Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.
Key messages

1. This report provides a summary of the Audit Commission's assessment of the Council for the year ended 31 March 2008. The main messages are as follows.

2. The Council's arrangements for preparing and publishing the annual accounts for 2007/08 were inadequate. The accounts for the 2007/08 financial year reviewed by Members in June 2008 did not include important statements and contained a significant number of errors. Amended accounts were produced in January 2009 and PKF's audit opinion was given on 24 March 2009, almost six months after the statutory deadline.

3. The finance department requires additional capacity to enable officers to prepare and publish the annual accounts in accordance with professional standards and standing guidance. This will assist the department in delivering all the functions required of it efficiently while providing the leadership necessary to enable the Council to meet its stated objective of stabilising its finances.

4. The Council has sufficient revenue balances and reserves available as at 31 March 2008 though the financial outlook is challenging. While the general fund working balance is being maintained at the level recommended by the interim Chief Financial Officer, earmarked reserves are not always used for specified purposes. Further work is needed to review the purposes earmarked reserves are held for.

5. The internal control framework was strengthened in the year through the publication of standing guidance and detailed procedures covering all financial systems. The approach to risk management has been enhanced though the training provided to officers and Members. The Council has decided to establish an Audit Committee in 2009 and this should provide more visible leadership on audit and governance issues.

6. The approach to securing value for money has developed over the last 12 months. The approach now needs to embed to ensure planned efficiencies are secured. There has been a positive change in the culture of the Council towards data quality, with Member and senior management commitment to the agenda increasing.

7. The Council's performance in delivering against its local improvement areas is mixed. Performance for some services such as planning and enforcement is good but other services such as housing benefits and some elements of housing services are not performing well.

8. The Council's DRIVE project (Delivering Real Innovation and Value for Eastbourne) is aimed at stabilising the Council's finances and developing a modern organisational structure. Successful delivery of this project is a key challenge for the Council.
Key messages

Action needed by the Council

9 In order to improve arrangements for preparing and publishing the annual financial statements, the Council should take the following action.

- Members should ensure there is an adequately resourced, experienced and skilled Finance Department to provide effective leadership on financial matters and to fully deliver the functions required of it. Members should consider the extent to which the Council's management arrangements follow recommended practice in this area.

- A detailed plan should be drawn up to prepare and publish the 2008/09 accounts and Members should review this to ensure resources are available to deliver it. Members should receive regular reports on progress.

10 Other action the Council should take includes:

- ensuring the newly established Audit Committee receives a report on the Council's arrangements for preparing and publishing the annual statements at the earliest opportunity;

- reviewing financial management arrangements to ensure these remain adequate and sufficient to meet the financial challenges facing the Council in the medium term;

- undertaking a review of earmarked reserves to ensure these are utilised for specified purposes and to underpin achievement of objectives;

- embedding the approach to securing value for money across the organisation; and

- implementing plans to publish a suite of value for money indicators in the corporate plan, evidencing how value for money is secured, particularly where projects and partnerships deliver social and economic benefits in the longer term.

11 Improve delivery of services that are not performing well.

12 Monitor the progress of DRIVE to ensure it delivers on its financial and service performance objectives.
This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.

We have addressed this letter to Members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.

This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.

As your appointed auditor, PKF (UK) LLP ('PKF') is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, PKF reviews and reports on:

- the Council’s accounts;
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
- whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.

This letter includes the latest assessment on the Council’s performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission’s duty under section 13 of the 1999 Act.

We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.
How is Eastbourne Borough Council performing?

19 Eastbourne Borough Council was assessed as ‘Good’ in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and updated in councils where there has been evidence of change. There has been no update for the Council. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA

<table>
<thead>
<tr>
<th>Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>21%</td>
</tr>
<tr>
<td>Good</td>
<td>42%</td>
</tr>
<tr>
<td>Fair</td>
<td>32%</td>
</tr>
<tr>
<td>Weak</td>
<td>4%</td>
</tr>
<tr>
<td>Poor</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Audit Commission

The improvement since last year - our Direction of Travel report

20 The Direction of Travel report sets out progress against local priorities, considers comparable performance for 2007/08 and comments on current plans for improvement.

Performance overview for 2007/08

21 The Audit Commission has selected a basket of over 50 2007/08 performance indicators drawn from the Best Value Performance Indicators (PIs) and other comparable performance information. Measured against these indicators the Council's rate of improvement is below the average with only 50 per cent of performance indicators improving over the last year placing the Council at 344th most improved out of 388 nationally. In 2006/07, 55 per cent of PIs had improved. The Council's improvement over the last three years is also below the national average with 54 per cent of performance indicators improving compared to 57 per cent nationally. Thirty per cent of indicators are in the top 25 per cent compared to a national average of 33 per cent.
How is Eastbourne Borough Council performing?

