





Brighton & Hove
City Council

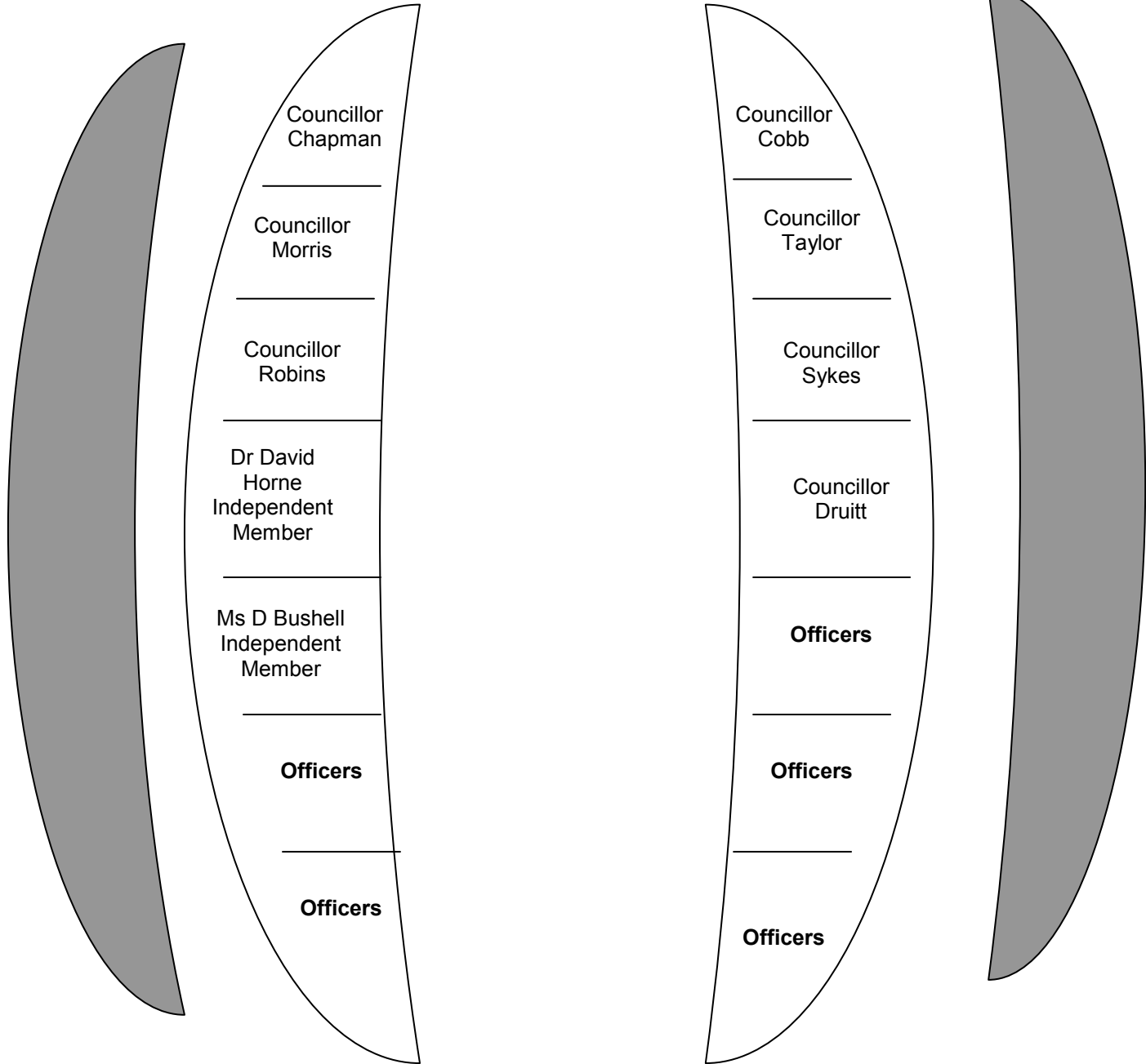
Audit & Standards Committee

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| Title: | Audit & Standards Committee |
| Date: | 22 September 2015 |
| Time: | 4.00pm |
| Venue | The Ronuk Hall, Portslade Town Hall |
| Members: | Councillors: A Norman (Chair), Chapman, Cobb, Druitt, Morris, Robins (Group Spokesperson), Sykes (Group Spokesperson) and Taylor Co-opted Members: Diane Bushell and Dr David Horne |
| Contact: | John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk |

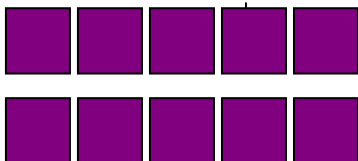
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Democratic Services: Audit & Standards Committee

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|-------------------------------------|-----------------------------|--|-----------------------------|
| Head of Legal & Democratic Services | Councillor A Norman (Chair) | Interim Executive Director Finance & Resources | Democratic Services Officer |
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Public Seating



Press



AGENDA

24 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;
- (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.

25 MINUTES

1 - 16

To consider the minutes of the meeting held on 5 June 2015 (copy attached).

26 CHAIR'S COMMUNICATIONS

AUDIT & STANDARDS COMMITTEE

- 32 2014/15 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT** **61 - 90**
- Report of the Interim Director Finance & Resources (copy attached).
Contact Officer: Jane Strudwick Tel: 01273 291255
- 33 STRATEGIC RISK MAP FOCUS: SR19 IMPLEMENTATION OF THE CARE ACT; SR 20 BETTER CARE FUND; AND SR13 KEEPING VULNERABLE ADULTS SAFE FROM HARM & ABUSE** **91 - 96**
- Report of the Interim Director Finance & Resources (copy attached).
- Contact Officer: Jackie Algar Tel: 01273 29-1273*
Ward Affected: All Wards
- 34 INTERNAL AUDIT AND CORPORATE FRAUD PROGRESS REPORT** **97 - 102**
- Report of the Interim Director Finance & Resources (copy attached).
- Contact Officer: Graham Liddell Tel: 01273 291323*
- 35 INFORMATION GOVERNANCE** **103 - 108**
- Report of the Monitoring Officer and Senior Information Risk Officer (copy attached).
- Contact Officer: Abraham Ghebre-Ghiorghis Tel: 01273 291500*
Ward Affected: All Wards
- 36 CASH COLLECTION CONTRACT** **109 - 114**
- Report of the Interim Director Finance & Resources (copy attached).
- Contact Officer: Graham Liddell Tel: 01273 291323*
- INFORMATION ITEMS FROM THE POLICY & RESOURCES COMMITTEE**
- 37 TARGETTED BUDGET MANAGEMENT (TBM) 2015/16 MONTH 2** **115 - 200**
- Extract from the proceedings of the Policy & Resources Committee meeting held on 9 July 2015; together with a report of the Interim Executive Director of Finance & Resources (copy attached).
Ward Affected: All Wards
- 38 TREASURY MANAGEMENT POLICY STATEMENT 2014/15 - END OF YEAR REVIEW** **201 - 226**
- Extract from the proceedings of the Policy & Resources Committee meeting held on 9 July 2015; together with a report of the Interim

AUDIT & STANDARDS COMMITTEE

Executive Director of Finance & Resources (copy attached).

Ward Affected: All Wards

39 ITEMS REFERRED FOR COUNCIL

To consider items to be submitted to the 22 October 2015 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

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

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

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

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

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

Date of Publication - Monday, 14 September 2015

BRIGHTON & HOVE CITY COUNCIL

AUDIT & STANDARDS COMMITTEE

4.00pm 23 JUNE 2015

THE RONUK HALL, PORTSLADE TOWN HALL

MINUTES

Present: Councillors A Norman (Chair), Chapman, Cobb, Druitt, Morris, Robins (Group Spokesperson), Sykes (Group Spokesperson) and Taylor

Independent Persons & Co-opted Members: Diane Bushell and Dr David Horne

PART ONE

1 PROCEDURAL BUSINESS

1a Declarations of substitutes

1.1 There were no substitutes.

1.b Declarations of interests

1.2 There were none.

1c Exclusion of the press and public

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

1.4 **RESOLVED** - That the press and public are excluded from the meeting during consideration of Item 22 – Update on Coin Co International – Exempt Category 3.

2 MINUTES

2.1 **RESOLVED** – That the Chair be authorised to sign the minutes of the meeting held on 10 March 2015 as a correct record.

3 CHAIR'S COMMUNICATIONS

- 3.1 The Chair welcomed new councillor members to the Committee. The Chair also welcomed the new co-optee Diane Bushell. The Chair stressed that although council members represented political parties she hoped that the Committee could work together in the best interests of the city council.
- 3.2 The Chair thanked Councillor Les Hamilton for chairing the Committee in recent years.
- 3.3 The Chair informed members that a Financial and Standards Panel training session would be arranged in due course.
- 3.4 The Interim Executive Director Finance & Resources reported that a covering report on the Draft Statement of Accounts should have been included on the agenda. The Draft Statement of Accounts had been circulated to members of the committee and had been left in Members Rooms. There would be a full debate on this matter at the next meeting in September when members would be asked to sign off the accounts. The accounts would be available from 20 July. Training on this matter would be made available to members before the next meeting. Any questions about the Draft Statement of Accounts should be directed to Nigel Manvell, Head of Financial Services.

4 CALL OVER

- 4.1 It was initially agreed that all items be reserved for discussion.

NOTE: There was a Callover later in the meeting. The following items were not called for discussion and the recommendations contained within the reports were approved and adopted:

- Item 11: Internal Audit Plan 2015/16 Update
- Item 14: Audit & Standards Committee Annual Report 2014/15
- Item 16: Audit & Standards Committee Work Programme 2015/16
- Item 20: Targeted Budget Management (TBM) 2014/15

5 PUBLIC INVOLVEMENT

- 5.1 There were no petitions, written questions or deputations.

6 MEMBER INVOLVEMENT

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

7 CODE OF CORPORATE GOVERNANCE

- 7.1 The Committee considered a report of the Head of Legal and Democratic Services which informed Members that the 2013/14 annual governance statement noted that to ensure continuous improvement in the Council's governance arrangements; the Council would review its Code of Corporate Governance. Appendix 1 set out a draft updated Code. The report was presented by the Monitoring Officer & Head of Legal & Democratic Services.

- 7.2 The Monitoring Officer & Head of Legal & Democratic Services suggested that the committee should approve the report and refer it to full Council for information. Typographical errors in the report would be corrected. (Page 11 - deletion of the word 'of' in first bullet point of Principal 1 and; page 12 - 'oversea' to read oversee on the first bullet point).
- 7.3 Dr Horne endorsed the recommendation to refer the report to full Council for information.
- 7.4 Councillor Taylor stated that he was pleased to see Principal 4: 'The Council will take informed and transparent decisions that promote value for money and are subject to effective scrutiny and managing risk.' Councillor Taylor would have liked to have seen this as Principal 1. He asked what would happen next. The Monitoring Officer & Head of Legal & Democratic Services reported that the code was a 'live' document.
- 7.5 Councillor Robins stated that he would have liked to see an explanation of Contract Standing Orders. He asked if there could be a further appendix. The Monitoring Officer & Head of Legal & Democratic Services replied that he would provide a glossary to explain terms used in the report.
- 7.6 **RESOLVED -**
- (1) That the draft updated Code of Corporate Governance be noted & approved.

8 GOVERNANCE: WHISTLEBLOWING UPDATE

- 8.1 The Committee considered a report of the Monitoring Officer & Head of Legal & Democratic Services which set out proposed changes to the Council's Whistleblowing Policy. The proposals aimed to improve whistleblowing arrangements within the council.
- 8.2 The Monitoring Officer & Head of Legal & Democratic Services stated that whistleblowing arrangements had not been as effective as they should have been. Paragraphs 3.3 and 3.4 of the report provided clarity as to what and who the policy applied to. The Council's current Whistleblowing Policy applied to 'members of staff', i.e. employees, casual and agency workers, apprentices, contractors and self-employed consultants working on the Council's premises. The new proposed Policy would extend that remit to members of the public. Other main changes to the policy were set out in paragraphs 3.5. Alongside these changes a model whistleblowing policy had been drawn up for maintained schools.
- 8.3 Members' attention was drawn to a flow chart at Appendix 1 which provided guidance to employees who wished to raise a concern.
- 8.4 Councillor Cobb queried whether the policy would be effective. She expressed concern that the policy would not be beneficial to the whistleblower.
- 8.5 The Monitoring Officer & Head of Legal & Democratic Services replied that the council guaranteed anonymity. The whistleblower also had the option of being provided with independent advice. If the person felt that they were being victimised they would be

protected under employment laws. Part of the policy had been drafted to address this problem.

- 8.6 The Head of Internal Audit stated that an e learning course had been made available to staff to raise awareness of these issues.
- 8.7 Councillor Sykes stated that the changes seemed a sensible move forward. He was concerned that the numbers of people whistleblowing in the council needed to be raised. He expected increases in numbers of whistleblowing cases as a result of the policy.
- 8.8 The Monitoring Officer & Head of Legal & Democratic Services stressed that there would now be an exhaustive list of whistleblowing. He would have regular meetings with HR to discuss this issue. There was a need to encourage people to come forward and a need to make people feel safe. It would also be necessary to publicise the policy.
- 8.9 Councillor Taylor concurred with Councillor Cobb. There needed to be a safe climate for whistleblowers. He commended the work carried out by officers and found the flow chart helpful. Councillor Taylor referred to paragraph 3.6 and asked if there was provision for academy schools. The Monitoring Officer & Head of Legal & Democratic Services replied that he would be happy to send the recommendation to academy schools as well as maintained schools.
- 8.10 Councillor Robins asked whether someone who remained quiet was complicit in wrongdoing. The Monitoring Officer & Head of Legal & Democratic Services advised that this could potentially be an issue if the person was in a position to stop wrongdoing. There was an expectation that if a person was aware of a problem they should report it.
- 8.11 Councillor Morris referred to the flowchart and asked for clarification about the box which stated 'seek advice and support'. This referred to outside bodies. He asked what was on offer for staff. The Monitoring Officer and Head of Legal & Democratic Services referred Councillor Morris to paragraph 8.1 of the policy.
- 8.12 Councillor Druitt asked if Whistleblowing training was in place for staff. The Monitoring Officer replied that he would be happy to include training on whistleblowing in the induction programme for managers.
- 8.13 Paul King of Ernst & Young referred to paragraph 8.1 of the policy. He asked for his name to be deleted and for the postcode to be corrected to RG1 IYE.
- 8.14 Councillor Chapman asked if other options such as mediation would be suggested when promoting the policy. The Monitoring Officer & Head of Legal & Democratic Services referred to paragraph 3.2 of the policy. The Whistleblowing policy sat alongside other policies.
- 8.15 Councillor Cobb raised the question of anonymity. She referred to paragraphs 5.1 and 6.5 of the policy in which people were encouraged to put their name to any concerns they raised. The Monitoring Officer & Head of Legal & Democratic Services explained that people were encouraged to reveal their name as this made the wrongdoing easier to investigate. However, there was no requirement for people to disclose their identity.

8.16 RESOLVED -

- (1) That the new Whistleblowing Policy for the Council (Addendum 1) and the model policy that Schools will be encouraged to adopt (Addendum 2) be approved and referred to Full Council for information.

9 ANNUAL GOVERNANCE STATEMENT 2014/15

- 9.1 The Committee considered a report of the Interim Executive Director Finance & Resources, and Monitoring Officer which presented the draft Annual Governance Statement for 2014/15 following completion of the annual review of the council's governance arrangements, including its systems of internal control. The report was presented by the Risk Management Lead.
- 9.2 The Risk Management Lead drew attention to the bullet points on page 46 and to the lists of work in progress and new actions set out on page 56 of the agenda.
- 9.3 Diane Bushell stated that in future she would like to see a flowchart showing how the Audit & Standards Committee, Officers' Governance Board, etc. fitted into the process.
- 9.4 The Risk Management Lead replied that she would work on this suggestion and present it to the Officers' Governance Board.
- 9.5 The Interim Executive Director Finance & Resources stated that a great deal of work had gone into producing the report. It was worth reading in detail.
- 9.6 Dr Horne stated that there should be some reference in the report to the potential loss in respect of CCI in the annual governance statement.

9.7 RESOLVED -

- (1) That the draft Annual Governance Statement (attached as Appendix 1) be approved subject to comments made by members as outlined above.

10 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 10.1 The Committee considered a report of the Head of Internal Audit which detailed the results of a self-assessment of the system of Internal Audit against the UK Public Sector Internal Audit Standards by the Head of Internal Audit. The process should also be considered as part of the wider annual review of the council's governance arrangements and production of the Annual Governance Statement. Appendix one to the report set out compliance with the Public Sector Internal Audit Standards and the Local Government Application Note – Self Assessment Summary. The report was presented by the Head of Internal Audit.
- 10.2 The Head of Internal Audit referred Members to paragraph 6.2 of the report which detailed two areas where compliance with International Public Sector Internal Audit Standards was partial.

- 10.3 In relation to paragraph 6.2, Councillor Druitt questioned whether it was a good system to have the Executive Director of Finance & Resources appointing the Head of Internal Audit. The Interim Executive Director of Finance & Resources replied that it was entirely appropriate. The Chair stressed that the Committee members would be fully involved in recruitment procedures.
- 10.4 Dr Horne referred to the three priorities set out in paragraph 6.3. He asked that members be updated about these priorities outside the committee meeting before September. The Head of Internal Audit reported that there was an implementation rate of 87% for high priority recommendations. There were 40 to 50 high priority cases a year. There had been six recommendations this year that had not been implemented. Two related to IT issues. There would be a tracking system in place in the next couple of weeks.
- 10.5 Diane Bushell asked if all recommendations were referred to the Executive Leadership Team (ELT). The Head of Internal Audit replied that high priority recommendations were referred to ELT.

10.6 **RESOLVED -**

- (1) That the Head of Internal Audit's self-assessment including the proposal to accept the council's current arrangements for the two areas of partial compliance) be noted. (see paragraph 6 and appendix 1 to the report)

- (2) That the implications for the Annual Governance Statement be noted.

11 INTERNAL AUDIT PLAN 2015-16 - UPDATE

- 11.1 The Committee considered a report of the Head of Internal Audit which updated Members on the planned internal audit work for 2015/16.

11.2 **RESOLVED -**

- (1) That the update to the internal audit plan be approved.

12 STRATEGIC RISK REGISTER REVIEW

- 12.1 The Committee considered a report of the Interim Executive Director Finance & Resources which informed Members that the Committee had a role to monitor and form an opinion on the effectiveness of risk management and internal control. As part of discharging this role it reviewed the Strategic Risk Register, recently updated by ELT on 22 April and 6 May 2015. The Strategic Risk Assessment Report was attached as Appendix 1 and provided further detail on the actions taken ('existing controls') and planned actions ('solutions') to manage each strategic risk. A summary of the whole risk register was set out in paragraph 4.4 of the report. More detail was supplied in the appendix. Each strategic risk had a responsible officer. The report was presented by the Risk Management Lead.

- 12.2 Diane Bushell asked how embedded risk management was in the council. The Risk Management Lead stated that a Risk Management Strategy Annual Progress report for 2014 was submitted to the last committee meeting. Risk management training, including e learning was available to all the council staff.
- 12.3 Councillor Druitt referred to page 95 of the agenda. He considered that the column stating 'immediate action required and need to escalate to the management level above.' should have been placed immediately to the left of the column stating 'Review & ensure effective controls'. Councillor Druitt also raised questions about the colour coding.
- 12.4 The Risk Management Lead replied that some strategic risks were significant issues, so she was not surprised if there was not a shift between the risk levels on each risk from one report and the next given the 6 months timescale and the scope and complexity of the risks. Sometimes this happened but on this occasion risks were static but the report evidenced regular and realistic consideration; this was good practice. Only red or amber risks would be expected to be included in the Strategic Risk Register. The Interim Executive Director Finance & Resources stressed that there was a focus on things that were critical to the Local Authority. She would expect such issues to be red risks.
- 12.5 **RESOLVED -**
- (1) That the Strategic Risk Report (Appendix 1) be noted.

13 STRATEGIC RISK MAP FOCUS: SR2 FINANCIAL OUTLOOK; AND SR18 EFFECTIVE USE OF TECHNOLOGY

- 13.1 The Committee considered a report of the Interim Executive Director Finance & Resources which informed Members that the Committee had a role to monitor the effectiveness of risk management and internal control. This included oversight of the Strategic Risk Register which was set and reviewed every six months by the Executive Leadership Team (ELT). Each Strategic Risk had a Risk Management Action Plan (a "risk MAP") to deliver action to address the risk by a Risk Owner, a member of ELT. The report was presented by the Risk Management Lead.
- 13.2 The meeting was attended by Rachel Musson, Interim Executive Director Finance & Resources who is the Risk Owner for both Strategic Risks SR" (Financial Outlook) and SR18 (Effective use of Technology). Mark Watson, Chief Technology Officer attended to answer questions on SR18.
- 13.3 Members first asked questions related to Strategic Risks SR 2 (Financial Outlook).
- 13.4 Dr Horne asked if the risk was related to the current financial year. The Interim Executive Director of Finance & Resources replied that the risk under discussion was medium term and current.
- 13.5 Councillor Druitt stated that there was much mention of efficiency savings and value for money. He asked how much more scope there was to save money without impacting services. The Interim Executive Director Finance & Resources replied that £26m needed to be saved in this financial year alone. The challenge was immense and it

could not be carried out without changes to services. The Council would prioritise services for the most vulnerable. The budget took into account an equality impact assessment.

- 13.6 Councillor Taylor asked about targets this last year and this year for the Value for Money programme. The Interim Executive Director Finance & Resources confirmed that there had been a shortfall on delivery against targets for last year, and that she would respond to his outstanding request on the value of targets for this year.
- 13.7 Diane Bushell referred to the consultation for the budget setting process. She asked if officers were looking at options to involve the voluntary sector in the process. The Interim Executive Director Finance & Resources confirmed that this issue was being addressed. A report would be submitted to Policy & Resources Committee in July. There would be a full consultation process.
- 13.8 Members asked questions relating to SR18 (Effective use of Technology).
- 13.9 Councillor Taylor asked if there was pooling of information and resources amongst different councils, for example learning the lessons from the interesting work at Adur & Worthing Council. The Chief Technology Officer reported that officers were trying to absorb as much information as possible from other councils. Officers were in touch with a number of Councils including Adur & Worthing Councils, worked closely with colleagues across the South East Seven partnership and were also talking to the private sector. For example, the Chief Technology Officer had recently met with his counterpart at Amex.
- 13.10 Councillor Cobb asked about changing the Citrix system to a new system and whether other Councils used this. The Chief Technology Officer explained that Citrix would continue to be used across much of the authority for desktop usage and no change was proposed. However Citrix was not the right solution for councillors and this was being addressed.
- 13.11 The Chief Technology Officer went on to explain that The Link, which is a consortium of public service ICT services across Sussex was another way the council worked in partnership. The Council buys its network this way with East Sussex County Council, East Sussex Fire & Rescue Service and a number of Districts and Borough Councils. It is open to all public service partners and is very successful.
- 13.12 Councillor Cobb asked if other authorities had reported that they experienced similar problems with IT. The Chief Technology Officer replied that he had talked to other authorities about services to councillors. Mobile services were one of the most significant difficulties.
- 13.13 Dr Horne asked if there was a financial saving in the 2015/16 budget. The Interim Executive Director Finance confirmed that there was a budget saving identified. Some savings would be expected to be made through technical solutions.
- 13.14 The Chief Technology Officer stated in terms of future years officers were looking at the relationship between investment in technology and savings. Investment in technology would not fill the financial gap, but would help.

13.15 RESOLVED -

- (1) That Members' questions of the Risk Owner based on the information provided in the Strategic Risk MAPs in Appendix 1 (Strategic Risk Assessment Report) be noted.

14 AUDIT & STANDARDS COMMITTEE ANNUAL REPORT 2014/15

- 14.1 The Committee considered a report of the Head of Internal Audit. The draft report at Appendix 1 provided a summary of the Audit & Standards Committee's work, performance and achievements during 2014/15. It had been prepared on behalf of Audit & Standards Committee Members.

14.2 RESOLVED -

- (1) That the draft report at Appendix 1 be noted.
- (2) That the report be referred to Full Council for information.

15 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2014-15

- 15.1 The Committee considered a report of the Head of Internal Audit. Appendix 1 summarised the work carried out by internal audit and the corporate fraud team, including the Head of Internal Audit's annual opinion for 2014/15. The report was presented by the Head of Internal Audit.
- 15.2 The Head of Internal Audit reported that Section 2 of the Annual Report set out the Annual Opinion. This stated that in the opinion of the Head of Internal Audit, reasonable assurance could be provided on the overall effectiveness of the council's control environment for the year ended 31 March 2015, but only limited assurance on the effectiveness of the council's purchasing and contract management practices.
- 15.3 Councillor Sykes considered the report to be excellent and a great improvement. He stressed the importance of focusing on all important issues not just one or two of the most important matters.
- 15.4 Diane Bushell referred to paragraph 3.5 of the Annual Report. This stated that 'the consistent number of high priority recommendations made over the past three years would suggest that the control environment has neither improved or declined significantly.' She considered that the control environment should be expected to improve.
- 15.5 Simon Mathers, Ernst & Young stated that there had been significant improvements made to the council's payroll system. This had been a great success in recent years and a 'big win' in improving the control environment. The Head of Internal Audit agreed that payroll systems was a good example of where the council was instrumental in making changes. There was a high level of support from the Executive Leadership Team, senior managers and the committee.

15.6 RESOLVED -

- (1) That the report be noted.

16 AUDIT & STANDARDS COMMITTEE WORK PROGRAMME

- 16.1 The Committee considered a report of the Interim Executive Director of Finance and Resources which set out the proposed programme of work for the Audit & Standards Committee for 2015/16.

16.2 RESOLVED -

- (1) That the work programme as set out in Appendix 1 be noted and approved.

17 HROD ANNUAL REPORT

- 17.1 The Committee considered a report of the Interim Executive Director of Finance and Resources which informed Members that the Human Resources & Organisational Development (HROD) service comprised Human Resources, Health & Safety and Workforce & Organisational Development. This was the second year the service had presented an annual report. Its purpose was to highlight the continued contribution the service had made in supporting the organisation over the last 12 months and set out the focus of activity this year. The Human Resources & Organisational Development Annual Report 2014/15 was attached as appendix 1 to the report. The Corporate Health & Safety Annual Report was attached as Appendix 2. The report was presented by the Head of Human Resources & Organisational Development and the Head of Health & Safety.
- 17.2 The Chair thanked the Head of Human Resources & Organisational Development and the Head of Health & Safety for a very useful report.
- 17.3 Dr Horne welcomed the reports. He referred to Appendix 2 of the Corporate Health & Safety Annual Report - Accident/Incident summary Data on page 191. He commented that the Total Days Lost had increased alarmingly and asked for further information about who non staff referred to. Dr Horne asked what monitoring happens at a corporate level. The Head of Health & Safety explained that Non Staff related to schools and service users, residents, carers and visitors to buildings. The majority of the total days lost were due to slips, trips and falls between October to December. HR are working with partners to see if this was a trend. Incidents would be monitored by the Health & Safety Committee.
- 17.4 Councillor Cobb also referred to the accident/incident summary data on page 191. She asked if it was possible to break this information down. The Head of Health & Safety undertook to circulate the Annual Health & Safety Incidents Report to members. This contains detailed information.
- 17.5 Councillor Robins asked for more information about apprenticeship recruitment. The Head of Human Resources & Organisational Development replied that she would be happy to send detailed information to Councillor Robins. Apprentices had a wide range of roles in the council and worked in many areas including HR, Finance, Children's

Services, communications and schools. Work placements were also a successful route for those moving on the apprenticeships and provided for a career pathway into work. Apprentices were showing good results in the conversion to full employment.

- 17.6 The Chair stated that any information sent to councillors on apprentices would be useful.
- 17.7 Councillor Morris referred to page 169 relating to the Occupational Health Service. He was pleased to see this included mental health. He asked about the content of the two health & safety newsletters mentioned on page 189. The Head of Health & Safety replied that officers worked closely to provide timely information.
- 17.8 Councillor Sykes considered the reports were excellent. He asked questions relating to Living Our Values, progress and feedback from managers and payroll. The Head of Human Resources & Organisational Development explained that values were developed through staff engagement. The cultural change programme would continue. There was a desire to continue the improvement in the management of performance and accountability which was a key aspect of the leadership development programme.
- 17.9 Councillor Druitt referred to page 172 which referred to the liP Silver award. He asked what areas were flagged up as areas to improve and why the service had not been assessed for a Gold Award. Councillor Druitt referred to page 196 in relation to contractor management. He noted that the numbers quoted were small. The Head of Human Resources & Organisational Development explained that action plans had been suggested in relation to the liP Silver Award. The service had chosen to be assessed for the Silver Award as it wanted to focus on performance management before being assessed for the liP Gold Award. The Head of Health & Safety explained that with regard to contract management, wider health and safety management arrangements were monitored with an in depth audit. Key contracts were identified for the audit.
- 17.10 Diane Bushell referred to page 168 in relation to the statistic for sickness absence and asked for clarification. The Head of Human Resources & Organisational Development explained that it was a recognised statistic. Generally the public sector had a higher rate of sickness absence. She was working with managers and occupational health to bring the numbers down.
- 17.11 Councillor Taylor referred to page 160 and asked for more information about staff travel expenses. The report mentioned that the total value of unrecovered salary overpayments amounted to £366,827. He asked if the figure was coming down. Councillor Taylor was pleased to hear that action was being taken regarding staff sickness. The Head of Human Resources & Organisational Development replied that the staff travel expenses related to matters such as mileage claims. She agreed that the unrecovered salary overpayments was a large figure. There was evidence of an improvement in recovery. The Head of Human Resources and Organisational Development also highlighted that there had been a significant improvement in payroll assurance for the second year.

17.12 **RESOLVED -**

- (1) That the annual report of activity, assurance and business plan priorities from the Human Resources & Organisational Development (HROD) Service be noted.

18 2014/15 AUDIT PROGRESS REPORT

- 18.1 The Committee considered a report of the external auditor EY. The report was presented by Mr S Mathers of EY.

18.2 RESOLVED -

- (1) That the 2014/15 audit progress report, along with progress made be noted.

19 ERNST & YOUNG 2015/16 AUDIT FEE LETTER

- 19.1 The Committee considered a report of the external auditor Ernst & Young. Members were informed that the fee reflected the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies applying from 2015/16. There had been a further reduction in audit fees in 2015/16. The report was presented by Mr P King of Ernst & Young.

- 19.2 The Chair commented that the fee looked like a good offer and she appreciated the attendance of Mr King and Mr Mathers.

- 19.3 Diane Bushell asked Mr King if there was anything he could recommend as a training tool for the committee. Mr King replied that Ernst & Young did provide training sessions on the role of external audit. He was happy to provide a brief session for committee members. This was usually arranged as part of the overall suite of training induction. The Head of Internal Audit said he would have discussions with Ernst & Young on training support. This would be decided outside of the meeting.

19.4 RESOLVED -

- (1) That the 2015/16 audit fee letter be noted.

20 TARGETED BUDGET MANAGEMENT (TBM) 2014/15

20.1 RESOLVED -

- (1) That the report and extract from the proceedings of the Policy & Resources Committee be noted.

21 ITEMS REFERRED FOR COUNCIL

- 21.1 It was agreed that no additional items be referred to Council.

Note: Item 7 – Code of Corporate Governance. Item 8 – Governance: Whistleblowing Update and Item 14 - Audit & Standards Committee Annual Report 2014/15 were already referred to full Council for information.

22 UPDATE ON COIN CO INTERNATIONAL

- 22.1 The Committee considered a report of the Interim Executive Director of Finance & Resources which updated Members on the progress of company administration which was seeking to recover sums owing to secured and unsecured creditors following the failure of the cash-in-transit contractor, Coin Co International plc (CCI) with whom the council held a contract. The council was an unsecured creditor of the company and was owed £3.243m at the time it entered administration on 27 November 2014. The report also summarised the action being taken by the council to ensure that any learning from this event was effectively identified and reported.
- 22.2 The report stated that CCI was first appointed by the council in 2008 to provide cash collection and cash in transit services. This included car parking income collection, collection of cheques and sealed containers from council premises. It was based locally in Sussex, offered significantly greater service flexibility than bigger national/global companies at a considerably better price, had a range of private and public sector clients, and had been trading for over 30 years.
- 22.3 It further stated that the council entered into a new framework contract with CCI on 3 February 2014. However, increasing delays in receiving payment-over of cash collected were experienced during 2014 with a maximum sum of £4.746m outstanding. Following meetings and communications with the directors of the company, this was brought down considerably but after a short period the company began to default on agreed payment arrangements and the council terminated the contract on 19 June 2014, intending to pursue sums owing through debt recovery and/or litigation processes if necessary. However, CCI subsequently entered administration owing £3.243m to the council.
- 22.4 The report stated that the legal costs in relation to insolvency (i.e. company administration and liquidation) can be substantial. The council is very mindful that any losses should not be compounded and will use every endeavour to challenge and minimise costs. Members should note however that the costs of company administration, being undertaken by Baker Tilley LLP, and subsequent costs of any company liquidation will normally be chargeable against any unsecured liquidated funds or assets, thereby reducing the sums available to unsecured creditors in the first instance.
- 22.5 The report stated that, at this time it is known that there are company assets against which there are securities, which will be available to the administrators to meet, as far as possible, the claims of the relevant secured creditors. However, in relation to unsecured creditors, of which there are hundreds worldwide including the council, the level of available company assets is not yet known and it is not clear whether or not, after taking into account the costs of company administration/liquidation, any funds will be available to be shared among unsecured creditors.
- 22.6 The report was presented by the Interim Executive Director Finance & Resources. Members were informed that the former Executive Director of Finance & Resources along with the Interim Executive Director of Finance & Resources had commissioned Internal Audit, supported by external consultants to carry out a review to determine whether improvements to the Council's procurement processes and or decision making could minimise financial risks of this nature in the future.

- 22.7 The Interim Executive Director of Finance & Resources stressed that CCI were a local firm with a previous good record. CCI had passed all the necessary checks and evaluation processes to be selected for the procurement framework.
- 22.8 The Head of Internal Audit informed members that his focus was to find out why CCI went into administration. It was important that lessons were learnt from this process. A further report would be submitted to the Committee in September 2015.
- 22.9 Councillor Robins expressed concern about the large amount of money that was owed to the council. He asked what had happened to the £3.2m. The Interim Executive Director explained that the administrators were attempting to find the money that was outstanding but had not been able to locate the funds. It should have been cash paid into a separate account.
- 22.10 Dr Horne stated that he was keen to see open local government and stressed that some sort of statement should be made available to members of the press and public on this issue. The Interim Executive Director of Finance & Resources stated that some information had been put into the public domain.
- 22.11 Dr Horne noted that information had been reported in the Statement of Accounts however it had not described the debt as an exceptional loss. There was no reference to the matter having been reported to Policy & Resources Committee. There needed to be disclosure in the accounts. Dr Horne asked the Head of Internal Audit to look at monetary processes. He was concerned that the contract was let in February 2014 and terminated in June. The firm had lost £1m of council money per calendar month. He asked if the Council was covered by insurance. The Interim Executive Director reported that the council did not have an insurance policy.
- 22.12 Paul King of EY stated that he did not consider members of the press and public were being misled by not revealing the name of the company in the Policy & Resources report. The Governance Statement provided the necessary information.
- 22.13 Councillor Morris stated that he wanted to register that he was not happy with the decision not to provide more information to the press and public. The Interim Executive Director explained that this might be appropriate when the Committee received its final report in September. She urged the Committee to allow the Head of Internal Audit to complete his review first.
- 22.14 Councillor Druitt expressed concern that the debt had reached such a high level. He echoed the concerns about openness. Councillor Robins also expressed similar views.
- 22.15 The Interim Executive Director stated that officers were still working with the administrators. She asked the Head of Internal Audit to explain the timeline.
- 22.16 The Head of Internal Audit explained that he had got a long list of control monitoring emails and other documents which went back a long time. He did not have a timeline for the administration process.
- 22.17 The Head of Legal & Democratic Services suggested that the Part One minute contained all information that was not prejudicial to the council. Councillor Druitt thought

this was a good suggestion but hoped that officers would not be overly cautious in what was included in the minutes. He wanted to see the maximum amount of information in the public domain.

- 22.18 Councillor Cobb asked if the firm owed money to other organisations. The Head of Internal Audit replied that a significant amount was owed to other local authorities and charities.
- 22.19 The Chair stated that she supported the suggestion of the Head of Legal & Democratic Services to have detailed information in the Part One minutes. She did not see any advantage in publishing information that could be damaging to the council.
- 22.20 Councillor Robins supported this view but worried about the sheer size of the money owed to the council. The Interim Executive Director stated that the size of the debt was the reason officers were carrying out so much work on the issue.
- 22.21 Diane Bushell asked if there was a job for internal audit to ensure information provided to the council was verified when awarding contracts to key suppliers. The Interim Director of Finance & Resources replied that internal audit could not be involved in every contract. There were specific lessons to be learnt about the contract in question. This was part of reason why the council were moving to cashless payments.

22.22 **RESOLVED -**

- (1) That the preliminary findings and the current position regarding the administration process be noted
- (2) That detailed Part One minutes be made available setting out information that is not prejudicial to the council.

23 PART TWO PROCEEDINGS

- 23.1 **RESOLVED** – That the Part 2 report and minute remain exempt from disclosure from the press and public. A detailed Part 1 minute would be provided.

