Department for Levelling Up, Housing and Communities

Local Government Finance Review – EASTBOURNE BOROUGH COUNCIL

December 2021

Table of contents

1.Executive Summary

This report provides an assessment of Eastbourne Borough Council's (EBC) financial management and management of risk, deliverability of savings plans, efficiency in delivering services under financial pressures and the scope for capital receipts from property sales. This report covers how EBC is managing the impact on its financial sustainability of the loss of income. The key findings are summarised below.

1.1 Key findings

- The key pandemic related financial pressure on Eastbourne's general fund revenue budget has been the drop in its net income from tourism related activity of approximately £2m. In addition increased pressure has built up from homelessness during the pandemic of £1m.

- The Council recognised the need to address the threat to achieving a balanced budget relatively early (July 2020) taking a number of steps to prevent the threat through a mixture of savings and potential capitalisation. Including the cost of redundancies, the Authority plans to utilise £4.6m of the agreed £6.8m of the 2020/21 capitalisation to balance that year's budget

- The Council's draft Medium Term Financial Strategy (MTFS) is balanced in 2021/22 taking into account a number of assumptions: The Council plans to make savings of £2.4m from its Recovery and Reset Programme (including assets sales), relaunch its approach to tourism (removing the reliance of the sector of Council subsidy) and begin its digital transformation of systems and process. It will also use £1.8m of the cultural recovery fund grant. After taking into account the income from COVID grants, this would leave a balance of £2.5m from capitalisation. Additionally, the Authority is making a further one off provision of £1.9m for redundancies and costs relating to the implementation of Recovery and Reset Programme. The Council will, therefore, require at least £9m in total over the two financial years 2020/21 and 2021/22

- The MTFS goes on to show balanced budgets in the following 3 years but needing savings in total in the region of £6m to achieve this. It is clear that the £6m capitalisation is necessary but deals with the short-term challenges of income losses and additional Covid costs, whilst significant medium term uncertainties and challenges remain.

- The Council needed to use the capitalisation to help balance the budget in 2020/21. Whilst the Council has previously assessed its level of reserves in the past as being appropriate to cover risk, this did not prove the case when Covid hit. Accordingly, EBC was not able to add to its reserves in that year and this will continue to be an issue; therefore, the Council needs to develop its reserve replenishment strategy as a part of the 2022/23 budget process.

- Between 2014/15 and 2019/20 the Council declared "savings" of over £26.9m. It needs to be clearly stated, however, that this included income generation from tourism and leisure activities of £11m. The MTFS shows a similar approach in 2021/22 with 47% (£1.1m) of the £2.481m identified savings being covered by anticipated recovery in income. The MTFS indicates that the Council will still be heavily dependent on tourism in future years, accounting for approximately 50% of income generated per year. Eastbourne will, however, need to make a shift away from its historic reliance on tourism and leisure income to balance its budget. Moreover, Eastbourne will need to move to a more sustainable approach to its financial position overall which should prioritise a more controlled capital programme, responsible asset disposal, and replenishing its depleted reserves

- The Council needs to rely less on tourism income in the future and radically overhaul its approach to savings to ensure that efficiencies are derived from real change and not substituted from leisure-related income. The Council stated it will aim to not subsidise events and will look at community asset transfer of a number of leisure facilities so as to ensure that costs are borne by organisations that have the financial benefits of using the assets. It still intends, however, by 2024/25, to commit net expenditure in excess of £1.3m (9% of net expenditure) on tourism related activities (excludes Towner Leisure centres and golf), it is assumed that theatre income will be at 90% of pre Covid levels by 2024/25

- The Council's property portfolio appears to be understated and requires accurate, external revaluation. We have assessed that asset sales could deliver over £40m in the next 3 years. In addition, the council is working with partners to try to change the balance of industries within the Borough by attracting, for example, tech companies.

- Investment Company Eastbourne (ICE) is a complex financial arrangement entered into by the Council with full legal and financial advice regarding providing a financial guarantee for a £48m loan. There are a number of technical, accounting issues to be reviewed and any future similar investments need to be thoroughly risk assessed before committing the Council further.

- It is noted that there appears to be significant interest in a number of Council owned companies. These companies, for example, Eastbourne Housing Investment Company Ltd (EHIC) hold assets, such as investment properties, to undertake place shaping activities through developments. Similarly, South East Environmental Services Limited (SEESL) is a mechanism to manage the refuse collection service. These companies do not pay dividends to the council. The Council should critically review against its MTFS, its corporate, strategic and asset management plans the need for its companies and the assets held.

- The Council adopted a "Priority Based Budgeting" approach to identify its savings programme this year and have developed options to dispose of assets in order to generate capital receipts. There is some concern, however, that Cabinet reports refer to changes to capital projects as being "temporary" i.e. once the pandemic has passed everything will return to pre-Covid levels of activity. Tight control and grip need to be held over projects coming forward by requiring robust business cases that align with corporate priorities and challenge assumed underlying benefits and costs to the Council

- We found strong officer understanding, leadership and grip of the issues facing the Authority and recognition of the need for the actions taken amongst those members to whom we spoke. There is a need to improve governance and decision-making with regard to the role of the S151 in delivering a more sustainable MTFS in the future. The Corporate Management Team (CMT) also need to rally to support the S151, especially when they have to make difficult decisions. Implementing the proposed restructure of the finance department will add strength addressing the challenges the Council faces.

- The Council has in place a tightly managed RAG rated system for monitoring its savings programme through its Recovery and Reset programme of 48 projects. This is owned by both senior officers and politicians. At this stage, from an assumed savings target of approximately £2.5m in 2021/22, an amount of £686,000 has been delivered, with £1.4m on track and £350,000 which is considered high risk. The likely savings outturn for this financial year is estimated to be in the region of £2m which represents a 80% of total savings achieved leaving a gap of £350,000 to be carried forward to next year. This in turn will impact on any capitalisation requirement in 2021/22.

- The CIPFA resilience index highlights that pre-pandemic Eastbourne had significantly higher *per head* spends on culture and related services and lower spend on housing. The data shows that the Council was a net spender on highways and transport services whereas every other statistical neighbours received net income. These are areas for the Authority to consider further.

- Managing down the demand from Homelessness services, which have been building and exacerbated by Covid, will continue to need close attention. The increased use of temporary accommodation in Eastbourne by Brighton & Hove City Council, has impacted on available capacity for EBC requirements. The Council's strategy to mitigate this includes aiming to prevent people becoming homeless through intervention and support to access benefits and sign posting to other organisations, as well as increasing its own provision of temporary accommodation stock.

- In common with other local authorities, Eastbourne finds it difficult to recruit and retain qualified staff within its Finance department. The Section 151 officer is experienced and highly knowledgeable across the range of financial issues facing the Authority.

- A reorganisation of the corporate level leadership will contribute savings of £108,000 in 2020/21. The monitoring officer is no longer a full member of CMT which may have an impact on the quality of early legal advice given on major projects at planning stage.

- The 2018/19 accounts have only recently been signed off due to the change in the external auditor and the complexity of the details of the ICE transactions. The 2019/20 and 2020/21 accounts are still to be audited. This creates a degree of uncertainty for the Council if any significant issues are subsequently identified.

1.2 Key conclusions

- The Council is facing financial pressure in its tourism and homelessness budgets. It required the use of £4.6m capitalisation in 2020/21 and at least £4.4m in 2021/22.

- In the past it has focused as if it were two organisations: that of a traditional borough council with functions such as refuse collection and housing and that of facilitating a major seaside leisure offer, with the incumbent risks and benefits of the tourism sector. These risks were brought into stark contrast during the pandemic.

- EBC is making progress with its savings programme but continues to expect this to be underpinned by over £1m in tourism and leisure industry income. This represents 12% of the annual pre-Covid tourism and leisure income budget of £8.6m. The Council needs to establish a realistic base line of future income that is achievable. The Council should rely only on income at this level to fund services. Any additional income generated over and above this base line should go into reserves until they are adequately replenished.

- Council had insufficient reserves to support the exceptional budget shortfall primarily caused by the pandemic in 2020/21 and a strategy needs to be developed to deal with this going forward. In order to address its financial difficulties the Council has implemented a major Recovery and Reset programme. It aims to ensure that it makes the required savings and transform the Council. This on its own will not be sufficient to eliminate the structural dependency on tourism. It needs to be supported by a change in culture to a more cautious and risk averse organisation, in particular with regard to capital projects and commercial activities. This is recognised by senior officers and members for whom the key words are: "derisk"; "stabilise" and "adapt".

- The analysis of the Council's property portfolio suggests that opportunities exist to sell certain assets for high market value to deliver £40m capital receipts in the next three years and support the overall financial requirements of the Council as part of the MTFS which requires a total of £6m savings over the next three years. In addition to needing a reserves replenishment strategy, the affordability of the capital programme needs to be re-evaluated as part of its MTFS. There is the advantage of having a significant asset base with the potential for generating capital receipts from the disposal of surplus assets

- The Council has stated that it expects income from cultural and tourism activities to rise towards pre pandemic levels by 2024. Continuing to rely on tourism as a key source of income in its financial strategy, however, considering the experiences of the past two years, carries some risks. The Council recognises this and has indicated that it is exploring with its partners in the Chamber of Commerce and Business Improvement District (BID) ways to diversify the economic basis for the town by attracting into the area other industries, such as technology companies over the course of the MTFS.

- The Council's involvement with ICE will benefit from an independent post-implementation review regarding this set of arrangements. Its own companies that are used as "vehicles", for example, for housing management, need also to be kept under review to assess if, at any stage, the Council should divest itself of its interests in these companies.

