



Accountants &  
business advisers

# **Eastbourne Borough Council**

## **Annual Audit Letter 2008/09**

**Report to Members**

**December 2009**

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### **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

# 1 Executive summary

1.1 This Annual Audit Letter ('Letter') summarises the key issues arising from the work we have carried out during the year. We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

## Key findings

1.2 A summary of key conclusions is included in the table below.

Area	Conclusion
<b>Accounts</b>	We issued an <b>unqualified opinion</b> on the Council's financial statements and a <b>qualified opinion</b> on the Group financial statements.
<b>Value for money conclusion</b>	We issued a <b>qualified value for money conclusion</b> because the Council did not put in place adequate arrangements for financial reporting that is timely, reliable and meets the needs of internal users, stakeholders and local people.
<b>Use of resources assessment</b>	Our scored judgements for the use of resources assessment were: <ul style="list-style-type: none"> <li>• '2 out of 4' for managing finances: performing adequately</li> <li>• '2 out of 4' for governing the business: performing adequately</li> <li>• '2 out of 4' for managing resources: performing adequately</li> </ul> Our overall assessment is the Council performs adequately in its use of resources (a score of '2 out of 4').
<b>Risk based work</b>	The Council has strengthened the internal control framework and taken action to improve arrangements for preparing and publishing the annual accounts.  Effective action has been taken to improve the collection of the annual council tax. The Council reported improved performance in the year and met its target collection rate.  We highlighted areas where the external contractor appointed to administer the Concessionary Bus Fares scheme and East Sussex Councils should develop their partnership working further. The Council has considered the impact of changes in the national scheme on its overall financial position.
<b>Emerging issues</b>	<b>Financial outlook</b>  As at the end of September 2009, a net overspend of £385,000 is being reported and management action has been taken to restore the overall financial position to balance by 31 March 2010.  <b>Treasury Management</b>  The Council has reviewed its lending criteria and strengthened its monitoring arrangements in the light of the collapse of the Icelandic banks.
<b>Grants</b>	The Council's arrangements for preparing grant claims and other returns to the Government are variable. Our spot check of housing benefit and council tax benefit claims highlighted some errors in calculating benefit which meant we had to extend our audit testing. Investment in the benefit service is improving the speed and accuracy of processing in 2009/10.

- 1.3 The Council should continue to focus on:
- balancing the overall financial position over the medium term and restoring the collection fund to balance
  - building on the improved performance evident in preparing and publishing the annual accounts
  - sustaining the improvement evident in priority services and continuing to improve those services where performance remains behind target
  - further developing performance management arrangements to allow stakeholders to understand the performance of the Council more transparently
  - securing improvement in the use of resources.

### **Acknowledgement**

- 1.4 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.

## 2 Introduction

### About the Council

- 2.1 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: the cliffs of Beachy Head, the South Downs Area of Outstanding Natural Beauty, 12 conservation areas and over 250 listed buildings. These characteristics have established the area's reputation as a popular tourist resort.
- 2.2 While Eastbourne has a population of about 96,500, the increasing number of people visiting the area means the population and demand for Council services can vary significantly throughout the year. Eastbourne is also renowned as a retirement location which means there are significantly more people of pensionable age than the national average.
- 2.3 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 2008/09, the Council spent over £20 million on capital projects. The Council's housing stock of 3,756 dwellings is managed by Eastbourne Homes Limited, an Arms Length Management Organisation. A successful Audit Commission inspection of the housing service in 2008/09 means the Council and Eastbourne Homes Limited have secured Government resources to invest in achieving the decent homes standard.

### The purpose of this Letter

- 2.4 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 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](http://www.audit-commission.gov.uk) and also on the Council's website at [www.eastbourne.gov.uk](http://www.eastbourne.gov.uk).

### Responsibilities of the auditors and the Council

- 2.5 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.
- 2.6 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.

### The scope of our work

- 2.7 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.