The meeting concluded at 7.36pm

Signed

Chair

Dated this

day of

| | | | |
|--------------------------|---------------------------|---|---------------------|
| Subject: | Standards Update | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Monitoring Officer | | |
| Contact Officer: | Name: | Abraham Ghebre-Ghiorghis | Tel: 29-1500 |
| | Email: | Abraham.ghebre-ghiorghis@brighton-hove.gcsx.gov.uk | |
| Ward(s) affected: | All | | |

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

- 1.1 This report updates Members on the complaints received regarding Members and other Standards related activity.

2. RECOMMENDATIONS:

- 2.1 That Members note the report.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The following are complaints received since the last meeting of the Audit & Standards Committee.

Rottingdean Parish Council complaint

- 3.1.1 The complaint was received against a Councillor of the Parish Council regarding an appointments process for a co-opted member. The views of the Independent Person have been obtained and the complaint will proceed to the next stage – the investigation stage. The complainant and the Councillor have been informed and an interview date set.

Complaint – relating to tenant disputes

- 3.1.2 This is a complaint against a Councillor. The complainant was not happy with the fact that a fence was being erected outside her house. The majority of the residents in the housing association wanted a fence to be put up in order to protect their washing lines. The complainant complained to a Councillor. The Councillor visited the site and wrote to the complainant to say that she would not pursue the matter further as she considered that the fence was being properly erected. The complainant was not happy with this outcome or the manner in which Cllr Meadows had reached her conclusion. The views of the independent person have been obtained and the decision by the MO is that this matter is not one which would, if proven, be a breach of the Code of Conduct and will

therefore not be investigated. The complainant and the Councillor have both been informed.

Complaint Regarding Brighton Town Hall and Member Comments

- 3.1.3 There were two complaints received regarding Brighton Town Hall's lack of accessibility to people with disabilities. The complaints also referred to comments made by Members at a meeting of Council on 16th July during the debate on Independent Living Fund which the complainants thought involved "derisory comments and joking about disabled people." Most of the complaint involved service issues and a suggestion has been made to the complainants to pursue it as a service issue.
- 3.1.4 Over the last year or so, the number of complaints of breaches of the code of conduct by Members has declined. How this compares with similar authorities and whether there is any underlying reason that discourages people from complaining is something that may be worth considering.

3.2 Other matters

- 3.2.1 Following the requirements of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014, the Council will be setting up arrangements for dealing with the dismissal of the Chief Executive, The Monitoring Officer or the Chief Finance Officer. Rather than setting up a separate committee, it is proposed to attach this role to the Personnel Appeals Sub-Committee. The two Independent Persons will be members of the Panel/sub-committee when it deals with cases. In the event that they are not able to sit on the panel, for example for conflict of interest or any other reasons, arrangements will be made with neighbouring authorities to "borrow" some of their Independent Persons.
- 3.2.2 Given the need to review the Council's policies and procedures as it relates to standards of conduct and other issues relating to good governance, it is proposed to set up a working group consisting of the 2 Independent Persons and a representative from each of the Political Groups in the Committee.
- 3.2.3 The Member Induction session on the code of conduct for Members was well attended. There are however a few Members who were unable to attend the sessions. There will be a training session included in phase two of the Induction plan in addition to the special training for members of the Audit & Standards Committee regarding hearing of member complaints.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 This report updates Members on the complaints received and other initiatives. The way complaints are dealt with will be part of the review to be undertaken by the Member Working Group when established.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 As the matters covered in the report are mainly internal issues following agreed processes, there has been no outside consultation.

6. CONCLUSION

- 6.1 The complaints system continues to operate effectively. There has been a general decline in the number of complaints received over the last year or so. It would be useful for the working group to look at whether the current system is operating at the right level or whether people are not aware of or discourages from using the complaints process.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 There are no financial implications arising directly from this report

Finance Officer Consulted: Nigel Manvell

Date: 14/09/15

Legal Implications:

- 7.2 There are no legal implications arising from this report

Lawyer Consulted: Abraham Ghebre-Ghiorghis

Date:14/09/15

Equalities Implications:

- 7.3 There are no equalities implications arising from this report

Sustainability Implications:

- 7.4 There are no sustainability implications arising from this report

Any Other Significant Implications:

- 7.5 None

SUPPORTING DOCUMENTATION

Appendices: None

Documents in Members' Rooms: None

Background Documents: None

| Types of Incident | Q1 2015-16 | | | | | | Totals | | | |
|--|------------|-----------|-----------|-----------|------------|-----------|-----------|--|--|--|
| | Apr | May | Jun | 2015/16 | 2014/15 | 2013/14 | 2012 | | | |
| | | | | | | | | | | |
| Misuse of Email | | | | 0 | 1 | | 1 | | | |
| Misuse of Information | 3 | 3 | 9 | 0 | 10 | 6 | 0 | | | |
| Misuse of IT | 1 | 0 | 2 | 15 | 4 | 3 | 1 | | | |
| Disclosed in Error (email) | 2 | 3 | 0 | 3 | 26 | 7 | 8 | | | |
| Disclosed in Error (mail/post) | 1 | 0 | 0 | 5 | 21 | 15 | 4 | | | |
| Disclosed in Error (internet/intranet) | | | | 1 | 5 | 0 | 0 | | | |
| Disclosed in Error (passwords) | 5 | 0 | 2 | 0 | 2 | 3 | 9 | | | |
| Disclosed in Error (other) | 2 | 1 | 0 | 7 | 18 | 15 | 11 | | | |
| Loss of Information | 2 | 0 | 0 | 3 | 9 | 8 | 0 | | | |
| Loss of IT | | | | 2 | 2 | 0 | 3 | | | |
| Theft | | | | 0 | 4 | 1 | 1 | | | |
| Non Approved IT*: | | | | 0 | 0 | 4 | 2 | | | |
| *Software | | | | 0 | 0 | 2 | 2 | | | |
| *Hardware | | | | 0 | 0 | 2 | 0 | | | |
| Suspected hack | 0 | 0 | 2 | 0 | 0 | 2 | 0 | | | |
| Suspected malware | | | | 2 | 1 | 0 | 0 | | | |
| Corrupt data | 3 | 3 | 1 | 0 | 0 | 0 | 0 | | | |
| Other | | | | 7 | 31 | 3 | 3 | | | |
| Breach of Policy | | | 1 | | | | | | | |
| Incorrect Disposal | | | | | 1 | | 0 | | | |
| TOTAL | 19 | 10 | 17 | 46 | 135 | 69 | 43 | | | |

| | | | |
|--------------------------|--|---|--|
| Subject: | Ernst & Young 2014/15 Audit Results | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Ernst & Young | | |
| Contact Officer: | Name: | Paul King | Tel: 0118 928 1556 (41556) |
| | Email: | pking@uk.ey.com | |
| Ward(s) affected: | All | | |

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Audit Results Report summarises the findings of the 2014/15 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 propose to issue a unqualified opinion on the Council's financial statements subject to full completion of outstanding areas of work as at 9 September.
- 1.3 We anticipate issuing an 'except' for qualified value for money conclusion. We are satisfied that, in all significant respects, Brighton & Hove City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015 except for having yet made sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term.

2. RECOMMENDATIONS:

- 2.1 To consider our findings set out in the 2014/15 Audit Results Report, ask questions as necessary and raise any other matters which you consider relevant to the audit.

Brighton & Hove City Council

Audit results report for the year ended 31 March 2015

September 2015

Ernst & Young LLP



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Private and confidential

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

22 September 2015

Dear Members of the Audit & Standards Committee

Audit results report

We are pleased to attach our audit results report for the Audit & Standards Committee. This report summarises our preliminary audit conclusion in relation to Brighton & Hove City Council's (the Council's) financial position and results of operations for the year ended 31 March 2015.

The audit is designed to express an opinion on the 2014/15 financial statements, to reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Council's accounting policies and judgments, and any significant deficiencies in internal control.

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

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Audit & Standards Committee meeting.

Yours faithfully
For and on behalf of Ernst & Young LLP

Paul King
Ernst & Young LLP
United Kingdom
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

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

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

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

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

1. Executive Summary

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In this 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 any planned changes in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Council's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Council's accounting policies and judgements.

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

Financial statements

We have performed the procedures outlined in our Audit Plan. We propose to issue a unqualified opinion on the Council's financial statements subject to full completion of outstanding areas of work as at 9 September. The current status of our work is set out in Section 6.1 of this report.

Our main audit findings are set out below with detailed findings in Section 3 of this report

Significant risks

Risk of management override

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

Audit findings and conclusions

We have completed our programme of planned work in relation to the identified risk. We identified no material misstatement due to fraudulent financial reporting or evidence of material fraud.

Control themes and observations

As part of our 2013/14 audit results report we noted that the Council had experienced significant difficulties with its security carrier contract for cash collection and the value of cash in transit at the end of 2013/14 was approximately £2.2 million. We are satisfied that the Council has taken reasonable action in relation to this and that that the issue has been accounted for appropriately in the Council's 2014/15 financial statements.

We raised a number of recommendations for improvement as part of our 2013/14 audit. We are satisfied that reasonable progress has been made by the Council in implementing those recommendations.

Summary of audit differences

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

-
- ▶ As at 9 September there are no uncorrected misstatements resulting from our work. A small amount of work remains outstanding as set out in Section 6.1 of this report.
 - ▶ Net adjustments of approximately £32.6 million have been made by the Council to the disclosure of the prior year capital assets charges accounting adjustment calculated in accordance with the Housing Revenue Account Item 8 credit and Item 8 debit determination disclosed at Note 30 to the financial statements. The format of this note has been changed to improve the accuracy of this disclosure but this has no effect on the Housing Revenue Account Income and Expenditure Statement or reported financial performance or position of the Council.
 - ▶ The carrying value of land valued at depreciated replacement cost has been increased by approximately £10.1 million. This impacts on the value of property, plant and equipment disclosed on the face of the Balance Sheet and at Note 9 to the financial statements. As at 9 September further amendments may be required to the carrying value of buildings assets valued at depreciated replacement cost. Further details of this issue are set out in Section 3 of this report and we will provide a verbal update of progress at the meeting of the Committee.
-

Economy, efficiency and effectiveness

We have performed the procedures outlined in our Audit Plan and anticipate issuing an 'except for' qualified value for money conclusion. Our detailed findings and conclusions are set out in section 4 of this report.

In considering the Council's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness we identified:

- ▶ There is a cumulative budget gap of approximately £60 million (assuming an annual Council Tax increase of two percent) over the three years 2015/16 to 2017/18, rising to £92 million over the five years to 2019/20, forecast in the Council's Medium Term Financial Strategy (MTFS). Without an increase in Council Tax, the five year budget gap would be £102 million.
- ▶ Unless the budget gap forecast in the MTFS is closed the Council would fully exhaust its usable reserves, including those already earmarked and/or controlled by others (e.g. Schools balances), by the end of 2017/18 assuming no increases in Council Tax.
- ▶ Review of comparative information on costs suggests that the Council remains high cost per capita overall, relative to comparable authorities, and is high cost compared to others in key high spend, demand-led service areas such as adult social care, children's services and housing. This finding is consistent with our findings in previous periods. Given the challenging resource position for the future and reducing levels of usable reserves, the Council needs to revisit this information to inform its budget planning.

- ▶ Although the Council did deliver to budget in 2014/15 there was a reduction in usable reserves of approximately £10 million in respect of both HRA and general fund, to £76 million, noting that only around £2.4 million of this movement comes from a reduction in reserves that were previously earmarked and available to support the general fund. The use of risk provisions of £2.1 million and other one-off corrective actions was required to deliver against budget in 2014/15.
- ▶ The Council, for the first time, did not fully deliver its VFM programme savings targets in 2014/15. Delivery was approximately 39 per cent under target (approximately £6.1 million against a target of £9.9 million).
- ▶ As at month 2 of 2015/16, the Council is forecasting a financial budget delivery risk of £8.7 million on the General Fund and £0.7 million on Section 75 health partnerships.

There is, however, a recognition that the Council's historic approach to service and financial planning needs to change if the financial challenges it faces are to be met. In July 2015 the Council decided to implement a four year integrated service and financial planning process covering the period 2016/17 to 2019/20, which was agreed cross party at the Policy and Resources Committee. The explicit intention of this change is to recognise the greater scale of change and associated time scales, and also provide a clearer indication of how far the Council has been able to identify strategies to address the budget gap over the period of its MTFs. This effectively moves the Council's medium term financial planning from a simple resource projection to a more detailed medium term budget plan. As part of the process, the Council is currently re-considering more fundamentally whether and how current services are delivered. Whilst this shows an acceptance of the need for change to secure the financial resilience of the Council, it is too early to judge the success of the new arrangements.

In our view however, the Council has therefore not yet made sufficient progress in identifying the actions necessary to demonstrate its ability to secure a stable financial position over the medium term. Therefore we have concluded that, except for arrangements for securing financial resilience, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Whole of Government Accounts

As at 9 September we are undertaking the procedures required by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts (WGA) purposes.

We are also aware more widely that authorities have not been able to action the final locking of the data collection tool (DCT) used to submit WGA data to the Department for Communities and Local Government (DCLG). This is because DCLG are asking for the DCT to be kept open until the end of September 2015 so that updates can be made on intra-group disclosures. We will not be able to complete our submission of the DCT until it can be locked. This has the potential to lead to delays in the issue of the audit certificate as the submission of WGA is a Code of Audit Practice responsibility and therefore the certificate cannot be issued until the WGA submission has been finalised.

We have raised this with the NAO as the auditor of WGA and will update the Committee verbally with progress.

Other reporting

A small number of amendments were made to the Council's draft Annual Governance Statement so that it reflected significant events after the end of the reporting period and all significant issues faced by the Council during the year.

Audit certificate

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We

expect to issue the audit certificate at the same time as the audit opinion subject to us being able to complete the submission of WGA by the opinion deadline of 30 September.

2. Scope update

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan issued in February 2015, 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. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Council's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

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

3. Significant findings from the financial statement audit

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

Significant risk: Risk of management override of controls

Description and audit response

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

Our approach focused on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for any significant unusual transactions.

Audit findings and conclusions

Our work identified no material misstatement due to fraudulent financial reporting or other evidence of material fraud.

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to report on:

- ▶ significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ significant difficulties, if any, encountered during the audit;
- ▶ significant matters, if any, arising from the audit that were discussed with management;
- ▶ written representations we are seeking;
- ▶ expected modifications to the audit report;
- ▶ other matters if any, significant to the oversight of the financial reporting process;
- ▶ findings and issues regarding the opening balance on initial audits (if applicable);
- ▶ related parties;
- ▶ external confirmations;
- ▶ going concern;
- ▶ consideration of laws and regulations; and
- ▶ group audits

We wish to draw your attention to the following issues

Policy/practice/finding**EY comments****Closedown process**

During the year the Council has made changes to both the format of its financial statements and its arrangements to close down the financial ledger and produce the financial statements. These changes are intended to make the statements less complicated and more understandable, and to allow the Council to close down the general ledger and produce the financial statements more quickly. The changes are necessary for the Council and us to achieve earlier deadlines for production, approval and audit of the financial statements from 2017/18

Overall the quality and completeness of working papers produced to support the financial statements remained good with improvements made in some areas. However, there was some delay in providing us with a complete set of working papers at the start of the audit. This was because initial quality checks undertaken by Central Financial Services did not detect errors or other weaknesses in working papers produced. These issues were only detected late in the accounts preparation process and resulted in some working papers needing to be re-prepared at a relatively late stage. There was also a delay in the submission of the Council's Whole of Government Accounts return. Fortunately, other working papers were available for review and with some rearranging the audit was completed to the original timetable.

It is important that quality checks on working papers produced to support the financial statements and audit process are undertaken thoroughly and in a timely manner.

See recommendation 1

Prior period adjustments (PPAs)

The Council made a number of adjustments to audited prior year comparatives in the draft financial statements to correct for immaterial errors detected as part of the accounts preparation process.

The general principle in International Accounting Standard (IAS) 8 is that an entity must correct all material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery. IAS 8 also specifies specific disclosure requirements relating to the prior period error. These disclosure requirements were not fully met by the Council for immaterial PPAs. We have not challenged this approach given the immaterial nature of the adjustments made.

The Council should consider whether clearly immaterial prior year errors, that by definition are unlikely to affect the view a user of the financial statements, are treated as prior period adjustments in its financial statements.

See recommendation 2

Policy/practice/finding**EY comments****Indexation of property, plant and equipment (PPE) values**

The Council needs to be able to demonstrate that the carrying value of PPE is materially correct at the balance sheet date.

Land and building valuations are based upon valuation reports issued by a range of internal and external professional valuers used by the Council. The valuations are carried out in accordance with the methodologies and bases for estimation set out in relevant professional standards. The Council carries out a rolling programme for revaluing its PPE assets, excluding council dwellings and a limited number of other assets, which ensures that all PPE assets required to be measured at fair value are revalued at least every five years. In adopting this rolling programme of revaluations it is important that the Council is able to demonstrate the carrying value of assets not subject to revaluation in the year of account is not materially mis-stated.

During 2014/15 available indices for house prices showed significant increases during the period consistent with the wider economic recovery. Build cost indices have increased significantly over the last five years. In accordance with the Code the Council values the proportion of its general fund property which is specialised in nature at depreciated replacement cost (DRC). The land element of DRC valuations is based on housing prices, the buildings element is based on build costs. In both cases adjustments are made for known local factors. Given the increases in indices for house prices and build costs during the year, and the fact that only 20 per cent of DRC assets are reviewed annually and as at the start of the year, we challenged the Council's approach to valuing DRC assets. We specifically asked the Council to evidence that it was not necessary to apply indexation to ensure that the carrying value of DRC assets was materially correct as at the balance sheet date.

As a result of our challenge and additional work undertaken by the Council it has determined that it is necessary to increase the carrying value at the balance sheet date of land valued at DRC by approximately £10.1 million.

As part of this work the Council also considered whether it was appropriate to apply indexation to the buildings valued at DRC. The Council's initial approach was to undertake actual revaluations for 61 out of 399 buildings assets valued at DRC. This highlighted inconsistency in the change in value for assets subsequent to the last revaluation. As a result the Council has decided to undertake full revaluations of its remaining building assets valued at DRC with a gross book value of over £1 million. This work remains ongoing at 9 September. Further amendments to the financial statements may be made depending on the results of this work.

See recommendation 3

Recommendation 1

Ensure that all quality checks on working papers produced to support the financial statements and audit process are undertaken thoroughly and in a timely manner.

Recommendation 2

Consider whether clearly immaterial prior year errors, that by definition are unlikely to affect the view a user of the financial statements, are treated as prior period adjustments in the financial statements

Recommendation 3

The Council should ensure that:

- ▶ All property, plant and equipment revaluations are undertaken as close to the balance sheet date as reasonably possible.
- ▶ The scope of the annual impairment review undertaken by the Council's valuer is extended to explicitly consider the need to uplift asset values. This should consider both the results of actual revaluations undertaken across significant classes of assets and more widely available evidence of changes in value, for example available indices.
- ▶ Checks are undertaken and more clearly documented by the Council's internal valuer and Central Financial Services on the reasonableness of asset valuations undertaken by the Council's valuer.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining corporate performance management and financial management arrangements we consider the following criteria 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 operating 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 or improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas in our Audit Plan.

Significant risks: Failure to make changes to secure longer term financial resilience.

Description and audit response

The Council faces significant and increasing financial challenges over the medium term. A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Council. During 2014/15 the Council consistently reported a forecast overspend against its General Fund budget. It also refreshed its Medium Term Financial Strategy (MTFS) which forecasts a cumulative budget gap of £102 million by 2019/20 (assuming no annual increases in Council Tax) by 2019/20 if further savings cannot be identified.

In previous years we used the Audit Commission's value for money profile tool to assess Council spending against similar councils and over time. Our work suggested that the Council spending was high relative to both its statistical nearest neighbours and other unitary authorities in general. This was true for both its overall per capita spending, and per capita spending in the majority of its main service areas

As part of its future plans the Council intends to regenerate its seafront to preserve the city's reputation and visitor economy. Development of the i360 tower visitor attraction is key to this objective, but as with any major project it comes with both financial risks and rewards to the Council.

In response to this our approach focused on:

- ▶ Consideration of the relative spending of the Council by reference to comparable authorities and previous years using the Audit Commission's VFM profile tool.
- ▶ Review of the reasonableness and robustness of medium term financial planning assumptions set out in the refreshed MTFS.
- ▶ Review of the progress made on i360 project including the integration of financial projections in the Council's overall medium term financial plans.

Impacts on arrangements for:

Economy, efficiency and effectiveness

Financial resilience

Audit findings and conclusions

Consideration of the relative spending of the Council based on the VFM profile tool

Public Sector Audit Appointments Ltd (PSAA) produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the

Significant risks: Failure to make changes to secure longer term financial resilience.

relative spending 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 2013/14, to review the cost and efficiency of Council services.

Our review of the data shows that that Council's spending relative to its statistical nearest neighbours remains high. This is true for both its overall per capita spending and per capita spending in the Council's main service areas. This is consistent with our findings in both 2012/13 and 2013/14. Spending is decreasing in the majority of areas, but given the Council's relatively high spend overall this does not appear to be at any faster rate than at statistically similar authorities. Spend per head is particularly high in housing services and on housing benefit administration, which is in the top five per cent relative to statistical nearest neighbours. Spending on adult social care, which is a key area of budget focus for the Council, and an area that did not deliver target VFM programme savings in 2014/15, continues to be in the highest third relative to statistical near neighbours. Spend in other demand-led areas which form a significant proportion of the Council's total expenditure, such as children's services, continues to be relatively high. Other areas that have caused budgetary pressures at the Council, for example spending on homelessness and spending on looked after children, remain similar to previous years and high compared to others. The value and pattern of Council spending relative to all unitary authorities is very similar to the value and pattern of Council spending relative to its statistical nearest neighbours.

Based on this we have concluded that the Council has not yet been able to address its high level of relative spending per capita overall, or in its main high value demand-led service areas that are the main drivers of its overall spending.

The financial position and performance of the Council and the reasonableness and robustness of its medium term financial planning

Historically the Council has a good track record of delivering its financial plans including its VFM improvement targets. Despite significant budget pressures and forecast overspending throughout 2014/15 the Council delivered spending within budget, but with very little headroom in the context of its overall level of expenditure. The 2014/15 outturn position for the General Fund was an underspend of £3,000. This consisted of an underspend of £2.362 million on Council controlled budgets, an overspend of £0.259 million on the Council's share of the NHS managed Section 75 services and net one-off contributions to provisions of £2.1 million. Despite delivering to budget overall the Council did not fully deliver its annual VFM programme of savings. As at the year-end £6.081 million of VFM programme savings were achieved against an original target of £9.917 million. There is a general recognition that savings were considerably more challenging to achieve in 2014/15 than in previous years. In particular, while cost and placement efficiencies continued to be achieved in adults and children's social care, they were offset by increasing demand and complexity of need throughout the year. The unachieved savings were mitigated by one-off corrective action or other measures during the year alongside the release of risk provisions. These mitigating measures do not have a recurrent impact on future year budgets.

The Council's financial position remains sound at the end of 2014/15, but the overall level of usable reserves available to support spending is reducing. The minimum level of working balances deemed appropriate remains set at £9 million for the General Fund, representing about four weeks of council tax revenue; and £2.8 million for the Housing Revenue Account (HRA), representing five per cent of gross HRA expenditure. In both cases the actual level of unallocated balances at the end of 2014/15 is higher than the acceptable minimum. The level of usable reserves reported on the Council's balance sheet reduced by approximately £10 million or 12 per cent between 2013/14 and 2014/15. Although much of this decrease does not relate to reserves which could be used to directly support pressure on the Council's General Fund budget approximately £2.4 million of earmarked reserves were released during the year to support budgetary pressures. Unless the budget gaps forecast in the MTFS

Significant risks: Failure to make changes to secure longer term financial resilience.

are closed the Council would fully exhaust its usable reserves by the end of 2017/18 assuming no increases in council tax.

In common with most public sector bodies, recent government spending reviews and financial settlements have had a significant impact on the Council. The financial challenge facing the Council is clearly set out in its MTFS which was updated during the year as part of the wider update of the Corporate Plan. The MTFS covers the five year period 2015/16 to 2019/20 and sets out key planning assumptions and resources projections together with information about key areas for capital and revenue investment and financing and treasury management strategies. The key driver of the financial projections in the MTFS continues to be the impact of reductions in central government funding over the medium term. The estimates reflected in MTFS projections include significant reductions in both Revenue Support Grant and specific grants over the period. There is explicit recognition that there remains some uncertainty over the timing and scale of funding reductions. There is also an appreciation that the local government finance settlement is not expected until December 2015. This will give the Council little time to react to any material change to the financial planning assumptions and it is recognised that budget planning will need to allow flexibility to bring forward savings in the event of further funding reductions. Although we remain satisfied that the MTFS has been properly updated in light of the current economic climate and that the assumptions underpinning it remain reasonable, it does make clear the significant scale of the financial challenge currently faced by the Council. The MTFS forecasts a cumulative budget gap of approximately £60 million (assuming an annual Council Tax increase of two percent) over the three years 2015/16 to 2017/18, rising to £92 million over the five years to 2019/20. Without an increase in Council Tax, the five year budget gap would be £102 million. 2015/16 is a key year for the Council based on the resource projections set out in the MTFS. Of the £92 million budget gap currently forecast over the next five years approximately £21.1 million, or approximately 23 per cent of the total budget gap, needed to be bridged in 2015/16 to keep track with the Council's medium term financial plans. As part of our work we considered the 2015/16 current budget position. Although a balanced budget has been set, as at month two the Council forecasts financial risk for 2015/16 of £8.7 million on the General Fund and £0.7 million on Section 75 health partnerships. As at month 2, although we note that the £21m savings package is reported to be largely on track, there exists a significant risk to the overall achievement of the 2015/16 budget, which of itself is significant to bridging the total budget gap over the next five years set out in the MTFS.

As a result of its high costs relative to others, the difficulties experienced in fully delivering VFM savings targets in 2014/15 and the size of the budget gap faced over the next five years there is a recognition that the Council needs to change more radically. In light of this the Council decided in July 2015 to implement a four year integrated service and financial planning process covering the period 2016/17 to 2019/20. The explicit intention of doing so is to recognise the greater scale of change and associated time scales, and also provide a clearer indication of how far the Council has been able to identify strategies to address the budget gap over the period of the MTFS. This effectively moves the Council's medium term financial planning from a simple resource projection to a more detailed medium term budget plan. The movement to a four year planning cycle will require individual services to consider more fundamental questions about service delivery:

- ▶ Whether or not the Council should be providing the service at all.
- ▶ If the service should be provided, how it should be delivered i.e. in-house, as a shared service, out-sourced or through a mixed approach.

This is the first time at the Council that service and financial planning has been on a four year cycle and the first time that potential service decommissioning in this way has been considered as an option.

This does demonstrate an acceptance of the need for more radical change to retain the financial resilience of the Council, but it is too early to judge whether these revised

Significant risks: Failure to make changes to secure longer term financial resilience.

arrangements will be successful in bridging the budget gap.

The progress made on i360 project including the integration of financial projections in the Council's overall medium term financial plans

The Council entered into an agreement in July 2014 whereby it borrowed £36 million to allow private sector partners, Brighton i360 Limited (i360 Ltd), to build a viewing tower and visitor attraction on a site at West Pier.

i360 Ltd has taken a lease over the land on which the i360 attraction is being built from the West Pier Trust. To enable this single lease to be granted the Council surrendered its lease of two parcels of land either side of the original Pier structure to the Trust and, once the attraction is completed, the Trust will grant a new lease to the Council of land to replace that surrendered. The Council, as Senior Lender, has security over the land and other assets of Brighton i360 Limited (i360 Ltd) in the form of a fixed and floating charge and step in rights if required, which would allow it to take over the i360 and the lease and if need be to sell it on.

The Council agreed to borrow the £36m from the Public Works Loan Board (PWLB) to lend on to i360 Ltd to build the tower. Under the deal entered into by the Council it will borrow and lend on a total of £36.2 million which represents 78 per cent of the total estimated costs of the project. The period of the proposed loan is 27 years, which is approximately half the expected life of the i360. The remainder of the capital funding (£10m) will come from Junior loan from the Local Enterprise Partnership (LEP) (£4.0 million) and equity from Marks Barfield and associates (£6.0 million). The size of the senior loan made by the Council is significantly greater than originally planned and made for a longer period of time. There is an acceptance that this increases the level of financial risk faced by the Council.

The Council also hopes to secure one off and recurrent income from the agreement in the form of a 'risk premium' added to the cost of borrowing charged on to i360 Ltd, a small share of income from ticket sales and up-front arrangement and commitment fees charged to i360 Ltd. The loans to the Council are not secured, however as senior lender the loan agreement with Brighton i360 gives the Council the following security:

- ▶ Payments to the Council are a first call on all net income generated by the i360.
- ▶ Cash generated by the i360 will be set aside in reserves to act as a buffer against potential future shortfalls in income used to make payments to the Council.
- ▶ If certain financial ratios set out in the loan agreement fall below specified levels then various actions are triggered to improve the financial performance of the i360 in partnership with the LEP.
- ▶ The Council also has step in rights to appoint a new operator or run the i360 itself under certain circumstances.
- ▶ The Council has first call on all the assets of Brighton i360 should the project fail.
- ▶ The Council's modelling suggests that i360 can afford to make full payments to the Council covering both the repayments to the PWLB and the annual income due to the Council over and above the loan repayments even if visitor numbers are 40 per cent below the forecast level.
- ▶ The Council also anticipates it will receive a range of other financial benefits linked to the i360 including additional business rates, rents and extra income from car parking which, when taken with the margin built into the agreement, could generate a new income stream of over £1.5 million per annum.

As part of our audit of the financial statements we have considered the accounting arrangements and in-year financial transactions relating to the i360 development. We are satisfied that the arrangement has been accounted for appropriately and in accordance with our expectation in the financial statements. Potential issues around the legality of the agreement, for example compliance with rules on State Aid and council trading activity, have all been properly considered in developing the contractual

Significant risks: Failure to make changes to secure longer term financial resilience.

arrangements.

We are satisfied that both one-off and recurrent revenue arising from the arrangement have been considered as part of budget projections in the MTFS. Further additional income forecast from increased NNDR revenues and additional parking revenues has not been factored into financial planning, but these amounts are neither guaranteed or significant to the Council overall.

The Council as senior lender has first call on the assets and can exercise step in rights should the project be significantly less successful than anticipated. This is a key area of financial risk to the Council. Should the project not be commercially successful there is a risk as to whether the market value of the assets would be sufficient to cover the costs of the borrowing if the project were to fail. It is also not clear that the Council, even working in partnership with the LEP, would have sufficient expertise to manage and improve the financial performance of a financially challenged visitor attraction. The accuracy of the independent assessment of the future financial viability of the scheme, based on the projected number of future visitors, is therefore key to the level of future risk.

The i360 development is also intended to be of greater benefit to the Council and its residents as part of its wider plans for Seafront redevelopment. The Seafront is regarded as of vital importance to the tourism industry and plays a major role in attracting business visitors and the promotion of the wider city region. It is intended that the i360 will support the delivery of the Council's Seafront Strategy including making best use of the remaining seafront development sites and ensuring they deliver balanced, high quality development which meet the needs and aspirations of the city. The success of i360 is therefore key to the Council's continuing ambitious Seafront plans to deliver a major new conferencing and events venue for Brighton & Hove on the Black Rock site next to the Marina. At the same time, with Standard Life Investments, The Council is also exploring the potential for an expansion of Churchill Square shopping centre taking advantage of the opportunity provided by relocating The Brighton Centre.

Considering all of this we do not have any significant VFM concerns at this stage with the i360 development.

In considering the Council's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness we identified:

- ▶ There is a cumulative budget gap of approximately £60 million (assuming an annual Council Tax increase of two percent) over the three years 2015/16 to 2017/18, rising to £92 million over the five years to 2019/20, forecast in the Council's Medium Term Financial Strategy (MTFS). Without an increase in Council Tax, the five year budget gap would be £102 million.
- ▶ Unless the budget gap forecast in the MTFS is closed the Council would fully exhaust its usable reserves by the end of 2017/18 (assuming no increases in Council Tax).
- ▶ Review of comparative information on costs suggests that the Council remains high cost per capita overall relative to comparable authorities, and is high cost compared to others in key high spend, demand-led service areas such as adult social care, children's services and housing. This finding is consistent with our findings in previous periods.
- ▶ Although the Council did deliver to budget in 2014/15 there was a reduction in usable reserves of approximately £10 million, to approximately £76 million, noting that only approximately £2.4 million of this movement comes from a reduction reserves that were previously earmarked and available to support the general fund. The use of risk provisions of £2.1 million and other one-off corrective actions was required to deliver against budget in 2014/15.
- ▶ The Council, for the first time, did not fully deliver its VFM programme savings targets in 2014/15. Delivery was approximately 39 per cent under target (approximately £6.1 million against a target of £9.9 million).

- ▶ As at month 2 of 2015/16, the Council is forecasting a financial budget delivery risk of £8.7 million on the General Fund and £0.7 million on Section 75 health partnerships.

In our view, the Council has therefore not yet made sufficient progress in identifying the savings required to demonstrate its ability to secure a stable financial position over the medium term. Therefore, we have concluded that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015 except for arrangements for securing financial resilience.

5. Control themes and observations

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

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

5.1 Current year observations

As part of our 2013/14 audit results report we noted that the Council had experienced significant difficulties with its security carrier contract for cash collection and the value of cash in transit at the end of 2013/14 was approximately £2.2 million. We reported that delays in the banking of cash collected on behalf of the Council by the contractor had continued into 2014/15, and the Council had terminated the contract with the security carrier on 2 August 2014.

Subsequent to the issue of our 2013/14 audit results report the contractor entered administration during 2014/15. The Council is an unsecured creditor of the company and was ultimately owed approximately £3.2 million. The Council continues to actively seek to recover this money, but it is not yet clear whether, after taking into account the costs of company administration/liquidation, any funds will be available to be shared among unsecured creditors. Internal Audit, supported by external consultants, is carrying out a review to determine whether improvements to the Council's procurement processes and decision making could minimise financial risks of this nature in the future. We are satisfied that this issue has been accounted for appropriately in the Council's 2014/15 financial statements.

5.2 Status of previous year's recommendations

As part of our work we followed-up the progress the Council has made in implementing recommendations agreed as part of our 2013/14 audit results report.

| 2013/14 finding and recommendation | Impact |
|---|---|
| <p>Housing Leases</p> <p>Based on our review of leases for temporary accommodation we found:</p> <ul style="list-style-type: none"> ▶ Weaknesses in the Council's arrangements for the signing and sealing of leases. ▶ Weaknesses in record keeping for leases. Specifically the Council was not able to show that it was able to locate a significant minority of the leases considered by our work. ▶ A lack of consistency and clarity in lease terms and conditions across similar lease arrangements. <p>Our testing of other disclosures in the financial statements relating to the Council as lessor identified some further weaknesses in lease documentation and record keeping.</p> <p>Based on this we recommended the Council</p> | <p>The following actions have now been implemented:</p> <ul style="list-style-type: none"> ▶ Legal Services has reviewed and improved the arrangements for signing, sealing and document storage. ▶ The Council's procurement team now operate a specific procurement process for temporary accommodation. ▶ Improvements in practice in relation to leases have been implemented within the Temporary Accommodation Team. |

2013/14 finding and recommendation**Impact**

should improve documentation and internal control over leases having regard to the specific weaknesses in arrangements identified by both our review, and the findings from relevant Internal Audit work.

Related party transactions – members

We concluded that the Council's arrangements for the identification and disclosure of related party interests and transactions are reasonable overall. However, as part of our work we noted that the disclosure of related party interests for members is informed primarily by review of the members' register of interests. The Council was reliant on members keeping this information up to date. Quarterly reminders were issued, but there was no routine annual circularisation of members to check that the information is accurate. Our review of the members register of interest highlighted some out of date information. We noted, however, that the committee based system of decision making at the Council does offer some mitigation against the risk of any one member having significant influence over operating decisions taken by the Council.

Based on this we recommended the Council should continue to improve arrangements to identify material related party transactions with members. Specifically we asked the Council to consider whether active circularisation of members would provide a better level of assurance in this area.

Our work during the 2014/15 audit has shown that the Council has made improvements to its processes in this area. The Council has actively circularised members on a quarterly basis to gain confirmation that existing related party declarations remain correct. It has also reviewed internal appointments of members to external bodies to check the accuracy and completeness of related party relationships disclosed by members.

Debtors

Our testing identified the Council has repeatedly raised and cancelled a £1 million invoice relating to the lessee of Shoreham Airport. This had been done as a mechanism to enforce the lessee to carry out its obligations under the terms of the lease agreement. There was no debt due to the Council unless the lease condition is not met. We are satisfied that the amount raised was cancelled by a credit note at the end of the year, does not appear as part of year end debtors and therefore is correctly excluded from the financial statements. However, the invoice been re-raised in the new financial year.

In light of this we recommended that the Council should reconsider its current approach of raising and cancelling an invoice where it does not expect to collect a cash debt due to it.

Based on our work we are satisfied that this approach is no longer followed by the Council. The £1 million debt is accounted for in the Council's financial statements but the cost of potentially failing to collect the debt has been fully provided for.

5.3 Challenges for the coming year

2014/15 has been a challenging year for the Council and it is currently working to recruit both a new Chief Executive and Executive Director of Finance & Resources. Addressing the financial pressures faced by the Council, and identifying savings to bridge the budget gap it currently faces over the medium term, continues to be its main area of challenge.

