

**Report to:** Cabinet

**Date:** 9 February 2022

**Title:** Assurance Review

**Report of:** Robert Cottrill, Chief Executive, and Homira Javadi, Chief Finance Officer

**Cabinet member:** Councillor David Tutt, Leader of the Council

**Ward(s):** All

**Purpose of report:** To report and comment on the findings and recommendations of the CIPFA assurance review

**Decision type:** Key

**Officer recommendation(s):**

- (1) To note and accept the CIPFA assurance review
- (2) To note and endorse the CIPFA recommendations subject to the comments and observations set out in paragraph 3.2 below
- (3) To incorporate agreed recommended actions arising from the CIPFA assurance review into the overall Recovery and Reset programme's priority-based budget proposals, and to reflect this in the upcoming 2022/23 refresh of the corporate plan
- (4) To continue consideration of priority asset disposals in order to meet the obligations and commitments set out in this report

**Reasons for recommendations:** To enable the Recovery and Reset programme to continue in a structured way whilst incorporating the CIPFA assurance review recommendations, and meeting the capitalisation challenges

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## **1 Introduction**

1.1 At the meeting on 3 November 2021, Cabinet received a report on the ongoing Recovery and Reset Programme. Progress was duly noted and Cabinet agreed priority based budget proposals. Progress on delivering the transformation and savings associated with those proposals are also set out in a separate report on this agenda.

- 1.2 In the previous report, it was noted that, in accepting the granting of capitalisation directions for the current year and 2021/22, the council committed to an external review being undertaken by CIPFA. That review has since been concluded, and the final report was published on 12 December 2021. This report seeks to present and comment on the recommendations arising from the assurance review and the response to it.

## **2 Summarising the CIPFA assurance review**

- 2.1 The CIPFA assurance review is supportive of the direction the council is already taking in addressing current financial shortfalls through the Recovery and Restart programme. The report also states that there is a strong grasp and understanding of the challenge among senior members and officers. It recognises that current shortfalls are largely as a result of the pandemic and its dramatic impact on tourism income, coupled with increased costs elsewhere, such as homelessness.
- 2.2 The assurance review identifies some key issues and potential solutions for the council to recognise:
- a. The need for a priority-based disposal of assets to generate capital receipts necessary for capitalisation and/or increasing reserves
  - b. The need to have less reliance on tourism income to help meet revenue demands and, instead, develop other income streams
  - c. The need to avoid high risk projects for the foreseeable future

### **Asset Disposal:**

Determining the priorities on which assets to dispose of depends on a number of factors including the amount of capital yield, the impact on revenue, the social and/or environmental value of the asset, and the available market for it. Assets, such as the Hampden Retail Park, have been obtained to secure regeneration, provide a long-term investment but, more importantly, a significant current revenue income stream, without which essential services would be under threat. Disposal may yield capital receipts which can be used for capitalisation purposes to plug existing revenue shortfalls or top up reserves but may also add to the longer-term problem of ongoing revenue sustainability.

The current challenge to generate funds for capitalisation will demand an objective consideration of all council assets. This will require a great degree of pragmatism across all parts of the council and the wider resident community in considering future asset disposal considerations, if capitalisation targets are to be met.

### **Income Streams:**

Fundamentally, Eastbourne is a seaside tourist resort heavily reliant on visitor activity and spend. Whilst earning direct tourism-related income, much of the council's actions seek to enable others to prosper in this sector, having a balanced and measured strategy in constructive partnership with bodies such as the Chamber of Commerce and the Eastbourne Hospitality Association.

The principle of diversifying into other forms of income is accepted but will take time to develop. As such, it is prudent to point out that the council's previous

diversification into the acquisition of revenue yielding assets was also largely in response to addressing major revenue shortfalls caused by a previous financial challenge, specifically the severe reduction in its core grant funding from government since 2010. This, of course, remains the key source of pre-pandemic financial pressures which were then significantly compounded by the pandemic.