## 3 Key findings

### Audit of accounts

- 3.1 The Council's arrangements for preparing and publishing the annual accounts have improved compared to previous years. We issued an unqualified opinion on the Council's financial statements and a qualified opinion on the Group financial statements.
- 3.2 The opinion on the Council's Group financial statements was qualified because we could not obtain sufficient assurance over the income and expenditure incurred by Eastbourne Buses Limited. The position arose after the Council disposed of its interest in the bus company in the year. The Company's new owners did not produce audited accounts at the time we gave our audit opinion. The situation is unusual and no audit procedures were available to the Council or us to verify the income and expenditure of the bus company for the part-year.
- 3.3 The Council corrected a material misstatement amounting to £1.3 million because a payment made in April 2009, but relating to capital works completed before 31 March 2009, had not been included in the accounts. There was no effect on the Council's financial performance and it was able to meet the expenditure from available capital resources.
- 3.4 One other significant amendment was required to the accounts to increase the income due from council taxpayers stated in the collection fund by £603,000. A corresponding reduction in the amount of provision for doubtful debts written back in the year was made. These amendments had no effect on the collection fund deficit. Further amendments were made to notes and other disclosures which had not been presented in accordance with Cipfa's Statement of Recommended Practice (the SORP).
- 3.5 We did not identify any significant issues from our review of the Council's accounting and internal control systems. We placed reliance on the work completed by the internal audit department on the Council's material systems. We reported the outcome of our audit work to the Audit Committee on 24 September 2009. However, because some information remained outstanding to complete our audit of the group accounts and we did not finalise our opinions until 27 November 2009. We will continue to work closely with the finance department to streamline our audit process and to ensure all requests for supporting records are agreed in advance of the closure of accounts timetable commencing.

### Value for money conclusion

- 3.6 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment. Taking into account our work on use of resources, we concluded that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year except that it did not put in place adequate arrangements for financial reporting that is timely, reliable and meets the needs of internal users, stakeholders and local people.

## Use of resources assessment

- 3.7 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and is not comparable with 2007/08 or earlier years' scores.
- 3.8 Our overall assessment is the Council 'performs adequately in its use of resources (a score of '2 out of 4'). Our scored judgements for the three areas of the assessment were:
- '2 out of 4' for managing finances: performing adequately
  - '2 out of 4' for governing the business: performing adequately
  - '2 out of 4' for managing resources: performing adequately.
- 3.9 Our scored judgements for each key line of enquiry are shown at Table 1 and our main conclusions are summarised in the paragraphs which follow. The highest available score is 4 ('excellent performance') and the lowest available score is 1 ('inadequate performance').

**Table 1: Use of resources assessment**

Theme	2008/09
<b>Managing Finances</b>	
• Planning for financial health	2
• Understanding costs and achieving efficiencies	2
• Financial reporting	1
Theme score	<b>2</b>
<b>Governing the business</b>	
• Commissioning and procurement	2
• Use of information	2
• Good governance	2
• Risk management and internal control	2
Theme score	<b>2</b>
<b>Managing resources</b>	
• Natural resources	not scored in 2008/09
• Strategic asset management	not scored in 2008/09
• Workforce	2
Theme score	<b>2</b>

### Managing finances

- 3.10 The Council performs adequately in managing its finances. It achieved its expenditure plans in the year and has established an improved financial platform to deliver its priorities over the medium term. Windfall income of £2.5 million received in 2008/09 has strengthened the Council's balances and reserves. The annual budget is comprehensive, is based on wide consultation with local people and considers various options for service delivery and cost. It is kept under close review throughout the year. The Council understands the financial risks it is facing in the short and medium term and generally manages these effectively. However,

the collection fund reported a deficit of £797,000 as at 31 March 2009 and the deficit is expected to increase to around £1.5 million in 2009/10. The position arose because of weaknesses in the Council's approach to setting the annual council tax base which officers have taken steps to resolve for the 2010/11 year and beyond.

