





Brighton & Hove  
City Council

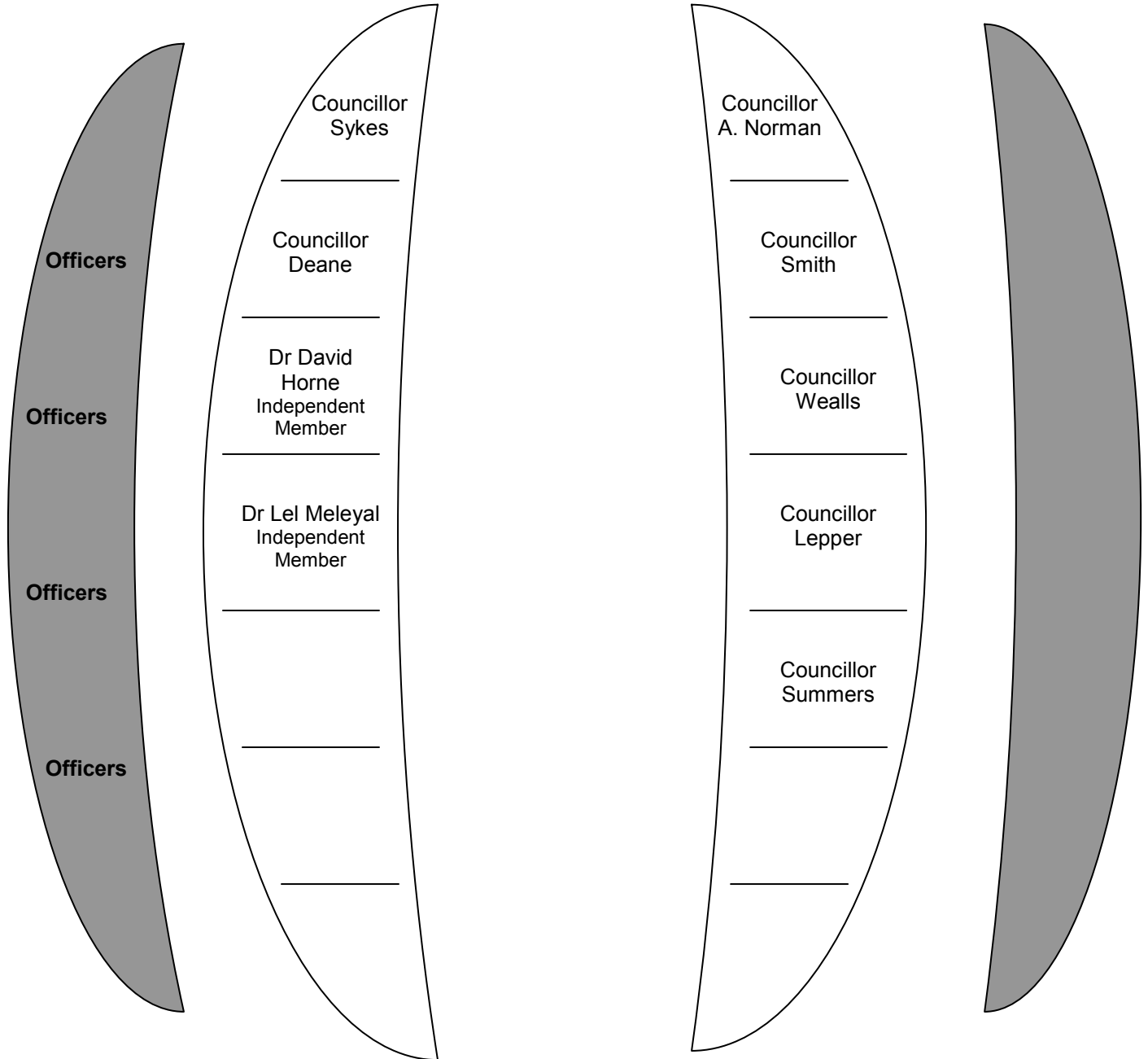
# Audit & Standards Committee

Title:	<b>Audit &amp; Standards Committee</b>
Date:	<b>24 September 2013</b>
Time:	<b>4.00pm</b>
Venue	<b>Council Chamber, Hove Town Hall</b>
Members:	<b>Councillors:</b> Hamilton (Chair), A Norman (Opposition Spokesperson), Deane, Lepper, Smith, Summers, Sykes and Wealls <b>Co-opted Members:</b> Dr David Horne and Dr Lel Meleyal
Contact:	<b>Ross Keatley</b> Democratic Services Officer 01273 291064 ross.keatley@brighton-hove.gcsx.gov.uk

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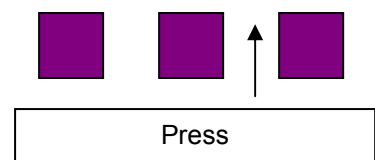
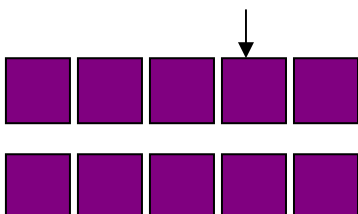
# Democratic Services: Audit & Standards Committee

Head of Law	Councillor Hamilton Chair	Director of Finance	Democratic Services Officer
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Presenting Officer	Presenting Office
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Public Seating



## AGENDA

### 19. PROCEDURAL BUSINESS

(a) **Declaration of Substitutes:** Where Councillors are unable to attend a meeting, a substitute Member from the same Political Group may attend, speak and vote in their place for that meeting.

(b) **Declarations of Interest:**

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

In each case, you need to declare

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

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

(c) **Exclusion of Press and Public:** To consider whether, in view of the nature of the business to be transacted, or the nature of the proceedings, the press and public should be excluded from the meeting when any of the following items are under consideration.

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

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

### 20. MINUTES

1 - 12

To consider the minutes of the meeting held on 26 June 2012 (copy attached).

### 21. CHAIR'S COMMUNICATIONS



## AUDIT & STANDARDS COMMITTEE

### STANDARDS ITEMS

#### 27. COMPLAINTS UPDATE SEPTEMBER 2013 37 - 42

Report of the Head of Law & Monitoring Officer (copy attached).

*Contact Officer:* Brian Foley *Tel:* 291229

*Ward Affected:* All Wards

### AUDIT ITEMS

#### 28. ERNST & YOUNG: AUDIT RESULTS REPORT 2014 43 - 78

Report of the Executive Director of Finance & Resources (copy attached).

*Contact Officer:* Helen Thomson *Tel:* 07974 007332

*Ward Affected:* All Wards

#### 29. STATEMENT OF ACCOUNTS 2012/13 79 - 96

Report of the Executive Director of Finance & Resources (copy attached).

*Contact Officer:* Jane Strudwick *Tel:* 01273 291255

*Ward Affected:* All Wards

#### 30. INTERNAL AUDIT PROGRESS REPORT 2013/14 97 - 104

Report of the Executive Director of Finance & Resources (copy attached).

*Contact Officer:* Mark Dallen *Tel:* 29- 1314

*Ward Affected:* All Wards

#### 31. HR AND PAYROLL AUDIT ISSUES UPDATE 105 - 112

Report of the Executive Director of Finance & Resources (copy attached).

*Contact Officer:* Sue Moorman *Tel:* 29-3629

*Ward Affected:* All Wards

#### 32. TARGETED BUDGET MANAGEMENT (TBM 2) 113 - 166

Report of the Executive Director for Finance & Resources (copy attached).

*Contact Officer:* Jeff Coates *Tel:* 29-2364

*Ward Affected:* All Wards

## AUDIT & STANDARDS COMMITTEE

### 33. TREASURY MANAGEMENT POLICY STATEMENT 2012/13 - END OF YEAR REVIEW 167 - 184

Report of the Executive Director for Finance & Resources (copy attached).

Contact Officer: Mark Ireland Tel: 29-1240  
Ward Affected: All Wards

### 34. ITEMS REFERRED FOR COUNCIL

To consider items to be submitted to the 24 October 2013 Council meeting for information.

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

## PART TWO

### 35. STRATEGIC RISK MAP FOCUS: SR12 MAINTAINING SEAFRONT; AND SR14 PAY & ALLOWANCES MODERNISATION - EXEMPT CATEGORY 3 185 - 192

Report of the Executive Director of Finance & Resources (circulated to Members only).

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

### 36. ICT CODE OF CONNECTIONS - EXEMPT CATEGORY 3 193 - 206

Report of the Executive Director of Finance & Resources (circulated to Members only).

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

### 37. INTERNAL AUDIT PROGRESS REPORT 2013/14 - EXEMPT CATEGORY 3 207 - 208

Appendix 2 to Item 30 on the agenda – Report of the Executive Director of Finance & Resources (circulated to Members only).

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

## AUDIT & STANDARDS COMMITTEE

### 38. PART TWO PROCEEDINGS

To consider whether the items listed in Part Two of the agenda and decisions thereon should remain exempt from disclosure to the press and public.

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

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

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

For further details and general enquiries about this meeting contact Ross Keatley, (01273 291064, email [ross.keatley@brighton-hove.gcsx.gov.uk](mailto:ross.keatley@brighton-hove.gcsx.gov.uk)) or email [democratic.services@brighton-hove.gov.uk](mailto:democratic.services@brighton-hove.gov.uk).

Date of Publication - Monday, 16 September 2013





**BRIGHTON & HOVE CITY COUNCIL****AUDIT & STANDARDS COMMITTEE****4.00pm 25 JUNE 2013****COUNCIL CHAMBER, HOVE TOWN HALL****MINUTES**

**Present:** Councillors Hamilton (Chair), A Norman (Opposition Spokesperson), Deane, Smith, Summers, Sykes and Wealls

**Independent Persons & Co-opted Members:** Dr David Horne

**PART ONE****1. PROCEDURAL BUSINESS****1a Declarations of interests**

1.1 There were none.

**1b Exclusion of the press and public**

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

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

**2. MINUTES**

2.1 **RESOLVED** – That the Chair be authorised to sign the minutes of the meeting held on 16 April 2013 as a correct record.

**3. CHAIR'S COMMUNICATIONS**

3.1 The Chair explained that, although substitutes were not allowed on the Committee, Councillor Pissaridou was present in place of Councillor Lepper. At his discretion she would be able to ask questions and take part in the debate, but would be excluded from voting on any items on the agenda.

**4. PUBLIC INVOLVEMENT**

4.1 There were none.

**5. MEMBER INVOLVEMENT**

5.1 There were none.

**6. AUDIT & STANDARDS COMMITTEE WORK PROGRAMME 2013/14**

6.1 The Committee considered a report of the Executive Director of Finance & Resources and the Head of Legal & Democratic Services in relation to the Audit & Standards Committee Work Programme 2013/14. The report presented the proposed 2013/14 Audit & Standards Committee work programme for consideration.

6.2 The Head of Legal & Democratic Services explained that subject to the review of the constitution currently taking place some items might come forward, and it was the intention that the Committee would continue to review protocols in a similar way to the work undertaken by the decommissioned Standards Committee.

6.3 Councillor Wealls asked how the work of the Committee could link up to other areas of the Council, and he made reference to the work of the Personnel Appeals Sub-Committee. In response Officers agreed to take this matter away for further consideration, and to propose a way forward by way of a report to a future meeting. Councillor Pissaridou also referenced her own personal experience where recommendations made at Personnel Appeals Sub-Committee meetings had not been followed up.

6.4 Following a query from Councillor Summers it was clarified by Councillor Hamilton that the Targeted Budget Management (TBM) reports were referred to the Committee for information from the Policy & Resources Committee.

6.5 Dr Horne stated that it was very helpful to have the internal audit progress reports at most meetings, and he proposed that they be reported to every meeting as a standing item. This was then agreed by the Committee.

6.6 Councillor Wealls highlighted the potential for benchmarking, and asked what lessons the Committee could learn from the way other local authorities discharged similar functions through committee. Officers noted that there would be some benchmarking work undertaken later in the year; there would also be reviews of the effectiveness of audit and there had in the past been a working party to look at similar issues.

**6.7 RESOLVED:**

- (i) That the Committee notes the proposed Audit & Standards Committee Work Programme for 2013/14 as set out in the Appendix.
- (ii) That the Committee requests the Head of Audit & Business Risk to keep the Work Programme updated to reflect new items as they are identified.

- (iii) That the Committee receive internal audit progress reports at each meeting.

## **7. AUDIT & STANDARDS COMMITTEE ANNUAL REPORT 2012/13**

- 7.1 The Committee considered a report of the Executive Director of Finance & Resources and the Head of Legal & Democratic Services in relation to the Audit & Standards Committee Annual Report 2012/13. The draft annual report was attached to the agenda papers at Appendix A to the report, and it provided a summary of the Committee's achievements and performance during the 2012/13 municipal year. The report had been prepared on behalf of the Committee Members. The preparation of an annual report was recognised as best practice for Committee by the Chartered Institute of Public Finance and Accountancy (CIPFA) in providing assurance to the Council over its role in governance.
- 7.2 The Head of Legal & Democratic Services extended his thanks to the work of the two co-optees to the Committee, and stated that they had both performed very well in their roles. Councillor Hamilton suggested that some wording to this extent could be added to the report, and this request was agreed by the Committee.
- 7.3 Dr Horne highlighted the 'looking forward' section of the report and suggested it could be helpful to have some reference to work undertaken in relation to the Standards role and the Code of Conduct.
- 7.4 Councillor Ann Norman echoed the comments made by Dr Horne, and stated how important the role of the co-optees was to the Committee, and how important it was to take a differing perspective when considering reports.
- 7.5 **RESOLVED**
  - (i) That the Committee consider the draft report and agree it subject to the amendments outlined above.
  - (ii) That the Committee refer the agreed report to Full Council for information.

## **8. SUBSTITUTION ON AUDIT & STANDARDS COMMITTEE**

- 8.1 The Committee considered a report of the Head of Legal & Democratic Services in relation to Substitution to the Audit & Standards Committee and Composition of Standards Panels. The current Council procedure prohibited substitutions onto the Audit & Standards Committee, and this had recently resulted in less than full attendance at some meetings of the Committee; the report proposed that Full Council be recommended to amend the rules so as to allow substitution. The report also sought approval for a change to the arrangements for convening a Standards Panel so that the membership could include an Independent Member.
- 8.2 Councillor Wealls expressed concern that the proposed changes to the composition of Standards Panels could result in less political diversity, and Panels should not be made up of Members from only one political group. The Head of Legal & Democratic Services noted that in practical terms this would not be the case; and Panels would continue to

be operated on a cross party basis, but the report now allowed an Independent Member to sit on the Panel.

- 8.3 Councillor Ann Norman agreed that Panels should always be cross party, and she stated that Officers always reflected this makeup when putting Panels together. She went on to say that she welcomed the representation of the Independent Member on Panels, and that it was important the Committee allow substitutions at meetings of the full Audit & Standards Committee. Councillor Ann Norman also suggested that membership of the Standards Panels be offered to all Members of the Audit & Standards Committee – subject to them being suitably trained.
- 8.4 Councillor Hamilton stated that there were training sessions on the Code of Conduct in July which he hoped more Members would be able to attend, and he hoped there could be a situation where more Members were trained to sit on Standards Panels as cross party representation was so important.
- 8.5 In response to a query from Councillor Pissaridou it was confirmed that Members needed to be trained before they could sit on Standards Panel in a similar way to Personnel Appeals Sub-Committees or Licensing Panels.
- 8.6 The Head of Legal & Democratic Services confirmed that the Code of Conduct training sessions would be open to all Members, but it was not the intention to allow all Members to substitute on Standards Panels who were not on the parent Audit & Standards Committee as they needed to be very familiar with the relevant procedures. He confirmed that if a member of Audit & Standards Committee wished to serve on a Standards Panel but had no prior experience or the necessary knowledge or skills, appropriate training would be arranged. He suggested that the composition of the Panel could be increased to a maximum of four elected Members and one independent person to help address Members' concerns in relation to cross party representation. Councillor Summers asked how this would impact on and what provision there was if a vote were tied; in response it was clarified that the Panel appointed a Chair who would be able to exercise a casting vote in the event of a tie.
- 8.7 Before Members voted the Chair clarified the recommendation would be amended to such that a Standards Panel would comprise up to four elected Members, with a minimum of three, and one Independent Person

8.8 **RESOLVED:**

- (i) That the Committee recommend to Full Council that Procedure Rules be amended as set out in paragraph 3.7 of the report.
- (ii) That the Committee approve the amendment to the Council's arrangements for dealing with allegations of breaches of the Members' Code of Conduct as set out below:

"9. Who are the Standards Panel?

The Standards Panel is a Sub-Committee of the Council's Audit & Standards Committee, and only Members of that Committee may be

appointed to a Standards Panel. Panel membership will consist of a minimum of three, and a maximum of four, elected Members appointed on a cross-party basis, plus one Independent Person who will attend the hearing in his/her statutory advisory capacity.”

## **9. COMPLAINTS UPDATE**

- 9.1 The Committee considered a report of the Head of Legal & Democratic Services in relation to the Complaints Update. The report updated the Committee on allegations about Member conduct following the last report to the Committee in April 2013. A summary of the decision for complaints that have been closed was set out at Appendix A to the report.
- 9.2 The Head of Legal and Democratic Services confirmed that the introduction of the new procedures had allowed for a much faster response to potential complaints. The Complaints Manager also thanked the independent co-optees for their input which was helpful and insightful.
- 9.3 **RESOLVED:** That the Committee not the report.

## **10. UNAUDITED STATEMENT OF ACCOUNTS 2012/13**

- 10.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the 2012/13 Statement of Accounts. Under the Accounts and Audit Regulations 2011, the Council’s Statement of Accounts were to be approved by the Chief Finance Officer by 30 June and following the audit process are to be approved by Members by 30 September each year. Under the Council’s constitution, the Audit & Standards Committee was charged with this responsibility. The report presented the unaudited Statement of Accounts for 2012/13 for information purposes only. Copies of the Statement of Accounts were made available to Members of the Committee - at that stage the accounts had not been audited by the external auditor. It was expected that the external auditor would present an Annual Governance Report to the September meeting of the Committee on the conclusion of the audit of the 2012/13 financial statements. An accompanying Officer report would be presented to that meeting, to enable Members to consider and approve the statement of accounts.
- 10.2 Councillor Hamilton requested that some of the wording in relation to the creation of the unitary authority in 1997 be amended to better reflect the arrangements.
- 10.3 Dr Horne noted how useful it was to have the explanatory notes with the accounts, and went on to ask about pension liability and debtors and credit control. In response the Executive Director of Finance & Resources explained that in relation to the pension fund the Council was required to provide a ‘snapshot’ at the balance sheet date of the overall deficit of the life of the fund. The recent increase of the deficit was acknowledged, and this change could be attributed to a range of factors; the Council still had to fund the ongoing liability, and the budget projections for 2014/15 were expected to adjust contributions to address this. There were also other national changes – such as asking employees to make higher contributions – that were expected to help offset this increase and there was an element of pay provision in the medium term financial plan to deal with this. Officers had also assessed the increase in debtors and found there had

been no change in policy, instead the figures for 2011/12 had been unusually low, and this was backed up by trends from the previous four years. The Executive Director also discussed property leases and timing of debts raised impacting on the level of provision required and noted there was no concern about the ability of the authority to collect rents.

- 10.4 **RESOLVED** – That the Committee note the Statement of Accounts for 2012/13 and note that these are subject to audit.

## 11. ANNUAL GOVERNANCE STATEMENT 2013/14

- 11.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the Annual Governance Statement 2013/13. The report presented the Annual Governance Statement for 2012/13 following completion of the annual review of the Council's governance arrangements – including the system of internal control.
- 11.2 The Executive Director of Finance and Resources explained that the Officers' Governance Board (which she chaired with representation from the Head of Legal & Democratic Services, the Head of Audit & Business Risk and the Risk Manager) internally communicated issues as they arose, and the work was driven by the annual internal audit plan, and the Board had concluded that there were no significant weaknesses in the statement. The action plans were quite broad, and they would help the Committee to know the direction of travel.
- 11.3 Councillor Wealls asked about whistle-blowing, and if this fed into the work of the board. In response it was explained that there was a separate policy with clear arrangements; however, this could also be reflected in the report. It was also stated that in the formulation of the statement consideration was given to the whistle-blowing policy and arrangements, and no issue was found with what was in place. Councillor Wealls went on to ask who had responsibility for signing off the policy, and it was confirmed that this responsibility had always been with this Committee (previously as the Standards Committee). The robustness of the policy would be challenged by Human Resources, but in the past it had also been brought to the Committee for consideration. Councillor Wealls stated he would welcome evidence of how the policy was tested, and the Executive Director echoed this and stated it was important to ensure the mechanisms allowed staff to feel comfortable about whistle-blowing. Councillor Deane added that it was important for people to feel they had been listened to.
- 11.4 Councillor Summers highlighted the recommendation, and suggested the Committee needed to consider the level of detail it wished to examine the statement. She went on to highlight openness and transparency within the Council, and asked if there was more room for the use of webcasting. In response the Head of Legal & Democratic Services explained that the contract for webcasting allowed for a fixed number of hours each year, but this was a matter that could be considered by a working group.
- 11.5 Councillor Sykes asked about the Modernisation Board, and in response the Executive Director explained that this was an Officer led board with a goal to ensure that the modernisation of the Council was delivered; it had a range of cross directorate initiatives and had been put together by the Chief Executive who chaired the Board. The outcomes were reported to Members, and an update would be produced every six

months on the work – which had been included in the annual review. The work of the Local Strategic Partnership (LSP) was also discussed, and it was highlighted that as there was a new chair there was the potential for some discussion about how it operated. It was identified that there was an element of duplication in the current arrangements and plenty of scope for a review. The City Management Board was now also led by the Chief Executive and included representation from all key responsible authorities and third sector bodies across the city.

#### 11.6 **RESOLVED:**

- (i) That the Committee consider and approve the Annual Governance Statement for publication.
- (ii) That the Committee note the actions to further develop and strengthen elements of the Council's governance arrangements.

#### 12. **ERNST & YOUNG: PROGRESS REPORT 2012/13**

- 12.1 The Committee considered a report of the External Auditors (Ernst & Young) in relation to an audit progress report and a sector update. The sector update outlined current issues and developments affecting local government for Members' information.
- 12.2 Councillor Hamilton highlighted the costs of social care, and in response the Executive Director of Finance and Resources explained that there was similar trend for other local authorities nationally, and there was an increasing challenge to manage social care costs.
- 12.3 **RESOLVED** – That the Committee note the 2012/13 audit progress report and sector update.

#### 13. **TARGETED BUDGET MANAGEMENT (TBM) PROVISIONAL OUTTURN 2012/13**

- 13.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the Targeted Budget Management (TBM) Provisional Outturn 2012/13. Targeted Budget Monitoring (TBM) reports were a key component of the Council's overall performance monitoring and control framework. TBM reports are periodically presented to Policy & Resources Committee and are subsequently provided to the next available Audit & Standards Committee for information and consideration in the context of the Committee's oversight role in respect of financial governance and risk management. The TBM report set out the provisional outturn position on the Council's revenue and capital budgets for the financial year 2012/13. The provisional position has since been confirmed and was now fully reflected in the annual financial statements for 2012/13 also reported to the Committee.
- 13.2 Councillor Wealls asked about the items for carrying-forward to the next financial year, and in response the Executive Director of Finance & Resources noted that the carry-forwards were assumed to have been agreed in this report, and if they were not agreed then the underspend would be higher. In general terms there were set reasons when carry-forwards were allowed; most of these were in relation to projects that spanned the financial year and in relation to Government grants that paid out late in projects and

schemes. It was also noted that it was important to ensure restricting carry-forwards did not provide an incentive for poor financial management, and it was necessary to ensure that those services that were able to deliver under spends were properly credited. It was also added that the underspend money was allocated in the budget, and had commitments made against it.

- 13.3 Councillor Sykes asked about the value for money (VFM) programme; in particular if this was providing incentives for the Council, and allowing investment for more savings. In response the Executive Director explained that the Council had enough cash to allow people to borrow to invest where there was a good business case – for example at the Brighton Centre. The Council now had to look at more challenging schemes such as at Hove Town Hall, but wanted to ensure there was a strong message that the Council could finance good cashable paybacks.
- 13.4 Councillor Wealls asked for clarification in relation to capital financing costs due to reduced Housing Revenue Account (HRA) borrowing. In response the Executive Director explained that this related to the introduction of self-financing HRA from 2012; when setting the 2012/13 budget the Council had to make an assumption about the relative debt of the HRA account against the general fund and how this split would work. At the time the HRA account had not borrowed as much as was anticipated. The HRA self-financing had actually made the Council better in terms of financial resilience, and the report showed that the estimate of the level of the split had not been judged quite right.
- 13.5 **RESOLVED** – That the Committee note the report to the Policy & Resources Committee on 13 June 2013 (Appendix 1) and the subsequent recommendations and resolution.
- 14. STRATEGIC RISK REVIEW 2013-14 & RISK MANAGEMENT ACTION PLANS–UPDATED MAY 2013**
- 14.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the Strategic Risk Review 2013-14 & Risk Management Action Plans – Updated May 2013. The Committee had a role to review the Strategic Risk Register, and this had recently been updated by the Chief Executive and Executive Leadership Team (ELT). The report also provided details on actions taken and planned actions to manage specific strategic risks.
- 14.2 Councillor Summers asked for clarification in relation to how the Risk Register operated; in response the risk management methodology was explained, and how the mitigation controls showed action was being taken to help reduce the risk score.
- 14.3 Councillor Sykes highlighted pay modernisation (SR14), and asked why this was only appearing on the register now given the importance of the issue over the last few years. In response the Executive Director of Finance & Resources explained that the issue had been on the register in recent years. It was important the Council reach a balance on what information should be in the public domain against the necessity to hold some briefings confidentially, the risk was a reflection of the complex legal and financial risks involved. It was also noted that there would be a briefing for the Committee at the next meeting on both the seafront and pay modernisation risks.



- 14.4 Councillor Wealls asked if the situation could potentially be any different if pay modernisation had been on the register a year ago; in the response the Executive Director explained that this was part of the judgement call Officers had to make when agreeing the register, and the necessity to have clear mitigation measures against each risk; there were also some interventions happening now to help Officers understand the risk in more detail. The Risk Manager also added that by virtue of being on the register the issue generated more activity and allowed for a greater understanding of a risk.
- 14.5 The Executive Director went on to discuss the information governance risk (SR10), and noted that since the publication on the agenda this risk had increased on the register to reflect that in the last few weeks the Cabinet Office had changed the rules on information management, and further work was now necessary to meet the new requirements. It was envisaged the Committee would be briefed on this matter at the next meeting.
- 14.6 Councillor Sykes highlighted the importance of the register for Members to provide assurance that mitigation measures were being undertaken.
- 14.7 Councillor Pissaridou asked how it was decided a risk would be placed on the register, and if they only appeared when the Council could offer sufficient mitigation measures. The Executive Director explained there were some risks where the mitigation measures were not always sufficient, but it was important to maintain the register as it allowed more proactive work to take place. Furthermore a risk should not be excluded from the register even if the Council was not able to set a full series of mitigation measures.
- 14.8 **RESOLVED:**
- (i) That the Committee notes the revised Strategic Risk Register.
  - (ii) That the Committee notes the Risk Management Action Plans contained in the Strategic Risk Assessment Report – May 2013.

**15. STRATEGIC RISK MANAGEMENT ACTION PLAN FOCUS SR2 FINANCIAL OUTLOOK; SR11 WELFARE REFORM**

- 15.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the Strategic Risk Management Action Plan Focus: SR2 – Financial Outlook; and SR11 – Welfare Reform. A Risk Management Action Plan for each risk was owned by a member of the Executive Leadership Team (ELT). At each meeting of the Committee there was focus on two risks to ensure all risks received attention over the municipal year. The risk owner responsible for delivery of actions to mitigate the risk attended to allow the Committee the opportunity to understand further background to the risk and the actions taken.
- 15.2 The Head of City Services provided an overview in relation to SR11 – Welfare Reform. She explained that the Government stance had created three strands of work for the Council that related to: devolved powers to local authorities; implementing policy changes as an instrument of central Government and managing the impact on the Council's own customers of those changes wholly outside our remit. In relation to the first area the Council was now required to run its own localised scheme of council tax

reduction that had previously been operated by the Department of Work and Pensions (DWP) – the localised scheme had been approved by the Policy & Resources Committee and the Full Council, and had been running since April 2013. The Council also now had a responsibility for its own localised social fund scheme which again has been running since April. In relation to second area – implementing policy changes – the Council had implemented Government changes to local housing allowances in the private rented sector, and from April the new “under-occupation” rules for people in the social housing sector with a spare bedroom. It would then administer the benefit cap mid year as the government had delayed the start date of this. Thirdly there were changes due to create universal credit which would simplify a number of benefits into one – the work would be rolled out from October 2013 and completed by the end of 2018. Other examples of where the Council had no control but there were potential impacts for customers includes changes to incapacity benefits and disability living allowance with Government projections that there would be a reduction in the numbers eligible to claim.