This demonstrates that the council has a track record in creatively responding to challenges that are not of its own making. Similarly, the council has been able to realise significant internal revenue savings in the recent past with the implementation of “Future Model” followed by the shared working partnership with Lewes District Council.

### **Major Projects:**

As a result of unprecedented pressures, the council’s ability to invest in and/or instigate non-essential large capital projects in the foreseeable future will be extremely limited and this has been reflected in the council’s revised capital programme and asset disposal plans. The CIPFA assurance review remarks that, whilst this is firmly understood by senior members and officers, acceptance of this may be less understood by the wider audience.

## **3 Observations on the assurance review recommendations**

- 3.1 The full list of 31 CIPFA recommendations and, in each case, recommended actions for Cabinet to consider, are set out in full at **Appendix 1**. However, in recommending these actions, it is important to make a general point about CIPFA’s proposed recommendation timescales. At the time of writing, the potential impact and timeline of the latest Omicron covid wave is unknown. Clearly, this may have an ongoing, unavoidable effect on the council’s ability to deliver on some of these recommendations within the anticipated timescale. This will be reviewed over the coming weeks and months.
- 3.2 The Leader of the council has reflected the council’s position following the assurance review in a response letter to the Minister for Equalities and Levelling Up Communities. Officers have also provided the Department for Levelling Up, Housing and Communities with a comprehensive pack of finance, assets and income projection documentation, including a revised profiling of capitalisation needs as set out in the financial appraisal (paragraph 7.1 below).

## **4 Consultation**

- 4.1 No further consultation is required for the content of this report. The full CIPFA assurance review document is already in the public domain, and is listed as a background paper to this report.

## **5 Corporate Plan and Council Policies**

- 5.1 The recommendations of the assurance review will need to be reflected at high level in the refreshed corporate plan for 2022/23. Depending on the specific decisions taken, particularly in relation to asset disposals, there may be impacts of varying degrees on other council policies.

## **6 Business case and alternative option(s) considered**

- 6.1 The overall business case for the actions already proposed in the Recovery and Reset programme together with the recommendations of the CIPFA assurance review are borne out of necessity having regard to the Covid-19 pandemic. In that overall context, there are no viable alternative options. However, within the overall activity, there will be choices to be made and options to be considered in respect of asset disposals, service levels, etc. It will be very important that such deliberations are grounded and with due regard to the council's financial position and its social and environmental responsibilities. Officers have been working on an asset list in respect of potential prioritisation for disposals. In constructing this, the following disciplines are crucial:
- The size of the capital receipt that may be realised
  - The availability of a market for the asset
  - The current revenue contribution being made by the asset
  - The ongoing cost of maintaining the asset
  - The social value of the asset
- 6.2 Assets that will yield significant levels of capital receipt and for which there is an available market will need to be near the top of the priority list for disposal, especially if their revenue contributions are low and/or running costs are high. In setting a priority list of disposals, it is also important to set a realistic timeline with targets to meet in the coming months and years. The council's external credibility in this matter is at stake. It will need to demonstrate that it can undertake this task with objectivity rather than emotional attachment to any particular assets. This is not just a challenge for the administration but one that extends to all members, officers, and the wider community of Eastbourne.

## **7 Financial Appraisal**

- 7.1 A financial appraisal of the Recovery and Reset programme was set out in the Cabinet report of 3 November 2021. As previously reported, the council has been granted capitalisation directions of £6.8m for 2020/21 and £6.0m in 2021/22. In addition, the council has been invited to express interest in further capitalisation in 2022/23. The current officer view is that the council will have sufficient capacity within the currently authorised capitalisation levels to carry forward surplus capitalisation into 2022/23. However, due to the ongoing unpredictability around the latest Omicron Covid-19 variant, it is advisable to remain open to a further application for 2022/23 should the current situation be prolonged to the point where it continues to impact on tourism and leisure income into the next financial year. Thus, the council's revised position is to seek authority for capitalisation of £4.6m in 2020/21, £4.0m in 2021/22, and the flexibility to carry forward up to £3.8m in 2022/23, predicated on the ongoing impact of the Omicron variant. This results in keeping within the overall total of £12.8m already approved. It is important to emphasise the criticality of achieving sufficient capital receipts, not only to meet the capitalisation needs, but to meaningfully reduce borrowing levels and increase reserves.

