – Sports & Leisure
The forecast for Month 4 is a break-even position.

Commissioner – Culture
The forecast for Month 4 is a break-even position.

Delivery Unit – Tourism & Leisure

The forecast overspend of £0.151m relates mainly to two areas where there are risks on income achievement. On Seafront and Sports facilities the projected overspend is £0.025m relating to a predicted shortfall on income from seafront leases. On Venues the projected overspend is £0.121m which includes £0.057m in respect of an ongoing income risk against the Hove Centre, as last year, and £0.054m against the Brighton Centre based on confirmed business. In all areas actual and forecast income is closely reviewed and action is being taken to maximise any business opportunities.

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Communities - Capital Budget Summary

Unit	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
Commissioner - Sports & Leisure	744	744	0	0.0%
Delivery Unit - Tourism & Leisure	5,008	5,008	0	0.0%
Total Capital - Communities	5,752	5,752	0	0.0%

There are no variances to report at this stage.

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Resources & Finance - Revenue Budget Summary

Forecast Outturn Month 2 £'000	Unit	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
0	Delivery Unit - City Services	13,712	13,641	(71)	(0.5%)
877	Resources	18,522	19,063	541	2.9%
0	Finance	6,182	6,160	(22)	(0.4%)
0	Strategic Leadership Board	1,262	1,262	0	0.0%
877	Total	39,678	40,126	448	1.1%

Explanation of Key Variances

Delivery Unit – City Services

The forecast for Month 4 is an underspend of £0.071m.

Resources

The net overspend across Resources is £0.541m, of which the main variances are on the following areas: -

Human Resources (£0.300m overspend)

Human Resources have previously managed year-on-year savings but this has been subsidised by savings made elsewhere and the use of one-off funding sources. In the current financial year there is a projected shortfall of £0.300m which is a reduction of £0.147m compared to month 2. This shortfall is made up of £0.162m unachievable income from recruitment advertising and use of the new HR system by external organisations, and additional costs associated with the running of the new HR/Payroll system. Vacancies are being held to try and manage the projected overspend but staff pressures are being caused as a result of supporting restructuring initiatives across the council. Further action plans to address the current shortfall are being developed

Communications (£0.111m overspend)

There is a risk of not achieving the full year effect of the £0.250m savings target in respect of the advertising and sponsorship tender. This is a result of delays in the procurement process for complex legal reasons. The procurement process for all except one lot is now underway and it is anticipated that some additional income will be generated before the end of the financial year. Due to uncertainty around this income target a risk provision of £0.250m has been allocated to this budget on a one off basis.

The remaining variance of £0.111m is from a mixture of staffing pressures and anticipated shortfall against the advertising income budget for City News.

The Communications Value for Money review continues to reduce spend across the organisation, however spend was originally running above the budget available hence creating a challenge in generating net budget reductions. Plans are in place to consolidate budgets for 2011/12 which is expected to generate savings through procurement and the management of demand, £0.050m has been assumed in this forecast and further reductions are being sought. Council-wide expenditure on communications and related activities (e.g. print & design) reduced by approximately £0.650m in 2010/11 compared to the previous financial year, offsetting pressures in the central Communications budget.

Property & Design (£0.122m overspend)
The rental income forecast pressure has decreased to £0.072m from £0.083m since TBM2 which is encouraging in this difficult economic climate. Property & Design have continued to secure the most advantageous rent settlements both for the short term and long term gain.

The other main area of overspending is within the Building Services & Facilities team and relates to a shortfall of income related to vacant spaces within the Ovest House building (£0.022m).The remainder of the pressure concerns electricity costs within Kings House (increases of 15% are expected) and additional security costs.

Finance
The forecast for Month 4 is an underspend of £0.022m.

Strategic Leadership Board
The forecast for Month 4 is a break-even position.

Resources & Finance - Capital Budget Summary

Unit	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
Delivery Unit - City Services	154	154	0	0.0%
Resources	8,106	8,106	0	0.0%
Finance	195	195	0	0.0%
Total Capital – Resources & Finance	8,455	8,455	0	0.0%

Critical Budget – Accommodation Strategy

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

Critical Budget – Solar Panel Implementation

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Brighton & Hove City Council is planning to install solar photovoltaic (solar PV) roof mounted systems suitable for Feed In Tariff (FIT) payments onto a range of its properties The works being carried out are being timed to try and take advantage of the Feed In Tariff payments at their current rate, which will be available until the 31st March 2012. Each set of panels will generate green electricity for each of the sites they are installed upon, the overall effect of which will be a reduction the carbon footprint for the Council. Additional benefits will include a reduction in Carbon Reduction Commitment payments due to the reduced carbon emissions that the solar panels will contribute to. There are currently no variations forecast.

Variations

There are two variations under £50,000 within Delivery Unit – City Services. These are in respect of budget increases required for the New Coroners Court (£0.025m) and the City Mortuary (£0.020m). These will be funded by unsupported borrowing which will be charged to the Unit's revenue budget.

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Corporate Budgets - Revenue Budget Summary

Forecast Outturn Month 2 £'000	**Unit**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
100	Bulk Insurance Premia	3,009	3,109	100	3.3%
(400)	Concessionary Fares	9,660	9,280	(380)	(3.9%)
0	Capital Financing Costs	10,427	10,612	185	1.8%
0	Levies & Precepts	166	166	0	0.0%
600	Corporate VFM Projects	(3,634)	(2113)	1,521	(41.9%)
(1,250)	Risk Provisions	4,742	3,192	(1,550)	(32.7%)
25	Other Corporate Items	(28,597)	(28,597)	0	0.0%
(925)	Total Revenue - Corporate Budgets	(4,227)	(4,351)	(124)	2.9%

Explanation of Key Variances

Bulk Insurance Premia

There is a forecast overspend of £0.100m. Whilst the volume of claims has not increased, costs have. The most significant increase is in claimant solicitors' costs and their success fees.