22 The Council did not adopt a formal corporate plan which set out in detail its objectives for 2007/08. Following elections in May 2007, the new administration implemented a major review of organisational frameworks and structures, including corporate aims and priorities. However during 2007/08 the Council has focused on the following improvement areas.

- Finance (including Council tax collection and housing benefits).
- Attendance management.
- Waste and recycling.
- Street cleaning.
- Enforcement activity.
- Achieving the decent homes standard.
- Homelessness.
- Affordable housing.
- Crime and disorder.

The following paragraphs set out the Council’s performance in these areas in more detail and comments on current plans for improvement.

Finance

23 The Council’s key objective to stabilise finances is work in progress. The Council’s DRIVE project (Delivering Real Innovation and Value for Eastbourne) aimed at stabilising the Council’s finances and developing a modern organisational structure is at an early stage of delivery. The Councils’ senior management structure was agreed in December 2008 and recruitment to the most senior posts has commenced. However, this process will not be completed before the end of 2009.

24 The Council has taken steps to ensure that the budget set for 2008/09 will be met and there are adequate reserves. The Council however, faces a number of financial challenges and has set itself some stretching targets, which, if not realised, may limit the level of funds available to invest in the organisational transformation. The Council also acknowledges that it will have to obtain further efficiencies on some activities to be able to shift funds to its new corporate priorities. This means that the Council financial capacity to effectively fund the planned organisational improvement is dependent on delivering these financial targets through its new Medium Term Financial Strategy for 2009.

25 Housing benefit has been the subject of a recent service inspection by the Audit Commission which has assessed the service as poor with uncertain prospects for improvement. Two of the three key indicators relating to this area are improving but all three indicators remain in the worst 25 per cent nationally. For example, new claims processing and cases processed correctly have improved from 38.2 days in 2006/07 to 35.2 days in 2007/08 and from 90 per cent to 94 per cent, but change of circumstances processing has deteriorated from 18 days in 2006/07 to 21 days in 2007/08.
The Audit Commission’s inspection of the Housing Benefit service published in March 2009 concluded that service performance in 2007/08 was amongst the worst nationally and this had resulted in significant delays in processing times for the customer. Customer satisfaction with the service was judged to be poor. There was limited engagement with customers and partners about service design and improvement; there were no service standards; a poor telephone service and the service was judged as not providing value for money. This means the Council is failing to provide an effective service for the most vulnerable people in the community. The Council is already in the process of restructuring the service and is developing an improvement plan, incorporating Audit Commission recommendations, that will seek to address the weaknesses identified by the inspection.

The percentage of council tax collected has improved from 96.2 per cent in 2006/07 to 96.69 per cent in 2007/08. The council has built on the work undertaken in 2006/07 to improve collection processes and monitoring arrangements and the Council’s unaudited figures for 2008/09 show a further improvement in tax collection levels.

The Council has been effective at keeping sickness rates at a low level. The Council performance was in the best 25 per cent nationally for attendance levels in 2007/08. It has an excellent track record for sickness management maintaining its position as one of the best 25 per cent nationally for the last four years. The Council intends to sustain this excellent performance by further improving the support for those who are unwell, by continuing to ensure there is robust and thoughtful occupational health and counselling provision and refreshing the attendance management coaching and awareness training for line managers.

Waste collection and recycling performance in 2007/08 has improved but actual performance remains mixed. The Council is effective at minimising waste and is in the best 25 per cent nationally for reduction in the levels of household waste collected. Customer satisfaction for the waste collection service and kerbside recycling is above the national average. The Council has improved recycling rates but this was from a low base and remains in the bottom 25 per cent nationally. The Council has taken action to address this such as promotional work to encourage residents to recycle their waste and doorstep visits to reinforce the recycling message. These initiatives are making an impact for example, an increase in recycling in multi-occupancy accommodation over the last three years. The Council is also significantly investing in improving performance with the aim of doubling recycling rates by 2011. For example; it introduced a free garden waste collection service during 2008/09 with 16,500 households opting for the free garden waste service and extended its kerbside collection service to include plastic bottles.
How is Eastbourne Borough Council performing?

Street cleaning
30 The data for street cleaning is qualified and therefore must be treated with some caution. Its suggests that street cleaning performance has improved in 2007/08, but from a low base with the percentage of littering improved from 15 per cent in 2006/07 to 11 per cent in 2007/08, but remaining below the national average. The qualified Council figures for 2007/08 for both graffiti and fly posting also suggest that the Council is performing below the national average.