The following national issue on Highway Network Assets is also relevant to the Council.

| Description | Impact |
|--|---|
| <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> | <p>CIPFA have produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015)</i>.</p> |
| <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> | <p>The Council is aware of the challenges this presents and is developing arrangements to meet the new requirements. Specific challenges will include being able to demonstrate the completeness of base information and the need to ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally.</p> |
| <p>Relevant assets may also be held outside of the highways department e.g. within the Housing Revenue Account, which will also have to be valued on the revised basis.</p> | |
| <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p> | |

6. Status of our work

6.1 Financial statement audit

Our audit work for our opinion on the Council's financial statements is complete. The following items were outstanding at 9 September.

| Item | Actions to resolve | Responsibility |
|------------------------------|--|--|
| Letter of representation | To be tabled at Audit & Standards Committee on 22 September 2015. | Management and Audit & Standards Committee |
| Statement of Accounts | <ul style="list-style-type: none"> ▶ Incorporation of EY amendments ▶ Accounts authorised for issue by CFO | Management, Audit & Standards Committee and EY |
| PPE valuation | The Council is continuing to undertake work to consider whether it was appropriate to apply indexation to the buildings valued at depreciated replacement cost (DRC). Its initial approach was to undertake actual revaluations for 61 out of 399 buildings assets valued at DRC. This highlighted inconsistency in the change in value for assets subsequent to the last revaluation. As a result the Council has decided to undertake full revaluations of its remaining building assets valued at DRC with a gross book value of over £1 million. This work remains ongoing at 9 September. Further amendments to the financial statements may be made depending on the results of this work. | Management and EY |
| Whole of Government Accounts | We are undertaking the procedures required by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts (WGA) purposes. | Management and EY |

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

6.2 Economy, efficiency and effectiveness

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

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

6.3 Objections

As at 9 September we have received no objections to the 2014/15 accounts from members of the public.

7. Fees update

A breakdown of our fee is shown below.

| | Proposed final fee 2014/15 £'000 | Planned fee 2014/15 £'000 |
|-------------------------------------|---|---------------------------------|
| Total Audit Fee – Code work | TBC | 210,330 |
| Certification of claims and returns | TBC* | 18,530 |

Our final fee will depend on the amount of additional time taken to conclude the ongoing work on asset valuation set out in Section 6.1 of this report.

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

**Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in January 2016 within the Annual Certification Report for 2014/15.*

8. Summary of audit differences

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

We determined planning materiality to be £11.6 million (2014: £7.7 million), which is 1.5% of gross expenditure of services reported in the accounts of £775.2 million, adjusted for items of recurrent expenditure accounted for in the Council's reported surplus on the provision of services. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We set our tolerable error for the audit at the upper end of the available range. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set tolerable error at this level as a result of no material errors being detected in our audit of the prior year financial statements.

We agreed with the Audit & Standards Committee that we would report to the Committee all audit differences in excess of £0.581 million (2014: £0.387 million) and these are included in our summary of misstatements below.

8.1 Uncorrected misstatements

As at 9 September there are no uncorrected misstatements resulting from our work. A small amount of work remains outstanding as set out in Section 6.1 of this report.

8.2 Corrected misstatements

We highlight in particular the following misstatements identified during the course of our audit and which have been corrected by management that were individually greater than £0.581 million.

- ▶ Brighton Aldridge Community Academy and Portslade Aldridge Community Academy are currently accounted for on the Council's balance sheet as it continues to control the assets. Depreciation on the assets had been disclosed as expenditure in the children's & education services line of the Consolidated Income and Expenditure Statement (CIES). This was not correct as in both cases the education service is provided by the academy with no input from the Council. The Council has amended the CIES to disclose depreciation charged on the assets outside of the cost of services. The impact of the adjustment was approximately £1.6 million in 2014/15 and £1 million in 2013/14 (the prior year comparative).

Net adjustments of approximately £32.6 million have been made to the disclosure of the prior year capital assets charges accounting adjustment calculated in accordance with the Housing Revenue Account Item 8 credit and Item 8 debit determination disclosed at Note 30 to the financial statements. The format of this note has been changed to improve the accuracy of this disclosure but this has no effect on the Housing Revenue Account Income and Expenditure Statement or reported financial performance or position of the Council.

The carrying value of land valued at depreciated replacement cost has been increased by approximately £10.1 million. This impacts on the value of property, plant and equipment disclosed on the face of the Balance Sheet and at Note 9 to the financial statements. As at 9 September further amendments may be required to the carrying value of buildings assets valued at depreciated replacement cost.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated February 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Standing Guidance: 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. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Audit & Standards Committee on 22 September 2015.

Appendix A Required communications with the Audit Committee

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

| Required communication | Reference |
|--|--|
| Terms of engagement | The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. |
| Planning and audit approach Communication of the planned scope and timing of the audit including any limitations. | Audit Plan |
| Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters, arising from the audit that were discussed with management ▶ Written representations we are seeking ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process | Audit results report |
| Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant | Audit results report |
| Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information we have obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud | By correspondence with the Chair of the Audit & Standards Committee dated 17 March 2015 Audit results report |
| Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report. No significant matters identified. |
| External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | Management has not refused for us to request external confirmations. |

| Required communication | Reference |
|---|--|
| <p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit 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 | <p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to managements and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p> |
| <p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence | <p>Audit Plan and update in section 9 of this report</p> |
| <p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | <p>Audit results report</p> |
| <p>Significant deficiencies in internal controls identified during the audit</p> | <p>Audit results report</p> |
| <p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). | <p>Audit Plan and Audit results report</p> |
| <p>Summary of certification work undertaken</p> <ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken | <p>Annual Certification Report – to be issued January 2016.</p> |

Appendix B Letter of representation

To:

Paul King
Executive Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Brighton & Hove City Council - Audit for the year ended 31 March 2015

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 2015:

A. Financial Statements and Financial Records

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

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

I confirm that as the Responsible Officer I have:

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

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

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

B. Fraud

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

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

We 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, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the Council financial statements. We 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 Council 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: 22 September 2015.

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

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

E. Liabilities and Contingencies

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

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

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

F. Subsequent Events

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

G. Accounting Estimates

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

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

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

H. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our 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 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. Comparative Information

We have amended comparative information of the Balance Sheet and Note 9 Non-Current Assets to correct a previous error relating to the valuation of two assets. The correction has a value of £xm.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

L. Specific Representations

There have been no significant changes to the Council's Private Finance Initiative schemes during 2014/15 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 22 September 2015

Signed:

Name: Rachel Musson

Position: Interim Executive Director Finance & Resources

Date: 22 September 2015

Signed:

Name: Ann Norman

Position: Chair, Audit & Standards Committee

Date: 22 September 2015

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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| | | | |
|--------------------------|--|--|---------------------|
| Subject: | Audited Statement of Accounts 2014/15 and Annual Governance Statement | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Executive Director of Finance & Resources | | |
| Contact Officer: | Name: | Jane Strudwick | Tel: 29-1255 |
| | | Graham Liddell | 29-1323 |
| | Email: | jane.strudwick@brighton-hove.gov.uk | |
| | | graham.liddell@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report provides information about the audit of the council's 2014/15 Statement of Accounts and recommends approval of the 2014/15 audited accounts and the Letter of Representation on behalf of the council. It also provides information about additional disclosure in the Annual Governance Statement.
- 1.2 Under the Accounts and Audit Regulations 2011, the council's accounts for 2014/15 must be approved by Members by the 30 September 2015. Under the council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 1.3 The council's external auditors (Ernst & Young LLP (EY)) are required to give assurance that the accounts are free from material misstatement and to report significant matters arising from the audit.
- 1.4 EY has conducted its audit of the accounts and has identified misstatements (i.e. all audit differences in excess of £0.581 million) prior to issuing their opinion and the publication of the accounts in respect of the non-current assets of Brighton Aldridge Community Academy and Portslade Aldridge Community Academy and the disclosure of the prior year Housing Revenue Account capital assets charges accounting adjustment calculated in accordance with the Item 8 credit and Item 8 debit determination.
- 1.5 At the time of writing this report there was an outstanding audit issue in respect of the valuation of property, plant and equipment assets which requires further investigation; officers will update the committee verbally at the meeting.
- 1.6 This report presents the revised 2014/15 accounts following the audit. It outlines the amendments made to the accounts since they were presented to the June committee and provides assurances in relation to the preparation of the accounts. It also provides information regarding the summary accounts and

informs the committee of the outcome of the public inspection of the accounts. Copies of the revised accounts are available in the Members' rooms.

- 1.7 Following the approval of the Annual Governance Statement on the 23 June 2015, there have been some changes to this document. The revised Annual Governance Statement is attached at Appendix 5.

2. RECOMMENDATIONS:

It is recommended that the Audit & Standards Committee:

- 2.1 Notes the findings of EY in their Audit Results Report (ARR). The ARR is a separate item on this agenda.
- 2.2 Notes the outcome of the asset revaluation audit issue and any related misstatement or adjustment to the 2014/15 accounts (paragraph 6.3 and Appendix 4).
- 2.3 Notes the results of the public inspection of the accounts (Section 9).
- 2.4 Approves the Letter of Representation on behalf of the council (Appendix 1).
- 2.5 Approves the audited accounts for 2014/15.
- 2.6 Note the updated Annual Governance Statement.

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 Clearly, local authority accounts are not viewed from a commercial perspective, for example, in terms of an authority's attractiveness for possible merger or acquisition. However, local authorities are viewed in terms of their financial resilience, effective financial management and general viability (going concern). The purpose of the accounts therefore 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 2014/15?
 - Where did the money come from?
 - What does the council own?
 - What commitments does the council have and what provisions and reserves has the council set against these?
 - What amounts were due and what was owed at the end of the financial year?
- 4.2 In accordance with the Accounts and Audit Regulations, the accounts include:
- an explanatory foreword;
 - a statement of responsibilities;
 - the core financial statements (Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement);
 - supplementary statements (Housing Revenue Account and Collection Fund);
 - the notes to the accounts; and,
 - accounting policies.
- 4.3 The explanatory foreword aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2014/15 accounts is included in Appendix 3 to this report.
- 4.4 The statement would normally comprise both "Single Entity Accounts", which are in respect of wholly council controlled activities, and "Group Accounts" in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, there are no activities requiring the preparation of Group Accounts in 2014/15.
- 4.5 EY has completed their work on the audit of the accounts and will be reporting their findings to this Committee through the ARR. Following this report, EY will be able to issue their audit opinion and the accounts will be published.

5. PREPARATION OF THE STATEMENT OF ACCOUNTS

- 5.1 As reported to the June committee, the council is required to prepare its accounts on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2014/15 accounts cover the period 1 April 2014 to 31 March 2015. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2014/15 accounts are in line with the requirements of the Code.
- 5.2 As reported to the June Committee, there have been two key changes in the 2014/15 accounts in respect of the accounting standards relating to group accounts and the reporting requirements of schools transactions and recognition requirements of non current assets for local authority maintained schools (including voluntary aided schools). The main changes are summarised in Appendix 2 to this report.
- 5.3 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken extensive training on the requirements for

preparing local government accounts. Finance officers who are involved in the preparation of the accounts attend regular training to ensure an up to date knowledge and continuous professional development.

- 5.4 Officers have made reference to CIPFA's practitioner's guidance notes, disclosure checklists and other technical guidance in preparing the accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the accounts, with EY over the proposed accounting treatment of the key changes affecting the 2014/15 accounts.
- 5.5 In preparing the accounts, the council makes a number of critical judgements, accounting estimates and assumptions; the details are disclosed in note 3 to the accounts.
- 5.6 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers within Finance. Following this review, the accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review formed part of the working papers produced for EY.
- 5.7 During the accounts audit process, officers liaised closely with EY in respect of audit queries and worked closely to ensure prompt and successful resolution of these queries. During the audit of the 2014/15 accounts, there have been no disputes between council officers and EY in relation to the required amendments to the accounts.

6. AUDIT OF THE STATEMENT OF ACCOUNTS 2014/15

- 6.1 EY has completed the audit of the council's accounts and their Audit Results Report (ARR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.
- 6.2 During the course of the audit, EY identified misstatements (i.e. all audit differences in excess of £0.581 million) prior to issuing their opinion and the publication of the accounts in respect of the non-current assets of Brighton Aldridge Community Academy and Portslade Aldridge Community Academy and the disclosure of the prior year Housing Revenue Account capital assets charges accounting adjustment calculated in accordance with the Item 8 credit and Item 8 debit determination. EY also detected a relatively small number of other presentation and disclosure errors in the financial statements. All misstatements identified from the audit have been discussed and agreed with council officers and amendments have been made to the financial statements for all identified misstatements. Details of these amendments are included in Appendix 4 of this report.
- 6.3 It should be noted that at the time of writing this report there was an outstanding audit issue in respect of the valuation of property, plant and equipment assets which requires further investigation officers will update the committee verbally at the meeting.
- 6.4 A small number of amendments were made to the draft Annual Government Statement so that it reflected significant events after the end of the reporting

period and all significant issues faced by the council during the year. The updated Annual Government Statement is included in Appendix 5 of this report.

7. SUMMARY OF ACCOUNTS

- 7.1 Each year, the council produces a summary version of the accounts which aims to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main accounts. The Summary of Accounts will be published on the council's website alongside the 2014/15 accounts.

8. ANNUAL GOVERNANCE STATEMENT

- 8.1 The Annual Governance Statement at Appendix 5 has been updated to reflect the comments of the Audit and Standards Committee on 23 June 2015 and to note that the council's Chief Executive, Penny Thompson, stepped down from her role on 30 June 2015.

9. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

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

10. COMMUNITY ENGAGEMENT AND CONSULTATION

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

11. CONCLUSION

- 11.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2014/15 accounts should be approved by Members by the 30 September 2015 and published by the same date.
- 11.2 EY have carried out their audit of the 2014/15 accounts and have reported their findings and recommendations arising from the audit of the accounts as a separate item on this agenda.

- 11.3 The main changes resulting from the audit are included in this report to ensure members are aware of the changes to the accounts agreed with EY prior to the approval of the accounts.

12. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: Jane Strudwick Date: 08/09/15

Legal Implications:

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

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

Lawyer Consulted: Elizabeth Culbert Date: 10/09/15

Equalities Implications:

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

Sustainability Implications:

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

Other Significant Implications:

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

SUPPORTING DOCUMENTATION

Appendices:

1. Letter of Representation
2. Summary of the main changes for the 2014/15 accounting period
3. Commentary on the Accounts
4. Details of amendments made to the Accounts (above the tolerable error level notified by EY of £0.581 million)
5. Revised Annual Governance Statement

Documents in Members' Rooms

1. Statement of Accounts

Background Documents

None

Letter of Representation

Paul King
Executive Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Brighton & Hove City Council - Audit for the year ended 31 March 2015

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 2015:

A. Financial Statements and Financial Records

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

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

I confirm that as the Responsible Officer I have:

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

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

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

B. Fraud

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

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

We 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, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the Council financial statements. We 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 Council 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: 22 September 2015.

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

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

E. Liabilities and Contingencies

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

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

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

F. Subsequent Events

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

G. Accounting Estimates

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

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

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

H. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our 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 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. Comparative Information

We have amended the comparative information in Note 30 HRA Item 8 Credit and Item 8 Debit (General) Determination to correct interest payable as a debit rather than a credit, the exclusion of interest receivable and debt management costs, and the inclusion of revaluation gains. Overall the note has reduced by £31.8 million which is a disclosure adjustment only.

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements has also been included in the current year's financial statements.

L. Specific Representations

There have been no significant changes to the Council's Private Finance Initiative schemes during 2014/15 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 22 September 2015.

Signed:

Name: Rachel Musson

Position: Interim Executive Director Finance & Resources

Date: 22 September 2015

Signed:

Name: Ann Norman

Position: Chair, Audit & Standards Committee

Date: 22 September 2015

Summary of the main changes for the 2014/15 accounting period

Group Accounts Accounting Standards

There has been a change to the accounting standards in respect of group accounts which had to be fully adopted by the council for the 2014/15 accounts.

Officers undertook a comprehensive review of the council's relationships with other entities during the financial year to assess whether or not any group relationships existed as defined by the accounting standards. If any relationships had been found, it would have been necessary to produce consolidated group accounts within the council's 2014/15 accounts. However, the review concluded that there were no relevant relationships.

Schools Transactions and Non Current Assets

The Code consolidated the reporting requirements of schools transactions and recognition requirements of non current assets for local authority maintained schools (including voluntary aided schools). This had the potential to impact on the presentation and accounting treatment applied by the council to schools in the 2014/15 accounts. Officers undertook a review of the revised requirements and determined that no changes to the treatment of these transactions in the council's accounts were required. However, a new accounting policy has been included in the accounts for schools transactions to clarify the accounting treatment applied by the council.

Review of Accounts

As part of the 2014/15 accounts closure process, officers have commenced a review of the accounts with the aims of improving the presentation, removing duplication and immaterial items, and aiding the understanding of the reader of the accounts. The following changes have been made to the 2014/15 accounts:

- the core financial statements and supplementary financial statements are now presented together;
- the disclosures for the Housing Revenue Account are now consolidated into the relevant disclosure notes rather than in a separate section;
- disclosures on the operating segments of the council i.e. how the council reports on its services internally (i.e. Targeted Budget Management (TBM) monitoring) are now presented directly after the Comprehensive Income and Expenditure (CIES) Statement with the aim of making a clearer correlation between the reporting of services internally by the council and the Code's reporting requirements in the CIES;
- disclosures on reserves are now presented together under each grouping of reserve;
- disclosures on non current assets are now presented in one disclosure note.

Officers will continue with this review for the 2015/16 accounts.

Commentary on the Accounts

Balance Sheet (BS)

The Balance Sheet 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 £2,143.160 million as at 31 March 2014 to £2,246.830 million as at 31 March 2015. The in year movement in non current assets is detailed in notes 16 to 20 to the core financial statements. The movement of £103.670 million relates to the following:

- An increase of £58.610 million in respect of capital expenditure incurred on to Property, Plant & Equipment (PPE), heritage assets and intangible assets which reflects the significant capital investments made;
- PPE and heritage assets upward revaluation transactions of £119.210 million;
- Depreciation, impairment and revaluation losses transactions of £71.545 million;
- Upward movement in the fair value of investment properties of £0.923 million;
- Disposal of non-current assets of £3.528 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 2015, the council's level of borrowing (including the bank overdraft) was £219.336 million, an increase in the year of £3.822 million. The council has raised new loans of £9.831 million and repaid £3.941 million during 2014/15. Note 11 to the accounts provides further information on borrowings.

Investments

At 31 March 2015, the council held investments of £69.978 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 decreased in year by £7.854 million. The council has placed new short term investments of £606.488 million in 2014/15 and has realised cash from the maturity of short term investments of £614.596 million. Note 11 to the financial statements provides further information on investments.

Pension Liability

The estimated pension liability (net of pension assets) for future pension payments increased in 2014/15 by £95.807 million from £266.715 million at 31 March 2014 to £362.522 million at 31 March 2015.

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

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

Details of the Pension Liability can be found in note 24 to the financial statements.

Provisions

Provisions have been made in the accounts for liabilities existing at the 31 March 2015 that are reasonably certain and can be estimated with reasonable accuracy. Significant provisions are included for the following:-

- Accumulated Absences – The council is required to make provision for accumulated compensated absences (e.g. annual leave and 'flexi' leave entitlements) that are carried forward for use in future periods if the current period's entitlements are not used in full. The provision as at 31 March 2015 is £3.850 million.
- Voluntary Severance Scheme Provision – The council has made provision in the 2014/15 accounts to meet the costs of expected severance packages resulting from a review of the staffing impacts of approved savings. The provision as at 31 March 2015 is £1.246 million.
- Business Rates Appeals Provision - The council has made provision for its share of the amount that it anticipates to repay ratepayers in the future following successful appeals against the rating lists. The provision as at 31 March 2015 is £1.477 million.

Reserves

The council holds two categories of reserves:

- Unusable Reserves – these reserves derive from accounting adjustments and are not available to the council to use to provide services. They include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences between what is required from a statutory accounting perspective to be charged to the General Fund and HRA balance and what is required to be funded from council tax, locally retained non domestic rates and general grants. These reserves include the revaluation reserve, pension reserve and the capital adjustment account. The level of unusable reserves as at 31 March is £1,566 million. Note 7 to the accounts provides further information on unusable reserves
- Usable Reserves – these reserves can be used by the council to provide services and/or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. These reserves include the General Fund and HRA working balance, general reserves, capital reserves relating to capital receipts and capital grants received which have not yet been utilised and specific reserves which have been set aside by the council for specific purposes.

The level of General Fund working balance and general reserves held at 31 March 2015 was £10.467 million. The level of working balance and general reserves deemed appropriate by the council's Chief Finance Officer is £9 million; the balance of funds held at 31 March 2015 has already been committed by the council. In addition, there are also General Fund earmarked reserves of £44.821 million as at 31 March 2015.

The level of HRA working balance now stands at £5.229 million, which is in excess of the recommended minimum level of balances of £2.9 million. In addition, there are also HRA earmarked reserves of £1.919 million. The HRA reserves are ringfenced for council dwelling provision.

Notes 6 and 8 to the accounts provide further information on usable reserves.

Usable reserves and provisions are reviewed during budget setting and the accounts closure to ensure that there is both the ongoing requirement for funds to be set aside and that the levels are appropriate.

Collection Fund

The Collection Fund is a separate fund recording the expenditure and income relating to council tax and non domestic rates.

As at 31 March 2015, there was a surplus of £0.640 million on the Collection Fund in respect of council tax and a surplus of £7.103 million in respect of non domestic rates.

Details of Amendments to the Accounts (above the tolerable error level notified by EY of £0.581 million)

Non-Current Assets relating to Brighton Aldridge Community Academy and Portslade Aldridge Community Academy

The council currently accounts for the non current assets relating to Brighton Aldridge Community Academy and Portslade Aldridge Community Academy on its Balance Sheet as it continues to control the assets. Depreciation of £1.6 million on the assets had been disclosed as expenditure in the Children's & Education Services line of the Consolidated Income and Expenditure Statement (CIES); however, in both cases the education service is provided by the academy with no input from the council therefore the depreciation on these assets should have been accounted for outside of the cost of services under other operating expenditure in the CIES. There has been no impact on the resources available to the council.

Capital assets charges accounting adjustment calculated in accordance with the Housing Revenue Account Item 8 credit and Item 8 debit determination

Net adjustments of £32 million have been made to the disclosure of the prior capital assets charges accounting adjustment calculated in accordance with the Housing Revenue Account Item 8 credit and Item 8 debit determination disclosed at note 30 to the financial statements. The format of this note has been changed to improve the accuracy of this disclosure; however, this has no impact on the reported HRA assets or liabilities or reported financial position of the council.

Events after the Reporting Period

The following event after the reporting period has been included in respect of the council's Chief Executive leaving the council's employment:

"The council's Chief Executive and Head of Paid Service, Penny Thompson, stepped down and left the council's employment on 30 June 2015. Remuneration for 2014/15 is disclosed in note 22 to the financial statements. Termination benefits including exit packages are disclosed in note 23 but do not include those payable in this case as the termination occurred after the balance sheet date. Remuneration for Penny Thompson from 1 April to 30 June 2015 was £310,069 including salary of £63,584 (incorporating payment for returning officer duties of £26,084), compensation for loss of office of £234,404, and pension contributions of £12,081. The total cost of her exit package paid after 1 April 2015 was £274,129 including the compensation for loss of office payment of £234,404".

Annual Governance Statement 2014/15

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

The Purpose of the Governance Framework

5. Governance is about how the council ensures that it is doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.
6. The governance framework comprises the systems and processes, culture and values by which the council is directed and controlled, and through which it is accountable to, engages with and leads the community. It enables the council to monitor the achievement of its strategic objectives as set out in the Corporate Plan 2011 - 2015, and to consider whether those objectives have led to the delivery of appropriate, cost effective services. The council's Corporate Plan has been updated for 2015 - 2019 and continues to reflect the council's corporate values.
7. The governance framework is designed to manage risk to a reasonable level, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework

8. The governance framework has been in place at the council for the year ended 31 March 2015 and remains extant.
9. Maintaining the governance framework is an on-going process, and one to which the council is committed in order to ensure continual improvement and organisational learning. This is evidenced by the council commissioning an organisational learning review in February 2015 (for reporting in July 2015) after a senior member of staff, the head of housing, was dismissed. The council investigated the circumstances involved and what lessons need to be learnt. Immediate action was taken but the investigations highlighted a number of organisational issues relating to governance which the council needs to respond to including procedures, accountability, working environment and culture.
10. The key elements of the systems and processes that comprise the council's governance arrangements are shown below together with explanations of how they are embedded.

Council's Purpose, Vision, Values and Performance Management

11. During 2014/15 the council has been developing and strengthening work on new delivery models for public service reform and the additional responsibilities from new legislation. As part of its delivery of the Modernisation outcome, the council has set up a 'Good Governance & Leadership Programme' sponsored by the Head of Law and supported by relevant officers. Sixteen workstreams are identified within that programme including:

- Update of the Member Code of Conduct
- Update and re-launch the Whistleblowing Policy and ensure the database is fit for purpose
- Complete the Multi-agency Integrated Working Guidance
- Establish a Member Procurement Advisory Board to make business orientated commercial decisions
- Update the Scheme of Authorisation
- Review Officers' Governance Board (OGB)

The council continues to review its governance structures and systems to support its on-going modernisation and to ensure that it is well positioned to deliver its new responsibilities effectively.

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

Our purpose

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

Our ambition

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

Our priorities

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

13. This has been superseded by the Corporate Plan 2015 – 2019, approved by full Council on 26 March 2015.

The Corporate Plan 2015-2019 sets out “our **purpose** to provide strong civic leadership for the well-being and aspiration of Brighton and Hove. We will be successful if we are judged to deliver the following outcomes:

A good life: Ensuring a city for all ages, inclusive of everyone and protecting the most vulnerable.

A well run city: Keeping the city safe, clean, moving and connected.

A vibrant economy: Promoting a world class economy with a local workforce to match.

A modern council: Providing open civic leadership and effective public services.”

The **principles** that will enable delivery of the organisation’s **purpose** are:

- Public accountability
- Citizen focused
- Increasing equality
- Active citizenship

The Corporate Plan also sets out five service **priorities** upon which to focus efforts to meet the organisation’s **purpose**. These are shared with our city partners in *The Connected City* (the Sustainable Community Strategy for Brighton & Hove) and are as follows:

- Economy, jobs and homes
- Children and young people
- Health and wellbeing
- Community safety and resilience
- Environmental sustainability

14. Since 2012/13, the council has incorporated new organisational values (six) as follows into the council’s constitution, codes of conduct for Members and Officers and the Performance Management Framework:

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

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

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

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

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

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

Excellent progress has been made in embedding the council’s values across the organisation and this is evidenced through the council’s achievement of the Silver

Award for Investors in People in March 2015. During which the assessors noted, “There is definitely a step change in how BHCC operates comparing what we see today to what we saw three years ago”.

The council operates an annual staff survey and the results of the survey in 2014 have further demonstrated that the values are clearly evident to our workforce with 74% positive results against the index supporting the impact of the values programme.

15. The council’s ambitious modernisation portfolio of projects and programmes has been in place since 2012 and is led by the Chief Executive.

Modernisation is the council’s portfolio of change management programmes and projects which supports delivery of corporate principles and priorities as outlined in the Corporate Plan. This in turn helps evidence achievement of outcomes in relation to the council’s purpose. Modernisation drives the budget planning process and feeds into the Medium Term Finance Strategy.

One of the modernisation programmes is the Good Governance & Leadership Programme.

16. The Corporate Performance Team, in collaboration with colleagues across the council, has developed a Performance Management Framework consisting of eight elements - business planning and management, risk management, financial management, customer insight, modernisation projects/programmes, people management, health & safety management, quality assurance.

The purpose of this framework is to:

- set out how the council will manage performance in 2015-16
- ensure everyone understands their responsibilities and accountabilities in order to achieve our purpose through delivering the principles and priorities as set out in our corporate plan
- provide a guide for all those involved in the performance management process.

The leadership and culture programme, Living our Values, which is being delivered to all managers across the council strengthens delivery of this performance framework. It has involved a granular approach looking at performance of self, performance of others and performance of service to drive a performance management culture, emphasising accountability and positive use of individual performance impact to deliver outcomes.

Effective performance management ensures the right actions are taken at the right time so that the council can achieve its purpose through delivering the principles and priorities.

The council uses a variety of mechanisms within its overall approach to performance management and service improvement to measure quality of service to users, ensuring service delivery is in accordance with its objectives, and for ensuring the best use of resources. These include key performance indicators, residents’ perceptions, measurable improvements in value for money, benchmarking, identification and management of key risks.

Performance management processes are embedded throughout the council and regularly reported to relevant stakeholders including members in accordance with agreed timescales. Regular reports are produced to compare actual performance against targets to aid decision making.

Members' and Officers' Capacity and Development

17. The success of the council services relies substantially on the contribution of officers to the planning, development and delivery of services. The council recognises that the value of staff contributions will be enhanced through clear communication of the council's expectations, developing staff skills and abilities, providing a safe, healthy, supportive and inclusive working environment.
18. The council is committed to developing the capacity of officers in different ways:
- The council has an on line induction available for all new staff and those who have changed roles recently. The induction programme is a series of short learning modules, which include themes such as; an overview of the organisational structure and services, information on key council and HR policies, such as Annual Leave, Attendance, Code of Conduct, Performance Reviews and important guidelines on how we work with and handle customer data.
 - The council's Performance and Development Planning scheme provides a structured opportunity for a reflective assessment and feedback of progress, success and challenges over the previous six months. This is two-way process, with line managers retaining overall accountability for setting meaningful and measurable objectives, providing feedback on performance, behaviours and the council's values. Required development is identified through this process.
 - A corporate programme of learning and development is available to officers which is commissioned and in part delivered from the Learning and Development Team. The Learning and Development Team also supports mandatory skills training for front line staff, where applicable.
 - Where applicable, officers are also expected to undertake continuing professional development (CPD) of their professions.
 - The council recognised the importance of developing managers and has invested in a mandatory management development programme as part of its wider culture change programme, Living our Values. All existing managers have been offered a place on the programme and it will be a mandatory offering to new managers as part of their induction development.
19. The council has a Member training and development programme which is accredited under the South East Employers' Charter for the Member Development Framework. This starts with an extensive induction and is followed by a generic development programme as agreed by the cross-party Member Development Group (met throughout 2014-15 approximately at each quarter). There is further, more specific, training provided as required (for example for Members serving in Planning, Audit & Standards and Personnel Appeals Panels) as well as bespoke training and development opportunities for Members with special responsibilities, e.g. in addition to the general programme 2014-15, training for Members was provided on Parking Operations and Museums.

Roles, Responsibilities and Behaviour

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

- The council's constitution includes details of the roles and responsibilities of all its committees, the full Council and Chief Officers and the rules under which they operate including protocols.
 - The council's political structure, including roles and responsibilities, are detailed on the council's website.
 - The council's constitution and associated guidance are reviewed regularly to ensure they remain up-to-date, relevant and effective. In 2014/15 there were three such reviews: the Scheme of Delegation to officers; the Code of conduct for Members; and the Scheme of Delegation to Committees (including updated reference to Health & Wellbeing Board Terms of Reference). These helped to update the decision-making process and incorporate the council's values into codes of conduct.
 - The council's Head of Law is the designated Monitoring Officer with responsibilities for ensuring the lawfulness of decisions taken by the council, its committees and officers, providing support and advice on the maintenance of ethical standards and advising the council's Audit & Standards Committee.
21. The officer's Executive Leadership Team (ELT) includes, among its members, the Chief Executive, the Executive Director Finance & Resources (section 151 Officer) and the Monitoring Officer (who all have special responsibilities regarding governance). This ensures leadership of, and support to, good corporate governance at the highest level of the organisation. Other members of ELT include the Executive Directors for Children, Adults and Public Health, the Executive Director Environment, Development & Housing as well as the Assistant Chief Executive. They all bring additional perspectives that support legislative compliance and good governance generally.
 22. The council has adopted a number of codes and protocols that govern the standards of behaviour expected of Members and officers. These are communicated as part of the e-induction process, ongoing awareness training and made available via the council's intranet. These include codes of conduct covering conflicts of interest and gifts and hospitality.
 23. The Audit & Standards Committee remit includes promoting and maintaining high standards of conduct and ethical governance. During 2014/15 the council revised and updated the Code of Conduct for Members and the complaints process to require Complaints Panels to be chaired by an Independent Person and simplify the process. This followed detailed work undertaken by a cross-party working group chaired by an Independent Person.

Communication and Consultation

24. The Community Engagement Framework for the City, introduced by the Brighton & Hove Strategic Partnership (now known as Brighton & Hove Connected) aims to improve the ways in which citizens and communities can influence and shape services through improved communication
25. Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. These include the council Tax leaflet containing budget details, the council's website and social media. The council continued to develop more open and transparent budget consultation during 2014/15 introducing the 'Stop, Start, Change' engagement approach which invited views from citizens, partners and staff as well

as continuing to use an on-line budget literacy tool, a budget animation, and budget consultations with the community.

26. To complement the general rules under the Codes of Conduct for Members and Officers, the council introduced a Social Media Protocol for Members and Social Networking Policy for Employees to address this increasingly important means of communication for individuals and businesses. These documents are published on the council's website and staff intranet respectively.
27. There are a wide range of access channels and opportunities for all parts of the community and key stakeholders to engage in dialogue and consultation. This includes tenants and residents forums and through consultation events and surveys. The council's Corporate Plan and the Annual Statement of Accounts are made available via the council's website and distributed to certain key points across the City.
28. As part of its openness and transparency of decision making, advance notices, agendas, minutes and web-casts are available for council meetings. The council makes available a large amount of information through several means and is also committed to meeting its obligations to give rights of public access to information held, through the Freedom of Information Act 2000 and the wider transparency agenda. All key decision-making meetings of the Council, including full Council, Policy & Resources Committee, Health & Wellbeing Board, Housing Committee, Planning Committee, Environment, Transport and Sustainability committee meetings are webcast. The council has also implemented the open government licence scheme.
29. The council has a Corporate Complaints Procedure which is in line with the Local Government Ombudsman guidance and follows the Statutory Complaints Procedures for Children's Social Care and Adults Social Care. We have an agreed process whereby the Chief Executive, Directors and Heads of Service are regularly updated on the issues of complaint for their areas and are able to drive and monitor improvements in response to customer feedback.

Control Framework, Risk Management and Audit & Standards Committee

30. The council's high-level policies and procedures are updated and regularly communicated to officers and Members. The Good Governance & Leadership Programme specifically recognises this.
31. The principal documents include the council's Financial Regulations and Contract Standing Orders alongside other corporate policies on key governance topics, including Business Planning, Counter Fraud, Information Security, Equalities & Diversity, Health & Safety and Whistleblowing. These documents and related guidance and support are also available to the majority of staff through the council's Intranet site and familiarisation with them is covered through the council's e-induction programme.
32. Risk management is embedded throughout the council and in its partnership working arrangements. The council's Risk Management Strategy 2014-17 was consulted on and approved in January 2014 and sets out an annual programme of risk management activity for each of the three years. During 2014/15, the council and its partners continued to work together to further develop and refresh the City Wide Risk Register and implementation of actions by the city's strategic partnerships.

33. The council's internal audit arrangements are reviewed annually and considered to be effective for 2014/15 conforming to the governance requirements of the Public Sector Internal Audit Standards. The Head of Internal Audit works closely with key members of the Executive Leadership Team and Corporate Management Teams to give assurance and improve the council's financial control framework, give advice and promote good governance throughout the council.
34. The responsibility for investigating Housing Benefit and Council Tax Benefit Fraud transferred to the Department for Work and Pensions (DWP). This has enabled the council to establish a new Corporate Fraud Team focusing on non-benefit related frauds. The team has achieved some considerable successes in 2014/15 including returning 19 council dwellings that had been subject to tenancy fraud to the local authority.
35. The council's Whistleblowing Policy, was reviewed and refreshed during the year and an interim report made to the Audit & Standards Committee in March 2015. A final report was considered by the Audit & Standards Committee at their June 2015 meeting, with onward reporting for approval to Policy & Resources Committee. It aims to encourage officers, contractors and agency workers to report any instances of unlawful conduct, health and safety risks, damage to the environment, possible fraud and irregularities and unauthorised use of council funds. The Policy is available on the council's intranet and website, and provides the mechanisms to raise concerns and receive appropriate feedback without the fear of victimisation.
36. The Head of Health & Safety produced an Annual Report for 2014/15 to demonstrate how the council is operating an effective safety management system and improving standards for the management of health, safety across all services.
37. The Audit & Standards Committee is independent of the council's scrutiny functions and embedded as a key part of the council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice guidance for Audit Committees. The membership is politically proportionate and the Chair is an opposition Member. The Committee also has two Independent Persons with extensive experience and who, under the revised complaints process, chair all Member complaints panels.

Compliance with Established Policies, Procedures, Laws and Regulations

38. All officers of the council have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided as necessary and appropriate induction sessions are carried out. For example, in the important area of Financial Management there is a mandatory e-learning course and follow-up workshop which all Budget Holders must attend.
39. Compliance assessments are carried out by management, auditors and through the work of statutory inspectors, including the Care Quality Commission and Ofsted.
40. The Head of Law (the Monitoring Officer) has overall responsibility for ensuring the council acts lawfully and without maladministration. This includes reporting on any proposal, decision or omission by the council likely to contravene any enactment or rule of law or any maladministration. No such reports were necessary during 2014/15.