- Whilst senior officers and members understand the Council's difficult financial position, it is not clear that this seriousness is widely acknowledged. The pausing of the capital programme in 2020/21 is seen by some members as being "temporary". This needs to be challenged if a sustainable MTFS is to be established. The roles of the S151 and monitoring officer, should be central to the governance and decision-making processes regarding business cases with full involvement from initial inception.

1.3 Recommendations

A key theme of the report is the council's need to reduce its dependency on tourism income, to achieve this:

a) The Council's corporate plan should be refreshed in the light of the pandemic and its need to diversify its income base.

b) The Leader and Cabinet should ensure that all members understand that there will a medium to long term requirement to continue to make adjustments, including the possibility of additional saving, to balance the budget by £6.7m in the MTFS. Stating it would not be prudent for members to assume that there will be a speedy return to "normal", pre-pandemic business

c) The Council needs to establish a realistic base line of future income which takes into account its desire to lessen its dependency on tourism income. The Council should rely only on income at this level to fund services. Any additional income generated over and above this base line should go into reserves until they are adequately replenished

d) The Strategic Risk register should monitor the commercial investments/or commercial transactions undertaken by the Council or the commercial entities the Council has an interest in; ensuring that appropriate mitigations are put in place to manage the risks inherent in these types of transactions

Additionally further recommendations arising from our review are set out below across a number of key areas

No	Recommendation description	Timescale
1.	**Assets**	
1.1	The affordability of the capital programme needs to be continuously reviewed to ensure it is in line with objectives stated within the MTFS.	3 months
1.2	Following its need for the capitalisation direction, the Council should not consider increasing its capital expenditure on anything other than housing, health and safety issues or schemes fully justified by a sound, affordable business case. It should refrain from commercial activities unless the expenditure is proportional to its capital programme and the impact that it has on the revenue account has been fully assessed. The rationale for this should be clearly communicated to all members	1 month
1.3	The Council should review whether its MRP is prudent against all of its asset base and that this review is considered against its revised capital programme to ensure it is sustainable. This review should consider appropriate benchmarks for borrowing and could include the capital finance 'liability benchmark' which will be particularly useful over the long-term.	3 months
1.4	An asset strategy to be put in place to generate (additional) capital receipts to help to manage the council's financial pressures.	3 months
1.5	The significant debts from existing tenants and should be pursued thoroughly to recoup the arrears	1 month
1.6	Verify valuation of assets individually, including rural estate and retail assets, and carry out detailed options and market appraisal of all assets to establish asset disposal list	3 months
1.7	Develop a scheme for key strategic seafront sites to gain commercial/residential planning consent to maximise value	9 months
2.	**Capitalisation**	
2.1	Monitor the in year requirement for capitalisation of revenue expenditure to ensure this stays within the EFS current limit	Ongoing
3.	**Commercial/Borrowing**	
3.1	Commercial investment balances should be reviewed and challenged to assess their usefulness to the Council.	6 months
3.2	ICE – an independent post implementation review of the arrangements for this transaction to consider whether the transaction represents value for money for the Council and its community in the short, medium to long-term considering the risks which have emanated from the COVID-19 pandemic and the Council's resources. No further complex or unusual transactions of this nature are entered into at least until the Council consolidates its financial performance and financial position. If any future transactions are considered a full assessment of whether or not these fit with best practice in investment management and the appropriateness of decisions against the Council's risk management strategies and appetite. ICE should be included in the Council's Strategic Risk Register.	3 months and ongoing
3.3	The Council should appoint an independent (non-political) member on the Audit and Governance Committee	6 months
3.4	A commercial framework should be agreed with members and senior officers to assess future investment based or traded activities. There needs to be rigorous governance around commercial activities and a realistic assessment to the Council's capacity and capability to deliver such projects.	6 months
3.5	Council critically reviews against its MTFS, its corporate, strategic and asset management plans the need for its companies and the assets	3 months

No	Recommendation description	Timescale
	held. The review should contain robust and prudent arguments if the Council is not to divest itself of its interests in these companies.	
3.6	Council request that Eastbourne Housing Investment Company Limited (EHICL) reviews its investment properties and consider if they meet the needs of the community, their valuation is subject to further changes or judgements and review this against the risks to the Council in terms of the extension of resource cover and borrowing.	3 months
3.7	Council should use its controlling interests or significant influence in its companies to ensure that their financial statements are subject to audit.	12 months
4.	**Governance/Oversight**	
4.1	External support should be appointed to assist in the discharge and monitoring of the overall Roadmap, including the asset management and disposals strategy, the review of council owned companies and development of appropriate indicators to demonstrate progress as the Council may lack the capacity to deliver the change required over a sustained period of time.	Immediate
4.2	The Council should review the decision to not have the chief legal officer as a full member of the Corporate Management Team (CMT)	3 months
4.3	Continue to develop the Priority Based Budget approach so that Cabinet reports reflect the on going financial uncertainty and the tough decisions that will continue to be needed to balance the budget post pandemic	On going
4.4	Members should receive a refresher programme of training on treasury management, the prudential framework, and the risks of investing public money in commercial entities, with particular emphasis on the impact of the capitalisation directions.	3 months
4.5	The Council should implement the restructure for the finance section as put forward by the s151 officer as a matter of priority	3 months
4.6	The financial outcomes, changes in risk profiles and asset valuations of the ICE transaction are reviewed by Cabinet and the Audit and Governance Committee on a regular at least a quarterly basis.	3 months
4.7	A full post-audit review needs to be carried out with the auditor regarding the 2018/19 accounts and the accounts are checked against CIPFA's disclosure checklist before they are submitted in future years including the Group Accounts.	3 months
5.	**Reserves**	
5.1	The Council should set its general fund reserves, particularly its non-earmarked balance, in accordance with a risk managed assessment of its needs, these include financial, operational and strategic risks and any contingencies necessary.	3 months
5.2	Reserves should be established at sustainable levels such that these risks are managed and so that there will be no future need for government assistance. This will need to include scenario planning to reflect differing levels of resources that may be received.	3 months
6.	**Savings/efficiencies**	
6.1	The Council should review its service expenditure per head on culture and related services, housing (including homelessness) and highways and transport, with a view to bringing it into line with comparator authorities	3 months
6.2	The "Recovery and Reset" programme should be renamed the "Recovery and Stabilisation" programme to emphasise the need for continued prudence. It should be reviewed bi-weekly by corporate management team and monthly by Cabinet and that the council identify specific expenditure items and its financing for the 2021/22	On going

No	**Recommendation description**	**Timescale**
	capitalisation direction. In addition, capital financing for the 2020/21 EFS of £4.6m must also be identified.	
6.3	The Council should add a strategic risk relating to non-delivery of its Recovery and Reset to the Risk Register and monitor it.	3 months
6.4	Develop a savings plan which aligns with the whole MTFS period, updated on a more regular basis to ensure that it reflects its changes in financial sustainability and resilience and its Recovery and Reset plan, ideally it should be a “living document” for the Council.	3 Months
6.5	Ensure that robust project and programme management arrangements are in place to deliver the capital programme so that revenue budget pressures are not exacerbated.	Ongoing

2. Focus of report

2.1 Introduction

The Department for Levelling Up, Housing and Communities (DLUHC) confirmed on 10 February 2021 approval of exceptional finance support (EFS) to Eastbourne Borough Council (EBC) of a total not exceeding £6.8m for the financial year 2020/21. One of the conditions of the Council receiving EFS was an independent review focussed on its financial position, with the intention that DLUHC will agree a plan with the Council to address any recommendations.

The purpose of this report is:

- To provide an assessment of Eastbourne Borough Council's financial management and management of risk, deliverability of savings plans, and efficiency in delivering services.
- To provide assurance that as a local authority that received Exceptional Financial Support from the Department in the financial years 2020/21 and has applied for further support for 2021/22, the Council has taken appropriate steps to improve their financial sustainability.
- To provide support to Eastbourne in the form of recommendationsand performance requirements to ensure they achieve this objective.

2.2 Methods used to gather data

Evidence was collected by CIPFA with support of PeopleToo between 15th July and 11th August which involved the following methods:

- Semi-structured interviews (Appendix 1). On-line interviews were conducted with key officers including the CEO, Section 151 Officer and other senior officers, the Leader of the Council and Cabinet Member with Resources portfolio, and with external and internal audit.
- Document review. The Council provided documents and working papers on key financial and non-financial issues with a particular focus on those related to budget setting, financial management and planning. Documents were also obtained via other sources, including those provided by DLUHC (Appendix 2)
- Benchmarking. A comparison of Eastbourne against other statistical neighbour Councils in particular in relation to local government finance and place-based socio-economic data (selected content has been used in this report, the full data pack is available separately if required).
- Analysis involved a triangulation of data from the different sources. Key information and conclusions have been discussed with the Chief Executive Officer and Section 151 Officer.

2.3 Scope restrictions

This report is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's finances. As a consequence the conclusions do not constitute an opinion on the status of the Council's financial accounts.

3.Background

3.1 Eastbourne and its local context

Eastbourne is a large town in East Sussex which is primarily a seaside resort with approximately 7km (over 4 miles) of outstanding coastline which includes Beachy Head.

It is a gateway to the eastern end of the south Downs National Park, with 485 hectares (1,200 acres) of open access land as well as sites of special scientific interest.

Eastbourne has a wide range of parks and gardens and significant areas of historic interest, including 250 listed buildings and almost 10 per cent of the built up area is protected with Conservation Area status.

Eastbourne also has a range of sport and leisure facilities including: an international, high quality tennis centre developed in partnership with the Lawn Tennis Association; a number of community and borough sporting facilities; theatres; a modern art gallery; and a number of smaller venues which act as centres of local memory and heritage.