Enforcement activity
31 The Council has been successful in targeting anti-social behaviour and environmental crime. The Community Enforcement Team in partnership with other Council divisions and the police has successfully targeted areas of the town solving any identified problems. The community enforcement team has delivered the following results in 2007/08: reported 283 untaxed vehicles to the DVLA, issued 22 fixed penalty notices for littering, stopped 41 people cycling on the seafront, arranged for the collection of 677 abandoned shopping trolleys, served notice on some 300 vehicles for street trading (car selling) in prohibited streets, removed 28 abandoned vehicles and dealt with 278 incidents of graffiti.

32 The planning service performance is good and the Council has steadily improved the performance of the planning service over the last three years. Major applications determined within 13 weeks are in the top 25 per cent nationally and performance has improved from 83 per cent in 2006/07 to 90 per cent in 2007/08. Although the speed of processing minor planning applications has deteriorated from 91 per cent in 2006/07 to 83 per cent in 2007/08, performance remains above the national average.

Housing
33 The Council approach to housing is improving although performance against key indicators remains below the average. The Council has been successful in managing the private housing market, but performance for landlord services and community housing is mixed. However, the rate of improvement for housing over the last year is above the national average with 64 per cent of performance indicators improving making housing services the 70th most improved nationally.

34 The Council is effective at managing the private housing market. Performance, in relation to the number of private sector homes left vacant for six months, the number of private houses returned to occupation or demolished and re-letting times are above the national average and improving.

35 Eastbourne Homes Ltd, the Council’s Arms Length Management Organisation (ALMO), delivered improvements in rental collection rates and re-let times. Tenant satisfaction and rent collection rates are both performing in the best 25 per cent nationally. However, the percentage of major repairs completed on time has deteriorated over the last three years and in 2007/08 was in the worst 25 per cent nationally although according to unaudited figures as at quarter 3 2008/09 performance is improving.
How is Eastbourne Borough Council performing?

36 Performance in relation to meeting the decent homes standard is below the average with 57 per cent of homes not meeting the standard (although this indicator was qualified) in 2007/08 which places performance in the bottom 25 per cent nationally. The Council established an ALMO which has attracted £7.4 million in 2007/08 funding to enable housing to meet the decent homes standard. The Council carried out extensive improvement work on targeted properties in 2007/08, using an elemental approach which concentrated on improving specific elements, such as the kitchens, bathrooms, heating and the electrics for a large number of properties, rather than concentrating all resources on bringing a smaller number of properties up to the standard.

37 Community housing performance in 2007/08 is below average and over three years performance had deteriorated. During 2007/08, the Council missed its affordable homes target of 80 and provided only 29 affordable homes during the year. Despite exceeding housing development targets over the last four years only 9 per cent of these were affordable homes. The numbers of households in temporary accommodation and the length of stay in bed and breakfast are high and performance is in the worst 25 per cent nationally. Performance is deteriorating for example, in 2006/07 there were 139 households in temporary accommodation and by 2007/08 has risen to 159 and as at quarter 3 in 2008/09 the number was 167 households. This places the Council at risk of not reaching the government target of halving the numbers of households in temporary accommodation by 2010. In addition the numbers accepted as homeless remains high and is below the national average. However, the Council has a number of strategies to reduce the use of temporary accommodation and prevent homelessness which have over the longer term reduced the numbers in temporary accommodation from 300 households in 2003/04 to 167 households as at quarter 3 in 2008/09. In 2007/08 the Council was in the best 25 per cent for preventing homelessness and is continuing to improve; however the percentage of homeless applications that are repeat applications was below the national average in 2007/08.

Crime and Disorder

38 The Council and its partners have a good track record of reducing crime. Overall crime has fallen by 21 per cent over the last five years (baseline 2003/04). Acquisitive crime, specifically burglary fell significantly and vehicle crime and robbery fell by over 60 per cent. The Council is a key partner in the Eastbourne Crime Reduction Partnership (CRP) and the partnership has made significant investments in targeting youth anti-social behaviour (ASB) and engagement. These include prevent and deter projects and youth outreach work to dovetail with the new Play Strategy. The partnership has also targeted high risk areas such as the Devonshire ward and delivered a number of initiatives such as Operation Synergy and Operation Blitz which focused on reducing ASB; night-time economy violence and the use of controlled drugs. Targeted action was also taken by the Council to close some problem premises that were a focus for crime and anti-social behaviour. This has contributed to a reduction in crime in the ward by 6.2 per cent in 2007/08 compared to 2006/07. These activities have resulted in a considerable improvement in the quality of life for local residents.
How is Eastbourne Borough Council performing?