## **8 Legal implications**

- 8.1 Legal implications in respect of the Recovery and Reset programme were set out in the report to Cabinet of 3 November 2021. Legal advice will need to be provided in support of any specific actions arising from the assurance review.

*Lawyer consulted 18.01.21*

*Legal ref: 010766-EBC-KS*

## **9 Risk management implications**

- 9.1 Risk assessment in respect of the current Recovery and Reset programme was set out in the Cabinet report of 3 November 2021. As stated there, specific proposals arising from the programme action plan were all subject to project management discipline including appropriate risk and impact assessment processes. Exactly the same approach will need to be done to assess specific actions and projects arising from some of the CIPFA assurance review recommendations. At this point, the most significant risk is that the council does not take a sufficiently robust and timely approach to prioritising the disposal of assets to a level necessary to reach the targets stated. If that occurs, the risk of losing external support and goodwill could be high and could ultimately lead to an untenable situation and the resulting necessity of issuing a Section 114 notice.

## **10 Equality Analysis**

- 10.1 An equality and fairness analysis was previously carried out on the Recovery and Reset programme proposals and screening of those proposals did not find any further risk of adverse impact on groups with protected characteristics. This report is at an early stage of presenting the CIPFA recommendations and none of the proposals contained are, in themselves, likely to add further impact. However, should the council fail to achieve a level of action necessary to recover its sustainability, it is possible that important services may be impacted with significant effect on the community as a whole.

## **11 Environmental sustainability implications**

- 11.1 The council is committed to the delivery of its Environmental and Climate Change Strategy. Any actions arising from the assurance review recommendations will be implemented in line with this strategy.

## **12 Governance and Conclusion**

- 12.1 Responsibility for delivering on all aspects of the Recovery and Reset programme is with the Cabinet and the Corporate Management Team, as these are all executive functions. Cabinet and/or CMT may choose to use internal working groups such as the existing Recovery and Reset Board to work on or oversee projects within the programme. There is also likely to be additional ongoing input by the Audit and Governance Committee in respect of matters relating to financial strategy, and the Scrutiny Committee in accordance with its constitutional terms of reference for performance monitoring. The roles of statutory officers will be crucial in ensuring that the council meets its

commitments in this matter. Full Council is, of course, also in place for members to raise queries on matters for discussion. Full Council will also be the forum to consider and approve the 2022/23 refreshed Corporate Plan. This will be a challenging time and the importance of all aspects of both the democratic structure and strategic management working together in a constructive manner cannot be over-emphasised.

### **13 Appendices**

- Appendix 1 – CIPFA Assurance Review recommendations

### **14 Background papers**

The background papers used in compiling this report were as follows:

- CIPFA Assurance Review full document
- Formal response to the Government following receipt of the assurance review