The Borough has a population of approximately 103,000 and has lower proportions of residents aged under 45 and higher than average proportions of residents aged 65 & over relative to the South East and England averages. Other key socio-economic indicators are:

- Eastbourne has relatively high levels of deprivation compared to the other districts with 7 of the domains of deprivation, including education and skills, income and crime, on the 75th percentile.
- Eastbourne has relatively high levels of unemployment rates compared to the average levels in the South East and England. From October 2019 to December 2020 average unemployment rates within Eastbourne have increased from 3.87% to 5.92% compared to the 4.03% increase to 4.75% in England.
- Eastbourne is ranked 1 out of the 5 districts with a GVA per head of £20.59.

3.2. Eastbourne Council and how it operates

Eastbourne Borough Council is led by a Liberal Democrat administration, which has been in control of the Council since May 2007, with the current leader of the Council, Councillor David Tutt being in this role since May 2007.

Eastbourne Borough Council has 27 councillors representing the 9 wards. The political representation on Eastbourne Borough Council is:

- Liberal Democrats - 18 councillors
- Conservative - 9 councillors

The Council operates a Cabinet system formed from members of the majority Liberal democrat party; the Leader and members of the Cabinet collectively have responsibility for taking day to day decisions within the Council.

The Council has an Audit and Governance committee which deals with the discharge of its powers and duties in connection with financial governance and stewardship, risk management and audit. In addition the Council has a Scrutiny Committee consisting of eleven councillors who are not Cabinet members and chaired by a member of the main opposition group. The Committee has the responsibility to maintain an overview of the discharge of the Council's executive (Cabinet) functions, scrutinise decisions, and make reports and recommendations thereon.

The Council's Corporate Management Team (CMT) is made up of:

- Chief Executive & Director of Tourism and Enterprise
- Chief Finance Officer

- Deputy Chief Executive and Director of Regeneration and Planning
- Director of Service Delivery
- Assistant Director Human Resources and Business Transformation

The Council's statutory Monitoring Officer reports directly in to the Chief Executive but is not a member of CMT. This is as a result of recent reorganisation, the Council should review this decision to ensure its chief legal officer is aware of strategic developments at any early stage when giving advice.

It is noted that the management team is shared on a joint arrangement with Lewes District Council. This review has not assessed the effectiveness of this arrangement, it was not raised as an issue by any stakeholders.

3.3 Corporate priorities

In 2020, the Council agreed a corporate plan 2020 to 2024. The plan is underpinned by four strategic priorities:

1. Growth & Prosperity – a thriving sustainable economy
2. Housing & Development – decent, safe and well managed housing
3. Quality Environment – clean, attractive, zero carbon town
4. Thriving Communities – healthy, safe and thriving

Together, these objectives formed the Council's response to the financial climate for the public sector at the time, which was just before Covid struck. The Council should refresh it in the light of the implications relating to the pandemic.

3.4 Eastbourne funding base

The Council increased its council tax by 2% for 2021/22. It has to give an indication of likely future council tax rises. It is expected that council tax will rise by 2% per annum in line with inflation for each of the next three years. This is within the Government's target for inflation (1-3%) and the also current ceiling on rises that would otherwise require a referendum.

The Council will raise £8.866m in 2021/22 from its share of the council tax. In addition, there is a surplus of £45,000 payable to EBC from the collection fund due to an overall collection fund surplus of £362,000.

The Council is challenged in any attempt it might make in increasing its council tax base. According to the current Local Plan Eastbourne's resident population of over 103,000 people is accommodated in fewer than 49,000 homes. In the last five years, just 832 new homes have been built at an average of 166 homes per year. The Local Housing Need for Eastbourne is calculated as 668 homes per annum over the 20 year plan period.

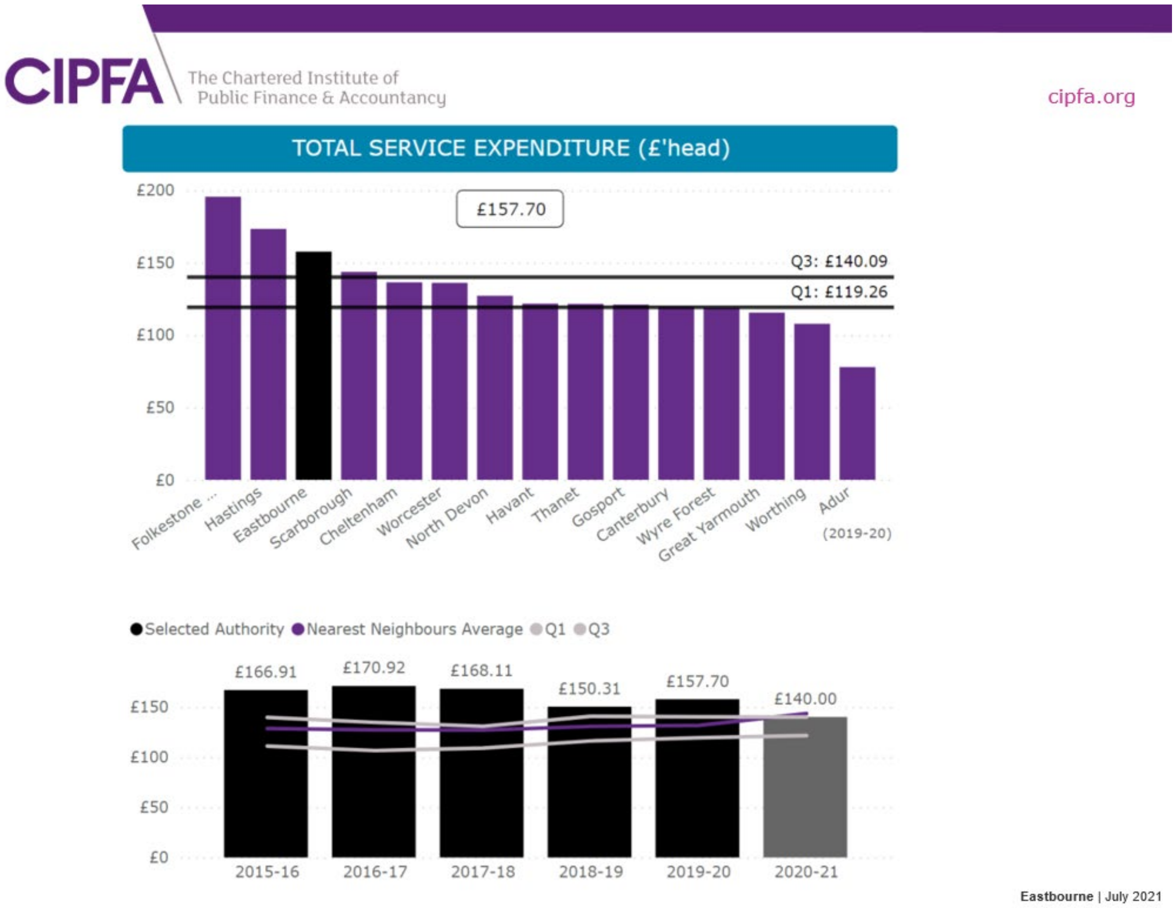
The National Planning Policy Framework requires local plans to meet the Local Housing Need, unless there is a strong reason for restricting the overall scale, type or distribution of development in the plan area. Physical and environmental constraints, such the South Downs National Park, limiting the amount of land that is available to develop, are given as strong reasons for EBC being unlikely to be able to meet the housing need requirement.

4.Current financial position

In this section we consider Eastbourne's current financial position. The Council's position and financial performance before the pandemic and the extent to which it was already under financial pressure. We then consider the factors that led to the capitalisation request and the steps the Council has taken to stabilise its financial position.

4.1 Past financial performance

Relative to its comparator authorities Eastbourne is high in its total service expenditure per head. The CIPFA resilience index highlights that pre-pandemic Eastbourne had significantly higher per head spends on culture and related services and lower spend on housing. The data shows that the Council was a net spender on highways and transport services whereas every other statistical neighbours received net income. These are areas for the Authority to consider further.



Prior to the pandemic the Council's strategy was to use reserves and borrowing to support the funding of its ambitious capital programme, on the assumption that they would be replenished through increased income from the leisure and cultural venues it was developing. The Council has indicated that the programme at that time prioritised projects that were either a statutory requirement or essential to the Corporate Plan. However, when the pandemic struck the Council's reserves were not sufficiently robust to sustain subsequent loss of income.

A clear policy was approved by the Council for both the 2020/21 and 2021/22 budgets to achieve a balanced budget and meet the requirements of the Local Government Finance Act 2002 and to set a MTFS demonstrating how that position would be maintained up until 2022/23.

On 24 February 2021 the Council approved a General Fund budget of £19.335m for 2021/22 including use of £6m capitalisation. The Council's capital programme between 2020/21 and 2023/24 totals £151.293m (including HRA).

The key challenges facing the Council are:

- The uncertainty of medium-term revenue funding
- Shifting the Council’s culture to become more cautious and prudent in its approach to investments and commercial activities
- Delivering the planned savings programme, including the disposal of assets, to ensure spending during 2021/22 is within budget.
- Identifying, evaluating and approving savings to manage the MTFS budget gap in future years and lessening the dependency on income from tourism and leisure
- Ensuring that strategies in place to move towards homelessness prevention and the containment of rough sleepers are effective
- Managing the ongoing impact of COVID-19 on communities, businesses, services, and staff, including the financial implications on revenue expenditure and income and continuing to maximise gains from the changing patterns of demand for office accommodation and home working
- Protecting and growing the level of General Fund reserves
- Ensuring its capital programme is sustainable and able to support the Council’s future plans.