15.3 To undertake all this work there was clear governance across all departments, and a programme director who had two full time Officers with a specific senior cross Council group tasked to look at welfare reform. In addition there was a cross Council project board working to understand the changes and look at how to manage this; as well as a wider citywide overview group that involved different stakeholders. Detailed briefings had also been prepared to ensure that information was properly shared and disseminated across the city, and reports would be considered at the appropriate Committees.

15.4 The Executive Director of Finance & Resources provided an overview in relation SR2 – Financial Outlook. The outlook remained challenging for the Council, and the national trend continued to see an environment of funding problems for local authorities. The Council continued to plan in the best way possible, and proactive responses were essential to protecting services. The long-term financial plan had been kept up to date, and it had been useful to have public health functions within the remit of the authority for more sophisticated demographic projections. Work had been undertaken to keep the corporate plan and the medium term financial plan as closely linked as possible. There was a lot of time and effort being spent on the consultation and engagement aspects, and it was recognised that this work was key to ensuring people understood the changes and to help to Council reach the right sort of settlements. It was important that decisions could be taken where services and budgets were connected to reduce the difficulty involved with implementation. Work was continuing on understanding the changes to Council Tax; especially in relation to exemptions and also the introduction of the business rate retention scheme – which the Council had not previously needed to understand. The work to understand the tax base would take some time, and the ability of the Council to cope with these changes would rely on a political settlement as well as city wide settlement of the budget – there was a cross-party group of Members to look at these issues.

15.5 **RESOLVED** – That the Committee note the information provided by the risk owner.

## **16. INTERNAL AUDIT ANNUAL REPORT & OPINION 2012/13**

16.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the Internal Audit Annual Report and Opinion 2012/13. The report presented

the Internal Audit Annual Report and Opinion 2012/13 to the Committee, and it summarised the work that the Internal Audit Team had undertaken during the financial year 2012/13. The report also included the Head of Audit & Business Risk's annual opinion on the system of internal control.

- 16.2 Councillor Hamilton asked for more information on the follow up work in relation to audits with limited assurance. In response it was explained that that follow up work would be undertaken and those with reviews would have a priority.
- 16.3 In response to a query from Councillor Wealls it was acknowledged that the number of investigations underway for suspected sub-letting was low; however, there was a new Fraud Act coming into force later this year which would provide greater deterrents. Councillor Smith went onto ask if work was undertaken to check occupants against the electoral roll; Officers explained that they did but were currently limited at this time. There was also work to check bank accounts at certain properties, but there needed to be additional work in Housing to undertake checks and more regional sharing of data.
- 16.4 Councillor Sykes asked about the volume of work – noting it was under the average, and asked about how the other activities the Council undertook interacted with this. In response it was explained that there would be reliance placed on these areas, and the whole overall mapping of the authority helped to reduce duplication of work.
- 16.5 Dr Horne welcomed the coverage outlined in the report, and asked about the 13% less delivered than planned; it was explained that this related to staff sickness and a vacancy within the service.
- 16.6 **RESOLVED** – That the Committee note the work completed by the Internal Audit Team for 2012/13; the outcomes and issues arising, and the Head of Audit & Business Risk's annual opinion on the system of internal control.

## 17. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2013

- 17.1 The Committee considered a report of the Executive Director of Finance & Resources in relation to the Review of the Effectiveness of the System of Internal Audit. The council was required to conduct an annual review of the effectiveness of its internal audit, and the findings were to be considered by the Committee. The process was also regarded as part of the wider review of the Council's governance arrangements and production of the Annual Governance Statement.
- 17.2 **RESOLVED:**
- (i) That the Committee considers the findings of the review of the effectiveness of Internal Audit, in particular the conclusion that the Council operates an effective of Internal Audit Service.
  - (ii) That the Committee request an update on progress in implementing the actions arising from the effectiveness review, as part of Internal Audit Progress Report 2013/14 in September 2013.

- (iii) That the Committee note the conclusion of the review that the system of internal audit for Brighton & Hove City Council continues to be effective and operating in accordance with accepted professional practice. Further that the council can place reliance on the system of internal audit for the purpose of its Annual Governance Statement.

**18. ITEMS REFERRED FOR COUNCIL**

18.1 **RESOLVED** – That the following items be referred to the 18 July 2013 Council meeting:

- (i) Item 7 – Audit & Standards Committee Annual Report 2012/13.
- (ii) Item 8 – Substitution on Audit & Standards Committee and Composition of Standards Panels.

The meeting concluded at 6.36pm

Signed

Chair

Dated this

day of

<b>Subject:</b>	<b>Settlement Agreements</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director Finance &amp; Resources and Head of Law &amp; Monitoring Officer</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Abraham Ghebre-Ghiorghis</b>	<b>Tel: 291500</b>
	<b>Email:</b>	<b>abraham.ghebre-ghiorghis@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 As the body responsible for corporate employment matters, the council's Executive Leadership Team ('ELT') recently agreed a new policy on the use of settlement agreements, to reflect best practice. However, ELT wished to bring the policy to the attention of Audit & Standards Committee for added assurance.

**2. RECOMMENDATIONS:**

- 2.1 That Audit & Standards Committee note the Statement of Council Policy on the Use of Settlement Agreements set out in Appendix 1, coming into effect on 1<sup>st</sup> October 2013.

**3. RELEVANT BACKGROUND INFORMATION**

- 3.1 The use of settlement agreements has been the subject of much public attention and interest. The National Audit Office issued a report on 21<sup>st</sup> June 2013 titled "Confidentiality Clauses and Special Severance Payments". This was a review of the use of settlement agreements in central government departments. Although the main focus was on the use of confidentiality clauses, it was generally critical of the practice and made several recommendations. One of these was that the Cabinet Office should provide guidance on the use of settlement agreements, including the requirement that departments have a clear and published policy on the use of settlement agreements. It also recommends greater transparency in reporting "special severance payments". It is likely that there will be similar expectations placed on local authorities.
- 3.2 Locally, as a result of developments at national level (severance settlements in the NHS and other high profile exit packages), the concerns raised in the Global HPO report about the need to monitor and review the application of settlement agreements from an equalities perspective, together with the apparently high number of such agreements entered into by the Council in previous years, it was decided to review our practice. This was done with a view to adopting a

corporate approach that reflects best practice and gives the process additional challenge, transparency and assurance. Officers in Human Resources and Legal Services undertook the review and the recommendations were presented to the Executive Leadership Team (ELT.) The policy agreed by ELT is attached as appendix A and it is being reported to this committee for information.

- 3.3 The following table details the number of settlement agreements entered into in the last five years:

<b>Year</b>	<b>No. of settlement agreements, excluding those for voluntary severance</b>	<b>Agreements related to voluntary severance</b>
<b>2008/09</b>	<b>26</b>	
<b>2009/10</b>	<b>35</b>	
<b>2010/11</b>	<b>53</b>	
<b>2011/12</b>	<b>52</b>	<b>121</b>
<b>2012/13</b>	<b>50</b>	<b>2</b>

- 3.4 Settlement agreements entered into with staff employed in schools account for about 1/3 of the overall number of settlement agreements in each year. Schools have delegated powers in relation to appointment and dismissal and so make their own decisions in relation to settlement agreements.
- 3.5 Settlement agreements have been used for this year's voluntary severance scheme and 119 staff have agreed to leave through this process. The average cost of these settlements (including payments to the pension fund for early access to pensions where applicable) is £16,500.
- 3.6 For broad comparison purposes, the following table shows the number of settlement agreements per year for the council's Nearest Neighbours (as defined by CIPFA). The source for this information is the response to a series of Freedom of Information requests that are published on the internet and were publicised in the national media earlier this year:

	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>
Bath and North East Somerset	2	7	5
Bedford		9	9
Bournemouth	16	17	
Brighton & Hove	26	35	53
Bristol	46	54	
City of York	1	2	7
North Tyneside	23	22	23
Portsmouth	23	8	8
Reading	6	2	3
Sefton	0	10	9
Southampton	2	9	19
Southend on Sea	0	0	0
Torbay	2	8	3
Trafford	8	5	12

#### **4. Legal Status of Settlement Agreements and Public/Media Perception**

- 4.1 Section 203 of the Employment Rights Act 1996 provides the statutory framework for settlement agreements. They are legally-binding agreements entered into between an employer and an employee to settle a dispute. The employee agrees to waive their rights to pursue a legal claim in a Tribunal or other court and this is usually in exchange for some form of compensation or settlement. Often this will include an agreement to terminate the employment relationship but not always. An employee's right to make certain claims, such as unfair dismissal, redundancy or discrimination are generally protected by statute and cannot be excluded even by agreement, unless it is done by way of a settlement agreement certified by the employee's legal representative.
- 4.2 The media periodically highlight the use of settlement agreements, particularly in situations involving public bodies and usually high profile departures in the context of publicising high value settlements. There is negative reporting in relation to the use of public money and consequently reference to settlement agreements is usually perceived to mean large severance payments and therefore reports of high numbers of settlement agreements creates a very negative image.
- 4.3 The recent media coverage of settlement agreements in the NHS and the inclusion of so-called 'gagging clauses' aimed at silencing whistle blowers has also created a negative image of the use of such agreements and consequently where organisations are reported as having used a higher number of settlement agreements, this creates a negative perception around transparency and is perceived as an organisation potentially seeking to silence its critics.
- 4.4 It should be noted that standard settlement agreements used by the council do include a confidentiality clause which prohibits the employee from disclosing the existence of the agreement and the content (e.g. any compensation given) and on some occasions prohibits the disclosure of the events leading up to the agreement. This clause does not prevent the employee from making any protected disclosures or 'whistleblowing' under the Public Interest Disclosure Act 1998 nor is it intended to do so.
- 4.5 There is no record of the Council ever having taken legal action to enforce any confidentiality provision.

#### **5. Reasons for Using Settlement Agreements**

- 5.1 There are, broadly speaking, three scenarios where settlement agreements tend to be used:
  - (a) **Risk of legal claims** – this applies where there is a perceived risk to the council of a successful tribunal or county court claim (because of procedural flaws, inadequate grounds for a dismissal, unjustifiable treatment or breach of contract).

(b) **Efficiency of the Service:** these involve cases where management view that it is desirable for an employee to leave the organisation but there are not sufficient grounds to pursue a fair dismissal.

(c) **Alternative to dismissal** – these are cases where management have a reasonable case to pursue through formal procedures but a settlement agreement is sought as an alternative as the perceived timeframes and resources involved in pursuing a formal process means it is preferable to reach an early and mutual agreement. The biggest cost can often be because the time to pursue an issue through procedures involves the continued payment of salary during the process plus the cost of notice (between one and three months pay depending on circumstances) as well as other impact on the service depending on the circumstances/.

5.4 There are some types of cases which cannot always be managed through settlement agreements such as those involving issues related to safeguarding of children or vulnerable adults where safeguarding considerations may have to take precedence.

## **6. Key Features of New Policy**

6.1 On 10<sup>th</sup> July 2013 the council's Executive Leadership Team agreed the new policy on settlement agreements, as set out in Appendix 1.

6.2 The council's Compensation Panel already has responsibility for authorising/making decisions in relation to requests for early retirement and enhanced redundancy compensation payments. The Panel comprises senior officers from legal, finance and HR as well as a relevant senior service manager.

6.3 Under the new policy, the Compensation Panel has authority and responsibility to decide whether a settlement agreement is appropriate in any case and also the financial limits of any financial settlement as part of any agreement for the purposes of negotiation. Managers are not authorised to enter negotiations without the authorisation of the Compensation Panel nor exceed the financial limits agreed by the Panel.

6.4 This will ensure a consistent corporate approach to the circumstances in which settlement agreements are used as well as the levels of compensation offered as part of the agreements. This will also provide a greater level of challenge to managers proposing settlement agreements and encourage exploration of other options.

6.5 To reduce the number of settlement agreements entered into and the amount they pay out, the Panel will assess the strength of the business case behind a each request for a settlement agreement, and the implications/likelihood of resolving a situation through alternative means such as a mutual termination agreement or pursuing formal procedures.

6.6 There has already been a shift in practice in recent months to make greater use of mutual termination agreements where no compensation outside of contractual/statutory entitlements (eg pay in lieu of notice or holiday pay) is used.



Previously, settlement agreements may have been used as the mechanism in such situations so this will reduce the numbers.

- 6.7 The Compensation Panel will determine whether a settlement agreement can be explored in a particular situation, and will only give approval if:
- the level of legal risk indicates settlement of an issue should be considered; or
  - there is a clear business case from a financial and organisational perspective that demonstrates the benefits and why alternative solutions are not viable, and
  - a settlement agreement is both necessary and proportionate in the circumstances
- 6.8 Requiring authority from the Compensation Panel should have the effect of reducing the number of agreements and the value of settlements. The situation will be reviewed 6 months after policy implementation to see whether there has been a meaningful reduction in the number of agreements and the amounts paid.
- 6.9 For reasons of corporate accountability, the Chief Executive will be informed of all settlement agreements. Further, any involving members of CMT or payments in excess of £50k will be subject to prior approval of the Chief Executive in addition to the Compensation Panel.
- 6.10 The council's Auditors have an important role to play in providing an additional level of assurance. It would be disproportionate to require consultation with them in every case. The Executive Director for Finance & Resources, in her capacity as the Chief Finance Officer with responsibility for the financial affairs of the Council, will be best placed to form a judgement as to which cases should be referred to the Auditors for consultation, having regard to the views of the Compensation Panel.

## **7. Conclusion**

- 7.1 The new policy will enable the council to strike the right balance between securing the benefit of settlement agreements where it is necessary, and moving away from them being used routinely without careful consideration of whether one is actually needed in each case.
- 7.2 Referring every proposed settlement agreement to the Compensation Panel for decision against specified criteria will help the Council achieve consistency.

## **8. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 5.1 It is expected that the new policy outlined in section 6 of the report will save the council money by leading to a reduction in the frequency and the value of settlement agreements. This will be assessed by the review due to be made six months after policy implementation.

*Finance Officer Consulted: Peter Francis*

*Date: 28/08/13*

Legal Implications:

- 5.2 Where, under the new policy, the council determines that a settlement agreement is appropriate, the conditions regulating such agreements as specified in section 203(3) of the Employment Rights Act 1996 must be satisfied.

With effect from 29 July 2013, references in section 203 of the 1996 Act to “compromise agreements” were re-named “settlement agreements”.

*Lawyer Consulted: Oliver Dixon*

*Date: 27/08/13*

Equalities Implications:

- 5.3 As part of the ongoing work to improve the capture, analysis and reporting of workforce data, changes have already been made to the PIER system to enable better recording of the outcomes of HR case work including the use of settlement agreements.

These improvements will enable HR to monitor effectively not only the number of settlement agreements being entered into but also to determine whether they are being used disproportionately in cases where the employee has a protected characteristic(s). It is intended that this data will be reported regularly, together with other workforce equality information, to DMT’s, ELT and the Workforce Equalities Group to enable issues/trends to be identified and any necessary actions discussed. This work directly addresses one of the recommendations made in the recent Global HPO report.

Corporate / Citywide Implications:

- 5.8 The new policy should help to reduce or even eliminate negative publicity about the number and value of pay-outs to employees entering into settlement agreements with the council.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Statement of Council Policy on Use of Settlement Agreements

## **Statement of Council Policy on the Use of Settlement Agreements**

The Council, as part of its corporate values, is committed to openness, transparency and efficient use of resources. Whilst recognising the useful purpose that settlement agreements play, it wishes to ensure that they are used properly and only where necessary. It has therefore adopted the following policy to guide its decisions on the use of settlement agreements

1. Settlement agreements will be used only where authorised by a Compensation Panel and within the parameters set by that Panel;
2. Settlement agreements will be authorised by the Panel only where it is satisfied that:
  - § the level of legal risk indicates settlement though a settlement agreement to be necessary to limit liability and reduce costs; AND/OR
  - § there is a clear business case from a financial and organisational perspective that demonstrates the benefit and why alternative solutions are not viable; and
  - § In either case, the use of settlement agreements is necessary and proportionate in the circumstances.
3. The agreement of the Panel has to be sought prior to detailed terms being explored or negotiated with the employee concerned or their union representative;
4. The Compensation Panel will consist of the Director of Finance & Resources, the Head of Law and Head of HR and, where they are unable to attend, persons of sufficient Seniority nominated by them and the Head of Service or relevant manager will attend the meeting to present the management case;
5. The Chief Executive shall be informed of all settlement agreements that are concluded;
6. The use of mutual termination agreements is encouraged where settlement agreements are not considered appropriate but there is a need to record the terms of an agreed termination.
7. Where settlement agreements relate to members of CMT (other than ELT members) or the proposed payment is in excess of £50K, the Chief

Executive shall be consulted prior to the Compensation Panel making a decision. No settlement agreements relating to ELT members shall be entered into without the agreement of the Chief Executive.

8. The Council's Auditors will be consulted prior to settlement agreements being entered into if, in the opinion of the Chief Finance Officer, the settlement is significant enough having regard to the amount involved, the seniority of the officer and all relevant circumstances, including whether any severance pay is required to be reported under the Accounts and Audit Regulations 2011.

9. An equalities impact assessment of Settlement agreements will be undertaken regularly and reported to ELT, DMTs and Workforce Equalities Groups.

11. That the Council encourages schools to reflect, where appropriate, the Council's approach to settlement agreements as set out above.

12. The above policy shall come into effect on 1<sup>st</sup> October 2013 and reviewed after 6months of.

**Agreed by the Council's Executive Leadership Team on 10<sup>th</sup> July 2013**

<b>Subject:</b>	<b>Whistleblowing Policy</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director Finance &amp; Resources and the Head of Law &amp; Monitoring Officer</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Sue Moorman</b>	<b>Tel: 29-3629</b>
	<b>Email:</b>	<b>Sue.moorman@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 This report has been produced at the request of members of the Audit and Standards Committee who, at their meeting on 25 June 2013, asked for a report on the council's whistleblowing arrangements to be presented at a future meeting.
- 1.2 The purpose of this report is to brief the Audit & Standards Committee on the council's Whistleblowing Policy and the review that is being undertaken to look at how well the current whistleblowing arrangements are working in practice.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee note the council's current Whistleblowing Policy (attached as Appendix 1).
- 2.2 That the Committee instruct the Executive Director Finance & Resources to bring a further report to the meeting of Audit & Standards Committee in March 2014, detailing the findings of the Whistleblowing Policy review currently underway.

**3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:**

- 3.1 The council has had a Whistleblowing Policy since 1998. It was originally introduced to ensure the council complied with the provisions of the Public Interest Disclosure Act 1998 which amended the Employment Rights Act 1996 to provide protection, in certain circumstances, for whistleblowers.
- 3.2 In line with many other local authorities, the council's policy was based on a model produced at that time by the independent charity, Public Concern at Work. School governing bodies were also recommended to adopt this new policy framework to ensure compliance within their schools.

- 3.3 Since its introduction, the Policy has been regularly reviewed and updated to ensure it continues to meet legislative requirements and provides an effective mechanism for council employees and others who work on council premises (such as casual/agency workers and contractors) to raise any genuine concerns they may have about alleged malpractice within the organisation.
- 3.4 The types of concern that are covered by the Whistleblowing Policy include:
- conduct which is a criminal offence
  - breaches of legal obligation
  - disclosures related to miscarriages of justice
  - health and safety risks, including risks to the public as well as other employees
  - damage to the environment
  - the unauthorised use of Council funds
  - action that is contrary to the Council's financial procedures or contract regulations
  - possible fraud, corruption or financial irregularity
  - practice which falls below established standards or practice
  - sexual or physical abuse of clients
  - other unethical conduct.
- 3.5 The Policy enables individuals to raise concerns secure in the knowledge that questions will be asked and appropriate action taken and that they will not suffer victimisation from having made a "qualifying disclosure".
- 3.6 On 25 June 2013, the Employment Rights Act 1996 was further amended by the Enterprise and Regulatory Reform Act 2013 which introduced several important changes to whistleblowing arrangements, and these are summarised below.
- (i) In order for individuals to be protected against detrimental treatment for disclosing what would otherwise be confidential information, they must now reasonably believe it to be in the public interest to do so. Previously, individuals only had to make the disclosure "in good faith" to receive legal protection. This amendment makes it much clearer that concerns relating to alleged breaches of an individual's own contract of employment are unlikely to meet the "public interest" requirement and so would not constitute a "whistleblowing" matter. Complaints of this nature would therefore need to be raised under the council's Grievance Procedure.
  - (ii) It is now unlawful for anyone working for, or on behalf of, the council to subject an individual to detrimental treatment such as bullying, harassment or victimisation on the grounds that they have made a "qualifying disclosure". Previously, "whistleblowers" were protected only from the actions of their employer. This brings whistleblowing legislation in line with the law on discrimination.
  - (iii) The council will now be vicariously liable for the actions of its workers, or anyone acting on its behalf, who subject a "whistleblower" to any

detrimental treatment for raising a concern. However, the council would have a defence if it could show that it had taken all reasonable steps to prevent the victimisation. Again this provision is consistent with current discrimination legislation.

- 3.7 The council’s Whistleblowing Policy has recently been updated to reflect these legislative changes. A copy of the revised Policy is attached as Appendix 1.
- 3.8 Although there are a number of instances every year where employees raise concerns that they consider constitute “whistleblowing”, virtually all of these cases are found on closer scrutiny to relate to personal, employment-related issues that should have been raised under the council’s Grievance Procedure rather than under the Whistleblowing Policy.
- 3.9 This means that the actual number of “qualifying disclosures” made under the Whistleblowing Policy each year are very low – single figures. A breakdown of the cases recorded in the last two year years on the Register held by the Head of Internal Audit & Business Risk is set out below:

Financial Year	Number of cases
2011/2012	3
2012/2013	0
2013/2014 to date	1

- 3.10 These cases broadly fall under the following categories:

Fraud 1  
 Financial irregularity 1  
 Health & Safety 1  
 Conflict of interest 1

- 3.11 Although it is not uncommon for local authorities to have low numbers of whistleblowing cases reported, it is important that the council can be confident that these figures accurately reflect the “health” of the organisation and are not artificially low because staff are failing to report concerns due to a lack of awareness of the policy and the process to be followed.
- 3.12 Although there is no evidence to suggest that this is the case and that the council’s whistleblowing arrangements are not effective and robust, a review is currently underway to ensure they remain fit for purpose. An important part of the review will be to assess how familiar staff are with the council’s whistleblowing arrangements and to see whether there are any barriers that may potentially prevent staff raising concerns.
- 3.13 It is proposed to bring a report on the review’s findings to the meeting of the Committee in March 2014.

#### **4. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 4.1 Internal Audit has been consulted on the report.

## **5. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 5.1 It is expected that the Whistleblowing Policy review outlined in the report will be carried out by in-house staff and absorbed within current workload levels. Any costs which may arise from the review will be met from within existing resources.

Finance Officer Consulted: Peter Francis      Date: 28 August 2013

### Legal Implications:

- 5.2 To encourage a culture of openness, probity and safety, the council has a Whistleblowing Policy which complies with the requirements of Part 4A of the Employment Rights Act 1996 as amended by the Public Interest Disclosure Act 1998 and, more recently, the Enterprise & Regulatory Reform Act 2013 (sections 17-20). An effective whistleblowing function is a vital component of good governance.
- 5.3 Whilst the report is for noting, the Committee may, if it considers appropriate, make one or more recommendations relating to the content to another committee, Full Council, or an officer.

Lawyer Consulted: Oliver Dixon      Date: 20 August 2013

### Equalities Implications:

- 5.4 The policy applies to all employees.

### Sustainability Implications:

- 5.5 The policy and guidance is published on our intranet.

### Crime & Disorder Implications:

- 5.6 The whistleblowing policy is designed to encourage reporting of allegations so that they can be properly investigated and, where they are founded, appropriate action can be taken.

### Risk and Opportunity Management Implications:

- 5.7 An effective whistleblowing function will contribute to a climate of trust, probity and safety at work. It is also a safeguard against the council unknowingly harbouring malpractice.

### Public Health Implications:

- 5.8 None.



Corporate / Citywide Implications:

- 5.9 It is vital that a public body has in place a mechanism for its staff and others who work on its premises such as contractors and casual/agency workers to be able to raise concerns about alleged malpractice, secure in the knowledge that something will be done and that they will not suffer victimisation from having raised the issue.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Current Whistleblowing Policy

### **Background Documents:**

None

## **Whistleblowing Policy**

### **A Confidential Reporting Policy for All Employees**

#### **1 Independent Advice**

- 1.1 If you are unsure whether to use this policy you should seek advice either from Human Resources or Internal Audit.
- 1.2 If you would like independent advice at any stage, you may contact:
  - your trade union representative;
  - professional associations;
  - the independent charity Public Concern at Work [www.whistleblowing.org.uk](http://www.whistleblowing.org.uk) on 020 7404 6609. Their lawyers can give you free confidential advice at any stage about how to raise a concern about serious malpractice at work.

#### **2 Introduction**

- 2.1 Brighton & Hove City Council operates within legal requirements and regulations and is committed to the highest standards of openness, honesty and accountability. The Council therefore expects its employees to behave appropriately by adhering to all relevant laws, regulations, policies and procedures. In line with that commitment, the Council expects and encourages any employee becoming aware of another employee acting inappropriately, corruptly or illegally to come forward and voice those concerns.
- 2.2 The Policy incorporates the provisions that are required from the Public Interest Disclosure Act 1998 (as amended by the Enterprise & Regulatory Reform Act 2013), which protects members of staff against detrimental treatment or dismissal for disclosing normally confidential information because they reasonably believe it is in the public interest to do so. This is known as a “qualifying disclosure”.
- 2.3 It is unlawful for anyone working for, or on the behalf of, the council to subject an individual to detrimental treatment on the grounds that they have made a “qualifying disclosure”. The council would also be liable for such acts committed by those working for it or acting on its behalf.

#### **3 Benefits of this policy**

- 3.1 The Whistleblowing Policy aims to:
  - encourage and enable individuals to feel confident in raising concerns and to question and act upon any concerns;

- provide avenues for individuals to raise concerns and receive feedback on any action taken;
- ensure that individuals receive a response to their concerns and that they are aware of how to pursue them if they are not satisfied
- reassure individuals that they will be protected from reprisals or victimisation for raising concerns that they reasonably believe to be in the public interest
- ensure that all those working for, or on behalf of, the council are aware that it is unlawful for them to treat individual(s) detrimentally because they have made a “qualifying disclosure” under the Act (see also paragraph 2.3 above)

## **4 Scope**

- 4.1 This policy applies to all employees, casual and agency workers, apprentices, contractors and self-employed consultants working on the Council's premises.
- 4.2 School Governing Bodies are recommended to adopt this policy as a framework for introducing the requirements of this policy in their schools.
- 4.3 This procedure outlines a separate route through which employees can raise concerns that fall outside the scope of the Council's other complaints procedures. The types of concern covered by the Whistleblowing Policy include:
- conduct which is an offence or a breach of law
  - disclosures related to miscarriages of justice
  - individual(s) covering up wrongdoing
  - health and safety risks, including risks to the public as well as other employees
  - damage to the environment
  - the unauthorised use of Council funds
  - action that is contrary to the Council's financial procedures or contract regulations
  - possible fraud, corruption or financial irregularity
  - practice which falls below established standards or practice
  - sexual or physical abuse of clients
  - other unethical conduct.
- 4.4 If you work for a company that has a contract with the Council then you can also raise concerns under this policy.
- 4.5 Employees will not be able to raise concerns relating to alleged breaches of their own contracts of employment under this Policy as such concerns are unlikely to meet the “public interest” requirement. Therefore, complaints of this nature should be raised using the council's Grievance Procedure. The Council will respond to concerns relating to bullying or harassment using the Council's Disciplinary Procedure.