**Community engagement**

39 The Council is strengthening its approach to community engagement to ensure that the views of minority groups inform priority setting and service reconfiguration. The Council working with the Eastbourne Local Strategic Partnership has established the Eastbourne Cultural Communities Network. A Faiths Forum was set up in January 2008 and a Lesbian Gay Bi-sexual Transgender community forum in October 2008. The well-established Disability Involvement Group has a good track record of helping to shape policy and improve service delivery for example the introduction of Scooterbility workshops. Young people contribute to broad policy and service improvements through quarterly youth forums such as the introduction of a night time mini bus service for young people and the development of a website to provide information, advice and support for children and young people. Children and young people are also actively involved in the development of a thriving youth access centre in the Devonshire Ward enabling young people to access a range of services and facilities in daytime and evenings. There is however scope to improve the reporting of how the Council is contributing to the delivery of outcomes for the wider community.

40 The Council is refreshing its approach to diversity and equalities, however, improved outcomes in terms of access and tailored services cannot be consistently measured across all the Council’s services. The Council is revising its corporate equality action plan, aimed at bringing together its individual schemes to create a coherent integrated plan that addresses all the community and specific groups. The Council has an equalities framework and is achieving level 2 of the local government standards. Equalities impact statements have recently been incorporated routinely into policy changes and a new programme of equality impact assessments (EIAs) for all services is underway and will be completed by March 2009. EIA progress and EIA action plans are monitored by the Equalities Steering Group. As a result of EIAs, the Council is improving access to services, such as licensing, the customer centre and access for the disabled. For example, the Council has worked with the BME community to train people as interpreters to improve access to services for BME customers. The Council has also set up the Access Eastbourne project to train disabled people to audit and rate the accessibility of the town's commercial properties.

41 The Council has a number of well-established projects and initiatives targeted at the most vulnerable. Towner’s outreach programme provides creative learning opportunities to those at risk of social exclusion and this was central to the achievement of beacon status for culture and sport for hard to reach groups in 2006/07. Work in partnership with the Healthy Eastbourne Board Mental Well Being Group delivers cultural projects for service users and promotes mental health awareness within the community. Sports Development provides opportunities for disabled people to access sports activities with one new Disability Sport Activity developed each year. To prevent homelessness, education programmes are delivered to schools and colleges on the realities of living independently.
Council services represent adequate value for money (VFM). Overall costs are slightly above the national average. The Council has recently taken a more systematic and standardised approach to VFM across the Council and has begun strengthening frameworks and processes to target the high cost/low performing services. There is however scope to ensure that information about value for money, including costs, benchmarking, customer satisfaction and service performance is used systematically across the organisation. The prevalence of high cost services clearly limit the Council’s ability to divert resources to priority areas.

Sustaining future Improvement

The Council has a mixed track record of delivering improvements, but has plans in place to address deficiencies in existing services. The Council did not publish a Corporate Plan with set targets for 2007/08. Instead action was focused on improving performance in a number of key service areas. The Council has published a Corporate Plan in May 2008. The new corporate plan sets out the Council’s partnership vision and priorities together with key actions for 2008/09 onwards. The Council, however, acknowledges that the document does not consistently provide the success criteria for the outcomes that it desires to achieve and has not yet developed delivery plans to ensure all the new priorities are delivered. The Council is in the process of aligning high level plans with the service planning framework and early proposals are in place to transform the service delivery and planning framework and strengthen target setting.

Arrangements to manage improvement and performance are not consistent or robust. The performance management framework is well-established and regular performance information is reported to Councillors and senior managers. However, the Council does not have an integrated performance management system that links performance management information at all levels. The Council has also acknowledged that there are weaknesses in the current arrangements, particularly, in relation to target setting and action planning. There is variability in the quality of performance management at the service level and personal target setting through appraisal is mixed. There is, however, a clear commitment to improve performance management and the development of a performance management culture are considered by Councillors and officers as crucial for the future success of the Council. The Council is strengthening arrangements by refining the business planning framework and improving the performance appraisal process. Scrutiny arrangements are generally effective and scrutiny has successfully lobbied for the release of section 106 developer contributions to fund improved play facilities in Princes Park, Sovereign Park and Hampden Park, Fisherman’s Green and the provision of a play area within Sovereign Harbour. There is scope for complaints and user feedback to be used more systematically to inform and improve service delivery.
How is Eastbourne Borough Council performing?

**Capacity**

45. The capacity of the Council to deliver improved outcomes is adequate. Progress is being made in reviewing strategic management structures aimed at improving delivery of the Council priorities and services to the community. Strong political leadership is providing officers and stakeholders with the appropriate focus. The Chief Executive has begun the task of tackling deficiencies in existing services and has led the work on structural transformation. The Council launched the DRIVE programme in December 2007, as a major modernisation review of the organisation. As part of this process, the Council has recently drawn up proposals aimed at transforming the Council’s structure and culture to radically improve service delivery.