Concessionary Fares

The forecast underspend has decreased by £0.020m to £0.380m. This is as a result of an invoice for previous years' costs. The remaining £0.400m is as a result of fixed deal agreements with Brighton & Hove Bus & Coach Company and Stagecoach South, agreed by Cabinet on 9th June, being lower than the budget provision.

Capital Financing Costs

The overspend in capital financing costs of £0.185m is due mainly to a lower than projected recharge to the Housing Revenue Account for interest on borrowings. HRA borrowing in 2010/11 was some £6.000m lower than projected and coupled with short-term interest rates remaining lower than projected at the time of the 2011/12 budget, has resulted in a reduction in the recharge.

Levies & Precepts

The forecast for Month 2 is a break-even position.

Corporate VFM Projects

A number of VFM projects relate to council-wide projects which will deliver savings across many, if not all, service areas. The associated savings target is shown under Corporate Budgets and is awaiting allocation to individual service budgets as and when savings are identified. If all savings are identified and achieved, the Corporate VFM Projects savings target above will reduce to zero by the end of the financial year.

- As reported in Month 2, the 'Process Efficiencies' of £0.250m expected to generated through the application of Systems Thinking reviews are likely to have variable lead-in times and are therefore uncertain at present. The detailed methodology and priority areas for Systems Thinking reviews are currently being determined.
- The achievement of the Management & Administration savings has been underpinned by a Voluntary Severance Scheme (VSS) which is now drawing to a close. The outcome of the Scheme, in financial terms, indicates that approximately £0.771 million is uncertain at present. This is broadly in line with expectations as the VSS was not expected to achieve 100% of the savings required (£1.875m in 2011/12). As set out in the Revenue Budget report to Full Council in March 2011, some savings will need to come from 'natural turnover' over the remainder of the financial year and there will also be a need for further redesign in some service areas to accommodate the impact of staff released through the scheme. The main challenge now is to ensure that where people have been released but the post retained in the service structure, these are filled through redeployments across the council wherever possible.
- Carbon Reduction initiatives will be designed to reduce both energy use and costs. A scheme to pursue the installation of Solar PV panels was agreed at Cabinet in June 2011, however, savings will not be realised until 2012/13. The procurement of Automatic Meter Reader (AMR) devices is also in train and there is potential for 6 months of benefit from this initiative in 2011/12. The longer lead-in times for these initiatives means that the achievement of savings in 2011/12 (£0.250m) is relatively uncertain overall. Additional project management, technical and analytical resource has been prioritised to support this work due to the multiple projects, long lead in times and high levels of complexity involved.
- The Procurement project has identified an increased risk resulting partly from a reduction in overall procurement activity due to spending constraints, which has reduced potential savings opportunities compared with previous years. In addition, longer than expected lead-in times for some categories of procurement are being experienced. This is generally due to the complexity of aggregating procurement categories and packaging these as coherent or attractive tender invitations for the commercial marketplace. As at Month 4, there is uncertainty over £0.250 million of the savings target (£0.789m) and alternative procurement opportunities are currently being sought to improve the likelihood of achieving the full savings target in 2011/12.

Risk Provisions
There are one-off risk provisions of £0.800m and it is forecast that these will be fully spent. It is anticipated that £0.192m of this will be needed for the preparatory works for the Prince Regent and Withdean Sports Complex schemes subject to further planning confidence and with the expectation of payback once the schemes are successfully implemented. The remainder will be required for one-off costs associated with Criminal Records Bureau (CRB) compliance following OFSTED

inspection, costs associated with compliance with Microsoft licence requirements following an audit process, and additional costs associated with the Carbon Reduction Commitment (CRC) scheme implementation.

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

There is £1.250m of permanent risk provision, of which £0.500m is being released to support the overall position. Of the remainder, £0.500m is being used on a one-off basis to offset the shortfall in the Advertising and Sponsorship contract income target and the VfM Phase 3 Stretch target (0.250m). There remains a further £0.250m available to reduce the overspend further or offset further increases in the forecast if needed.

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

An underspend of £0.300m is forecast on the financing costs for the new Historic Records Centre. The budget projections assumed the majority of the capital funding would be needed this financial year and as this expenditure is funded from borrowing the financing costs were set aside in contingency. East Sussex County Council (ESCC) have now provided a cashflow schedule and agreed with Brighton & Hove a payment schedule which gives a far lower capital contribution this year and therefore lower financing costs. The cashflow from ESCC is subject to change but experience shows that expenditure is generally lower than projected.

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NHS Trust Managed S75 Budgets - Revenue Budget Summary

Forecast Outturn Month 2 £'000	**Unit**	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
182	NHS Trust managed S75 Servs	14,179	14,341	162	1.1%
182	Total S75	14,179	14,341	162	1.1%

Explanation of Key Variances

(Note WTE = Whole Time Equivalent)

NHS Trust Managed S75 Services

There is a pressure of £0.376m on the Adult Mental Health Community Care budget, where WTE client numbers are approximately 20 more than budgeted. A financial recovery plan (FRP) has been developed to reduce the pressure, particularly against long-term placement spend, and a project is underway to review high-cost placements. The current forecast assumes delivery of FRP targets of £0.266m between now and the end of the financial year. Savings of £0.190m have already been identified against the mainstream budget from vacancy management and a review of social care input into Access Services. There is a 50/50 risk-share agreement with Sussex Partnership Foundation Trust, which is reflected in the overall pressure of £0.093m reported.

