The Chartered Institute of
Public Finance & Accountancy

Appendix 1

Eastbourne Borough Council

Rapid Finance Review

April 2023

A Report by:

The Chartered Institute of Public Finance and Accountancy

April 2023

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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Executive summary

In 2021, Eastbourne Borough Council's request to the Department for Levelling Up, Housing and Communities (DLUHC) for Exceptional Financial Support (EFS) was granted subject to the conduct of an External Assurance Review. The purpose of the review was to ensure that the authority was taking appropriate steps to ensure its financial sustainability. CIPFA carried out the Review and made recommendations. The Department issued the council with capitalisation directions totalling £11.2 million for the financial years 2020/21 and 2021/22.[1]

In April 2023, CIPFA was invited to conduct a rapid follow-up review, essentially to assess progress on the Assurance Review's recommended improvements as well as the authority's general financial health. Undergoing this further external review was also one of the conditions attached to the council's 2021/22 capitalisation direction.

We examined documents and spoke to senior officers and members. Our work found no major areas of concern and much to commend. The council has grasped the improvement agenda with seriousness and purpose and has made significant progress. The leadership team can point to a range of positive changes, accomplished or imminent.

We argue that this commendable response to recent challenges can nevertheless be strengthened and, accordingly, we have made a number of recommendations. Adopting these would embed the existing pipeline of initiatives within a strategic framework with clear principles. This approach could guide the authority towards even greater financial stability.

[1] Note that this was the final agreed amount following the Council's reduction of its request for 2021/22 to £4.4m. We understand that only £7.6m of the overall allocation has been used by the Council, owing to savings in the Recovery and Stabilisation Programme. The Council is confident that given its receipts generation, the £7.6m will be covered without recourse to borrowing. This is consistent with the Council's under-borrowed position.

1 Scope and methodology

DLUHC's brief for the Eastbourne Borough Council rapid review, which took place in April and May 2023, was as follows:

Objective

To conduct an independent financial review of the council, to assess the progress it has made since its previous financial review undertaken in 2021.

Review areas

The review will cover the following main areas in pursuit of the above objective:

1. *An assessment of the council's progress in developing a robust and deliverable Improvement Plan that addresses the recommendations outlined in their previous assurance review undertaken in 2021 and that will support the council's financial sustainability. An assessment of the council's progress in completing the actions outlined in this plan.*
2. *An assessment of the council's strategy and work undertaken since 2021 to address its reliance on tourism and leisure income.*
3. *An assessment of the council's overall financial position, including any ongoing budget pressures, reserves position and any key risks to their ongoing financial sustainability.*
4. *An assessment of the council's progress in developing and implementing a plan for the generation of additional capital receipts, to help manage financial pressures, in line with the condition attached to the 2021/22 capitalisation direction.*
5. *Any other recommendations for actions that should be taken to improve financial sustainability.*

We asked the council to provide relevant documents. They did so, helpfully grouping them to match the review topics. Having examined this material, we held interviews with senior staff and members, again topically focused. We would like to express our sincere thanks to staff who provided the information and timetabled the interviews. We would also like to commend the authority for the constructive and open tone of the discussions themselves.

We then documented our findings. As with all projects under the DLUHC framework, our report belongs to the Department. However, we have briefed the council on our observations and recommendations. There should be nothing in the report to surprise them. Indeed, we have found officers and members generally receptive to our suggestions.

2. Findings

We have grouped our broad findings against DLUHC's 5 review headings.

1. An assessment of the council's progress in developing a robust and deliverable Improvement Plan that addresses the recommendations outlined in their previous assurance review undertaken in 2021 and that will support the council's financial sustainability. An assessment of the council's progress in completing the actions outlined in this plan.

We observed good progress here. The council has a Recovery and Stabilisation Plan, which is a prominent initiative, referenced in the council's Corporate Plan.

The Recovery and Stabilisation Plan is live, monitored, and actioned. Progress against it is tracked and assessed. There is frequent reporting on the Plan to the senior leadership team, complemented by member oversight in the form of regular briefings and the involvement of a Member Board. Relations with linked governance arrangements – the Strategic Property Board, the Capital Programme Oversight Board – are managed pragmatically through iterative engagement at lead officer level.

Key components of the Recovery and Stabilisation Plan are subject to internal audit examination. Moreover, the Plan's prospects for realisation have been significantly enhanced by reorganisation. The council's decision to bring together the Finance and Performance functions in the same directorate has helped link the Plan's financial imperatives to robust performance monitoring.

The Recovery and Stabilisation Plan is embraced by Administration members. Importantly, they do not consider delivering the Plan an isolated end in itself. The council is far from complacent about its future financial and organisational challenges.

Opposition members are also acutely aware of the Plan. They are involved in some of the associated governance structures, such as the Strategic Property Board. It is obviously important for the Plan's sustainability and success that there should be good understanding of and engagement with opposition perspectives by chief officers and the Administration. Our recommendations (below) concerning content refreshment and governance should help maintain and enhance member involvement in the Plan's development, oversight, and scrutiny. The creation of more explicit and comprehensive strategies on property and tourism, which we recommend in later sections, would provide reference points for members, aiding them in their efforts to hold the Administration and chief officers to account.