46. Staffing resources are not yet confidently and securely aligned to the Council’s needs. The Council with its partners has not yet produced an overarching Council-wide workforce plan setting out how they will meet their medium to long term needs. There are some difficulties in recruiting and retaining staff which has affected some service delivery areas, such as the housing benefit service. A decision has been taken not to fill vacant posts until the restructuring has been completed, which has presented challenges to ongoing delivery of the strategic aims of the authority. This has meant that the staffing capacity to maintain the momentum for change within the organisation has often been stretched and the Council has had to place a heavy reliance on temporary staff. The Council has started to address these workforce gaps, but these developments are very recent and have not yet had an impact. The Council has advertised for a new Chief Finance Officer. The Council has started the process of appointing a new Chief Executive and Deputy Chief Executive to implement the new structure and to replace the Chief Executive, who is retiring in the Autumn of 2009. The Council is also taking action to improve recruitment and retention levels. It has produced a workforce development strategy, is developing a new competency framework and has introduced a new pay and grading structure following a comprehensive job evaluation to ensure staff work contributions get recognised and rewarded appropriately.

47. The Council is developing its arrangements for ensuring that the Council has a diverse and representative workforce. The staff profile does not fully match the community profile. While the number of women and disabled staff in the workforce and in senior positions is well above the average, BME representation remains below the national average. The Council has begun working towards improving BME representation through its recent recruitment campaigns and has improved access and adaptations to the workplace for the disabled.
Partnerships are valued by the Council, but the Council acknowledges that more can be achieved through partnership working. The Council, as part of the Drive review, recognised the need to have a stronger strategic overview of partnerships, that it needed to maximise its use of partnerships and acknowledged that it needed to improve the way it manages and evaluates its partnerships. There is however examples of effective partnerships, such as the work of the Eastbourne Crime Reduction Partnership in improving the quality of life for people in the Devonshire ward. The Council in partnership with the Arts Council England, South East England Development Agency and the Heritage Lottery Fund has successfully completed the new Towner. The Council was also an active partner in the development of the county-wide East Sussex integrated community strategy. The Council does explore options to deliver shared services to improve efficiency and outcomes. As a partner with Wealden DC, it has a shared lifeline service, which is an emergency call out service for elderly people. In addition, the Council in partnership with Wealden District Council and East Sussex County Council supported by SEEDA have recently completed a master-planning exercise in the Eastbourne-Hailsham triangle, as the basis for producing a cohesive economic development framework.
The audit of the accounts and value for money

As the appointed auditor, PKF has reported separately to the Accounts Committee and the Council on the issues arising from the 2007/08 audit of accounts. The audit of the accounts was completed in March 2009. In the year, PKF has issued:

- an audit report on 24 March 2009, providing an unqualified opinion on the Council’s accounts and an unqualified opinion on the Group financial statements. The conclusion on the Council’s value for money arrangements confirmed these are adequate; and
- a report on the Best Value Performance Plan confirming the Plan has been audited.

Use of Resources

The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.

- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
- Financial management (including how the financial management is integrated with strategy to support council priorities).
- Financial standing (including the strength of the Council’s financial position).
- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

PKF assessed the Council’s arrangements for use of resources as follows.
The audit of the accounts and value for money

### Table 1 Use of Resources Assessment 2008

<table>
<thead>
<tr>
<th>Element</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting</td>
<td>1 out of 4</td>
</tr>
<tr>
<td>Financial management</td>
<td>2 out of 4</td>
</tr>
<tr>
<td>Financial standing</td>
<td>2 out of 4</td>
</tr>
<tr>
<td>Internal control</td>
<td>2 out of 4</td>
</tr>
<tr>
<td>Value for money</td>
<td>2 out of 4</td>
</tr>
</tbody>
</table>

**Overall assessment of the Audit Commission**

2 out of 4

*Note: 1 = lowest, 4 = highest*

### The key issues arising from the audit

52 PKF’s overall assessment is the Council performs adequately, meeting the minimum requirements specified by the Audit Commission in its national guidance. It has secured an overall level ‘2 out of 4’ judgement in terms of the Audit Commission’s scoring methodology. This is the same overall score secured by the Council in 2007. None of the judgements deteriorated compared to 2007 and the financial management judgement increased from a level ‘1’ to a level ‘2’ because the Council has taken steps to more fully integrate the approach to corporate financial planning through the publication of a medium term financial plan.

53 There are some important areas where the Council needs to improve its performance. Arrangements for preparing and publishing the annual accounts in particular are weak. The Council will need to continue to improve its financial management arrangements to address the financial challenges which lie ahead. While financial standing is adequate, further work is needed to ensure earmarked reserves are used for specified purposes and support achievement of Council objectives.

54 Investment in the framework of internal controls has led to an improved control environment in the year, though this will need to be sustained and continuously reviewed by management in 2009 and beyond. The Council will also need to embed the developing approach to value for money to ensure its plans to secure efficiencies are achieved.