Across Sussex Community NHS Trust there is a pressure of £0.069m as a result of staffing pressures identified within Intermediate Care service.

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Housing Revenue Account - Revenue Budget Summary

Forecast Outturn Month 2 £'000	Housing Revenue Account	2011/12 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
(227)	Employees	9,157	8,930	(227)	-2.5%
(220)	Premises – Repair	10,905	10,685	(220)	-2.0%
-	Premises – Other	3,286	3,309	23	0.7%
(80)	Transport & Supplies	2,128	2,048	(80)	-3.8%
12	Support Services	2,144	2,126	(18)	-0.8%
-	Third Party Payments	54	54	-	0.0%
-	Revenue contribution to capital	3,778	3,778	-	0.0%
-	Capital Financing Costs	4,268	4,155	(113)	-2.6%
-	Subsidy Payable	14,710	14,710	-	0.0%
(515)	Net Expenditure	50,430	49,795	(635)	-1.3%
-	Dwelling Rents (net)	(44,213)	(44,213)	-	0.0%
50	Other rent	(1,240)	(1,240)	-	0.0%
-	Service Charges	(3,454)	(3,454)	-	0.0%
-	Supporting People	(465)	(465)	-	0.0%
(71)	Other recharges & interest	(1,058)	(1,079)	(21)	-2.0%
(21)	Net Income	(50,430)	(50,451)	(21)	0.0%
(536)	**Total**	**-**	**(656)**	**(656)**	

Explanation of Key Variances

The forecast outturn for 2011/12 is an underspend of £0.656m which is an increase of £0.120m since TBM Month 2. Further analysis of the forecast outturn variances are as follows:

- The employees forecast underspend of £0.227m relates to the budget for TUPE costs for Property & Investment staff not being required as the final costs were less than originally forecast and fully paid in last financial year.

- The Premises Repairs forecast outturn is an underspend of £0.220m. This includes:

    - A projected saving on the gas servicing and maintenance contract of £0.161m from the rebasing of the open book contract value following the achievement of savings during the last financial year.

    - A reduction in the overhead costs for the Repairs Partnership contract of £0.059m resulting from efficiencies in the contract.

- Transport & Supplies is forecast to underspend by £0.080m due to a reduction in the contribution to the provision for bad debt resulting from the improvement in the collection of rent which has led to a reduction in the rent arrears total.

- Capital Financing forecast costs have reduced by £0.113m due to reduced forecasts for repayment of debt compared to the original budget.

- There has been a budget adjustment between the Commercial Rent and Rechargeable works budgets of £0.050m to reflect the variances reported for last month. This leaves a balance of £0.021m overachievement of income for Rechargeable works, shown under other Recharges & Interest.

ITEM 29 ON THE AUDIT COMMITTEE AGENDA
(FOR INFORMATION)

Item 68 Appendix 2

SUMMARY CAPITAL OUTTURN POSITION AS AT MONTH 4

Budget Area	2011/12 Approved Budget £'000	2011/12 New Schemes £'000	2011/12 Variations £'000	2011/12 Slippage £'000	2011/12 Revised Budget £'000	2011/12 Forecast Outturn £'000	2011/12 Overspends / (Underspends) £'000
People	43,595	586	0	0	44,181	44,181	0
Place	55,340	1,040	(650)	0	55,730	55,730	0
Communities	5,752	0	0	0	5,752	5,752	0
Resources & Finance	8,410	0	45	0	8,455	8,455	0
Total Council Budgets	113,097	1,626	(605)	0	114,118	114,118	0

ITEM 29 ON THE AUDIT COMMITTEE AGENDA
(FOR INFORMATION)

Item 68 Appendix 3

Value for Money Programme:
Benefits Realisation as at Month 4

Projects	Target £m	Achieved £m	Anticipated £m	Uncertain £m
VFM Phase 2 Projects				
Adult Social Care	1.801	0.451	1.100	0.250
Children's Services	2.019	1.090	0.929	0.000
ICT	0.218	0.218	0.000	0.000
Procurement	0.789	0.000	0.539	0.250
Fleet Management	0.150	0.000	0.150	0.000
Sustainable Transport	0.115	0.000	0.115	0.000
Outdoor Events	0.060	0.010	0.025	0.025
Workstyles	0.100	0.100	0.000	0.000
Total VFM Phase 2	**5.252**	**1.869**	**2.858**	**0.525**
VFM Phase 3 Projects	**Target £m**	**Achieved £m**	**Anticipated £m**	**Uncertain £m**
Process Efficiencies	0.250	0.000	0.000	0.250
Management Structures	1.250	0.500	0.183	0.567
Admin & Business Support	0.625	0.271	0.150	0.204
Consolidation of Spend	0.250	0.000	0.250	0.000
Carbon Reduction Initiatives	0.250	0.000	0.000	0.250
Total VFM Phase 3	**2.625**	**0.771**	**0.583**	**1.271**
Total All VFM Projects	**7.877**	**2.640**	**3.441**	**1.796**

AUDIT COMMITTEE	Agenda Item 30 Brighton & Hove City Council

Subject:		**Risk & Opportunity Management (ROM) Annual Report 2010/11 and Risk Management Programme 2011/12**		
Date of Meeting:		**27 September 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 Cabinet approved a three year Risk & Opportunity Management (ROM) Strategy 2008-11 on 10 July 2008 and each year an annual ROM programme detailed activities to deliver the ROM Strategy. The ROM Strategy is due to be refreshed and replaced with a Risk Management (RM) Standard by March 2012.