## 5 Supporting you to raise a concern

- 5.1 **Harassment or Victimisation:** The Council will not tolerate harassment or victimisation and will take action to protect individuals who raise concerns that they reasonably believe to be in the public interest. This protection is in addition to the legal protection provided by the Public Interest Disclosure Act 1998 (as amended by the Enterprise & Regulatory Reform Act 2013).
- 5.2 **Confidentiality:** Individuals are encouraged to put their name to any allegation. However, if you ask us not to reveal your identity by keeping your confidence, we will not disclose it without your consent. If the situation arises where we are not able to resolve the concern without revealing your identity (for instance because your evidence is needed in court), we will discuss with you whether and how we can proceed.
- 5.3 **Untrue Allegations:** The City Council is committed to this policy. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any form of retribution as a result provided that:
- you reasonably believe the disclosure to be in the public interest, it does not matter if you are mistaken;
  - you reasonably believe that information, and any allegations contained in it, are substantially true and
  - you raised your concerns through one of the channels named in this policy.
- 5.4 However, we cannot give such assurance if you raise a concern maliciously or the information you have used to trigger a concern has been obtained unlawfully, for example:
- legal requirements have not been followed, e.g. the Data Protection Act has been breached or
  - through unauthorised access to records, e.g. computer hacking.

## 6 How to raise a concern

- 6.1 As soon as you become reasonably concerned, we hope you will feel able to raise it first with your line manager. Similarly, non-employees (e.g. agency workers or contractors) should raise a concern in the first instance with their contact within the Council, usually the person to whom they directly report.
- 6.2 If you want to raise the matter with someone other than your immediate manager, for whatever reason, please raise the matter with:

*Head of Service/Headteacher/Chair of Governors*

*Sue Moorman, Head of Human Resources & Organisational Development, ext. 3629*

*Ian Withers, Head of Internal Audit & Business Risk ext. 1323*

*Catherine Vaughan, Executive Director of Finance & Resources ext. 1333 or*

*Abraham Ghebre-Ghiorghis, Head of Law (The Monitoring Officer) ext. 1500.*

These people will also be able to advise on confidentiality and further action required.

- 6.3 If these channels have been followed but you still have concerns or if you feel that the matter is so serious that you cannot discuss it with any of the above, you may, as a last resort, contact:

*Penny Thompson, Chief Executive ext.1132.*

- 6.4 Concerns may be raised orally or in writing. Members of staff who wish to raise the concern in writing should use the following format:

- the background and history of the concern (giving relevant dates)
- the reason why they are particularly concerned about the situation.

- 6.5 When raising the concern you may wish to be assisted, or accompanied by either your trade union representative or a colleague who works for the City Council.

- 6.6 Although the individual raising the concern is not expected to prove the truth of an allegation, you will need to demonstrate to the person contacted that there are sufficient grounds for the concern.

## **7 How the Council will respond**

- 7.1 Once a concern is raised, the appropriate Council manager will make initial enquiries, taking advice from the Head of HR & Organisational Development if necessary, to help decide if an investigation is appropriate and if so, what form it should take. The person receiving the concern will ensure the Head of Law, as the City Council's Monitoring Officer, is provided with sufficient details to be aware of the concern raised. As soon as possible, and in any case within 10 working days of a concern being raised, the person handling the matter will write to the individual raising the concern acknowledging that it has been raised and indicating how, as far as possible, it will be dealt with. The individual will be kept informed of progress and will receive a full and final response, subject to any legal constraints.

- 7.2 When you raise the concern(s) you may be asked how you think the matter might best be resolved. If you have any personal interest in the matter, we ask that you tell us this at the outset. If your concerns would be more appropriately dealt with under another policy of the City Council (for example, the Anti Fraud & Corruption Strategy or Grievance Procedure we will tell you.

- 7.3 While the purpose of this policy is to enable us to investigate possible malpractice and take appropriate steps to deal with it, we will give you as much feedback as we properly can.

- 7.4 Concerns or allegations that fall within the scope of specific procedures (for example child protection) will normally be referred for consideration under the relevant procedure. Some concerns may be resolved by agreeing action

with you without the need for investigation. If urgent action is required, this will be taken before any investigation is conducted.

7.5 Where appropriate, the matters raised may:

- be investigated by management, internal audit, the Monitoring Officer or through the disciplinary process;
- be referred to the Police;
- be referred to the external auditor or
- form the subject of an independent inquiry.

Subject to any legal constraints, you will normally be informed of the final outcome of any investigation.

7.6 The Council will take all reasonable steps to minimise any difficulties to employees or others raising concerns and provide advice and support should they be required to give evidence, e.g. at a disciplinary hearing by:

- providing extra support for witnesses or
- offering counselling services where they may be beneficial etc.

## **8 How the matter can be taken further**

8.1 This policy is intended to provide individuals with an avenue to raise concerns within the Council. The Council hopes that those using this process will be satisfied with the way their concerns are treated and any investigations that may be carried out. However, if you are not satisfied and feel it is right to take the matter outside the Council, the Head of HR & Organisational Development can provide advice as to other options. Alternatively, you may contact an outside body to take the matter further. The following are examples of some of the possible contact points:

- the Audit Commission
- relevant professional bodies or regulatory organisations
- a solicitor
- the Police.

8.2 If you do take the matter outside the Council, you need to ensure that confidential information is not disclosed.

## **9 Corporate recording, monitoring and reviewing**

9.1 The Head of Law has overall responsibility for the maintenance and operation of this policy and for ensuring it is reviewed every two years by involving key stakeholders in the process.

9.2 A record of all concerns raised and the outcomes (in a form which respects the individual's confidentiality) will be kept by the Head of Internal Audit & Business Risk.

## **10 If you are dissatisfied**

- 10.1 If you are unhappy with our response, remember you can go to the other levels and bodies detailed in this policy.
- 10.2 While we cannot guarantee that we will respond to all matters in the way that you might wish, we will try to handle the matter fairly and properly.



**Subject:** Recording and responding to Member recommendations at Committee

**Date of Meeting:** 24 September 2013

**Report of:** Executive Director of Finance & Resources and the Head of Law & Monitoring Officer

**Contact Officer:** Name: **Abraham Ghebre-Ghiorghis** Tel: **29-1500**  
Email: [Abraham.ghebre-ghiorghis@brighton-hove.gov.uk](mailto:Abraham.ghebre-ghiorghis@brighton-hove.gov.uk)

**Wards Affected:** All

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

- 1.1 At the meeting of the Audit and Standards Committee in June 2013, the Committee requested further information on the arrangements in place for responding to recommendations made by Members at Committee and Sub-Committee meetings.
- 1.2 This report sets out current procedures and proposes new arrangements in relation to the Personnel Appeals Sub-Committee.

**2. RECOMMENDATIONS:**

It is recommended that the Audit & Standards Committee:

- 2.1 Approves the proposals for responding to recommendations of the Personnel Appeals Sub-Committee as set out at paragraph 3.6-3.9 of the report.
- 2.2 Notes the arrangements as set out in the report for responding to recommendations of Policy Committees\ Sub-Committees and Scrutiny Committees.

**3. BACKGROUND**

- 3.1 At its last meeting, the Audit and Standards Committee asked officers to bring back a report on the procedures and practices in place for ensuring that recommendations made by Committees and Sub-Committees are not lost. The arrangements in place for the different forms of Council are summarised below.

**Policy Committees/Sub-Committees and Regulatory Committees**

- 3.3 At Policy Committees/Sub-Committees and Regulatory Committees report recommendations are agreed and recorded as formal decisions of the Committee in the minutes of the meeting. The minutes are published and are public documents. Individual

comments from members, or suggestions that officers have agreed to take forward outside of the formal decision, are also summarised in the minutes and these are reviewed at the beginning of the next meeting. The relevant Lead Officer (Director) is responsible for ensuring that action that has been agreed is taken forward.

### **Scrutiny Committees**

- 3.4 Agreed recommendations from Scrutiny Panels and Committees follow a formal mechanism and are reported to the relevant Policy Committee with a formal response to each recommendation and how it will be progressed and to what timescale. Implementation of every panel recommendation that has been accepted by a decision making body is then monitored.
- 3.5 A monitoring report is requested approximately 6 months after the recommendations were agreed and this is taken to OSC or HWOSC depending on which committee was responsible for the scrutiny panel. This report will address each of the accepted recommendations and will say whether it has been implemented and, if not, what the implementation timetable looks like. If there are outstanding recommendations, another monitoring report is timetabled in 6 or 12 months until all the recommendations have been implemented to the satisfaction of the scrutiny committee.

### **Personnel Appeals Sub-Committee**

- 3.6 Formal recommendations from the Personnel Appeals Sub-Committee are included in the decision letter that is sent to the appellant, managers and HR. Members have indicated that they would like to receive feedback on whether their recommendations (ie those comments that are made which are in addition to the decision to uphold or not uphold the dismissal, grievance etc) have been implemented.
- 3.7 HR has now set up a system to capture the outcomes from Personnel Appeals and, in particular, capture recommendations and track and capture responses from HR and management in response to these and what action is taken. All outcomes and recommendations from Personnel Appeals will be copied to the Head of HR & OD and the Head of Coaching & Advice to ensure that any themes and trends are picked up.
- 3.8 In addition to the formal recording of recommendations as set out above, it is proposed that a case review will be conducted at the conclusion of each Personnel Appeal involving the relevant officers and HR advisors. This review will look at learning points, understanding the rationale for a decision, understanding any informal feedback from members and sharing any other learning points so we can continually feed this into our service improvement.
- 3.9 The action taken following Appeals will be fed back to all members of the Personnel Appeals Sub-Committee at a session which will be designed to report on all the issues raised by members and the learning that has come from these and to update on other matters relevant to the Personnel Appeals Sub-Committee. It is proposed that this meeting

with members would take place annually and be combined with refresher training from HR and legal services for all members of the Personnel Appeals Sub-Committee.

#### **4. FINANCIAL & OTHER IMPLICATIONS:**

##### **4.1 Financial Implications:**

There are no financial implications arising from the recommendations. Any additional duties within Human Resources and Organisational Development will be provided within existing resources.

Finance Officer Consulted: James Hengeveld Date: 11/09/13

##### **4.1 Legal Implications:**

There are no legal implications arising from the proposals set out in the report.

Lawyer consulted: Elizabeth Culbert Date: 11/09/13

##### **4.2 Equalities Implications:**

The new arrangements proposed in relation to Personnel Appeal Committee recommendations will ensure that any trends or issues relating to equalities are picked up and monitored. The current minuting and publication arrangements for all public council meetings ensure that there is access to the public to Council decision making, in accordance with legal requirements and the Council's desire to operate transparently.

##### **4.3 Sustainability Implications:**

There are none.

##### **4.5 Crime & Disorder Implications:**

There are none.

##### **4.6 Risk and Opportunity Management Implications:**

The proposals in the report will ensure that recommendations made by Members are followed up and actions are reported back to Members.

##### **4.7 Corporate / Citywide Implications:**

The combination of the existing reporting arrangements and the proposals in relation to Personnel Appeal matters will ensure that best use is made of Council resources by pulling together learning and assisting to continually improve our services.

**Subject: Complaints Update****Date of Meeting: 24 September 2013****Report of: Monitoring Officer****Contact Officer: Name: Brian Foley Tel: 293109**E-mail: [brian.foley@brighton-hove.gov.uk](mailto:brian.foley@brighton-hove.gov.uk)**Wards Affected: All****FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 This paper updates the Audit and Standards Committee on allegations about Member conduct following the last report to Audit and Standards Committee on 25 June 2013.
- 1.2 A summary of the decisions for complaints that have been closed are set out in Appendix 1.

**2. RECOMMENDATION:**

- 2.1 That the Committee note the report.

**3. RELEVANT BACKGROUND INFORMATION**

- 3.1 The current status of Code of Conduct complaints is:

## 3.1.1 Active complaints

- One complaint has yet to be resolved by Local Resolution.
- One complaint has been referred for investigation.

## 3.1.2 Closed complaints

- a. A Member of the public complained that a councillor spoke about Christians and the Christian faith in a disparaging way which the complainant found upsetting and personally offensive. Having sought the views of an Independent person the Monitoring Officer concluded that the councillor's remarks were made in the context of a debate dealing with Council business and in the capacity as an elected Member of the Council. In the course of debate it may be expected that some people may disagree with opinions expressed or find them challenging.

It was appreciated that the complainant sincerely considered the councillor's comments offensive but the Monitoring Officer did not

consider the remarks could potentially bring the office of Councillor into disrepute. The Monitoring Officer gave weight to the fact that the remarks giving rise to the complaint were not targeted at any individual and were delivered in a way that was not abusive.

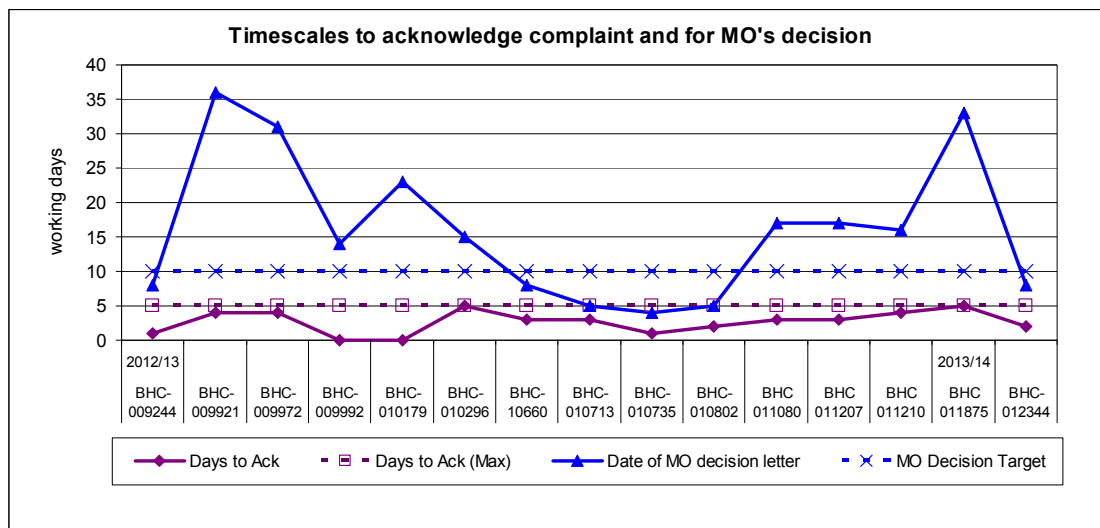
3.2 The Council's performance in dealing with individual complaints is illustrated in the chart below.

3.2.1 Complaints about Member conduct should be acknowledged as soon as possible and within a maximum of 5 working days.

Comment: To date all complaints have been acknowledged within 5 working days.

3.2.2 The complainant will normally be informed within 10 working days how the matter will be dealt with.

Comment: The new process for dealing with complaints about member conduct is working well and decisions are now reached far more quickly than under the previous arrangements. Consultations on individual cases with the Independent Persons take place promptly and have proven to be valuable. The Monitoring Officer will continue to ensure decisions are reached within the 10 day timescale whenever possible.



#### **4. FINANCIAL & OTHER IMPLICATIONS:**

##### Financial Implications:

- 4.1 The costs of complaints in terms of administration and compensation awards (where appropriate) are met within the allocated budget. There were no compensation awards in the period covered by the report.

*Finance Officer Consulted: Anne Silley Date:*

##### Legal Implications:

- 4.2 The Council's arrangements under which complaints about Member conduct are investigated and decided conform with the relevant provisions of the Localism Act 2011; and local procedures agreed by Audit & Standards Committee in September 2012, as amended in April 2013..

*Lawyer Consulted: Oliver Dixon Date: 21/08/13*

##### Equalities Implications:

- 4.3 There are no Equalities implications

##### Sustainability Implications:

- 4.4 There are no Sustainability implications

##### Crime & Disorder Implications:

- 4.5 There are no Crime and Disorder implications

##### Risk and Opportunity Management Implications:

- 4.6 There are no Risk and Opportunity Management implications

##### Corporate / Citywide Implications:

- 4.7 There are no Corporate or Citywide implications

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Summary of the decisions for complaints that have been concluded.

### **Documents In Members' Rooms**

1. None

### **Background Documents**

1. None



## Appendix 1

<b>Audit &amp; Standards Complaint</b>	
<b>Reference Number</b>	<b>BHC-011785</b>
<b>Date Received</b>	<b>29/05/2013</b>
<b>Days to Acknowledge</b>	<b>1 days</b>
<b>Days to reach decision</b>	<b>23 days</b>
<b>Days to conclude</b>	<b>23 days</b>
<b>Complainant</b>	<b>Member of the public</b>
<b>Decision Letter</b>	
<p>On 29 May 2013 a member of the public submitted a complaint about a councillor which referred to the disparaging way the councillor had spoken about Christians and the Christian faith and referred to statements made at full council. The complainant stated they found the remarks personally offensive and upsetting. The complainant also referred to other occasion where the councillor had made known their disagreement with the "the invidious" way that Christians operate in the city.</p> <p>Under Brighton &amp; Hove City Council's arrangements for dealing with breaches of the Member's Code of Conduct the Monitoring Officer is required to consider the complaint and, after consultation with an Independent Person, take a decision as to whether it merits formal investigation. An 'Independent Person' in this context is a person who has been appointed under the provisions of the Localism Act 2011 who is not an elected Councillor and who has no connection to the Council.</p> <p>Having carefully reviewed the complaint and having consulted with an Independent Person, the Monitoring Officer reached the view that the issues raised could not amount to a breach of the Code of Conduct and therefore should not be referred for investigation. The reasoning for this decision is explained below.</p> <p>The councillor's remarks were made in the context of a debate dealing with Council business and in their capacity as an elected Member of the Council. In the course of debate it may be expected that some people may disagree with opinions expressed or find them challenging.</p> <p>Whilst it is appreciated that the member of the public sincerely considered the councillor's comments offensive, the Monitoring Officer did not consider the remarks could potentially bring the office of Councillor into disrepute. He gave weight to the fact that the remarks giving rise to the complaint were not targeted at any individual and were delivered in a way that was not sneering, sarcastic or abusive.</p> <p>The decision not to investigate the complaint is exclusively based on whether the actions of the Member referred to could amount to a breach of the Council's Code of Conduct for Members. It is not based on any assessment of the views and opinions held by the councillor. Having taken these considerations into account, the Monitoring Officer's conclusion is that this complaint should not be investigated.</p>	



<b>Subject:</b>	<b>2012/13 Audit Results Report</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Ernst &amp; Young</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Helen Thompson</b>	<b>Tel:</b> 07974 007332
	<b>Email:</b>	<a href="mailto:HThompson2@uk.ey.com">HThompson2@uk.ey.com</a>	
<b>Ward(s) affected:</b>	<b>All</b>		

## **1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The Audit Results Report summarises the findings of the 2012/13 audit which is now substantially complete. It includes the key messages arising from the audit of the financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money in its use of its resources.
- 1.2 We plan to issue an unqualified opinion on the financial statements.
- 1.3 We intend to issue an unqualified conclusion stating the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **2. RECOMMENDATIONS:**

- 2.1 To consider the Audit Results Report and:
  - Take note of the adjustments to the financial statements which are set out on pages 8 to 10 of the report.
  - Agree to adjust the errors in the financial statements which management has declined to amend set out on pages 10 and 19 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 copy of the letter of representation is presented to you under a separate report on the Statement of Account 2012/13 from the Executive Director of Finance and Resources.



# Brighton & Hove City Council

Audit Results Report (ISA260) for the year ended 31  
March 2013

September 2013



Building a better  
working world



**Private and confidential**

Councillor Leslie Hamilton  
Chair  
Audit & Standards Committee  
Brighton & Hove City Council  
King's House  
Grand Avenue  
Hove BN3 2LS

September 2013

Dear Les

**Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Standards Committee. This report summarises our preliminary audit conclusion in relation to Brighton & Hove City Council's (the Council's) financial position and results of operations for 2012/13.

The audit is designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit & Standards Committee meeting scheduled on 24 September 2013.

Yours sincerely  
For and on behalf of Ernst & Young LLP

Helen Thompson  
Ernst & Young LLP  
United Kingdom  
Enc.





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

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

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

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

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

## Overview of the financial statement audit

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

As auditors we are responsible for:

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

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

### Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Council's financial statements. We identified no significant risks impacting on the audit of the financial statements. Our main findings in relation to the areas of other financial statement risk included in our Audit Plan are set out below.

### Other financial statement risks:

---

#### Bank reconciliations

A small number of issues were identified in your 2011/12 year end processes to reconcile your bank accounts and other cash balances reported in your financial statements. As part of our 2012/13 work to walk-through your cash and bank system we also identified an unreconciled difference between the housing benefit bank balance in your cash management system and the balance shown in the bank statement.

#### Findings

We are satisfied these issues have been addressed subject to a very small remaining difference on the general account reconciliation.

---

#### New long term asset and lease accounting system

You have changed the system you use to record and account for long term assets and leases during 2012/13. As part of work needed to implement the new system you have transferred and reconciled closing 2011/12 balances between the old and new systems.

#### Findings

We reviewed the transfer and reconciliation of closing 2011/12 balances between your old and new systems to ensure that balances have been brought forward correctly to 2012/13 in the new system. This work identified no issues that we wish to bring to your attention.

---

## **Payroll**

In previous years both external and internal audit have reported significant weaknesses in the internal control environment within your payroll system. Although controls have been capable of giving material assurance they have not been operated effectively and therefore have not been considered to be reliable. Weaknesses in the control environment were further exacerbated by the inherent complexity of your payroll.

### **Findings**

We substantively tested payroll transactions to gain assurance for our opinion on the 2012/13 financial statements. Although we have not identified material errors, our work confirms that your payroll remains highly complex, particularly in terms of the number of different allowances payable. This increases the risk of both error and fraud occurring.

---

## **Journals processed on the general ledger**

External audit has identified in previous years that manual adjustment journals processed on the general ledger are not always subject to formal checking and authorisation. This creates a risk that income and expenditure is misclassified on the general ledger and misreported in your financial statements. In response to this issue in 2011/12 you introduced a scheme of on-screen authorisation for journals that are considered to be high risk or more complex. However, internal audit identified and reported weaknesses in the new scheme caused by the failure to follow guidance consistently. As a result, you subsequently issued updated guidance in December 2012.

### **Findings**

We tested the authorisation control you have established over high risk or more complex journals and found it to be operating effectively. We also used our computer-based analytics tool to support our substantive testing of journals. This allowed us to consider the entire journal population and facilitated a more risk-based approach which also considers indicators of process inefficiency and internal control breakdown. We considered the output from our interrogation of your journals, followed up outliers and unusual trends and tested a sample of journals using a risk-based approach. Our work in this area identified no errors or other issues.

---

## **Pensions disclosures in the financial statements**

You participate in the local government pension scheme administered locally by East Sussex County Council. Each year you commission Hymans Robertson LLP, an independent firm of actuaries, to assess the value of your pension fund assets and liabilities. This work informs disclosures in your financial statements. Some weaknesses in your arrangements to process entries in the financial statements have been raised in previous reports to those charged with governance.

### **Findings**

Our work found that you have made some improvements in your arrangements in this area and have established processes to better understand the basis of the estimate of employer contributions used by the actuary to inform their work, and assess the reasonableness of entries processed in the financial statements that are based on the actuarial valuation. You recognise there remains scope to continue to improve these processes. In light of this you plan to reduce the level of tolerance you apply in your checking process and undertake a more sophisticated analysis of changes in employee data made in the final quarter of the year to better assess the accuracy of the estimate of full year employer contributions provided to the actuary.

### **Risk of misstatement due to fraud and error**

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

### **Findings**

We identified no material misstatements or evidence of material fraud. We do, however, continue to note that the high level of complexity of your payroll increases the risk of undetected fraud and error occurring in this area.

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### **Economy, efficiency and effectiveness**

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

### **Whole of Government accounts**

We have completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts. We have no issues to report.

### **Control themes and observations**

Our audit has not identified any significant control issues that we are required to bring to your attention

### **Summary of audit differences**

Our audit identified a relatively small number of misstatements in the accounts presented for audit. These are detailed in Section 3 of this report.

## Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we presented to the Audit & Standards Committee on 16 April 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

We carried out our work in accordance with our Audit Plan.

## Significant findings from the financial statement audit

In this section of our report, we outlined the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan. We identified no significant risks impacting on the audit of the financial statements. Our main findings in relation to the areas of other financial statement risks included in our Audit Plan are set out below.

### Bank reconciliations

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A small number of issues were identified in your 2011/12 year end processes to reconcile your bank accounts and other cash balances reported in your financial statements. The following differences were reported as part of the 2011/12 year end report to those charged with governance:

- ▶ A difference of £60,000 between the bank balance on the general ledger and your reconciliation schedule relating to schools cash balances. This difference was originally caused by the merger of two schools in 2010/11.
- ▶ An unmatched balance on the reconciliation of your payments accounts of approximately £80,000 which originates from the bank reconciliation module of your cash management system.

You have been working with your cash management system supplier during the year to address differences in reconciliations and good progress has been made. However, there remained small historic differences on both your general and payment accounts reconciliations that you were continuing to investigate before year-end.

At the interim stage we were not able to substantiate that the £60,000 difference relating to schools cash balances had been fully cleared due to slippage in the quarterly programme of school balance reconciliations in the year.

Finally, as part of our work to walk-through your cash and bank system we identified an unreconciled difference of approximately £21,900 between the housing benefit bank balance in your cash management system and the balance shown in the bank statement.

### Our response and findings

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We considered each of these issues as part of our testing of your year-end bank reconciliations.

- ▶ The £60,000 difference between the bank balance on the general ledger and your reconciliation schedule relating to schools cash balances was resolved by the time of the year end reconciliation. Delays in the performance of quarterly schools reconciliations noted as part of our interim work had also been addressed by the end of the year.
  - ▶ Work has been undertaken with your cash management system supplier during the year to address the unmatched balance on the reconciliation of your payments account. Good progress has been made although a small difference of approximately £810 remains on your year-end general account reconciliation.
  - ▶ The unreconciled difference of approximately £21,900 relating to the housing benefit bank account was resolved by the time of the year-end reconciliation.
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### **New long term asset and lease accounting system**

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You have changed the system you use to record and account for long term assets and leases during 2012/13. Your new Logotech system should enable you to comply more easily with the accounting and disclosure requirements required by international financial reporting standards in this area.

As part of work needed to implement the new system you have transferred and reconciled closing 2011/12 balances between the old and new systems.

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### **Our response and findings**

As part of our work we reviewed and tested the transfer and reconciliation of closing 2011/12 balances between your old and new systems to ensure that balances have been brought forward correctly to 2012/13 in the new system. This work identified no issues that we wish to bring to your attention.

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### **Payroll**

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In previous years both external and internal audit have reported significant weaknesses in the internal control environment within your payroll system. Although controls have been capable of giving material assurance they have not been operated effectively and therefore have not been considered to reliable. Weaknesses in the control environment were further exacerbated by the inherent complexity of your payroll.

You have worked to simplify your payroll and improve the operation of controls. This work has been actively considered by senior officers, the Audit & Standards Committee and internal audit.

This work has been ongoing during the 2012/13 year and improvements in the control environment have not operated consistently throughout the whole period. We are therefore not able to rely on the operation of controls to gain assurance for our opinion on your 2012/13 financial statements.

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### **Our response and findings**

We substantively tested payroll transactions to gain assurance for our opinion on the 2012/13 financial statements. We planned to use our computer-based analytics tool to extract and interrogate data from the payroll system. This would allow us to consider the entire population of data and facilitate a more risk-based approach which also considers indicators of process inefficiency and internal control breakdown.

We were not able to use our analytics tool to its full potential because of difficulties in completely and accurately mapping the data extracted from your payroll system to the standard parameters used by the tool. This was caused by the high level of complexity of your payroll, and in particular the high number of different allowances paid. We will continue to work with your payroll team during the course of 2013/14 to resolve some of the issues faced in 2012/13 and maximise the potential benefits of the analytics tool.

Our detailed substantive testing of payroll transactions did not identify any material errors. There were, however, difficulties in providing evidence to provide complete support for all elements of payments and deductions. This was again caused, in part, by the high level of complexity of the payroll and the relatively large number of categories of allowances and deductions. We have concluded that the high level of complexity of your payroll increases the risk of both error and fraud occurring, although this risk is unlikely to be material. The work you are currently undertaking on pay modernisation should result in simplification of the Council's payroll and reduce this risk of fraud and error.