55 The key issues arising from PKF’s review of the Council’s use of resources are shown overleaf.
The audit of the accounts and value for money

Financial Reporting

56 The Council's arrangements for producing the annual accounts are inadequate. The Council's performance deteriorated in 2007/08. The financial statements submitted to external audit to review, and the Annual Accounts Committee for approval on 23 June 2008, were incomplete and contained a significant number of errors. The absence of the Council’s Group Accounts and other statutory statements such as the Annual Governance Statement and the Statement of Movement on the General Fund were significant omissions. Indeed, the poor quality of the accounts hampered the effectiveness of the review undertaken by the Annual Accounts Committee. The Council’s closedown programme does not allow sufficient time to complete an internal review of the statements for quality and consistency or to ensure compliance with professional standards, though most other local authorities are able to complete such work in accordance with specified deadlines.

57 PKF completed most audit work before the statutory deadline for publishing the accounts (30 September) and provided an update to the Annual Accounts Committee on 25 September 2008. The Committee decided not to approve the amended accounts presented to it.

58 The Council produced revised accounts on 22 January 2009 in the light of PKF’s report and work undertaken by officers. The standard of the revised accounts was improved and unsurprisingly meant a significant number of balances and transactions changed. In total, some 280 amendments were made by officers in producing the amended accounts. Some amendments were presentational though others involved material changes.

59 It is a stated objective of the Council to stabilise its financial position. In 2007/08, the Council addressed the difficulties encountered with its cash collection contractor and met its plans to reduce the deficit on the collection fund. However, the publication of annual accounts in accordance with the Government's deadlines is a statutory requirement. In 2007/08, the finance department did not have sufficient resource, experience or expertise to provide the leadership needed to produce accounts in accordance with professional standards and published guidance such as CIPFA's Statement of Recommended Practice ('the SORP'). These are important barriers to establishing an effective finance service.

60 Best practice expects ultimate responsibility for financial management to rest with Members and senior management, and that one of the senior management team should have personal responsibility and accountability for leading and advising colleagues on financial issues. This individual should be a qualified member of a professional accountancy body with relevant and recent experience of local government financial management. The Council should consider the extent to which its arrangements follow best practice.

61 The appointment of an interim Chief Financial Officer and the employment of professional staff on a contract basis have increased capacity in the short term though a significant amount of work remains to be done to improve the Council's performance and to sustain it. The Council has plans in place to appoint a Chief Financial Officer to a permanent post by June 2009.
PKF gave an unqualified opinion on the Council 2007/08 accounts and an unqualified opinion on the Group financial statements on 24 March 2009. When the Council has improved its performance in producing the annual accounts, it should explore ways of communicating information about its finances to local people using summary financial statements.

Financial Management

The Council's financial management arrangements are adequate. This represents an improvement on the position reported in 2007. A medium term financial strategy is now in place for the period 2008 to 2011. The Council's corporate and financial plans are now more fully integrated following the publication of the new corporate plan for the same period. The Council has aligned its capital investment plans with stated priorities and the linkages between capital investment and revenue income and expenditure plans are now in place. The Council completed extensive consultation with stakeholders to inform its new corporate plan and in producing the 2008/09 budget. This enables the Council to evidence how the views of stakeholders are taken into account in developing its priorities, and demonstrate these continue to be the right priorities for Eastbourne.

In 2007/08, the financial position of the Council was tracked throughout the year and action plans were prepared and monitored where a material variance arose or a deficit forecast. There were some positive outcomes, with the Council improving performance in collecting council tax and maintaining its good performance in collecting Non-Domestic Rates. However, the weaknesses evident in arrangements for producing the annual accounts means the Council should seek assurance its financial management arrangements follow best practice. This should assist Members and the Chief Financial Officer to develop a profile of the strengths and weaknesses of financial management, its predominant style in the Council, and how far this supports the delivery of strategic objectives.

While a framework of support for budget holders is in place, the Council needs to ensure planned training programmes on financial issues for Members and relevant non-finance staff are delivered. The Council should develop the budget monitoring process further to include operational indicators of performance such as vacancy factors and sickness absence. Where departmental spending is out of line with the Council's plans, the Council should evidence how action to bring budgets back on track is risk assessed.
The audit of the accounts and value for money

66 The Council has improved the approach to managing its assets. An asset register is now in place and the Council has started to use data to support the decision making process. For instance, the Asset Management Plan published in 2008 contains details about the level of backlog maintenance and the investment needed to address this. Now that the Council has an adequate framework in place to manage its assets, it should:

- evidence how investment and disposal decisions based on thorough option appraisal and whole life costing;
- develop the asset management plan to underpin achievement of strategic goals, and how land and buildings will be used to deliver corporate priorities and improve service delivery; and
- develop the property database to fully integrate all aspects of value for money (efficiency, effectiveness and running costs for instance).

