
Annual Audit Letter 2011/12

Eastbourne Borough Council

OCTOBER 2012



Contents

Executive summary	1
Introduction	2
Key findings	4

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Local Government Code of Audit Practice

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

Executive summary

This Annual Audit Letter summarises the findings of the work we have completed in respect of the year ending 31 March 2012. Our detailed findings and recommendations were reported to Management and the Audit and Governance Committee in our Annual Governance Report (on 26 September 2012).

✓ Accounts

- The Authority financial statements and the Group financial statements give a true and fair view of the Authority and the Group financial affairs, and the income and expenditure for the year. The statements were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
- Our audit identified material disclosure errors (in the Authority and the Group financial statements) which were corrected.
- The Annual Governance Statement was updated to include information about the Council's wholly owned subsidiary. The revised statement was not misleading or inconsistent with other information of which we were aware.

✓ Internal control

- We identified a deficiency in internal controls which the Council addressed by ensuring the periodic reconciliation of cash balances at its Theatres.
- We were able to rely on the work of Internal Audit.

✓ Whole of Government Accounts

- We completed a full assurance review of the Whole of Government Accounts return. We recommended some amendments to the return based on our audit work and an unqualified opinion was given.

✓ Use of resources

- We are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- We issued an unqualified value for money conclusion.

Introduction

The purpose of this letter

The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to the Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Scope of the audit

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Reporting the audit

We provided reports to "those charged with governance" (the Audit and Governance Committee) and management on the findings of the audit focusing on key issues regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year were:

- Audit Fee Letter issued April 2011
- Grants and certification work (2010/11 returns) issued January 2012
- Annual Audit Plan issued February 2012
- Annual governance report to those charged with governance issued September 2012
- Annual Audit Letter issued October 2012.

Acknowledgement

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Key findings

ABOUT THE COUNCIL

Eastbourne Borough Council is situated in the county of East Sussex in the south east of England. It is mainly urban and covers an area of about 44 square miles. There are unique characteristics to the Eastbourne area, including a seven kilometre coastline; the cliffs of Beachy Head, the South Downs Area of Outstanding Natural Beauty, 12 conservation areas and over 250 listed buildings. These characteristics, and the initiatives undertaken by the Council and its partners, have established Eastbourne as a popular tourist destination. Eastbourne has a population of about 100,000 which is becoming increasingly diverse in terms of age and ethnicity. The Council spends about £100 million annually on services such as refuse collection and street cleaning; planning and economic development; environmental health and benefit payments.

In 2011/12, the Council spent about £14.6 million on capital infrastructure projects and a further £7.6 million of capital investment was made in its housing stock. Substantial projects continue and the Council plans further capital investment of £17.7 million by 31 March 2013 (includes £7.4 million on improving Council housing). The housing stock of 3,700 dwellings is managed by Eastbourne Homes Limited, an Arms Length Management Organisation. In 2011/12, the Council incurred expenditure of about £7 million on the management and maintenance of its dwellings. The Government's decision that the Housing Revenue Account should be 'self financing' means debt amounting to £30 million was repaid (by the Government) in the year. The Council is now considering options for its future social housing provision under the new self financing regime.

The Council progressed some important initiatives in the year to assist in achieving its cross-cutting objectives for a Prosperous Economy, Quality Environment, Thriving Communities and Sustainable Performance. Over £4 million was invested to install

solar panels on Council houses and other Council buildings, providing low-cost energy to households and providing opportunities for future revenue streams. Investment in a local ICT company is designed to provide wider choice in the local broadband market and to secure future revenue streams. Proposals are being developed to assist the local housing market and in particular, first time home buyers. All of these projects are designed to make a positive difference to the lives of local people.

The Council agreed the Local Government Association should undertake a 'peer challenge' in June 2012 to provide an external view of the organisation and to assess its plans to meet identified challenges and opportunities for the area. Work is now underway to implement the recommendations made by the team. Further information about the Council can be found on its website at www.eastbourne.gov.uk.

ACCOUNTS

Authority financial statements and Group financial statements

The Council's arrangements for preparing and publishing its annual financial statements and the Group financial statements remain effective. We issued an unqualified true and fair opinion on the Authority financial statements and the Group financial statements on 28 September 2012.

Audit of Eastbourne Borough Council's financial statements

In preparing the draft financial statements, the Council followed advice provided by its Treasury Management advisers in accounting for the Government's repayment of Eastbourne's debt for social housing and the associated premia. The advice was inconsistent with guidance published by Cipfa. Material amendments were made to the Cash Flow Statement and the note supporting the Movement in Reserves Statement. None of the amendments affected the reported surplus or the Council's useable reserves.

Material amendments were made to the disclosures contained in the Capital Adjustment Account. The amendments involved the reclassification and restatement of balances for the changes in valuation of Investment Properties and the amount of Revenue Expenditure funded from Capital under Statute. Neither amendment affected the overall balance on the Account.

We recommended a number of presentational and other disclosure amendments to ensure the financial statements complied more fully with the Cipfa Code of Practice and accounting standards.

