

Local Government Finance Review – Eastbourne Borough Council**Context**

Similar to the majority of local authorities, Eastbourne Borough Council (EBC) experienced significant financial challenges caused by the Covid-19 pandemic and, in light of Eastbourne's economic profile, its drastic impact on the authority's income from tourism, culture and leisure.

EBC was one of a number of local authorities to request exceptional financial support (EFS) from the government. Government agreed to £12.8m of financial support (£6.8m in 2020/21 and £6m in 2021/22) by allowing the authority to capitalise its revenue shortfalls (capitalisation) during this time. The government agreement was subject to an external assurance review.

Alongside its request for EFS, the council took early steps to mitigate the financial impacts of the pandemic. Central to these steps was the development and implementation of the council's Recovery and Stabilisation Programme (originally named the Recovery and Reset programme). This resulted in over £2.2m of reduction in EFS requirements for 2020/21 (reduced from £6.8m to £4.6m) and an estimated further reduction of £3.5m for 2021/22 (expected reduction from £6m to £2.5m).

Recognising the additional cost of capitalisation (ie. Public Works Loan Board repayment rate for 20 years plus 1%), EBC has developed an asset disposal strategy which would allow it to generate the required capital receipts in a measured and controlled way while avoiding a "fire-sale" of taxpayers' assets.

EBC has, to date, delivered over £4.2m of capital receipts to repay the capitalisation amount and is working towards generating over £4m of additional receipts in 2022/23.

This report provides an update on the steps and action taken by the council in response to the recommendations made by the Chartered Institute of Public Finance and Accountancy (CIPFA) who carried out the external review.

Actions taken in response to the Assurance Review recommendations

1. In December 2021, the council received a report setting out the recommendations made by CIPFA as part of the external assurance review.
2. An implementation plan was formally put in place to ensure visibility and timely delivery of the recommendations, and actions taken to address all areas of concern set out in the report.
3. This document provides a summary of the progress made and the actions taken to date.

Overarching recommendations

4. Reducing reliance on tourism income – whilst EBC recognises the significance of tourism economy for the borough and its role in supporting the economy, the refreshed Corporate Plan (which was adopted by full council in May 2022) provides a more

modest outlook for the council going forward. The council is fully aware of the need for ongoing financial stability and longer-term financial resilience.

5. The Medium-Term Financial Strategy (MTFS) has been reformulated to incorporate the changed financial circumstances and, in particular, the need to replenish the council's reserves.
6. The final, overarching recommendation related to strategic risk management in relation to commercial transactions. In line with this recommendation, the council's strategic risk register was updated by the Audit and Governance Committee in March 2022 and now makes explicit reference to this, and the role of the Strategic Property Board in ensuring these risks are well managed.

Recommendations relating to Assets

7. The report made a number of recommendations relating to the council's assets and the approach to asset management. Central to the response has been the preparation of a document setting out the council's "Assets for Disposal Consideration". This document was submitted to government for consideration on 10 January 2022. The council's Strategic Property Board oversees the implementation of the disposals work and reviews the disposal consideration paper on a bi-monthly basis. The paper provides individual valuations and market appraisals of all assets, including the rural estate.
8. Alongside this, the council has reviewed its capital financing requirements and will continue to do this as part of budget setting processes each year. The capital programme has been reduced and now only includes items focused on health and safety and/or urgent works. The council's non-HRA capital programme is expected to decrease from £28.4m in 2021/22 to £2.3m in 2024/25, while the non-HRA (ie. general funding) borrowing projections are expected to reduce from £18.9m in 2021/22 to £0.5m in 2024/25. With regard to the housing investment, a report is due to be considered by Cabinet elsewhere on this agenda which will set out an affordable, consolidated programme in line with the HRA business plan.
9. In order to ensure the Minimum Revenue Provision (MRP) Policy is fit for both current and future spending plans, an independent review has been undertaken (by Links). The outcomes of this report will be reported to the Audit and Governance Committee in July and is being considered by Cabinet elsewhere on this agenda.
10. As was recommended, further work has been undertaken to recoup arrears from commercial tenants. Repayment plans and/or recovery action is taking place on all accounts. Between March and May 2022, this activity reduced the debt of £790,000 by £120,000. The Strategic Property Board receives a bi-monthly update on progress made to recover these debts.
11. A phased process has been developed for the future of the key strategic seafront sites. The first phase has been to initiate an expression of interest process for the "fort fun" site (recently surrendered by the previous tenant). This work remains on-going.

Discussions with the Environment Agency regarding forthcoming sea defence works may have an impact on this.