Financial standing

67 The financial standing of the Council in 2007/08 was adequate. A sustained focus on improving the performance of the collection fund means the Council’s plan to reduce the deficit and then restore the fund to balance has been met. In 2007/08, the deficit reduced from £2.2 million to £1.3 million and the Council is projecting the collection fund should return to a balanced position by 31 March 2009.

68 The level of the general fund balance reduced by £1.6 million in the year as the Council completed spending plans brought forward from previous years. The level of the general fund working balance (£1 million) is included in the overall general fund balance of £1.5 million as at 31 March 2008 and is in line with the Council’s benchmark.

69 As at 31 March 2008, the Council has a general fund balance and other earmarked revenue reserves available amounting to £6.7 million, as shown at Table 2 overleaf.
Table 2  General Fund Revenue Reserves as at 31 March 2008

<table>
<thead>
<tr>
<th>Reserve</th>
<th>31 March 2007 £000</th>
<th>31 March 2008 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Balance</td>
<td>3,106</td>
<td>1,479</td>
</tr>
<tr>
<td>Earmarked Reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upkeep of Graves, Memorials and Crematorium Levy</td>
<td>151</td>
<td>227</td>
</tr>
<tr>
<td>Earmarked Revenue Reserves</td>
<td>2,046</td>
<td>2,323</td>
</tr>
<tr>
<td>Insurance</td>
<td>116</td>
<td>116</td>
</tr>
<tr>
<td>Section 106 income</td>
<td>1,044</td>
<td>1,301</td>
</tr>
<tr>
<td>Revenue and Benefits</td>
<td>0</td>
<td>1,216</td>
</tr>
<tr>
<td>Other</td>
<td>67</td>
<td>71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,530</strong></td>
<td><strong>6,733</strong></td>
</tr>
</tbody>
</table>

Among its earmarked revenue reserves, the Council has established a Strategic Change Reserve and this amounted to £375,000 as at 31 March 2008. The reserve has been kept under review throughout 2008/09 and was increased following a refund of VAT in the year amounting to £1.4 million. However, in July 2008, Members approved the use of the reserve to finance overspends on departmental budgets amounting to £360,000 and not for strategic change projects. Members need to undertake a review of all earmarked revenue reserves to ensure these support achievement of the Council's priorities and are not used for general purposes.

As at the end of December 2008, the Council expects its expenditure to increase by £1.1 million compared to the planned level. The additional expenditure is due to be met from available earmarked reserves (£861,000). Officers are also planning to reduce the general fund balance by £180,000 to address shortfalls in departmental budgets in the year. The planned reduction in the general fund balance to £1.25 million maintains the working balance above the Council's benchmark level of £1 million though the position will continue to require careful management.

The Housing Revenue Account (HRA) reported a surplus of £1.2 million in the year and the working balance as at 31 March 2008 amounts to £1.3 million. The Chief Financial Officer considers the balance available to the HRA to be sufficient. As at the end of August 2008, the Council is reporting the 2008/09 budget for the HRA will be achieved.
Internal control

73  The Council has established an adequate framework of policies and strategies for managing risk. The process is reviewed annually and the outcome reported to the senior management team and the Cabinet. The Council is aware of the specific risks evident in its partnership working and where outcomes are jointly delivered, through the local strategic partnership for instance. These risks are identified and mitigated through the corporate framework. While the Council had not provided training to all staff and Members with responsibilities for risk management in the year, this has now been addressed with Members involved in the risk management group attending training in February 2008. All senior managers and service managers are due to receive training in a programme to be delivered between July 2008 and February 2009. When the programme of training is complete, the Council should take the opportunity to evidence how risk management is embedded in the business planning processes; though its strategic and financial planning; policy making; performance and project management arrangements.

74  The Council has invested significant resources in strengthening the overall control environment and in 2007/08 had put in place the standing orders and detailed procedures needed to maintain a sound system of internal control. PKF's detailed work confirmed the framework of internal controls was generally working well and this is an improvement on the position reported by external auditors in previous years. The Council should seek assurance from management that controls continue to operate as designed.

75  In 2007/08, the Council assigned the functions of an Audit Committee to the Accounts Committee and the Audit Task Group. The Council has reviewed its arrangements and is looking to establish an Audit Committee in 2009. This should provide more visible leadership on audit and governance issues. When established, the Audit Committee should receive a report on the Council's arrangements for preparing and publishing the annual statements at the earliest opportunity.

76  PKF relied on the work of the Internal Audit section to support the opinion on the annual accounts. PKF also worked in partnership with internal auditors to complete the audit of the housing benefit claim to maximise the overall level of audit coverage at the Council.