1.2 This report provides an annual report of progress against the approved annual ROM Programme 2010/11 to help inform the Audit Committee's opinion on the effectiveness of risk management and internal control.

1.3 The proposed Risk Management programme detailing actions in 2011/12 is submitted for approval.

2. RECOMMENDATIONS:

The Audit Committee are requested to:

2.1 Note progress against the annual ROM programme 2010/11 at Appendix 1.

2.2 Approve the annual RM programme 2011/12 at Appendix 2.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 The ROM Strategy 2008-11 has served the council well during its currency but a number of significant changes have occurred both within the council and across the public sector which will lead to a refinement of the risk management approach and require a clear plan to be developed of how risk management will help the organisation from 2012/13 onwards.

3.2 Work is underway to develop a Risk Management Standard to provide a clear risk management focus to provide assurance that risks which affect the success of achieving the council's objectives are being managed and the internal control environment is functioning well.

4. CONSULTATION

4.1 The ROM Strategy and the ROM methodology have been the subject of extensive internal consultation and shared with external bodies, e.g. Southdowns NHS Trust and other local authorities.

4.2 Consultation will take place on the new Risk Management Standard for 2012/13 onwards.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 Effective Risk Management of risks, which affect the council's successful achievement of its objectives, ensures that all potential financial impacts are properly considered and that 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: 12 September 2011

Legal Implications:

5.2 There are no legal implications arising directly from this report. Consideration of the council's Risk Management arrangements is one of the functions of the Audit Committee, and approving the risk management programme for 2011/12 (see recommendation 2.2 above) is therefore within its remit.

Legal Officer consulted Oliver Dixon Date: 12 September 2011

Equalities Implications:

5.3 There are no direct implications. The Risk Management package of the Strategy/Standard and Tools will address and promote the risk management aspects of equalities

Sustainability Implications:

5.4 There are no direct implications. The Risk Management package of the Strategy/Standard and Tools will address and promote the risk management aspects of sustainability.

Crime & Disorder Implications:

5.5 There are no direct implications.

Risk and Opportunity Management Implications:

5.6 Risk Management and the annual programmes are focussed on improving the quality and consistency of risk management of the council's activities.

Corporate / Citywide Implications:

5.7 There are no direct implications

SUPPORTING DOCUMENTATION

Appendices:

1. Progress against the annual ROM programme 2010/11
2. Risk Management programme 2011/12

Documents in Members' Rooms

1. None

Background Documents

1. ROM Strategy 2008-2011
2. ROM Toolkit (I DO RM)

Progress against the Risk & Opportunity Management (ROM) Programme 2010-2011

A) IMPROVE RISK & OPPORTUNITY MANAGEMENT ("upside" or positive risk taking)		ROM Strategy Rationale/outcome	Target Date	Lead Officer	Target Date/Progress
A)1	Review existing and develop risk management tools & techniques to integrate with existing and developing business systems for the re-structured council and partnership delivery arrangements	Proactively encourage opportunity taking (using ROM techniques) and minimisation of downside/negative risks	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**Achieved -** Target date was May 11
A) 2	Link risk management to new structure of council and partners delivery and provide risk management advice and service	To ensure that ROM is embedded in delivery of business	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**Achieved -** Target date was Dec 10 onwards
A) 3	Produce & seek Cabinet approval of a current & updated risk management approach through new "Risk Management Standard 2011"	To improve the capacity of the organisation to practice ROM effectively	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**Not Achieved -** Target date was Apr 11 The degree of change in the council's operating models and structures has meant that the new Risk Management Standard 2011 will be submitted to Cabinet by March 2012.

B) TO PROVIDE TRAINING FOR MEMBERS AND OFFICERS IN RISK & OPPORTUNITY MANAGEMENT		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
B)1	Develop training offer for officers as part of Leadership & Development approach	To improve the capacity of the organisation to practice ROM effectively	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**<u>Partially Achieved</u>** - Target date was May 11 Project Mgt e-learning InLoGov commissioning training in October & December 2011. Continued provision of risk workshops as requested & offered as part of business planning. Work in progress with Learning & Development Team to firm up risk management offer.
B)2	Provide risk management overview training for Members	To improve the capacity of the organisation to practice ROM effectively	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**<u>Achieved</u>** - Target Date was May 11 onwards Members' Handbook updated for new and returning Members in April/May 11. Audit Committee Training June 11.

B)3	Facilitate ROM overview of Corporate Risk Register for Cabinet Members	To ensure Cabinet Members are aware of the identified corporate risks and mitigating actions	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**Achieved** – Target date was ongoing In the Spring 2011, the Director of Finance facilitated two reviews of the Strategic Risk Register with Cabinet. Content and format of Strategic Risk Register improved to reflect the input from Cabinet.
C) ENHANCE LINKS WITH PARTNERS ON RISK & OPPORTUNITY MANAGEMENT		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
C) 1	Establish good links with partner organisations to share risk management approach	To work better with partners to avoid duplication of effort & enhance successful outcomes	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**Achieved** - Target date of October 11 City partners' risk registers analysed. In May 2011 the Public Service Board agreed to develop a city wide Risk Register to identify risks affecting achievement of Sustainable Community Strategy objectives. Session scheduled for 12 September 2011.