## **Journals processed on the general ledger**

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Manual adjustment journals processed on the general ledger are not always subject to formal checking and authorisation. This creates a risk that income and expenditure is misclassified on the general ledger and misreported in your financial statements.

This weakness was raised in the 2009/10, 2010/11 and 2011/12 reports to those charged with governance.

In response to this issue in 2011/12 you introduced a scheme of on-screen authorisation for journals that are considered to be high risk or more complex. However, internal audit identified and reported weaknesses in the new scheme caused by the failure to follow guidance consistently which resulted in gaps in documentation retained to support journal entries made. You subsequently issued updated guidance in December 2012.

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## **Our response and findings**

We tested the authorisation control you have established over high risk or more complex journals and found it to be operating effectively.

We substantively tested journals as part of our work on your financial statements and used our computer-based analytics tool to support this work. This allowed us to consider the entire journal population and facilitated a more risk-based approach which also considers indicators of process inefficiency and internal control breakdown. We considered the output from our interrogation of your journals, followed up outliers and unusual trends and tested a sample of journals in details using a risk-based approach. Our work in this area identified no errors or other issues.

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## **Pensions disclosures in the financial statements**

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You participate in the local government pension scheme administered locally by East Sussex County Council. Each year you commission Hymans Robertson LLP, an independent firm of actuaries, to assess the value of your pension fund assets and liabilities. This work informs disclosures in your financial statements.

Some weaknesses in your arrangements to process entries in the financial statements have been raised in previous year reports to those charged with governance. Specifically:

- ▶ There is scope to improve communication between your payroll and central accounting teams on the basis of the estimate of employer contributions made in the period that is provided to the actuary and used to inform its estimate of scheme assets and liabilities.
- ▶ There is scope to better challenge the data provided in the actuarial valuation for reasonableness prior to entries being processed in the financial statements.



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### **Our response and findings**

We reviewed pension scheme disclosure in your financial statements. This included consideration of the accuracy of estimates informing those disclosures and your internal processes to review the actuarial valuation for reasonableness. Our work found that you have made some improvements in your arrangements in this area. Specifically you review some of the disclosures in the actuarial valuation against expectations and follow-up if a defined level of tolerance from your expectation is exceeded. However, you recognise that there remains scope to continue to improve these checking processes. In light of this you plan to reduce the level of tolerance you apply and undertake a more sophisticated analysis of changes in employee data made in the final quarter of the year to better assess the accuracy of the estimate of full year employer contributions provided to the actuary. See recommendation 1.

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### **Recommendation 1**

Implement your planned improvements to the checks undertaken on the reasonableness of estimated data used to inform the actuarial valuation.

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### **Risk of misstatement due to fraud and error**

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

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### **Our response and findings**

Based on the requirements of auditing standards our approach focused on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management and internal audit about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We also considered the results of the National Fraud Initiative as relevant to this area.

We identified no material misstatements or evidence of material fraud. We do, however, continue to note that the high level of complexity of your payroll increases the risk of undetected fraud and error occurring in this area.

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## **Summary of Audit Differences**

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

## Corrected Misstatements

Our audit identified one material misstatement. This related to the valuation of Brighton Pavilion. The misstatement was judgemental in nature and had no impact on the Council's reported financial performance.

Only a relatively small number of presentation and disclosure amendments were required to the financial statements. We have concluded that you continue to produce good quality draft financial statements. The financial statements submitted for audit were complete, supported by the working papers we requested, internally consistent and generally compliant with extant accounting and disclosure requirements. This is a result of effective closedown processes and arrangements to produce and quality review the draft financial statements prior to submission for audit.

We highlight in particular the following misstatements identified during the course of our audit that have been corrected by management:

- ▶ Comprehensive Income and Expenditure Statement (CIES) – Our detailed testing identified that income and expenditure shown in the Cultural Services section of the CIES was over-stated by approximately £1.2 million. We were not able to conclude that this error was isolated. As a result of this you undertook work which identified a further £5.5 million of similar errors within net cost of services. The errors were caused by internal re-charge and budget adjustment journals not being eliminated from the financial statements. The Council should review its processes to ensure that all internal re-charge and budget adjustment journals are identified and eliminated from income and expenditure disclosed as part of the financial statements. See recommendation 2.
- ▶ Note 17 (heritage assets) – The closing 2012/13 carrying value of the Royal Pavilion was under-stated by approximately £22 million. You had initially reduced the insurance value by 15 per cent to arrive at the carrying value in the financial statements to reflect the proportion of the insurance valuation relating to fixtures, fittings and other contents. We challenged the basis for this accounting estimate. On further consideration you decided that the value of fixtures and fittings was likely to be nominal and that it was not appropriate to reduce the insurance valuation by 15 per cent to arrive at the carrying value in the financial statements. You have also disclosed a prior period adjustment in relation to this issue.
- ▶ Note 37 (debtors) - Primary care trust and strategic health authority debtors had been disclosed as relating to central government. The accounts have been amended to reflect their correct classification as debtors with NHS bodies. The total value of the reclassification was approximately £2 million.
- ▶ Note 39 (financial instruments) – There were a number of adjustments to debtors (financial assets) and creditors (financial liabilities) disclosed in the financial statements. The gross value of the adjustments to the financial instruments disclosure in 2012/13 was approximately £14.7 million. Adjustments were also made to prior year comparatives to consistently apply the changed approach to the classification of financial assets and liabilities. All the adjustments made in this area are disclosure only and relate only to the financial instrument note. As part of our work in this area we note that the Council still excludes all Private Finance Initiative (PFI) and finance lease assets and liabilities from its financial instrument disclosure. Although these assets and liabilities are disclosed elsewhere in the statements and a cross reference is added to relevant notes the Council should continue to consider its approach to ensure it complies with the requirements of the Code. See recommendation 3.

- ▶ The Code of Practice on Local Authority Accounting (the Code) requires the disclosure of an analysis of the age of financial assets that are past due as at the reporting date but not impaired by class of financial asset. No such disclosure was made in the draft financial statements. You have now updated note 39 (financial instruments) to include this disclosure.

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**Recommendation 2**

The Council should review its processes to ensure that all internal re-charge and budget adjustment journals are identified and eliminated from income and expenditure disclosed as part of the financial statements.

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**Recommendation 3**

Continue to consider the current disclosure of PFI and finance lease financial instruments in the financial statements to ensure it is compliant with the requirements of the Code.

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The corrected errors had no impact on the Council's reported out-turn position.

**Uncorrected misstatements**

Our audit identified the following uncorrected misstatements that we need to bring to your attention. The Audit & Standards Committee should consider whether to adjust the errors in the financial statements we have identified that management has not amended, or set out the reasons for not amending the errors.

- ▶ Note 22 (leases and lease type arrangements) – our sample testing of leases identified an error in the analysis of future minimum lease payments due under operating leases where the Council is lessor. We extrapolated the error to determine the overall impact on the financial statements. Based on this the total value of the uncorrected errors in the disclosure at Note 22 is £5,640,000.
- ▶ Note 38 (creditors) – our sample testing of creditors identified an over-accrual of capital creditors. The total value of the accrual made was approximately £805,000 and the value of the over-accrual was approximately £532,000. We have not been able to conclude this error is isolated and have performed an extrapolation to estimate the impact on the total creditors value disclosed in the financial statements. Based on this extrapolation we have concluded that the total value of creditors in the financial statements is over stated by £2,045,000. We identified two other low value errors in your accrual processes as a result of our work. Although arrangements to ensure accruals are properly raised remain adequate overall you should revisit your arrangements in this area to ensure they remain fit for purpose and are adequately communicated. See recommendation 4.

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**Recommendation 4**

Revisit your accruals processes to ensure they remain fit for purposes and are adequately communicated.

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## Economy, efficiency and effectiveness

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

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

In considering your arrangements we have also considered the key areas of focus set out in the Audit Plan:

- ▶ 2013/14 budget setting, and medium term financial planning arrangements, including assumptions made in response to the 2013/14 and provisional 2014/15 settlements.
- ▶ The Council's ongoing response to the recent significant legislation, including the 2011 Localism Act, (in respect of local taxation and changes to governance, scrutiny and standards), the Welfare Reform Act 2012 and the Local Government Finance Act 2012.
- ▶ Review the Audit Commission's VFM profile data in respect of the Council together with review of the Council's own VFM improvement programme.

### Financial Resilience

We are required to assess the Council's arrangements for securing financial resilience. This includes an assessment of whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The financial resilience criterion has three aspects:

- ▶ financial governance;
- ▶ financial planning; and
- ▶ financial control.

### Financial governance

Senior management has been subject to significant changes during 2012/13 with the departure of the Chief Executive and three of the Council's strategic directors. The Council's current chief executive came into post in December 2012 and a new Council management structure was established with effect from April 2013. The current Executive Director for Finances and Resources has been the section 151 officer throughout this period of change and temporarily acted as interim Chief Executive. This has provided continuity of understanding of the significant and rapidly changing financial management challenges and risks facing the Council and stability in its arrangements to ensure that its sound financial position is maintained.

At a high level the Council has continued to use its 'Targeted Budget Management' (TBM) approach to monitor financial performance. TBM is a key component of the Council's overall performance monitoring and control framework. Monthly reports are produced which set out the forecast outturn position on the Council's revenue and capital budgets for the financial year. The process focuses in particular on 'corporate critical budgets', which are those budgets thought to be the most risky and likely to overspend, and significant variances and trends that are identifiable.

This Council's Policy and Resources (P&R) Committee has overall responsibility for the financial and other resources of the Council, for developing the Council's strategy and policy based on national government and local priorities, and for the development of partnership working. It also has responsibility for many of the services delivered to residents and customers. The P&R committee receives financial updates on budget monitoring through TBM, budget development and other ad hoc reports on developments with major financial implications for the Council in the 'financial matters' section of meetings. This allows challenge of officer reporting of financial performance, budget development and other financial matters.

The Council has also updated its broader governance arrangements to address the significant changes arising from the Localism Act 2011, including the general power of competence and the abolition of the Standards Board regime.

## **Financial planning**

The Council has set out its key priorities for the period 2011-2015 in its corporate plan. The corporate plan is supported by a medium term financial strategy (MTFS) which is updated annually as part of the budget setting process.

The Council has conducted its annual refresh of its MTFS which now extends to 2018/19. The refresh considers the impact of the 2013/14 budget settlement and the very significant financial challenges facing the Council over the next six years. It forecasts that the Council will need to identify new savings of about £120 million over the six years 2013/14 to 2018/19. This represents a reduction of about 30 per cent in its gross general fund budget. The MFTS recognises that the Council has relatively high unit costs in areas such as social care for adults and children that will need to be addressed. This is supported by our analysis of the Audit Commission's value for money profiles. The updated MTFS also recognises that a number of other strategies need to be followed to maintain a stable financial position:

- ▶ growth of the council tax base and business rates tax base;
- ▶ maximising fees, charges and rents;
- ▶ supporting adult social care clients to stay in their own homes;
- ▶ improvement of procurement and commissioning;
- ▶ prioritising prevention and early intervention in children's services;
- ▶ seeking to leverage external investment;
- ▶ working in partnership with the community and voluntary sector; and
- ▶ moving some (typically discretionary) services onto a more independent and commercial basis.

The update of the MTFS demonstrates a clear consideration of the financial impacts of recent legislative changes including;

- ▶ localisation of council tax support;
- ▶ the new business rate retention scheme. In particular, significant provision is being made in future budgets for increased costs to the Council arising from it having to fund the financial impact of successful appeals against rating valuations by local businesses;
- ▶ changes in the level of benefit payments and funding and associated impacts this may have in other areas of service provision such as homelessness; and
- ▶ increased freedom in the use of available grant funding, for example via the local services support grant.

In setting its 2013/14 budget the Council has recognised that a number of 2014/15 proposals have needed to be fast-tracked to maintain a sustainable financial position. The Council has also considered external research on local inflationary and demand related cost pressures mainly in relation to social care, energy and environmental costs in its budget setting. It recognises that, unless these cost pressures can be effectively managed, the Council is unlikely to be able to sustain support for other services in their current form over the medium term.

## **Financial control**

The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from budget managers through to the Policy & Resources Committee. Monthly TBM reports are also considered by senior management. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending together with more regular monitoring of high risk 'corporate critical' areas.

The Council continues to have a good track record of maintaining its spending within budget. The provisional 2012/13 out turn position reported for the General Fund is an under-spend of £4.610 million compared to £4.513 million assumed at budget setting time. The provisional out turn for the Housing Revenue Account is an under-spend of £1.963 million and the provisional out turn for the Dedicated Schools Grant is an under-spend of £1.089 million. The overall level of under-spending delivered in 2012/13 slightly out performs the target level of under-spending for the year set out in the Council's medium term financial plans.

## **Economy, efficiency and effectiveness**

We are also required to assess the Council's arrangements for securing economy, efficiency and effectiveness. This criterion has two aspects:

- ▶ prioritising resources; and
- ▶ improving efficiency and productivity.



## Prioritising resources

2013/14 budget setting and the annual refresh of the MTFs show an awareness of the scale of the medium term financial challenges faced the Council and a growing acceptance that it will need to think more radically about its current methods and level of service provision if it is to deliver the value for money improvement needed to maintain a stable financial position.

The Council makes use of cost and performance information to assess the impact of spending decisions and monitor the delivery of its savings plans, and to help ensure spending cuts are not having detrimental impact on service quality and performance in priority areas. There is an annual city performance plan (CPP). That is considered by Full Council, the P&R Committee and the Overview and Scrutiny Committee as part of the Council's overall performance and risk management framework. The CPP has moved away from being performance indicator driven towards reporting progress on city outcomes. Reporting outlines current activity, future activity, and barriers for each outcome and associated priority area. There are key indicators in each outcome area in order to offer additional performance information in assessing progress. Out turn against the CPP is reported annually as part of the Council's annual performance update, with a full update reported at six months. The annual performance update consolidates information from the three major performance management reports for the city and Council:

- ▶ the CPP;
- ▶ the corporate plan; and
- ▶ the organisational health report, which contains key council service performance information.

No significant deterioration in performance was reported in the 2012/13 annual performance update. The P&R committee receives budget monitoring reports under the TBM process and performance reports under the CPP process and therefore is able to link financial performance and priorities to service performance and outcomes against priorities.

The 2012/13 budget includes a number of examples of partnership working across the city, particularly with health and on community safety activity. There are well established partnerships under section 75 of the NHS Act 2006 for the commissioning and integrated provision of services to children, adults and older people, although these need to be fully reassessed in the light of structural change in the National Health Service. There is also recognition that partnership working will need to continue and be strengthened to ensure that all partners in the city, including the broader community and voluntary sector, understand how collective resources can be best used to maximise benefit overall.

## Improving efficiency and productivity

The Council has a well established value for money (VFM) programme and a good track record of delivering its planned savings that has continued into 2012/13. Total 2012/13 VFM savings of £10.080 million have been achieved against an original target of £6.933 million, representing an over-achievement of 45 per cent. This was mainly due to an overachievement in children's services. An underachievement of £0.377 million was experienced in relation to corporate VFM savings.

The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative performance of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area. We have used the

latest available VFM profile data, largely relating to financial year 2011/12, to review the cost and efficiency of Council services relative to others.

Review of the VFM profile data shows that the Council remains high spending compared to its statistical nearest neighbours. This is true for both its overall per capita spending, and per capita spending in each of its main service areas. Spending is decreasing in the majority of areas but not at a faster rate than at statistically similar authorities. Spend per head is particularly high in children's services and housing services, where it is in the top five per cent relative to comparable authorities. The need to reduce relatively high unit costs in high spending, demand led service areas is explicitly recognised by the Council in its 2012/13 refresh of the MTFS. In terms of financial resilience, both the absolute value of the council tax financing requirements and the value of income from fees and charges remain in the top ten per cent, which is consistent with the high level of relative spend on services. The Council's comparative financial standing remains sound, with a relatively high level of non-schools reserves as a percentage of spend.



## Control themes and observations

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

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

We undertook work during the year to gain an understanding of the Council's material contracts. This showed that the Council did not have a complete or up to date master register of all its contracts. Some records were maintained by both the Council's legal and procurement teams but neither was fully complete. A complete record of all contracts over £75,000 requiring the corporate seal at the end of 2012/13 has now been established by legal services. This should be used as a starting point for population of the Council's new contract monitoring system. See recommendation 5.

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### **Recommendation 5**

Use the record of all contracts over £75,000 as a starting point for population of the Council's new contract monitoring system.

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## **Information technology general controls**

As part of our work on the financial statements we performed a review of the design and operating effectiveness of information technology general controls (ITGCs) over the significant financial applications supporting the accounts. Our procedures included documenting the significant computer applications, documenting controls related to changes to production programs and logical access to data and programs. The scope of our review focused primarily on the production environment for the Civica Financials and Civica Purchasing systems.

We have concluded that we are able to rely on ITGCs within Civica Financials and Civica Purchasing to support our audit of the financial statements. We have, however, made a number of observations and raised detailed recommendations as a result of our work in this area. A separate memo has been produced to report the outcome of this work. This includes details of recommendations agreed with officers.

## Progress update

### Financial statement audit

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

Item	Actions to resolve	Responsibility
Letter of representation	To be approved at the 24 September Audit & Standards Committee.	Management and Audit & Standards Committee
WGA	Work is complete but amendments need to be made to the consolidation return.	EY and Central Accounting
External confirmation of borrowing	One confirmation remains outstanding	EY and Strategic Finance

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

### Economy, efficiency and effectiveness

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

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

### Objections

We have not received any objections to the 2012/13 accounts from members of the public as at the date of this report.

## Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £'000
Total Audit Fee – Code work	210,330	210,330	210,330
Certification of claims and returns	See Note 1	23,700	23,700

Our actual fee is in line with the agreed fee.

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

Note 1: Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.

## Summary of audit differences

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

We have included all amounts greater than £12 million in our summary of misstatements below. We highlight the following misstatements identified during the course of our audit that have been corrected by management:

- ▶ Note 17 (heritage assets) – The value of the Royal Pavilion was under-stated by approximately £22 million. You had initially reduced the insurance value by 15 per cent to arrive at the carrying value in the financial statements to reflect the proportion of the insurance valuation relating to fixtures, fittings and other contents. We challenged the basis for this accounting estimate. On further consideration you decided that the value of fixtures and fittings was likely to be nominal and that it was not appropriate to reduce the insurance valuation by 15 per cent to arrive at the carrying value in the financial statements. You have also disclosed a prior period adjustment in relation to this issue.
- ▶ Note 39 (financial instruments) – There were a number of adjustments to debtors (financial assets) and creditors (financial liabilities) disclosed in the financial statements. The gross value of the adjustments to the financial instruments disclosure in 2012/13 was approximately £14.7 million. Adjustments were also made to prior year comparatives to consistently apply the changed approach to the classification of financial assets and liabilities. All the adjustments made in this area are disclosure only and relate only to the financial instrument note.

There were no misstatements greater than £12 million that management has declined to correct. There are two uncorrected misstatements that we need to draw to your attention. The Audit & Standards Committee should consider whether to adjust the errors in the financial statements we have identified that management has not amended, or set out the reasons for not amending the errors.

- ▶ Note 22 (leases and lease type arrangements) – our sample testing of leases identified an error in the analysis of future minimum lease payments due under operating leases where the Council is lessor. We extrapolated the error to determine the overall impact on the financial statements. Based on this the total value of the uncorrected errors in the disclosure at Note 22 is £5,640,000.
- ▶ Note 38 (creditors) – our sample testing of creditors identified an over-accrual of capital creditors. The total value of the accrual made was approximately £805,000 and the value of the over-accrual was approximately £532,000. We have not been able to conclude this error is isolated and have performed an extrapolation to estimate the impact on the total creditors value disclosed in the financial statements. Based on this extrapolation we have concluded that the total value of creditors in the financial statements is over stated by £2,045,000.

## Independence confirmation: update

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit & Standards Committee on 24 September 2013.

# Appendix A Communications with the Audit & Standards Committee

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

Required communication	Reference
<p><b>Terms of engagement</b></p>	<p>The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies</p>
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	<p>Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	<p>Audit results report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	<p>Audit results report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	<p>Understanding how the those charged with governance gain assurance from management obtained via letter from Chair of the Audit &amp; Standards Committee . This was considered at the 16 April meeting of the Audit &amp; Standards Committee</p>

Required communication	Reference
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>Audit results report – no significant matters arising</p>
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Not applicable</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	<p>Understanding how those charged with governance gain assurance from management obtained via letter from Chair of the Audit &amp; Standards Committee. This was considered at the 16 April meeting of the Audit &amp; Standards Committee</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and update in section 8 of this report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Audit results report – no such concerns have been identified</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit results report – no significant deficiencies identified</p>

Required communication	Reference
<b>Group audits</b>	
<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Not applicable
<b>Opening Balances</b>	
<ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	Audit results report – no significant issues identified
<b>Fee reporting</b>	
<ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	Audit Plan and Audit results report
<b>Summary of certification work undertaken</b>	
<ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	Annual Certification Report – to be issued in January 2014



## Appendix B Request for a letter of representation

To: Catherine Vaughan, Executive Director Finances & Resources

Dear Catherine

### **Brighton & Hove City Council– 2012/13 financial year Request for a letter of representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects local government bodies and I expect the following points to apply:

- ▶ auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- ▶ auditors are likely to request written representations on the completeness of information provided;
- ▶ auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- ▶ the letter is dated on the date on which the auditor signs the opinion and certificate;
- ▶ the letter is signed by the person or persons with specific responsibility for the financial statements; and
- ▶ the letter is formally acknowledged as having been discussed and approved by the Audit & Standards Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following matters.

#### **A. Financial Statements and Financial Records**

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).
2. That you acknowledge your responsibility for the fair presentation of the financial statements. You believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. You have approved the financial statements.
3. You confirm that as Responsible Officer you have:
  - ▶ reviewed the accounts;
  - ▶ reviewed all relevant written assurances relating to the accounts; and
  - ▶ made other enquiries as appropriate.
4. That the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. That you believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.
6. You believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Reasons for not correcting each of the uncorrected misstatements are as follows:

Note 22 leases and lease type arrangements

Note 38 (creditors)

#### **B. Fraud**

1. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. You have disclosed to us the results of your assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. You have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, you have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. You have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

#### **C. Compliance with Laws and Regulations**

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

#### **D. Information Provided and Completeness of Information and Transactions**

1. You have provided us with:
  - ▶ access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
  - ▶ additional information that we have requested from us for the purpose of the audit; and
  - ▶ unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. That you have made available to us all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes

have not yet been prepared) held through the year to the most recent meeting on the following date: 24 September 2013.

4. That you confirm the completeness of information provided regarding the identification of related parties. You have disclosed to us the identity of the Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. That you have disclosed to us, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that you have given to third parties.

#### **F. Subsequent Events**

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

#### **G. Accounting Estimates**

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
  - ▶ That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - ▶ That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - ▶ That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - ▶ That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H. Retirement benefits**

1. On the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

#### **I. Segmental reporting**

1. That you have reviewed the operating segments reported internally to the management team and Council and that you are satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8:Operating Segments, they are similar in each of the following respects:
  - ▶ The nature of the products and services.
  - ▶ The nature of the production processes.
  - ▶ The type or class of customer for their products and services.
  - ▶ The methods used to distribute their products.

#### **J. Going Concern**

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

#### **K. Specific Representations**

1. That there have been no significant changes to the Council's Private Finance Initiative schemes during 2012/13 and contractual arrangements, including any material variations, and the accounting model used are not significantly changed from the end of the last accounting period.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated on the proposed audit opinion date, on formal headed paper. The letter of representation should also be signed and dated by Councillor Leslie Hamilton as Chair of the Audit & Standards Committee.

Yours sincerely

Helen Thompson  
Director  
Ernst & Young LLP  
United Kingdom

**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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<b>Subject:</b>	<b>Statement of Accounts 2012/13</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Jane Strudwick</b>	<b>Tel:</b> 29-1255
	<b>Email:</b>	<b>jane.strudwick@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 This report provides information about the audit of the 2012/13 Accounts, and recommends approval of the 2012/13 Statement of Accounts and the Letter of Representation on behalf of the council.
- 1.2 Under the Accounts and Audit Regulations 2011, the council's Statement of Accounts for 2012/13 must be approved by Members by the 30 September 2013. Under the council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 1.3 The council's external auditors (Ernst & Young LLP) are required to give assurance that the Statement of Accounts is free from material misstatement and to report significant matters arising from the audit.
- 1.4 Ernst & Young has conducted its audit of the Statement of Accounts and has identified one material misstatement relating to the valuation of the Royal Pavilion together with a relatively small number of presentation and disclosure amendments prior to issuing their opinion and the publication of the accounts.
- 1.5 This report presents the revised 2012/13 Statement of Accounts following the audit. It outlines the amendments made to the financial statements since they were presented to the June committee and provides assurances 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:**

It is recommended that the Audit & Standards Committee:

- 2.1 Notes the findings of Ernst & Young in their Audit Results Report (ARR). The ARR is a separate item on this agenda.
- 2.2 Notes the adjusted misstatements to the 2012/13 Statement of Accounts (paragraph 7.3 and Appendix 4).

- 2.3 Considers the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraph 7.4 and Appendix 5).
- 2.4 Notes the results of the public inspection of the accounts (Section 9).
- 2.5 Approves the letter of representation on behalf of the council (Appendix 1).
- 2.6 Approves the audited Statement of Accounts for 2012/13.

### **3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:**

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

### **4. FORMAT OF THE STATEMENT OF ACCOUNTS**

- 4.1 As reported to the June committee, the council is required to present its financial statements on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2012/13 financial statements cover the period 1 April 2012 to 31 March 2013.
- 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 council and to provide answers to basic questions such as:
  - What did the council's services and capital programme cost in 2012/13?
  - 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, the notes to the accounts and a statement of accounting policies.



- 4.4 The statement would normally comprise both “Single Entity Accounts”, which are in respect of wholly council controlled activities, and “Group Accounts” in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, there are no activities requiring the preparation of Group Accounts in 2012/13.
- 4.5 The Single Entity core financial statements included within the Statement of Accounts comprise the following:-
- Movement 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 2011)
  - Cash Flow Statement
  - Notes to the Financial Statements
  - Statement of Accounting Policies
- 4.6 The supplementary statements comprise the Housing Revenue Account and the Collection Fund Account.
- 4.7 The explanatory foreword aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2012/13 Statement of Accounts is included in Appendix 3 to this report.
- 4.8 Ernst & Young has completed their work on the audit of the accounts and will be reporting their findings to this Committee through the Audit Results Report. Following this report, Ernst & Young will be able to issue their audit opinion and the accounts will be published.

## **5. PREPARATION OF THE STATEMENT OF ACCOUNTS**

- 5.1 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2012/13 (the Code), issued by CIPFA. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2012/13 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 requirements for preparing local government financial statements and notes. 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.
- 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 Ernst & Young over the proposed accounting treatment of the key changes affecting the 2012/13 financial statements.

- 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 3 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 was then approved by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review formed part of the working papers produced for Ernst & Young.
- 5.6 During the accounts audit process, officers liaised closely with Ernst & Young in respect of audit queries and worked closely to ensure prompt and successful resolution of these queries. During the audit of the 2012/13 accounts, there have been no disputes between council officers and Ernst & Young in relation to the required amendments to the accounts.

## **6. CHANGES TO ACCOUNTING STANDARDS**

- 6.1 After a period of substantial change to local authority accounts in recent years, there have been no significant changes to accounting standards applied by the council to their financial statements during 2012/13.
- 6.2 However, the council has adopted a change in accounting policy in respect of the property, plant and equipment valuation for its sheltered housing stock. Note 4 to the financial statements provides a detailed explanation of the change to the treatment in the valuation methodology applied for the sheltered housing stock and how it has affected the council's reported financial position and cash flows.
- 6.3 The financial statements include a separate section detailing a summary of the council's significant accounting policies.
- 6.4 The main changes for the 2012/13 accounting period are summarised in Appendix 2 of this report.