Major items in the Plan are dealt with in the specific sections below.

To ensure that the Plan remains as live and relevant as it currently is, the council should consider the following measures:

- the Plan, which must continue to be subject to robust performance management and assessment, should face periodic review and refreshment, perhaps whenever there is a major revision to the Medium Term Financial Plan (MTFP), to ensure its ongoing relevance and adaptation to changing priorities
- governance of the Plan should also be reviewed periodically, with the relationships between its oversight and other governance arrangements (for capital and assets, for example) vigilantly monitored. This will help preserve the mutually supportive interplay between initiatives, which currently relies significantly on senior officer efforts
- the prominence accorded to the Plan in other strategic documents, such as the Corporate Plan, should be retained and built upon. For example, there should be as many explicit linkages as possible between the Plan and the MTFP

2. An assessment of the council's strategy and work undertaken since 2021 to address its reliance on tourism and leisure income.

The council has a heavy historic reliance on income from tourism-related assets. This proved problematic during the pandemic. Temporary closures of council-owned and run theatres, for example, adversely impacted revenue. Further, the council owns and maintains (at considerable net cost) various assets directly connected to Eastbourne's identity as a seaside town. For this reason, the council has been looking to limit its exposure to the vicissitudes of tourism and the associated revenue streams and/or costs, while not compromising – and even strengthening – the Eastbourne tourism 'offer'.

Tourism is an inalienably important part of Eastbourne life. Supporting this sector and related economic activity makes sense. The pandemic experience suggests however that the town could benefit from some measure of economic diversification. This objective is an additional feature of the council's approach to regeneration.

In truth, documented evidence on tourism and the economy provided to the review team was patchy. However, interviews revealed numerous sensible initiatives, especially to reduce revenue exposure. The broad approach is to apply the model deployed at the Towner Gallery and transfer management of council-owned assets to trusts. This approach would reduce risk for the council, while providing reasonably secure rental revenue. Plans are well advanced for a number of facilities, including the Devonshire Park Theatre. For any heritage assets that currently constitute net losses for the council, if opportunities to offload management do not present themselves, the council will examine alternatives. These might include engagement with public-sector bodies with environmental remits (sustainability, coastal defence) to seek investment or grant aid for asset resilience, thereby subsidising the costs of upkeep.

Moreover, the council is looking to diversify the tourism base through eye-catching initiatives, such as the proposal to locate an Eden Project offshoot in the area.

Economic diversification is also underway. The council facilitated a £180 million town-centre refurbishment by Legal & General. It has received Levelling Up resources for further initiatives, including pedestrianisation and wet-weather sheltering to promote the town's year-round attractiveness. The council is investigating ways to strengthen Eastbourne's conferencing offer. It is targeting support towards the tech sector, actively engaging with the Chamber of Commerce, and promoting employment training opportunities for local people through a variety of partnerships and networks.

These initiatives are all sound and sensible but as yet they do not necessarily constitute a comprehensive strategy. There is genuine action and commitment, and while much of the sense of urgency was initially induced by the pandemic, there is no sense that the activity will abate in the current context. Officers and members involved in the various initiatives understand the overall approach but its principles need further development so they can underpin council planning and strategic thinking. The sequencing of moves to put council assets into trusts will need care and attentive oversight. There will be human resourcing and investment implications here, as well as for the wider array of partnership-dependent initiatives. Efforts to strengthen the tourism offer and diversify the economy are undeniably being made. But it is early days, and work to date has a tactical character. Realisation of Eastbourne's potential will need explicit strategic principles and associated goals.

Accordingly, we recommend that by the end of 2023 the new council should set out its objectives on tourism, income, and economic diversification in an overarching strategy. The strategy should:

- include principles, goals (with indicative timelines), and resource requirements
- explore the advantages and challenges inherent in the trust model in managing tourist income, with any learning from the Towner Gallery experience detailed
- investigate potential benefits for council income that might accrue from its efforts to diversify the Eastbourne economy

3. An assessment of the council's overall financial position, including any ongoing budget pressures, reserves position and any key risks to their ongoing financial sustainability.

Eastbourne Borough Council is facing budgetary pressures and it has no reason to be complacent about financial management. However, examination of the council's 2023 budget, supporting documents, and MTFP reveals a broadly satisfactory approach. The council is not an outlier in terms of its savings targets.

The Assurance Statement from the council's Section 151 Officer captures the position accurately and comprehensively. The council has balanced its budget for 2023/24 with the use of £1.3 million of reserves. It has savings and income targets of £2.1 million of which the council considers £1.1 million of the anticipated savings as 'low risk and almost certain', which is reflected in the budget. The remainder is viewed as achievable if senior management deliver within their agreed budgets. Nevertheless, the council is open about the challenges in delivering its more transformational savings and is developing a phase 2 programme for 2024/25. It has also identified contingencies, looking to freeze parts of its capital programme if required to address any pressures.