C) 2	Review risk management aspects of Corporate Governance Arrangements across the range of city service delivery with which the council is connected	To contribute towards successful city wide outcomes	Officer Time (to be absorbed within the existing staff arrangements)	Jackie Algar	**Partially Achieved -** Target Date of June 11 Risk Management input accepted into emerging Commissioning Model for council and supporting Performance & Risk Management Framework. Work continues.
D) TO IMPROVE RISK REPORTING ARRANGEMENTS		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
D) 1	Fully use risk management software to enhance the council's ability to record risks, inform analysis, highlight areas and provide an overview of risks and opportunities, particularly for reporting to Audit Committee	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	To be confirmed	Jackie Algar	**Partially Achieved** - Target Date was July 11 The use of Interplan software has been agreed to co-ordinate the council's new delivery structures. Work is ongoing to enable more complete recording of risk registers across services.

D) 2	Share and report risk registers as appropriate with other organisations to increase business resilience , inform joint working & achievement of shared objectives, in order to provide assurance across the range of service delivery methods	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	Officer Time (to be absorbed within the existing staff arrangements)	Various Officers & Jackie Algar	**Achieved –** Target Date was ongoing Review of available partners risk registers from PSB and reported to PSB May/June 11 and gained agreement for city wide risk register to be drafted.

Appendix 2 **Risk Management Programme 2011 - 2012**

A) IMPROVE RISK MANAGEMENT (both “downside” negative and “upside” positive risks)		Rationale/outcome	Resources Required	Target Date	Lead Officer
A)1	Review existing and develop risk management tools & techniques to suit Commissioning Framework delivery	Proactively encourage opportunity taking (using ROM techniques) and minimisation of downside/negative risks	Officer Time (to be absorbed within the existing staff arrangements)	Mar 12	Jackie Algar
A) 2	Link risk management to structure of council and organisations with whom the council works to enable provision of risk management advice and service	To embed Risk Management in the delivery of services for the city	Officer Time (to be absorbed within the existing staff arrangements)	May 11 onwards	Jackie Algar
A) 3	Produce & seek Cabinet approval of a current & updated risk management approach through new “Risk Management Standard 2012”	To improve the capacity of the organisation to practice RM effectively	Officer Time (to be absorbed within the existing staff arrangements)	Mar 12	Jackie Algar
B) TO PROVIDE TRAINING FOR MEMBERS AND OFFICERS IN RISK MANAGEMENT		Rationale/outcome	Resources Required	Target Date	Lead Officer
B)1	Provide training for officers as part of the Learning & Development Programme and extend training offer to outside organisations	To improve the capacity of the organisation to practice Risk Management effectively	Officer Time (to be absorbed within the existing staff arrangements)	Apr 11 onwards	Jackie Algar

B)2	Provide risk management overview training for Members and information on the Strategic Risk Register	To improve the capacity of the organisation to practice Risk Management effectively	Officer Time (to be absorbed within the existing staff arrangements)	May 11 onwards	Jackie Algar
C) ENHANCE LINKS WITH PARTNERS ON RISK MANAGEMENT		Rationale/outcome	Resources Required	Target Date	Lead Officer
C) 1	Establish good links with partner organisations to share risk management approach	To work better with partners and other organisations to deliver the council's commissioning framework and city outcomes	Officer Time (to be absorbed within the existing staff arrangements)	Mar 12	Jackie Algar
D) TO IMPROVE RISK REPORTING ARRANGEMENTS		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
D) 1	Fully use risk management software to enhance the council's ability to record risks, inform analysis, highlight areas and provide an overview of risks and opportunities, particularly for reporting to Audit Committee	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	To be confirmed	Mar 12	Jackie Algar & Paula Black
D) 2	Share and report risk registers as appropriate with other organisations to increase business resilience , inform joint working & achievement of shared objectives, in order to provide assurance across the range of service delivery methods	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	Officer Time (to be absorbed within the existing staff arrangements)	Various Officers	Jackie Algar

AUDIT COMMITTEE	Agenda Item 31 Brighton & Hove City Council

Subject:		**Internal Audit Progress Report and Internal Audit Plan 2011/12 Update**		
Date of Meeting:		**27th September 2011**		
Report of:		**Director of Finance**		
Contact Officer:	Name:	**Ian Withers**	**Tel:**	**29-1323**
	E-mail:	Ian.withers@brighton-hove.gov.uk		
Wards Affected:	All			

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT

1.1 The Annual Internal Audit Plan 2011/12 was approved by the Audit Committee in April. This report summarises progress made against the plan for 2011/12, provides the results from reviews completed for the year, implementation of agreed actions to internal audit recommendations and reports the achievement against Internal Audit Key Performance Indicators.

1.2 The Audit Committee has a role in monitoring activity and outcomes of internal audit work against the plan, receiving regular progress reports. Also to monitor the implementation of agreed actions to internal audit recommendations for improvement to controls and operations.

2. RECOMMENDATIONS

2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2011/12.

2.2 Agree changes to the Annual Internal Audit Plan for 2011/12, as set out in paragraph 9.3 and Table 3.

3. BACKGROUND INFORMATION

3.1 The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.

3.2 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The internal audit work carried out by Audit & Business Risk is a key source of assurance that the internal control environment is operating effectively.

3.3 The audits contained in the Internal Audit Plan 2011/12 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

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

4. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2011/12

4.1 The progress against the Internal Audit Plan 2011/12 for audit reviews is summarised in Table 2 below.

Table 1: Summary of progress against Internal Audit Plan 2011/12 (Audit Reviews)

Audit Stage	Explanation	No.
Not Started	Planned but not started	51
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	23
Draft Report	Draft audit report issued and being agreed with client	18
Final Report	Final agreed audit issued and audit complete	7
		99

4.2 In addition to the above, there has been a significant level of unplanned audit work since April responding to emerging control and risk issues.