4.2 Why did the Council apply for Exceptional Financial Support (EFS)?

The Council was trying to manage within its own resources but the pressure that was growing due to impact on income was becoming unsustainable. It was clear that the reserves were insufficient to balance the budget under such exceptional conditions and officers and members did not want to issue a S114 notice. There was also uncertainty on the level of funding that would be provided by the Government to support the financial impact of the pandemic.

The initial EFS application in early summer sought £20m to forecast budget pressures of £10m in 2020/21 and £10m in 2021/22. These figures were later revised following the availability of additional COVID19 grants from the government. The DLUHC direction of February 2021 set out £6.8m for 2020/21.

Key Council stakeholders have described their consideration in applying for EFS as a necessary part of an overall prudent approach to financial management. Specific local circumstances noted were a relatively low level of reserves, the abrupt disappearance of the tourism and leisure sector income and its ability to withstand the financial impacts of COVID-19. The Council considered that it was on track to manage within its own resources in the future, but it found the shock waves of the pandemic unmanageable in the short term.

The Council acknowledge that they have taken risks in the past to position Eastbourne as a premier tourist destination. It now accepts that this approach left the Council very vulnerable when Covid hit. Longer term key stakeholders aim to “de-risk” the Council, stabilise the financial situation and adapt tourism and leisure functions and services to be self sustaining.

The Council used £4.6m EFS during 2020/21 due to achieving a better outturn position, which in addition to a tighter control over its expenditure was also due to higher than anticipated one-off grant funding from government in relation to COVID-19 which had not formed part of the Autumn 2020 forecast. The Council has been planning to use £6m in 2021/22, but its latest working draft MTFS is reducing this figure to £4.4m.

4.3 Projected budget position for the next few years

Eastbourne’s MTFS was presented to Cabinet in September 2020 and is due to be refreshed in the Autumn 2021. A working copy of the current draft revised version was shared in early August 2021 with the CIPFA Review team.

The bedrock of the MTFS and the Council's future financial sustainability is its

- transformational Recovery and Reset Programme, which has been developed to provide a framework for a fundamental review of its services post COVID19. One element of the programme is an Asset disposal programme – implemented over the next five years, aiming to avoid any 'fire sales' with plans to use capital receipts to fund the capitalisation direction. This is discussed in more detail at Section 6 below.
- the Re-launch programme for the tourism and leisure offer, whereby the Council will not subsidise commercial events, therefore shifting the financial risk away from the Council towards events' organisers.
- a Digital Transformation programme which builds on works already begun with Lewes district council as part of the joint programme to integrate the two councils direct and support service delivery

The general principles underpinning the strategy may be stated as being:

- To maintain a balanced budget position which is robust, affordable and sustainable without the ongoing use of reserves, and as part of the budget process, to set a MTFS demonstrating how that position will be maintained.
- Spending plans will be aligned with the Council's aims and objectives as defined by its 2020 to 2024 Corporate Plan
- Revenue and Capital budgets will be continually reviewed and modified where necessary to ensure that resources are used effectively and targeted to achieve key objectives and offers value for money.
- The overarching transformational Recovery and Reset programme will be the main vehicle through which change will be delivered.

MEDIUM TERM FINANCIAL STRATEGY - 2021/22 - 2024/25 WORKING DRAFT

	2021/22 Revised	**2022/23**	**2023/24**	**2024/25**
	£000	**£000**	**£000**	**£000**
Net Cost of Services	18,483	18,243	18,116	18,085
Net cost after capital charges, grants and **capitalisation of at least £2.5m (excluding cost of redundancies and R&R which were not quantified when the working draft MTFS was prepared)**	16,679	20,371	21,379	21,718
TOTAL FINANCING	(14,288)	(14,454)	(14,679)	(15,018)
Recovery & Reset Programme savings	(2,391)	(5,917)	(6,700)	(6,700)

The majority of assumptions within the Strategy regarding growth and inflation are reasonable. The challenges that the Council must face are:

- Ensuring that theatre income returns to 90% of pre pandemic levels by 2024/25 and taking immediate management action if there are signs it is not happening
- Continuing to monitor the Recovery and Reset programme; ensuring all projects are delivered and stressing the cultural shift to members and officers that returning to pre pandemic structures, process and ways of working are not feasible.

4.4 Financial resilience

The Council's external audit contract has recently been changed from BDO to Deloittes. The 2018/19 accounts were presented to the Audit and Governance committee on 28 July 2021. This was due to a number of mobilising issues and specifically the treatment of Investment

Company Eastbourne (see below). A schedule of dates to receive the accounts for 2019/20 and 2020/21 has been agreed with the auditor.

The auditor stated whilst there were no material matters which needed to be reported, they did identify the Investment Company Eastbourne ("ICE") transaction and financial guarantee contract with Infrastructure Investments Leicester Ltd (IIL) as a significant risk.

The Authority had appropriately taken legal, property and commercial advice during the due diligence of the transaction, there were a number of areas for improvement for future transactions. The auditor did not find it necessary to include an exception to their value for money conclusion in respect of this matter.

The auditor also commented on the Council's relatively low level of General Fund reserves, increasing the risks to financial sustainability, particularly in the context of the pressures from Covid-19 on income and expenditure going forward. The Council should develop a reserve replenishment strategy to grow to a sustainable level and reflect different scenarios in relation to levels of revenue funding.

The auditor made a number of "High Priority" recommendations in the quality of draft financial statements; Determination of accounting treatments for complex transactions and preparation of accounting papers; Governance arrangements on approval of significant or unusual transactions. It is important that the Council assesses the recommendations of the external auditor and takes appropriate action.

4.6 Efficiency of service delivery

Revenue Outturn (RO) data for 2019/20, the most recent year available nationally, highlights that Eastbourne has a significantly higher per capita service spend than its statistical nearest neighbours for cultural and related services and highways and transport. It was significantly lower for housing.

All of these services were in a similar above the average position compared to statistical nearest neighbours since at least 2015/16. Pre-pandemic these areas appeared to have scope for service improvement and efficiency.

It is acknowledged that the Council needs to consider its position within the tourism sector and assess the value it receives from its contribution to events and its reliance on tourism income.

It is recommended that the Council should undertake a formal benchmark analysis and review of service costs against its local authority statistical neighbours to identify areas for potential further efficiency and improvement. This is particularly important for its housing services given the pressure resulting from the increase in homeless people which has built up before and during the pandemic.

The council should consider CIPFA's advice on the matter of reserves in LAAP Bulletin 99 Local Authority Reserves and Balances. To assist with its decisions on the appropriate level of reserves the Council should use CIPFA's Resilience Index to test its reserve management levels and strategies.

5. Authority's approach to financial management

5.1 Background

In terms of budget management the Council has a number of actions to identify savings and ensure budget discipline. There will be some savings which can be generated in the short-term to bridge the gap in 2021/22, others may need longer approval lead time.

5.2 Adequacy of existing financial management practices

As well as the annual budget, MTFS and treasury management reports, in line with the Council's financial regulations, quarterly reports on the Council's projected income and expenditure compared with the budget are presented to the Cabinet. This is part of an overall corporate performance monitoring report. In addition, quarterly updates are held between a Head of Service, budget holder and their Finance representative. There is clearly a framework in place to ensure accountability for the use of the Council's resources. This has been further enhanced by full monthly reports to CMT and scheduled monthly departmental budget reviews since June 2021 which will support the Council in achieveing a more financially sustainable footing with regular challenge being made to each of the material savings and income generation targets including asset sales.

The MTFS should be updated on a more regular basis to ensure that it reflects its changes in financial sustainability and resilience and its Recovery and Reset plan, ideally it should be a "living document" for the Council. In addition, while the Council has such a significant capital programme then it is likely to need to keep the MTFS under more regular review.

It should be stated, also, that the size of a number of Cabinet and Audit and Governance committee agendas are extreme in length. Audit and Governance Committee's ability to challenge the information it reviews could be augmented by including an independent member of that committee. We have been assured that all members have been offered training in 'Finance and Risk' and 'Governance and Probity' as part of their induction, however, concerns remain about their capacity to fully understand and assimilate the volume of information presented in such a way.

Issues regarding Financial Reporting

- The audit report for the 2018/19 statement of accounts has only recently been able to be reported to the Audit and Governance Committee (28 July 2021) primarily due to the inability for the auditor to consider the accounting treatment for the transaction relating to the Council's investment in Investment Company Eastbourne Limited (ICE) and its associated transactions with Infrastructure Investments Limited (IIL) where the Council via ICE acts as ultimate guarantor for a loan with Canada Life and for the rental income streams of the company.

- The Council provides through its wholly owned subsidiary Investment Company Eastbourne Limited (ICE) a guarantee to Canada Life European Real Estate Limited (Canada Life) for a loan with Infrastructure Investments Leicester (IIL) of £48m over a period of 30 years (the Council is referred to as ultimate guarantor).

- The accounting treatment for the transaction was not formally finalised until at least February 2020. This leads to important financial implications for the Council which in addition to the impact of the transaction on the General Fund which was decided at least 18 months after the transaction also set up a reserve to manage the implications for the rental stream guarantee.

- The Council took legal advice on the transaction, however, the auditor's made comments about the need to prepare accounting papers in respect of key matters of application.

- In addition to the quality of the unaudited accounts where there were a number of recomendations including but not limited to the omission of one of the primary statements and the Group Accounts, the auditor raised as significant findings issues relating to the determination of accounting treatment of complex transactions and governance arrangements on approval of significant or unusual transactions. It is recommended that there is an independent post-implementation review regarding the set of arrangements for ICE. It is understood that the Council has carried out an interim post-audit review of the accounts closure process led by Chief Finance Officer to identify and agree on an improvement plan with the auditor which includes a review against the CIPFA's disclosure checklist before they are confirmed. However, the latest 2020/21 accounts included on the Council's website still do not include the Group Accounts.