No.	CIPFA assurance review recommendation description	Timescale	Recommended response and actions for Cabinet consideration
<b>A.</b>	<b>Reduction on Tourism Income</b>		
<b>A1</b>	The Council's corporate plan should be refreshed in the light of the pandemic.	3 months	Recommend that the Corporate Plan be refreshed to reflect the Covid-19 context.
<b>A2</b>	The Leader and Cabinet should ensure that all members understand that there will be a medium to long term requirement to continue to make adjustments, including the possibility of additional saving, to balance the budget by £6.7m in the MTFS. Stating it would not be prudent for members to assume that there will be a speedy return to "normal", pre-pandemic business.	Ongoing	Recommended for adoption as ongoing executive policy.
<b>A3</b>	The Council needs to establish a realistic baseline of future income that is achievable. The Council should rely only on income at this level to fund services. Any additional income generated over and above this base line should go into reserves until they are adequately replenished.	6 months	Recommended for adoption as ongoing executive policy.
<b>A4</b>	The Strategic Risk register should monitor the commercial investments / or commercial transactions undertaken by the Council or the commercial entities the Council has an interest in; ensuring that appropriate mitigations are put in place to manage the risks inherent in these types of transactions.	6 months	Recommended for adoption as ongoing executive policy.
<b>1.</b>	<b>Assets</b>		
<b>1.1</b>	The affordability of the capital programme needs to be continuously reviewed to ensure it is in line with objectives stated within the MTFS	3 months	Recommended for adoption as ongoing executive policy
<b>1.2</b>	Following its need for the capitalisation direction, the council should not consider increasing its capital expenditure on anything other than housing, health and safety issues or schemes fully justified by a sound, affordable business case. It should refrain from commercial activities unless the expenditure is proportional to its capital programme and the impact that it has on the revenue account has been fully assessed. The rationale for this should be clearly communicated to all members.	1 month	Recommended for adoption as ongoing executive policy
<b>1.3</b>	The council should review whether its MRP is prudent against all of its asset base and that this review is considered against its revised capital programme to ensure it is sustainable. This review should consider appropriate benchmarks for borrowing and could include the capital finance 'liability benchmark' which will be particularly useful over the long-term.	3 months	Recommend that officers be instructed to carry out this review

1.4	An asset strategy to be put in place to generate (additional) capital receipts to help to manage the council's financial pressures.	3 months	Note that this action is already under way
1.5	The significant debts from existing tenants and should be pursued thoroughly to recoup the arrears.	1 month	Recommend that officers be instructed to undertake this action
1.6	Verify valuation of assets individually, including rural estate and retail assets, and carry out detailed options and market appraisal of all assets to establish asset disposal list.	3 months	Note that this activity will be undertaken as part of recommendation 1.4 above
1.7	Develop a scheme for key strategic seafront sites to gain commercial/residential planning consent to maximise value.	9 months	Recommend that officers be instructed to undertake this action
<b>2.</b>	<b>Capitalisation</b>		
2.1	Monitor the in-year requirement for capitalisation of revenue expenditure to ensure this stays within the EFS current limit.	Ongoing	Recommended for adoption as executive policy
<b>3.</b>	<b>Commercial/Borrowing</b>		
3.1	Commercial investment balances should be reviewed and challenged to assess their usefulness to the council.	6 months	Recommended for adoption as executive policy
3.2	ICE – an independent post implementation review of the arrangements for this transaction to consider whether the transaction represents value for money for the council and its community in the short, medium to long-term considering the risks which have emanated from the COVID-19 pandemic and the council's resources. No further complex or unusual transactions of this nature are entered into at least until the council consolidates its financial performance and financial position. If any future transactions are considered a full assessment of whether or not these fit with best practice in investment management and the appropriateness of decisions against the council's risk management strategies and appetite. ICE should be included in the council's Strategic Risk Register.	3 months and ongoing	Recommended for adoption as executive policy
3.3	The council should appoint an independent (non-political) member on the Audit and Governance Committee.	6 months	Recommend that the appointment of a non-voting independent member to this committee be considered at the next Annual Council meeting
3.4	A commercial framework should be agreed with members and senior officers to assess future investment based or traded activities. There needs to be rigorous governance around commercial activities and a realistic assessment to the council's capacity and capability to deliver such projects.	6 months	Recommend that the Leadership Team will undertake this approach as part of ongoing executive policy
3.5	Council critically reviews against its MTFs, its corporate, strategic and asset management plans the need for its companies and the assets held. The review should contain robust and prudent arguments	3 months	Recommend that the Leadership Team will undertake this approach as