4.3 There are currently two staff vacancies within the team of Principal Auditor (ICT) and Auditor. Attempts were previously made to recruit but at the time there were market shortages of internal auditors. We are currently at an early stage of a service review of the staff structure to assist with recruitment and retention.

4.4 We are confident in completing the Annual Internal Audit Plan for 2011/12 through re-profiling and outsourcing a number of audit reviews to Deloitte under contract arrangements.

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

5. FINAL AUDIT REPORTS ISSUED

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

5.2 During the period, seven audit reviews from the current year's Annual Audit Plan have been completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level. This is comparatively low and primarily due to the explanations given in 4.2 and 4.3 above, regarding staff being redirected and compares to eleven issued at the same stage in 2010/11.

Table 2: Final Reports Issued

Audit	Assurance Level	Agreed Actions and Priority		
		High	**Medium**	**Low**
iGrasp Recruitment System Post Implementation Review	Limited	2	4	2
OHMS Housing Application	Limited	3	8	3
School Meals Contract	Substantial	0	2	0
Transport Fuel	Limited	2	6	0
Supporting People	Substantial	0	1	0
Electronic Call Monitoring System	Reasonable	0	5	0
Annual Governance Statement	-	-	-	-

5.3 Member's attention is drawn to three final audit reports giving limited assurance. Management actions have been agreed to audit recommendations made and further audit follow-up work will be carried out to ensure implemented and effective.

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

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

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

6. ADVICE AND SUPPORT CORPORATE AND DIRECTORATES

6.1 We have continued to be pragmatic in providing professional advice and support. This element of our work is seen as invaluable both corporately and service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.

6.2 It is good to report an increasing level of demand for advice and support across the council.

7. COUNTER FRAUD WORK

7.1 Since April 2011 78 new cases of suspected irregularities have been referred to Audit & Business Risk and investigated. This is a significant increase on the same period for the previous year. Of these 32 related to housing fraud and the illegal subletting. The increase is however in line with the national increase in fraud to local authorities.

7.2 We have continued to investigate data matches from the National Fraud Initiatives (NFI) 2010 which has so far indentified savings from error and fraud of £256k.

7.3 We are currently undertaking a major pro-active exercise on housing tenancy fraud. This will include involvement of the National Anti Fraud Network (NAFN) and Experian for providing intelligence information for the detection of fraudulent tenancies. It is also one of seven national pathfinders of the National Fraud Authority (NFA). However the exercise has been delayed due to resource constraints but agreement has been made to a dedicated investigator for a year.

7.4 The Counter Fraud Programme has been revised in accordance with assessed fraud risk.

8. IMPLEMENTATION OF AGREED AUDIT ACTIONS

8.1 When unacceptable risks are identified in audit reviews, recommendations are made and agreed actions to mitigate these through improvement of system controls.

8.2 Implementation reviews for agreed actions to audit recommendation made, are usually carried out within six months of the issue of the final report.

8.3 Since April eight implementation reviews have been carried out on agreed actions (forty seven) from previous audit reviews. The level of implementation of agreed actions is 72% fully, 22% partial/in progress and 6% not implemented yet. Of these all 95% of high priority actions have been implemented, the remaining 5% partial/in progress.

9. AMENDMENTS TO THE ANNUAL INTERNAL AUDIT PLAN FOR 2011/12

9.1 The Annual Audit Plan was agreed by the Audit Committee in April 2011. However due to the pace of change, emerging risks and issues facing the council, it is subjected to ongoing review throughout the year. This is to ensure it remains focussed on the needs of the council and optimising audit resources for maximum value.

9.2 Table 3 below shows the amendments to the Annual Internal Audit Plan. Amendments includes new audits and increased days in response to emerging risks of fraud, financial loss and actions for improvement to payroll processes identified both by Audit & Business Risk and the Audit Commission (Annual Governance Report). For the latter we will work closely with senior HR management providing more of a consultancy role.

Table 3 – Amendments to the Annual Internal Audit Plan 2011/12

Action	Review Area	Planned Audit	Reason/Comments
Reduction in days from 25 to 10	Governance Arrangements	Performance Compacts and Business Planning	Reduction in assessed risk
Reduction in days from 25 to 5	Governance Arrangements	VFM Benefits Realisation	Reduction in assessed risk and scope changed to follow-up to 2010/11 audit review.
Reduction in days from 25 to 10	Governance Arrangements	Data Quality	Reduction in assessed risk
New audit review 20 days	Cross Council	Income Systems	Increase in assessed risk
New audit	Cross Council	Petty Cash	Increase in assessed risk

Action	Review Area	Planned Audit	Reason/Comments
Review 6 days		Handling	
Increase in days from 10 to 20	Cross Council	Payroll	Focus on the actions for improvement to processes and control document management.
Reduction in days from 12 to 7	Procurement & Contract Management	Post Implementation Review of Category Management	Delay in full implementation of category management.
Deletion of audit review	Counter Fraud	Money Laundering	New regulations delayed and not expected until 2012/13.
Increased in days from 120 to 140	Counter Fraud	Investigations into Fraud & Corruption (Reactive)	Significant increase in referrals and workload.
New audit review 5 days.	Counter Fraud	Local Government Fraud Strategy	B&HCC response to the strategy, expected in December 2011

10. PERFORMANCE OF INTERNAL AUDIT

10.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also includes in our Service Business Plan and monitored regularly. Table 3 provides an overview of the performance of Audit & Business Risk against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	98%	97%
% implementation of agreed management actions	85%	72%
Efficiency		
% of planned direct days delivered for year	100%	94%
% of productive time	71%	64%
% of draft reports issued within 10 days of fieldwork completion	90%	92%
% response by client to draft reports within 15 days	90%	84%
% of issue of final reports within 10 days of agreement	95%	96%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	91%

11. FINANCIAL & OTHER IMPLICATIONS:

11.1 Financial Implications:

It is expected that he Internal Audit Plan for 2011/12 will be delivered within existing budgetary resources. In considering resources allocated to internal audit work this needs to be balanced against the need for financial probity, financial risks and achieving value for money.