## **7. AUDIT OF THE STATEMENT OF ACCOUNTS 2012/13**

- 7.1 Ernst & Young has completed the audit of the council's accounts and their Audit Results Report (ARR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.
- 7.2 The ARR for 2012/13 states the council continues to produce good quality draft financial statements supported by working papers which were internally consistent and generally compliant with extant accounting and disclosure requirements. Ernst & Young commented that this was as a result of effective closedown processes and arrangements to produce and quality review the draft financial statements prior to submission for audit.
- 7.3 During the course of the audit, Ernst & Young identified one material misstatement in respect of the valuation of the Royal Pavilion. The misstatement was judgemental in nature and had no impact on the council's reported financial performance. It related to a specific judgement on how to use insurance

valuations to help assess its carrying value. They also detected a relatively small number of presentation and disclosure errors in the financial statements. Amendments to the accounts were discussed and agreed with council officers; details of these amendments and the financial statements affected are included in Appendix 4 of this report.

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

## **8.1 SUMMARY OF ACCOUNTS**

- 8.1 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 2012/13 Statement of Accounts.

## **9. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 9.1 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 Ernst & Young.
- 9.2 This year the council received enquiries from three members of the public. These enquiries encompassed many areas of the Accounts. Responses to the queries have been compiled and sent. At the time of writing this report, the enquiries have not resulted in any objection to the Accounts.

## **10. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

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

*Finance Officer Consulted: Jane Strudwick Date: 11/09/13*

### Legal Implications:

- 10.2 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.
- 10.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit & Standards Committee which fulfils this statutory role.

*Lawyer Consulted: Oliver Dixon Date: 11/09/13*

Equalities Implications:

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

Sustainability Implications:

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

Crime and Disorder Implications:

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

Risk and Opportunity Management Implications:

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

Public Health Implications:

10.8 There are no public health implications arising directly from this report.

Corporate / Citywide Implications:

10.9 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 council.

**11. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

11.1 After the Accounts have been made available for public inspection, alterations may only be made with the consent of Ernst & Young. The alterations in this case have received their consent.

**12. REASONS FOR REPORT RECOMMENDATIONS**

12.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2012/13 Statement of Accounts should be approved by Members by the 30 September 2013.

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

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Letter of Representation
2. Summary of the main changes for the 2012/13 accounting period
3. Commentary on the Statement of Accounts
4. Details of amendments made to the Financial Statements
5. Details of unadjusted misstatements

### **Documents in Members' Rooms**

1. Statement of Accounts

### **Background Documents**

None

## Appendix 1

### Letter of Representation

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

### Brighton & Hove City Council – 2012/13 Financial Year

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Brighton & Hove City Council, the following representations given to you in connection with your audit of the council's financial statements for the year ended 31 March 2013:

#### A. Financial Statements and Financial Records

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

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

I confirm that as the Responsible Officer I have:

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

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

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

I believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. Reasons for not correcting each of the uncorrected misstatements are as follows:

- ▶ The sample testing of leases carried out by Ernst & Young identified an error in the analysis of future minimum lease payments due under operating leases where the council is lessor. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the

potential uncorrected error in the disclosure at Note 22 is £5.6 million. The impact to the 2012/13 financial statements is disclosure only with no impact on the financial performance of the council and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts;

- ▶ The sample testing of creditors carried out by Ernst & Young identified an over accrual of capital creditors of £0.5 million. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential overstatement of creditors in the financial statements is £2 million. The impact to the 2012/13 statements is not material and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts.

## **B. Fraud**

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

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

I have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the council's internal controls over financial reporting. In addition, I have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. I have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the council.

## **C. Compliance with Laws and Regulations**

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

## **D. Information Provided and Completeness of Information and Transactions**

I have provided you with:

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

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

I have made available to you all minutes of the meetings of the council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 24 September 2013.

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

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

### **E. Liabilities and Contingencies**

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

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

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

### **F. Subsequent Events**

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

### **G. Accounting Estimates**

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

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

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

### **H. Retirement benefits**

On the basis of the process established and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with my knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.



## **I. Segmental reporting**

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

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

## **J. Going Concern**

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

## **K. Specific Representations**

There have been no significant changes to the council's Private Finance Initiative schemes during 2012/13 and contractual arrangements, including any material variations, and the accounting model used are not significantly changed from the end of the last accounting period.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit & Standards Committee on 24 September 2013

Signed:

Name: Catherine Vaughan  
Position: Executive Director Finance & Resources  
Date: 24 September 2013

Signed:

Leslie Hamilton  
Chairman  
Audit and Standards Committee  
Date: 24 September 2013

## **Appendix 2**

### **Summary of the main changes for the 2012/13 accounting period**

#### **Property, Plant and Equipment Valuation for Sheltered Housing Stock**

During 2012/13, the council appointed new external valuers, Savills, for the housing stock who, as part of their 2013/14 valuation work, have advised the council that the sheltered housing stock should attract the same social housing adjustment as the general housing stock. Following receipt of this advice, the council further considered the composition and nature of its sheltered housing stock and concluded that it is more akin to general purpose housing with limited additional support (including call systems, shared laundry facilities, common rooms) and warden management. The form of tenancy (secured tenancy, not short term) is also the same across the council's sheltered and general purpose housing stock. Based on this assessment, the council determined that it was appropriate to apply the regional social housing discount factor to the EUV value for its sheltered housing provided by Wilks Head and Eve, the council's HRA valuer in 2012/13. Therefore, the council has amended its accounting policy for valuation for sheltered housing stock such that the social housing discount factor should be applied to the existing use valuation. The application of the amended accounting policy increased the valuation of the council's sheltered housing stock in the region of £60 million.

This change in accounting policy results in the financial statements providing reliable and more relevant information on the council's financial position and was therefore necessary under the Code. The change was required to be applied retrospectively. Given that the impact of the change in accounting policy was material, a prior period adjustment was also required with disclosure of the impact at the start of the comparative period (the 'third balance sheet' disclosure).

## **Appendix 3**

### **Commentary on the Statement of Accounts**

#### **General Fund**

The level of General Fund working balance and general reserves held at 31 March 2013 was £22.332 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 £50.855 million.

#### **Housing Revenue Account (HRA)**

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

The 2012/13 outturn for the HRA shows a net deficit of £0.659 million. The HRA reserves now stand at £6.061 million, which is well in excess of the recommended minimum level of balances of £2.7 million. In addition there are also HRA earmarked reserves of £2.619 million.

#### **Balance Sheet (BS)**

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

#### **Non Current Assets**

Total non current assets (including current assets held for sale) have increased from £2,062.292 million as at 31 March 2012 to £2,079.399 million as at 31 March 2013. The in year movement in non current assets is detailed in notes 16 to 20 to the core financial statements. The movement of £17.107 million relates to the following:

- An increase of £64.700 million in respect of capital expenditure incurred on to PPE, heritage assets, investment property and intangible assets which reflects the significant capital investments made;
- PPE and heritage assets upward revaluation transactions of £45.689 million;
- Depreciation, impairment and revaluation losses transactions of £74.624 million;
- Downward movement in the fair value of investment properties of £1.788 million;
- Disposal of non current assets of £17.028 million, part of which related to disposals under finance leases;
- Other movements of £0.158 million.

## Borrowing

In accordance with the CIPFA Code on Treasury Management, the management of the council's borrowing portfolio is based on a consolidated approach and not by individual services. At 31 March 2013, the council's level of borrowing (including the bank overdraft) was £213.118 million, a decrease in the year of £3.537 million. The council did not raise any new loans or repay any borrowings during 2012/13. Note 36 to the financial statements provides further information on borrowings.

## Investments

At 31 March 2013, the council held investments of £55.446 million. Investments are made by the in-house treasury team and the council's external cash manager. The council uses an external cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock.

The level of investment has increased in year by £2.535 million. The council has placed new short term investments of £666 million in 2012/13 and has realised cash from the maturity of short term investments of £678 million. Note 36 to the financial statements provides further information on investments.

## Revaluation Reserve

This represents any upward revaluations of assets in accordance with the Code. Any impairment of assets is also reflected in this account only to the extent that it can be offset against previous upward revaluation of the asset. Any excess impairment is charged to the Income and Expenditure Account. The reserve stands at £555.381 million as at 31 March 2013.

## Earmarked Reserves

These represent funding that has been set aside for a specific purpose. As at 31 March 2013, the council held earmarked reserves of £53.474 million, a decrease in the year of £4.208 million. Details of Earmarked Reserves held can be found in note 10 to the financial statements.

## Schools' balances

Schools' balances have increased by £0.734 million from £6.380 million at 31 March 2012 to £7.114 million at 31 March 2013. 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 £7.114 million balance includes phases as follows: - primary schools £2.865 million, secondary schools £3.403 million, special schools £0.798 million and nursery schools £0.048 million.

There is an overall increase in carry forwards; and, the movement across phases shows variations as follows: - primary schools decreased by £0.799 million, secondary schools increased by £1.230 million, special schools increased by £0.311 million and nursery schools decreased by £0.008 million.

In total there are 6 schools (out of 68) with deficit balances (9% of total schools) and the split of these is as follows: - 1 Nursery school and 3 primary schools. School budget plans for 2013/14 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 2013/14 financial year.

## Pension Liability

The estimated pension liability (net of pension assets) for future pension payments increased in 2012/13 by £42.558 million from £155.645 million at 31 March 2012 to £198.203 million at 31 March 2013.

The pension's actuary has advised that the increase in the deficit is due to financial assumptions made on pension scheme liabilities being less favourable than they were at 31 March 2012; specifically the actuary has changed the methodology for calculating the discount rate. The increase in pension liabilities has been partly offset by investment performance over the period being better than expected resulting in a positive impact on pension assets.

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

## Collection Fund

As at 31 March 2013, there was an in year surplus of £1.335 million on the Collection Fund, a movement of £1.958 million from 2011/12 which had an in year deficit of £0.623 million. The surplus includes a £1 million contribution from precepting authorities towards the previous years' deficit with £0.335 million surplus relating to a lower level of impairment required on financial asset due to improved debt collection rates.

## Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2013 that are reasonably certain and can be estimated with reasonable accuracy. Significant provisions are included for the following:-

Accumulated Absences – The council is required to make provision for accumulated compensated absences (e.g. annual leave and flexi leave) 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 council continues to make provision for potential historic liabilities arising as equal pay case law and legislation has developed where the liabilities can be estimated with reasonable accuracy. The council considers each case on its merits and undertakes a legal review before considering proactive settlement. The level of provision held at 31 March 2013 was £1.506 million. This provision is separate to the single status earmarked reserve which is to meet potential pay related liabilities that cannot be estimated with any certainty.

Voluntary Severance Scheme Provision - The council established a voluntary severance scheme during late 2012/13 to allow its officers to consider leaving their employment with the council in return for a severance package. This scheme was established to assist the council in meeting its tough financial targets in 2013/14 whilst avoiding the need for compulsory redundancies. The balance on the provision of £1.781 million will meet the costs of severance packages which had not been completed at the Balance Sheet date.

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

## **Appendix 4**

### **Details of Amendments to the Statement of Accounts**

#### Comprehensive Income and Expenditure Statement (CIES)

Income and expenditure shown within the Net Cost of Services of the CIES was overstated by £6.7 million. This was caused by internal recharges of expenditure not being netted off and eliminated from the financial statements.

#### Heritage Assets

The closing 2012/13 carrying value of the Royal Pavilion was under-stated by £22 million. The council had initially reduced the insurance value by 15 per cent to arrive at the carrying value in the financial statements to reflect the proportion of the insurance valuation relating to fixtures, fittings and other contents. Ernst & Young challenged the basis for this accounting estimate. On further consideration the council decided that the value of fixtures and fittings was likely to be nominal and that it was not appropriate to reduce the insurance valuation by 15 per cent to arrive at the carrying value in the financial statements. The council has also disclosed a prior period adjustment in relation to this issue.

This had an impact of Heritage Assets being understated by £22 million. This amendment affected the prior period adjustment disclosed in Note 4 and Heritage Assets disclosed in note 17 to the financial statements.

#### Note 37 Debtor

The disclosure of debtors in respect of the Primary Care Trust and Strategic Health Authority were incorrectly classified as central government bodies in note 37 to the financial statements; their correct classification is as NHS bodies. The amount reclassified was £2 million.

#### Note 36 Financial Assets and Liabilities - Financial Instruments

There were a number of adjustments to debtors (financial assets) and creditors (financial liabilities) disclosed in the financial statements. The gross value of the adjustments to the financial instruments disclosure in 2012/13 was approximately £14.7 million. All the adjustments made in this area are disclosure only and relate only to Note 36 Financial Assets and Liabilities - Financial Instruments.

The Code of Practice on Local Authority Accounting (the Code) requires the disclosure of an analysis of the age of financial assets that are past due as at the reporting date but not impaired by class of financial asset. No such disclosure has been made in the council's draft 2012/13 financial statements. This disclosure is now included within the credit risk section of note 36.

## **Appendix 5**

### **Details of Unadjusted Misstatements to the Statement of Accounts**

#### Note 22 Lease and lease type arrangements

The sample testing of leases carried out by Ernst & Young identified an error in the analysis of future minimum lease payments due under operating leases where the council is lessor. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential uncorrected error in the disclosure at Note 22 is £5.6 million.

The impact to the 2012/13 financial statements is disclosure only with no impact on the financial performance of the council and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts.

#### Note 38 Creditors

The sample testing of creditors carried out by Ernst & Young identified an over accrual of capital creditors of £0.5 million. A sample based approach was used to audit this area and the council was able to demonstrate that this was isolated. The error has been extrapolated by Ernst & Young to determine the potential overall impact on the financial statements. Based on this extrapolation, the total value of the potential overstatement of creditors in the financial statements is £2 million.

The impact to the 2012/13 statements is not material and is based on an extrapolated rather than actual amount. For these reasons, the council has elected not to make an adjustment to the accounts.





<b>Subject:</b>	<b>Internal Audit Progress Report 2013/14</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Dallen, Audit Manager</b>	<b>Tel: 29-1314</b>
	<b>Email:</b>	<b>mark.dallen@brighton-hove.gcsx.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 The purpose of this report is to inform Members of the progress made against the Internal Audit Plan 2013/14, including outcomes of specific audit reviews completed and tracking of the implementation of recommendations.
- 1.2 The Audit and Standards Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports.
- 1.3 The report includes information on the work undertaken by the Corporate Fraud Team that has been recently established and whose work is a key component of the Internal Audit Plan.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2013/14.

**3. BACKGROUND INFORMATION**

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

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

#### 4. PROGRESS AGAINST THE AUDIT PLAN

4.1 Eleven reports have been finalised during the first four months of this year. Details of these reports are below.

<b>Final Audit Reports</b>	<b>Assurance Opinion*</b>	<b>Number of Recommendations (High and Medium Priority)</b>
Pupil Premium Funding	Reasonable	6
Saltdean Lido	Substantial	0
Logotec Asset Management System	Reasonable	3
Financial Director Treasury Management Application	Substantial	4
Corporate Landlord Responsibilities	Limited	3
Houses in Multiple Occupation	Substantial	2
Disposal of Assets	Substantial	1
Bailiff Services	Reasonable	5
Golf Courses	Substantial	0
Housing Assessment and Allocations	Reasonable	11
Grant Claims – Stronger Families, Stronger Communities/ Fuel Poverty Fund & Green Deal Pioneer Places Funding	N/A	N/A

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

4.2 Further information about the Limited Assurance report is included in Appendix 2 of this report. This is reported as a Part 2 item.

4.3 In addition there are 14 reviews where draft reports have been issued and are in the process of being finalised.

4.4 The total of draft and final reports is 25 at this point of the year which represents 22% of the approved audit plan. Another 18 audit reviews are underway.

4.5 Progress with the audit plan has not been as good as would be hoped at this point in the year due to long term sickness and a staff vacancy.

4.6 An agency employee has been recruited and the recruitment process for a vacant post has commenced to address this slippage.

#### 5. CHANGES TO THE APPROVED AUDIT PLAN.

5.1 The following changes have been made to the approved audit plan for 2013/14.

<b>Audit Review</b>	<b>Change</b>	<b>Reason for Change</b>
Disposal of Assets	Addition	Late addition to audit plan

## **6. COUNTER FRAUD WORK**

- 6.1 Following a recent restructure all counter fraud work has been located under one team which covers corporate counter fraud work, housing benefit fraud investigations and tenancy fraud.
- 6.2 Close working relationships continue to exist between the Corporate Fraud Team and the Internal Audit Team. In the immediate future it is expected that the some counter fraud work and management investigations will be delivered by Internal Audit, or with joint working arrangements between the two teams.
- 6.3 The outcome of the prosecution relating to the Hove Town Hall drop safe thefts and the arrest of a suspect in 2011 was determined in June this year. The defendant pleaded guilty to all 6 charges and was sentenced to 2 Months imprisonment, suspended for 2 years. Only minimal compensation of £1,000 was payable to the council due to the defendants circumstances. An insurance settlement is still being negotiated.
- 6.4 Outcomes for housing benefit fraud for the year to date are:-
- 18 Prosecutions
  - 1 Caution
  - 8 Administration Penalties
  - £353,070.35 in Overpayments
- 6.5 With regard to housing tenancy fraud there have been 5 properties returned to the council's housing stock in the period.

### National Fraud Initiative Update

- 6.6 The council has once again participated in the National Fraud Initiative. This is a national data matching exercise that is carried out by the Audit Commission. The council is legally obliged to supply the data and is required by law to protect the public funds it administers.
- 6.7 The review of the matches is well underway and this has already resulted in £108,000 in overpayments being identified.

## **7. IMPLEMENTATION OF RECOMMENDATIONS**

- 7.1 The service is in the process of introducing some refinements to the processes for monitoring the implementation of audit recommendations. The updated processes will focus on High and Medium Priority recommendations.
- 7.2 In summary the revised approach includes two follow-up mechanisms:-
- Specific follow-up reviews for all audits where we concluded Limited Assurance – These are audits in their own right focusing on the risks and recommendation detailed in the previous audit report.

- Implementation reviews on other audits.

7.3 The exception to these arrangements is where audits are carried out on an annual basis e.g. core financial systems. In these instances recommendations will be follow-up during the following year's audit, unless there are specific risks and recommendations that require more immediate scrutiny.

7.4 During the first 4 months on 2013/14 we issued 15 Implementation Reports and followed-up on a total of 84 recommendations. The results of this exercise are summarised below.

Number of Recommendations Followed Up	Implemented*	% Compliance
84	69	82%

\* Includes both fully implemented and part implemented

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

## 8. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

8.1 It is expected that the Internal Audit Plan for 2013/14 will be delivered within existing budgetary resources. Progress against the Annual Internal Audit Plan and action taken in line with recommendations support the robustness and resilience of the councils practices and procedures and support the councils overall financial position.

*Finance Officer Consulted: James Hengeveld*

*Date: 10/09/13*

### Legal Implications:

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

*Lawyer Consulted: Oliver Dixon*

*Date: 23/08/13*

### Equalities Implications:

8.3 There are no direct equalities implications arising directly from this report

### Sustainability Implications:

8.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

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

Corporate / Citywide Implications:

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

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Internal Audit Report Assurance Levels: Definitions

### **Background Documents**

1. Internal Audit Plan 2013/14
2. Public Sector Internal Audit Standards
3. Accounts and Audit Regulations 2011

## APPENDIX 1.

### Internal Audit Report Assurance Opinions: Definitions

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





**Subject:** HR and Payroll Audit Issues Update

**Date of Meeting:** 24 September 2013

**Report of:** Executive Director of Finance and Resources

**Contact Officer: Name:** Sue Moorman **Tel:** 293629

**E-mail:** [sue.moorman@brighton-hove.gov.uk](mailto:sue.moorman@brighton-hove.gov.uk)

**Wards Affected:** All

## FOR GENERAL RELEASE

### 1. SUMMARY AND POLICY CONTEXT:

- 1.1 The committee have previously been informed both through the work of Internal Audit and External Audit of historic concerns about the payroll control environment. Significant improvements have been made over the last 18 months and this report summarises that work and meets the commitment made to this committee at its meeting of 16 April 2013 to provide 6 monthly updates on progress. It also provides an opportunity to update the committee on other related work in HR and any new challenges that are being faced.

### 2. RECOMMENDATIONS:

- 2.1 That the committee notes the progress made to improve the payroll control environment and other HR related audit work

### 3. RELEVANT ADDITIONAL BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 There have been a number of recent changes to the leadership and structure of Human Resources. There is a new Head of Human Resources and the function now reports to the Executive Director of Finance & Resources. There have also been significant changes in how the service's People Centre operates following a review of processes using the council's systems thinking methodology. Staff in the People Centre have worked extremely hard to deliver real improvements in service quality and in the control environment at the same time as dealing with complex national changes and our own local Pay and Allowances Modernisation agenda. There are still process improvements to be made and the team's capacity to continue that will be strengthened by the implementation of the Allowances framework.

### Payroll Audit 2012-13

- 3.2 The Internal Audit review of Payroll for 2012-13 was finalised on 30 April 2013 and gave an audit opinion of reasonable assurance. The report identified seven recommendations to further improve controls all of which were classed as medium priority. Of these, two recommendations have already been implemented and the others, except one which is currently not technically possible to achieve, are in progress with the objective of completing by October. The reason that one recommendation can't currently be achieved is due to limitations with the database and evidencing the control through reporting, however Internal Audit has manually tested that the control is working.

### iTrent HR and Payroll Application Audit

- 3.3 Deloitte was commissioned to conduct an application audit of the council's HR-Payroll system as part of a wider review of major ICT systems. The audit looked at technical system controls and procedures including:
- Application management and governance
  - System security
  - Interface controls and processing
  - Data input
  - Data output
  - Change management
  - System resilience and recovery
  - Support arrangements
- 3.4 The report was finalised on 30 July 2013 and gave an audit opinion of reasonable assurance. There are eight recommendations (five medium priority and three low priority). Of these, five recommendations (four medium priority and one low priority) have been implemented and the others are in progress due for completion by October.

### Thematic Audit Schools Payroll

- 3.5 An Internal Audit review of Schools Payroll for 2012-13 was finalised on 22 April 2013 and gave an audit opinion of reasonable assurance. The report made six recommendations to improve controls, five of which were for the client in Children's Services to implement and one of which was for HR to implement. The action for HR is 75% complete and due to be finished in September.

### Sickness Management Audit

- 3.6 An Internal Audit review of Sickness Management for 2012-13 was finalised on 30 June 2013 and gave an audit opinion of reasonable assurance.

### Establishment Control

- 3.7 Work has been undertaken to improve the link between budgeting in the Authority Financials system and expenditure paid through the HR-Payroll system. This has been a joint project between HR, Finance and ICT and went live in April 2013 for non-schools services. It provides much tighter control over the council's establishment, not only in terms of recruitment but also changes to an individual's pay and allowances. It will also provide higher quality information for the council to analyse its current and projected spend on employee related pay.
- 3.8 The process links managers, budget holders, Finance and HR electronically through e-Form notifications and has radically reduced the volume of paperwork to be processed and the risk of errors being made. .
- 3.9 Despite the short timeframe for implementation, the new process has received generally positive feedback from managers. It is providing more timely communication and visibility of the process. Budget holders are copied in to authorisations and are required to approve budgetary adjustments. Action is being taken to address comments raised by stakeholders to further improve the flow of information and efficiency of the process.

### Real Time Information

- 3.10 Real Time Information (RTI) is the biggest change to the operation of Pay As You Earn in over 60 years. This requires employers to send information about income tax, national insurance contributions, student loans and other statutory payments and deductions to HM Revenue & Customs every time a payroll is run. This is a national project required to support the introduction of Universal Credit.
- 3.11 As an employer with more than 5,000 employees, the council was required to be live on the new statutory process by 28 June 2013.
- 3.12 This has been a joint project between HR, Finance, ICT and relevant software providers. It involved reviewing procedures, improving data quality, configuring and testing HR-Payroll software and procuring and implementing new BACS hardware and software. The first RTI transmissions to HM Revenue & Customs and to BACS were sent on 20 June 2013 and these transmissions were successful. The project has now transitioned into business as usual processes.

### Auto-enrolment

- 3.13 In accordance with the Workplace Pensions Reform (Pensions Act 2008 and 2011), with effect from 1 October 2012 employers nationwide have a legal requirement at given staging dates to offer pension provision to all employees; and to auto-enrol certain employees that are not already contributing to a pension via the payroll into a qualifying pension scheme. The Council complied with this requirement by its staging date of 1 March 2013.

- 3.14 Every three years employees who meet the criteria for an eligible jobholder will need to be re-enrolled automatically into the relevant qualifying pension scheme. This means that even though an employee may have opted out of the pension scheme before then they will be enrolled into the scheme and will have to opt out again if they do not wish to remain in the scheme.
- 3.15 The table below shows the number of job holders by designated category reported to The Pensions Regulator on 21 June 2013 (people with more than one job are shown for each job they hold).

<b>Category</b>	<b>Number</b>
Workers in employment on staging date	15298
Eligible jobholders automatically enrolled on the staging date or deferral date into the Local Government Pensions Scheme	90
Eligible jobholders automatically enrolled on the staging date or deferral date into the Teachers' Pensions Scheme	39
Workers who were already active members of a qualifying pension scheme on the staging date	7920
Eligible jobholders who have been subjected to the defined benefit transitional period	1599
Workers who did not fall into any of the above categories	5650

Definitions:

Eligible jobholder – earns over £9,440 in that employment and is aged 22 or over but under state pension age

Deferral date – three month period that an employer can defer auto enrolment

Defined benefit transitional period – delay of compliance until 1 October 2017 for eligible jobholders not in a qualifying pension scheme on 1 March 2013

#### Pay and Allowances Modernisation

- 3.16 The council has been negotiating with the recognised trade unions on the modernisation of pay with the aim of seeking agreement on a new package of allowances that is consistent, modern and transparent.
- 3.17 The consultation period has now closed. The current position is that individual employees are due to be written to in September with details of the proposal. Approximately 1000 employees will receive new contracts of employment as a result of the changes.
- 3.18 The HR-Payroll system will have to undergo major reconfiguration to accommodate the new allowances. However there are longer term benefits that will help simplify the process and improve consistency in claiming allowances.

## Time and Expenses Rollout

- 3.19 Approximately 90% of non-school based employees now have the facility to submit timesheets and expense claims electronically and have their claims authorised by their manager or approved authoriser electronically. In addition, four schools are using online time and expense claim submission. This functionality improves efficiency and reduces the risk of human error.

## **4. FINANCIAL & OTHER IMPLICATIONS:**

### 4.1 Financial Implications:

The report gives an update on progress against audit recommendations and it is expected that the costs of implementing these would be met from existing budgets. Most of the work will be undertaken by HR staff, with any technical issues that can't be resolved being referred back to MidlandHR, the HR-Payroll system supplier.

For the key payroll related workstreams outlined in the report, extra resources have been identified for some whilst others are expected to be met from existing budgets.

For the establishment control work, part of the Business Process Improvement (BPI) work, funding from the Transformation Fund has been agreed for two short-term additional support posts until the end of June and September 2013 respectively. For Real Time Information, Auto-enrolment and new pension schemes work, the 2013/14 budget includes approved funding to cover short-terms and one-off costs of approximately £30k and on-going costs of £42k per annum.

The cost of allowances to the authority, as a result of Pay Modernisation, is currently expected to increase compared to the current pay bill, however at the time of drafting this report the final position is still subject to negotiation but is affordable within the current budget for pay related costs. Indirect costs of Pay Modernisation, such as changes to contracts and the HR-Payroll system, as well as Time and Expenses rollout costs are expected to be covered within current HR resources.

*Finance Officer Consulted: Peter Francis*

*Date: 16.08.13*

### 4.2 Legal Implications:

Although the report is for noting, the Committee is permitted – should it so wish – to make recommendations concerning the content to Policy & Resources Committee, Full Council, officers, or any other relevant body of the council.

*Lawyer Consulted: Oliver Dixon*

*Date: 13.08.13*

#### 4.3 Equalities Implications:

The HR-Payroll system supports improved diversity monitoring across a range of employment related areas. Recent improvements in reporting have been welcomed by the Workforce Equalities Group.

#### 4.4 Sustainability Implications:

The HR-Payroll System is improving the council's carbon footprint by reducing the amount of paper and manual processes by introducing Employee and Manager Self Service and by reducing the council's direct energy use.

#### 4.5 Crime & Disorder Implications:

The system improves the management of all necessary employment checks prior to employment commencing or on renewal of registration.

#### 4.6 Risk & Opportunity Management Implications:

Improved audit controls reduce the risk of incorrect payments being made.