Economic, Effective and Efficient Use of Resources

41. As part of the council's modernisation portfolio, it has programmes to deliver modernised services that can achieve substantial efficiency savings and improve value for money. Other objectives include redesigning service delivery to maintain or improve user satisfaction, support the council's priorities, and also reduce the cost of provision where possible. Other cross-cutting objectives including reducing contract costs, increasing income, and growing the domestic and non-domestic taxbases given the significant financial challenges as a result of reductions in central government funding over the next 5 years. The financial assumptions within which the council will operate are set out in the Medium Term Financial Strategy 2015 – 2019 which accompanies the Corporate Plan.
42. The council has an Information Management Board to oversee ICT Governance and includes the Monitoring Officer as 'Senior Information Responsible Officer' (SIRO) and two Caldicott Guardians responsible for protecting the confidentiality of service user information.

Financial Management and Reporting

43. The council's financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). As Chief Financial Officer (CFO), the Executive Director of Finance & Resources is a key member of the Executive Leadership Team and Corporate Management Team and is responsible for the proper administration of the council's financial arrangements and leads a suitably qualified and experienced Finance Function.
44. The Executive Director of Finance & Resources (as Section 151 Officer) has overall statutory responsibility for the proper administration of the council's financial affairs, including preparation of the Statement of Accounts and making arrangements for appropriate systems of financial control. No reports were made during 2014/15 on any case of unlawful expenditure, loss or deficiency.
45. As mentioned above, the council's Medium Term Financial Strategy (MTFS) sets out the resource projections for the forthcoming five years, the financial challenges and opportunities that it faces and the approach planned to meet the priorities set out in the Corporate Plan. During 2014/15 the MTFS was updated and now includes a longer term resource projection up to 2019.
46. The council published a detailed budget book for 2014/15 to enable a greater understanding of where the council spends its money. It published all payments to suppliers over £250 from April 2013.

Partnership Working and Governance Arrangements

47. The governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report *Governing Partnerships: Bridging the Accountability Gap (2005)*, are defined in the council's Financial Regulations.
48. The council has a leading role in Brighton & Hove Connected (formerly known as Brighton & Hove Strategic Partnership) the local strategic partnership for the City. During 2014/15 Brighton & Hove Connected continued to implement the sustainable community strategy entitled 'Brighton & Hove – The Connected City'. The vision for Brighton & Hove was agreed as:

'Brighton & Hove- the connected city. Creative, dynamic, inclusive and caring. A fantastic place to live, work and visit.'

49. The community strategy has 5 priorities as follows:

- a. Economy
- b. Children & young people
- c. Health & wellbeing
- d. Community safety & resilience and
- e. Environmental sustainability

50. The strategy is underpinned by two principles which run through all of our work. These are:

- i) Increasing our equality
- ii) Improving our engagement.

51. Brighton & Hove Connected and the City Management Board have created a range of specialist partnerships that take responsibility for the creation, implementation and monitoring of key city strategies. These include Employment and Skills, Economy, Housing etc.

52. The City Management Board (CMB) is chaired by the council's Chief Executive and is the delivery arm of Brighton & Hove Connected. The board is made up of the key public service decision makers in the city in order to focus on delivery improvements city-wide including performance and risk management. Each board member is accountable to their parent body and to Brighton & Hove Connected.

The Member organisations of CMB are:

- a) Brighton & Hove City Council
- b) Brighton & Sussex University Hospitals
- c) City College Brighton & Hove
- d) Brighton and Hove Clinical Commissioning Group
- e) East Sussex Fire & Rescue Service
- f) Jobcentre Plus
- g) Office of the Sussex Police & Crime Commissioner
- h) Sussex Police
- i) University of Brighton
- j) University of Sussex
- k) Kent, Surrey & Sussex Community Rehabilitation Company

53. The council, in partnership with other public sector organisations at the City Management Board, has also developed the City Wide Risk Register to manage the wider risks impacting on the City.

54. In 2013/14 the council, in close collaboration with the Clinical Commissioning Group (CCG,) undertook a fundamental review of the Health & Wellbeing Board leading to an enhanced role for the Board that will enable it to provide system leadership across health and local authority social services. In 2014/15 the Board has been

chaired by the Leader of the Council and has equal voting representation between the council and the CCG.

Review of Effectiveness

55. The council has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the systems of internal control. The review of effectiveness is informed by the work of executive managers within the council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's Internal Audit and Opinion Report and also by comments made by the external auditors, other review agencies and inspectorates.
56. Through evaluation and analysis during the 2014/15 review, the council has good assurance that its governance arrangements are fit for purpose and reflect the principles of its Code of Corporate Governance.
57. An Officers' Governance Board oversees the review of effectiveness of governance arrangements including monitoring actions arising.
58. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework 2014/15 includes the following:
 - Evaluation of the robustness of governance arrangements against the six principles of good governance in the CIPFA/SOLACE Delivering Good Governance Framework
 - The Annual Opinion of the Head of Internal Audit provides reasonable assurance on the overall effectiveness of the council's control environment for the year ended 31 March 2015, but only limited assurance on the effectiveness of the council's procurement and contract management practices
 - Review and maintenance of the Constitution by the Monitoring Officer
 - The provision of an effective Internal Audit Service, including compliance with professional standards, risk based approach, individual internal audit reports providing levels of assurance and monitoring actions to audit recommendations made for improvement
 - Risk management process outcomes including strategic risk management actions plans and service risk registers
 - Comments made by external auditors and outcomes of external assessments carried out by regulatory bodies.

Governance Issues

59. The annual effectiveness review of governance arrangements referred to above has identified the following significant weaknesses relating to the effectiveness of how services across the council consistently implement purchasing and contract management practices including:
 - lack of evidence of tendering
 - failure to follow Contract Standing Orders
 - failure to retain contract documents
 - poor client contract liaison

60. The council's legal and procurement teams are working with contract officers in service departments and have provided training workshops for around 250 officers to ensure standardisation of terms and conditions and high levels of compliance with Contract Standing Orders and best practice. This was planned as part of the third party spend VFM workstream and included an additional 5 full time equivalent staff in the Procurement function to further support improved compliance and best practice.
61. On 27 November 2015, Coin Co International plc, the council's, cash-in-transit contractor entered administration. The council was an unsecured creditor of the company and was owed £3.243m. The council is actively seeking to recover this money, but it is not yet clear whether, after taking into account the costs of company administration/liquidation, any funds will be available to be shared among unsecured creditors. Internal Audit, supported by external consultants, is carrying out a review to determine whether improvements to the Council's procurement processes and decision making could minimise financial risks of this nature in the future.
62. Regarding disclosure of third party transactions, a significant issue identified last year, the council introduced a compulsory scheme for annual return of declarations of interests (including NIL returns) by all Senior Officers and contract officers. This supplements the annual related party transaction declarations undertaken as part of the accounts and the combination of these assists in minimising incidents of non-disclosure. These have now been implemented electronically as part of the council's HR system (PIER) which enables an appropriate line manager to review and authorise disclosures and take appropriate action.
63. In considering the governance issues contained in the Annual Governance Statement for 2013/14 enhancements to the council's governance arrangements have been achieved during 2014/15 including:
- Developing a new approach to the management of corporate fraud following the transfer of housing benefit related work and associated staff to the new national Single Fraud Investigation Service.
 - The continued roll out of the Living our Values culture change programme;
 - Embedding the Value for Money Programme within the council's Modernisation Programme and ensuring that its governance is fit for purpose;
 - Introducing the reformed Health and Wellbeing Board and new Greater Brighton Economic Board;
 - Improving how we use a range of financial and non-financial information including customer insight to make improvements to service delivery.
64. In 2014/15 the council made improvement in governance through business as usual (e.g. modernisation/service plans) and implemented some enhancements such as development of Member induction programme to ensure appropriate induction and training for all Members following the local election 2015; and completion of Multi-Agency working guidance.
65. However, as reported to the Audit & Standards Committee in March 2014 the following actions are still in progress and have not been fully implemented:
1. To embed the refreshed approach to Fraud & Corruption awareness across the council including whistleblowing arrangements and declarations of interest

2. Further Information Governance focused work to maintain compliance with the Public Service Network (PSN) Code of Compliance and to meet the requirements of the Information Commissioners Office (ICO)
3. Improved compliance with Contract Standing Orders incorporated into the Value for Money Programme in relation to third party spend
4. Review of Code of Corporate Governance - prioritised refresh of council policies and communication methods to take account of the pace of change
5. Focus on the adequacy of Business Continuity arrangements and work to embed understanding of its practice in council service delivery

In addition new actions will be taken to address the significant weaknesses identified in 2014/15 in relation to purchasing and contract management by:

6. Establishing a Procurement Advisory Board
 7. Considering how to develop a procurement and contract management compliance function to work alongside the current advisory including support procurement service
66. All existing actions in progress and new action will be monitored for progress by the Officers' Governance Board and Audit & Standards Committee during 2015/16. We are satisfied that the actions required, when fully completed, will address the need for improvements that were identified in the review of effectiveness. We will monitor their implementation and operation as part of the next annual review.
67. We propose over the coming year to take actions to address the above matters to further enhance our governance arrangements. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation during 2015/16.

Events after 31 March 2015

68. The council's chief executive, Penny Thompson, stepped down from her role on 30 June 2015 and on 16 July 2015 Geoff Raw was appointed as acting chief executive. The council is currently recruiting for a permanent head of paid service.

Signed:

Signed:

Geoff Raw
Acting Chief Executive

Councillor Warren Morgan
Leader of the Council

Dated:

Dated:

| | | | |
|--------------------------|---|--|---------------------------|
| Subject: | Strategic Risk MAP Focus: SR19 Impact of Care Act – Phase 1; SR 20 Better Care Fund; and SR13 Keeping vulnerable adults safe from harm and abuse | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Interim Executive Director, Finance & Resources | | |
| Contact Officer: | Name: | Jackie Algar | Tel: 01273 29-1273 |
| | Email: | Jackie.algar@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

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

- 1.1 The Committee has a role to monitor the effectiveness of risk management and internal control. This includes oversight of the Strategic Risk Register which is set and reviewed every six months by the Executive Leadership Team (ELT). Each Strategic Risk has a Risk Management Action Plan (a “risk MAP”) to deliver action to address the risk by a Risk Owner, a member of ELT.
- 1.2 The Committee has agreed a schedule to focus on at least two Strategic Risk MAPs at each meeting, and to ask Risk Owners to attend in order to more fully explore the details of the actions to address each Strategic Risk.
- 1.3 This meeting will be attended by Denise D’Souza, Executive Director, Adult Social Services who is the Risk Owner for all strategic risks to receive focus, i.e. Strategic Risks SR19, SR20 and SR 13.

2. RECOMMENDATIONS:

- 2.1 That Members note the information provided in the Strategic Risk MAPS in Appendix 1 (Strategic Risk Assessment Report).
- 2.2 That, having considered Appendix 1 and any clarification or comments from the Risk Owner the Committee make any recommendations it considers appropriate to the relevant council body.

3. FINANCIAL & OTHER IMPLICATIONSFinancial Implications

- 3.1 Each Strategic Risk MAP provides details of the actions already in place (“Existing Controls”) or work to be done as part of business or project plans (the “Solutions”) to address each strategic risk. Potentially these may have significant financial implications for the authority either directly or indirectly. The associated financial risks are considered during the Targeted Budget Management process, the development of the Medium Term Financial Strategy and budget strategies.

Finance Officer Consulted: James Hengeveld

Date: 27/07/15

Legal Implications

- 3.2 Members of the Committee are entitled to information, data and other evidence which enable them to reach an informed view as to whether the council’s strategic risks are being adequately managed; and to make recommendations based on their conclusions.

Lawyer Consulted:

Elizabeth Culbert

Date: 03/08/15

SUPPORTING DOCUMENTATION

Appendices:

1. Strategic Risk Assessment Report – SR19 SR 20 and SR13.

Background Documents

1. Strategic Risk Register 2015/2016 – reviewed by Executive Leadership Team, May 2015.



Brighton & Hove City Council
Strategic Risk Assessment Report
SR19; SR20 and SR13

Denise D'Souza

Risk Category - BHCC Strategic Risk



| | | | |
|-------------------|--|-----------------------------|-----------------------|
| ROM Issue: | Impact of Care Act- Phase 1 (note: reference to Implementation Phase 2 removed as HM Govt have deferred Phase 2 until 2020) | Responsible Officer: | Denise D'Souza |
| | | Risk Code: | SR19 |

Identified *Impact of Phase 1 of the Care Act on carers and safeguarding have yet to impact on current workload.
 *Reduced social work capacity as a result of DOLs.

Potential Conseq If we fail to meet our new & existing statutory duties under the Care Act then:
 * Service delivery for individuals will be affected
 * Reputational damage
 * Financial risk

| | | | | | |
|------------------------------|-----------|---|-----------------------|-------------|---|
| Initial: | High |  | Revised: | Significant |  |
| Risk Identified Date: | 21/5/2014 | | Date Modified: | 27/8/2015 | |

Risk Category:
 - BHCC Strategic Risk
 - Legislative

Existing Controls:
 * Adults Social Care Modernisation Board set up and considers detail on timelines and risk rating;
 * Workstreams in place working both locally, across the South East and nationally to ensure capacity to respond to the changes;
 * Local workstream identified and will link, where possible, to work on the Better Care Fund:
 * Phase 2 of Care Act delayed until 2020.

Effectiveness of Controls: Uncertain

Issue Type: Threat
Risk Treatment: Treat


Solutions:
 SR 19 Risk Action: Work with partners to inform and influence all parties involved in social care provision so that understanding, capacity and performance meets new requirements
 SR 19 Risk Action: Review progress at Adult Social Care Modernisation Board on a regular basis
 SR 19 Risk Action: Scan for changes relating to elements of Care Act Phase 2 which may be introduced before 2020

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

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

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

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

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

Risk Category:
 - BHCC Strategic Risk
 - Economic / Financial

Existing Controls:

- * Health & Wellbeing Board reviewed and governance arrangements in place to help deliver an integrated approach, including oversight of the Better Care Fund;
- * Re-submission of the Better Care Plan was made on 19 September 2014 following changes nationally;
- * Better Care Board established (high level and cross sector representation) and chaired by Executive Director Adult Social Care;
- * Partnership work agreed and submitted a Better Care Plan by the deadline in March 2014;
- * Agreement at Better Care Board to develop a Better Care implementation plan for delivery of Phase 1 from September 2014, based on an integrated model of delivery;
- * Better Care Board refocusing on commissioning and integrated provider board being set up. June 2015
- * Cluster areas now designated as 5 around GP practice

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

Solutions: Robust Section 75 agreement being developed and will be in place by June 2015
 SR 20 Risk Action: Deliver Phase 1 Better Care implementation plan from September 2014
 SR 20 Risk Action: Monitor and react to implications on the Better Care Fund arising from the Care Act

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

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

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

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

Risk Category:

- BHCC Directorate Risk
- BHCC Strategic Risk
- Legislative

Existing Controls:

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

| | | | |
|-----------------------------------|----------|------------------------|--------|
| Effectiveness of Controls: | Adequate | Issue Type: | Threat |
| | | Risk Treatment: | Treat |

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

| | | | |
|--------------------------|---|--|---------------------|
| Subject: | Internal Audit and Corporate Fraud Progress Report | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Head of Internal Audit | | |
| Contact Officer: | Name: | Graham Liddell | Tel: 29-1323 |
| | Email: | Graham.Liddell@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

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

- 1.1 This report summarises the progress made against the Internal Audit and Corporate Fraud Plan 2015/16. It summarises the key issues identified by Internal Audit and the Corporate Fraud Team and the progress made by management in implementing audit recommendations.

2. RECOMMENDATIONS:

- 2.1 That the Audit and Standards Committee note the report.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The Audit and Standards Committee approved the Internal Audit and Corporate Fraud Plan on 10 March 2015. The Committee also approved an update to the plan on 23 June 2015. The updated plan comprised:

- 1400 audit days to:
 - provide assurance on the Council's core systems and controls:
 - provide assurance on controls in service areas
 - support the modernisation agenda (including reviews of procurement)
 - review implementation of audit recommendations
- 500 anti-fraud and corruption days to:
 - support the Council's promotion of a strong anti-fraud and corruption culture
 - prevent and detect fraud and corruption
 - investigate and pursue fraud and corruption

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**Audit reports issued**

- 4.1 Internal audit has issued 16 reports representing 20% of the audit plan. Three reports have been assessed as providing limited assurance (see table 1).

Table 1 – limited assurance reports

| Audit report | Reason for assessing as limited assurance | Management response |
|-------------------------------|--|---|
| Pensions Administration | Key operational risks within the service have not been clearly identified. Controls do not provide sufficient assurance that employees' pension records are up to date and accurate. | All six recommendations within the report (including one high priority recommendation) have been agreed by management for implementation. All are scheduled for completion this calendar year, the latest agreed date being 31 December 2015. |
| Financial Appraisals/ Vetting | <p>Controls are not in place to ensure that financial appraisals are carried out for all relevant procurements, and that consistent processes and controls are followed.</p> <p>There is no evidence that the risk or impact of a particular contractor failing is consistently taken into account in the current processes i.e. contractor failures that have a significant financial, reputational or customer impact.</p> | <p>Six of the seven recommendations made have been agreed by management to be implemented before the end of October 2015.</p> <p>There was one medium priority recommendation that was not agreed. This was a medium priority recommendation "That the financial assessment is conducted prior to the successful contractor stage".</p> |
| ICT Risk Management | <p>Governance arrangements are in place to provide oversight of strategic ICT risks as part of the Councils risk management process but operational ICT risk management processes need to be formally established</p> <p>A consolidated register of all ICT risks needs to be maintained and managed.</p> | An initial meeting has been held with ICT management and actions have been agreed in principle. Further discussion is required to agree a detailed implementation timetable. |

New system for monitoring the implementation of audit recommendations

4.2 During 2014/15, internal audit introduced more systematic processes for following up audit reports. This, together with the support of the Audit and Standards Committee and ELT, has led to a growing understanding of the recognition of the importance of addressing the issues raised in internal audit reports.

4.3 From July 2015, internal audit has introduced an on-line database to enable managers and auditors to record and track progress against all recommendations for which they are responsible. Its purpose is to:

- reinforce that service managers are responsible for implementing audit recommendations (rather than auditors)
- provide members of ELT and other senior managers the means to monitor the progress made in implementing all recommendations in their areas of responsibility

- provide the Audit and Standards Committee with a more comprehensive and up to date information to support the Committee in discharging its responsibilities.

Progress made in implementing recommendations

4.4 We have received confirmation that 76% of recommendations due to be implemented by 31 July 2015 had been implemented (see table 2).

Table 2 – implementation of audit recommendations (as at 10 September)

| Priority | Audit Recs due by 31 July (includes c/f 2014/15) | Database not updated by managers | Not implemented (or less than 50% implemented) | Implemented (includes part implemented > 50%) | Implemented (%) |
|----------|--|----------------------------------|--|---|-----------------|
| High | 32 | 1 | 5 | 26 | 81% |
| Medium | 192 | 27 | 20 | 145 | 76% |
| All | 224 | 28 | 25 | 171 | 76% |

4.5 Despite the importance placed by ELT on implementing audit recommendations these rates are lower than reported in previous years. This does not, however, mean that implementation rates have actually declined:

- implementation rates were previously calculated on the results from follow up audits which took place six to nine months after the original report was issued. In contrast our new system includes all audits completed up to and including 31 July 2015.
- We have not been provided with progress for 12% of recommendations. We have treated these recommendations as not implemented. Under the previous system, these would have been excluded from the calculation of implementation rates.
- Where progress in implementing a recommendation is less than 50% we have treated this as not implemented. In previous years, all part implemented recommendations were included as implemented.

4.6 The six high priority recommendations which have not been implemented are set out in table 3.

Table 3 – high priority recommendations not implemented (as at 10 September 2015)

| Recommendation | Directorate | Due date | Progress as at 10 September 2015 |
|--|---------------------------|---------------|---|
| The reconciliation of the General Ledger and the Treasury Management software (Logotech) should be undertaken by someone independent of the day to day Treasury Management function. | F&R (Treasury Management) | 30 June 2015 | Now to be implemented by 31 October. |
| A process by which all self-employed claims are subject to a regular review should be considered | F&R (Housing Benefits) | 30 March 2015 | Funding obtained. Currently considering how to obtain resources to carry out. |

| | | | |
|---|-----------------------------------|------------------|--|
| Management should ensure that the current Network Access Protection and Network Access Controls (NAP-NAC) initiative tasks (see appendix D) being rolled out by ICT to help prevent unauthorised devices from accessing the network is adequately prioritised, resourced and monitored for achievement and ongoing trend analysis of NAP NAC incidents by the Cyber Security governance stakeholders. | F&R (ICT) | 31 December 2014 | Full implementation is part of a three year plan. In the meantime mitigating factors have been put in place. |
| Identity proofs should be scanned onto the system or shared drive at application stage. Until that time, the team should immediately cease the practice of accepting no identity documents for some renewal applications. | EDH (Blue Badges) | 31 August 2014 | Identity documents are being obtained in all cases but are not being scanned on to the system at present as the team does not currently have the capacity to add any further procedures to the assessment process. |
| A regular reconciliation between permits issued, income received, the amount banked and that posted to the ledger should be undertaken. | EDH (Parking Permits) | 31 July 2015 | No update received. |
| Procurement and contract documents should be stored so that they are accessible to the service for the length of the contract and comply with retention of records requirements, with formal hand over procedures where appropriate. | Children's Services (Procurement) | 31 March 2015 | All children's services contracts over £25k are being entered onto central system. Process will be complete by 30 September. |

4.7 We will continue to work with ELT and other senior managers to ensure that all managers understand the importance of implementing audit recommendations, particularly high priority recommendations.

Corporate Fraud

4.8 During 2015/16 the Corporate Fraud Team working with colleagues across the council has:

- **launched a council-wide anti-fraud and corruption campaign.** This has included high profile articles on the Wave and an e-learning module which is mandatory for selected staff. We are currently evaluating the results but we already have evidence that this has generated referrals to the team for investigation
- **assessed the potential for different types of fraud across the council and the potential financial impact.** This has quantified the potential impact of the top three areas for Brighton & Hove City Council:
 - Housing tenancy fraud (£4.2 million)
 - Procurement fraud (£4.1 million)
 - Blue Badge fraud (£1.3 million)
- **achieved some notable successes in identifying and pursuing fraud including:**
 - returning 10 dwellings to the council
 - identifying overpayments to employees and contractors totalling £67,508

- securing the return of 63 Blue Badges (this includes 45 Blue Badges recovered in 2015/15 as part of a joint operation with East Sussex County Council and Sussex Police and 18 Blue Badges recovered through use of data matching)

4.9 The team's main focus for the remainder of 2015 is to tackle housing tenancy fraud by working with colleagues in housing to improve the robustness of the council's internal controls for both preventing and detecting fraud.

Future developments of the service

4.10 As reported to Policy and Resources Committee, the council is currently reviewing the best way of delivering its support functions, including Internal Audit and Corporate Fraud. The Head of Internal Audit is carrying out a detailed assessment of possible options including retaining the service in-house, working as part of a shared service with other local authorities and outsourcing.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 None

6. CONCLUSION

6.1 The Committee is asked to note the report.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 It is expected that the Internal Audit and Corporate Fraud Plan 2015/16 will be delivered within existing budgetary resources. Progress against the plan and action taken in line with recommendations support the robustness and resilience of the council's practices and procedures in support of the council's overall financial position.

Finance Officer Consulted: James Hengeveld

Date: 07/09/15

Legal Implications:

7.2 The Accounts and Audit Regulations 2015 require the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards'. It is a legitimate part of the Audit and Standards Committee's role to review the level of work completed and planned by internal audit.

Lawyer Consulted: Elizabeth Culbert

Date: 28/08/15

Equalities Implications:

7.3 There are no direct equalities implications.

Sustainability Implications:

7.4 There are no direct sustainability implications.

SUPPORTING DOCUMENTATION

Appendices:

1. None

Documents in Members' Rooms

1. None

Background Documents

1. None

| | | | |
|--------------------------|--------------------------------------|--|--------------------|
| Subject: | Information Governance Update | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Monitoring Officer and SIRO | | |
| Contact Officer: | Name: | Abraham Ghebre-Ghiorghis | Tel: 291500 |
| | Email: | Abragam.ghebre-ghiorghis@brighton-hove.gcsx.gov.uk | |
| Ward(s) affected: | All | | |

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

- 1.1 The purpose of this report is to update the Audit & Standards Committee on various issues relating to information governance and, in particular data protection breaches connected with Freedom of Information Act (FOI) responses, and the measures taken to minimise potential future breaches.

2. RECOMMENDATIONS:

- 2.1 That Members note the report

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 Over the last year and a half, the Council has seen an increase in the number of incidents of data breach or suspected breach. A breakdown of the figures containing incidents of breaches and suspected breaches is shown in appendix 1. It should be pointed out that the higher numbers are attributable, at least in part, to better monitoring and capturing of data as well as reporting. However, notwithstanding this, there have been some serious breaches, in particular around information supplied in response to FOIs and published on an external website known as "What Do They Know" (WDTK.) The following is a summary of the main breaches identified:

- a. A spreadsheet with information relating to some individuals receiving Council services was published on WDTK website in February 2014 in response to an FOI request, but removed before being accessed;
- b. A spreadsheet with details of some adults with some sensitive personal data was published on the WDTK website in response to an FOI request, but was subsequently retrieved apparently before being accessed by unauthorised persons;

- c. Details of some 125 members of staff was put on the WDTK website in response to FOI request; and
 - d. Some details of individuals with Council Tax arrears was put on the WDTK website;
 - e. We have also recently become aware of a loss of a laptop and a paper file containing personal data of customers. The laptop and paper file were handed in to the Council by a member of the public. The laptop was encrypted and the paper file does not appear to have been read/shared.
- 3.2 The breaches relating to information published on WDTK were the subject of significant adverse publicity in the local media over the summer. The Monitoring officer, in his capacity as the Senior Information Risk Owner (SIRO,) and the Information Security and Standards Team in ICT have undertaken a review of the situation and the following steps taken to address the problem and minimise the risk of any further breaches:
- The incidents have been reported to the Information Commissioner's Officer where they meet the ICO's guidance on reporting breaches;
 - Most of the breaches tended to relate to the use of spreadsheets with names of individuals. The Executive leadership team (ELT) has therefore agreed to ban the use of spreadsheets except in exceptional cases.
 - We have ensured that all data posted on WDTK which we know involved a breach of data protection is removed from the website;
 - Information Asset Owners (IAOs) have been designated for all Council services. The IAOs are senior Officers with sufficient organisational weight to make and enforce decisions, ensuring a high quality information asset, and have operational accountability for managing risks presented by key information. It is proposed to provide dedicated training and development to the IAOs so that there is sufficient expertise and capacity within each service to ensure compliance with data protection laws.
- 3.3 The Council is one of the local authorities who use the services of mySociety under a contract. Under the arrangements, all requests and responses to FOI enquiries are *automatically* posted on the WDTK website. Although this was considered good practice when introduced (as it supported the Council's agenda of transparency) it has drawbacks, including loss of control of data once it is put on the website. Given the current difficulties, it is proposed to not renew the contract with mySociety when it expires in November and make arrangements to host it ourselves using the Council's website. We could review the situation if circumstances change. FOIs received through WDTK (not those directly received by the Council) and responses will continue to be posted on WDTK as that is outside the Councils control.
- 3.4 The SIRO role: under current arrangements, the Monitoring Officer operates as the Senior Information Risk Officer (SIRO) for the Council. However, this is an informal arrangement with no decision-making powers and it is not reflected in the Council's scheme of delegations to Officers. It is therefore purely advisory. It

is proposed to put this on a formal footing and incorporate it into the scheme of delegations to officers at the next review of the constitution.

- 3.5 A recent Internal Audit report (still in draft) recommends that there should be a consolidated risk register for ICT to be reported/reviewed periodically by the SIRO and the Executive Director of Finance & Resources. Although the report was looking at ICT in general and not exclusively at information governance, the implementation of the recommendations will assist in securing better standards of security and information governance.
- 3.6 The Council's Data Protection Manager left the Council in July and her replacement will start in late September/early October. It is intended to take the opportunity of the arrival of the new Data Protection Manager to undertake a thorough review of information governance and implement any changes necessary.
- 3.7 It is considered that the above measures will help minimise the risk of any further breaches, but officers will keep the situation under review and bring updates to the committee as necessary.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The analysis is as contained in the body of the report. The option of not taking any steps was considered but that would escalate the risk.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 Given the nature of the issue, there has not been any consultation with the public.

6. CONCLUSION

- 6.1 The steps taken will help minimise the risk of data breached and ensure better management of information. Officers will keep the position under review and update the committee as necessary.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 There are no direct financial implications arising from this report. It is expected that the proposals and measures outlined in sections 3.2 to 3.6 will be met from existing resources.

Finance Officer Consulted: Peter Francis

Date: 14/09/15

Legal Implications:

- 7.2 Any breach of data protection could result in an investigation by the Information Commissioner's Office. If a breach is found, depending on its seriousness, the Information Commissioner could impose a fine of up to £500,000 or require the

Council to undertake steps to rectify the situation. The measures outlined in the report will assist in minimising the risk.

Lawyer Consulted: Abraham Ghebre-Ghiorghis Date: 02.09.2015

Equalities Implications:

7.3 There are no equalities implications arising from the report.

Sustainability Implications:

7.4 There are no sustainability implications arising from the report.

Other Significant Implications:

7.5 None

SUPPORTING DOCUMENTATION

Appendices:

1. List of actual or suspected breaches

Background Documents

None

| Types of Incident | Q1 2015-16 | | | | | | Totals | | | |
|--|------------|-----------|-----------|-----------|------------|-----------|-----------|--|--|--|
| | Apr | May | Jun | 2015/16 | 2014/15 | 2013/14 | 2012 | | | |
| | | | | | | | | | | |
| Misuse of Email | | | | 0 | 1 | | 1 | | | |
| Misuse of Information | 3 | 3 | 9 | 0 | 10 | 6 | 0 | | | |
| Misuse of IT | 1 | 0 | 2 | 15 | 4 | 3 | 1 | | | |
| Disclosed in Error (email) | 2 | 3 | 0 | 3 | 26 | 7 | 8 | | | |
| Disclosed in Error (mail/post) | 1 | 0 | 0 | 5 | 21 | 15 | 4 | | | |
| Disclosed in Error (internet/intranet) | | | | 1 | 5 | 0 | 0 | | | |
| Disclosed in Error (passwords) | 5 | 0 | 2 | 0 | 2 | 3 | 9 | | | |
| Disclosed in Error (other) | 2 | 1 | 0 | 7 | 18 | 15 | 11 | | | |
| Loss of Information | 2 | 0 | 0 | 3 | 9 | 8 | 0 | | | |
| Loss of IT | | | | 2 | 2 | 0 | 3 | | | |
| Theft | | | | 0 | 4 | 1 | 1 | | | |
| Non Approved IT*: | | | | 0 | 0 | 4 | 2 | | | |
| *Software | | | | 0 | 0 | 2 | 2 | | | |
| *Hardware | | | | 0 | 0 | 2 | 0 | | | |
| Suspected hack | 0 | 0 | 2 | 0 | 0 | 2 | 0 | | | |
| Suspected malware | | | | 2 | 1 | 0 | 0 | | | |
| Corrupt data | 3 | 3 | 1 | 0 | 0 | 0 | 0 | | | |
| Other | | | | 7 | 31 | 3 | 3 | | | |
| Breach of Policy | | | 1 | | | | | | | |
| Incorrect Disposal | | | | | 1 | | 0 | | | |
| TOTAL | 19 | 10 | 17 | 46 | 135 | 69 | 43 | | | |

| | | | |
|--------------------------|---------------------------------|--|---------------------|
| Subject: | Cash Collection Contract | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Head of Internal Audit | | |
| Contact Officer: | Name: | Graham Liddell | Tel: 29-1323 |
| | Email: | Graham.Liddell@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

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

- 1.1 This report summarises lessons for the council following the council's contractor for cash collection services entering into company administration.

2. RECOMMENDATIONS

- 2.1 The Audit & Standards Committee are asked to note the report.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 In June 2014, the council's contractor for providing cash collection services, Coin Co International Plc ('CCI'), entered administration owing the council £3.243 million. The action being taken to recover the sums owing was reported to Policy & Resources Committee in June 2015 (TBM Provisional Outturn 2014/15, Item 8). The Head of Internal Audit, supported by external consultants, has considered lessons for the council and has made recommendations to improve internal controls.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The Head of Internal Audit has concluded that officers followed the council's procurement processes and contract standing orders.

- 4.2 There were good reasons for choosing CCI:

- CCI was procured through the East Sussex Procurement Hub framework for which they had already been independently selected and approved as the successful 'single supplier'.
- CCI had provided cash collection services for the council since 2008 and was based locally in Sussex with more than 30 years trading experience and a range of private and public sector clients.
- CCI offered greater service flexibility and a considerably better price than bigger national/global companies.

- A credit rating from an external credit rating agency assessed CCI as “very low risk”.
- 4.3 The key risks considered by officers related to the security of cash. These were addressed through measures included in the contract such as requiring the contractor to hold a Security Industry Authority licence and ensuring theft of cash by the contractor’s employees was covered by indemnities and insurances.
- 4.4 In line with industry standards, the council’s cash should have been kept separate from the contractor’s business and so kept safe. This, together with the very low risk assessment from the credit agency contributed to the view that risks associated with the financial viability of the cash-in-transit provider had been mitigated. However:
- the Insolvency Administrator’s report found that CCI were, unusually, processing its business transactions and clients’ cash and currency collections through the same bank accounts
 - CCI had complex business arrangements which we understand are currently under police investigation.
- 4.5 With the benefit of hindsight, however, there were indicators that could have alerted the council to the financial difficulties faced by CCI. There were fluctuations in the time taken for CCI to bank the cash it had collected and an internal review, based on a review of creditor payment days and levels of gearing, noted that this could be an indicator that CCI was struggling with cash flow.
- 4.6 Audit recommendations and management’s responses are set out in appendix 1. These include, for all significant contracts:
- more explicit assessment of risks during the procurement process
 - formal management reviews during the lifetime of contracts to consider the key risks associated with the contract
 - improved team working for contracts that involve officers from different parts of the council.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 None.

6. CONCLUSION

6.1 The Committee is asked to note the report.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications

- 7.1 As noted in the report, at the point of entering company administration, CCI owed the council £3.243m in relation to cash and coin collected from the council's establishments and parking machines. This situation was reported to Policy & Resources Committee on 11 June 2015 within the Targeted Budget Management (TBM) Provisional Outturn 2014/15 report at paragraph 6.3 a) ii as follows:

"The debts owing by the provider [CCI] were reduced from £4.746m to £3.243m through swift action and legal challenge when serious concerns about their performance and financial standing were first detected and the council is now pursuing recovery of remaining funds through insolvency practitioners. However, impairment provision for the remaining sum is required because at this time officers are not able to assess whether or not recovery will ultimately be successful. Members are advised that this matter has been reported to the Audit & Standards Committee who will continue to receive updates on the position."

- 7.2 Pursuit of sums owing continues through the company administration process but as the outcome of this is uncertain, the council accounted for the full loss (impairment) of this debt owing in its 2014/15 accounts as noted in the provisional outturn report. This did not impact on the council's ongoing financial resilience as an underspend of £0.003m was achieved in 2014/15 despite needing to account for this loss.
- 7.3 It should be noted that loss resulting from company failure is not an insurable risk.

Finance Officer Consulted: Nigel Manvell

Date: 9 Sep 2015

Legal Implications:

- 7.4 As set out in the report to Committee in June 2015, the Council has taken external legal advice from a law firm specialising in insolvency matters.
- 7.5 An application to the court was made by the Administrators on 19 May 2015 for directions which resulted in the court requiring a substantive hearing to be held not later than November 2015. The court also directed the Administrators to produce an updated report shortly before the substantive hearing, meaning more information regarding the administration will be made available at that time, which will assist the council in deciding its next steps.
- 7.6 It will be for the court to decide when the administration should be brought to a close and converted to company voluntary liquidation (CVL).
- 7.7 It is not possible at this stage to give an indication of the likely success in achieving any funds arising out of the insolvency process. The council will continue to take specialist legal advice at the appropriate stages to decide how best to act in its own interests as a major creditor.

Lawyer Consulted: Elizabeth Culbert

Date: 26 Aug 2015.