Finance Officer consulted: Anne Silley 15 September 2011

11.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon 15 September 2011

11.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

11.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

11.5 Crime & Disorder Implications:

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

11.6 Risk and Opportunity Management Implications:

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

11.7 Corporate / Citywide Implications:

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

SUPPORTING DOCUMENTATION

Documents in Members Room

1. None

Background Documents

1. Internal Audit Plan 2011/12
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2011

AUDIT COMMITTEE	**Agenda Item 32** Brighton & Hove City Council

Subject:		**The Bribery Act 2010**		
Date of Meeting:		**27th September 2011**		
Report of:		**Director of Finance**		
Contact Officer:	Name:	**Ian Withers**	**Tel:**	**29-1323**
	E-mail:	Ian.withers@brighton-hove.gov.uk		
Wards Affected:	All			

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT

1.1 This report summarises the key issues arising from the Bribery Act 2010. The Council currently has a Counter Fraud Strategy and a Whistleblowing Policy and the introduction of further legislation specific to bribery and corruption will further strengthen these together with the Council's response to counter fraud.

1.2 The Audit Committee are responsible for overseeing the Council's counter fraud arrangements.

2. RECOMMENDATIONS

2.1 That the Audit Committee notes the new legislation together with the Council's current response.

2.2 That the Audit Committee notes the significant issues contained in the report including:

- The legislation came into force on 1st July 2011
- The offences under the Act and associated penalties;
- Initial assessment of bribery risks facing the Council;
- Procedures currently in place to mitigate bribery risk; and
- Current or planned actions relevant to a response to the Act.

3. BACKGROUND INFORMATION

3.1 The Bribery Act 2010 (the Act) became effective on 1st July 2011 and will affect all private and public sector organisations in the UK. The Ministry of Justice produced Statutory Guidance (the Guidance) at the end of March 2011 on how organisations including local authorities should comply with the Act.

3.2 The aims of the Act are to reduce the levels of corruption across the UK without being burdensome to business. The Act generally defines bribery as “giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so”

3.3 The Act creates four new offences.

- **Bribing another Person (Section1))**

  It will be an offence to offer, promise or give a financial or other advantage with the intention of inducing that person to perform improperly a „relevant function or activity‟ or to reward that person for doing so. It will also be an offence to offer, promise or give a financial or other advantage where the person doing so „knows or believes‟ that the acceptance of the advantage would itself constitute the improper performance of a „relevant function or activity‟.

  In both cases it does not matter whether the advantage is offered, promised or given directly or through a third party.

  In the local authority context, a function or activity will be a “relevant function or activity” for the purposes of the Act if it is of a public nature and a person performing it is expected either::

  - to perform it in good faith;
  - to perform it impartially; and
  - the person is in a position of trust by virtue of performing it. If the function/activity is caught under one of these tests, then the Act states that it will be “improperly performed” if there is a breach of a “relevant expectation”. This “expectation” is itself an objective test of what a reasonable person in the UK would expect in relation to the function/activity.

- **Receiving a Bribe (Section 2)**

  This offence is relevant to a number of prescribed cases but in essence it will be an offence to agree to request, receive or accept a financial or other advantage with the intention that a „relevant function or activity‟ should be performed improperly and it does not matter whether the advantage is received directly or through a third party. This will be of particular relevance to the Council.

- **Bribery of a foreign official (Section 6),** i.e. with the intention of influencing a public official in his foreign capacity

  It is considered this offence not to be relevant to the Council.

- **Failure of commercial organisation to prevent bribery (Section 7)**

  The Act creates a new offence of failure by a commercial organisation to prevent a bribe being paid for or on its behalf. For the purposes of the Act a relevant commercial organisation means a body corporate or partnership which carries on a business or part of a business. Business is defined as a trade or profession. It is a defence if the organisation has adequate procedures in place to prevent bribery. In general, a public body would not be a commercial organisation for the purposes of the Act, however the Council may have subsidiaries which would come under the scope of the Act or it may carry out activities which are akin to running a private business. In any event it would be prudent for the Council to review its policies and procedures in light of the Act to ensure that they would be adequate in relation to those offences that could affect the Council, and to minimise risk.

  The Act makes it clear that if the bribery offence is committed with the consent/connivance of a senior officer of the local authority, then that person is also personally guilty of an offence. This will potentially catch all those working at manager level and upwards. Penalties under the Act include fines and/or imprisonment for up to ten years (for the more serious offences).

4. ARRANGEMENTS TO MITIGATE THE RISK OF BRIBERY

4.1 A full bribery risk assessment has not yet been completed but an initial assessment of the risks is outlined below to determine the extent to which processes and procedures additional to those already in place may be required.

4.2 The Council is a large organisation with a large number of staff, contractors and service users. Some areas of business to which the Council works will bring with them higher bribery risks than others. However the Council does not carry out a large amount of business outside the UK and not with high risk countries in terms of bribery.