	if the council is not to divest itself of its interests in these companies.		part of ongoing executive policy
<b>3.6</b>	Council request that Eastbourne Housing Investment Company Limited (EHICL) reviews its investment properties and consider if they meet the needs of the community, their valuation is subject to further changes or judgements and review this against the risks to the council in terms of the extension of resource cover and borrowing.	3 months	Note that this request will be undertaken as part of the asset strategy recommendations at 1.4 and 1.6 above
<b>3.7</b>	Council should use its controlling interests or significant influence in its companies to ensure that their financial statements are subject to audit.	12 months	Note that this action is already underway
<b>4.</b>	<b>Governance/Oversight</b>		
<b>4.1</b>	External support should be appointed to assist in the discharge and monitoring of the overall Roadmap, including the asset management and disposals strategy, the review of council owned companies and development of appropriate indicators to demonstrate progress as the council may lack the capacity to deliver the change required over a sustained period of time.	Immediate	Recommend that this be undertaken in the event that insufficient internal capacity is available
<b>4.2</b>	The council should review the decision to not have the chief legal officer as a full member of the Corporate Management Team (CMT).	3 months	Note that this action has been implemented
<b>4.3</b>	Continue to develop the Priority Based Budget approach so that Cabinet reports reflect the on going financial uncertainty and the tough decisions that will continue to be needed to balance the budget post pandemic.	On going	Recommended for adoption as executive policy
<b>4.4</b>	Members should receive a refresher programme of training on treasury management, the prudential framework, and the risks of investing public money in commercial entities, with particular emphasis on the impact of the capitalisation directions.	3 months	Recommend that officers source and set this up and add to the existing member training programme
<b>4.5</b>	The council should implement the restructure for the finance section as put forward by the s151 officer as a matter of priority.	3 months	Recommend that this be implemented by officers
<b>4.6</b>	The financial outcomes, changes in risk profiles and asset valuations of the ICE transaction are reviewed by Cabinet and the Audit and Governance Committee on a regular at least a quarterly basis.	3 months	Recommended for adoption as executive policy
<b>4.7</b>	A full post-audit review needs to be carried out with the auditor regarding the 2018/19 accounts and the accounts are checked against CIPFA's disclosure checklist before they are submitted in future years including the Group Accounts.	3 months	Recommended in liaison with external auditor and for adoption as ongoing executive policy
<b>5.</b>	<b>Reserves</b>		
<b>5.1</b>	The council should set its general fund reserves, particularly its non-earmarked balance, in accordance with a risk managed assessment of its needs, these include financial, operational and strategic risks and any contingencies necessary.	3 months	Recommended for adoption as ongoing executive policy

<b>5.2</b>	Reserves should be established at sustainable levels such that these risks are managed and so that there will be no future need for government assistance. This will need to include scenario planning to reflect differing levels of resources that may be received.	3 months	Recommended for adoption as ongoing executive policy
<b>6.</b>	<b>Savings/efficiencies</b>		
<b>6.1</b>	The council should review its service expenditure per head on culture and related services, housing (including homelessness) and highways and transport, with a view to bringing it into line with comparator authorities.	3 months	Recommend that this be undertaken as part of future service and financial planning
<b>6.2</b>	The “Recovery and Reset” programme should be renamed the “Recovery and Stabilisation” programme to emphasise the need for continued prudence. It should be reviewed bi-weekly by corporate management team and monthly by Cabinet and that the council identify specific expenditure items and its financing for the 2021/22 capitalisation direction. In addition, capital financing for the 2020/21 EFS of £4.6m must also be identified.	On going	Recommend that this be reflected in the 2022/23 refresh of the corporate plan
<b>6.3</b>	The council should add a strategic risk relating to non-delivery of its Recovery and Reset to the Risk Register and monitor it.	3 months	Recommended for adoption as ongoing executive policy
<b>6.4</b>	Develop a savings plan which aligns with the whole MTFS period, updated on a more regular basis to ensure that it reflects its changes in financial sustainability and resilience and its Recovery and Reset plan, ideally it should be a “living document” for the council.	3 months	Recommended as part of the current Recovery and Reset Programme and resulting priority-based budget proposals
<b>6.5</b>	Ensure that robust project and programme management arrangements are in place to deliver the capital programme so that revenue budget pressures are not exacerbated.	On going	Recommended for adoption as ongoing executive policy requiring the consistent use of the existing project management toolkit