Equalities Implications:

7.8 None

Sustainability Implications:

7.9 None

Any Other Significant Implications:

7.10 None

SUPPORTING DOCUMENTATION

Appendices:

1. Audit recommendations and management response

Documents in Members' Rooms

1. None

Background Documents

1. None

Appendix 1 – audit recommendations and management response

| | Recommendation | Priority | Management comment/agreed action | Officer responsible | Deadline |
|----|---|----------|--|---|-------------|
| R1 | The procurement process should consider explicitly the key risks associated with any contract, such as the risk that the contractor might fail. | High | Procurement guidance, evaluation templates, procedures and training will be updated to incorporate consideration of contract/contractor failure risks. Guidance will be issued to Executive Directors, CMT and the identified cohort of officers involved in procurement and contract management activity. Using the above guidance, Executive Directors will be requested to identify risks in relation to existing high value or high risk contracts and take appropriate action. | Procurement Strategy Manager Executive Directors/ Contract Officers | 31 Oct 2015 |
| R2 | Subsequent contract management should include formal management reviews that require officers to stand back from a contract and consider the key risks associated with the contract. | Medium | Procurement guidance, CSOs, procedures and training will be updated with advice/requirements for undertaking reviews. Guidance will be issued to Executive Directors, CMT and the identified cohort of officers involved in procurement and contract management activity. Arrangements for reviews of high value or high risk contracts to be put in place by Executive Directors (as required by amended CSOs). | Procurement Strategy Manager Executive Directors/ Contract Officers | 31 Oct 2015 |
| R3 | The rigour and timing of the council's financial appraisals should be determined by: the potential impact should a contractor get into financial difficulty how the council could mitigate the impact of a contractor facing financial difficulties | Medium | Procurement guidance, evaluation templates, procedures and training will be updated to include Financial Appraisals and when they must be undertaken based on risk identification/definitions emanating from R1. | Procurement Strategy Manager/ Head of Corporate Resources & Finance | 31 Oct 2015 |
| R4 | The procurement and management of major contracts, particularly those involving officers from different parts of the council, should be treated as a team project and should include officers from all key client groups. | High | Procurement guidance, procedures and training will be updated with advice on conducting procurements. | Procurement Strategy Manager | 31 Oct 2015 |

Subject: Targeted Budget Management (TBM) 2015/16 Month 2
Date of Meeting: 22 September 2015
Report of: Head of Law
Contact Officer: Name: John Peel Tel: 29-1058
E-mail: john.peel@brighton-hove.gov.uk
Wards Affected: All

FOR GENERAL RELEASE

Action Required of the Audit & Standards Committee:

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

Recommendation:

That the report be noted.

BRIGHTON & HOVE CITY COUNCIL

POLICY & RESOURCES COMMITTEE

4.00pm 9 JULY 2015

AUDITORIUM - THE BRIGHTELM CENTRE

MINUTES

Present: Councillor Morgan (Chair) Councillors Hamilton (Deputy Chair), G Theobald (Opposition Spokesperson), Mac Cafferty (Group Spokesperson), Janio, Meadows, Mitchell, A Norman, Sykes and Wealls

PART ONE

22 TARGETTED BUDGET MANAGEMENT (TBM) 2015/16 MONTH 2

22.1 The Committee considered a report of the Interim Executive Director for Finance & Resources in relation to Targetted Budget Management (TBM) 2015/16 Month 2. The TBM report was a key component of the Council's overall performance monitoring and

control framework; the report set out an early indication of forecast risk as at Month 2 on the Council's revenue and capital budgets for the financial year 2015/16.

- 22.2 Councillor Hamilton noted the comments made by the Interim Executive Director by way of introduction, and stated, that despite forecast risk in the report, this was a very early position in the financial year and Officers were looking in detail at mitigation measures. Councillor Hamilton had confidence that this would be brought down by the end of the year.
- 22.3 In response to Councillor Sykes it was confirmed that the funds in the dedicated schools grant were ring-fenced for priorities relating to schools and school support.
- 22.4 In response to a further query from Councillor Sykes that it was clarified that were pressures on budgets in Children's Services that related to protection, this was similar to the trend being seen nationally. The Children's Services Assistant Director provided assurance that the department was working hard towards a recovery plan. The recent Osted inspection had provided assurance that the thresholds were correct to ensure the right level of support was in place. The Executive Director of Adult's Services provided assurance that the work on TBM 3 was seeing the increase in the community care budget begin to slow down.
- 22.5 Councillor G. Theobald welcomed the addition information in the report to map TBM progress against planned budget savings. He noted that the number of those claiming Council Tax benefit had reduced to reflect the increased number of people in work, and this was attributed to measures from Central Government.
- 22.6 Councillor G. Theobald raised a number of questions, and Officers explained that the Council would not take on the award of coats following the withdrawal of the authority from University of Sussex planning appeal, but there would be some costs involved as the authority had instructed counsel. In relation to City Clean the bank holiday and service guarantee was an agreement between staff and the unions; there would be an overspend this financial year, due to the way the bank holidays fell across the financial year, but this would fall back into line in the following years. The Director of Public agreed to send information to the Committee in relation to reductions in the late night noise service.
- 22.7 Councillor Wealls welcomed the early intervention work taking place and noted that there was real proof this worked. In response to queries about the review of special educational needs and disability the Executive Director for Adult's Services clarified that the adult review related to personal approaches to packages; a number of actions had been put into place and there would be a full report to the October Health & Wellbeing Board. The Children's Services Assistant Director added that where there were issues with home to school transport this was very much linked up with wider conversations about other interventions; the report in the autumn would provide more opportunity to look in detail at the recommendations. In relation to children in care it was added that emerging patterns matched the national trend; Ofsted had not highlighted anything that was cause for concern, and the transformation of the social work service would use resources better and more efficiently.

- 22.8 Councillor A. Norman drew attention to the inclusion of Surredean and Fiveways parking scheme, and noted she and her Ward colleagues were already carrying out parking surveys.
- 22.9 Councillor G. Theobald proposed an amendment to recommendation 2.6 that the words '*with the exemption of permanent traveller site (as at page 83)*' be added to the end of the sentence.
- 22.10 The Chair then put the amendment to the vote. This was **lost**.
- 22.11 The Chair then put the substantive recommendations to the vote.
- 22.12 **RESOLVED:**
- 1) That the Committee note the forecast risk position for the General Fund, which indicates a budget pressure of £9.430m. This consists of £8.735m on council controlled budgets and £0.695m on the council's share of the NHS managed Section 75 services.
 - 2) Note that Financial Recovery Plans are being developed and finalised and will be reviewed by the cross-party Budget Review Group which will provide member oversight.
 - 3) That the Committee note the forecast for the Housing Revenue Account (HRA), which is an underspend of £0.045m.
 - 4) That the Committee note the forecast risk position for the Dedicated Schools Grant which is an overspend of £0.209m.
 - 5) That the Committee note the forecast outturn position on the capital programme.
 - 6) That the Committee approve the capital programme variations and reprofiles in Appendix 3 and new capital schemes in Appendix 4 (excluding the Dorothy Stringer all weather pitch).

| | | | |
|--------------------------|--|---|---------------------|
| Subject: | Targeted Budget Management (TBM) 2015/16 Month 2 | | |
| Date: | 9 July 2015 | | |
| Report of: | Interim Executive Director of Finance & Resources | | |
| Contact Officer: | Name: | Nigel Manvell | Tel: 29-3104 |
| | Email: | Nigel.manvell@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

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 an early indication of forecast risks as at Month 2 on the council's revenue and capital budgets for the financial year 2015/16.
- 1.2 The forecast risk for 2015/16 at this early stage is £8.7m on the General Fund and £0.7m on Section 75 health partnerships. The position is primarily due to continuing and growing pressures across Adults and Children's social care budgets together with increased homelessness costs. This reflects growing levels of referrals and increasing complexity of need across these areas and, in the case of homelessness, the impact of the high proportion of private rented properties in the city.
- 1.3 However, it should be noted that early forecasts will often present a 'worst case' picture and should not be regarded as an outturn forecast at this stage. Comparable reported forecast risks at this stage in previous years were £3.610m in 2012/13 and £6.031m in 2014/15. The forecast risk serves to indicate the level of underlying pressures that will need to be managed over the year if a balanced budget is to be achieved.
- 1.4 Month 2 (May) is the first forecast for the year that can be undertaken due to the need to allow a reasonable period for all amounts relating to the previous year (i.e. accruals) to be cleared. As mentioned, this early forecast risk will often present a higher risk for the following reasons:
 - i) In relation to demand-led budgets (e.g. social care), it is a straightline projection based on current activity and represents a forecast risk that would arise only if no further action were taken;
 - ii) The projections in this report will have only been available to services for a matter of days. While information about growing corporate critical demand pressures was known, the full picture across all budgets is only now available, therefore not all corrective actions or recovery measures will have been finalised;
 - iii) Similarly, action to deliver in-year cost reductions, one-off savings or seek alternative funding options and/or funding switches to mitigate overspends will not yet be confirmed in all areas;

- iv) Other corporate management actions put in place to improve the position will also need to be monitored to assess their impact during the year, including:
- Achievement of Financial Recovery Plans;
 - Specific spending controls e.g. on non-essential budget heads;
 - Strengthened vacancy and agency spending controls.
- v) Corporate budgets have not yet been reviewed for potential cost reduction opportunities and the corporate risk provision of £1.620m remains available to offset the position.

1.5 Although the forecast risk is significant, mainly due to growing demands, the report shows that the substantial savings package in 2015/16 of £21.089m is significantly on track with just over £20m either achieved or anticipated to be achieved.

2 RECOMMENDATIONS:

- 2.1 That the Committee note the forecast risk position for the General Fund, which indicates a budget pressure of £9.430m. This consists of £8.735m on council controlled budgets and £0.695m on the council's share of the NHS managed Section 75 services.
- 2.2 Note that Financial Recovery Plans are being developed and finalised and will be reviewed by the cross-party Budget Review Group which will provide member oversight.
- 2.3 That the Committee note the forecast for the Housing Revenue Account (HRA), which is an underspend of £0.045m.
- 2.4 That the Committee note the forecast risk position for the Dedicated Schools Grant which is an overspend of £0.209m.
- 2.5 That the Committee note the forecast outturn position on the capital programme.
- 2.6 That the Committee approve the capital programme variations and reprofiles in Appendix 3 and new capital schemes in Appendix 4 (excluding the Dorothy Stringer all weather pitch).

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 forecast outturn for Council controlled revenue budgets within the General Fund. More detailed explanation of the variances can be found in Appendix 1.

| Provisional Variance 2014/15 £'000 | Directorate | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--|---------------------------------------|---|--|--------------------------------------|
| (42) | Children's Services | 55,257 | 59,037 | 3,780 | 6.8% |
| 1,843 | Adult Services | 71,996 | 75,955 | 3,959 | 5.5% |
| 589 | Environment, Development & Housing | 37,250 | 38,255 | 1,005 | 2.7% |
| (323) | Assistant Chief Executive | 15,490 | 15,541 | 51 | 0.3% |
| (122) | Public Health (incl. Community Safety & Public Protection) | 4,482 | 4,482 | 0 | 0.0% |
| (1,903) | Finance, Resources & Law | 30,294 | 30,234 | (60) | -0.2% |
| 42 | Sub Total | 214,769 | 223,504 | 8,735 | 4.1% |
| (2,404) | Corporate Budgets | 6,642 | 6,642 | 0 | 0.0% |
| (2,362) | Total Council Controlled Budgets | 221,411 | 230,146 | 8,735 | 3.9% |

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.

| Provisional Variance 2014/15 £'000 | | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---------------------------|---------------------------------------|---|--|--------------------------------------|
| | Corporate Critical | | | | |
| 1,616 | Child Agency & In House | 20,454 | 22,304 | 1,850 | 9.0% |
| 1,548 | Community Care | 39,588 | 41,996 | 2,408 | 6.1% |
| (317) | Sustainable Transport | (17,267) | (17,293) | (26) | -0.2% |
| 507 | Temporary Accommodation | 1,041 | 1,438 | 397 | 38.1% |
| (604) | Housing Benefits | (637) | (797) | (160) | 25.1% |
| 2,750 | Total Council Controlled | 43,179 | 47,648 | 4,469 | 10.3% |

Summary of the position at Month 2

The main pressures reported at month 2 are across Children's and Adults social care and homelessness (temporary accommodation) as follows:

- 3.6 **Children's Services:** There continues to be increased pressure on the children's social care system both within Brighton and Hove and nationally. This is as a consequence of increased awareness of child abuse and child sexual exploitation following a number of high profile cases nationally. The age range with the largest increase are adolescents who can present quite problematic needs. The national increase in 2013/14 was 10.8% in referrals and a 12.1% increase in children subject to a child protection plan and it is believed this has continued to increase nationally this year. In Brighton and Hove we have also seen increases as a consequence of introducing improvements in our referral process following the start of the Multi Agency Safeguarding Hub (MASH). The most recent data shows that between March 2015 and June 2015 there was an increase in the number of assessed children from 673 to 976.

We are currently working on a projection of a further increase of 13% of cases by June 2016. Overall, this is causing a cost pressure of approx. £1m on social services staffing and £1.85m on placement budgets (as above). Together with risks of £0.5m on savings plans, and other associated cost pressures (e.g. preventive payments) of £0.4m, this explains the forecast risk of £3.780m at month 2.

- 3.7 **Adults Services:** Pressures were growing during 2014/15 which was overspent at year-end and which presents a significant financial challenge in 2015/16 alongside implementing the Care Act, developing integration plans through the Better Care programme and completing the Learning Disabilities Review.

The forecast risk at month 2 includes the following main elements that are described in more detail in Appendix 1:

- Approved budget savings of £7.1 million which at month 2 are on track to be achieved but not without risk;
- There are unachieved savings from previous years of £3.1million across assessment and provider services for which mitigating recovery plans are being developed, including the Learning Disability Review, and at month 2 these are assumed to be deliverable but these represent a significant risk;

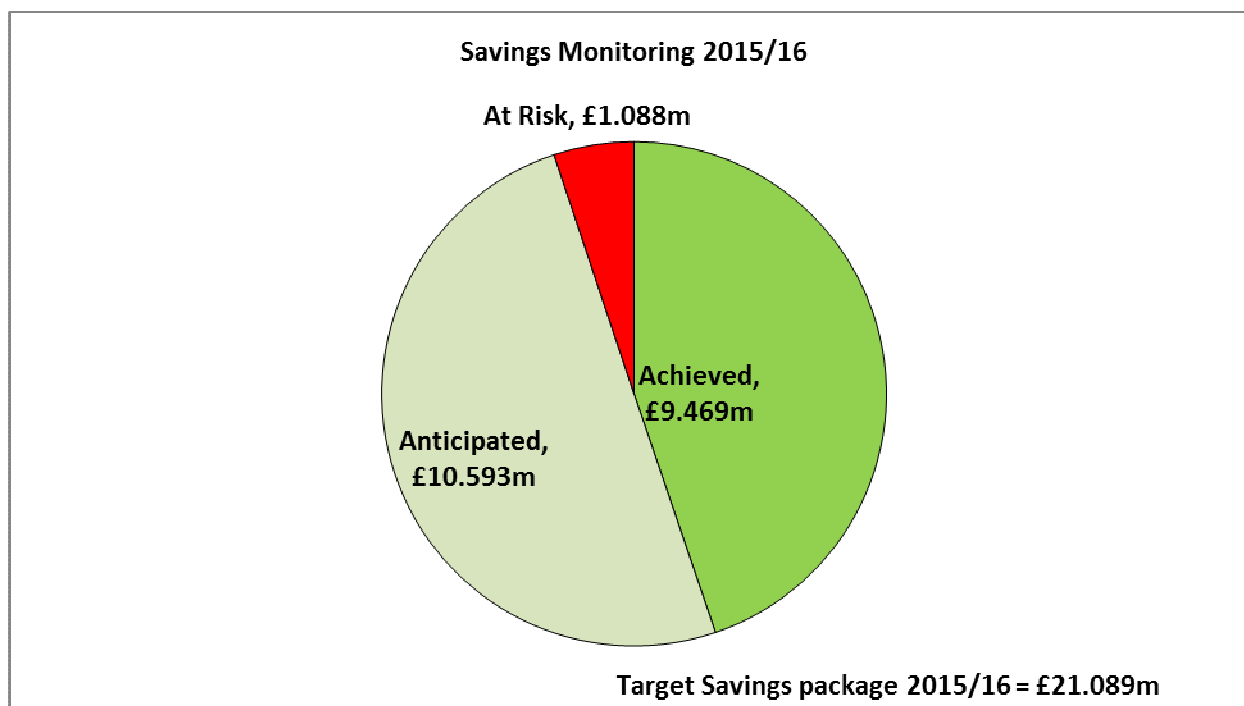
- The main area of forecast risk concerns service pressures identified at the beginning of the year relating to increased complexity of need, increased cost of transitions cases, pressures on the provider services budget and Deprivation of Liberty cases which, together with projected new demands in 2015/16, is giving rise to a forecast risk of £3.959m at month 2.

The funding of all packages is scrutinised and this forms a key part of the savings implementation plan. Adult Services are also using benchmarking information to support the driving down of unit costs but are faced with increased complexity and growth. Through regional and other social care networks we have been looking at best practice in delivering cost effective services in order to influence future direction.

- 3.8 **Temporary Accommodation:** There is a £0.4m pressure relating to the ongoing need to spot-purchase expensive bed and breakfast accommodation. This reflects growing homelessness and the difficulty of securing affordable private rented homes in the city to meet the council's statutory housing obligations in a period of rapidly rising house and private rent prices. With a new framework in place and working in partnership with Adults and Children's services, the service is making good progress in tackling the budget pressure by more cost effective procurement of private rented accommodation but it is likely to remain an important area of focus for the remainder of the year and compensating savings elsewhere are likely to be required.

Monitoring Savings

- 3.9 The savings package approved by full Council to support the revenue budget position in 2015/16 was £21.089m (£24.852m in a full year). This is a very large savings package and follows 4 years of substantial packages totalling £77m. Achievement of savings programmes and actions in 2015/16 will need to be closely monitored to ensure satisfactory progress and avoid adding to financial pressures in future years through non-achievement.
- 3.10 Appendix 1 provides details of savings in each directorate and indicates for each saving what has been achieved, is anticipated to be achieved, or is at risk. Appendix 2 summarises the position across all directorates and presents the entire savings programme. The graph below provides a summary of the position as at month 2 which is an early indication. This shows that delivery of the savings programme for 2015/16 is substantially on track with only a small number of items at risk. Mitigation of these risks is included in the development of services' financial recovery actions.



(Note: Achieved savings can include over-achievements)

Housing Revenue Account Performance (Appendix 1)

- 3.11 The Housing Revenue Account is a separate ring-fenced account which covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents. The current forecast is an underspend of £0.045m and more details are provided in Appendix 1.

Dedicated Schools Grant Performance (Appendix 1)

- 3.12 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 overspend of £0.209m 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)

- 3.13 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.
- 3.14 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.

| Provisional Variance 2014/15 £'000 | | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|-----------------------------------|---------------------------------------|---|--|--------------------------------------|
| | Section 75 | | | | |
| 259 | NHS Trust managed S75 Services | 11,653 | 12,348 | 695 | 6.0% |

Capital Programme Performance and Changes

3.15 The table below provides a summary of capital programme performance by Directorate and shows that there is an overall overspend of £0.636m forecast at this early stage.

| Provisional Variance 2014/15 £'000 | | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--|---------------------------------------|---|--|--------------------------------------|
| | Capital Budgets | | | | |
| (7) | Children's Services | 25,637 | 25,637 | 0 | 0.0% |
| 0 | Adult Services | 568 | 568 | 0 | 0.0% |
| (222) | Environment, Development & Housing - General Fund | 40,205 | 40,905 | 700 | 1.7% |
| 26 | Environment, Development & Housing - HRA | 49,055 | 48,991 | (64) | -0.1% |
| 0 | Assistant Chief Executive | 3,559 | 3,559 | 0 | 0.0% |
| 0 | Public Health | 423 | 423 | 0 | 0.0% |
| (168) | Finance, Resources & Law | 19,705 | 19,705 | 0 | 0.0% |
| 0 | Corporate Services | 25 | 25 | 0 | 0.0% |
| (371) | Total Capital | 139,177 | 139,813 | 636 | 0.5% |

3.16 Appendix 3 shows the changes to the budget and Appendix 4 provides details of new schemes for 2015/16 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.

| Capital Budget Summary | 2015/16 Budget £'000 |
|---|----------------------------|
| Budget Approved at Budget Council | 49,562 |
| New schemes included in the Budget above where further reports to Policy & Resources are needed before their inclusion in the capital programme | 65,798 |
| Slippage and reprofiles approved in the Outturn report | 15,456 |
| New Schemes Approved in the Outturn report | 50 |
| Reported at other Policy & Resources committees for inclusion into 2015/16 year | 686 |
| New schemes to be approved in this report (see Appendix 4) | 6,302 |
| Variations (to be approved – see Appendix 3) | 1,323 |
| Reprofiles (to be approved - see Appendix 3) | 0 |
| Slippage (to be approved – see Appendix 3) | 0 |
| Total Capital Budget | 139,177 |

Implications for the Medium Term Financial Strategy (MTFS)

- 3.17 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.
- 3.18 The council has set aside risk provisions to mitigate non-achievement of savings or other unexpected pressures should the need arise. Risk provisions currently held are shown in the Corporate Budgets section of Appendix 1. At this stage of the year no risk provisions are recommended to be deployed as mitigating actions and recovery plans need to be implemented before re-assessing the financial position and the level of forecast risk.

Capital Receipts Performance

- 3.19 Capital receipts are used to support the capital programme. Any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds and projects such as the Strategic Investment Fund, Asset Management Fund, ICT Fund and the Workstyles VFM projects. The planned profile of capital receipts for 2015/16, as at Month 2, is £9.770m against which there have been receipts of £0.260m in relation to the disposal of 2 Boundary Road, a number of minor lease extensions at the Marina and the repayment of improvement grants.
- 3.20 The forecast for the 'right to buy sales' 2015/16 (after allowable costs, repayment of housing debt and forecast receipt to central government) is that an estimated 50 homes will be sold with a maximum useable receipt of £0.480m to fund the corporate capital programme and net retained receipts of £2.387m are available to re-invest in replacement homes. To date 8 homes have been sold in 2015/16.

Collection Fund Performance

- 3.21 The collection fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police and East Sussex Fire Authority whereas any forecast deficit or surplus relating to business rates is shared between, the council, East Sussex Fire Authority and the government.
- 3.22 The outturn for 2014/15 showed an improved position on council tax which means there is a brought forward collection fund surplus in 2015/16 of £0.400m, of which the council's share is £0.350m. The in-year monitoring for 2015/16 indicates a surplus of £1.200m, of which the council's share is £1.000m. This improved position is from a combination of lower than forecast Council Tax Reduction (CTR) discounts (£0.600m), lower student exemptions awards (£0.300m), higher than forecast property numbers (£0.250m), band increases (£0.250m) and higher than forecast discounts of £0.200m for Severely Mentally Impaired (SMI) and students.
- 3.23 The CTR discounts are lower than expected by £0.600m as claimant numbers for both pensioners and working age people are continuing to decrease; if this continues through the remainder of the year there could be a further reduced spend of £0.400m. For the first time in many years student exemptions are lower than this time last year. A number of new Halls of Residence properties came onto the list and this could explain the lower level of student properties. However, overall, student numbers are expected to continue to rise and therefore we cannot assume this will be an ongoing situation.
- 3.24 The outturn for 2014/15 showed an improved position on business rates of £0.130m for the council. On the basis of the information available so far in this financial year the position is in line with expectations. However business rates remains a difficult area to predict with great certainty.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS:

- 4.1 The forecast outturn position on council controlled budgets is an overspend of £8.735m. In addition, the council's share of the forecast overspend on NHS managed Section 75 services is £0.695m. Any overspend at the year end would need to be funded from general reserves which would then need to be replenished to ensure that the working balance did not remain below £9.000m. Any underspend would release one off resources that can be used to aid budget planning for 2016/17.

5 COMMUNITY ENGAGEMENT AND CONSULTATION

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

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

- 6.1 As mentioned earlier, this first TBM projection for the year indicates a 'worst case' position that would arise only if no further action were taken. Services are working hard to ensure Financial Recovery Plans and actions are identified and implemented as quickly as possible. However, it is a challenging position and shows that pressures on social care services are currently greater than estimated at budget setting time and that there is a lot of work to do to achieve a break-even position in 2015/16.
- 6.2 The Executive Leadership Team are taking immediate action to ensure that services' recovery plans and actions are robust and deliverable. However, more severe measures

may need to be considered if the forecast risk cannot be significantly improved within the next quarter.

- 6.3 To assure the position, it is proposed that the cross-party Budget Review Group receive detailed updates on Financial Recovery Plans to provide members with appropriate oversight of this significant corporate risk.
- 6.4 Members are advised that the government is due make a further budget statement on the 8 July. It's not clear what this will contain however there are expected reductions in-year for funding for Public Health estimated at £200m nationally which would equate to a reduction of circa £1.3m for Brighton & Hove City Council.

7 FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: Jeff Coates

Date: 19/06/2015

Legal Implications:

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

Lawyer Consulted: Elizabeth Culbert

Date: 23/06/2015

Equalities Implications:

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

Sustainability Implications:

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

Risk and Opportunity Management Implications:

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

SUPPORTING DOCUMENTATION

Appendices:

1. Revenue Budget Performance
2. Summary of 2015/16 Savings Progress
3. Capital Programme Performance
4. New Capital Schemes

Documents in Members' Rooms:

None.

Background Documents

None.

Children's Services - Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--|---------------------------------------|---|--|--------------------------------------|
| (10) | Director of Children's Services | 263 | 263 | 0 | 0.0% |
| (181) | Education & Inclusion | 3,086 | 3,310 | 224 | 7.3% |
| 87 | SEN & Disability | 6,615 | 6,924 | 309 | 4.7% |
| 1,374 | Children's Health, Safeguarding and Care | 37,800 | 41,254 | 3,454 | 9.1% |
| (1,312) | Stronger Families, Youth & Communities | 7,493 | 7,286 | (207) | -2.8% |
| (42) | Total Revenue - Children | 55,257 | 59,037 | 3,780 | 6.8% |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|--|-------------------------------|------------------------------|---------------|--|
| Education & Inclusion | | | | | |
| Home to School Transport | Reducing the number of children with special educational needs (SEN) requiring taxi transport through the promotion of independent travel training. Reviewing all aspects of assessed and provided services including vehicles | 500 | 261 | 239 | Officers are working with schools to identify children who would benefit from programmes of independent travel training and to make arrangements for these programmes. This would mean these children are no longer dependent upon taxi transport as well as achieving savings in transport costs. |
| Portslade Sports Centre | Removal of all council subsidy | 116 | 116 | 0 | |
| School Improvement - Community Learning | Remove the remaining Council subsidy with the service becoming fully dependent upon grant | 44 | 44 | 0 | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|---|--------------------------------------|-------------------------------------|----------------------|--|
| | funding (currently circa. 80%) | | | | |
| Music & Arts Study Support | Package of savings measures | 57 | 57 | 0 | |
| Other | Removal of management budget (£30k) and reduced cost of civic catering contract (£15k) | 45 | 45 | 0 | |
| Schools PFI project | Remove inflation allowance | 50 | 50 | 0 | |
| SEN – Family support hearing impaired | Funding Switch - Dedicated Schools Grant | 13 | 13 | 0 | |
| | | 825 | 586 | 239 | |
| SEN and Disability (SEND) | | | | | |
| SEN services (including Ed. Psychology Service and CAMHS) | Reduction in costs across services | 30 | 30 | 0 | |
| Special Educational Needs | Review of staffing | 25 | 25 | 0 | |
| Services for Children with Disabilities | Review of management and admin, social work team, Transitions processes, Keyworking and other Disability Services | 140 | 161 | 0 | |
| Services for Children with Disabilities | Funding Switch - Dedicated Schools Grant | 239 | 239 | 0 | |
| Disability agency placements | Part Funding Switch - Dedicated Schools Grant plus reduction in need of placements | 364 | 309 | 55 | We are looking to bring some children back from agency placements to lower cost but good quality packages in the City to reduce pressures on special school and agency placements. We are also looking |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|---|-------------------------------|------------------------------|---------------|---|
| | | | | | at all children open to the integrated disability service with a view to funding part of the social care element of their support through the HNB as this is now permitted spend. |
| Community CAMHS | Funding Switch - Public Health Grant | 80 | 80 | 0 | |
| | | 878 | 844 | 55 | |
| Children's Safeguarding & Care | | | | | |
| Fostering & Adoption | Deletion of 0.57 FTE Practice Manager post, 0.79 FTE Social Workers. Remaining savings to come from the recommendations of the current fostering review | 263 | 87 | 176 | iMPower are working with us to improve our ratio of foster carers. The review has to be in line with findings and processes required to create the predicted savings which would require more social workers to supervise carers as required by guidance. |
| Social Work & Legal | Reviewed service staffing against demand, budget and achieved savings | 42 | 0 | 42 | |
| Contact service | Restructure of Contact service | 200 | 196 | 4 | |
| Youth Offending Services | Deletion of 2 FTE vacant Youth Justice Worker posts | 60 | 60 | 0 | |
| Agency Placements | Reduction of 6.5 FTE looked after children agency placements through service design and prevention | 250 | 0 | 250 | The number of Looked After Children has increased. To address the spend on IFA's (Independent Fostering Agencies) we have a payment by results programme in place to support fostering staff to increase our |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|--|--------------------------------------|-------------------------------------|----------------------|---|
| | | | | | market share of foster carers with anticipated saving of £1.500m. |
| Family Support Services | Negotiate with Health to fund the Looked After Children (LAC) nurse | 33 | 33 | 0 | |
| Performance analysts | Funding Switch - Public Health Grant | 80 | 80 | 0 | |
| | | 928 | 456 | 472 | |
| Stronger Families, Youth & Communities | | | | | |
| Play Service | Targeted service – funded by HRA and Public Health | 100 | 100 | 0 | |
| Youth Service and advocacy | Deletion of vacant posts | 177 | 207 | 0 | |
| Early Years - Nurseries | Fee increase and removal of council subsidies | 66 | 76 | 0 | |
| Early Years - Childcare | Reduction in support for out of school childcare and playwork qualification funding | 102 | 93 | 9 | |
| Children's Centres | Funding Switch – Dedicated Schools Grant | 207 | 207 | 0 | |
| Early Intervention | Reduced contribution to Behaviour, Emotional and Social Difficulties (BESD) Partnership and Local Safeguarding Children's Board (LSCB) workforce development | 55 | 55 | 0 | |
| Stronger Families, Stronger Communities | Reduced funding to the Intensive Team for Families and reduced office costs in the parenting team (£15k) | 152 | 152 | 0 | |
| Teenage pregnancy | Reduction in children's service funding of teenage pregnancy | 55 | 55 | 0 | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|----------------------------------|---|-------------------------------|------------------------------|---------------|---------------------|
| | services following the transfer of responsibility to public health. | | | | |
| Early Help | Funding switches – Dedicated Schools Grant and Public Health Grant | 421 | 421 | 0 | |
| | | 1,335 | 1,366 | 9 | |
| TOTAL CHILDREN'S SERVICES | | 3,966 | 3,252 | 775 | |

Explanation of Other Key Variances

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|--|---------------------------------|---|--|
| Director of Children's Services | | | |
| 0 | Director of Children's Services | Break even position forecast at Month 2. | |
| Education & Inclusion | | | |
| (15) | Education & inclusion | Other minor variances. | |
| SEN & Disability | | | |
| 150 | Drove Road | The occupancy levels have increased over the last 18 months. This has resulted in increased staffing requirements and pressure on other budget heads. The increased use of this service has resulted in a reduction in the need for more expensive agency placements. | We are exploring all short break budgets including Tudor House to look to bring the budget in on line so we have identified £0.200m from outreach and possibly a further £0.030m. We are also looking at staff rotas to reduce staffing costs. Not recruiting currently to team manager post which will be an additional £0.040m (may be subject to review) |
| 105 | Direct payments | Based on the current spending patterns over the last 14 months it is | We are reviewing all high cost packages |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|---|---|---|---|
| | | projected that there will be an overspend of £0.104m on Direct Payments. A detailed breakdown of all current care packages has been requested and a full analysis will be completed when this is received. | to look to reduce budget and also exploring DSG opportunities re: children and young people with Education, Health & Care Plans. New software is being introduced to bring consistency and transparency and this will be an opportunity to consider efficiencies. Considering 10% reduction across all packages. |
| Children's Safeguarding & Care | | | |
| 873 | Corporate Critical - Children's Agency Placements | <p>The projected number of residential placements (34.34 FTE) is broken down as 30.28 FTE social care residential placements (children's homes), 3.06 FTE schools placements and 1.00 FTE family assessment placements. The budget allowed for 24.10 FTE social care residential care placements, 4.60 FTE schools placements and 0.60 FTE family assessment placements. The average unit cost of these placements is £300.33 per week above the budgeted level. Overall the number of placements are 5.04 FTE above the budgeted level, and this combined with the unit cost pressure described above result in an overspend of £1.269m.</p> <p>The numbers of children placed in independent foster agency (IFA) placements has fluctuated in recent years. During 2013/14 there were 165.76 FTE placements and this increased to 175.56 last year. The current projected number of placements in 2015/16 is 167.13 FTE, a reduction of 4.8%. The budget for IFA placements was based on the trend of the previous five years and was set at 177.80 FTE. The numbers being below the budget by 10.67 FTE results in the projected underspend of £0.287m.</p> <p>During 2015/16 it is estimated that there will be 1.14 FTE secure (welfare) placements and 2.03 FTE secure (justice) placements. The budget allowed for 1.00 FTE welfare and 1.00 FTE justice</p> | <p>The number LAC has increased in line with a 13% rise in referrals leading to assessment. Action we have taken to ensure threshold is met and to ensure all has been done to prevent the need for a child to become a LAC includes:</p> <ul style="list-style-type: none"> a) Panel in place to proactively establish that all evidence based interventions have been tried and to address risk and enable a child to remain within their own family or network and monitor and agree all children who may require care b) To prevent further harm and delay in decision making thereby reducing further costs of supporting a LAC child and achieving improved outcomes for the child by identifying children which evidence suggests should be taken in care earlier. We are redesigning the service to address any issue that prevent timely and robust decision making. |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|--------------------------------|---|---|--|
| | | <p>placements during the year. There is currently 1 child in a secure (welfare) placement and 2 in a secure (criminal) placement resulting in a projected overspend of £0.141m</p> <p>The gross overspend in this service area is £1.123m of which £0.250m relates to unachieved savings, see savings monitoring above.</p> | <p>c) We have reviewed all IFA (Independent Fostering Association) and residential placements to ensure that they are in the only appropriate accommodation available.</p> <p>d) Exit from care – to ensure that those children / young people who will be returning home are safe, we have undertaken an external audit to review all possible cases.</p> <p>e) We have submitted a first business case and are soon to submit our final business case for an Adolescent Service to establish alternatives to care for very vulnerable teenagers to reduce LAC and expensive placements – residential and secure - and improve outcomes for young people.</p> |
| 333 | Corporate Critical-In House Foster Payments | <p>Until recently the numbers of children being placed in in-house fostering placements was declining, however over the past few months this trend has reversed. The budget was based on the trend over the previous 5 years and was set at 128 FTE placements: the current number of children with in-house carers is estimated at 137.01 FTE for 2015/16. In addition the projected overspend of £0.333m includes a provision of £0.203m for increasing the allowance rate for Residence Orders (RO) and Special Guardianship Orders (SGO) in line with the Family and Friends rates.</p> | <p>We are establishing an ongoing process for the effective recruitment of 'in house' foster placements to meet a wide range of needs. To do this we have commissioned iMPower and work is underway to increase market share of placements from 50% to 75-80%. In order to continue to encourage RO and SGO applicants to offer homes to children we need to match the Family and Friends rate to make this financially viable for carers. This is a cheaper option than foster care as well as a better outcome for the children matched</p> |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|--------------------------------|--------------------------------------|--|--|
| | | | to these carers. |
| 339 | Corporate Critical 16+Services | The budget for 16+ services is split across 4 client types. Care Leavers, Ex- Asylum Seekers, Looked After Children and Preventive. Across these services the budget allows for 57.50 FTE young people and currently the projection is based on 62.50 FTE young people. The average unit cost of accommodation is also projected to be £19.90 higher than allowed in the budget. The non-accommodation costs are also currently anticipated to overspend the budget by £0.205m resulting in an overall overspend of £0.339m. | |
| 1,068 | Social Work Teams | The total overspend of £1.110m across the social work teams is primarily the result of the ongoing use of Agency staff and recruitment above the budgeted establishment level. This is a result of the increase in activity levels being experienced over the last 12 months and the inherent inflexibilities built into the current staff structures and management practices. The 'model of practice' restructure should address these issues and reduce the over-reliance on agency staff, however the high level of demand within the service will remain, requiring additional social work resources beyond the current budgeted level. £0.042m of this overspend relates to unachieved savings shown in the table above. | Consultation on the service design is underway and implementation planned for the 28 th September 2015. However this will not manage the increase in demand we are experiencing – in line with other LA's |
| (69) | Legal Fees | Based on the spending patterns in the previous financial year it is anticipated that there will be an underspend of £0.135m on legal fees. The social work 'model of practice' restructure (see above) should, in the longer term, have an impact on the level of court costs in the future and it has been agreed that funding would be re-invested from the legal fees budget, reducing the underspend to £0.069m. | |
| (48) | Adoption Services | Following a number of changes to adoption regulations and a re-basing of the inter-agency budget, it is anticipated that there will be an underspend of £0.048m in 2015/16. This is based on estimated income from other agencies which was considerably higher last year than in previous years. | |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|---|-----------------------------------|--|--|
| 300 | Section 17 Preventive | This overspend of £0.300m relates to the increased costs of the housing recharge for homeless families due to an rise in the number of families needing accommodation and an increase in expenditure charged to the No Recourse to Public Funds budget. | We have bought a new IT system to work with the Home Office direct to ensure speed of decision making on these families. We have also seconded a worker to work closely with housing to minimise expenditure by both services. |
| 75 | Support Through Care Team | The overspend in this team relates to a number of factors. There is an additional temporary post which is due to finish at the end of the financial year, in addition there is an overspend on the staff transport budget which is under significant pressure and petty cash payments relating to leaving care services are all charged to this cost centre. | The Transport overspend for staff is due to the range of homes that the staff have to visit – although a majority are within a 20 mile radius there are a number on the edge of the area. Other young people are placed a distance away. |
| 140 | In-house foster carer recruitment | The contract with iMPower to conduct the review includes a fixed cost payable in 2015/16 of £0.140m. The payment by results element will not be paid until March 2017 and it is not anticipated that the savings from this review will accrue until 2016/17. | The initial payment is a vital part of an estimated return of £1.500m. |
| Stronger Families, Youth & Communities | | | |
| (114) | Early Years | Following the budget proposals to reduce the service provision, a number of vacant posts have been held and service redesign begun. The subsequent decision to defer the saving for one year will result in an underspend against this budget. | |