77  The Council has a framework of whistle blowing and anti-fraud and corruption policies in place. However, these arrangements should be more widely publicised and a more proactive approach taken towards counter fraud and corruption work. This should include a formal risk assessment and work with the Council's key partners, such as government departments and external contractors. While the Council uses data matching techniques within the benefits service, involvement in work such as the Audit Commission's National Fraud Initiative and other information sharing protocols should be undertaken in other service areas.

78  The Standards Committee is working well and its responsibilities have been updated in the light of the Government's guidance.
Value for money

79 The Council's approach to securing value for money has developed over the past 12 months. Investment in service improvement has led to higher short term costs in the revenue and benefits service. Eastbourne spends more than other Councils in its priority area of street cleansing though 80 per cent of residents are satisfied with the service which is best quartile performance. The cost of waste collection per household (£43.43) is higher than the Council's target (£40.42) though costs per head of population are about average when compared to other Councils. The cost per head of population of the homelessness service is among the highest in the country. Additional investment in council tax collection has improved service performance and the Council now has an opportunity to learn from this and begin to establish a track record for service improvement. The Council should ensure information about value for money, including costs, benchmarking, customer satisfaction and service performance is used systematically across the organisation.

80 In 2008, work has been completed to demonstrate the Council's understanding of its cost base, service performance and the linkages between investment plans and priorities for service improvement. Eastbourne's efficiency programme, known as 'DRIVE', is comprehensive and provides a platform for securing and sustaining value for money. The approach is being underpinned by developing data quality arrangements and this should enable more effective performance management.

81 The work of the Council's Scrutiny Committee is increasingly challenging costs and performance. In 2007/08, reviews completed of the benefits service and telephone answering led to recommendations for improvement. The Committee also reviews costs and performance information on a quarterly basis and is using this process to inform its forward programme of work.

82 The Council will need to sustain its focus on improving value for money. While a sound platform is in place, clear leadership should continue to be shown on this agenda from the top of the organisation to fully engage middle managers and front-line teams across the organisation. A good start has nevertheless been made with the involvement of 120 staff and 40 other stakeholders in developing the 'DRIVE' programme.

83 The Council should implement its plans to publish a suite of value for money indicators in the corporate plan, evidencing how value for money is secured, particularly where projects and partnerships deliver social and economic benefits in the longer term.

Data Quality

84 The Council's management arrangements for securing data quality are adequate and meet the minimum standards specified by the Audit Commission. This is an improvement on the position reported in 2007. There has been a positive change to the culture of the Council towards data quality, with Member and senior management commitment to the agenda increasing over the past 12 months. A data quality strategy has been published and data quality assurance processes have been strengthened through the work of the Internal Audit Section.
In 2008, the Audit Commission specified PKF should review two best value performance indicators (BVPIs) in detail and others based on PKF’s risk assessment. The specified indicators involved the speed and accuracy of processing benefit:

- BVPI 78a (average time to process new benefit claims); and
- BVPI 78b (average time to process changes to benefits circumstance).

PKF also undertook work on two other indicators based on a risk assessment:

- BV 184a (Proportion of non-decent homes - reserved in 2006/07); and
- BV 199 a, b and c (Local street and environmental cleanliness - reserved in 2006/07)

PKF confirmed the accuracy of BVPI 78a and BVPI 78b but placed a reservation on the data published for BVPI 184a and BV 199 (a, b, and c) because the Council had not fully updated its systems to record data supporting these indicators for the whole year. The Council has now addressed the situation through the provision of additional training to officers involved in the collection of data.

PKF reported the outcome of their work to officers in November 2008 and an action plan for improvement is due to be drawn up accordingly.
The public service inspectorates have developed a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.

CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor’s assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.

The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area’s Local Area Agreement.
Closing remarks

92 This letter has been discussed and agreed with the Council. A copy of the letter will be presented at the Cabinet meeting on 1 April 2009. Copies need to be provided to all Council members.

93 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date of issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit and inspection plan</td>
<td>March 2007</td>
</tr>
<tr>
<td>Annual Governance Report (Interim)</td>
<td>25 September 2008</td>
</tr>
<tr>
<td>Opinion on financial statements</td>
<td>18 March 2009</td>
</tr>
<tr>
<td>Value for money conclusion</td>
<td>18 March 2009</td>
</tr>
<tr>
<td>Use of Resources report</td>
<td>November 2008</td>
</tr>
<tr>
<td>Report on the audit of the 2007/08 accounts</td>
<td>1 April 2009</td>
</tr>
<tr>
<td>Annual audit and inspection letter</td>
<td>1 April 2009</td>
</tr>
</tbody>
</table>

94 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

95 This letter will be published on the Audit Commission’s website at www.audit-commission.gov.uk, and also on the Council’s website.

Sandra Prail
Comprehensive Area Assessment Lead (Sussex)

March 2009
The Audit Commission

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

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

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:
Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ
Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946
www.audit-commission.gov.uk