#### 4.7 Corporate / Citywide Implications

A post-based HR system supports improved financial control across the whole organisation. An HR service that can contribute more strategically to the council will impact on organisational change and service delivery.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

None

### **Background Documents:**

None





<b>Subject:</b>	<b>Targeted Budget Management (TBM) 2013/14 Month 2</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Nigel Manvell</b>	<b>Tel: 29-3104</b>
	<b>Email:</b>	<b>nigel.manvell@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 Targeted Budget Monitoring (TBM) reports are a key component of the council's overall performance monitoring and control framework. TBM reports are periodically presented to Policy & Resources Committee and are subsequently provided to the next available Audit & Standards Committee for information and consideration in the context of the committee's oversight role in respect of financial governance and risk management. The TBM report appended sets out the forecast outturn position as at Month 2 on the council's revenue and capital budgets for the financial year 2013/14.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee note the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1) and the subsequent recommendations and resolution.

**3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:**

- 3.1 The detailed position as at Month 2 is provided in the TBM report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).
- 3.2 As the TBM report notes, this is an early forecast and there is likely to be some variability in the forecasts provided until expenditure and income trends become clearer. However, it does indicate a significant level of forecast risk and the Audit & Standards Committee will note that Executive Directors are therefore being asked to take remedial action and develop recovery plans (para. 3.23 of the report).
- 3.3 The 2013/14 revenue budget contains substantial and challenging savings targets and for this reason the level of risk provisions provided for in the budget were increased to £1.5m. The use of these risk provisions has not been assumed in the forecast position at this stage of the year. Details of all risks provisions and contingencies can be found under 'Corporate Budgets' in Appendix 1 of the TBM report.

#### **4. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 4.1 Detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

#### **5. FINANCIAL & OTHER IMPLICATIONS:**

##### Financial Implications:

- 5.1 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

##### Legal Implications:

- 5.2 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

##### Equalities Implications:

- 5.3 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

##### Sustainability Implications:

- 5.4 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

##### Crime & Disorder Implications:

- 5.5 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

##### Risk and Opportunity Management Implications:

- 5.6 The delegated audit functions of the committee are to carry out independent scrutiny and examination of the council's financial and non-financial processes, procedures and practices to the extent that they affect the council's control environment and exposure to risk, with a view to providing assurance on their adequacy and effectiveness. This includes the council's financial management processes, of which TBM (Targeted Budget Management) is a key component. 11 July 2013 (Appendix 1).

##### Public Health Implications:

- 5.7 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

Corporate / Citywide Implications:

5.8 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

**6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

6.1 None directly in relation to this report. Implications relating to TBM Month 2 are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

**7. REASONS FOR REPORT RECOMMENDATIONS**

7.1 TBM reports are forwarded to the committee for review and examination in accordance with its role in reviewing the adequacy and effectiveness of the council's control environment, including financial management processes.

**SUPPORTING DOCUMENTATION**

**Targeted Budget Management (TBM) 2013/14 Month 2 Report & Appendices:**

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

**Documents in Members' Rooms:**

None.

**Background Documents**

None.



<b>Subject:</b>	<b>Treasury Management Policy Statement 2012/13 – End of Year Review - Extract from the Proceedings of the Policy &amp; Resources Committee Meeting held on the 11 July 2013</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Monitoring Officer</b>		
<b>Contact Officer:</b>	<b>Name: Mark Wall</b>	<b>Tel: 29-1006</b>	
	<b>E-mail: mark.wall@brighton-hove.gov.uk</b>		
<b>Wards Affected:</b>	<b>All</b>		

**POLICY & RESOURCES COMMITTEE**

**4.00 pm 11 July 2013  
COUNCIL CHAMBER, HOVE TOWN HALL**

**DRAFT MINUTES**

**Present:** Councillor J Kitcat (Chair); Councillors Littman (Deputy Chair), G Theobald (Opposition Spokesperson), Morgan (Group Spokesperson), Bowden, Davey, Mitchell, A Norman, K Norman and Shanks.

**PART ONE****29. TREASURY MANAGEMENT POLICY STATEMENT 2012/13 - END OF YEAR REVIEW**

- 29.1 The Executive Director for Finance & Resources introduced the report and noted that the council had not exceeded its borrowing limits. She also noted that interest levels had not been achieved and that the council was not currently investing with the Co-operative bank following its recent down-grading.
- 29.2 Councillor A. Norman asked that the Committee's thanks to Peter Sargent for his management of the investment portfolio be placed on record and noted that in view of the changes affecting the Co-op Bank that the council was not currently investing in it.
- 29.3 The Chair stated that he had written to Peter Sargent and was happy to record the Committee's thanks for his services to the council. He then put the recommendations to the vote.

**29.4 RESOLVED:**

- (1) That the key actions taken during the second half year to meet the treasury management policy statement and practices (including the investment strategy) as set out in this report be endorsed;
- (2) That it be noted that the approved maximum indicator for investment risk of 0.05%, authorised borrowing limit and operational boundary have not been exceeded.

<b>Subject:</b>	<b>Targeted Budget Management (TBM) 2013/14 Month 2</b>		
<b>Date of Meeting:</b>	<b>11 July 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Jeff Coates</b>	<b>Tel: 29-2364</b>
	<b>Email:</b>	<b>Jeff.coates@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE**

**1 SUMMARY AND POLICY CONTEXT:**

- 1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out the forecast outturn position as at Month 2 on the council's revenue and capital budgets for the financial year 2013/14.
- 1.2 This is a very early forecast based on information available as at the end of May 2013. While seasonal and other factors have been taken into account in projecting expenditure and income for the year, the accuracy of projections at this early stage is likely to be more variable. The forecast for month 2 should therefore be regarded as a forecast of the level of potential risk that could arise if no further action were taken. Although an overspend is forecast, there are many months remaining in which to take mitigating actions or develop other recovery measures to improve the position and reduce potential risks.

**2 RECOMMENDATIONS:**

- 2.1 That the Committee note the forecast outturn position for the General Fund, which is an overspend of £3.388m.
- 2.2 That the Committee note the forecast outturn for the Housing Revenue Account (HRA), which is an underspend of £0.123m.
- 2.3 That the Committee note the forecast outturn position for the Dedicated Schools Grant which is an underspend of £0.208m.
- 2.4 That the Committee note the forecast outturn position on the capital programme.
- 2.5 That the Committee approve the following changes to the capital programme.
  - i) The new schemes as set out in Appendix 3.

### 3 RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

#### Targeted Budget Management (TBM) Reporting Framework

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

#### General Fund Revenue Budget Performance (Appendix 1)

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

2012/13 Provisional Outturn £'000	<b>Directorates</b>	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(4,157)	Children's Services	59,453	58,142	(1,311)	-2.2%
(1,789)	Adult Services	61,937	64,827	2,890	4.7%
1,718	Environment, Development & Housing	47,301	47,674	373	0.8%
404	Assistant Chief Executive	12,732	12,953	221	1.7%
150	Public Health	1,628	1,628	0	0.0%
(798)	Finance, Resources & Law	37,776	37,906	130	0.3%
(4,472)	Sub Total	220,827	223,130	2,303	1.0%
271	Corporate Budgets	2,281	3,366	1,085	-47.6%
(4,201)	Total Council Controlled Budgets	223,108	226,496	3,388	1.5%



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

#### Corporate Critical Budgets

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

2012/13 Provisional Outturn £'000	<b>Corporate Critical</b>	2013/14 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
(3,467)	Child Agency & In House	19,535	18,678	(857)	-4.4%
(2,055)	Community Care	41,477	43,630	2,153	5.2%
404	Sustainable Transport	(15,674)	(15,849)	(175)	-1.1%
109	Temporary Accommodation	1,826	2,129	303	16.6%
(413)	Housing Benefits	(569)	(569)	-	0.0%
(5,422)	Total Council Controlled	46,595	48,019	1,424	3.1%

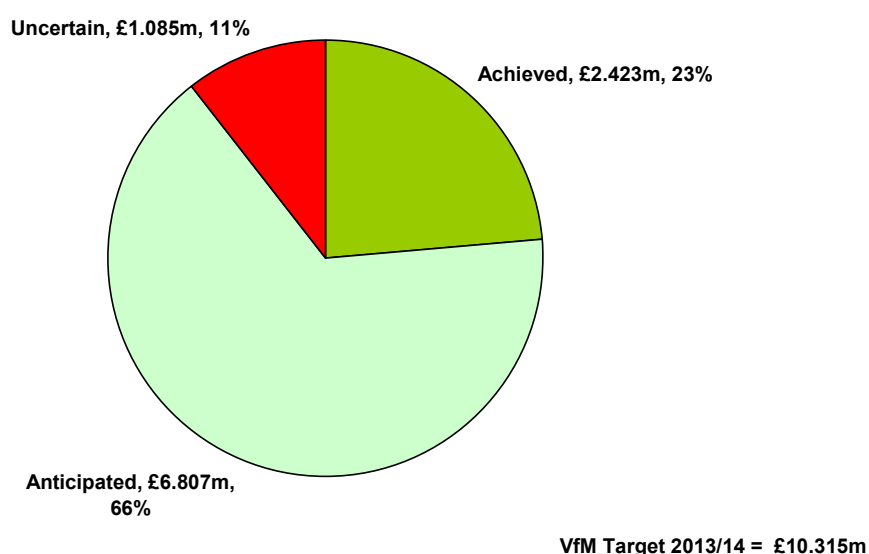
#### Value for Money (VfM) Programme (Appendix 2)

- 3.7 TBM reports also provide updates on the council's Value for Money programme. The VfM programme contains a number of large, complex projects which include additional temporary resources (e.g. Project Managers) to ensure they are properly planned and implemented. Projects can have significant financial and non-financial targets attached to them and their successful implementation is therefore important to the overall financial health of the authority.
- 3.8 Some VfM projects carry significant risks and may need specialist advice or skills that can be in short supply or they may need to navigate complex procurement or legal processes. Therefore, each month the TBM report quantifies progress in terms of those savings that have been achieved, those that are anticipated to be

achieved (i.e. low risk) and those that remain uncertain (i.e. higher risk). Those that are uncertain are given greatest attention and details of mitigating actions are given wherever possible.

- 3.9 At this very early stage most of the VFM savings are subject to confirmation but are anticipated to be achieved. There is one key area of risk regarding Accelerated Service Redesign which was backed by a Voluntary Severance Scheme. This has so far underachieved by £1.085m (£1.300m full year). Further information about the risks and actions relating to uncertain savings is given in Appendix 2.

Value for Money Programme (All Phases) - 2013/14 Monitoring



### Housing Revenue Account Performance (Appendix 1)

- 3.10 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.

2012/13 Provisional Outturn £'000		2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Variance Month 2 %
	<b>HRA</b>				
(1,521)	Expenditure	56,289	56,136	(153)	-0.3%
(442)	Income	(56,289)	(56,259)	30	0.1%
(1,963)	Total	-	(123)	(123)	

## Dedicated schools Grant Performance (Appendix 1)

- 3.11 The Dedicated Schools Grant (DSG) is a ring-fenced grant which can only be used to fund expenditure on the schools budget. The schools budget includes elements for a range of services provided on an authority-wide basis including early years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget (ISB) which is divided into a budget share for each maintained school. The current forecast is an underspend of £0.208m and more details are provided in Appendix 1. Under the Schools Finance Regulations any underspend must be carried forward to support the schools budget in future years.

## NHS Managed S75 Partnership Performance (Appendix 1)

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

2012/13 Provisional Outturn £'000		2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(409)	<b>Section 75</b> NHS Trust managed S75 Services	12,536	12,758	222	1.8%

## Capital Programme Performance and Changes

- 3.14 The table below provides a summary of capital programme performance by strategic theme and shows that overall the programme is forecast to break-even at this early stage.

2012/13 Provisional Outturn £'000		2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Outturn Month 2 %
(503)	<b>Capital Budgets</b> Children's Services	26,158	26,158	0	0.0%
(2)	Adult Services	2,490	2,490	0	0.0%
(758)	Environment, Development & Housing - GF	22,064	22,064	0	0.0%

(979)	Environment, Development & Housing - HRA	35,100	35,100	0	0.0%
(15)	Assistant Chief Executive	12,317	12,317	0	0.0%
(29)	Finance, Resources & Law	9,300	9,300	0	0.0%
(2,286)	<b>Total Capital</b>	<b>107,429</b>	<b>107,429</b>	<b>0</b>	<b>0.0%</b>

- 3.15 Appendix 3 provides details of the new schemes to be added to the capital programme which are included in the budget figures above. Policy & Resources Committee's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval at Budget Council.

<b>Capital Budget Movement</b>	<b>2013/14 Budget £'000</b>
<b>Summary</b>	
Budget approved at Budget Council	83,562
New schemes included in approved budget where further reports are needed before inclusion in the capital programme	(12,400)
Slippage & Reprofiles Budget Approved in the Outturn report	21,018
New Schemes Approved in the Outturn Report	299
Reported at other Committees	3,092
<b>Total</b>	<b>95,571</b>
New schemes included in the report to Budget Council but needing further information which has been included in this report - Disabled Facilities Grant £0.7m, Highways Maintenance Funding £0.594m and all the Education funding except for the Cardinal Newman school extension (appendix 3)	9,094
Increases in grant since the initial budget report for the schemes above (appendix 3)	1,168
New schemes (to be approved - see appendix 3)	1,596
<b>Total Capital</b>	<b>107,429</b>

### **Implications for the Medium Term Financial Strategy (MTFS)**

- 3.16 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to Policy & Resources Committee and Full Council. This section highlights any potential implications for the current MTFS arising from in-year TBM monitoring above and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.
- 3.17 Details of risk provisions currently held are given in the Corporate Budgets section of Appendix 1. At this very early stage of the year no risk provisions have

been deployed as mitigating actions and recovery plans need to be implemented before re-assessing the financial position and the level of forecast risk.

#### Capital Receipts Performance

- 3.18 Capital receipts are used to support the capital programme. Any changes to the anticipated level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds and projects such as the Strategic Investment Fund, Asset Management Fund, ICT Fund and the Workstyles VFM projects. For 2013/14 £9.558m capital receipts have been received to date including the completed disposal of Amex House and the disposal of the Ice Rink at Queens Square. These receipts are already assumed within the planned resources expected to be available to fund the current capital programme.
- 3.19 The Government receives a proportion of the proceeds of 'right to buy' sales with a proportion required by the council to repay debt; the remainder is retained by the council and used to fund the capital programme. The estimated net usable receipts for 'right to buy' sales in 2013/14 is £0.380m and to date £0.195m has been received.

#### Collection Fund Performance

- 3.20 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 in relation to council tax 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.
- 3.21 The collection fund had a surplus of £0.500m at 31 March 2013 and the council's share of this (£0.400m) will be built into resources for 2014/15. There have been a number of changes to the council tax discounts and exemptions from the 1st April 2013 and the impact of some of the changes appears to be favourable in terms of fewer discounts awarded than anticipated. However, it is too early to calculate the trends on this through the remainder of the year and the impact this is having on collection. Therefore for the purposes of the resource projections the outturn position for 2013/14 is currently forecast to breakeven.

#### **Comments of the Director of Finance (S151 Officer)**

- 3.22 This is clearly a very early forecast that indicates a level of forecast risk that must be urgently attended to, particularly in relation to Adult Social Care. Mitigating actions and recovery plans are being developed and implemented which should reduce the forecast risk. The Accelerated Service Redesign forecast risk is more problematic as the Voluntary Severance Scheme has now ended. This may require the use of one off risk provisions if performance across the whole General Fund budget cannot be improved significantly throughout the year.
- 3.23 Executive Directors will keep the position under close scrutiny and will take appropriate action to reduce spending, manage vacancies and develop financial recovery plans where necessary.

## **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.

*Finance Officer Consulted: Jeff Coates Date: 18/06/13*

### 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.

5.3 As regards the proposed capital loan to Cardinal Newman School detailed in Appendix 3, arrangements for loan repayments in the event of conversion to an academy would follow established principles and guidance issued by the Department for Education and other relevant bodies.

*Lawyer Consulted: Oliver Dixon Date: 18/06/13*

### Equalities Implications:

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

### Sustainability Implications:

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

### Crime & Disorder Implications:

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

### Risk and Opportunity Management Implications:

5.7 The Council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a recommended minimum working balance of £9.000m to mitigate these risks. The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

#### Public Health Implications:

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

#### Corporate / Citywide Implications:

- 5.9 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 £3.388m. Any underspend at year-end would release one off resources that can be used to aid budget planning for 2014/15. 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. Revenue Budget Performance
2. Value for Money Programme Performance
3. New Capital Schemes

#### **Documents in Members' Rooms:**

None.

#### **Background Documents**

None.





## Appendix 1 – Revenue Budget Performance

### Children’s Services - Revenue Budget Summary

2012/13 Provisional Outturn £'000	<b>Service</b>	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
26	Director of Children's Services	177	177	0	0.0%
(570)	Education & Inclusion	4,884	4,779	(105)	-2.1%
18	Children's Health, Safeguarding and Care	33,418	32,676	(742)	-2.2%
(3,631)	Stronger Families, Youth & Communities	20,974	20,510	(464)	-2.2%
(4,157)	Total Revenue - Children	59,453	58,142	(1,311)	-2.2%

### Explanation of Key Variances

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
<b>Education &amp; Inclusion</b>			
(150)	Home to School Transport	There is an underspend of <b>£0.150m</b> which reflects the continued reduction in the numbers of children being transported. The number of pupils transported to/from school for May was 445.	
45	Other	Minor Overspend variances.	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring these budgets back in balance where possible.
<b>Children’s Health, Safeguarding &amp; Care</b>			
(296)	Social Work Teams	The Social Work Teams are currently projected to underspend by <b>£0.296m</b> in 2013/14 due to a number of vacant posts within the teams.	
190	Care Leavers	Based on the expenditure trend in 2012/13, there is projected to be an overspend on care leavers of <b>£0.190m</b> . Note that increased activity in care leavers is linked to reductions in	There is currently on-going work to link services with housing to achieve better value for money in this service.

## Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
		Looked After Children so spend in this area is supporting the Children's Services VFM programme.	It is not yet known what impact this may have on the final budget position. Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring this budget back in balance where possible.
40	Legal Fees	At this stage in the financial year there is insufficient information to produce an accurate forecast. However, due to a tightening of the financial position toward the end of 2012/13, a potential carry forward of £0.040m in relation to the Sussex family Justice Experts Pilot could not be supported and an overspend is now anticipated for this specific cost	Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring this budget back in balance where possible. This service forms part of the VFM programme so it is anticipated that savings will be identified during the year.
(12)	Adoption Payments	The government have instituted a number of changes and new requirements for the adoption service. Linked to this, a new Adoption Reform grant has been made available. It is not yet known what impact this will have on inter-agency adoption costs and therefore no budget variance has been included at this stage. The <b>£0.012m</b> underspend shown above relates to regular adoption support payments and allowances which are currently running slightly below budgeted levels.	
(459)	In House Foster Payments	Part of the VFM budget strategy is to switch the emphasis of fostering placements from Independent Foster Agency (IFA) to in-house carers. The budgets are based on an increased number of in-house placements with a corresponding reduction in IFA numbers. This has not progressed as quickly as anticipated resulting in the overspend in IFAs (see below) and an underspend of <b>£0.459m</b> in in-house placements.	Continuing the implementation of a tiered approach to the procurement of placements to reduce the proportion of high cost placements.
(150)	Prevention	The underspend in this service of £0.150m mainly relates to the costs of housing and payments to family & friends carers.	
(55)	Other	Minor underspend variances.	

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
<b>Stronger Families, Youth &amp; Communities</b>			
(398)	Corporate Critical - Children's Agency Placements	<p>The current projected number of residential placements (27.28 FTE) is broken down as:</p> <ul style="list-style-type: none"> <li>○ 22.75 FTE social care residential placements (children's homes);</li> <li>○ 3.94 FTE schools placements;</li> <li>○ 0.59 FTE family assessment placements, and;</li> <li>○ 0.00 FTE substance misuse rehabilitation placements.</li> </ul> <p>The budget allows for 22.20 FTE social care residential care placements, 6.00 FTE schools placements, 1.50 FTE family assessment placements and 0.60 FTE substance misuse rehab placements. The number of projected children's home placements are in line with the budget but 2.33 FTE of these are in 'semi independence' with a considerably reduced unit cost. Other residential placement types remain very low compared with historic averages. Overall the number of placements are currently 3.02 FTE below the budgeted level, and this combined with the unit cost savings described above result in an estimated underspend of <b>£0.824m</b>.</p> <p>The numbers of children placed in independent foster agency (IFA) placements began to fall during 2012/13 and that trend appears to be continuing in 2013/14. Currently there are 170.41 projected FTE placements. Although this represents a reduction of 8.3% on last year, the budget strategy included a target for switching the emphasis from IFA to in-house carers which has not yet been achieved. On that basis, the budget for IFA placements is 154.00 FTE which is currently being exceeded by 25.96 FTE placements resulting in an anticipated overspend of <b>£0.495m</b>.</p>	<ul style="list-style-type: none"> <li>• Although underspending in total, there are areas of pressure within Children's Agency Placement budgets. In particular, the Children's Services Value for Money (VFM) project is effectively addressing the level of activity and spend in IFAs. The plan focuses on strengthening preventive services and streamlining social care processes including:</li> <li>• implementing a tiered approach to the procurement of placements for looked after children, reducing the proportion of high cost placements</li> <li>• 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.</li> <li>• strengthening early intervention and preventive services and commissioning a transformation change programme to support the re-structuring of social work services in Children's Services.</li> </ul>

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
		<p>The current projected number of disability placements is 19.88 FTE with an average unit cost of £1,792.54. The number of placements is 6.38 FTE above the budgeted level. The average weekly cost of these placements is £425.72 lower than the budgeted level and the combination of these two factors together with a projected underspend of £0.040m on respite placements, results in an overspend of <b>£0.257m</b>.</p> <p>It is currently anticipated that there will be 0.48 FTE secure (welfare) placements and 0.90 FTE secure (justice) placements in 2013/14. The budget allows for 1.25 FTE welfare and 0.75 FTE justice placements during the year. There are currently no children in a secure (welfare) placement or a secure (criminal) placement resulting in a projected underspend of <b>£0.326m</b></p>	
(66)	Other	Minor underspend variances.	

## Appendix 1 – Revenue Budget Performance

### Adult Services – Revenue Budget Summary

2012/13 Provisional Outturn £'000	Service	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(2,158)	Adults Assessment	47,998	50,151	2,153	4.5%
418	Adults Provider	12,913	13,650	737	5.7%
(49)	Commissioning & Contracts	1,026	1,026	0	0.0%
(1,789)	Total Revenue - Adult	61,937	64,827	2,890	4.7%

### Explanation of Key Variances

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
		The key variances across Adult Social Care are as detailed below:	Further plans are being developed and mitigating action is being taken to reduce these forecast overspends. As it is early in the financial year, it is hoped that reductions can be achieved as actions begin to take effect.
<b>Adults Assessment</b>			
see below	Assessment Services	Assessment Services (Community Care) are showing an overspend of £2.153m (4.6% of net budget) at Month 2, broken down as follows:	
1,499	Corporate Critical - Community Care Budget (Older People)	The pressure on the Older People community care budget relates to the Supported Living and Extra Care Housing savings target of £1.640m. Units are being jointly commissioned with Housing and include options around Sheltered Housing, Shared Lives and other accommodation. These options are complex and there are significant service, legal, financial and	Corporate strategic work is ongoing to deliver the extra care units required and explore/develop other options.

Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
		commissioning considerations to work through for each option that will require a greater lead-in time than originally anticipated. Currently, there is a risk that units and/or alternative options will not be deliverable in time to achieve the savings target for 2013/14.	
333	Corporate Critical - Community Care Budget (Learning Disabilities)	Learning Disabilities are reporting an overspend of £0.333m at Month 2, of which approximately £0.200m relates to 1 'transitions' client whose complexity of need was significantly greater than expected. The remainder of the variance is linked to the estimated costs of transitions cases being in excess of the service pressure funding available.	Review of growth assumptions.
376	Corporate Critical - Community Care Budget (Under 65's)	Under 65's are currently showing an overspend of £0.376m. This is largely due to the full-year effect of the increased complexity (e.g. Acquired Brain Injury) in small numbers of high cost placements.	Activity and growth projections being actively monitored.
(55)	Community Care Budget (HIV)	The underspend is a continuation of the activity and spending levels experienced over the last 2 financial years. Consideration needs to be given to realigning budget, given the pressures on other areas described above.	
0	Support & Intervention Teams	There is a risk around the delivery of the £0.340m savings target in respect of joint commissioning provider arrangements.	Exploring different providers of service
<b>Adults Provider</b>			
737	Adults Provider	The forecast overspend includes an assessed risk of £0.500m against the following pressures totalling £1.604m: <ul style="list-style-type: none"> <li>○ the achievement of the 2013/14 savings target of £0.740m;</li> <li>○ pressures relating to achievement of the full year effect of 2012/13 savings of £0.104m, and;</li> <li>○ unachieved previous years savings of £0.760m.</li> </ul>	The services are working to implement the changes required to deliver the savings and the Management Team is working to identify opportunities to make efficiencies across all the services.

**Appendix 1 – Revenue Budget Performance**

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
		<p>Achievement of savings is dependent on the commissioning review of day options, the corporate VFM programme on transport, the review of options for different service models led by a corporate group working, and the Learning Disabilities accommodation review.</p> <p>The forecast overspend also includes additional pressures on Adults Provider budgets are due to the loss of appropriate funding for a service user leaving an in-house Learning Disabilities service due to their needs (£0.145m) and increased staffing in the Resource Centre for Older People (£0.272m) which has been partly offset by recurrent and one-off Department of Health Social Care funding (£0.150m).</p>	
<b>Commissioning &amp; Contracts</b>			
0	Commissioning & Contracts	There is a pressure of approximately £0.030m against delivery of the Community Meals savings target.	It is expected that this will be offset by containing spend across the service, primarily from vacancy management.

Environment, Development & Housing - Revenue Budget Summary

2012/13 Provisional Outturn £'000	Service	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
786	Transport	(3,920)	(4,021)	(101)	2.6%
(6)	City Infrastructure	28,841	28,844	3	0.0%
62	City Regeneration	1,048	1,071	23	2.2%
524	Planning & Public Protection	4,773	4,906	133	2.8%
1,366	Total Non Housing Services	30,742	30,800	58	0.2%
352	Housing	16,559	16,874	315	1.9%
1,718	Total Revenue - Environment, Development & Housing	47,301	47,674	373	0.8%

Explanation of Key Variances:

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
<b>Transport</b>			
(175)	Corporate Critical – Parking Operations	Overall the corporate critical parking budget is forecast to achieve surplus income of £0.175m. At this early stage of the year two potential variances have been identified but all aspects of this budget will be kept under review and further variances will be reported as they are identified. In particular, it is important to note that the current forecast assumes an on target position for on street parking. The detailed data behind this is being analysed and an updated position will be reported to the October meeting of this committee.	



Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
		<p>London Road car park is expected to achieve additional income of £0.200m largely as a result of letting an additional 220 season ticket spaces to American Express. It is possible that the surplus income could be higher than this but this may be offset by the continued migration back to Trafalgar Street and the lowered on-street tariffs in the area.</p> <p>A potential income shortfall of £0.025m has been identified at Trafalgar Street due to problems with the card payment facility. This will be kept under review and it is possible that the income position may be recovered depending on the number of drivers that return from London Road following the Trafalgar Street refurbishment (see above).</p>	
74	Highways	Forecasted pressures totalling £0.074m have been identified within the Highways division. A potential pressure of £0.065m has been highlighted with regards to staff funding and agency costs; with another pressure of £0.005m in relation to counsel costs.	Forecasts will be reviewed to determine whether there is scope to reduce costs and generate income elsewhere in order to bring the position back to a breakeven one.
<b>City Infrastructure</b>			
3	City Clean	Minor Overspend variances. At this stage, further information is required to be able to assess the financial impact on the service of recent industrial action.	
<b>City Regeneration</b>			
23	Sustainability	Pressures have been identified with regards to maternity pay cover (£0.007m) and potentially unachievable income (£0.015m).	An exercise is being carried out to establish whether the sustainability budget could be better aligned to reflect actual activity with the regards to the unrecoverable income.
<b>Planning &amp; Public Protection</b>			

## Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
133	Public Protection	A potential pressure has been identified in relation to licensing income.	Detailed work will be undertaken to clarify this potential pressure. Income will be monitored closely throughout the year and forecasts reviewed to determine if additional income and cost reductions can offset the pressure.
<b>Housing</b>			
303	<b>Corporate Critical</b> Temporary Accommodation & Allocations  (Excludes LDV)	The forecast pressure is due to lower than expected income on Block & Spot Purchase Bed and Breakfast placements.	Additional leased properties will reduce the impact of lower income for B&B accommodation. We will also be implementing a rent accounting system for B&B which will enable us to collect income from working people. Income collection for leased properties has been better than anticipated, and voids lower, which will offset the potential overspend. In addition, the £1.000m to assist with pressures is being held to manage welfare reform impacts but may be available to mitigate this potential overspend.
48	Housing & Social Inclusion	The overspend relates to the Horsdean site and includes £0.035m for remedial/improvement works and a fire hydrant, £0.010m to secure the entrance to the site and the boundaries to the pitches and £0.003m for works to the shower block.	The first quarter has been very quiet in terms of unauthorised encampments which will help reduce expenditure in other areas. We are attempting to reduce legal costs by negotiating leaving dates with travellers in less sensitive sites rather than going straight to legal proceedings. We are also developing tactical plans with the police and other agencies to try to prevent and reduce unauthorised encampments. We are commencing a Financial Recovery Project for the Travellers budgets to examine and try to reduce any unnecessary expenditure.
1	Housing Support Services	Offsetting overspends and underspends being managed within budgets.	
(42)	Lead	This underspend is being used to offset	

**Appendix 1 – Revenue Budget Performance**

<b>Key Variances £'000</b>	<b>Service</b>	<b>Description</b>	<b>Mitigation Strategy (Overspends only)</b>
	Commissioner	overspends elsewhere but is yet to be allocated.	
5	Other Housing	Minor variances	

## Appendix 1 – Revenue Budget Performance

### Assistant Chief Executive - Revenue Budget Summary

2012/13 Provisional Outturn £'000	Service	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
231	Communications	790	790	0	0.0%
(72)	Communities & Equalities	3,755	3,755	0	0.0%
(1)	Culture	1,867	1,867	0	0.0%
385	Tourism & Leisure	2,943	3,164	221	7.5%
12	Policy & Performance	2,164	2,164	0	0.0%
(151)	Sport & Leisure	1,213	1,213	0	0.0%
404	Total Revenue - Assistant Chief Executive	12,732	12,953	221	1.7%

### Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
<b>Communications</b>			
0	Communications	Break-even position reported at Month 2.	
<b>Communities &amp; Equalities</b>			
0	Communities & Equalities	Break-even position reported at Month 2.	
<b>Culture</b>			
0	Culture	Break-even position reported at Month 2.	
<b>Tourism &amp; Leisure</b>			
100	Venues	Venues had an overspend of £0.422m last financial year due mainly to reduced bookings for entertainments. As a result of the action taken to help secure further bookings and maximise future business opportunities the pressure reported at Month 2 is much reduced at £0.100m. Confirmation is still required around some of the	Further action will be taken to secure further bookings and maximise future business opportunities.

## Appendix 1 – Revenue Budget Performance

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
		larger bookings for multi date runs and there are further enquiries for diary availability for the end of this year and the beginning of next.	
100	Royal Pavilion and Museums	There is a net pressure of £0.100m across the service at Month 2, mainly against the staffing budget.	Spending will be reviewed across the service and reduced where possible, including vacancy management. Any reduction in spend will need to be carefully managed to ensure that both service delivery and external funding streams are not affected.
21	Seafront Services, Tourism & Marketing	The pressure of £0.021m relates to the full-year savings target applied to the Visitor Information Centre which is not actually closing until October.	All budget areas will be closely monitored and opportunities for cost reduction and other savings will be kept under review to help offset the pressure
<b>Policy &amp; Performance</b>			
0	Policy & Performance	Break-even position reported at Month 2.	
<b>Sport &amp; Leisure</b>			
0	Sport & Leisure	Sport & Leisure are reporting a break-even position at Month 2. However there is a risk in respect of liabilities for Saltdean Lido until a lease is granted to an external operator. Also the council owned golf courses which are operated through a management contract by Mytime Active (not for profit leisure trust) have not yet achieved the anticipated levels of income. We are therefore working with Mytime to help improve their financial position.	

Public Health – Revenue Budget Summary

2012/13 Provisional Outturn £'000	Service	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
0	Public Health	0	0	0	0.0%
157	Community Safety	1,628	1,628	0	0.0%
(7)	Civil Contingencies	0	0	0	0.0%
150	Total Revenue - Public Health	1,628	1,628	0	0.0%

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
<b>Communications</b>			
0	Public Health	Public Health expenditure is funded by ring-fenced grant income of £18.200m from the Department of Health; hence the net budget above is shown as zero. The expectation is that funds will be utilised in-year, but if at the end of the financial year there is any underspend this can be carried over, as part of a public health reserve, into the next financial year. In utilising those funds next year, the grant conditions would still need to be complied with.	
<b>Communities &amp; Equalities</b>			
0	Community Safety	Community Safety are forecasting a break-even position at Month 2, although final confirmation is still awaited from the Police & Crime Commissioner (PCC) on two tranches of funding (£0.143m for Building Safer Communities and £0.094m for Drugs and Alcohol). Both of these	

**Appendix 1 – Revenue Budget Performance**

<b>Key Variances £'000</b>	<b>Service</b>	<b>Description</b>	<b>Mitigation Strategy (Overspends only)</b>
		areas of funding have been fully committed.	
<b>Culture</b>			
0	Civil Contingencies	Break-even position reported at Month 2.	

Appendix 1 – Revenue Budget Performance

Resources & Finance and Law - Revenue Budget Summary

2012/13 Provisional Outturn £'000	Service	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
98	City Services	13,493	13,493	0	0.0%
(413)	Housing Benefit Subsidy	(569)	(569)	0	0.0%
(28)	HR & Organisational Development	4,209	4,209	0	0.0%
111	ICT	5,710	5,840	130	2.3%
(169)	Property & Design	5,142	5,142	0	0.0%
(242)	Finance	6,482	6,482	0	0.0%
(155)	Legal & Democratic Services	3,309	3,309	0	0.0%
(798)	Total Revenue - Resources & Finance and Law	37,776	37,906	130	0.3%

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
<b>City Services</b>			
0	City Services	Break-even position reported at Month 2.	
<b>Housing Benefit Subsidy</b>			
0	Corporate Critical - Housing Benefit Subsidy	Break-even position reported at Month 2.	
<b>HR &amp; Organisational Development</b>			
0	HR & Organisational Development	Human Resources & Organisational Development are forecasting a break-even position at year end. However, staffing costs are being examined, and income forecasts are being reviewed to identify and address potential pressures within the budget and to enable easier monitoring.	



**Appendix 1 – Revenue Budget Performance**

<b>Key Variances £'000</b>	<b>Service</b>	<b>Description</b>	<b>Mitigation Strategy (Overspends only)</b>
<b>ICT</b>			
130	ICT	The forecast overspend of £0.130m is a result of pressures on contract spend through uncertainty in delivering on VfM savings for telephony and the Microsoft Enterprise agreement. We are also seeing a reduction in income through the termination of an existing contractual service.	The service is developing a financial recovery plan in the context of planning the delivery of the ICT Investment Plan and meeting new demands for increased information security following the government's recent announcement of a 'zero tolerance' approach.
<b>Property &amp; Design</b>			
0	Property & Design	Break-even position reported at Month 2.	
<b>Finance</b>			
0	Finance	Break-even position reported at Month 2	
<b>Legal &amp; Democratic Services</b>			
0	Legal & Democratic Services	Break-even position reported at Month 2	

Appendix 1 – Revenue Budget Performance

Corporate Budgets - Revenue Budget Summary

2012/13 Provisional Outturn £'000	Service	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(469)	Bulk Insurance Premia	3,187	3,187	0	0.0%
80	Concessionary Fares	10,144	10,144	0	0.0%
673	Capital Financing Costs	9,721	9,721	0	0.0%
(1)	Levies & Precepts	158	158	0	0.0%
228	Corporate VFM Savings	(2,720)	(1,635)	1,085	39.9%
(1,206)	Risk Provisions	4,882	4,882	0	0.0%
966	Other Corporate Items	(23,091)	(23,091)	0	0.0%
271	Total Revenue - Corporate Budgets	2,281	3,366	1,085	-47.6%

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
<b>Bulk Insurance Premia</b>			
0	Bulk Insurance Premia	Break-even position reported at Month 2.	
<b>Concessionary Fares</b>			
0	Concessionary Fares	Break-even position reported at Month 2.	
<b>Capital Financing Costs</b>			
0	Capital Financing Costs	Break-even position reported at Month 2.	
<b>Corporate VFM Projects</b>			
1,085	Corporate VFM Projects	Overspend relates to the level of uncertain savings resulting from Accelerated Service Redesign (voluntary severance (VSS) scheme) process. Details are provided in Appendix 2 (VFM Programme).	Please see Appendix 2 for information.
<b>Risk Provisions</b>			

**Appendix 1 – Revenue Budget Performance**

<b>Key Variances £'000</b>	<b>Service</b>	<b>Description</b>	<b>Mitigation Strategy (Overspends only)</b>
0	Risk Provisions & contingency	<p>The risk provision budget includes the following main items:</p> <ul style="list-style-type: none"> <li>○ Pay and Pension provisions of £2.4m;</li> <li>○ Risk provisions of £1.5m;</li> <li>○ Contingency and other items, including energy inflation provisions of £1.0m.</li> </ul> <p>A break-even position is reported at Month 2, however, the month 2 position indicates a number of forecast risks which may result in a call on risk provisions if these cannot be mitigated by recovery actions.</p>	
<b>Other Corporate Items</b>			
0	Other Corporate Items	Break-even position reported at Month 2.	

Appendix 1 – Revenue Budget Performance

Housing Revenue Account - Revenue Budget Summary

2012/13 Provisional Outturn £'000	Housing Revenue Account	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(73)	Employees	8,543	8,545	2	0.0%
(782)	Premises – Repair	11,138	11,138	0	0.0%
(355)	Premises – Other	3,443	3,443	0	0.0%
(548)	Transport & Supplies	2,097	2,097	0	0.0%
(108)	Support Services	1,999	2,099	100	5.0%
1	Third Party Payments	147	142	(5)	-3.4%
400	Revenue contribution to capital	20,774	20,774	0	0.0%
6	Capital Financing Costs	8,148	7,898	(250)	-3.1%
(62)	Subsidy	0	0	0	0.0%
(1,521)	Net Expenditure	56,289	56,136	(153)	-0.3%
(127)	Dwelling Rents (net)	(49,235)	(49,235)	0	0.0%
(124)	Other rent	(1,269)	(1,269)	0	0.0%
(188)	Service Charges	(4,932)	(4,907)	25	0.5%
(17)	Supporting People	(465)	(465)	0	0.0%
14	Other recharges & interest	(388)	(383)	5	1.3%
(442)	Net Income	(56,289)	(56,259)	30	0.1%
<b>(1,963)</b>	<b>Total</b>	<b>-</b>	<b>(123)</b>	<b>(123)</b>	

Explanation of Key Variances

Key Variances £'000	Service	Description	Mitigation Strategy (Overspends only)
<b>Housing Revenue Account</b>			
100	Support Services	Additional Legal support (£0.070m) and Human Resources support (£0.030m) is required by Housing Services due to additional requirements resulting from welfare reform, capital programme major projects and reviews of various Housing management services.	
(250)	Capital Financing Costs	This forecast underspend is due to a reduction in interest costs as a result of lower levels of borrowing than budgeted.	
25	Service Charges	This relates to TV Aerial income which is forecast to be £0.025m less than budgeted as a result of charges to a further group of tenants not being applied at 1 <sup>st</sup> April 2013. This is due to a dispute over whether installations have been completed as expected.	This overspend is mitigated by underspends across the current HRA revenue budget.

## Dedicated Schools Grant - Revenue Budget Summary

2012/13 Provisional Outturn £'000		2013/14 Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
	<b>Dedicated Schools Grant (DSG)</b>				
	Individual Schools Budget (ISB) <i>(NB This does not include the £7.114m school balances brought forward from 2012/13)</i>	125,046	125,046	0	0.0%
	Private Voluntary & Independent (PVI) <i>(Early Years 3 &amp; 4 year old funding for the 15 hours free entitlement to early years education)</i>	8,994	8,994	0	0.0%
(1,089)	Central Schools Budget <i>(This includes £1.089m central underspend brought forward from 2012/13)</i>	20,927	20,719	(208)	-1.0%
	Grant Income	(153,878)	(153,878)	0	0.0%
(1,089)	Net DSG Budget	1,089	881	(208)	-19.1%

## Explanation of Key Variances

Key Variances £'000	Service	Description (Note: FTE/WTE = Full/Whole Time Equivalent)	Mitigation Strategy (Overspends only)
<b>Central Schools Budget</b>			
(159)	Exceptions	This central budget is held to meet historical commitments, for example, schools' equal pay and combined services costs, together with other statutory items paid on behalf of schools. The allocation of the Exceptions budget is approved by the Schools Forum. This small underspend relates to currently unallocated exceptions budgets.	
(51)	Education of Looked After Children	Costs in children's education agency placements being less than anticipated.	
2	Various	Other minor overspends	

NHS Trust Managed S75 Budgets - Revenue Budget Summary

2012/13 Provisional Outturn £'000	S75 Partnership	2013/14 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(316)	Sussex Partnership Foundation NHS Trust (SPFT)	11,446	11,627	181	1.6%
(93)	Sussex Community NHS Trust (SCT)	1,090	1,131	41	3.8%
(409)	Total Revenue - S75	12,536	12,758	222	1.8%

Explanation of Key Variances

Key Variances £'000	Service	Description (Note WTE = Whole Time Equivalent)	Mitigation Strategy (Overspends only)
<b>Sussex Partnership Foundation NHS Trust</b>			
181	SPFT	Sussex Partnership NHS Foundation Trust are reporting an overspend of £0.181m at Month 02, reflecting growth pressures and increase in need and complexity in Adult Mental Health and forensic services within residential and supported accommodation. In line with the agreed risk-share arrangements for 2013/14 any year-end variance will be shared 50/50 between SPFT and BHCC.	Ongoing scrutiny is undertaken at funding Panels to identify appropriate funding streams and/or alternative packages of care. Consideration is being given to extending the BHT 'Start project' beyond June 2013. 'Move on' activity will also remain a key element of work for the Transitions team and Recovery services.
<b>Sussex Community NHS Trust</b>			
41	SCT	The main pressure is against the Integrated Community Equipment Store (ICES) budget, reflecting the continued increased demand for equipment and is a continuation of the trends seen in last financial year.	A joint meeting is planned for July to review the financial position against the equipment budget.





**Value for Money Programme Performance**

<b>Projects</b>	<b>Savings Target £m</b>	<b>Achieved £m</b>	<b>Anticipated £m</b>	<b>Uncertain £m</b>	<b>Achieved %</b>
Adult Social Care	2.284	0.257	2.027	-	11.3%
Children's Services	2.660	0.576	2.084	-	21.7%
ICT	0.410	-	0.410	-	0.0%
Procurement *	1.396	-	1.396	-	0.0%
Workstyles	0.440	-	0.440	-	0.0%
Business Process Improvement *	0.320	-	0.320	-	0.0%
Accelerated Service Redesign (VS Scheme)	2.500	1.415	-	1.085	56.6%
Additional Management Savings 2012/13 (FYE)	0.175	0.175	-	-	100.0%
Client Transport	0.130	-	0.130	-	0.0%
<b>Total All VfM Projects</b>	<b>10.315</b>	<b>2.423</b>	<b>6.807</b>	<b>1.085</b>	<b>23.5%</b>

\* These savings are retained by the service areas in which they occur.

**Explanation of 'Uncertain' VfM Savings:**

<b>Key Variances £'000</b>	<b>Description</b>	<b>Mitigation Strategy for Uncertain Savings</b>
<b>Accelerated Service Redesign</b>		
1,085	Accelerated Service Redesign required services to identify opportunities to accommodate staffing reductions through applications to a Voluntary Severance Scheme (VSS). The savings target of £3m (full year) was known to be challenging and at the conclusion of the process, there is a forecast shortfall. All VSS applicants have been considered and decisions agreed through a corporate panel set up to oversee the process - 98% of accepted applicants have signed	The officer 'Modernisation Board' will be reviewing the final outcome of the Accelerated Service Redesign/VSS process and considering options for addressing the in-year and full year shortfalls. This may, however, require the use of risk provisions which were built into the approved budget in recognition of the level of risk inherent in achieving this saving and other complex or higher risk savings.

Key Variances £'000	Description	Mitigation Strategy for Uncertain Savings
	<p>agreements. The process included an appeals procedure which has been completed and therefore it is not anticipated any further savings will be generated directly through the VSS process</p>	

<b>New Capital Project Approval Request</b>				
Unit:	Children’s Services (Education and Inclusion)			
Project title:	Cardinal Newman School Extension			
Total Project Cost (All Years)	£1,000,000			
<b>Purpose, benefits and risks:</b>				
<p>Cardinal Newman is a voluntary aided school, and therefore the buildings are owned by the Governing body. However, it forms part of the overall city wide secondary school provision and for revenue funding is funded by the local authority in the same way as other schools. It should therefore be treated in the same way as other schools in being able to apply for loans from the Council.</p> <p>This proposed scheme at Cardinal Newman fits with the school’s strategic plan to significantly increase student numbers in the sixth form. The school is currently experiencing a steady increase in their sixth form numbers and this project plans for an increase to a minimum of 540, but school expectations are that, with the new build, student numbers will grow to 600. Additional annual funding will be generated though increasing student numbers. The proposed extension may also provide an opportunity to develop further technologies and improve local partnerships as well as the potential for additional income streams.</p>				
<b>Capital expenditure profile (£’000):</b>				
Year	2013/14	2014/15	2015/16	TOTAL
Unsupported Borrowing	1,000,000	0	0	1,000,000
Total estimated costs and fees	1,000,000	0	0	1,000,000
<b>Financial implications:</b>				
<p>The total cost of the scheme is £3.7m and the school has identified that financing is required to enable the scheme to proceed. Borrowing is available to schools to provide finance for schemes such as this subject to an acceptable business case. It is anticipated that student numbers will grow in the sixth form from 400 to 600 which will increase the income to the school to fund the borrowing costs. Cardinal Newman closed the 2012/13 financial year with an underspend of £0.877m and the school has planned that a significant part of this carry-forward will be used in supporting this capital scheme. The school budget plan factors in the cost of the repayments and also contains a contingency over the next 3-year period to accommodate potential cost overruns. The school’s budget plan has been verified by the council’s Schools Finance team. Should the school convert to an academy during the lifetime of the loan, liability for any outstanding repayments would normally transfer to the academy, subject to the necessary terms and conditions being contractually agreed between the parties.</p>				

**New Capital Project Approval Request**

Unit:	Children’s Services (Education and Inclusion)
Project title:	Structural Maintenance
Total Project Cost (All Years):	£920,000

**Purpose, benefits and risks:**

The sum of £920,000 is annually available for structural maintenance and is provided for in the annual revenue budget. The funding is used to address the most urgent and important items highlighted by the condition surveys of school buildings. The extent of the work at each school will be determined by condition surveys and detailed investigation and scoping of the problems to be addressed. There will also be discussion with each school on the timing and scoping of the works.

**Capital expenditure profile (£’000):**

Year	2013/14	2014/15	2015/16	TOTAL
Direct Revenue Funding	920,000			920,000
Total estimated costs and fees	920,000			920,000

**Financial implications:**

The sum of £920,000 was included in the Capital Budget reported to Council in February subject to a detailed report being presented to Members before the funds are released. A detailed report was presented at the Children & Young People Committee on 11<sup>th</sup> March 2013 and approved by Members but Financial Regulations require the approval of the Policy & Resources Committee to formally adopt the scheme into the capital programme.

<b>New Capital Project Approval Request</b>				
Unit:	Children’s Services (Education and Inclusion)			
Project title:	Capital Maintenance			
Total Project Cost (All Years):	£3,107,780			
Purpose, benefits and risks:				
<p>A major priority of the Asset Management Plan is to reduce the amount of condition related works in schools. A rolling programme of works has been prepared which currently shows a backlog of £30 million. Legislation on both the control of legionella and asbestos in buildings has given rise to the need to carry out works on a rolling programme to school buildings to achieve compliance with the new legislation. The council is required by legislation to undertake fire risk assessments for all of its buildings including schools. Any necessary work identified by the audits that is the responsibility of the Local Authority will have to be prioritised and carried out on a rolling programme.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Education grants	3,107,780			3,107,780
Total estimated costs and fees	3,107,780			3,107,780
Financial implications:				
<p>£2.708m was included in the Capital Budget reported to Council in February subject to a detailed report being presented to Members before the funds are released. Since the February report, the grant allocations changed and a detailed report was presented at the Children &amp; Young People Committee on 11<sup>th</sup> March 2013 and approved by Members but Financial Regulations require the approval of the Policy &amp; Resources Committee to formally adopt the scheme into the capital programme.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Children’s Services (Education and Inclusion)			
Project title:	Devolved Formula Capital			
Total Project Cost (All Years):	£529,120			
Purpose, benefits and risks:				
<p>Devolved Formula Capital (DFC) is a formula grant allocated to all schools each year for funding the priority capital needs of their buildings. It must be spent on capital and within time limits. It can be combined with schools other resources and also Local Authority funding. Priorities for use of this funding are new buildings and other facilities, including ICT or capital repairs/refurbishment in accordance with priorities set by each school and in line with their Asset Management Plans.</p>				
Capital expenditure profile (£’000):				
Year	2013/14	2014/15	2015/16	TOTAL
Education grants	529,120			529,120
Total estimated costs and fees	529,120			529,120
Financial implications:				
<p>£500,000 was included in the Capital Budget reported to Council in February subject to a detailed report being presented to Members before the funds are released. Since the February report the grant allocations changed and a detailed report was presented at the Children &amp; Young People Committee on 11<sup>th</sup> March 2013 and approved by Members but Financial Regulations require the approval of the Policy &amp; Resources Committee to formally adopt the scheme into the capital programme.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Children’s Services (Education and Inclusion)			
Project title:	New Pupil Places			
Total Project Cost (All Years):	£3,961,230			
Purpose, benefits and risks:				
<p>Basic need funding is provided to authorities who are experiencing increasing school rolls. The funding is provided to ensure that the Local Authority can meet its statutory obligation to provide a school place for every child that needs one. At its meeting on 14th January 2013 the Children &amp; Young People Committee agreed to progress with the necessary statutory consultation to expand Aldrington CE Primary School by one form of entry. The additional places need to be available by September 2013. To meet the timetable of providing these places by September 2013 work needs to start on the design of this project immediately and construction work will need to commence as soon as possible after completion of the statutory processes.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Education Grants	3,961,230			3,961,230
Total estimated costs and fees	3,961,230			3,961,230
Financial implications:				
<p>£3.250m was included in the Capital Budget reported to Council in February subject to a detailed report being presented to Members before the funds are released. Since the February report the grant allocations changed and a detailed report was presented at the Children &amp; Young People Committee on 11<sup>th</sup> March 2013 and approved by Members but Financial Regulations require the approval of the Policy &amp; Resources Committee to formally adopt the scheme into the capital programme.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Children’s Services (Education and Inclusion)			
Project title:	2 year-old capital funding			
Total Project Cost (All Years):	£422,000			
Purpose, benefits and risks:				
<p>Brighton &amp; Hove City Council has been allocated a sum of £422,000 to support capital investment necessary to implement the extension of the statutory entitlement to free early education for two year olds from lower income families, from September 2013. This funding will be targeted to ensure the necessary increase in the number of spaces available to eligible two year olds.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Education Grants	422,000			422,000
Total estimated costs and fees	422,000			422,000
Financial implications:				
<p>£422,000 was included in the Capital Budget reported to Council in February but Financial Regulations require the approval of the Policy &amp; Resources Committee before the scheme can be formally adopted in the capital programme.</p>				



<b>New Capital Project Approval Request</b>				
Unit:	Adult Services (Adult Assessment)			
Project title:	Minor Adaptations			
Total Project Cost (All Years):	£450,000			
Purpose, benefits and risks:				
<p>To increase the capital budget available for Adult Social Care minor adaptations by £0.150m to help support the unit in delivering greater 'personalisation' on behalf of its residents. National research demonstrates that most service users would choose the one-off provision of re-abling equipment or adaptations, which supports their continued independence, rather than the more costly and ongoing intervention of a care package.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Revenue Contributions	150,000	150,000	150,000	450,000
Total estimated costs and fees	150,000	150,000	150,000	450,000
Financial implications:				
<p>The funding of £0.150m is from a recurrent revenue budget allocation met from the Adult Social Care budget, which is used to fund Minor Adaptations. It may be necessary to identify further resources to be added to the Minor Adaptations budget, during the year, depending on the level of commitments.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Environment, Development & Housing (Housing)			
Project title:	Disabled Facilities Grant			
Total Project Cost (All Years):	£727,720			
Purpose, benefits and risks:				
<p>The Disabled Facilities programme helps disabled people to live as comfortably and independently as possible in their own homes through the provision of adaptations. Entitlement to a Disabled Facilities Grant is mandatory for eligible disabled people and the grant provides financial assistance for the provision of a wide range of housing adaptations ranging from stair lifts, level access showers and home extensions. The programme is therefore key to delivering increased levels of care and support to people in their own homes.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Disabled facilities Grant	727,720			727,720
Total estimated costs and fees	727,720			727,720
Financial implications:				
<p>Grant funding of £0.728m from the Department of Communities and Local Government has been allocated to Brighton &amp; Hove City Council and will be available to fund new and existing committed applications against the Disabled Facilities Grant. This was included in the approved budget in February at £0.700m but subject to further information being presented to this Committee.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Environment, Development & Housing (Housing)			
Project title:	HOAT – Major Adaptation			
Total Project Cost (All Years):	£116,000			
Purpose, benefits and risks:				
<p>Local authorities have a statutory duty under the National Health Service &amp; Community Care Act 1990 to assess and meet people’s needs which may include the need for an adaptation or move to suitable housing; they also have a statutory duty under the Chronically Sick and Disabled Persons Act 1970 and the Housing Grants Construction &amp; Regeneration Act 1996 to meet the adaptations needs of disabled people. The Integrated Housing Adaptations Service is responsible for commissioning the provision of major housing adaptations across all tenures in the City including investment, Occupational Therapist assessment, management of the Adaptations Technical Team and partnership with our Home Improvement Agency.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Direct Revenue Funding	116,000			116,000
Total estimated costs and fees	116,000			116,000
Financial implications:				
<p>Revenue Funding of £0.116m has been identified for 2013/14 by Adult Care &amp; Health to deliver a ‘whole systems approach’ from the housing occupational therapy assessment and recommendations, feasibility and technical support through to practical completion.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Environment, Development & Housing (Housing)			
Project title:	Empty Property Grant Funding (Round 2)			
Total Project Cost (All Years):	£620,000			
Purpose, benefits and risks:				
<p>The Homes and Communities Agency has now confirmed the Empty Homes Round 2 funding of £0.620m over 2 years which will enable 31 empty properties to be brought back into use as affordable housing by the end of March 2015. As reported to Housing Committee on 19th June 2013, this funding will be used to provide capital grants for eligible properties in return for a minimum 10 year lease. Of the £0.620m, £0.520m relates to Brighton &amp; Hove City Council and £0.100m relates to Lewes District Council and there will be a Service Level Agreement with Lewes DC for the support provided on their behalf.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Capital Grant Funding	300,000	320,000		620,000
Total estimated costs and fees	300,000	320,000		620,000
Financial implications:				
<p>The funding of £0.620m is from the Homes and Communities Agency for Empty Homes Round 2 and will provide grant funding of £0.020m (average) per unit for 31 units.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Environment, Development & Housing (Transport)			
Project title:	Highways Maintenance Funding			
Total Project Cost (All Years):	£919,000			
Purpose, benefits and risks:				
<p>An additional grant was announced in the chancellor’s Autumn Statement for essential maintenance to renew, repair and extend the life of roads. The Highways maintenance funding is to be used for improvements to road surfacing and repairing damage to highway infrastructure. This will contribute to a safer environment for all road users, including pedestrians, cyclists and motorcyclists.</p>				
Capital expenditure profile (£'000):				
Year	2013/14	2014/15	2015/16	TOTAL
Grant	594,000	325,000		919,000
Total estimated costs and fees	594,000	325,000		919,000
Financial implications:				
<p>A Department of Transport grant for essential maintenance is available to fund this expenditure. To be eligible for this additional funding the department requires the Highway Authority to publish a brief note on their website by the end of each financial year on where (in terms of location) and how this additional funding was spent on the maintenance. The £0.594m was included in the approved budget in February subject to further information being presented to this Committee.</p>				

<b>New Capital Project Approval Request</b>				
Unit:	Assistant Chief Executive (Sports Development Team)			
Project title:	New ICT System for Sports development			
Total Project Cost (All Years):	£30,000			
Purpose, benefits and risks:				
<p>The Active For Life club database to be built within the council’s web environment will improve the effectiveness and efficiency of the functions of the services provided by the Sports Development Team.</p> <p>The new system will provide refreshed information on where to ‘get active’ in the city, providing a new A - Z of sports activities and groups and the booking system will lead to long term savings, in particular through reduced administration costs for holiday programme courses.</p>				
Capital expenditure profile (£’000):				
Year	2013/14	2014/15	2015/16	TOTAL
Direct Revenue Funding	30,000			30,000
Total estimated costs and fees	30,000			30,000
Financial implications:				
<p>The direct revenue funding for this scheme was funded out of revenue in 2012/13 and carried forward to 2013/14.</p>				

<b>Subject:</b>	<b>Treasury Management Policy Statement 2012/13 – end of Year Review</b>		
<b>Date of Meeting:</b>	<b>24 September 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Ireland</b>	<b>Tel:</b> 29-1240
	<b>Email:</b>	<b>Mark.ireland@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

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

- 1.1 In line with recommended good practice this report sets out the treasury management actions during the second half of the year for Members to review and endorse. It also summarises the position at the end of the year and sets out performance against key indicators.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee note the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1) and the subsequent recommendations and resolution.