- It is noted that such significant delays in audits can have an impact on the financial management of the Authority (including future accounts closure exercises). The external audit is an important check on outturn information reported. It therefore has an impact on forward looking information to the Authority. Given Eastbourne's position this would provide even more vital assurance on the information provided.

- In the 2020/21 internal audit report it was highlighted that regular reconciliations between the feeder files (e.g. rents, council tax) were not being carried out. The main accounts in this audit year (2019/20) received only partial assurance in the internal audit report which again is a concern following the abovementioned a delay in the external audit process. It is recommended that this is rectified before the audit of the 2019/20 and 2020/21 accounts.

Annual Governance Statements

There are a number of points made regarding general management practice in the AGS that are not relevant to this review. It is, however, recommended that the Council looks at these points to ensure its efficiency in service delivery.

The AGS for 2019/20 commented on the concerns raised by management that the demand for finance [staff] outweighed capacity of the team with some Heads of Service expressing a view that there was no clear direct access to an accountant. This was reinforced in the 2020/21 AGS which notes that senior management raised concerns over Council resources and relating to controls which had to be adapted for the pandemic. As a consequence it is recommended that the Council implements the restructure as put forward by the s151 officer as a matter of priority so as to deliver efficient and effective financial advice to ensure robust governance of programme management and committee support.

Council's Self-Assessment Against the FM Code

The Council has undertaken an initial self-assessment against each of the financial management standards in the CIPFA Financial Management Code (FM Code). It will be important that the findings of the review are circulated to cabinet and the Audit and Governance Committee and that the findings of the CFO and the Chief Internal Auditor are challenged by the authority's scrutiny process.

Stakeholder Engagement and Business Case

The Council has begun to use Priority Based Budgeting where stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. This may help in a number of areas including the Council's transformational and innovative or commercial projects and will help ground the financial and service or area-based decisions in community and service needs.

In its self assessment the Council comments that decisions are made from clear business cases that detail the up-front and ongoing costs and benefits. Where appropriate the value of money should be considered. Alternative options should be considered. The complexity of the business case should be proportionate to the decision.

The FM Code includes a requirement to monitor material elements of the balance sheet that might give indications of departures from financial plans. It is recommended that a review of the balance sheet is undertaken and that the balances are mapped on to the Recovery and Reset programme, for example, property, plant and equipment and capital receipts will be relevant to the asset sales programme.

In addition commercial investment balances should be reviewed and challenged to assess their usefulness to the Council set against any risks being undertaken, mitigating actions and assessment whether it will be worthwhile pursuing or maintaining the transaction set against the impact on the financial resilience and sustainability of the Council. These will also usefully be mapped onto the relevant corporate strategies where they are being managed for example the treasury management/ investment strategy or capital strategy.

Strategic Risk Register Report

Of the ten Strategic Risks reported to the Audit and Governance Committee only one is rated '*red'* which is *Changes to the economic environment makes the Council economically less sustainable*. There are no further risks relating specifically to the financial resources of the Council (and their management). It would be anticipated that there should be a strategic risk relating to its ability to deliver its Recovery and Reset.

The Council has a number of commercial investments/or commercial transactions and interests in other entities, which are outside that of a council's normal risk factors. The Strategic Risk register should consider monitoring the transactions undertaken by the Council or the commercial entities the Council has an interest in and ensuring that appropriate mitigations are put in place to manage the risks inherent in these types of transactions.

5.3 Approach to transformation and savings

The Council has had a Joint Transformation Programme with Lewes in place since 2017/18 when the rationalisation of management, systems and processes began to take place. This has now been subsumed within the Recovery and Reset programme which is solely focused on Eastbourne Council.

Key to this is the Digital Transformations programme, consisting of 11 projects, including digital democracy, One Revenues and Benefits system and the use of artificial intelligence and robots for high volume processing. These are intended to drive further efficiencies and reduce system costs. Apart from the single revenue system the Council has not projected any savings for 2021/22, they are mainly planned to deliver in 2022/23 and 2023/24.

Whilst not part of the transformation programme per se, due to encouraging home working in the past, when Covid struck the Council was well placed to enhance the initiative and extend it to more staff. This enabled the Council to decant from their head office, 1, Grove Road, which is now being leased to the DWP, with the potential to be declared surplus for sale at a later date.

The digital transformation projects are refocusing the Council to ensure that efficiencies are derived from real change and not substituted from leisure-related income. This emphasis is to be welcomed as it may have been overshadowed in the past by the emphasis on commercial activity to support tourism and leisure services. This refocusing will support senior management in their efforts to stabilise and de-risk the Council and change its culture.

The Council has made cumulative savings totalling £29.314m between 2018/19 and 2020/21, including £4.23m in the last year. It should be noted that pre Covid savings programmes were significantly underwritten by income generation.

The Council within the draft MTFS shows the following summary of the status of the Recovery and Reset projects. As noted above the programme does not yet include any assumed savings in future years for the digital transformation projects.

	2021/22	**2022/23**
	£000	**£000**
Delivered	686	854
On track	1,445	4,638
Some concerns	350	425
Significant risk of non-delivery	0	0
	2,481	5,917

6. Council assets and other commercial property interests

6.1 Review of the Council's current asset position

We have reviewed the Eastbourne Borough Council (EBC) property portfolio and have been advised the gross value is £76m. We believe this is understated particularly in relation to the agricultural portfolio and we would recommend a complete review is undertaken using external valuers to present a more accurate value by asset.

The farms estate consists of a large agricultural holding of 4,171 acres of which 1,211 acres is public access land. The holding includes an 18 hole golf course as well as properties for holiday lets, agricultural buildings and houses. The current stated value is regarded by the review team as a significant understatement. Should the estate be considered for disposal this would realise in excess of this amount. There is potential to sell parts of the estate depending on the pressure to gain capital receipts and we would expect a high level of interest from purchasers.

The EBC portfolio also includes residential, retail and industrial properties as well as heritage and leisure sites, some of which require significant capital investment to repair them including Redout Fort, the theatre and Motcombe Pool. This is in addition to council offices and operational properties.

We have reviewed the portfolio and with input from EBC we have identified potential disposals based on likely value, market potential, and where assets require significant capital investment from EBC and are better placed with a purchaser to make the investment required. There are several sites that will require intensive asset management, particularly the retail assets and others whose values will be enhanced through a development options appraisal and gaining change of use such as the the key strategic seafront sites. We have included a number of houses as the residential market is strong.

The EBC Property Department have a Whole Estate Plan (WEP) Strategic Board in order to measure Asset Management with day-to-day finances, the Board including Head of Property and members report directly to the Executive of the Council. No expenditure can be sanctioned by the Board without Executive approval. The Board and Property Department's priorities have been to draw-up significant restructuring of their liabilities and savings where possible, from arrangements with local and national tenants to deal with and set up debt repayment plans and, wherever possible, to minimise FM services to their holdings. They have also investigated their position in respect of future disposals of freeholds, subject to planning and other restrictions.

A WEP exists for the agricultural estate and we understand the Asset Management Plan for the corporate estate ran from 2017 to 2020 although we have not seen an up to date version.

Debt management procedures need to be reviewed as there are significant amounts outstanding on some commercial investments. To maximise their value robust debt management arrangements should be put in place and rents renegotiated where required to secure tenant occupation.

The Council will want to prioritise any capital receipts it earns to first fund the expenditure funded by the capitalisation direction and then focus any remaining receipts on a more conservative capital programme and where possible reduce its need to borrow.

Interests in Council Owned Companies

The 2018/19 audited Group Accounts indicate that the Council has a material interest in six entities. The table at Appendix 3 summarises the relationship with Eastbourne Borough Council but for completeness it includes Cloud ConnX Limited (which has not been included in the Group Accounts) and Eastbourne Downs Water Company (where there is conflicting evidence as to whether the company is active or dormant (the Statement of Accounts for 2018/19 indicates that it is dormant). Records at Companies House indicate that it is active.

Appendix 3 also includes financial information for the financial year 2019/20 to provide a more up-to-date picture of the potential financial risks faced by the Council. The companies highlighted with a * have applied the Sections 476 and 477 Companies Act 2006 exemption from external audit. As the companies have been financed using public money or their transactions might represent risks to public money it is inappropriate to use this exemption and the Council should use its controlling interests or significant influence in the entities to ensure that these financial statements are subject to audit.