Recommendations relating to capitalisation

12. The council was recommended to monitor its in-year requirement for capitalisation of revenue expenditure to ensure it stays within the EFS limit. This has been a key consideration in preparations of budgets and in the development of both the Treasury Management Strategy and the Capital Strategy. The outturn report to Cabinet elsewhere on the agenda provides assurance to members that the EFS limits have not been exceeded. The interim outturn report is indicative of a reduction of £1.9m in the revised capitalisation amount for 2021/22 (reduced from £4.4m to just over £2.5m).

Recommendations relating to commercial/borrowing

13. The council's trading companies have been subject to a thorough internal review, which included a challenge of their benefit to the council. A report of this work, including a detailed SWOT-style analysis of each company, was considered by the Corporate Management Team (CMT) in April 2021. Following this review, the recommendations were revisited and reaffirmed. In addition, Links have since been commissioned to undertake an external review of the asset management plan.

14. With regard to Investment Company Eastbourne Ltd (ICE), independent reviews have been carried out by Grant Thornton and the council's external auditors (Deloitte). In light of this, EBC is satisfied that value for money has been achieved.

15. As was recommended, the Audit and Governance Committee has been augmented to include an independent, non-political member. The appointment was agreed by the Committee at its meeting in March 2022. The first meeting to be attended by the new member, Stephen Gilbert, will be in July 2022.

16. It is agreed by the council that a commercial framework is needed against which to assess future investment based or traded activities. A suitable scope for this is now under development but, in the meantime, the council can provide assurance that, in the current, post-Covid-19 financial landscape there are no significant investments being considered.

17. The council's housing investment company (EHICL) has undertaken multiple valuations with a view to taking decisions about the future of its investments. Valuations based on balance sheets and on open market values have been completed. A final valuation based on annual rent roles is currently in progress. All three valuations will be presented to the EHICL Board in July 2022, at which point, decisions will be taken on the future of the assets.

18. Arrangements have been made for existing audit contracts to be extended to include all relevant companies in which the council has a stake.

Recommendations relating to governance/oversight

19. Additional external assistance has been sought by the council to support the implementation of the assurance review recommendations. This support has been

invaluable in enabling the recommendations set out in this report to be actioned in a timely manner. Alongside this, the CMT has acted on the recommendation to include the Chief Legal Officer as a full member of CMT.

20. The Priority Based Budget approach instigated as part of the Recovery and Reset process will continue, as that process is now reframed as the Recovery and Stabilisation programme.
21. Treasury management and related training, with a particular emphasis on the impact of the capitalisation directions and the risks associated with commercial investment, has continued to be a central part of training for members over the past year. The same focus on this training will continue in the coming year and beyond.
22. As was specifically recommended, the restructure of the council's finance section has been completed.
23. It was also recommended that financial issues relating to the ICE transaction be regularly reviewed by Cabinet and the Audit and Governance Committee. This has been agreed and will be actioned elsewhere on the agenda.
24. A full post-review audit of the 2018/19 accounts was carried out with the council's external auditors. A disclosure checklist has been completed for the subsequent years, but these sets of accounts are still to be audited.

Reserves

25. A new Reserves Policy was implemented from September 2021. This policy sets out clearly how the council will take a risk managed approach to future assessment of need. The Section 25 report considered by Full Council in February 2022 contained a review of reserves to ensure their adequacy, along with the application and purpose of each.

Savings/efficiencies

26. An assessment of expenditure per head in relevant areas (housing, culture and highways) is being undertaken. The council will look to bring spending into line with other comparator authorities.
27. The Recovery and Reset programme has been reframed as the Recovery and Stabilisation (R&S) programme. This change will be formalised by the Cabinet in July 2022. As part of the programme, capital financing for the EFS is being identified.
28. The strategic risk register now contains reference to the R&S programme and the risk of its non-delivery. This change was agreed by the Audit and Governance Committee in March 2022.
29. The R&S programme, including the savings plan which is central to it, is reported to CMT at its twice weekly dedicated R&S meetings. With some savings having been delivered ahead of schedule and other saving targets broadly on track, EBC has been

able to reduce its requirements for the full approved amount of £12.8m; see the table below:

	2020/21	2021/22	Total
Approved 2020	6.8	6	12.8
Approved 2021	4.6	4.4	9
Actual	4.6	2.5	7.1
Total reduction			£5.7m

30. A new Capital Strategy Board has been developed to oversee the delivery of the capital programme. This is led by the Deputy Chief Executive and Deputy Chief Finance Officer and ensures robust projects and programme management arrangements are in place across the council.

Conclusion

The council's June 2022 update on the response to the assurance review recommendations highlights significant positive progress has been achieved over recent months. A good proportion of the actions to address the recommendations have already been completed and the remaining recommendations are on track for delivery in the near future.

EBC is satisfied with the progress made to date against the recommendations as set out by CIPFA and is confident that the planned activity will deliver the required outcomes.

Future progress updates will be provided to government over the coming months, and it is anticipated that activity against all recommendations will shortly be showing as completed.