We identified specific risks in planning our audit work, and undertook additional procedures to review transactions involving the Council's investments in Solar Panels ('Solarbourne') and a local ICT company. No significant issues arose in these areas or from our audit of the relevant balances included in the financial statements. Our work was completed in accordance with our plans based on the comprehensive working papers produced by the Finance Team.

Audit of Group financial statements

The 2010/11 Group financial statements contained two material errors. Neither error affected the overall surplus nor the level of reserves reported. One error arose because the management fee paid by the Council to Eastbourne Homes Limited (£5.6 million) was not removed from the Group Comprehensive Income and Expenditure Statement (CIES) on consolidation. A second error occurred because the exceptional item arising following the reduction in the pension fund deficit (£10.6 million) was also included as a non-distributed cost in the CIES. The items affected the gross income and gross expenditure amounts and did not affect the overall surplus reported as at 31 March 2011 or 31 March 2012. Management restated the Group CIES as at 31 March 2011 but did not fully comply with the relevant accounting standard (IAS 8) in disclosing the transactions involved. The financial statements were amended to include the full disclosure required by IAS 8.

Annual governance statement

The Annual Governance Statement was amended (based on our audit work) to ensure governance matters relating to the Council's wholly owned subsidiary were disclosed. We were satisfied the amended statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

Internal control

Working with Internal Audit, we concluded the key financial systems were generally adequate as a basis for preparing the financial statements. We identified a weakness in the Council's arrangements for completing the cash reconciliations at its four Theatres. The Council addressed the weakness in April 2012.

WHOLE OF GOVERNMENT ACCOUNTS

We were required to complete a full audit (assurance review) of the Whole of Government Accounts return. We identified a small number of disclosures which did not fully follow the guidance circulated by the Government for preparing the return. We also ensured the amendments made to the financial statements and Group financial statements were consistent with the return, with suitable corrections made. We issued an unqualified opinion.

USE OF RESOURCES (VALUE FOR MONEY)

Financial resilience

Our financial resilience work reviewed the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

The Council provides clear leadership on financial matters through the work of the Cabinet and the Senior Management Team, with stakeholders (including staff) contributing to the development of financial plans. The published annual budget and

medium term financial strategy are soundly based and enabled the Council to successfully manage the reductions in resources provided by Central Government to date. Eastbourne is addressing the uncertainties over future financial settlements and the additional costs expected from the localisation of council tax and changes to the benefits systems. For instance, effective scenario planning has identified the reduction in expenditure and the level of efficiency savings the Council requires to ensure a sustainable financial position over the medium term (to 2016). Annually, service managers prepare comprehensive, integrated service and financial plans, utilising available cost and other benchmarking information.

Challenging economy, efficiency and effectiveness

Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

The 'Drive' efficiency programme continues to provide the overarching project delivery framework and has secured savings of about £1.3 million in each of the last three years. Further efficiencies of £2.4 million are expected by 31 March 2016. The 2012/13 budget includes a programme of identified efficiency savings of about £900,000 with a further £300,000 of additional income expected from certain services. The key corporate projects managed under the 'Drive' framework remain the 'Agile' working programme and the sustainable service delivery strategy. Both initiatives are underpinned by an effective service and financial planning process, which was revised and updated in the lead up to publishing the Council's 'future operating model' delivery framework in April 2012. The model is due to be implemented across the organisation over the next three years, reconfiguring services and staff structures using new technologies and business processes. The Council has identified the necessary financial and human resources to deliver the future operating model.

The Council commenced significant projects in the year, designed to increase income streams over the longer term. For instance, the 'Solarbourne' project aims to secure income of about £250,000 per annum from the Government's 'feed-in' tariff

scheme following the installation of solar panels on Eastbourne's housing stock and Council buildings. The project also meets the Council's aims for reducing fuel poverty by providing lower cost electricity to those Council tenants involved in the scheme. The Council also plans (in 2012/13) to assist the local housing market and in particular, first-time buyers.

The Council is aware of its relative performance in terms of cost and activity and where this is out line with expectations. In terms of the national value for money information published by the Audit Commission for the 2010/11 year, the Council reports only a small number of 'outlier' costs and performance. The Council understands those services where costs or performance are out of line with comparable organisations. For instance, the costs of aspects of the planning service and housing services (for certain homeless people) are higher than statistical neighbours and the Council has taken action to address this.

The 2012 staff survey confirmed the perception of staff that the 'Agile' working programme had improved their work/life balance and that services to customers were improving. It also confirmed a more transparent approach to performance management and staff appraisals and more consistent communication of developments. The approach has continued with the early communication of the expected impact of the 'future operating model' for the organisation in 2012/13 and beyond.

FINANCIAL AND OPERATIONAL PERFORMANCE

Financial Performance

The Council managed its resources effectively throughout the year, with expenditure on services being £127,000 less than the revised budget amount. The general fund balance amounts to £4.6 million and is above the benchmark level of £2 million. Other reserves are available, such as the strategic change fund (£500,000); the repairs and maintenance fund (£900,000) and the economic regeneration fund (£500,000). The Housing Revenue Account reported a surplus of £251,000 and the balance amounted to £2 million as at 31 March 2012. The Council considers the

balance to be adequate based on its future spending plans. Following the Government's decision to settle the outstanding debt relating to the Council's housing stock, Eastbourne is exploring options for its future social housing provision.