Adult Services – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---------------------------|---------------------------------------|---|--|--------------------------------------|
| 1,076 | Adults Assessment | 59,227 | 63,124 | 3,897 | 6.6% |
| 1,335 | Adults Provider | 12,254 | 12,316 | 62 | 0.5% |
| (568) | Commissioning & Contracts | 515 | 515 | 0 | 0.0% |
| 1,843 | Total Revenue - Adult | 71,996 | 75,955 | 3,959 | 5.5% |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|---|-------------------------------|------------------------------|---------------|---|
| Adults Assessment | | | | | |
| Learning Disabilities (LD) - Residential | Review all out of city and high cost placements, consider supported living, ensure appropriate funding streams and renegotiate provider rates | 1,094 | 0 | 1,094 | Clients have been identified for review and a plan for implementation is being developed. |
| Learning Disabilities (LD) - Home Care, Day Care & Direct Payments | Increased use of Direct Payments and review high cost placements & third party spend | 626 | 1,020 | (394) | Achieved to date is slightly behind the profile of savings (£0.185m) but this is anticipated to overachieve by the 2015/16 outturn. |
| Older People - Residential/Nursing (includes Older People with Mental Health needs) | Task force to identify all appropriate funding sources. Review housing options and identify links to Better Care (especially for Older People | 1,000 | 1,418 | (418) | Achieved to date is ahead of the profile of savings (£0.295m) and is in line to overachieve by the 2015/16 outturn. |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|--|-------------------------------|------------------------------|---------------|--|
| | Nursing) and potential sources of funding. Reduce waivers and scrutinise placement costs | | | | |
| Adults with Mental Health (MH) - Residential | Rigorous scrutiny of placements, identification of all appropriate funding sources and implementing the Resource Allocation System (RAS) | 200 | 360 | (160) | Achieved to date is ahead of the profile of savings (£0.059m) and is in line to overachieve by 2015/16 outturn. |
| ALL COMMUNITY CARE - Across all client groups. Fees for services provided by the Independent Sector | Limit inflationary increases | 750 | 808 | (58) | This saving has already been achieved in 2015/16 and is expected to overachieve slightly at outturn. |
| ICES (Integrated Community Equipment Services) | Savings of 30% on equipment | 100 | 100 | 0 | Savings have yet to be identified. A new contract is currently being drawn up to outsource the supply of equipment and is expected to help make this saving in 2015/16 |
| Learning Disabilities | Enable more people to access volunteering, employment and training | 45 | 0 | 45 | Savings are dependant on the LD Delivery Plan and currently being developed. |
| Learning Disabilities | Realigning accommodation and supported living including respite to enable service users to live independent lives | 162 | 0 | 162 | Savings are dependant on the LD Delivery Plan and currently being developed. |
| Learning Disabilities | Personalised approach through reviews to reduce high cost packages | 729 | 1,000 | (271) | Achieved to date is ahead of the profile of savings (£0.215m) and is in line to overachieve by the 2015/16 outturn. |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|--|---|--------------------------------------|-------------------------------------|----------------------|--|
| Assessment Services (including joint S75 arrangements) Assessment and Review staffing | Focus on statutory duties and undertaking Business Process Improvement (BPI) reviews | 376 | 376 | 0 | Savings have yet to be achieved against this work-stream. Four workshops have taken place around the vision of how Adults Assessment Service will work in the future and this will include the funding of these services in 2015/16. |
| | | 5,082 | 5,082 | 0 | |
| Adults Provider | | | | | |
| Resource Centres Older People (Craven Vale, Knoll House, Ireland Lodge (MH), Wayfield Avenue (MH)) | Review criteria for bed services and reduce numbers of beds funded through Social Care | 1,000 | 1,000 | 0 | Alternative funding has been identified. |
| Able & Willing Supported Business | Review business plan and reduce subsidy from September 2015 | 100 | 100 | 0 | Savings have yet to be identified but should form part of the updated business plan expected in September. |
| Home Care (6 services including Independence at Home) | Review staffing structure and criteria for services working with the community and independent sectors. Review funding with NHS | 300 | 300 | 0 | Discussions with Brighton & Hove CCG are on-going to obtain additional funding and a mitigating plan has been put in place to consider the future scope of Home Care Services across the city |
| | | 1,400 | 1,400 | 0 | |
| Commissioning & Contracts | | | | | |
| Commissioning & Contracts Staffing Budget | Review contract management and commissioning function and scope for joint arrangements | 130 | 130 | 0 | This is dependent on the outcome of the restructure of Adults Commissioning Services but is anticipated to be fully achieved in 2015/16 |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|--------------------------------------|-----------------------------------|-------------------------------|------------------------------|---------------|---------------------------------------|
| Funding switch - Public Health Grant | | 530 | 530 | 0 | Contracts now funded by Public Health |
| | | 660 | 660 | 0 | |
| TOTAL ADULT SERVICES | | 7,142 | 7,142 | 0 | |

Explanation of Key Other Variances

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|--------------------------|--|---|--|
| Adults Assessment | | | |
| 1,563 | Corporate Critical - Community Care Budget (Learning Disabilities) | The pressures of £1.563m are due mainly to (1) Projected Ordinary Residence claims from other local authorities for which we have received formal notification that clients costs will transfer to us (£0.425m), (2) Projected costs for clients in hospital who are due to leave and need a social care package (£0.707m), (3) transitional costs which were only partly covered by service pressure funding received for 2015/16 (£0.318m) and a net increase in demand in the first 2 months of 2015/16 of 4.99 whole time equivalents (£0.342m). Assumptions have been made around health funding and a review of packages of care (£0.217m) has been made in 2015/16 to try and mitigate some of the demand already seen in 2015/16. | <p>Actions have been put in place through the LD Review to meet the 2015/16 budget strategy savings targets and to manage emerging pressures. These include:</p> <ul style="list-style-type: none"> • Increased scrutiny of all Learning Disability placements/care package requests has been put in place to assure value for money against eligible care needs across different types of placement. • Focus on high cost placements and identifying low dependency placements in in-house units for move on. • Targeted review activity on existing placements and care packages ensuring eligible needs are met in the most cost effective manner. |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|--------------------------------|---|--|---|
| 722 | Corporate Critical - Community Care Budget (Physical & Sensory Support - Under 65's) | The combined pressures of £0.845m on Physical & Sensory Support are due mainly to (1) Pressures brought forward from 2014/15 (0.684m), (2) net full year effect of 2014/15 packages of care (£0.974m) and (3) a net increase in demand in the first 2 months of 2015/16 of 22.89 whole time equivalents (£0.755m) above projected growth in demand. These pressures have been offset by anticipated funding from Brighton & Hove CCG of £1.150m for 2015/16, anticipated savings from review of packages of care (£0.286m) and projected income on new packages of care (£0.134m). | Increased panel scrutiny of all complex or high cost placements and care package requests to assure value for money against eligible care needs. Where possible no placements will be made above the agreed local authority rates. The VfM Phase 4 programme includes a specific project focussing on high cost placements to reduce costs and to ensure all eligible people receive Continuing Health Care funding. Risk share arrangement with health has been agreed and £0.350m has been allocated against Under 65's. A Taskforce is in place to ensure that all appropriate funding sources are identified. |
| 123 | Corporate Critical - Community Care Budget (Physical & Sensory Support -Over 65's) | | <p>Actions have been put in place to meet the 2015/16 budget strategy savings targets. There is limited scope to manage emerging pressures. Actions include:</p> <ul style="list-style-type: none"> • Increased scrutiny of complex or high cost care packages. • An independent Extra Care business case has been commissioned to establish demand/need projections to enable ASC commissioners to work with their housing partners to identify the types of provision that will most appropriately meet the objective of reducing residential care costs. • A taskforce is in place to ensure that |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|--------------------------------------|------------------------------|--|---|
| | | | all appropriate funding sources are identified. |
| 0 | Hostel Accommodation | This service is projected to break-even for 2015/16 which is in-line with 2014/15 outturn | |
| 793 | Support & Intervention Teams | The pressures of £0.793m are due mainly to (1) Pressures on direct employee costs (£0.613m) within assessment and review teams and (2) pressures identified against the Deprivation of Liberty Safeguards (£0.180m) | Workforce redesign, in response to the Care Act, targeted use of Care Act monies, to offset pressures on direct employee costs |
| Adults Provider | | | |
| 62 | Adults Provider | Pressures have been identified of £2.107m, due to (1) Unachieved savings from 2014/15 of £1.296m, (2) Full year effect and deferred savings from 2014/15 of £0.416m and (3) Service pressures identified during the budget setting process of £0.395m. These pressures will be mitigated by maximisation of income (£0.060m) and delivery of savings against the LD Review (£2.000m) for which plans are currently being developed. In addition to the above there are pressures on direct employee costs (£0.028m), non-pay costs (£0.011m) and income (£0.023m) | Actions have been put in place to meet the 2015/16 budget strategy savings targets and to meet unachieved savings from previous years through the LD strategy. Vacancy control measures have been tightened and recruitment to posts only where this is required to ensure CQC compliance. The use of agency staff and care crew is closely scrutinised and signed off by senior managers. There are ongoing discussions with Health to determine costs associated with health needs that should be funded by CCG. |
| Commissioning & Contracts | | | |
| 0 | Commissioning & Contracts | This service is projecting to break-even for 2015/16 | |

Environment, Development & Housing – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--|---------------------------------------|---|--|--------------------------------------|
| (195) | Transport | (5,650) | (5,580) | 70 | 1.2% |
| 244 | City Clean & City Parks | 29,070 | 29,220 | 150 | 0.5% |
| (63) | City Regeneration | 1,209 | 1,209 | 0 | 0.0% |
| 111 | Planning & Building Control | 1,618 | 1,715 | 97 | 6.0% |
| 97 | Total Non Housing Services | 26,247 | 26,564 | 317 | 1.2% |
| 492 | Housing | 11,003 | 11,691 | 688 | 6.3% |
| 589 | Total Revenue - Environment, Development & Housing | 37,250 | 38,255 | 1,005 | 2.7% |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Savings Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress / Mitigation |
|---------------------|--|-------------------------------|------------------------------|---------------|-----------------------|
| Transport | | | | | |
| Public Transport | Reduction of expenditure by early termination of 2 Supported Bus Contracts | 36 | 36 | 0 | |
| Parking - On Street | 1) Reduce need to maintain, replace and collect cash from Pay & Display machines | 225 | 225 | 0 | |
| Parking - On Street | 2) Additional permit and transient income | 60 | 60 | 0 | |
| Parking - On Street | 3) Improved management of PCN debt | 40 | 40 | 0 | |
| Parking - On Street | 4) Enhanced investigation operations in partnership with East | 5 | 5 | 0 | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Savings Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress / Mitigation |
|------------------------------------|--|--------------------------------------|-------------------------------------|----------------------|---|
| | Sussex and Sussex Police | | | | |
| Parking - On Street | 5) Review of Pay & Display and Permit Tariffs | 571 | 507 | 64 | Review of parking forecasts suggests under achievement of income in April which is partly due to the new tariff not being implemented until May 2015. This shortfall in income may be achieved by year end. |
| Parking - Off-street | Review of Car Park tariffs including The Lanes & Trafalgar St. | 192 | 192 | 0 | |
| Transport Planning and Road Safety | Funding switch - Public Health Grant | 85 | 85 | 0 | |
| | | 1,214 | 1,150 | 64 | |
| City Clean and City Parks | | | | | |
| Across City Clean and City Parks | Efficiencies in supplies and services | 175 | 175 | 0 | |
| Across City Clean and City Parks | Efficiencies made by not applying inflationary increase to supplies & services budgets | 50 | 50 | 0 | |
| Across City Clean and City Parks | Comprehensive service redesign across City Clean and Parks. | 300 | 300 | 0 | In progress. |
| Recycling | Reduction in professional fees | 24 | 24 | 0 | |
| City Parks | Reduced contribution to core costs of Biosphere project | 20 | 20 | 0 | |
| Fleet Management | A business plan is being developed to offer servicing, maintenance and MOTs to other council departments and on a commercial basis | 50 | 0 | 50 | This saving is dependant on completion of refurbishment works at Hollingdean Depot which are not due for completion until April 2016. This has been offset in the |

Appendix 1 – Revenue Budget Performance

| Service | Description of Savings Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress / Mitigation |
|---------------------------------------|--|--------------------------------------|-------------------------------------|----------------------|--|
| | | | | | current financial year from underspends identified within the TBM forecast. |
| Public Conveniences | Reduce opening times of some sites, reduce cleansing frequency and close sites which are in close proximity to alternative locations | 40 | 40 | 0 | |
| | | 659 | 609 | 50 | |
| City Regeneration | | | | | |
| Economic Development Team | Service redesign | 35 | 35 | 0 | |
| Sustainability and International Team | Integration of the Sustainability Team with the International Team | 53 | 53 | 0 | |
| | | 88 | 88 | 0 | |
| Planning and Building Control | | | | | |
| Building Control | New business model aimed at achieving a break-even position; this includes a reduction in staff costs | 20 | 20 | 0 | |
| Development Management | Implementation of pre-application charges to secure £100k fee income and a reduction in staff costs through a Business Process Review of the service | 145 | 116 | 29 | Implementation of charges are subject to a future Committee report and are expected to commence in September 2015. The service will continue to monitor income budgets on a regular basis. |
| Development Management | Introduction of Planning Performance Agreements (PPAs) | 22 | 16 | 6 | Implementation of charges are subject to a future Committee report and are expected to commence in September 2015. |
| Planning Policy & Strategy | A reduction in staffing costs and a | 45 | 45 | 0 | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Savings Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress / Mitigation |
|--|---|--------------------------------------|-------------------------------------|----------------------|---|
| | re-alignment of team reporting lines | | | | |
| Planning Projects | A reduction in staffing costs | 20 | 20 | 0 | |
| | | 252 | 217 | 35 | |
| Housing | | | | | |
| Senior Management & Administrative Support | Deletion of posts | 100 | 100 | 0 | |
| Homemove | Charge Registered Providers for running cost of the Joint Housing Register. | 140 | 40 | 100 | Recent discussions with Registered Providers suggest that the original savings figure was too optimistic. Negotiations are still in progress but the service is looking for other efficiencies to address this budget saving. |
| Housing Adaptations Team | HRA funding and deletion of 0.78 FTE Senior Occupational Therapist post. | 50 | 50 | 0 | |
| Housing Options/Statutory Homelessness | Removal of post that delivers housing advice to inmates of Lewes prison immediately pre-release and reduction in housing options officer post | 59 | 59 | 0 | |
| Housing Strategy & Development Team | Increase in fees for Locata (£0.011m) and restructure of service (£0.040m) | 51 | 51 | 0 | |
| Temporary Accommodation | Framework Agreements to reduce the use of high cost emergency accommodation (£0.100m). Amalgamation of income and credit control team (£0.020m). Realignment of staff time on | 240 | 220 | 20 | The new framework agreements are reducing costs however a service pressure exists due to the current high levels of spot purchase which are gradually reducing. The amalgamation of |

Appendix 1 – Revenue Budget Performance

| Service | Description of Savings Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress / Mitigation |
|---|--|--------------------------------------|-------------------------------------|----------------------|---|
| | specific projects (£0.050m). Reduced contributions to reserve fund (£0.040m). Increased income from Seaside Homes (£0.030m). | | | | the credit control team is no longer a viable option and so the service is currently seeking to find other efficiencies to meet this budget saving. |
| Travellers | Reduction in use of day time security guards at Horsdean enabled by use of Site and Support Officers during office hours. | 30 | 30 | 0 | |
| Housing Related | Explore new service delivery models and further income growth | 959 | 959 | 0 | |
| Housing Strategy Overall | Reduction in Personal Assistant support | 26 | 26 | 0 | |
| Private Sector Housing Team | Deletion of 2 posts in the Sustainability Team | 74 | 74 | 0 | £0.050m saving made for one year only as funding has been sourced for 2015/16. |
| Funding switch - Public Health Grant | | 50 | 50 | 0 | |
| | | 1,779 | 1,659 | 120 | |
| Environment, Development & Housing Total | | 3,992 | 3,723 | 269 | |

Explanation of Other Key Variances

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|-------------------------------|-----------------------|---|---|
| Transport | | | |
| (90) | Parking | Reduced income at Madeira Drive due to structural issues on the seafront resulting in the closure of parking bays estimated to be £0.070m and other minor variations of £0.010m within the on-street parking budget. | Actual income is monitored and reported on a monthly basis as part of the TBM process. There are a range of factors that can impact on parking activity and therefore any significant variations to the forecast are reported and acted upon regularly. Minor percentage variations in activity could result in significant financial implications. |
| | | Borrowing costs associated with historic car park investment are forecast to underspend by £0.162m due to reducing borrowing costs over the repayment period. There is also net £0.008m over-achievement of income forecast across the various car parks. | The service is in the process of reviewing options for car park investment to determine if the ongoing financing revenue budget is required. |
| 96 | Transport Policy | The variance is due to under achievement of staff costs recharged to capital projects of £0.096m. | Budgets relating to staff costs rechargeable to capital projects are currently being reviewed following a employee restructure within the Transport service. |
| City Clean & Parks | | | |
| 106 | City Clean Operations | The overspend largely relates to an in-year pressure due to Easter bank holidays falling twice in the financial year, resulting in additional overtime and Resident Service Guarantee payments to City Clean staff. | This one-off overspend is due to the timing of bank holidays within the financial year. The service will attempt to mitigate this cost over the year. |
| 48 | City Parks Operations | Rottingdean mini golf course has been let at a peppercorn rate resulting in an income pressure of £0.024m and £0.005m additional costs of managing the site. | Several attempts have been made to remarket the site with an appropriate use on a commercial basis, however no viable commercial proposal has been forthcoming. |
| | | £0.019m of one-off costs for the urgent demolition of a seafront messroom at Hove Bowls Club which is considered to be unsafe. | The service will continue to identify potential in year underspends to offset the forecasted overspend position |
| (54) | Fleet Management | Underspend identified within the service to offset the at risk saving proposal | |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|--|--|---|--|
| Planning & Building Control | | | |
| 12 | Development Planning | One off £0.053m forecasted expenditure for cost of major public enquiry at University of Sussex is partly offset by underspends in supplies and services budgets (£0.041m) as a result of retendering of an existing contract for planning notices. | Service budgets to be monitored throughout the financial year to identify underspends to offset the one-off pressure. |
| 50 | Planning Policy and Major Projects | Possible additional costs of a planning inquiry for the City Plan examination. | Service budgets to be monitoring throughout the financial year to identify underspends to offset the one-off pressure |
| Housing | | | |
| 377 | Corporate Critical - Temporary Accommodation & Allocations | £0.377m relates to the on-going need to spot purchase expensive bed and breakfast accommodation. This is reducing as a result of more leased properties coming through the new framework agreements. | With the new framework in place, leased properties are beginning to replace spot purchasing. Working closely with our colleagues in Adults and Children's Services means that all households that have been in temporary accommodation for over a year are being reviewed to ensure that there is still a statutory need to house these households. It is estimated that 100 further leased properties will be released in this way, thereby reducing the need for expensive spot purchased accommodation. |
| 138 | Private Sector Housing | The majority of this variance arises from the timing of approval for the second discretionary licensing scheme which, with formal notice periods, means implementation will not be until November 2015. This means that budgeted income will be reduced by an estimated £0.150m during 2015/16 which will not align to currently budgeted costs, leading to a service pressure on employee costs, as employee time will not be recharged to the new scheme. | Staffing and other costs will have to be reviewed and adjusted to align resources to the fee income achieved from the mandatory, and two additional licensing schemes. It is anticipated that the majority of the fees will be received during the first year of operation of the second additional licensing scheme and it is therefore intended to resource the service flexibly to accommodate demand. |
| 47 | Housing Support Service | This service relates to staff who are keeping clients safe while placed in temporary accommodation. During 2014/15 service pressure funding was available to fund this service, however, this is no longer available | This overspend relates to the first three months to June 2015/16. |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|------------------------------------|---------------------------|--------------------|----------------------------|
| 4 | Other Housing Services | Minor Variances | |

Assistant Chief Executive – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---|---------------------------------------|---|--|--------------------------------------|
| (105) | Communications | 825 | 825 | 0 | 0.0% |
| 162 | Royal Pavilion, Arts & Museums | 3,493 | 3,493 | 0 | 0.0% |
| 53 | Tourism & Venues | 1,470 | 1,470 | 0 | 0.0% |
| 67 | Libraries | 5,192 | 5,243 | 51 | 1.0% |
| (429) | Corporate Policy & Communities | 4,271 | 4,271 | 0 | 0.0% |
| (71) | Sport & Leisure | 239 | 239 | 0 | 0.0% |
| (323) | Total Revenue - Assistant Chief Executive | 15,490 | 15,541 | 51 | 0.3% |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|--|-------------------------------------|------------------------------------|------------------|---|
| Communications | | | | | |
| Communications Team | Deletion of vacant post | 25 | 25 | | Achieved |
| | | 25 | 25 | 0 | |
| Royal Pavilion, Arts & Museums | | | | | |
| Royal Pavilion, Arts & Museums | Savings from service redesign | 20 | 20 | | Fully achieved |
| Royal Pavilion, Arts & Museums | Charging at £5 per head for non-residents at Brighton Museum | 150 | 150 | | First month of charging shows a 9% (£1,310) under-achievement on admission target. Continuing to monitor closely the response to the new charges. |
| | | 170 | 170 | 0 | |
| Tourism & Venues | | | | | |
| Venues - Brighton Centre | Increased income and targeting | 5 | 5 | | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|---|--|--------------------------------------|-------------------------------------|----------------------|--|
| | private hiring's and recharges | | | | |
| Venues - Brighton Centre | Install motion sensors in toilets and meeting rooms to create savings on electricity costs and reduction of spend on building infrastructure | 35 | 35 | | In progress – motion sensors have been installed in toilets and plans are in place to reduce spend on building maintenance |
| Tourism Services | Establish 'Love Brighton' Tourism brand with licensing and commercialisation of Visit Brighton website | 15 | 15 | | In progress |
| Tourism Services | Full review of all budgets | 25 | 25 | | In progress |
| | | 80 | 80 | 0 | |
| Libraries | | | | | |
| Libraries Service | Income through new charging framework | 43 | 35 | 8 | Delay in implementation of new fees and charges |
| Libraries Service | Efficiency review of operating model | 15 | 15 | | Achieved through the 'flexible' retirement of a senior manager |
| Libraries Service | Identified efficiencies within contracts | 90 | 90 | | Achieved through the renegotiation of bibliographic services contract through the PFI |
| | | 148 | 140 | 8 | |
| Corporate Policy & Communities | | | | | |
| Overview & Scrutiny | Deletion of the majority of the service and deliver statutory minimum service | 151 | 151 | | Fully achieved |
| Corporate Research Team | Integrate intelligence function with Public Health enabling deletion of 0.5 FTE vacant post | 25 | 25 | | Fully achieved |
| Senior Managers Support | Service review to achieve efficiencies through pooled | 30 | 30 | | Fully achieved |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|--|---|--------------------------------------|-------------------------------------|----------------------|----------------------------|
| | working and service modernisation | | | | |
| | | 206 | 206 | 0 | |
| Sport & Leisure | | | | | |
| Sports Facilities | Energy saving measures. | 50 | 50 | | In progress |
| Sports Development | Streamlining and refocussing of sports development promotional events and integrating with Public Health. | 200 | 200 | | Achieved |
| Seafront Services | Increased income from ground rents for Beach Huts and rents from Chalets (£5k) and reduced expenditure on sea buoys (£5k) | 10 | 10 | | |
| Outdoor Events | Increased income from events | 10 | 10 | | In progress |
| Funding switch - Public Health Grant | | 100 | 100 | | |
| | | 370 | 370 | 0 | |
| TOTAL ASSISTANT CHIEF EXECUTIVE | | 999 | 991 | 8 | |

Explanation of Other Key Variances

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|---|--------------------------------|--|----------------------------|
| Communications | | | |
| 0 | Communications | A break-even position is being reported at Month 2. | |
| Royal Pavilion, Arts & Museums | | | |
| 0 | Royal Pavilion, Arts & Museums | A break-even position is reported at Month 2, however there are pressures arising from the investment in changes to Brighton | |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|---|--------------------------------|--|---|
| | | Museum front entrance in order to achieve new income through introduction of admission charge. There are also on-going pressures on retail income and increases in security system costs. There continues to be close monitoring of all income streams and holding vacancies and other expenditure where possible to help cover these pressures. A better assessment of the TBM forecast will be possible at Month 5. | |
| Tourism & Venues | | | |
| 0 | Tourism & Venues | Venues are reporting a break-even position at Month 2. However, there are risks associated with this due to a forecast overspend against Entertainment income of £0.180m. This is based on contracted business and concerts that Venues are either in discussion over or where there are blank dates in the diary and there is reasonable confidence that business will appear at some point. There is also an additional £0.020m relating to lost catering, merchandise and recharges income less the estimated saving on Stewarding. It is possible that other business may appear during the year (concerts have a short lead in time) to manage this pressure down, which is why a break-even position is being reported at this time. | |
| Libraries | | | |
| 43 | Libraries | The projected overspend is mainly as a result of still carrying the Accelerated Service Redesign allocation from previous years. | Planning to mitigate this by using capital repayment money not fully needed until next financial year when the LMS contract will be re-commissioned. Still assessing. |
| Corporate Policy & Communities | | | |
| 0 | Corporate Policy & Communities | A break-even position is being reported at Month 2. | |
| Sport & Leisure | | | |
| 0 | Sport & Leisure | A break-even position is being reported at Month 2. | |

Public Health – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|-------------------------------|---------------------------------------|---|--|--------------------------------------|
| 0 | Public Health | 951 | 951 | 0 | 0.0% |
| (22) | Community Safety | 1,443 | 1,443 | 0 | 0.0% |
| (100) | Public Protection | 2,088 | 2,088 | 0 | 0.0% |
| (122) | Total Revenue - Public Health | 4,482 | 4,482 | 0 | 0.0% |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|--|--|-------------------------------------|------------------------------------|------------------|---|
| Public Health | | | | | |
| Smoking & Tobacco | Re-specifying and retendering the service | 35 | 35 | | |
| Substance Misuse Services | Contract award agreed by P & R will result in savings | 400 | 400 | | |
| Public Health Advice | Reduce overall service level and service redesign. | 30 | 30 | | |
| Physical Activity | Exercise referral service redesign | 10 | 10 | | |
| Other Public Health Savings | Review of commitments and potential contract reductions | 285 | 285 | | |
| Allocation of Public Health grant against services to deliver Public Health Outcomes | Allocation of Public Health grant against services to deliver Public Health Outcomes | (760) | (760) | | Savings of £0.760m have been delivered against the ring-fenced Public Health grant and reinvested in services to deliver Public Health outcomes (in line with the budget strategy). Discussions are ongoing with Transport and Housing with |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|--|--|--------------------------------------|-------------------------------------|----------------------|---|
| | | | | | regards to use of their £0.050m funding respectively to ensure they deliver against Public Health outcomes. |
| | | 0 | 0 | 0 | |
| Community Safety | | | | | |
| Community Safety | Commissioning of street outreach services, priority and prolific offenders and support for drugs interventions within recommissioning of substance misuse services | 39 | 39 | | All savings have been achieved up-front, with the exception of £0.020m relating to the restructuring of PCST. It is anticipated that the £0.020m will be delivered during the course of the year. |
| Community Safety | Restructuring of posts (policy officer migrants and CS manager, community cohesion) and release of vacant post | 31 | 31 | | |
| Community Safety | Restructuring of partnership community safety team (PCST) | 20 | 20 | | |
| Communities Against Drugs & Environment Improvement Team | Removed match funding at the end of European (INTERREG) funding for the Communities Against Drugs Team | 68 | 68 | | |
| Community Safety | East Sussex funding contribution to extended service | 10 | 10 | | |
| Community Safety. | Reduction in the capacity of intelligence, analytical and strategic assessment functions. | 18 | 18 | | |
| | | 186 | 186 | 0 | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated £'000 | At Risk £'000 | Progress/Mitigation |
|----------------------------------|--|--------------------------------------|-------------------------------------|----------------------|--|
| Public Protection | | | | | |
| Environmental Health & Licensing | Development of a self funded wildlife management team charging for pest control | 20 | 20 | | It is hoped that all the savings will be delivered by the end of the financial year. The service is mid-way through a staff restructure, which accounts for the majority of the savings targets. |
| Environmental Health & Licensing | Service redesign including removal of the late night noise investigation service | 165 | 165 | | |
| Trading Standards | Service redesign to allow sustainability of statutory service in future | 50 | 50 | | |
| | | 235 | 235 | 0 | |
| TOTAL PUBLIC HEALTH | | 421 | 421 | 0 | |

Explanation of Other Key Variances

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|----------------------------|----------------|--|----------------------------|
| Public Health | | | |
| 0 | Public Health | The ring fenced public health grant is £18.695m, which is the same as last financial year. In 2014/15 an amount of £0.850m was carried forward as part of a public health reserve, mainly as a result of delays in committed spend. The forecast for Month 2 is a break-even position. However there is a risk in reporting this position, following the announcement by the Chancellor on 4th June of further saving programmes across all of Government, including the Department of Health being asked to deliver | |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|------------------------------------|----------------|---|----------------------------|
| | | in-year savings of £200m from the public health grant (equivalent to a 7% reduction). Options for delivering on-going savings are currently being explored to help plan for any reduction in funding and deliver a balanced budget. | |

Finance & Resources & Law – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---------------------------------------|---------------------------------------|---|--|--------------------------------------|
| (159) | City Services | 7,469 | 7,505 | 36 | 0.5% |
| (604) | Housing Benefit Subsidy | (637) | (797) | (160) | -25.1% |
| (55) | HR & Organisational Development | 3,356 | 3,430 | 74 | 2.2% |
| (6) | ICT | 6,938 | 6,938 | 0 | 0.0% |
| (882) | Property & Design | 4,411 | 4,411 | 0 | 0.0% |
| (129) | Finance | 5,225 | 5,225 | 0 | 0.0% |
| (22) | Performance, Improvement & Programmes | 478 | 478 | 0 | 0.0% |
| (46) | Legal & Democratic Services | 3,054 | 3,044 | (10) | -0.3% |
| (1,903) | Total Revenue - Resources & Finance | 30,294 | 30,234 | (60) | -0.2% |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|--|--|-------------------------------------|---------------------------|---------|---------------------|
| City Services (Revenues & Benefits) | | | | | |
| Council Tax Running Expenses | Removal of class C 'empty and unfurnished' discount | 94 | 94 | | |
| Council Tax Running Expenses | Removal of class D 'uninhabitable' discounts | 32 | 32 | | |
| Council Tax Running Expenses | Digitally Improve the Customer Experience (DiCE) reduction in project costs | 10 | 10 | | |
| Council Tax Benefit Local Variations | Deletion, without detriment, of this discretion which is now accounted for elsewhere in the tax base | 32 | 32 | | |
| Housing Benefits / CTR | Reduction of Outreach Work | 58 | 58 | | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|---|--|--------------------------------------|-------------------------------|----------------|--|
| administration costs | through reduced admin costs | | | | |
| Technical Delivery Team | Negotiation of reduced costs in contracts | 30 | 30 | | |
| Technical Delivery Team | Implementation of completely online claiming system reducing paper and stationery costs | 10 | 10 | | |
| Electronic Document Management Team (EDM) | Redesign of Electronic Document Management function | 5 | 5 | | |
| Housing Benefits / CTR administration costs | Reduction of opening hours of 20-25% of current counter or phone opening | 58 | 58 | | |
| | | 329 | 329 | 0 | |
| City Services (Life Events) | | | | | |
| Bereavement Services | Increased income through increased fees and charges | 35 | 35 | | |
| Customer Service Centres | Reduce security resources at the Brighton Bartholomew House Customer Service Centre (CSC) | 36 | 0 | 36 | The service will be reviewing its budgets to identify resources which could offset the pressure. |
| City Services Managers & Customer Improvement. | Reduce the specialist training capacity to Revenues and Benefits | 51 | 51 | | |
| Overview of City Services Division | Service redesign of management roles across the division | 35 | 35 | | |
| | | 157 | 121 | 36 | |
| Human Resources & Organisational Development | | | | | |
| Health and Safety | Savings achieved through reduction in staffing budget through service redesign and increase in income generation | 25 | 25 | | |
| Occupational Health & Wellbeing | Reduction of 0.5 FTE post | 20 | 20 | | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|---------------------------------------|--|--------------------------------------|-------------------------------|----------------|----------------------------|
| HR Services | Implementation of Talentlink to replace iGrasp and simplification of business processes | 57 | 57 | | |
| Workforce Development | Service redesign and purchase of a new Learning Management System will release monies from other learning related licences | 50 | 50 | | |
| | | 152 | 152 | 0 | |
| ICT | | | | | |
| Schools ICT Service | Increase trading to more schools and the community and voluntary sector. | 13 | 13 | | |
| Third Party Suppliers | Review and reduction of existing contracts to offset some of the continuing increase in costs from demands of new services | 345 | 345 | | |
| | | 358 | 358 | 0 | |
| Property & Design | | | | | |
| Architecture & Design Team | Increased fee income from professional project work | 15 | 15 | | |
| Building Surveying & Maintenance Team | Increased fee income from professional project work | 15 | 15 | | |
| Workstyles Project | Combined Phases 2 & 3 of Workstyles includes release of leased buildings and reduced property running costs | 170 | 170 | | |
| Education Property Management | Deletion of vacant admin post | 20 | 20 | | |
| Estates Management | Increased income from the commercial urban portfolio | 150 | 150 | | |
| Facilities & Building Services | Re-procurement of the corporate building cleaning contract | 80 | 80 | | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|--|--|--------------------------------------|-------------------------------|----------------|---|
| Facilities & Building Services | Service re-design of the courier service. | 55 | 55 | | |
| Corporate Landlord Budgets | Reduction to the corporate planned maintenance budget programme (£295k), reduced reactive repair costs and client adjustments (£65k), Closure/surrender of surplus buildings and leases (£15k) | 462 | 462 | | |
| | | 967 | 967 | | |
| Internal Audit / Corporate Fraud / NAFN | | | | | |
| Internal Audit | Reduced Principal Auditor staffing | 50 | 50 | | |
| | | 50 | 50 | 0 | |
| Finance & Procurement | | | | | |
| External Audit | Planned 25% reduction in audit fees | 40 | 40 | | |
| Financial Services | Staffing efficiencies across Financial Management teams, debtors and creditors services through Business Process Improvement | 163 | 163 | | Approx. £0.066m identified to date but further work is required to deliver the full saving. |
| Financial Services | Income generation measures including charges for grant administration, banking services, etc. | 60 | 60 | | |
| | | 263 | 263 | 0 | |
| Legal & Democratic Services | | | | | |
| Members' Allowances | Reduction in some special responsibility allowances and a rationalisation of others | 25 | 25 | | |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|---|-----------------------------------|-------------------------------|------------------------|-----------|---------------------|
| | | 25 | 25 | 0 | |
| TOTAL FINANCE, RESOURCES & LAW | | 2,301 | 2,265 | 36 | |

Explanation of Other Key Variances

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|--|-------------------|--|--|
| Housing Benefit Subsidy | | | |
| (160) | HB Subsidy | There is a forecast surplus of £0.160m associated with the recovery of over payments of former Council Tax benefit. At this stage there is insufficient data to make a forecast for the main Housing Benefit subsidy budgets. | |
| HR & Organisational Development | | | |
| 74 | Union Support | A projected £0.074m overspend has been reported within the service. This is due to a gap between the cost of the current level of full-time corporate release for union activities and the available budget. | A review of union facilities is under way. |
| Property & Design | | | |
| 0 | Property & Design | A break-even position is being reported at Month 2. | |
| Finance | | | |
| 0 | Finance | The forecast for Financial Services, Procurement & Audit is an on-target position. However, with the Brighton NAFN office due to close on 30 September this year, it is expected that the council will not be able to recover fees and costs of approximately £0.084m. The current intention is to attempt to bear these | |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|--|---------------------|--|---------------------|
| | | pressures within existing resources. | |
| Legal & Democratic Services | | | |
| (10) | Democratic Services | The forecast is a small underspend of £0.010m relating to Democratic Services. | |

Corporate Budgets – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Service | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|-----------------------------------|---------------------------------------|---|--|--------------------------------------|
| (257) | Bulk Insurance Premia | 0 | 0 | 0 | 0.0% |
| (117) | Concessionary Fares | 10,827 | 10,827 | 0 | 0.0% |
| (349) | Capital Financing Costs | 8,677 | 8,677 | 0 | 0.0% |
| 0 | Levies & Precepts | 165 | 165 | 0 | 0.0% |
| (16) | Corporate VfM Savings | 0 | 0 | 0 | 0.0% |
| (2,067) | Risk Provisions | 3,315 | 3,315 | 0 | 0.0% |
| 402 | Other Corporate Items | (16,342) | (16,342) | 0 | 0.0% |
| (2,404) | Total Revenue - Corporate Budgets | 6,642 | 6,642 | 0 | 0.0% |