- 3.11 The Council exceeded its target level of efficiencies (£551,000) and reported savings of £650,000 in 2008/09. The Council responded to worsening national economic conditions and is assisting local communities through partnership working with local businesses; the voluntary sector; and investing to improve front-line services such as the administration of housing benefit and income collection.
- 3.12 Some Council strategies contain unit cost and benchmark information to inform the decision making process but the approach is not consistent or embedded across the organisation. The 'DRIVE' efficiency programme ('Delivering Real Innovation and Value for Eastbourne'), which commenced in 2008/09, is bringing a more systematic and corporate approach to the use of data and information.
- 3.13 The Cabinet works with the senior management team collectively to review performance based on exceptions highlighted by officers and there is close attention to the overall financial position. Where performance is behind target, the Council examines the underlying reasons and where necessary, it switches resources to bring performance back on track. Where further investment is needed to improve performance, the Council ensures this is sustained through the annual and medium term financial planning processes. However there is scope to more closely align these processes and further develop the performance management framework. In addition, the presentation and publication of performance information is of variable scope and quality. While understood by service managers and Members, the approach to performance management needs to be more transparent and timely to enable stakeholders to understand the Council's performance consistently.
- 3.14 The Council has invested resources to strengthen the capacity of the finance team, recognising leadership on financial matters needed to improve. The standard of financial reporting is improving with internal and statutory deadlines being met for preparing the Council's accounts. An Audit Committee was established in May 2009 and provides an opportunity for the Council to undertake more systematic scrutiny of the Council's financial management and governance arrangements.

### **Governing the business**

- 3.15 The Council performs adequately in governing the business. It has taken an inclusive approach to agreeing its priorities; setting a challenging, shared and well understood agenda with partners designed to achieve sustainable communities in Eastbourne. Consultation on the 'DRIVE' efficiency programme involved 175 staff and 45 partners, including local businesses, the voluntary sector and other public sector organisations.
- 3.16 The Council consults local communities about the services it provides. For instance, an environmental questionnaire in 2007 led to changes in the way kerbside waste collections operated and a scrutiny committee led consultations of play initiatives which led to a successful bid for lottery funding and delivery of new facilities. The Council has established ward based budgets amounting to £90,000 (£10,000 is allocated to each of the Council's nine wards) enabling Members to address the immediate needs of local communities.
- 3.17 The Council works with suppliers to understand the supply market. A national tennis tournament was attracted to Eastbourne in 2009 based on analysis of the economic impact on local businesses in the areas, enabling the Council to work towards its priority for Tourism. Another example of successful partnership working is the Eastbourne Cultural Centre, with resources of £8.5 million being secured towards the development from partners which compares favourably to the Council's contribution of £800,000, resourced from capital receipts. To progress the development, the Council underwrote the expected value of contributions from fundraising amounting to £1.6 million, providing a good example of how the Council is able to take measured risks successfully.

- 3.18 The Council encourages staff to maximise their potential through involvement in projects and all staff may apply to work on specific workstreams. Investment in the revenues and benefit service is securing better performance. As at 30 June 2009, new benefit claims are being processed within 15 days (ahead of the target of 18 days) and changes in circumstances are being processed within 12 days (ahead of the target of 15 days). This is a significant improvement on the performance reported in 2008/09, when new claims were processed on average only after 35 days. Council tax collection levels met the Council's target at 97.5 per cent as at 31 March 2009. In addition, collection of council tax arrears increased by 43 per cent compared to the previous year (2007/08). The improved performance will need to be sustained in 2010 and beyond.

### **Managing resources (the workforce)**

- 3.19 The Council performs adequately in managing the workforce. It has published a workforce development plan designed to improve staff skills and efficiency through investment in ICT. It is also improving the performance management of staff and has invested in training for managers across the organisation. The Council has prioritised the workforce development plan and has recruited more staff into hard to fill posts in the benefit service. However, outcomes and learning need to be harnessed corporately and a programme of productivity reviews should be completed across all Council services.
- 3.20 The Council uses workforce data to inform the service and financial planning processes, though the approach needs to be more systematic. For instance, the customer services department uses data about employee age, staff turnover, training need, recruitment gaps, gender and ethnicity to inform service planning. In addition, a skills audit and a management development programme were completed to support the decision of Members to approve more investment in customer services. While these are good examples of workforce planning, the Council has not yet reviewed the skills and capacity required across the organisation over the medium to longer term.
- 3.21 In 2008/09, sickness absence levels were ahead of target and lower than other Councils at an average of 6.4 days per employee (the Council's target is 6.7 days). The Council secured the Investor's in People accreditation in the year. It has achieved level 2 of the equalities standard and is looking to improve further towards the enhanced standard published by the Government in 2009.