**3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:**

- 3.1 The key points are:
- No new borrowing was entered into during the period.
  - Short term investment rates have fallen sharply.
  - The actual investment return achieved by both the in-house team and the cash manager have been above the benchmark.
  - Borrowing limits set by full council have not been exceeded.

**4. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 4.1 The report was prepared in conjunction with the council's external treasury advisors.

**5. FINANCIAL & OTHER IMPLICATIONS:**Financial Implications:

- 5.1 These are set out in paragraph 3.5 of the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

#### Legal and other Implications:

- 5.2 None directly in relation to this report. Implications relating to the end of year review are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

#### Risk and Opportunity Management Implications:

- 5.3 The delegated audit functions of the Committee are to carry out independent scrutiny and examination of the council's financial and non-financial processes, procedures and practices to the extent that they affect the council's control environment and exposure to risk, with a view to providing assurance on their adequacy and effectiveness. This includes the council's investment and borrowing strategies and actions. Details of risk and security of investments relating to the end of year review are detailed in the report to the Policy & Resources Committee on 11 July 2013 (Appendix 1).

#### **6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

- 6.1 None directly in relation to this report. The Policy & Resources Committee on 11 July 2013 (Appendix 1) endorsed action already taken.

#### **7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 Half-yearly reports are forwarded to this Committee for review and examination in accordance with its role in reviewing the adequacy and effectiveness of the council's control environment, including financial management processes.

#### **SUPPORTING DOCUMENTATION**

##### **Treasury Management Policy Statement 2012/13 – End of Year Review Report & Appendices:**

- i. Summary of action taken in the period October 2012 to March 2013.
- ii. Treasury Management Bulletin for March 2013.



**Subject:** Targeted Budget Management (TBM 2) - Extract from the Proceedings of the Policy & Resources Committee Meeting held on the 11 July 2013

**Date of Meeting:** 24 September 2013

**Report of:** Monitoring Officer

**Contact Officer:** Name: **Mark Wall** Tel: **29-1006**

E-mail: mark.wall@brighton-hove.gov.uk

**Wards Affected:** All

## **POLICY & RESOURCES COMMITTEE**

**4.00 pm 11 July 2013**

**COUNCIL CHAMBER, HOVE TOWN HALL**

### **DRAFT MINUTES**

**Present:** Councillor J Kitcat (Chair); Councillors Littman (Deputy Chair), G Theobald (Opposition Spokesperson), Morgan (Group Spokesperson), Bowden, Davey, Mitchell, A Norman, K Norman and Shanks.

### **PART ONE**

#### **30. TARGETED BUDGET MANAGEMENT (TBM 2)**

- 30.1 The Executive Director for Finance & Resources introduced the report which set out the forecast outturn position as at Month 2 on the council's revenue and capital budgets for the financial year 2013/14. She noted that an overspend was currently forecast, which was partly due to the pressures identified on the community care budget and under-achievement in regard to the voluntary severance scheme and because of the early period of the financial year.
- 30.2 Councillor Littman stated that it was an early forecast and it was likely to change as the year progressed. He noted that there was good news in regard to the level of capital receipts and that it was intended to be as open and transparent about the budget position as possible.
- 30.3 Councillor A. Norman questioned the fact that there had been a significant change from an underspend to a projected overspend within a couple of months and whilst pressures

such as those on the community care budget were known, and the unachieved savings from the voluntary severance scheme disappointing, it was concerning to be forecasting an overspend at this stage.

- 30.4 Councillor Mitchell stated that it was unusual to have an overspend in one area so early into the financial year and she had questioned the level of savings that could be achieved in Adult Care. She also queried where the funding of £4m referred to on page 435 of the agenda was going in regard to new pupil places. She also noted that capital funding of £420k had been received and asked if any more would be available in relation to two-year olds.
- 30.5 Councillor Shanks stated that she believed the funding was in relation to the purchase of Hove Police Station in order to provide additional pupil places. She also stated that she would provide a written response in regard to the funding of for two-year olds.
- 30.6 The Executive Director for Finance & Resources noted that estimates had been made at Budget Council in relation to new pupil places because of the government's delay in providing the necessary information. She stated that the Children & Young People Committee would have considered options in regard to allocations of spend and she would ensure that information on that would be made available to the members of the Policy & Resources Committee.
- 30.7 The Chair then put the recommendations to the vote.
- 30.8 **RESOLVED:**
- (1) That the forecast outturn position for the General Fund, which is an overspend of £3.388m be noted;
  - (2) That the forecast outturn for the Housing Revenue Account (HRA), which is an underspend of £0.123m be noted;
  - (3) That the forecast outturn position for the Dedicated Schools Grant which is an underspend of £0.208m be noted;
  - (4) That the forecast outturn position on the capital programme be noted;
  - (5) That the following changes to the capital programme be approved
    - (i) The new schemes as set out in Appendix 3.

<b>Subject:</b>	<b>Treasury Management Policy Statement 2012/13 – End of year review</b>		
<b>Date of Meeting:</b>	<b>11 July 2013</b>		
<b>Report of:</b>	<b>Executive Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Mark Ireland</b>	<b>Tel: 29-1240</b>
	<b>Email:</b>	<b>mark.ireland@brighton-hove.gov.uk</b>	
<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE**

**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The 2012/13 Treasury Management Policy Statement (TMPS), practices and schedules were approved by Cabinet on 15 March 2012. The TMPS sets out the role of Treasury Management whilst the practices and schedules set out the annual targets and the methods by which these targets will be met. The TMPS includes the Annual Investment Strategy (AIS) which sets out the key parameters for investing council cash funds and was approved by full Council on 22 March 2012 and amended at full Council on 19 July 2012. It is recommended good and proper practice that Members receive half yearly reports and review and endorse treasury management actions during the year.

**2. RECOMMENDATIONS:**

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

**3. RELEVANT BACKGROUND INFORMATION AND ANALYSIS:**

**Overview of Markets**

- 3.1 Financial insecurity within the Euro zone continues with the sovereign debt crisis extending to Cyprus and fears about the way the problem was addressed there with an imposed substantial reduction on all large bank deposits. The Bank of England has kept the base rate at 0.5% and the Monetary Policy Committee remain split over further quantitative easing (effectively printing money) to try to stimulate the economy. It remains to be seen whether there will be further stimulus measures when Mark Carney, the new Governor of the Bank of England, starts shortly. Short and medium term investment rates available in the money markets have fallen sharply as the risk margin has reduced with short term rates well below the base rate of 0.5%. The latest Bank of England inflation forecasts show that inflation will be back within the target range in 2 years.

## Treasury Management Strategy

3.2 A summary of the action taken in the period October 2012 to March 2013 is provided in appendix 1 to this report and further information on borrowing and investment performance is shown in the end of year Bulletin at appendix 2. The main points are:

- The council did not enter into any new borrowing arrangements during the period.
- The risk margin on all high quality investments in the money markets has declined significantly and annualised short term investment rates are largely in the range 0.25% to 0.4%.
- The return on investments has nevertheless exceeded the benchmark rate for both in-house investments and those undertaken by the cash manager.
- The two borrowing limits approved by full Council have not been exceeded.

3.3 Treasury management activity in the half-year has continued to focus on the short-term as shown in the table below.

	Amount invested 1 Oct 2012 to 31 Mar 2013			
	Fixed Deposits	Money Market Funds	Total	
Up to 1 week	£1111.0m	£74.4m	£185.4m	59.2%
Between 1 week and 1 mth	£49.1m	-	£49.1m	15.7%
Between 1 mth and 3 mths	£78.5m	-	£78.5m	25.1%
Over 3 mths	-	-	-	0.0%
Total	£238.6m	£74.4m	£313.0m	100.0%

## Budget v Outturn 2012/13

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

	In-house investments		Cash Manager investments (net of fees)	
	Aver Bal	Aver rate	Aver Bal	Aver rate
Budget 2012/13	£36.5m	0.88%	£24.6m	1.05%
Actual 2012/13	£68.5m	0.67%	£24.9m	1.29%
Benchmark rate		0.47%		0.47%

3.5 The provisional outturn report to the June meeting of this Committee set out the detailed reasons why the financing costs budget was £0.673m overspent in 2012/13. Approximately £0.7m was due to higher than anticipated delays to and re-profiling of the capital programme with offsetting savings in the Housing Revenue Account and service budgets. Treasury management activity marginally offset the overspend by achieving overall higher than budgeted investment returns.

### Summary of Treasury activity October 2012 to March 2013

- 3.6 The table below summarises the treasury activity in the half-year to March 2013 with the corresponding period in the previous 2 years.

October to March	2010/11	2011/12	2012/13
Long-term borrowing raised - Capital	£20.0m	£10.0m	-
Long-term borrowing raised – HRA	-	£18.1m	-
Long-term borrowing repaid	£15.0m	-	-
Short-term borrowing raised	-	-	-
Short-term borrowing repaid	-	-	-
Investments made	£340.4m	£316.7m	£313.0m
Investments matured	£347.3m	£320.0m	£359.8m

- 3.7 The following table summarises how the day-to-day cash flows in the second half of the year compare with the same period in the previous 2 years.

October to March	2010/11	2011/12	2012/13
Cash flow shortage - general	-£11.9m	-£13.0m	-£34.9m
HRA settlement payment	-	-£18.1m	-
Net cash flow shortage	-£11.9m	-£31.1m	-£34.9m
Increase in long-term borrowing	+£5.0m	+£28.1m	-
Increase in short-term borrowing	-	-	-£2.0m*
Change in investments	£6.9m	£3.3m	£37.5m
Change in bank balance	-	-£0.3m	-£0.6m

\*South Downs National Park

### Security of Investments

- 3.8 A summary of investments made by the in-house treasury team and outstanding as at 31 March 2013 in the table below shows that investments continue to be held in high quality, short-term instruments.

'AAA' rated money market funds	£17.90m	58.98%
'A' rated institutions	£12.45m	41.02%
Total	£30.35m	100.00%
For less than one week	£22.08m	72.74%
Between one week and one month	£4.02m	13.26%
Between one month and 3 months	£4.25m	14.00%
Between 3 months and 6 months	-	-

- 3.9 Since the end of the financial year two credit rating agencies have reduced the rating of the Co-op Bank to below investment grade. The AIS only allowed short term investments of less than 1 month with the Co-op and currently the council does not have any money invested with them other than day to day transactional amounts because the council banks with the Co-op. On the 17 June the Co-op unveiled a rescue plan to tackle the £1.5bn hole in its balance sheet. The deal will involve a stock market listing for the bank and bond holders will be offered shares in return for their bonds. A majority of bond holders will need to agree to the plan otherwise the Co-op will have to identify an alternative means of raising the capital it needs. It is likely that the credit rating will remain low until a funding plan is agreed. Officers are monitoring the position very closely and will feedback to the Members Budget Review Group on any significant developments as and when they happen.

### **Risk**

- 3.10 Investment risk is calculated by assessing the financial standing of the counterparty and the period of the investment. Full Council agreed that the limit on the risk indicator for the overall investment portfolio should be 0.05% i.e. there is a 99.95% probability that the council will get its investments back. The actual risk indicator has varied between 0.003% and 0.006% over the last 6 months; well below the maximum limit.
- 3.11 In February / March 2013 Internal Audit & Business risk undertook an audit of the treasury management function. The audit concluded that “substantial assurance” is provided on the effectiveness of the control framework operating and mitigation of risks for treasury management.

## **4. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 4.1 The council’s external treasury advisors have been consulted over the content of this report.

## **5. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 5.1 The financial implications of treasury management activity are reflected in the financing costs budget set out in paragraph 3.5.

*Finance Officer Consulted: Name Mark Ireland Date: 14/06/13*

### Legal Implications:

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

*Lawyer Consulted: Name Oliver Dixon Date: 21/06/13*

Equalities, Sustainability, Crime & Disorder and Public Health Implications:

- 5.3 There are none arising directly from this report.

Risk and Opportunity Management Implications:

- 5.4 Risk section included in the body of the report.

Corporate / Citywide Implications:

- 5.5 The treasury management function provides financing for the capital programme and investment income commensurate with agreed risk parameters.

**6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

- 6.1 The report asks for endorsement of action already taken.

**7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 Treasury management is governed by a code that is recognised as ‘best and proper practice’ under the Local Government Act 2003. The Code requires a minimum of two reports per year, one of which is a report looking back at the previous year. This report fulfils this requirement.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. A summary of the treasury management action taken in the period October 2012 to March 2013.
2. March 2013 Treasury Management Bulletin.

**Documents in Members’ Rooms**

None.

**Background Documents**

1. Part 1 of the Local Government Act 2003 and associated regulations.
2. “The Treasury Management Policy Statement and associated schedules 2012/13” approved by Cabinet on 15 March 2012.
3. The “Annual Investment Strategy 2011/12” approved by full Council on 22 March 2012 and amended on 19 July 2012.
4. Papers and files held within Strategic Finance, Finance & Resources.
5. “The Prudential Code for Capital Finance in Local Authorities” published by CIPFA 2003 and revised in 2009.





## Summary of action taken in the period October 2012 to March 2013

### ***New borrowing***

No new long term borrowing was raised in the second half of 2012/13

### ***Debt maturity***

No debt matured during second the half year.

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

### ***Weighted average maturity of debt portfolio***

With no movement in the long-term debt portfolio the weighted average maturity period of the portfolio has decreased naturally by 6 months, from 32.8 years to 32.3 years.

### ***Debt rescheduling***

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

### ***Capital financing requirement***

The prudential code introduces a number of indicators that compare 'net' borrowing (i.e. after deducting investments) with the capital financing requirement (CFR) – the CFR being amount of capital investment met from borrowing that is outstanding. Table 3 compares the CFR with net borrowing and actual borrowing.

**Table 1 – Capital financing requirement compared to debt outstanding**

	1 April 2012	31 March 2013	Movement in period
Capital financing requirement (CFR)	£344.4m		
Less PFI element	-£61.1m		
Net CFR	£283.3m	£282.3m	-£1.0m
Long-term debt	£207.8m	£207.8m	£0.0m
Investments – in house team	-£28.1m	-£30.3m	+£2.2m
Investments – cash manager	-£24.7m	-£25.1m	-£0.4m
Net debt	£155.0m	£152.4m	+£2.7m
O/s debt to CFR (%)	73.3%	73.6%	+0.3%
Net debt to CFR (%)	54.7%	54.0%	-0.7%

Traditionally the level of borrowing outstanding is at or near the maximum permitted in order to reduce the risk that the council needs to borrow significant amounts when long-term interest rates are high (i.e. interest rate risk). However given the continued volatility and uncertainty within the financial markets and investment rates far below borrowing rates, the council has maintained the strategy to keep borrowing at much lower levels using investments to repay debt. Currently outstanding debt represents 74% of the net capital financing requirement. In the medium term decisions will need to be taken about when to increase long-term borrowing.

### ***Cash flow debt / investments***

The TMPS states the profile of any short-term cash flow investments will be determined by the need to balance daily cash flow surpluses with cash flow shortages. An analysis of the cash flows reveals a net shortfall for the 2<sup>nd</sup> half-year of £31.1 million which is

consistent with the normal annual pattern of higher levels of income in the earlier part of the year and higher levels of spending in the latter.

**Table 2 – Cash flow October 2012 to March 2013**

	October 12 to March 13			Apr 12 to Mar 13
	Payments	Receipts	Net cash	Net cash
Total cash for period	£417.9m	£383.0m	-£34.9m	+£4.7m
Represented by:				
Movement in in-house investments			+£37.5m	-£2.2m
Increase in long-term borrowing			£0.0m	£0.0m
Decrease in Short term borrowing (SDNPA)			-£2.0m	-£2.0m
Movement in balance at bank			-£0.6m	-£0.5m
			+£34.9m	-£4.7m

Overall the cash position for the financial year is a net surplus of £4.7 million.

### ***Prudential indicators***

Budget Council approved a series of prudential indicators for 2012/13 at its meeting in February 2012. Taken together the indicators demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

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

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

Table 3 compares both indicators with the maximum debt outstanding in the second half year.

**Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2012/13**

	Authorised limit	Operational boundary
Indicator set	£383.0m	£371.0m
Less PFI element	-£62.0m	-£62.0m
Indicator less PFI element	£321.0m	£309.0m
Maximum amount o/s in second half of year	£207.8m	£207.8m
Variance	(*)£113.2m	£101.2m

(\*) cannot be less than zero

### **Performance**

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

### **Approved organisations – investments**

No further new organisations have been added to the list approved in the AIS 2012/13 at full Council in July.

A number of changes to the short-term and long-term ratings have been assessed by the credit rating agencies but with the exception of the Co-op Bank these have had no impact on the council's approved lending list or limits. An update on the latest position regarding the Co-op Bank is included in the body of the report.



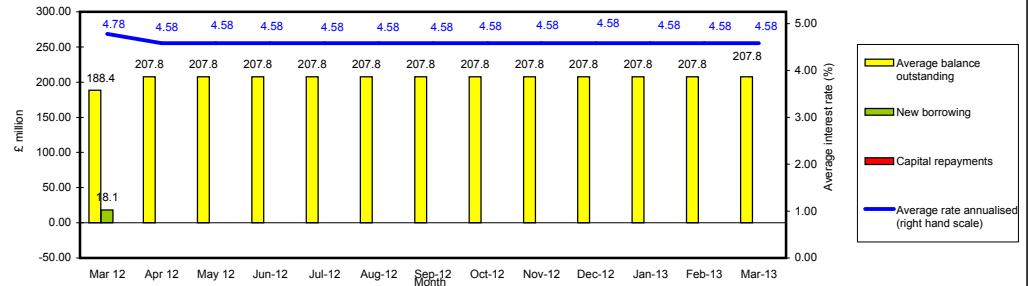
The five graphs below show the monthly averages of borrowing and investments outstanding, monthly cashflows and the average monthly cost/return on debt/investments, over a thirteen month period.

**Graph 1**

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

It also shows the amount of new long term debt raised and the repayment of long term borrowing.

**Graph 1 Long Term Debt Outstanding**  
Monthly averages



**Graph 2**

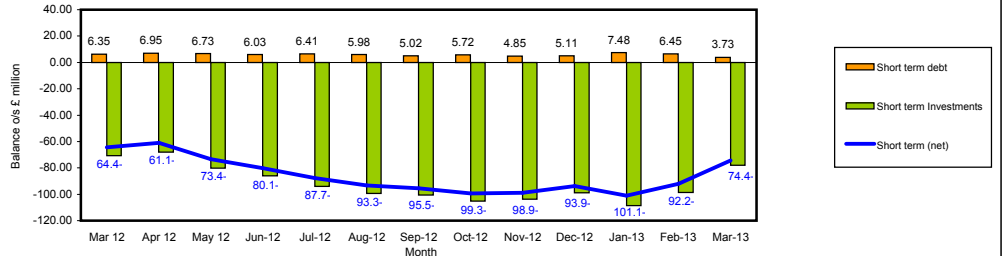
This graph shows the average monthly balance outstanding for:

- short term debt
- short term investments

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

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

**Graph 2 - Short Term Borrowing / Investments (all)**  
Monthly Averages

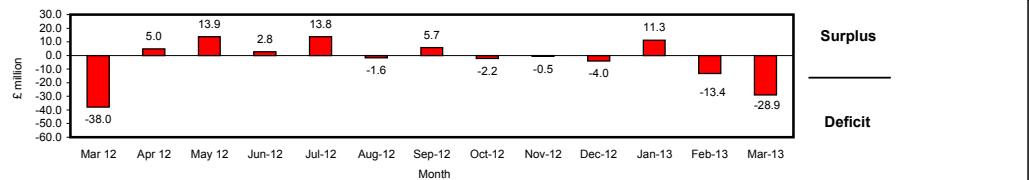


**Graph 3**

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

Cashflow movements have resulted in a surplus for the month

**Graph 3 - Monthly Cash Flows**



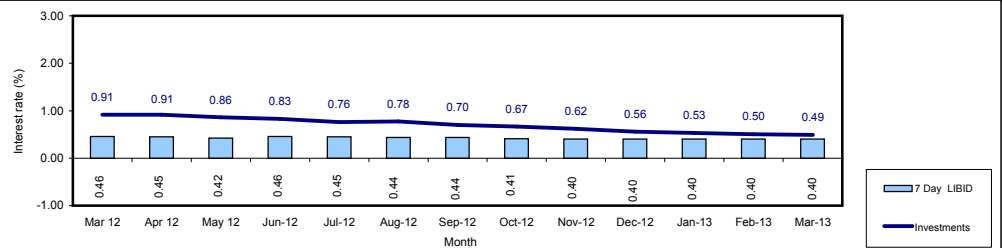
**Graph 4a**

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

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

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

**Graph 4a - Short Term Investments -v- 7 Day LIBID (In house)**  
Monthly averages - annualised (to 2 dec pl)



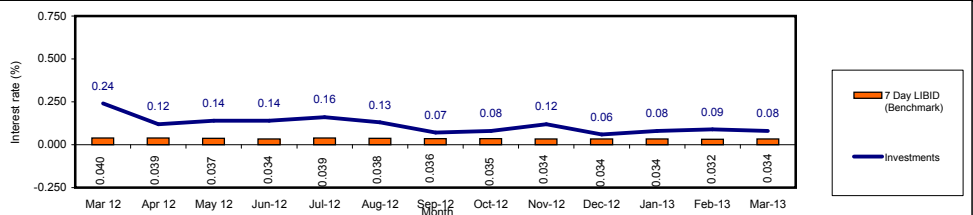
**Graph 4b**

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

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

The cash manager performance fluctuates due to changes in the value of the investments. Performance has been equal to or above target levels in 11 of the past 13 months.

**Graph 4b Short Term Investments -v- Benchmark Rate (Cash Managers)**  
Monthly actuals (to 2 dec pl)

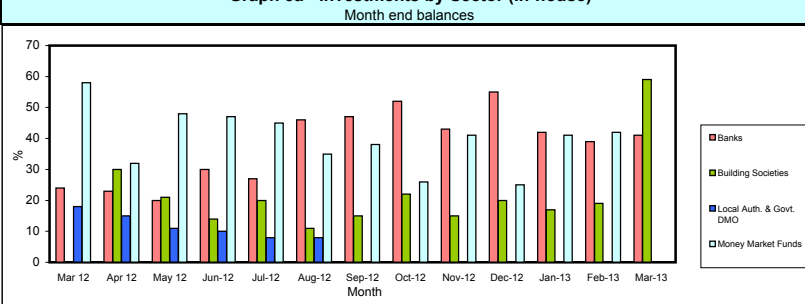


## Investments by Sector

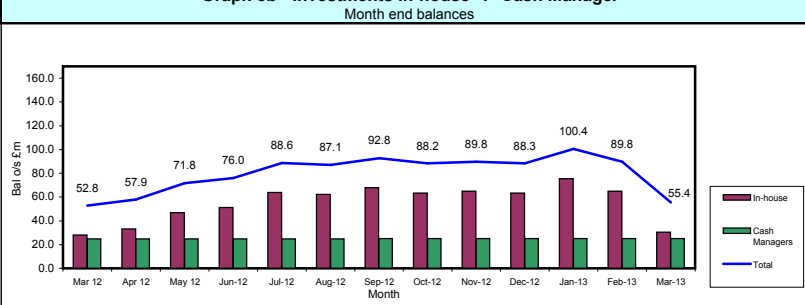
The 2012/13 Treasury Policy Statement states that with the exception of the banking sector and money market funds, no one sector shall have more than 75% of the investment portfolio at the time an investment is made. As at end of March 2013 investments were made as follows:-

	£m	
SWIP External Managers	25,080	
<b>In-house Investments - Banks</b>		
Lloyds Bank plc	4,250	
Royal Bank of Scotland	4,177	
Santander UK plc	4,024	
	12,451	41.0 %
<b>Money Market Funds</b>		
CCLA - Public Sector Deposit Fund	2,600	
Ignis Liquidity Fund	7,300	
SWIP GLF	8,000	
	17,900	59.0 %
<b>In-house Investments - Building Societies</b>		
	0,000	0.0 %
	0,000	0.0 %
<b>TOTAL - In-house Investments</b>	<b>30,351</b>	<b>100.0 %</b>

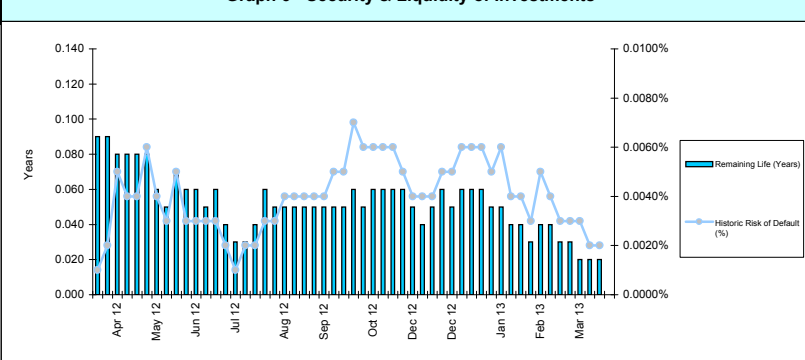
### Graph 5a - Investments by Sector (In-house)



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



### Graph 6 - Security & Liquidity of Investments



**Graph 6**

Members agreed, as part of the 2012/13 Treasury Policy Statement, to set a maximum indicator for risk at 0.05%. Table 6 shows the risk factor to be well below the maximum set.

## Prudential Indicators (Treasury Management)

The Council sets each year a number of prudential indicators for treasury management. The following tables show that these indicators have not been exceeded in the month of March 2013.

Gross Outstanding Debt (£millions)		
	Debt	PFI
Authorised limit	321	62
Operational boundary	309	62
Minimum o/s	208	-
Maximum o/s	208	-

Net Outstanding Debt (£millions)		
	Debt	PFI
Minimum capital financing requirement	283	62
Maximum net debt o/s	151	-

External Debt as at 31st March 2013 (£millions)	
Actual Borrowing	208
Other long term liabilities	59
<b>Total</b>	<b>267</b>

Variable Rate Debt (%age)	
Maximum limit	40.0
Maximum amount o/s	0.0

*(NB. The maximum limit for fixed rate debt is 100% and cannot therefore be breached.)*

Debt Maturity Profile (%ages)					
	<12 mths	1-2 yrs	2-5 yrs	5-10 yrs	>10 yrs
Maximum limit	40.0	40.0	50.0	75.0	100.0
Minimum limit	0.0	0.0	0.0	0.0	40.0
Maximum o/s debt	0.0	0.0	4.8	3.1	92.1

Capital Finance Requirement as at 31st March 2013 (£millions)		
	Debt	PFI
Non HRA	164	59
HRA	118	-
<b>Total</b>	<b>282</b>	<b>59</b>

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[www.statistics.gov.uk](http://www.statistics.gov.uk) for information regarding 'Key Market Statistics'





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