4.3 The Council does work with others in sectors particularly susceptible to bribery e.g. building and construction. Additionally, the Council does undertake some transactions in relation to which officers are more at risk of being offered inducements. For example:

- Procurement and awarding of contracts;
- Awarding of licences and permits;
- Planning applications and building regulations;
- Assessment of entitlement to grants, benefits and other entitlements; and
- Partnership and commissioning of services;

4.4 The Council has received and continues to receive allegations of possible bribery and corruption and these are investigation by Audit & Business Risk as part of its corporate fraud responsibilities. The levels of such cases referred indicate that the section 2 risk of Officers and Members being bribed is the highest risk of the bribery offences. Unfortunately though bribery cases are very difficult to prove to a level where a criminal prosecution is successful.

4.5 The Statutory Guidance states that procedures in place to mitigate the risk of bribery should reflect the level of exposure to risk. The initial risk assessment suggests the main risk is that of Officers and Members being offered bribes. The offence if proven would result in the prosecution of the individual (up to 10 years imprisonment) rather than the Council. However the Council will be expected to demonstrate as a legal defence that it has implemented 'adequate procedures' otherwise could be fined in breach of the Act.

4.6 The Guidance to the Act relating to 'adequate procedures' is soundly based for all bribery risks and in many respects the Council already has such procedures in place. The Guidance suggests six principles of good procedures:

- **Risk Assessment** – the initial risk assessment is set out above but further risk assessment will be completed and agreed with the Officers' Governance Board to ensure the above assessment accurately reflect the bribery risks faced by the Council.

- **Top Level Commitment** - those at the top of the organisation are in the best position to foster a culture of integrity in which any type of bribery is unacceptable. This commitment needs to be reflected and communicated in appropriate policies and a clear statement from the Leader and Chief Executive. The Council already has a Counter Fraud Strategy and a Whistle-blowing Policy and these will be reviewed to ensure they clearly refer to the requirements of the Act and a clear message regarding the Council's zero tolerance towards bribery and the consequences to staff, members and others associated with the Council.
  Some local authorities are in the process of introducing a separate policy on Bribery, however this is currently not considered necessary at the Council.

- **Proportionate Procedures** - the Council should have procedures proportionate to the bribery risks it faces as follows:

Preventing Bribery of Others: (low risk)

  - Financial Regulations are in place to control spending and provide for only authorised expenditure. They include provision that individuals and organisations who deal with the Council, internally and externally, will act with integrity and without thoughts or actions of fraud or corruption.

- Recruitment procedures include vetting of staff before they are offered positions with the Council. The Council publishes all transactions over £500 in value to promote transparency of its spending activities.

Preventing Bribery of Our Staff or Associates: (higher risk)

- The Council has Code of Conducts for both Members and Officers that prohibits acceptance of financial inducements and details the rules regarding acceptance of Gifts and Hospitality. Whilst this exists there are issues over its robustness and this will be reviewed in 2011/12 to improve including the use of IT. There is a specific Code for Members involved in planning, etc. The Employees Code of Conduct does not however identify high risk groups and requirement of them to make regular declaration interests, gifts and hospitality even if Nil.

- Financial Regulations make it clear that accepting inducements is not acceptable

- Procurement Rules are in place to ensure fair competition in awarding of contracts. These will however be reviewed in 2010/11 to ensure rules and standards are robust in making it clear to potential contractors that bribery of Council staff is not acceptable and that contracts will be terminated if there is evidence of this.

- The Council has well defined decision making arrangements which aim to ensure that decisions are made by those free of any conflict of interest including a requirement for Members to declare interests during meetings.

- The Council's Whistle-blowing Policy and Fraud Hot-line provides for anyone who suspects bribery to report it.

- **Due Diligence** - in respect of the person(s) who will/do perform services for or on behalf of the Council. Due diligence forms part of the Council's HR Policies including for employee recruitment/vetting but is planned to be reviewed again during 2011/12 to ensure robust in light of further bribery and other emerging risks facing the Council.

- **Communication** - the Council already has some procedures in place to ensure fraud and corruption policies and procedures are communicated and understood by it staff. These will be reviewed during 2011/12 as part of proactive measures contained in the Council's Counter Fraud Programme including e-learning awareness training (including Bribery) to all staff on fraud awareness, greater use of the Council's Intranet and Internet, targeted release of information to high risk Officers and Members (those in a position that could be bribed) and clear messages to potential contractors that bribery of Council officials will not be tolerated.

- **Monitoring and Review** - of the procedures in place to ‘deter, detect and investigate bribery’. Audit & Business Risk will continue to review compliance with policies and procedures and investigate any suspected bribery. The guidance suggests that organisations may wish to seek some form of external verification of the effectiveness of their anti-bribery procedures. Comparison will be made with other local authorities procedures through regional audit groups and directly.

5. FINANCIAL & OTHER IMPLICATIONS:

5.1 Financial Implications:

It is important that effective procedures are in place to prevent financial loss to the Council from fraud and corruption. There are no financial implications in meeting the requirements of the Act as associated actions will be absorbed in the planned work programme of Audit & Business Risk. Mitigating against these risks is important as failure to implement adequate procures could result in a criminal court decision to be in breach of Section 2 of the Act and subsequent fine for the Council. There would also be financial implications if bribery occurred or contract costs were increased.

Finance Officer consulted*: Anne Silley* *14th September 2011*

5.2 *Legal Implications*:

Legal implications are contained within the body of this report.

Legal Officer consulted: *Oliver Dixon* *15th September 2011*

5.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

5.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

5.5 Crime & Disorder Implications:

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

5.6 Risk and Opportunity Management Implications:

Risk implications are contained within the body of this report.

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

Documents in Members Room

1. None

Background Documents

1. The Bribery Act 2010

2. The Bribery Act 2010 Guidance (Ministry of Justice) 2011

Document is Restricted

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