The council's reserve policy is clear, with a minimum level of reserves set of £2 million over the course of the MTFS and a recommended level of £5 million. Unallocated reserves at 31 March 2023 are estimated to be £3.2 million. This is a reasonable position and an improvement on the previous year, with reserves at the higher end of the 'nearest neighbour' group of authorities (those of comparable size identified for benchmarking purposes). The reserves sustainability measure is around average based on the latest analysis. The current position at time of writing is even healthier at £4 million of unallocated and £6.2 million of earmarked reserves. The intention to build reserves is a consistent message from officers and Administration members, featuring prominently in both the MTFP and the Section 151 Officer's Section 25 statement.

The Minimum Revenue Provision (MRP) policy and prudential indicators are reasonable, and we found no evidence of egregious risk-taking. The finance team seems strong, determined, prudent, even (in a positive sense) cautious.

Some issues are nevertheless apparent. As a small district, the council faces a mismatch between certain administrative challenges (especially related to the ownership of heritage assets, discussed previously) and its resource base. Local government is exposed to skills shortages across numerous disciplines and Eastbourne is not immune. To address these problems, the council, which is already in a formal partnership with Lewes District Council, is open to further collaborations. Moreover, budget management expertise at operational level is exceptionally important in the current financial context. It was mentioned by finance officers as an area where the council might look to improve.

In discussions, lead opposition members raised the question of the management of short-term debt and repayment plans. In our fieldwork, we did not identify any special cause for concern in this area. The council is under borrowed (using its own funds rather than borrowing more) against its capital financing requirement. Projected under borrowing is £34.1 million in 2023/24, £32.6 million in 2024/25 and £36 million by 2025/26. No commercial investments are included in the future capital programme. Investment Company Eastbourne Limited (ICE), a wholly owned council company established as the loan guarantor in connection with a commercial property in Leicester, is earmarked for sale.

Debt, according to the capital budget report, is at £160 million. The ratios of debt to income and debt to reserves, based on the CIPFA financial resilience index, are comparable with nearest neighbours. At time of writing the council is now reporting an improved debt position of £114 million.

Nevertheless, debt and treasury management are matters of volatility and micro-adjustment, requiring vigilance. It is important that members are aware of the relevant principles and practices so they can discharge their scrutiny role effectively.

Going forward, we recommend that the council:

- continues to avoid complacency about savings targets and maintains a prudential and risk-averse posture on spending
- satisfies member interest in debt and treasury management through suitable briefings on principles and practice
- redoubles its efforts on partnership and collaboration, to enhance its resource base
- examines its broader financial resilience. We are confident in the abilities of the finance team. At a suitable moment, it might make sense to build on the initial Assurance Review with work to investigate the council's budget management expertise at operational level. We will be happy to advise on how such an assessment might be conducted

4. An assessment of the council's progress in developing and implementing a plan for the generation of additional capital receipts, to help manage financial pressures, in line with the condition attached to the 2021/22 capitalisation direction.

Generation of capital receipts to date has been reasonable. £2.6 million have been realised thus far through disposals and share sales and future prospects are promising. For example, near-term itemised asset tranches, valued at potentially in excess of £5 million, have been identified, with further disposals of £10 million to £12 million possible. Based on recent experience, sale of £24 million worth of agricultural land will prove more challenging. But with one farm lease falling due soon, and options for sustainable and potentially income-generative stewardship being explored, there may even be opportunities here. Indeed in general, where disposal is not feasible or under immediate consideration, the council is examining improved income options, through partnership approaches similar to those for tourist assets.

The creation of the Strategic Property Board and the Capital Programme Oversight Board appears to have been beneficial. The governing principle to curb asset spend has been to focus almost exclusively on any expenditure needed for health and safety purposes. The capital programme and its associated debt have been curtailed and there has been no major recent acquisition of assets.

Yet as with the work on tourism, the time is now ripe to develop these sensible approaches further. The initiatives have a slightly tactical, even reactive character, deriving from the need to accommodate the EFS allocation. Going forward, the council would benefit from a more comprehensive strategy.

We recommend that the council produce a thorough, integrated, and strategic approach to property by the end of 2023. This should:

- explicitly reference the Recovery and Stabilisation Plan goals
- be consistent with and support the work to reduce tourism-income dependency and diversify the local economy
- accordingly describe the character of the council's desired 'target' portfolio of held assets. This should be supported by a clear taxonomy detailing asset type and purpose.

Retained assets could be classed as commercial or regeneration-related. Moreover, the portfolio's implications for income and investment should be made explicit

- reinforce the current restrictions on spend by setting out a presumption against new asset acquisition and associated increases in indebtedness. The permissible circumstances for new investment should be made explicit and should relate to exceptional or unforeseen circumstances

In developing this strategy, as well as in the related work on tourism etc, the council may need to access external expertise, a point made in the initial Assurance Review.

5. Any other recommendations for actions that should be taken to improve financial sustainability.

We have no additional areas of concern or associated recommendations.

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