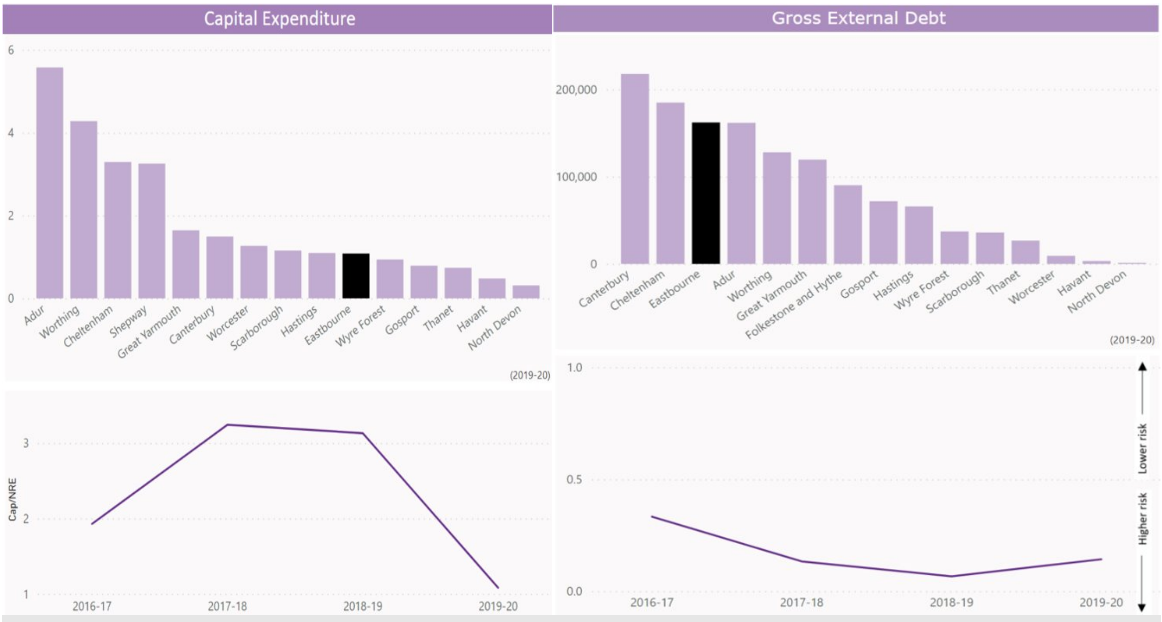
The majority of investments are related to housing or place shaping activities. Approximately £28.3m is held in investment properties in Eastbourne and their values have been subject to market forces. Notably there is increased investment uncertainty on the value of the investment properties held by Eastbourne Housing Investment Company Limited which has been subject of an emphasis of matter commentary by the company's auditors. Concerningly there was a significant increase in this portfolio in 2019/20 of £10.1m. The Council's own risk assessment recognises that these investments are dependent on its capital programme. This has been severely limited in 2020/21 and there is comparably less financial resilience which is a concern to the Council. It is recommended that the Council seek via its interests in Eastbourne Housing Limited a review of the investment properties held and consider whether they meet the needs of the community, whether their valuation is subject to further changes or judgements and review this against the risks to the Council in terms of the extension of resource cover and borrowing.

The other companies in which the Council has an interest are less financially significant though Aspiration Homes Limited is understood to be a holding company for affordable housing and this includes £5.8m in investment properties.

Considering the impact of the pandemic on the Council and its resources and its need to seek a capitalisation direction, it is recommended that the Council critically review against its MTFS, its corporate, strategic and asset management plans the need for these companies and the assets held. The review should contain robust and prudent arguments if the Council is not to divest itself of its interests in these companies.

6.2 Capital programme

Eastbourne had comparatively low capital expenditure in 2019/20, in terms of its proportion to net revenue expenditure, when compared to its statistical neighbours. This was a sharp reduction from previous years. The Council, however, has a relatively high level of external debt when compared to its statistical neighbours.



The Council's capital programme has been an integral factor in its finances including its plans for recovery. In 2017/18 capital expenditure was reported as £51.3m. This level of spend continued in 2018/19 at £44.5m and fell in 2019/20 to £33.8m. This fell significantly in 2020/21 to £16.0m as a result of its financial difficulties and this includes the amount capitalised under the capitalisation direction of £3.55m. Significant proportions of capital spend over the period have been related to commercial activity and in 2019/20 approximately half of reported General Fund capital spend was related to commercial activity at £15m in 2020/21 (see table 1 of Appendix 4 presenting actual and estimated capital expenditure and financing for the Council from 2017/18 to 2023/24)

The most recent capital programme figures post 2020/21 indicate increases from 2019/20 expenditure levels of £33.8m to £43.2m in 2022/23. This includes substantial increases in HRA expenditure from £3.6m in 2020/21 to £19.8m in 2021/22 to 30.8m in 2022/23. Estimates of total capital spend appear to decrease to £30.2m in 2023/24 though expenditure on HRA is estimated at £22.7m.

The increase in HRA capital expenditure is in line with and as part of the Council's wider strategy of addressing the borough's housing need pressures by investing in more social housing. The Council's capital programme should be subject to continuous challenge and it should not consider increasing its capital expenditure on anything other than housing, health and safety issues or schemes fully justified by a sound, affordable business case. It should refrain from commercial activities unless the expenditure is contained within the capital programme and the impact that it has on the revenue account has been fully assessed.

The Council has indicated that the capital programme is under review and making reductions to it. We note that the estimates currently available do not explicitly include the capitalisation direction for 2021/22 but we would therefore be concerned that they are revisited as soon as possible.

The Council has also confirmed that in terms of financing the capitalisation direction for 2020/21 (£4.6m) that at least £1.8m will be financed by capital receipts. Ideally it is understood that the Council would like to finance the whole of the direction using capital receipts but is unable to currently confirm this position. The Council has subsequently stated that any additional borrowing would have increased the revenue shortfall by up to £900k p/a (based on the original £12.8m capitalisation estimate) and the added financial penalty for any early repayment. The Council is not intending to use borrowing to fund capitalisation, it will be funded from capital receipts only. The Council has already disposed of some shares generating £1.7m, reduced its Capital Financing Requirement (CFR) through payback of loan by EHIC to Council of approximately £8m giving added capacity to fund the capitalisation.

From the estimates currently available the 2021/22 capital expenditure is anticipated to be funded by £7.4m of capital receipts. This is an 80% increase from that achieved in 2020/21 of £4.1m though it is recognised that the Council was able to achieve £7.8m in 2018/19. The Council should keep this figure under regular review to ensure that it is able to achieve this estimate.

The Council's CFR is presented in Table 2 of Appendix 4. This has been rising with the Council's increasing capital expenditure. As at 31 March 2018 it was £123m and this has grown to £178.3m as at 31 March 2021, which is significantly lower than its original estimate for that year of £202m.

The largest increase took place in 2018/19 where the CFR increased from £122.6m to £149.9m (ie c£27m increase). The CFR is anticipated to increase to £199.0m by the end of 2021/22 (this is a 62% increase in the four year period reported from 31 March 2018) and a year on year increase of £18.3m). There are estimated increases in CFR in 2022/23 to £227.4m ie an increase of £28.4m which exceeds the largest increase in 2018/19; as noted above the increases in capital expenditure is largely due to the HRA investment.

The external auditor's report of July 2019 commented that at 31 March 2019 that its review of the arrangements in respect of monitoring the significant capital programme schemes and mitigating associated risks did not give rise to any significant risk to its value for money conclusion (for 2018/19).

As MRP is required by the statutory guidance to be provided over the period expected to benefit from capital investment, a benchmark comparison can be made between the rate that assets are depreciating and the rate of MRP charged. It is considered that this is the only benchmark that can be used as comparisons against other authorities may not bear scrutiny as they may have had significantly different profiles of capital expenditure and funding.

In 2020/21 depreciation of £1.95m was charged on non-HRA land and buildings balance within property, plant and equipment suggesting an average useful life of 49.9 years. In contrast, £1.0m of MRP was charged on the non-commercial GF CFR of £75.3m which would suggest that it would take 75.3 years to pay off the CFR at the rate applied in 2020/21.

It is recommended that the Council consider its asset profile and whether the MRP is prudent for all of its asset base as there appears to be a substantial difference between its two profiles

Analysis provided in the Treasury Management Annual report 2020/21 indicates that significant elements of the CFR and net borrowing are related to commercial activities and non-financial assets. This is 31% of net borrowing in 2019/20 and 35% in 2020/21. Similarly, in 2019/20 and 2020/21 commercial activities and non-financial assets represent 29% and 31% of the CFR.

The Council borrowing requirements to the CFR is set out in tables 3(a) and 3(b) of Appendix 4 showing borrowing below the CFR. The Council has reported that this indicates that internal resources have been used to finance spend in its 2020/21 Capital Strategy and that its primary objective when borrowing is to strike an appropriately low-risk balance between securing low interest rates and achieving cost certainty over the period in which the funds are required.

The Council's Capital Strategy for 2020/21 indicated that in recent years the Council has invested in commercial property in the Borough on selective basis usually where there is fit with the corporate priorities and a positive financial return that can be used towards the protection of local services. In its 2020/21 year-end report it notes that [in accordance with the CIPFA Prudential Code] the Council has not borrowed more than, or in advance of its needs, purely in order to profit from the extra sums borrowed.

In relation to its commercial activities within the capital programme the Council comments in its 2020/21 Capital Strategy that its policy includes a strict governance framework, the use of real estate investment experts and diversified portfolios. It also comments that it considers that investing in housing properties and commercial investments within the borough to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to services it provides or to build and strengthen the local economy which will have the related benefits of increased business rates.

It is recommended that the Council is cautious about increasing its capital expenditure plans so rapidly following its need for the capitalisation direction and that same caution is levied on commercial activities to ensure that the commercial expenditure is proportional to its capital programme and the impact that it has on the revenue account.

It is further recommended that a commercial framework is agreed with members and senior officers to assess future investment based or traded activities. There needs to be rigorous governance around commercial activities and a realistic assessment to the Council's capacity and capability to deliver such projects. This will be key in the recovery process and MTFS sustainability.

7.Roadmap for improvement

This section sets out a summary of our recommendations in the form of a high-level action plan for financial improvement, which the Authority can incorporate into its existing MTFS.