No significant variances to report

Housing Revenue Account – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Housing Revenue Account | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--------------------------------|---------------------------------------|---|--|--------------------------------------|
| (1,045) | Capital Financing | 31,146 | 31,146 | - | 0.0% |
| (52) | Head of Housing HRA | 3,448 | 3,448 | - | 0.0% |
| 107 | Head of Regeneration | 290 | 298 | 8 | 2.8% |
| 49 | Housing Strategy | 524 | 523 | (1) | -0.2% |
| (8) | Housing Support | 257 | 257 | - | 0.0% |
| 383 | Income Involvement Improvement | (49,568) | (49,472) | 96 | 0.2% |
| 223 | Property & Investment | 11,999 | 11,969 | (30) | -0.3% |
| 586 | Tenancy Services | 1,904 | 1,786 | (118) | -6.2% |
| 243 | Total | - | (45) | (45) | |

Monitoring of Achievement of 2015/16 Savings

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|---|--|-------------------------------|------------------------|---------|--|
| Housing Revenue Account | | | | | |
| Housing Management & Maintenance | Service redesign of Housing Management & Maintenance | 251 | 251 | 0 | Housing Investment Programme Posts deleted. Further Service redesign is ongoing |
| Housing Support | 50% of management post no longer chargeable to the HRA | 30 | 30 | 0 | The removal of this recharge has been implemented |
| Head of Housing Management & Support Services | Reduce support service charges | 33 | 33 | 0 | The level of recharges to the General Fund has been reviewed and these savings are anticipated to be achieved in full. |

Appendix 1 – Revenue Budget Performance

| Service | Description of Saving Opportunity | Planned Savings 2015/16 £'000 | Achieved / Anticipated | At Risk | Progress/Mitigation |
|--|---|--------------------------------------|-------------------------------|----------------|--|
| Customer Services | Increase charges for car parks and garages where demand is high | 45 | 45 | 0 | The increase in charges has been implemented |
| Customer Services | Reduction of 0.15 FTE office management post | 4 | 4 | 0 | Reduction of FTE has been implemented |
| Customer Services | Reduction in general office budgets | 40 | 40 | 0 | These savings will be achievable with careful budget monitoring |
| Tenancy Services - Estates | Reduce materials budget within the estates service | 25 | 25 | 0 | These savings will be achievable with careful budget monitoring |
| Tenancy Services - Tenancy Management | Deletion of vacant post | 27 | 27 | 0 | The vacant post has been deleted, the balance will be achieved as a recharge to the General Fund at the year end. |
| Tenancy Services - Tenancy Management | Efficiency savings on gas and electricity costs | 120 | 120 | 0 | Review of current charges for gas and electricity shows that these savings will be achieved. |
| Tenancy Services - Older Peoples Housing | Phase 2 of Intensive Housing Management Charge | 111 | 111 | 0 | Charges have been implemented |
| Tenancy Services - Older Peoples Housing | Reduction of cost of Carelink line | 7 | 7 | 0 | The reduction in Carelink charges has been achieved |
| Property and Investment | Review of commercial rents | 50 | 50 | 0 | The review has been completed and implementation is progressing |
| Property and Investment | Efficiencies on repairs and service contracts | 164 | 164 | 0 | Forecast savings on Routine Repairs and new contracts, in particular Gas Servicing and Maintenance have enabled these efficiencies |
| TOTAL HOUSING REVENUE ACCOUNT | | 907 | 907 | 0 | |

Explanation of Other Key Variances

| Key Variances £'000 | Service | Description | Mitigation Strategy |
|--------------------------------|-----------------------------------|---|--|
| Housing Revenue Account | | | |
| 96 | Income, Involvement & Improvement | Income, Involvement and Improvement is projected to overspend by £0.096m. This is due to an additional Discretionary Housing Payment (DHP) contribution of £0.050m, £0.025m for a Lean Thinking Review to improve Debt Collection and minimise arrears and £0.023m in respect of recharges for Multi-function devices (MFD). | The overspend in this service is being covered by underspends elsewhere within the HRA |
| (30) | Property & Investment | The Property & Investment Section is due to underspend by £0.030m. This is due to vacancy management saving £0.020m and further projected underspends of £0.010m on office running costs including Gas & Electricity | |
| (118) | Tenancy Services | Tenancy Services are projected to underspend by £0.118m. This relates to an £0.040m payment towards a Community Payback Scheme that is no longer required and anticipated underspends of £0.090m in respect of Gas & Electricity charges. These are partly offset by projected overspends of £0.015m in respect of Council Tax charges and £0.011m for increased Broadband capacity in Sheltered Schemes. | |

Dedicated Schools Grant – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | Dedicated Schools Grant (DSG) | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---|---------------------------------------|---|--|--------------------------------------|
| 0 | Individual Schools Budget (ISB) <i>(This does not include the £5.534m school balances brought forward from 2014/15)</i> | 121,097 | 121,097 | 0 | 0.0% |
| (742) | Early Years Block (including delegated to Schools) <i>(This includes Private Voluntary & Independent (PVI) Early Years 3 & 4 year old funding for the 15 hours free entitlement to early years education)</i> <i>(This includes £0.615m brought forward from 2014/15)</i> | 12,422 | 12,572 | 150 | 1.2% |
| (427) | High Needs Block (excluding delegated to Schools); <i>(This includes £0.807m underspend brought forward from 2014/15)</i> | 18,043 | 18,073 | 30 | 0.2% |
| (284) | Exceptions and Growth Fund <i>(This includes £0.031m underspend brought forward from 2014/15)</i> | 5,939 | 5,968 | 29 | 0.5% |
| 0 | Grant Income | (156,049) | (156,049) | 0 | 0.0% |
| (1,453) | Net DSG Budget | 1,452 | 1,661 | 209 | 14.4% |

Explanation of Key Variances

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|---------------------------|----------------------------------|---|--|
| Early Years Block | | | |
| 150 | PVI payments for 3 & 4 year olds | Overspend in payments for 3 & 4 year olds. | 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. |

Appendix 1 – Revenue Budget Performance

| Key Variances £'000 | Service | Description (Note: FTE/WTE = Full/Whole Time Equivalent) | Mitigation Strategy |
|-------------------------------------|-----------------|---|--|
| High Needs Block | | | |
| 30 | Special Schools | Overspend in relation to top-up provided to Special Schools in relation to pupil numbers. | 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. |
| Exceptions & Growth Fund | | | |
| 29 | Exceptions | Overspend in school premature retirement costs. | Costs will be monitored closely over the year and efforts made to reduce costs or identify mitigating savings to bring these budgets back in balance where possible. |

NHS Trust Managed S75 Budgets – Revenue Budget Summary

| Provisional Variance 2014/15 £'000 | S75 Partnership | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--|---------------------------------------|---|--|--------------------------------------|
| 343 | Sussex Partnership Foundation NHS Trust (SPFT) | 11,098 | 11,793 | 695 | 6.3% |
| (84) | Sussex Community NHS Trust (SCT) | 555 | 555 | - | 0.0% |
| 259 | Total Revenue - S75 | 11,653 | 12,348 | 695 | 6.0% |

Explanation of Key Variances

| Key Variances £'000 | Service | Description (Note WTE = Whole Time Equivalent) | Mitigation Strategy |
|--|---------|---|---|
| Sussex Partnership Foundation NHS Trust | | | |
| 695 | SPFT | The pressures of £0.695m are due mainly to (1) Pressures brought forward from 2014/15 (0.605m), (2) net full year effect of 2014/15 packages of care (£0.516m) and (3) a net increase in demand in the first 2 months of 2015/16 of 22.52 WTE (£0.454m) above projected growth in demand built. These pressures have been offset by assumptions from projected income on new packages of care (£0.184m) in 2015/16 to try and mitigate some of the demand already seen in 2015/16. The pressure of £0.695m is after the assumed contribution from the risk share (50:50) with SPFT of £0.695m | <p>Actions have been put in place to meet the 2015/16 budget strategy savings targets and to meet unachieved savings from previous years so there is limited scope to address the emerging demand pressures. Actions include:</p> <ul style="list-style-type: none"> • There will be increased panel scrutiny of all complex or high cost placement and care package requests to assure value for money against eligible care needs. Where possible, no placements will be made above the agreed local authority rates. • The Risk share arrangement with SPFT assumes a 50:50 split. • Continuing Health Care Taskforce in place to ensure that all appropriate funding sources are identified. |

Savings Monitoring 2015/16

General Fund

| Directorate | 2015/16 Target £'000 | Full Year Effect £'000 | 2015/16 Achieved £'000 | 2015/16 Anticipated £'000 | 2015/16 At Risk £'000 |
|---|---------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|----------------------------------|
| Children's Services | 3,966 | 4,913 | 1,332 | 1,920 | 775 |
| Adult Services | 7,142 | 8,214 | 3,417 | 3,725 | 0 |
| Environment, Development & Housing | 3,992 | 5,542 | 1,153 | 2,570 | 269 |
| Assistant Chief Executive Services | 999 | 1,070 | 714 | 277 | 8 |
| Public Health | 421 | 421 | 236 | 185 | 0 |
| Finance & Resources & Law | 2,301 | 2,424 | 349 | 1,916 | 36 |
| Total Savings in Directorate budgets | 18,821 | 22,584 | 7,201 | 10,593 | 1,088 |
| Tax Base Savings | 2,268 | 2,268 | 2,268 | 0 | 0 |
| Grand Total General Fund Savings | 21,089 | 24,852 | 9,469 | 10,593 | 1,088 |

Housing Revenue Account

| Directorate | 2015/16 Target £'000 | Full Year Effect £'000 | 2015/16 Achieved £'000 | 2015/16 In Progress £'000 | 2015/16 At Risk £'000 |
|------------------------------------|---------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|----------------------------------|
| Environment, Development & Housing | 907 | 907 | 423 | 484 | 0 |
| Total HRA Savings | 907 | 907 | 423 | 484 | 0 |

Children’s Services – Capital Budget Summary

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at Other Committees £'000 | New Schemes (Appendix 4) £'000 | Variation, Slippage / reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--|--|---|---|--|---------------------------------------|---|--|--------------------------------------|
| 3 | Child Health Safeguard and Care | 40 | 0 | 0 | 0 | 40 | 40 | 0 | 0.0% |
| (9) | Education and Inclusion | 24,170 | 686 | 0 | 0 | 24,856 | 24,856 | 0 | 0.0% |
| 0 | SEN & Disability | 60 | 0 | 0 | 0 | 60 | 60 | 0 | 0.0% |
| 0 | Schools | 681 | 0 | 0 | 0 | 681 | 681 | 0 | 0.0% |
| (1) | Stronger Families Youth & Communities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| (7) | Total Children’s Services | 24,951 | 686 | 0 | 0 | 25,637 | 25,637 | 0 | 0.0% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|------------------------------------|-------|--------------------------------|--|---------------------|
| Education & Inclusion | | | | |
| Reported at Other Committees | 686 | Universal Free School Meals | Reported to P&R Committee on 11 th June 2015. | |

Adult Services – Capital Budget Summary

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix 4) £'000 | Variation, Slippage / reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---------------------------------|--|---|---|--|---------------------------------------|---|--|--------------------------------------|
| 0 | Adults Assessment | 488 | 0 | 0 | 0 | 488 | 488 | 0 | 0.0% |
| 0 | Adults Provider | 27 | 0 | 0 | 0 | 27 | 27 | 0 | 0.0% |
| 0 | Commissioning and Contracts | 53 | 0 | 0 | 0 | 53 | 53 | 0 | 0.0% |
| 0 | Total Adult Services | 568 | 0 | 0 | 0 | 568 | 568 | 0 | 0.0% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|-----------------------|-------|---------|-------------|---------------------|
| Adult Services | | | | |
| No Changes | | | | |

Appendix 3 – Capital Programme Performance

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

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix4) £'000 | Variation, Slippage/ reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--------------------------------|--|---|--|---|---------------------------------------|---|--|--------------------------------------|
| (71) | City Infrastructure | 2,405 | 0 | 170 | (28) | 2,547 | 2,547 | 0 | 0.0% |
| 0 | City Regeneration | 23,658 | 0 | 0 | 0 | 23,658 | 23,658 | 0 | 0.0% |
| 0 | Planning & Building Control | 310 | 0 | 0 | 0 | 310 | 310 | 0 | 0.0% |
| (102) | Transport | 6,926 | 0 | 2,467 | 0 | 9,393 | 9,393 | 0 | 0.0% |
| (49) | Housing GF | 3,377 | 0 | 544 | 376 | 4,297 | 4,997 | 700 | 16.3% |
| (222) | Total ED&H | 36,676 | 0 | 3,181 | 348 | 40,205 | 40,905 | 700 | 1.7% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|----------------------------|-------|---------------------------|--|---------------------|
| City Infrastructure | | | | |
| Variation | (28) | Various | Adjustments to various projects to reflect Section 106 funding available: <ul style="list-style-type: none"> • Queen's Park Playground (£0.006m); • St Ann's Wells Gardens (£0.009m); • Turner Park (£0.001m); • Knoll Recreation Ground (£0.012m). | |
| Housing GF | | | | |
| Variation | 76 | HAOT – Major Adaptations | Increased funding from Adult Social Care. | |
| Variation | 300 | Permanent Travellers Site | Following the commencement of detailed design work last year it became apparent that the cost of the foul water drainage, coupled with construction cost inflation, had pushed the cost of the project beyond the £1.739m grant originally secured from government in 2007. In December last year Policy & Resources committee | |

Appendix 3 – Capital Programme Performance

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|-------------|-------|---------------------------|---|--|
| | | | approved an additional £0.349m (£0.170m of which was to meet the anticipated costs for offsite foul water drainage). Since then, further design revisions have been undertaken in respect of foul water and surface water drainage in order to best protect groundwater sources and to meet the requirements of the Environment Agency, increasing these costs further. In addition, other costs and construction cost inflation have resulted in a further shortfall of between £0.250m - £0.300m. Work is still ongoing on determining final costs, but it is proposed that any funding that may be allocated to meet the shortfall is capped at £0.300m and met from capital reserves. | |
| Overspend | 300 | Permanent Travellers Site | See description above. | |
| Overspend | 400 | Disabled Facilities Grant | The Disabled Facilities Grant funding for 2015/16 is £0.911m. An overspend of £0.367m for last financial year, 2014/15, was reported to Policy & Resources on 11 June 2015 and is being funded from 2015/16 grant. This leaves a budget of £0.544m for 2015/16. Committed expenditure (less estimates for income from other sources) is estimated to be £0.944m, leading to an overspend of £0.400m in 2015/16. A 3 year recovery plan to reduce costs and increase funding is being implemented to ensure a break-even position. | If budgets and demand remain at the current levels then implementation of the measures outlined in the report to Housing and New Homes Committee will still leave significant pressures in 2016/17 unless further mitigation measures can be identified or additional funding identified. Progress of the recovery plan will be monitored during the year. |

Appendix 3 – Capital Programme Performance

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

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix 4) £'000 | Variation, Slippage/ reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---|--|---|---|---|---------------------------------------|---|--|--------------------------------------|
| 0 | City Regeneration | 5,353 | 0 | 0 | 0 | 5,353 | 5,353 | 0 | 0.0% |
| 26 | Housing HRA | 42,947 | 0 | 50 | 705 | 43,702 | 43,638 | (64) | -0.1% |
| 26 | Total Environment, Development and Housing HRA | 48,300 | 0 | 50 | 705 | 49,055 | 48,991 | (64) | -0.1% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|--------------------|-------|--|--|---|
| Housing HRA | | | | |
| Variation | 805 | Solar Panels Citywide, Decorations Programme, Lift Programme | The Capital Resources and Capital Investment programme 2015/16, reported to Policy & Resources in February 2015, included HRA approved schemes for 2015/16 (i.e. schemes already reprofiled at month 9 in 2014/15) totalling £6.277m. This figure was net of three schemes totalling £0.805m which had been brought forward to the 2014/15 HRA programme for Solar Panels, decorations, and the lifts programme. These schemes had been reported through the TBM reporting process as reprofiles, however they should have been reported as budget variations to approve the scheme funding. | The reprofiling of these schemes had already been approved through the TBM monitoring process 2014/15. There is no impact to the HRA resources from this reported variation as the funding of these schemes had already been identified when preparing the HRA 3 year capital programme and resourcing 2014-17. |

Appendix 3 – Capital Programme Performance

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|-------------|-------|---|---|--|
| Variation | (70) | Door Entry Systems Replacement & Repair | Original budget of £0.285m compared to anticipated cost of £0.215m for door entry/CCTV replacement in 2015/16. £0.020m of this underspend is to be transferred to the Fire Alarm capital budget and used to replace obsolete and faulty fire alarm panels and also to replace heat detectors in HMO properties where the call out volume is high due to false alarms. The remaining underspend, £0.050m, is to be transferred to Sheltered Services for a pilot project to replace the warden call system at an identified sheltered scheme. This may be rolled out across all 23 schemes as part of a three year programme. A new project form has been submitted. | The door entry replacement programme will continue as part of rolling programme going forward. |
| Variation | (50) | ICT Fund | A transfer of HRA ICT capital programme funding to HRA ICT revenue resources is required to assist with the delivery of the HRA ICT programme, as some items of expenditure are required to be classified as revenue expenditure in the council's accounts. | |
| Variation | 20 | Commercial Fire Alarms | Variation to budget of less than £0.050m. | |
| Overspend | 456 | Manor Place | Increase in scheme budget primarily due to decontamination of the communal gardens at Robert Lodge and associated works. Build costs have increased to construction inflation and specific specification requirements. | Increased costs will be met from underspends identified in the 2015/16 HRA Capital Programme. |
| Underspend | (520) | Citywide Conversions & Extensions | The number of properties identified for the conversions/extensions programme to be carried out during 2015/16 is less than the original budget forecast, leaving a forecast underspend of £0.520m. There is an annual capital programme for conversions & extensions | This has been identified as an underspend in 2015/16. Provisional budgets totalling £2.2m for Citywide conversions and extensions were included in the provisional 2016/17 & 2018/19 HRA Capital Programme |

Appendix 3 – Capital Programme Performance

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|--------------------|--------------|----------------|--|---|
| | | | therefore a carry forward of budget is not required. | appendix, which was included in the HRA Capital Programme 2015-2018 report approved by Policy & Resources in February 2015. |

Appendix 3 – Capital Programme Performance

Assistant Chief Executive - Capital Budget Summary

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix4) £'000 | Variation, Slippage / reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---|--|---|--|--|---------------------------------------|---|--|--------------------------------------|
| 0 | Corporate Policy Performance & Communities | 82 | 0 | 0 | 0 | 82 | 82 | 0 | 0.0% |
| 0 | Royal Pavilion Arts & Museums | 255 | 0 | 776 | 0 | 1,031 | 1,031 | 0 | 0.0% |
| 0 | Sports & Leisure | 86 | 0 | 2,295 | 0 | 2,381 | 2,381 | 0 | 0.0% |
| 0 | Libraries | 65 | 0 | 0 | 0 | 65 | 65 | 0 | 0.0% |
| 0 | Tourism & Venues | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| 0 | Total Assistant Chief Executive | 488 | 0 | 3,071 | 0 | 3,559 | 3,559 | 0 | 0.0% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|----------------------------------|-------|---------|-------------|---------------------|
| Assistant Chief Executive | | | | |
| No Changes | | | | |

Public Health – Capital Budget Summary

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix 4) £'000 | Variation, Slippage / reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|--------------------------------|--|---|---|--|---------------------------------------|---|--|--------------------------------------|
| 0 | Public Health | 75 | 0 | 0 | 270 | 345 | 345 | 0 | 0.0% |
| 0 | Public Protection | 78 | 0 | 0 | 0 | 78 | 78 | 0 | 0.0% |
| 0 | Total Public Health | 153 | 0 | 0 | 270 | 423 | 423 | 0 | 0.0% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|----------------------|-------|-----------------------------|--|---------------------|
| Public Health | | | | |
| Variation | 270 | Drugs & Alcohol Recovery | This project supports the Public Health England capital investment programme in drug and alcohol recovery services within the community. The funding awarded to Brighton & Hove City Council for 2015/16 is £0.270m allocated to the new Drug & Alcohol service provider. The project is supported by the local authority and demonstrates that the funding will be used to encourage the growth and effectiveness of recovery-orientated drug or alcohol treatment and recovery support services. The capital expenditure will be covered by the grant from Public Health England (received 31st March 2015). Grant agreements have been issued to each of the providers to ensure that the grant conditions are complied with. | |

Appendix 3 – Capital Programme Performance

Finance, Resources and Law - Capital Budget Summary

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix 4) £'000 | Variation, Slippage / reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---|--|---|---|--|---------------------------------------|---|--|--------------------------------------|
| 0 | City Services | 59 | 0 | 0 | 0 | 59 | 59 | 0 | 0.0% |
| 0 | Finance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| (165) | HR Organisational Development | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| 0 | ICT | 3,337 | 0 | 0 | 0 | 3,337 | 3,337 | 0 | 0.0% |
| (10) | Performance Improvement & Programmes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| 7 | Property & Design | 16,309 | 0 | 0 | 0 | 16,309 | 16,309 | 0 | 0.0% |
| (168) | Total Finance, Resources and Law | 19,705 | 0 | 0 | 0 | 19,705 | 19,705 | 0 | 0.0% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|-------------------------------------|-------|---------|-------------|---------------------|
| Finance, Resources & Law | | | | |
| No Changes | | | | |

Corporate Services - Capital Budget Summary

| 2014/15 Outturn Variance £'000 | Service | 2015/16 Original Budget £'000 | Reported at other Committees £'000 | New Schemes (Appendix 4) £'000 | Variation, Slippage / reprofile £'000 | 2015/16 Budget Month 2 £'000 | Forecast Outturn Month 2 £'000 | Forecast Variance Month 2 £'000 | Forecast Variance Month 2 % |
|---|---------------------------------|--|---|---|--|---------------------------------------|---|--|--------------------------------------|
| 0 | Corporate Services | 25 | 0 | 0 | 0 | 25 | 25 | 0 | 0.0% |
| 0 | Total Corporate Services | 25 | 0 | 0 | 0 | 25 | 25 | 0 | 0.0% |

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

| Detail Type | £'000 | Project | Description | Mitigation Strategy |
|---------------------------|-------|---------|-------------|---------------------|
| Corporate Services | | | | |
| No Changes | | | | |

| New Capital Project Approval Request | | | | |
|--|--------------------------------|-----------|------------|-----------|
| Unit: | City Infrastructure, Cityparks | | | |
| Project title: | Lagoon Play area | | | |
| Total Project Cost (All Years): | £48,350 | | | |
| Purpose, benefits and risks: | | | | |
| Improvement and capacity building to provide play opportunities associated with new housing. There are medium term maintenance implications for inspection and repair of new equipment and end of life decisions to be made on replacement or removal. The equipment/improvements will be selected on the grounds of being durable and as low maintenance as possible whilst improving opportunities for play. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| External Contribution (inc S106) | 48 | | | 48 |
| Total estimated costs and fees | 48 | | | 48 |
| Financial implications: | | | | |
| The project will be funded by Section 106 contributions. | | | | |

| New Capital Project Approval Request | | | | |
|---|--------------------------------|-----------|------------|-----------|
| Unit: | City Infrastructure, Cityparks | | | |
| Project title: | Manor Road | | | |
| Total Project Cost (All Years): | £41,700 | | | |
| Purpose, benefits and risks: | | | | |
| Improvement and capacity building to provide play opportunities and access associated with new housing. There are medium term maintenance implications for inspection and repair of new equipment and end of life decisions on replacement or removal. The equipment / improvements will be selected on the grounds of being durable and as low maintenance as possible whilst improving access to opportunities for play and recreation. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| External Contribution (inc S106) | 42 | | | 42 |
| Total estimated costs and fees | 42 | | | 42 |
| Financial implications: | | | | |
| The project will be funded by Section 106 contributions. | | | | |

| New Capital Project Approval Request | | | | |
|---|--------------------------------|-----------|------------|-----------|
| Unit: | City Infrastructure, Cityparks | | | |
| Project title: | William Clarke Park | | | |
| Total Project Cost (All Years): | £60,000 | | | |
| Purpose, benefits and risks: | | | | |
| Improvement and capacity building to provide play opportunities and access associated with new housing. There are medium term maintenance implications for inspection and repair of new equipment and end of life decisions on replacement or removal. The equipment/improvements will be selected on the grounds of being durable and as low maintenance as possible whilst improving access to opportunities for play and recreation. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| External Contribution (inc S106) | 60 | | | 60 |
| Total estimated costs and fees | 60 | | | 60 |
| Financial implications: | | | | |
| The project will be funded by Section 106 contributions. | | | | |

| New Capital Project Approval Request | | | | |
|---|--------------------------------|-----------|------------|-----------|
| Unit: | City Infrastructure, Cityparks | | | |
| Project title: | Rottingdean Field | | | |
| Total Project Cost (All Years): | £20,000 | | | |
| Purpose, benefits and risks: | | | | |
| Improvement and capacity building to provide play and recreation opportunities associated with new housing. There are medium term maintenance implications for inspection and repair of new equipment and end of life decisions on replacement or removal. The equipment/improvements will be selected on the grounds of being durable and as low maintenance as possible whilst improving access to opportunities for play and recreation. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| External Contribution (inc S106) | 20 | | | 20 |
| Total estimated costs and fees | 20 | | | 20 |
| Financial implications: | | | | |
| The project will be funded by Section 106 contributions. | | | | |

| New Capital Project Approval Request | | | | |
|--|---------------------------|-----------|------------|------------|
| Unit: | Housing | | | |
| Project title: | Disabled Facilities Grant | | | |
| Total Project Cost (All Years): | £0.911m | | | |
| 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 in delivering the Government's objective of providing increased levels of care and support to people in their own homes.</p> | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| Grant (Disabled Facilities Grant (DCLG)) | 911 | | | 911 |
| Capital Reserves (2014/15 commitments) | (367) | | | (367) |
| Total estimated costs and fees | 544 | | | 544 |
| Financial implications: | | | | |
| <p>Grant funding of £0.911m from the Department of Communities and Local Government has been allocated to Brighton & Hove City Council and is available to fund new and existing committed applications against the Disabled Facilities Grant. The 2014/15 overspend of £0.367m reported to Policy and Resources on 11 June 2015 is being funded from this year's grant leaving a budget of £0.544m for 2015/16.</p> | | | | |

| New Capital Project Approval Request | | | | |
|---|--------------------------|-----------|------------|------------|
| Unit: | Transport | | | |
| Project title: | Resident Parking Schemes | | | |
| Total Project Cost (All Years): | £0.484m | | | |
| Purpose, benefits and risks: | | | | |
| To provide capital budget for potential parking schemes in accordance within an agreed programme. As required, the capital budget is financed through revenue generated by each scheme. The parking scheme timetable agreed at Transport Committee in January 2013 (and progress reported to Environment, Transport & Sustainability Committee in October 2014) outlined a programme of consultation in various areas across the city. The potential schemes within the proposed budget include Surrenden & Fiveways, Hanover & Elm Grove, Craven Vale, Hollingdean Road and Hove Park. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| Unsupported Borrowing | 484 | | | 484 |
| Total estimated costs and fees | 484 | | | 484 |
| Financial implications: | | | | |
| Expenditure will include the cost of consultation, Traffic Regulation Orders, signing, lining and purchase and instalment of pay and display machines. The capital costs associated to the creation and extension of parking schemes are funded by unsupported borrowing, with appropriate repayments made over a seven year period funded from the revenue income generated. Total costs are dependent on public acceptance of schemes following consultation. Any variation to the budget will be reported as part of the budget monitoring process. | | | | |

| New Capital Project Approval Request | | | | |
|---|---|--------------|--------------|--------------|
| Unit: | Transport | | | |
| Project title: | A259 West Street Shelter Hall Structure | | | |
| Total Project Cost (All Years): | £8.915m | | | |
| Purpose, benefits and risks: | | | | |
| Essential reconstruction of a primary highway structure which is at the end of its serviceable life and has been propped due to safety concerns. The replacement structure would ensure that the Principal east / west A259 seafront road corridor would be protected and supported. The scheme would also enhance the overall visitor appeal by regenerating this section of seafront; provide safety improvements to a busy seafront junction; together with providing new business premises and public toilets within the rebuilt structure. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| Grant (please state) | 1,983 | 3,507 | 3,425 | 8,915 |
| Total estimated costs and fees | 1,983 | 3,507 | 3,425 | 8,915 |
| Financial implications: | | | | |
| The total cost of the scheme of £10.614m is funded by the Department of Transport Highways Challenge Fund as outlined above, as well as £1.699m of local contributions from the Local Transport Plan funding (already approved for 2015/16). The Highways Challenge Fund has been awarded for the purpose of this scheme following a successful bid process to the Department of Transport. | | | | |

| New Capital Project Approval Request | | | | |
|--|---|------------|------------|------------|
| Unit: | Mechanical & Electrical, Property & Investment, Housing | | | |
| Project title: | Sheltered Schemes Equipment | | | |
| Total Project Cost (All Years): | To be determined once pilot scheme complete - see below | | | |
| Purpose, benefits and risks: | | | | |
| <p>The condition of the warden call equipment within the 23 sheltered schemes requires replacement. Many of the components are obsolete and it cannot be guaranteed that the relevant parts can be sourced and the system repaired in the event of failure. The programme of replacement would be over a three year period. This year a pilot replacement will take place at an identified scheme once the replacement system has been identified. Work has already begun to identify the replacement system to ensure it is robust, efficient, cost effective, easily maintainable and that it meets the needs of the end user.</p> | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| Revenue Contributions | 50 | TBA | TBA | TBA |
| Total estimated costs and fees | 50 | TBA | TBA | TBA |
| Financial implications: | | | | |
| <p>The budget of £0.050m is being funded through capital underspends reported as at TBM month 2. Once the costs are identified (from the pilot sheltered scheme), a report will be submitted to Policy & Resources Committee regarding the other sheltered schemes and HRA funding will need to be identified.</p> | | | | |

| New Capital Project Approval Request | | | | |
|---|---------------------------------|-----------|------------|--------------|
| Unit: | ACE - Sport & Leisure | | | |
| Project title: | Saltdean Lido-CIC Capital Grant | | | |
| Total Project Cost (All Years): | £2.295m | | | |
| Purpose, benefits and risks: | | | | |
| On 5th Dec 2013 Policy & Resources Committee appointed Saltdean Lido CIC as preferred bidders for the restoration of Saltdean Lido and agreed the Heads of Terms for a 60 year lease. This Coastal Communities Fund grant has been awarded to the CIC as a capital grant under section 11 of the Local Government Act 2003 and is a contribution to the capital costs of the restoration. This funding has already been received. | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| Grant (please state) | 2,295 | 0 | 0 | 2,295 |
| Total estimated costs and fees | 2,295 | 0 | 0 | 2,295 |
| Financial implications: | | | | |
| This grant funding is a contribution to the capital costs of the scheme. | | | | |

| New Capital Project Approval Request | | | | |
|---|--|--------------|--------------|---------------|
| Unit: | City Regeneration/ Assistant Chief Executive | | | |
| Project title: | Royal Pavilion Estate Phase 1 | | | |
| Total Project Cost (All Years): | £18.503m | | | |
| Purpose, benefits and risks: | | | | |
| <p>Progress on the Royal Pavilion Estate Capital project was reported to Policy & Resources Committee on 22 January 2015 and authority was given to submit funding bids and gave delegated authority to procure the architect-led design team.</p> <p>Joint working between the Royal Pavilion & Museums (RPM) and Brighton Dome & Festival Ltd (BDFL) underpins the delivery of the phased capital works to the Royal Pavilion Estate that aim to secure its long term future and financial viability through refurbishment works and operational improvements, formalised through a Memorandum of Understanding. RPM and BDFL have prepared a feasibility masterplan study for the Royal Pavilion Estate (RPE), which will underpin the phased capital works to achieve a shared vision of a world class cultural, heritage and arts provision and experience for residents and tourists.</p> <p>Phase 1 of the planned improvements to the RPE involve works to Brighton Dome, which will provide much needed improvements to its facilities and are planned for completion by 2018. These improvements aim to reduce operating costs and improve the audience experience to underpin a financially viable business plan for the years ahead. If these improvement works do not proceed there is the danger that the operating costs become unsustainable and the future operation of Brighton Dome will be put at risk. The main project risk relates to fund raising the remaining requirement to complete the works. There have already been successful Arts Council England (ACE) Stage 2 and a HLF Round 1 funding bids. A key decision will be a HLF Round 2 bid which will be submitted in October 2015. This is part of the fundraising campaign which is also targeting private trust and individual donations.</p> | | | | |
| Capital expenditure profile (£'000): | | | | |
| Year | This Year | Next Year | Year After | TOTAL |
| Grant Arts Council | 180 | 3,050 | 2,373 | 5,603 |
| Grant Heritage Lottery Fund | 176 | 1,929 | 2,390 | 4,495 |
| External Contribution (inc S106) | | 2,000 | 135 | 2,135 |
| Capital Reserves | 420 | 330 | | 750 |
| Other Fundraising | | 1,599 | 3,921 | 5,520 |
| Total estimated costs and fees | 776 | 8,908 | 8,819 | 18,503 |
| Financial implications: | | | | |

In October 2014, Arts Council England (ACE) confirmed the successful Round 2 grant application for £5.603million for the Phase 1 capital works. This enables the council to proceed with the appointment of an architect led design team to progress detailed designs and provide cost consultancy services required to procure the main contractor for the works. In November 2014, Heritage Lottery Fund awarded £0.176m for the development of a Round 2 bid. January 2015 Policy & Resources Committee confirmed the council's commitment to provide funding of £0.750m towards the RPE Phase 1 capital works of £18.503m. The conditions on drawdown against the ACE grant (30% on invoices over the total project), unless the conditions are negotiated, will require the council funding element to be drawn down in 2015/16 as partnership funding in order for the architect led design team to be appointed and for the design work to begin. The council's funding towards this of £0.420m will be put at risk if the project does not proceed or if the funding bids are unsuccessful. Mitigation of this financial risk is being discussed with ACE.

| | | | |
|-------------------------|---|---------------------|--|
| Subject: | Treasury Management Policy Statement 2014/15- End of Year Review | | |
| Date of Meeting: | 22 September 2015 | | |
| Report of: | Head of Law | | |
| Contact Officer: | Name: John Peel | Tel: 29-1058 | |
| | E-mail: john.peel@brighton-hove.gov.uk | | |
| Wards Affected: | All | | |

FOR GENERAL RELEASE***Action Required of the Audit & Standards Committee:***

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

Recommendation:

That the report be noted.

PART ONE**23 TREASURY MANAGEMENT POLICY STATEMENT 2014/15 - END OF YEAR REVIEW**

- 23.1 The Committee considered a report of the Interim Executive Director for Finance & Resources in relation to Treasury Management Policy Statement (TMPS) 2014/15 – End of Year Review. The 2014/15 Treasury Management Policy Statement practices and schedules were approved by the Committee on 20 March 2014. The TMPS set out the role of Treasury Management whilst the practices and schedules set out the annual targets and methods by which these targets would be met. The TMPS included the Annual Investment Strategy which set out the key parameters for investing Council cash funds and was adopted at Council on 27 March 2014.
- 23.2 In response to Councillor Sykes the Interim Executive Director confirmed that the authorised limit was the maximum level of borrowing that could be outstanding at any one time; this limit was set by statute as part of the Local Government Act 2003. It was also confirmed that there were no proposed changes or cuts to the Treasury Management Team.
- 23.3 In response to Councillor Mac Cafferty it was explained that the investment strategy of the Council was very risk adverse and the Council used external help to ensure it was making sound investments. Investments were typically short to ensure there was a strong recovery of invested money.

- 23.4 Councillor A. Norman stated she had always been very impressed by the work of the Treasury Team, and she hoped that more could be done to make residents aware of the careful investment of Council funds on their behalf.
- 23.5 Councillor Hamilton highlighted the low risk of investments and stated he had full confidence in the Treasury Team. Councillor G. Theobald also commended the work of the team.
- 23.6 The Chair then put the recommendations to the vote.
- 23.7 **RESOLVED:**

- 1) That Policy & Resources Committee endorses the key actions taken during the second half of 2014/15 to meet the treasury management policy statement and practices (including the investment strategy) as set out in this report.
- 2) That Policy & Resources Committee note the reported compliance with the Annual Investment Strategy for the period under review.
- 3) That Policy & Resources Committee notes that the approved maximum indicator for investment risk of 0.05% has been adhered to and the authorised limit and operational boundary have not been exceeded.

RESOLVED TO RECOMMEND

- 4) That Policy & Resources Committee recommend to full Council to approve amendments to the Annual Investment Strategy as set out in paragraphs **Error! Reference source not found.** to **Error! Reference source not found.** of this report.

| | | | |
|--------------------------|--|---|---------------------|
| Subject: | Treasury Management Policy Statement 2014/15 – End of year review | | |
| Date of Meeting: | 16 July 2015 9 July 2015 – Policy & Resources Committee | | |
| Report of: | Interim Executive Director of Finance & Resources | | |
| Contact Officer: | Name: | James Hengeveld | Tel: 29-1242 |
| | Email: | james.hengeveld@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

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

- 1.1 The 2014/15 Treasury Management Policy Statement (TMPS), practices and schedules were approved by Policy & Resources on 20 March 2014. The TMPS sets out the role of Treasury Management, whilst the practices and schedules set out the annual targets and methods by which these targets will be met.
- 1.2 The TMPS includes the Annual Investment Strategy (AIS) which sets out the key parameters for investing council cash funds and was approved by Full Council on 27 March 2014.
- 1.3 It is recommended good and proper practice that Members receive half yearly reports and review and endorse treasury management actions during the year. The mid-year review was presented to Policy and Resources on 4 December 2014.