### **Specific risk based work**

- 3.22 We reviewed the progress made in improving the Council's framework of internal controls in completing our audit of the financial statements. The Council has implemented the recommendations we made in previous years and we were able to rely on the Council's financial systems to produce materially accurate balances. The Council has also taken action to improve arrangements for preparing and publishing the annual accounts, as highlighted at paragraph 3.1.
- 3.23 We also considered the action taken by the Council to improve the collection of the annual council tax. The Council reported improved performance in the year and met its target collection rate. The reasons for the underlying deficit reported on the collection fund are highlighted at paragraph 3.10.
- 3.24 We reviewed the progress of East Sussex Councils in implementing the Government's national Concessionary Bus Fares scheme. We reported the outcome of our work to the East Sussex Finance Officers Association in September 2009. We highlighted areas where the external contractor appointed to administer the scheme and East Sussex Councils should develop their partnership working further.
- 3.25 To improve further its use of resources, the Council should focus on:
- ensuring the overall financial position remains stable and supports achievement of the medium term financial strategy

- ensuring the level of balances and reserves continues to be maintained in accordance with the Chief Finance Officer's recommendations
  - restoring the collection fund to balance
  - establishing clearer linkages between the medium term financial strategy and other Council strategies for ICT; Human Resources; and procurement
  - ensuring the service and financial planning processes are fully integrated and that cost and benchmarking information is used systematically within services
  - evidencing value for money is secured across all services as the 'DRIVE' efficiency programme is progressed
  - evidencing strategic commissioning and procurement decisions provide value for money and support achievement of the Council's objectives
  - ensuring assurance protocols drive improvement in the quality of data and are understood across all partnerships
  - ensuring outcomes and learning from implementing the workforce development plan are consistently understood across the Council
  - reviewing staff productivity across the Council and using this information to inform future decisions about services
  - implementing workforce plans based on a comprehensive analysis of skills and skill gaps; and capacity to deliver the Council's objectives over the longer term
  - securing improvement towards the Government's enhanced equalities standard.
- 3.26 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing CAA. The results of CAA will be reported separately by the Audit Commission.

## Grants

- 3.27 The Council's arrangements for preparing grant claims and other returns to the Government are variable. Our spot check of housing benefit and council tax benefit claims highlighted some errors in calculating benefit which meant we had to extend our audit testing. The Council has pointed out investment in the benefit service is improving the speed and accuracy of processing in 2009/10. We will report the outcome of our audit of claims and returns to the Audit Committee in February 2010.

## Emerging issues

### Financial outlook

- 3.28 As at the end of September 2009, the Council is reporting net revenue expenditure is overspent by £385,000. The position arises mainly because of timing differences in securing planned savings and because income streams are lower than expected because of the economic downturn. Management action has been taken and the Chief Finance Officer expects the overall budget to be achieved within a tolerable variance by 31 March 2010.
- 3.29 The financial outlook for the public sector remains challenging. The Council's medium term financial strategy for the period 2010 to 2013 has been published and contains savings targets in excess of those expected by the Government. While Eastbourne has adequate reserves available at this time, the successful delivery of the 'DRIVE' efficiency programme will be necessary to balance the Council's finances in the medium term. Improvement in priority services and securing better value for money in the use of resources will be required

to underpin achievement of the Council's priorities.

### **Treasury management**

- 3.30 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.31 The Council has taken action to review its lending criteria, strengthen its monitoring arrangements and ensure Members are kept up to date on developments and outcomes following the collapse of Icelandic banks.

## Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	April 2008
Annual governance report	September 2009
Use of resources assessment	November 2009