The revised 2012/13 net revenue budget amounts to about £16.6 million and the Council planned to utilise reserves of £985,000 to support the budget. As at the end of June 2012, the Council expects its expenditure plans for the 2012/13 year to be achieved and, because of the reduced costs of capital financing, does not expect any reduction in reserves. Management continues to identify the scope for further savings and reductions in expenditure as the corporate efficiency programme is delivered and major procurements (such as the joint waste management project) are negotiated.

Operational Performance

Through the 'Covalent' performance management system, the Council publishes its performance towards agreed targets transparently, identifying appropriate action where performance is out of line with plans. The performance management system has developed further over the last 12 months as significant projects have been delivered and new initiatives developed (such as the future operating model).

As at 31 March 2012, almost all Council targets were achieved with some notable sustaining of performance and other improvements. For instance:

- sickness absence was maintained at the low levels (5.59 days) reported in 2010/11
- positive staff satisfaction levels were achieved at a time of change and uncertainty at the national level for all public sector staff (82 per cent of Eastbourne staff are satisfied with their working environment based on a 50 per cent return rate for the 2012 staff survey)
- key income targets (for council tax and business rates) were met and prior period performance sustained

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- waste and recycling targets were achieved, improving performance compared to the prior period
 - crime reduction targets were met
 - the time taken to process Housing and Council Tax Benefit new claims and change events was 9.8 days, surpassing the target of 14 days by a considerable margin.

As at the end of June 2012, performance towards most targets remains positive. Management has highlighted the follows areas for attention:

- ensuring the number of homes where there is a severe risk of harm is remedied to improve the quality of life for households meets the annual target of 200 homes (quarter one performance is 36 homes)
- increasing the number of privately owned homes returned to occupation as a result of action by the Council towards the annual target of 120 homes (quarter one performance is 27 homes)
- ensuring crime levels remain low by:
 - reducing shoplifting by five per cent compared to 2011/12 levels (actual crimes increased by 0.5 per cent in quarter one)
 - reducing criminal damage by five per cent compared to 2011/12 levels (actual criminal damage reduced by 0.4 per cent in quarter one).

The Council is working with its partners and other Councils to establish a more strategic approach to service delivery. A partnership with three other Councils in East Sussex is now in place to secure the procurement of waste management services across four Districts. Resources are being pooled to maximise the procurement savings available to all Councils involved.

FINANCIAL AND ECONOMIC OUTLOOK

Over the last two financial years the Council's formula grant from the Government reduced by about 24 per cent (a total reduction of £2.1 million compared to the 2010/11 amount of £8.9 million). An updated medium term financial strategy was published in July 2012 for the next three years (to March 2016). The strategy expects further efficiencies of £2.4 million from the Council's efficiency programmes, reductions in departmental budgets and increased income amounts. The overall financial position remains balanced over the life of the plan, and meets the Council's objective to ensure expenditure plans are financed from available income streams and reserves.

The Council continues to work towards its stated priority for a prosperous economy. Projects and other measures are evaluated and progress reported to deliver a sustainable events programme, to support local tourism and the marketing of Eastbourne. Progress towards local economic targets is positive as at 30 June 2012, with the amount of vacant business space in Eastbourne Town Centre remaining ahead of target (11.6 per cent of space was vacant compared to the target of 12.7 per cent) and in keeping the number of Jobseeker allowance claimants ahead of target (the target is 2,700 claimants with performance as at 30 June 2012 being 2,344 claimants). The Council ensures the private sector and Government departments are consulted on economic development proposals (such as the proposed regeneration of the Town Centre and the Sovereign Harbour site).

The continuing economic downturn continues to limit the amount of income the Council secures from its investments and certain income streams remain under pressure. Eastbourne is well placed to manage such uncertainty through its comprehensive approach to financial planning and its stated aim of reducing reliance on central government resources and the annual council tax. However, the overall financial position will continue to require close attention.

LOCAL GOVERNMENT ASSOCIATION PEER REVIEW

The Council invited the Local Government Association to undertake a 'peer challenge' in June 2012 to provide an external view of the organisation and to assess its plans to meet identified challenges and opportunities for the area. Specific feedback was sought on the Council's ambitions for economic development and regeneration, including 'brand building' and the further action the Council should take to ensure sustainable service delivery in the longer-term. The review team recognised the significant improvements the Council has made in a relatively short period of time to stabilise its finances and provide a sound platform for delivering its priorities. It also highlighted the improvements made in the Council's arrangements for managing performance and ensuring its priorities are clearly articulated and consistently understood across the organisation and among strategic partners.

The Council accepted the review team's conclusions and is now implementing the key recommendations for developing and implementing an Economic Development Strategy involving key stakeholders and further improving communication and delivering the Eastbourne 'brand'. The team also concluded the Council's key strategies should be updated to support achievement of the recommendations made.