			2022							
No	**Recommendation description**	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
	Reduction on Tourism Income									
a)	The Council's corporate plan should be refreshed in the light of the pandemic									
b)	The Leader and Cabinet should ensure that all members understand that there will a medium to long term requirement to continue to make adjustments, including the possibility of additional saving, to balance the budget by £6.7m in the MTFS. Stating it would not be prudent for members to assume that there will be a speedy return to "normal", pre-pandemic business									
c)	The Council needs to establish a realistic base line of future income that is achievable. The Council should rely only on income at this level to fund services. Any additional income generated over and above this base line should go into reserves until they are adequately replenished									
d)	The Strategic Risk register should monitor the commercial investments/or commercial transactions undertaken by the Council or the commercial entities the Council has an interest in; ensuring that appropriate mitigations are put in place to manage the risks inherent in these types of transactions									
1	**Assets**									
1.1	The affordability of the capital programme needs to be continuously reviewed to ensure it is in line with objectives stated within the MTFS.									
1.2	Following its need for the capitalisation direction, the Council should not consider increasing its capital expenditure on anything other than housing, health and safety issues or schemes fully justified by a sound, affordable business case. It should refrain from commercial activities unless the expenditure is proportional to its capital programme and the impact that it has on the revenue account has been fully assessed. The rationale for this should be clearly communicated to all members									
1.3	The Council should review whether its MRP is prudent against all of its asset base and that this review is considered against its revised capital programme to ensure it is sustainable. This review should consider appropriate benchmarks for borrowing and could include the capital finance 'liability benchmark' which will be particularly useful over the long-term.									
1.4	An asset strategy to be put in place to generate (additional) capital receipts to help to manage the council's financial pressures.									
1.5	The significant debts from existing tenants and should be pursued thoroughly to recoup the arrears									
1.6	Verify valuation of assets individually, including rural estate and retail assets, and carry out detailed options and market appraisal of all assets to establish asset disposal list									
1.7	Develop scheme for key strategic seafront sites to gain commercial/residential planning consent to maximise value									
2	**Capitalisation**									
2.1	Monitor the in year requirement for capitalisation of revenue expenditure to ensure this stays within the EFS current limit.									
3	**Commercial/Borrowing**									
3.1	Commercial investment balances should be reviewed and challenged to assess their usefulness to the Council.									
3.2	ICE – an independent post implementation review of the arrangements for this transaction to consider whether the transaction represents value for money for the Council and its community in the short, medium to long-term considering the risks which have emanated from the COVID-19 pandemic and the Council's resources. No further complex or unusual transactions of this nature are entered into at least until the Council consolidates its financial performance and financial position. If any future transactions are considered a full assessment of whether or not these fit with best practice in investment management and the appropriateness of decisions against the Council's risk management strategies and appetite. ICE should be included in the Council's Strategic Risk Register.									
3.3	The Council should appoint an independent (non-political) member on the Audit and Governance Committee									

	Recommendation description	2022 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
3.4	A commercial framework should be agreed with members and senior officers to assess future investment based or traded activities. There needs to be rigorous governance around commercial activities and a realistic assessment to the Council's capacity and capability to deliver such projects.									
3.5	Council critically reviews against its MTFS, its corporate, strategic and asset management plans the need for its companies and the assets held. The review should contain robust and prudent arguments if the Council is not to divest itself of its interests in these companies.									
3.6	Council request that Eastbourne Housing Investment Company Limited (EHICL) reviews its investment properties and consider if they meet the needs of the community, their valuation is subject to further changes or judgements and review this against the risks to the Council in terms of the extension of resource cover and borrowing.									
3.7	Council should use its controlling interests or significant influence in its companies to ensure that their financial statements are subject to audit.									
4	**Governance/Oversight**									
4.1	External support should be appointed to assist in the discharge and monitoring of the overall Roadmap, including the asset management and disposals strategy, the review of council owned companies and development of appropriate indicators to demonstrate progress as the Council may lack the capacity to deliver the change required over a sustained period of time.									
4.2	The Council should review the decision to not have the chief legal officer as a full member of the Corporate Management Team (CMT)									
4.3	Continue to develop the Priority Based Budget approach so that Cabinet reports reflect the on going financial uncertainty and the tough decisions that will continue to be needed to balance the budget post pandemic									
4.4	Members should receive a refresher programme of training on treasury management, the prudential framework, and the risks of investing public money in commercial entities, with particular emphasis on the impact of the capitalisation directions.									
4.5	The Council should implement the restructure for the finance section as put forward by the s151 officer as a matter of priority									
4.6	The financial outcomes, changes in risk profiles and asset valuations of the ICE transaction are reviewed by Cabinet and the Audit and Governance Committee on a regular, at least a quarterly, basis.									
4.7	A full post-audit review needs to be carried out with the auditor regarding the 2018/19 accounts and the accounts are checked against CIPFA's disclosure checklist before they are submitted in future years including the Group Accounts.									
5	**Reserves**									
5.1	The Council should set its general fund reserves, particularly its non-earmarked balance, in accordance with a risk managed assessment of its needs, these include financial, operational and strategic risks and any contingencies necessary.									
5.2	Reserves should be established at sustainable levels such that these risks are managed and so that there will be no future need for government assistance. This will need to include scenario planning to reflect differing levels of resources that may be received.									

		2022								
No	**Recommendation description**	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
6	**Savings/efficiencies**									
6.1	The Council should review its service expenditure per head on culture and related services, housing (including homelessness) and highways and transport, with a view to bringing it into line with comparator authorities									
6.2	The "Recovery and Reset" programme should be renamed the "Recovery and Stabilisation" programme to emphasise the need for continued prudence. It should be reviewed bi-weekly by corporate management team and monthly by Cabinet and that the council identify specific expenditure items and its financing for the 2021/22 capitalisation direction. In addition, capital financing for the 2020/21 EFS of £3.55m must also be identified.									
6.3	The Council should add a strategic risk relating to non-delivery of its Recovery and Reset to the Risk Register and monitor it.									
6.4	Develop a savings plan which aligns with the whole MTFS period, updated on a more regular basis to ensure that it reflects its changes in financial sustainability and resilience and its Recovery and Reset plan, ideally it should be a "living document" for the Council.									
6.5	Ensure that robust project and programme management arrangements are in place to deliver the capital programme so that revenue budget pressures are not exacerbated.									

8.Compliance with relevant Local Government accounting codes and practice

The Council's external auditors Deloitte have indicated in their report to the Report to the Audit and Governance Committee on the audit for the year ended 31 March 2019 (received at its 28 July 2021 meeting) relating to the 2018/19 financial year that they envisage issuing an unmodified audit opinion, this is the most recently completed external audit. This unqualified opinion provides assurance that the Council is compliant with the local government accounting code and practice at that date ie 31 March 2019.

However, see comments in section 5.2 above on the quality of the unaudited (referred to by the auditor as draft) financial statements which is a concern, this is particularly as the delay in the audits of the 2018/19 accounts mean that the 2019/20 accounts have yet to be subject to audit.

The meeting of full Council on 24 February 2021 setting out the General Fund Budget for 2021/22 approved the recommendations as detailed in the reports from the Chief Finance Officer to Cabinet on 10 February 2021 which included the Capital Strategy in accordance with the specifications of the CIPFA *Prudential Code for Capital Finance in Local Authorities, 2017 edition*. We note that Council provided this approval as a recommendation from Cabinet and that the Capital Strategy was not presented in the Council's pack of meeting papers but as a separate link to the cabinet paper).

It is recommended that Council should have the full set of documentation for approval.

Appendix 1 – Stakeholders interviewed

Interview requested	Lead(s) for interview	Interview requested	Lead(s) for interview
Chief Executive and Director of Tourism & Enterprise	Rob Cottrill	External Auditor - Deloitte	Ben Sheriff Nerin Ramkhelawon
S151 Officer	Homira Javadi – Chief Finance Officer and S151 Ola Owolabi – Deputy Chief Finance Office Andrew Clarke – Deputy Chief Finance Officer	Director Planning & Regeneration & Deputy CEO	Ian Fitzpatrick
Director of Service Delivery	Tim Whelan	Chief Internal Auditor/Head of Risk Management	Jackie Humphrey
Monitoring Officer	Oliver Dixon	Finance Team:-	
Leader of the Council	Councillor David Tutt	Lead responsible for the MTFS	Andrew Clarke – Deputy Chief Finance Officer
Lead Members responsible for:			
Finance	Councillor Steven Holt	Lead responsible for the Treasury Management	Ola Owolabi – Deputy Chief Finance Officer
Audit and Assurance	Councillor Robin Maxted	Lead responsible for any commercial interests	Andrew Clarke – Deputy Chief Finance Officer Ola Owolabi – Deputy Chief Finance Officer
Head of Property (Corporate assets)	Mark Langridge-Kemp	Head of Projects (Housing, regeneration and corporate developments)	Nathan Haffenden

Appendix 2 – List of documents reviewed

Initial information request

A. Key Finance documents:

1. Initial bid for Capitalisation, and any supporting papers
2. The Revenue Budget Report 2021/22
3. The Capital Programme 2021/22
4. The Section 25 Statement for 2021/22
5. Reserves Strategy
6. Budget Strategy
7. Capital Strategy
8. Treasury Management Strategy
9. Out-turn Report 2018/19, 2019/20 and 2020/21
10. Capital Out-turn Report 2018/19, 2019/20 and 2020/21
11. Savings planned and delivered by Directorate for 2018/19, 2019/20 and 2020/21
12. Financial statements for the Council and any companies owned/part-owned by the Council for 2018/19, 2019/20 and 2020/21
13. Latest monitoring reports for 2021-22
14. The Medium Term Financial Strategy (MTFS)
15. Relevant reports to the Audit Committee
16. Financial Regulations
17. Finance Team Structure Chart - showing staff in post, interims and vacancies

B. Other key documents:

1. Council organisational chart – showing key staff in post, interims and vacancies
2. Corporate Plan for 2018-19, 2019-20, 2020-21 and current
3. Council Risk Register (showing position at end of 2018-19, 2019-20, 2020-21 and current)
4. Annual Governance Statement for 2018-19, 2019-20, and 2020-21
5. Report of External Auditors to Audit Committee
6. Annual Report of Internal Auditors
7. Log of IA recommendations and actions
8. Asset register, including any assessment of assets that may be surplus
9. Book value of assets, including valuation strategy
10. MRP calculations
11. Schedule of asset rental/income streams and how they contribute to budgets.