2. RECOMMENDATIONS:

- 2.1 That Policy & Resources Committee endorses the key actions taken during the second half of 2014/15 to meet the treasury management policy statement and practices (including the investment strategy) as set out in this report.
- 2.2 That Policy & Resources Committee note the reported compliance with the Annual Investment Strategy for the period under review..
- 2.3 That Policy & Resources Committee notes that the approved maximum indicator for investment risk of 0.05% has been adhered to and the authorised limit and operational boundary have not been exceeded.
- 2.4 That Policy & Resources Committee recommend to full Council to approve amendments to the Annual Investment Strategy as set out in paragraphs 3.16 to 3.19 of this report.

3. CONTEXT/ BACKGROUND INFORMATION

Overview of Markets

- 3.1 The UK economy continued its healthy growth in 2014, with a 3.0% GDP annual growth rate at the end of 2014. Quarter 1 2015 was more subdued as a result of a slowdown in the services and manufacturing sectors and a fall in mining and construction sectors. This is expected to be a temporary blip as the general trends in these sectors have been improving. Additionally there is market optimism that the growth rate will continue to increase as the positive effects of the fall in oil prices feeds through to consumers and other parts of the economy.
- 3.2 A significant fall in inflation has been seen in recent months, principally due to large falls in oil and commodity prices. The latest inflation figures (April 2015) saw CPI fall into deflationary territory to -0.10%. The minutes to the Bank of England's May 2015 policy meeting noted that they expect the current slack in the economy should be fully absorbed within a year and that inflation weakness is likely to be temporary, with prices set to pick up at the end of this year. The central bank said that deflation is unlikely to last long, but they showed concerns over the recent housing price increases.
- 3.3 On the 8 July 2015 the Chancellor is due to present a budget that sets out how the government plans to eliminate the UK's budget deficit and run a surplus by the end of the new parliament.
- 3.4 There has been pressure on yields in the current investment environment, resulting from a combination of factors:
- Changes in Banking Regulations in January required banks to carry capital to some support short term borrowing. This has resulted in many of the counterparties that the council invests with reducing short term investment rates. C
 - The 'Funding for Lending Scheme' introduced by the Government in 2012 resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically. The effect of this has continued into 2014/15. T
 - The low inflationary environment has led to Bank Rate increase expectations being pushed even further out to early 2016. This is expected to reduce longer term investment rates offered by banks. T
- 3.5 The Eurozone continues its Quantitative Easing programme to stimulate the EU economy and has moved out of deflation. At the time of writing this report, Greece is expecting to make all of the June payments due to the International Monetary Fund as one payment, and is still pushing strongly to re-negotiate its position with creditors. There is a risk that a default or failure to renegotiate terms could end with Greece leaving the EU. However, the Eurozone believes that it

has put in place sufficient firewalls that a Greek exit will have little or no impact on the rest of the EU.

Treasury Management Strategy

3.6 A summary of the action taken in the six months to March 2015 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 entered into £9.18m of new borrowing arrangements during the period to support the i360 project as planned;
- The highest risk indicator during the period was 0.023% which is well below the maximum set of 0.05%;
- The return on investments by the in-house treasury team and cash manager has exceeded the target rates;
- The two borrowing limits approved by full Council have not been exceeded.

3.7 Treasury management activity in the half-year has focused on a short-term horizon as summarised in the table below:

| | Amount invested 1 st Oct 2014 to 31 Mar 2015 | | | |
|----------------------------|---|--------------------|----------------|-------------|
| | Fixed deposits | Money market funds | Total | |
| Up to 1 week | - | £229.0m | £229.0m | 76% |
| Between 1 week & 1 month | £13.0m | - | £13.0m | 4% |
| Between 1 month & 3 months | £16.5m | £20.0m | £36.5m | 12% |
| Over 3 months | £25.0m | - | £25.0m | 8% |
| | £54.5m | £249.0m | £303.5m | 100% |

Budget vs Outturn 2014/15

3.8 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) | |
|----------------|----------------------|--------------|--|--------------|
| | Average Balance | Average rate | Average Balance | Average rate |
| Budget 2014/15 | £67.9m | 0.63% | £25.3m | 0.84% |
| Actual 2014/15 | £76.7m | 0.64% | £25.4m | 0.87% |
| Benchmark Rate | | 0.36% | | 0.36% |

3.9 The Financing Costs budget underspent in 2014/15 by £0.350m. This underspend was primarily as a result of an amendment to the council's borrowing

strategy during the year to allow the council to take advantage of new borrowing opportunities and as a result of a change in the interest rate environment. This will mean the council can take advantage of forward rate borrowing in future years that can provide certainty over costs and avoid the short term pressure of holding additional cash balances at low investment rates. Taking advantage of this opportunity is in accordance with the council's agreed Treasury Management Policy Statement, and resulted in a saving of £0.230m in 2014/15. Additionally, higher than projected cash balances during the last quarter of the year resulted in a net saving of £0.100m which is a combination of increased interest earned on investments and a reduction in interest costs on short-term borrowing required for cash flow purposes.

Summary of Treasury activity October 2014 to March 2015

- 3.10 The table below summarises the treasury activity in the half-year to March 2015 with the corresponding period in the previous two years.

| October to March | 2012/13 | 2013/14 | 2014/15 |
|---|-----------|-----------|-----------|
| Long-term borrowing raised – Capital | - | - | (£9.2m) |
| Long-term borrowing raised – HRA | - | - | - |
| Long-term borrowing repaid – General Fund | - | - | - |
| Long-term borrowing repaid – HRA | - | - | £3.9m |
| Short-term borrowing raised | - | - | - |
| Short-term borrowing repaid | - | - | - |
| Investments made | £313.7m | £274.3m | £303.5m |
| Investments maturing | (£359.8m) | (£291.2m) | (£318.4m) |

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

| October to March | 2012/13 | 2013/14 | 2014/15 |
|--|-----------------|-----------------|-----------------|
| Cash flow shortage – general | (£34.9m) | (£23.8m) | (£19.6m) |
| Net cashflow (shortage)/surplus | (£34.9m) | (£23.8m) | (£19.6m) |
| Represented by: | | | |
| Increase/(reduction) in long-term borrowing | - | - | £5.3m |
| Increase/(reduction) in short-term borrowing | * (£2.0m) | * £2.0m | - |
| Reduction/(increase) in investments | £37.5m | £16.9m | £14.9m |
| Reduction/(increase) in bank balance | (£0.6m) | £4.9m | (£0.6m) |

*South Downs National Park

Security of Investments

- 3.12 A summary of investments made by the in-house treasury team and outstanding as at 31 March 2015 in the table below shows that investments continue to be held in good quality, short term instruments. The funds invested in BBB institutions included in the table below are invested in the part-nationalised banks which are backed by Government guarantee in line with the AIS.

| | | |
|--|----------------|-------------|
| 'AAA' rated money market funds | £20.88m | 47% |
| 'A' rated institutions | £22.52m | 51% |
| 'BBB' rated institutions | £1.01m | 2% |
| Total | £44.41m | 100% |
| Period – less than one week | £20.90m | 47% |
| Period – between one week and one month | £0.00m | 0% |
| Period – between one month and three months | £6.01m | 14% |
| Period – between three months and six months | £5.00m | 11% |
| Period – between 6 months and 1 year | £12.50m | 28% |
| Total | £44.41m | 100% |

Risk

- 3.13 As part of the investment strategy for 2014/15 the Council agreed a maximum risk benchmark of 0.050% i.e. that there is a 99.950% probability that the council will safely receive its investments back. The benchmark is a simple target that measures the risk based on the financial standing of counterparties and length of each investment based on historic default rates. The actual risk indicator has varied between 0.012% and 0.023% between October 2014 and March 2015. It should be remembered however that the benchmark is an average risk of default measure, and does not constitute an expectation of loss against a particular investment.
- 3.14 In January 2015, Internal Audit undertook an audit of the treasury management function. The audit concluded that “reasonable assurance” is provided on the effectiveness of the control framework operating and mitigating risks for treasury management.

Compliance with the Annual Investment Strategy

- 3.15 During the reporting period, the Annual Investment Strategy has been complied with in full with one exception. In March 2015 the council received £10.0 million from our Lloyds notice account one day earlier than expected. This resulted in the Co-operative bank account being £10.0 million in credit overnight. The Co-operative Bank are not on the council's current lending list, and the Treasury Team have been working hard to ensure the council's exposure to the Co-operative has been minimised since the bank's credit rating has fallen. Therefore, even though no conscious investment decision was taken with the Co-operative, this caused a 'technical breach' of the council's Annual Investment Strategy.

Annual Investment Strategy- proposed changes

- 3.16 In accordance with advice received from our treasury advisors, the minimum sovereign rating within the Annual Investment Strategy (AIS) has been amended. This will make other non-UK Banks more accessible and will potentially enable us to utilise a wider range of counterparties which is a key strategy to managing risk, hence the recommendation from the treasury advisors.

- 3.17 The current provision for part-nationalised institutions within the AIS is a £25.0m investment limit without reference to the credit ratings as these institutions have high implied levels of government support as a result of the stake the government holds with these institutions.
- 3.18 The government announced a programme for reduction in it's holding of Lloyds Banking Group in December 2014. Since the announcement, 5% of it's holdings have been sold and up to 10% further could be sold before the end of the programme in June 2015. There are a number of options for the remaining holding after this date, but whatever option is taken, it is very likely that the government will materially reduce its holding, and consequently our advisors have changed their view regarding treating Lloyds Banking Group as a part nationalised institution within the AIS.
- 3.19 Under the council's credit methodology, Lloyds Bank will now have a £10.0m investment limit, which is a substantial fall in investment capacity from the current £25.0m. This is particularly important since Lloyds is now the provider for the council's transactional banking. As a result, the Annual Investment Strategy has been amended to provide an additional £2.0m operational limit with our transactional banking providers. This will provide more flexibility, and allow the Treasury Team to optimise Lloyds as an investment counterparty whilst ensuring sufficient capacity to maintain the transactional bank accounts efficiently. The Treasury Team will continue to monitor the council's list of counterparties, and take action to make appropriate changes to the counterparty list and associated investment limits if deemed necessary.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 This report sets out action taken in the 6 months to March 2015. Treasury management actions have been carried out within the parameters of the AIS, TMPS and Prudential Indicators. Therefore no alternative options have been considered.

5. COMMUNITY ENGAGEMENT & CONSULTATION

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

6. CONCLUSION

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

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The financial implications of treasury management activity are reflected in the financing costs budget set out in paragraph 3.9.

Finance Officer Consulted: James Hengeveld

Date: 10/06/15

Legal Implications:

- 7.2 The TMPS and associated actions are exercised under powers given to the council by Part 1 of the Local Government Act 2003 which includes the power for a local authority to invest for the purposes of the prudent management of its financial affairs (section 12).
- 7.3 The Annual Investment Strategy is one of the plans and strategies required by law to be approved by full Council as set out at Part 3.1 of the Council's constitution.

Lawyer Consulted: Elizabeth Culbert

Date: 12/06/15

Equalities, Sustainability and other significant implications:

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

SUPPORTING DOCUMENTATION

Appendices:

1. A summary of the action taken in the period October 2014 to March 2015
2. March 2015 Treasury Management Bulletin
3. Amended 2015/16 Annual Investment Strategy

Documents in Members' Rooms

None

Background Documents

1. Part I of the Local Government Act 2003 and associated regulations
2. The Treasury Management Policy Statement and associated schedules 2014/15 approved by Policy & Resources on 20 March 2014
3. The Annual Investment Strategy 2014/15 approved by full Council on 27 March 2014
4. The Annual Investment Strategy 2015/16 approved by full Council on 26 March 2015
5. Treasury Management Policy Statement 2014/15 (including Annual Investment Strategy 2014/15) – Mid-Year Review approved by Policy & Resources Committee on 4 December 2014
6. Papers held within Financial Services, Finance & Resources Directorate
7. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2011

Summary of action taken in the period October 2014 to March 2015

New borrowing

The council raised a total of £9.18m of long term debt the second half of 2014/15 to support the construction of the i360 project as planned.

Debt maturity

A Public Works Loan Board (PWLB) loan of £3.90m matured on 31st March 2015.

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

Weighted average maturity of debt portfolio

The weighted average maturity period of the portfolio has increased slightly from 30.8 years to 30.9 years as a result of the changes in the debt portfolio over the last 6 months.

Debt rescheduling

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

Capital financing requirement

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

Table 1 – Capital financing requirement compared to debt outstanding

| | 1 April 2014 | 31 March 2015 | Movement in period |
|--|----------------|----------------|--------------------|
| <u>Capital financing requirement (CFR)</u> | <u>£336.2m</u> | | |
| <u>Less PFI element</u> | <u>-£57.7m</u> | | |
| <u>Net CFR</u> | <u>£278.5m</u> | <u>£278.5m</u> | <u>£0.0m</u> |
| <u>Long-term debt</u> | <u>£207.8m</u> | <u>£213.1m</u> | <u>£5.3m</u> |
| <u>O/s debt to CFR (%)</u> | <u>74.6%</u> | <u>76.5%</u> | <u>+1.9%</u> |

Traditionally the level of borrowing outstanding is at or near the maximum permitted in order to reduce the risk that demand for capital investment (and hence resources) falls in years when long-term interest rates are high (i.e. interest rate risk). However given the uncertainty within the financial markets, the council has maintained the strategy to keep borrowing at much lower levels (as investments have been used to repay debt). The 2015/16 Treasury Management Strategy (approved by Policy and Resources Committee in March 2015) includes a borrowing strategy with a view to increase borrowing levels.

Currently outstanding debt represents 76.5% of the capital financing requirement.

Cash flow debt / investments

The TMPS states the profile of any short-term cash flow investments will be determined by the need to balance daily cash flow surpluses with cash flow shortages. An analysis of the cash flows reveals a net shortfall for the 2nd half-year of £19.6million 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 2014 to March 2015

| | October 14 to March 15 | | | Apr 14 to Mar 15 |
|--|------------------------|----------|----------|------------------|
| | Payments | Receipts | Net cash | Net cash |
| Total cash for period | £430.5m | £450.1m | -£19.6m | -£8.2m |
| Represented by: | | | | |
| Movement in in-house investments | | | -£14.9m | -£8.1m |
| Increase in long-term borrowing | | | -£5.3m | -£5.3m |
| Decrease in Short term borrowing (SDNPA) | | | £0.0m | £0.0m |
| Movement in balance at bank | | | +£0.6m | £5.2m |
| | | | -£19.6m | -£8.2m |

Overall the cash position for the financial year is a net deficit of £8.2million.

Prudential indicators

Budget Council approved a series of prudential indicators for 2014/15 at its meeting in February 2014. 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 2014/15

| | Authorised limit | Operational boundary |
|---|------------------|----------------------|
| Indicator set | £381.0m | £370.0m |
| Less PFI element | -£58.0m | -£58.0m |
| Indicator less PFI element | £323.0m | £312.0m |
| Maximum amount o/s in second half of year | £217.9m | £217.9m |
| Variance | (*)£105.1m | £94.1m |

(*) can not be less than zero

Performance

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

Approved organisations – investments

No new organisations have been added to the list approved in the AIS 2014/15.

There have been a number of changes to the short-term and long-term ratings assessed by the credit rating agencies during the second half of 2014/15 which has had minimal impact on the council's investment strategy.

There have been some more fundamental changes to the short and long-term ratings in the first half of 2015/16 which has reduced the capacity within the council's lending list, but changes to the AIS as set out in the main report seeks to address this.

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

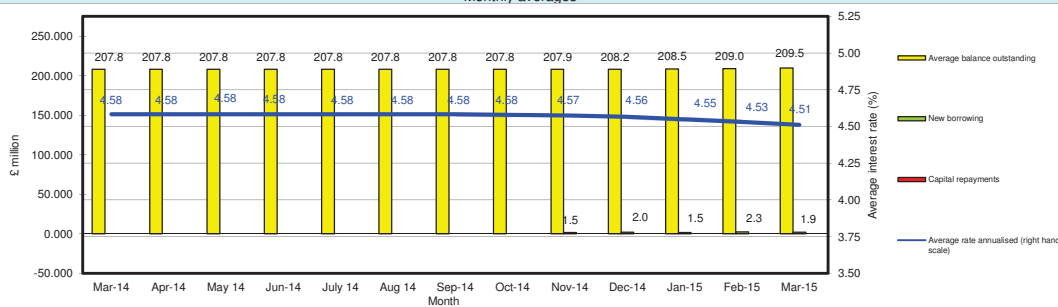
Graph 1

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

It also shows the amount of new long term debt raised and the repayment of long term borrowing.

£1.9m of new debt was raised in March 2015. This was part of the 1360 Loan.

Graph 1 Long Term Debt Outstanding
Monthly averages



Graph 2

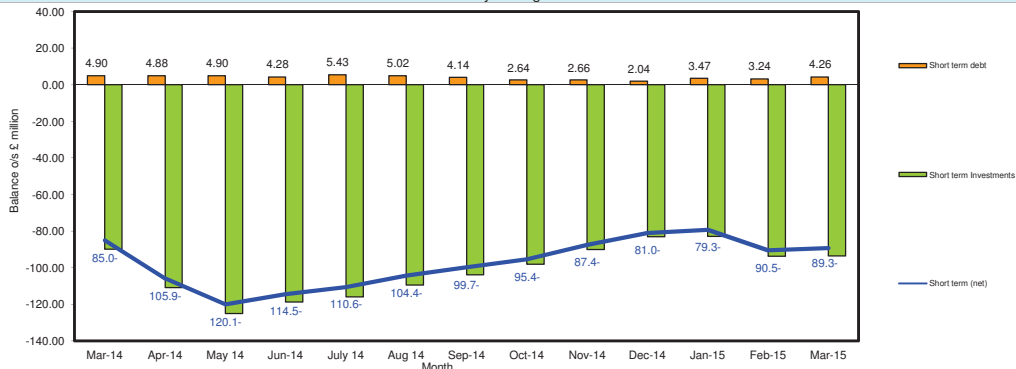
This graph shows the average monthly balance outstanding for:

- 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

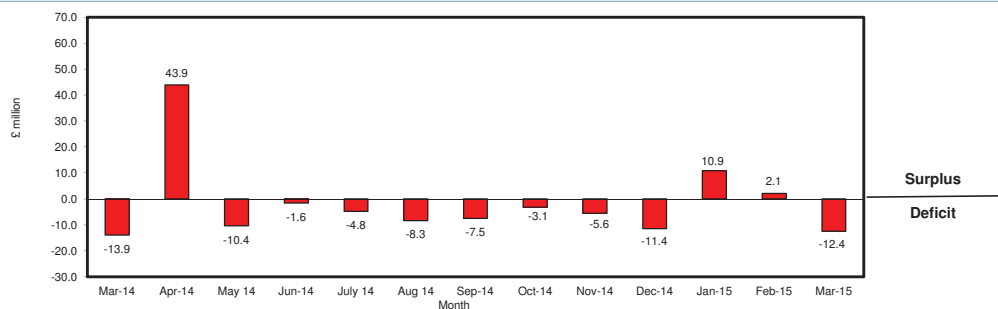


Graph 3

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

Cashflow movements have resulted in a deficit for the month.

Graph 3 - Monthly Cash Flows



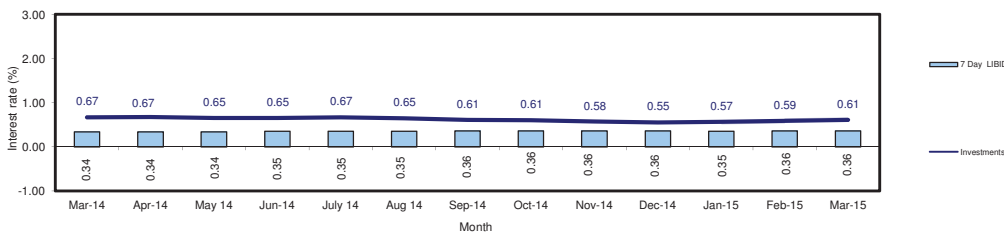
Graph 4a

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

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

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

Graph 4a - Short Term Investments -v- 7 Day LIBID (In house)
Monthly averages - annualised (to 2 dec pl)



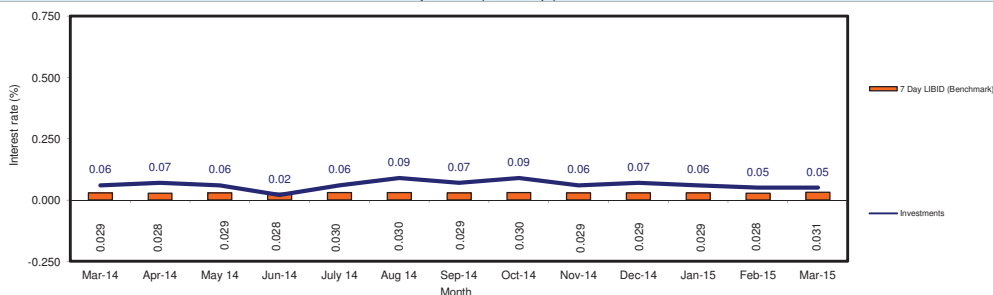
Graph 4b

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

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.

Graph 4b Short Term Investments -v- Benchmark Rate (Cash Managers)
Monthly actuals (to 2 dec pl)



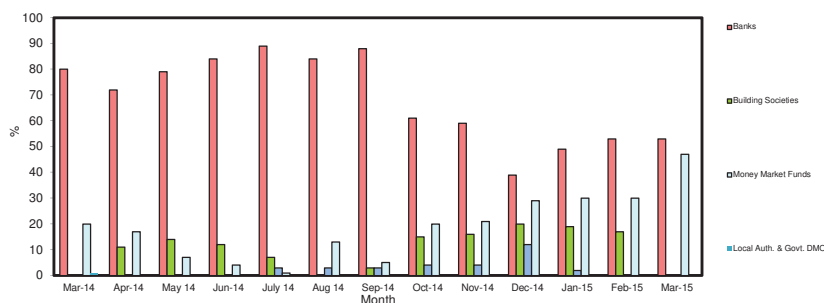
Investments by Sector

The 2014/15 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 2015 investments were made as follows:-

| | £m | |
|--|---------------|----------------|
| SWIP External Managers | 25.51 | |
| In-house Investments - Banks | | |
| Barclays Bank plc | 4.500 | |
| Close Brothers Limited | 2.500 | |
| Lloyds Bank plc | 13.018 | |
| Royal Bank of Scotland | 1.013 | |
| Santander UK Plc | 0.001 | |
| Standard Chartered Bank | 2.500 | |
| | 23.532 | 53.0 % |
| Local Authority | | |
| | 0.000 | 0.0 % |
| Money Market Funds | | |
| Aberdeen Global Liquidity Fund | 3.185 | |
| BNP PARIBAS INSTICASH STERLING - Lu | 7.854 | |
| CCLA - Public Sector Deposit Fund | 0.200 | |
| Goldman Sachs Funds Plc | 0.005 | |
| Ignis Liquidity Fund | 9.638 | |
| Insight Liquidity Funds Plc | 0.000 | |
| Morgan Stanley Sterling Liquidity Fund | 0.002 | |
| State Street services | 20.884 | 47.0 % |
| In-house Investments - Building Societies | | |
| | 0.000 | 0.0 % |
| TOTAL - In-house Investments | 44.416 | 100.0 % |

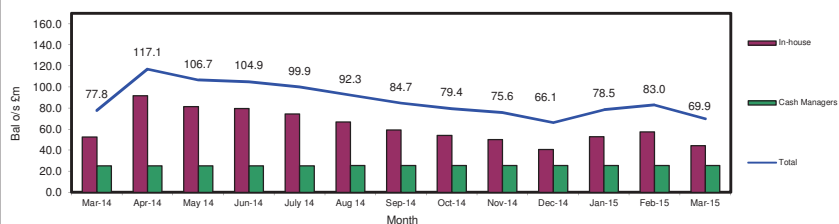
Graph 5a - Investments by Sector (In-house)

Month end balances

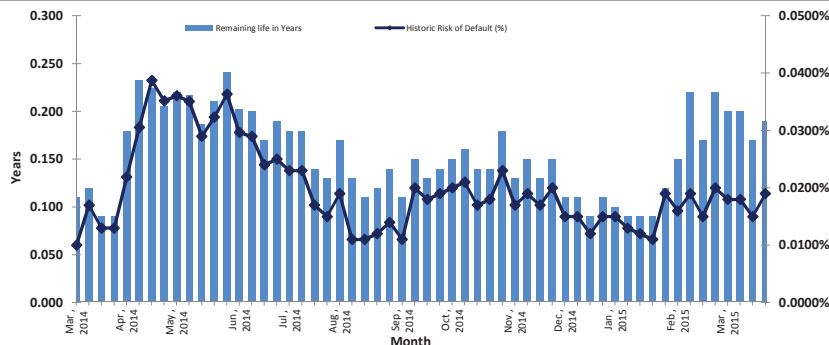


Graph 5b - Investments In-house -v- Cash Manager

Month end balances



Graph 6 - Security & Liquidity of Investments



Graph 6

Members agreed, as part of the 2014/15 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 2015.

| Gross Outstanding Debt (£millions) | | |
|------------------------------------|------|-----|
| | Debt | PFI |
| Authorised limit | 323 | 58 |
| Operational boundary | 312 | 58 |
| Minimum o/s | 215 | - |
| Maximum o/s | 217 | - |

| Net Outstanding Debt (£millions) | | |
|--|------|-----|
| | Debt | PFI |
| Minimum capital financing requirement | 278 | 58 |
| Maximum net debt o/s | 141 | - |

| 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 | 30.0 | 40.0 | 75.0 | 100.0 |
| Minimum limit | 0.0 | 0.0 | 0.0 | 0.0 | 50.0 |
| Maximum o/s debt | 1.8 | 1.4 | 2.7 | 13.2 | 80.9 |

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BRIGHTON & HOVE CITY
COUNCIL

ANNUAL INVESTMENT
STRATEGY
2015/16

The Annual Investment Strategy 2015/16 was approved by Policy & Resources Committee on 19 March 2015 and full Council on 26 March 2015

This version contains proposed changes (*in italics and shaded*) subject to approval by Policy & Resources on 9 July 2015 and full Council on 16 July 2015

Brighton & Hove City Council
Annual Investment Strategy 2015/16

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

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

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

1.1 Capital security

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

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

1.2 Maximum permitted investment by sector

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

| <u>Table 2 – Maximum permitted investment by sector</u> | |
|---|---|
| <u>Sector</u> | <u>%age of total investment portfolio at the time the investment made</u> |
| Banking sector | 100% |
| Building society sector | 75% |
| Local authority sector | 100% |
| Money market funds / CCLA Public Sector Deposit Fund | 100% |
| Debt Management Account Deposit Facility | 50% |
| Maximum amount invested for more than 1 year | 25% (excl funds administered by external cash manager) |

1.3 Maximum permitted investment by counterparty

1.3.1 General

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

1.3.2 Rated counterparties

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

| <u>Table 3 – Exposure limits and maximum periods per counterparty (with rating)</u> | | | | |
|---|--|---------------------------------|-------------------------------|--------------------------------|
| | <u>A rating of at least (lowest of Fitch (F) / Moody's (M) / Standard & Poor's (SP))</u> | | | |
| Short-term rating | F = F1+ M = P-1 SP = A-1+ | F = F1+ M = P-1 SP = A-1+ | F = F1 M = P-1 SP = A-1 | F = F2 M = P-2 SP = A-2 |
| Long-term rating | F = AA+ M = Aa1 SP = AA+ | F = AA- M = Aa3 SP = AA- | F = A M = A2 SP = A | F = BBB M = Baa SP = BBB |
| Exposure Limit | £20m | £20m | £10m | £5m |
| Maximum period – fixed deposits | 3 years | 2 years | 1 year | 6 months |
| Maximum period – negotiable instruments | 5 years | 5 years | 1 year | 6 months |

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

1.3.3 Exceptions

The methodology for determining exposure limits and maximum periods per counterparty will be determined in all cases by Table 3 with the following express exceptions:

- Financial institutions that have received Government support (i.e. part nationalised banks) are deemed to have the highest rating irrespective of the actual rating assigned to them. The limits on the amount advanced and length of investment will be £25 million and 1 year respectively.
- *An additional operating limit of £2 million will be provided for the Council's provider of transactional banking services (Lloyds Bank plc).*
- The following major UK Banks for which the highest applicable rating will be applied in place of the lowest:
 - Barclays Bank plc
 - HSBC Bank plc
 - Lloyds Bank plc & Bank of Scotland plc

- Nationwide Building Society
- Santander UK plc
- The Royal Bank of Scotland plc & National Westminster Bank plc

Where there is a significant or sudden deterioration in one or more of the other ratings (e.g. financial strength, support) allocated to a counterparty, Officers will undertake a review and, where necessary take action. This action may take the form of temporary suspension of a counterparty from the council's approved lending list, or a restriction of the maximum period and investment limits.

1.3.4 Non-rated counterparties

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

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

1.3.5 Cash manager

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

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

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

1.4 Investment classification (regulatory)

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

| Table 6 – Investment classification | | |
|-------------------------------------|--|----------------------|
| <u>Requirement</u> | <u>Specified</u> | <u>Non-specified</u> |
| Currency | Must be in Sterling | Any currency |
| Maturity period | Up to 12 months | Over 12 months |
| Credit worth | Counterparty with high credit rating or UK government or local authority | Other |

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

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

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

2 Approved methodology for changing limits and adding / removing counterparties

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

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

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

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

3 Full individual listings of counterparties and counterparty limits

For 2015/16, with the exception of the list of high quality AA rated Non-UK banks within AA rated countries specified below, investment by the in-house treasury team will be restricted financial institutions incorporated within the UK and regulated by the Financial Services Authority.

The in-house treasury team are able to invest in the following Non-UK banks:

- *Australia & New Zealand Banking Group Limited (Australia) - AAA*
- *Bank Nederlandse Gemeenten (The Netherlands) - AAA*
- *Clearstream Banking (Luxembourg) - AAA*
- Commonwealth Bank of Australia (Australia)
- *DBS Bank Ltd (Singapore) - AAA*
- *Landwirtschaftliche Rentenbank (Germany) - AAA*
- National Australia Bank (Australia)
- *National Bank of Abu Dhabi (Abu Dhabi, UAE)*
- *Nederlandse Waterschapsbank N. V. (The Netherlands) - AAA*
- Nordea (Finland)
- *NRW. BANK (Germany)*
- *Overseas Chinese Banking Corporation Limits (Singapore) - AAA*
- *Royal Bank of Canada (Canada) - AAA*
- *State Street Bank and Trust Company (USA)*
- Svenska Handelsbanken (Sweden)
- *The Bank of New York Mellon (USA)*
- *The Hong Kong & Shanghai Banking Corporation Limited (Hong Kong)*
- *The Northern Trust Company (USA)*
- Toronto Dominion (Canada)
- *United Overseas Bank Limited (Singapore) - AAA*
- *Wells Fargo Bank NA (USA)*
- *Westpac Banking Corporation (Australia) - AAA*

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

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

4 Details of credit rating agencies' services

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

5 Permitted types of investment instrument

All investments must be denominated in Sterling.

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

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

6 Investment risk

6.1 Assessment of credit risk

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

6.2 Investment risk matrix

The benchmark risk factor for 2015/16 is recommended at 0.05%, the same as 2014/15. This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid year or end of year review.

6.3 Investment advisors

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

6.4 Investment training

The council’s advisors have a wide ranging programme of training giving council officers access to seminars and printed material. The Council’s in-house treasury team is experienced in dealing with investments but where necessary further training and updates will be provided. Appropriate training will be made available to all Members who are involved in the treasury management decision-making process.

6.5 Investment of money borrowed in advance

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

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

6.6 Investment liquidity

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

7 Ethical investment statement

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

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

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

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

8 Glossary

Long-term – period in excess of 12 months

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

Non-specified investment – see Table 6 above

Short-term – period up to and including 12 months

Specified investment – see Table 6 above

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

Brighton & Hove City Council**Banks and Other Institutions - In-house Treasury Team
Annual Investment Strategy 2015/16**

| Counterparty | Specified/ Non- specified ¹ | Short-term | | | Long-term | | | Max amount | Max period – fixed deposits |
|--|--|--|-----|------|-----------|------|------|---------------|--------------------------------------|
| | | F = Fitch M = Moody's SP = Standard & Poor's | | | | | | | |
| | | F | M | SP | F | M | SP | | |
| Bank of Scotland / Lloyds Bank | Specified | F1 | P-1 | A-1 | A+ | A1 | A | £10m | 1 year |
| Barclays Bank plc | Specified | F1 | P-1 | A-2 | A | A2 | A- | £10m | 1 year |
| Close Brothers | Specified | F1 | P-1 | | A | Aa3 | | £10m | 1 year |
| Clydesdale Bank | Specified | F1 | P-2 | A-2 | A | Baa1 | BBB+ | £5m | 6 months |
| Crown Agents Bank Ltd | Specified | F2 | | | BBB+ | | | £5m | 6 months |
| HSBC Bank plc | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| National Westminster Bank / Royal Bank of Scotland | Specified | F2 | P-2 | A-2 | BBB+ | A3 | BBB+ | £25m | 1 year |
| NM Rothschild & Sons | Specified | F2 | | | BBB+ | | | £5m | 6 months |
| Virgin Money plc | Specified | F2 | | A-2 | BBB+ | | BBB+ | £5m | 6 months |
| Santander UK plc | Specified | F1 | P-1 | A-1 | A | A1 | A | £10m | 1 year |
| Standard Chartered Bank | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | A+ | £10m | 1 years |
| BUILDING SOCIETIES (+) | | | | | | | | | |
| Coventry (3) | Specified | F1 | P-1 | | A | A2 | | £10m | 1 year |
| Leeds (5) | Specified | F1 | P-1 | | A- | A2 | | £5m | 6 months |
| Nationwide (1) | Specified | F1 | P-1 | A-1 | A | A1 | A | £10m | 1 year |
| Principality (6) | Specified | F2 | P-3 | | BBB+ | Baa3 | | £5m | 6 months |
| Skipton (4) | Specified | F2 | P-2 | | BBB+ | Baa2 | | £5m | 6 months |
| Yorkshire (2) | Specified | F1 | P-2 | | A- | A3 | | £5m | 6 months |
| NON-UK BANKS | | | | | | | | | |
| Australia & NZ Banking Group (Australia) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| Commonwealth Bank of Australia (Australia) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| National Australia Bank Ltd (Australia) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| Westpac Banking Corporation (Australia) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| Royal Bank of Canada (Canada) | Specified | F1+ | P-1 | A-1+ | AA | Aa3 | AA- | £20m | 2 years |
| Toronto Dominion (Canada) | Specified | F1+ | P-1 | A-1+ | AA- | Aa1 | AA- | £20m | 2 years |
| Nordea bank (Finland) | Specified | F1+ | P-1 | A-1+ | AA- | Aa3 | AA- | £20m | 2 years |
| Landwirtschaftliche Renenbank (Germany) | Specified | F1+ | P-1 | A-1+ | AAA | Aaa | AAA | £20m | 3 years |
| NRW.BANK (Germany) | Specified | F1+ | P-1 | A-1+ | AAA | Aa1 | AA- | £20m | 2 years |
| The Hong Kong & Shanghai Banking Corporation Limited (Hong Kong) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |

Appendix 3

| | | | | | | | | | |
|---|-----------|-----|-----|------|-----|-----|-----|-----------|----------|
| Clearstream Banking (Luxembourg) | Specified | F1+ | | A-1+ | AA | | AA | £20m | 2 years |
| Bank Nederlandse Gemeenten (The Netherlands) | Specified | F1+ | P-1 | A-1+ | AA+ | Aaa | AA+ | £20m | 3 years |
| Nederlandse Waterschapsbank N. V. (The Netherlands) | Specified | | P-1 | A-1+ | | Aaa | AA+ | £20m | 3 years |
| DBS Bank Ltd (Singapore) | Specified | F1+ | P-1 | A-1+ | AA- | Aa1 | AA- | £20m | 2 years |
| Overseas Chinese Banking Corporation Limits (Singapore) | Specified | F1+ | P-1 | A-1+ | AA- | Aa1 | AA- | £20m | 2 years |
| United Overseas Bank Limited (Singapore) | Specified | F1+ | P-1 | A-1+ | AA- | Aa1 | AA- | £20m | 2 years |
| Svenska HandelsBanken AB (Sweden) | Specified | F1+ | P-1 | A-1+ | AA- | Aa3 | AA- | £10m | 2 years |
| National Bank of Abu Dhabi (UAE) | Specified | F1+ | P-1 | A-1+ | AA- | Aa3 | AA- | £20m | 2 years |
| Bank of New York Mellon (USA) | Specified | F1+ | P-1 | A-1+ | AA | Aa1 | AA- | £20m | 2 years |
| State Street Bank and Trust Company (USA) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| The Northern Trust Company (USA) | Specified | F1+ | P-1 | A-1+ | AA- | Aa2 | AA- | £20m | 2 years |
| OTHER | | | | | | | | | |
| Other Local Authorities (per Authority) | Specified | | | | | | | £10m | 5 year |
| Debt Management Deposit Facility | Specified | | | | | | | Unlimited | 6 months |
| Money Market Funds (per fund) | Specified | | | | | | | £10m | Liquid |
| Enhanced Cash Funds (per fund) | Specified | | | | | | | £10m | Liquid |

(*) Ratings as advised by Capita Asset Services June 2015

(+) UK Building Societies ranking based on Total Asset size – Source: Building Societies Association June 2015

¹ distinction is a requirement under the investment regulations