Appendix 3 – Overview of Commercial Entities in which the Council has an Interest

	Name	Relationship	Activities	Financial Extracts in latest company accounts (31 March 2020)
1	Eastbourne Homes Ltd (EHL)	Eastbourne Homes Ltd is a wholly owned subsidiary of the Council with its own Group including its subsidiary of South East Environmental Services Limited.	The Group's principal activities are to manage, maintain, and improve the housing stock on behalf of Eastbourne Borough Council.	The Group has made a total operating loss for the year of **£1.1m**. The notes to the accounts indicate that turnover was reduced in 2019/20 due to a repayment of a management fee to the Council.
2	Eastbourne Housing Investment Company Ltd (EHIC)	Eastbourne Housing Investment Company Ltd is a wholly owned subsidiary of the Council.	To undertake more commercial development and place shaping activities, and hold associated respective assets, in a way which meets legal and regulatory requirements, and ensures that the Council has distinct control over such assets.	The accounts to 31 March 2020 reported a profit of **£804,557**, with investment property value of **£22.5m** and long-term liabilities of **£20.2m** which are amounts owed to EBC with a drawdown of the loan facility in 2019/20 of circa £10m. The notes to the accounts indicate that Investment properties have been valued by a combination of external valuers **(£13.4m)** and directors' assessment **(£9m).** The latter valuation is subject to increased estimation uncertainty because of the Covid-19 outbreak. The external valuer of the remaining investment has reported on the basis of a material valuation uncertainty to highlight the increased estimation uncertainty as a result of the Covid-19 outbreak.
3	Aspiration Homes Limited*	Aspiration Homes LLP is a limited liability partnership incorporated 30 June 2017 and commenced trading 21	To ensure the Councils have the overall capacity to maximise housing investment and funding opportunities. To act as the asset holding	The financial statements show that profit before members shares is **£680,629**. Investment properties are valued at **£5.78m**. Long-term liabilities are reported at **£4.7m**

	Name	Relationship	Activities	Financial Extracts in latest company accounts (31 March 2020)
		December 2017. There is an Executive Committee made up of 6 members (3 Eastbourne Borough Council and 3 Lewes District Council). Aspiration Homes is jointly owned by Eastbourne Borough Council and Lewes District Council with joint control. It has therefore been consolidated into the group accounts as a joint venture under the equity method with each authority including their share of rights to the net assets of the company.	vehicle for affordable housing properties that cannot, for financial, accounting, or other reasons, be held in the respective Housing Revenue Accounts (HRA). Support has included a £10 million loan to be funded from borrowing by Lewes District Council to Aspiration Homes LLP.	
4	South East Independent Living Ltd	A private limited company incorporated on 30 September 2013. This company is wholly owned by EHL and their accounts have been incorporated with the accounts of EHL	To deliver a short-term housing floating support service for people of 65 and over who live in Eastbourne, Lewes, and Wealden	Total comprehensive income for the year **of £284,999** as at 31 March 2020.
5	South East Environmental Services Limited*	A private limited company incorporated 31st August 2018. It is a wholly owned by the Eastbourne Borough Council	The primary role is to undertake domestic waste and recycling collection and street cleansing services in Eastbourne from 1 July 2019. To develop related services in the	Profit for the year at 31 March 2020 is reported as **£16,610.** Tangible assets are **£1.5m.** Creditors falling due in more than one year **£1.4m**.

	Name	Relationship	Activities	Financial Extracts in latest company accounts (31 March 2020)
			medium term thereafter.	
6	Investment Company Eastbourne Limited (ICE)	Private company limited by shares. The 2 shares are wholly owned by Eastbourne Borough Council.	The Council has established this wholly owned company for the purpose of providing a Guarantee to an institutional investor (Infrastructure Investments Ltd) relating to a property asset in Leicester	Investment in Joint Venture is £3.5m (see separate commentary on Investment Company Eastbourne)
7	Cloud ConnX Ltd* (Not consolidated in the Group Accounts	The Council owns 48% of the B shares in CloudConnX and has significant influence, but not control. The accounts of CloudConnX have not been included in the Group accounts as the effect is immaterial. This company was not set up by Eastbourne Borough Council	The company was set up to provide a new generation of individual selling points that deliver ICT, across East Sussex.	Net book value of assets **£211, 741.**
8	Eastbourne Downs Water Company	Company active/dormant conflicting evidence	To enable water to be supplied to farms on the downs in Eastbourne.	NA

Appendix 4 – Information on Capital Expenditure

Table 1: Capital Expenditure and Resourcing

	2017/18 (a)	2018/19 (a)	2019/20 (a)	2020/21 (a)		2021/22 (b)	2022/23 (b)	2023/24 (b)
Capital Expenditure	**Actual £m**	**Actual £'m**	**Actual £'m**	**OE £'m**	**Act £'m**	**Estimate Feb 2021 £'m**	**Estimate Feb 2021 £'m**	**Estimate Feb 2021 £'m**
Non HRA Cap Ex	45.0	35.8	14.3	18.4	5.1	12.5	7.4	5.3
Capitalisation Direction	-	-			3.5	-	-	-
HRA Cap Ex	6.3	4.7	4.5	12.7	3.6	19.8	30.8	22.7
Commercial Investment	-	4.0	15.0	9.6	3.8	6.9	5.0	2.2
Total	**51.3**	**44.5**	**33.8**	**40.7**	**16.0**	**39.2**	**43.2**	**30.2**
Resourced by								
Capital Receipts	1.4	7.8	3.6	2.3	4.1	7.4	6.0	4.3
Capital Grants and external funding	9.9	3.8	2.6	1.6	2.7	5.2	1.8	1.8
Capital Reserves	4.9	4.2	4.2	6.3	2.7	4.4	5.6	6.3
Revenue		0.5		3.7		3.1	0.3	0.2
Internal balances borrowing *[Final 3 years is expressed as net borrowing needed for full year]*	**35.1**	**28.2**	**23.4**	**26.8**	**6.5**	**19.1**	**29.5**	**17.6**

Notes – The review team has attempted to bring together consistent information to allow comparison. Abbreviations: OE (Original estimate)/ Act (Actual)

a. Years from 2017/18 to 2020/21 Year End Treasury Management Annual Reports 2019/20 to 2021/20.
b. Years 2021/22 to 2023/24 from Cabinet Reports 10 February 2021 – Capital Strategy.

Table 2: Capital Financing Requirement (CFR)

	31 March 2018 (a)	31 March 2019 (a)	31 March 2020 (a)	31 March 2021 (a)		31 March 2022 (b)	31 March 2023 (b)	31 March 2024 (b)
	Actual £'m	Actual £'m	Actual £'m	£'m		Estimate £'m	Estimate £'m	Estimate £'m
				OE	Act			
Opening Balance	88.9	122.6	149.9	177.0	172.8	180.7(c)	£199.0	£227.4
Add unfinanced capital expenditure	35.0	28.2	23.4	26.9	6.5	19.1	29.5	£17.6
Less MRP	(1.3)	(0.9)	(0.5)	(1.2)	(1.0)	(0.8)	(1.1)	(1.4)
Closing Balance	**122.6**	**149.9**	**172.8**	**202.7**	**178.3**	**£199.0**	**£227.4**	**£243.6**

Notes – The review team has attempted to bring together consistent information to allow comparison. Abbreviations: OE (Original estimate)/ Act (Actual)

a. Years from 2017/18 to 2020/21 Year End Treasury Management Annual Reports 2019/20 to 2021/20.
b. Years 2021/22 to 2023/24 from Cabinet Reports 10 February 2021 – Capital Strategy.
c. This opening value includes the estimate from the Capital Strategy presented in February 2021 as the opening value it does not adjust for actuals. This is due to timing difference with the 2020/21 CFR *actual* being produced in July 2021 and the 2021/22 CFR *estimate* being produced in February 2021. The CFR will be updated during the TM Mid -year review report to the Committee in November 2021.

Table 3(a) - Actual Gross Borrowing and the Capital Financing Requirement

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'m	£'m	£'m	£'m	£'m
Total Actual Gross Borrowing as at 31 March	**146.9**	**160.0**	**179.3**	**208.8**	**226.4**
Capital Financing Requirement	172.8	178.3 (a)	199.0	227.4	243.6
Under/(Over) Borrowing	25.9	18.3(a)	19.7	18.6	17.2

a. Note this table is as presented to Cabinet on 10 February 2021 except for the actual Capital Financing Requirement being included by the review team for 2020/21 as reported to the Audit and Governance Committee on 28 July 2021

Table 3(b)- Net Borrowing and the Capital Financing Requirement

	31 March 2018	31 March 2019	31 March 2020	31 March 2021	
	£'m	£'m	£'m	£'m	£'m
				Original Estimate	Actual
General Fund Borrowing	38.1	52.6	69.2	72.6	56.4
HRA Borrowing	42.6	42.6	42.6	43.6	47.8
Commercial Activities	24.4	28.4	50.4	62.0	55.2
Net Borrowing Position	**105.1**	**123.6**	**162.4**	**178.2**	**159.4**
CFR – General Fund	55.6	78.9	79.8	97.1	75.3
CFR – Housing	42.6	42.6	42.6	43.6	47.8
Commercial Activities	24.4	28.4	50.4	62.0	55.2
CFR	**122.6**	**149.9**	**172.8**	**202.7**	**178.3**

b. This table is presented from information provided in the Treasury Management Annual Reports from 2019/20 to 2020/21

c. The breakdown of the CFR between General Fund, HRA and Commercial Activities was not reported until the 2020/21 Treasury Management Annual report but has been subsequently provided by the Council. This is a useful analysis.

77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600
cipfa.org