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Lee Rowley MP,
Via e-mail: PSLeeRowley@levellingup.gov.uk

3 August 2023

Dear Minister

Thank you for your letter dated 25 July 2023 regarding the final Capital Review of Eastleigh, undertaken by the Chartered Institute for Public Finance and Accountancy (CIPFA). Please consider the information below our formal response.

Eastleigh Borough Council has a proud record of delivering excellent services and value for money – a fact recognised by the Association for Public Service Excellence, who last year awarded us Council of the Year.

We welcome CIPFA’s report and find it to be fair and balanced. We are pleased to see that, in their own words, CIPFA “identified few areas of major concern” and that their “overall picture of EBC is positive.” The report recognised the clear strategic purpose of Eastleigh Borough Council’s investment portfolio and noted that our investments have enabled the Council to continue to deliver a higher level of service than otherwise would have been possible.

In addition to welcoming the overall positive conclusion of the report, it is important to say that we also found the robust external scrutiny and engagement with CIPFA to be beneficial throughout the process. We have plenty to be proud of as a council, but we always appreciate the identification of additional areas for improvement. As you will see, since CIPFA’s indicative conclusions were first outlined to us in March, we have not been complacent, and many of the areas for improvement outlined within the report are already being addressed.

As part of our prudent approach to managing the Council’s finances, and indeed ahead of the DLHUC review, we undertook robust, swift action to reduce sudden revenue pressures last autumn. This included pausing projects where business cases had changed to show temporary negative impacts and undertaking actions to retain key staff to strengthen resilience. Furthermore, we have also established Phase Two of our Council-wide

'Continuous Improvement' programme to identify further efficiencies in a transparent, timely and planned manner.

We understand that now CIPFA's report has been submitted, the Government will formally respond and publish the report. To help you consider what further information is provided, we set out our responses to the recommendations below, which include our proposed course of action and where we will go further to ensure that our approach to financial management continues to be prudent, sustainable, and resilient. We would like to continue to engage with both DLUHC and CIPFA to monitor progress and discuss further improvements.

As requested, we are separately preparing a suggested schedule of minor amendments for the report that we will share with your officials in due course. I note that DLUHC does not intend to publish the review or take decisions until you have received this formal response, but I ask that your officials also await this additional information. It will outline, amongst some factual amendments, a suggested process for any necessary redactions of confidential and/or commercially sensitive information that may be required ahead of any publication.

Recommendation 1

"To review the portfolio and consider opportunities for divestment - We recommend that the Council reviews its overall commercial portfolio and considers whether there remains an economic development and/or regeneration purpose for retaining assets. If the financial case for divestment is attractive and derives net revenue, it should be considered seriously, especially where the Council only holds an asset for income generation. Out of area assets should also be reviewed to establish whether they remain compatible with EBC's overall strategic direction. The review may be dependent on available specialist skills, specifically in asset management (see recommendation 4 below).

We would recommend that this is actioned as a priority."

EBC response

With the shift in the market and many of the wider economic and regeneration objectives secure, the Council supports this recommendation. As a matter of course, significant assets will be reviewed for potential sale comparing the value to debt and overall revenue position. This review will become a key part of any future development plan(s) for an asset and will be a theme within the next Asset Management Strategy.

Recommendation 2

“To put in place a moratorium on new debt-funded asset investment - The Council has not purchased a commercial asset since 2018/19 with strategy now focused on housing developments, in effect an informal moratorium. We recommend that this is formalised with a view to ensuring that the overall debt burden does not rise. Plainly the terms of the restriction would allow for ‘force majeure’ or certain categories of desirable economic intervention, such as applied in the case of Ageas Bowl.

We would recommend that this is actioned as a priority.”

EBC response

Supported: as the report notes, this moratorium is already in place, in line with latest investment and borrowing guidance, but the Council plans to formally include it in a relevant Cabinet report this financial year.

Recommendation 3

“To strengthen Internal Audit - Internal Audit lacks the capacity or experience to review some of EBC’s more complicated treasury management and investment activity. Therefore, we recommend that the Council should either enlarge the function with suitable specialists or commission, as a formal part of the Annual Internal Audit Plan, specialised reviews, which are then undertaken by externally sourced experts.”

EBC response

Supported: Internal Audit is an essential governance function, and the Council recognises that we will need to strengthen the team and ensure the annual audit plan focusses on risks to the Council, including those emerging from new activities. The annual audit plan is designed to be fluid and will be revised as appropriate. We would welcome CIPFA’s involvement in this review.

Recommendation 4

“To ensure appropriate capacity/capability are in place in finance and elsewhere - As it currently stands there are gaps in expertise and capacity to manage the housing commitments. EBC’s phased approach to building up this capacity is sensible and should continue. It should include enhancing relevant capacity and capability in key functional areas such as finance and asset management. We also believe that there may be a Commercial in confidence need for additional resources in finance more generally. There are vacancies that need filling. There are auditor concerns to be addressed about ensuring that accounting treatments of complex initiatives are correct. This might be achieved through suitable team flexing at critical points, such as scheme inceptions, gateway review stages or when audits impend. Furthermore, in other areas of scarcity, such as asset management, if recruitment remains challenging, EBC should consider collaborations and

pooling of expertise with neighbouring councils. Recently identified member training issues for scrutiny should also be addressed.”

EBC response

Supported: work is already underway to increase resources within the Finance team, with the creation of a new role to bring in expertise on the HRA and support for capital accounting having been approved. This will go out for recruitment shortly; once the role is filled, and depending on the skills recruited, further recruitment will be considered where there are gaps.

External support has also been procured to support the development of financial appraisals for housing schemes including One Horton Heath, and this is providing mentoring for relevant members of the team. A further role is also currently being scoped to support project delivery, which will focus on experience in housing development and cost accounting.

Finally, as part of a recent restructure, the finance administration function has been moved back to the Finance team. This has seen a significant increase in performance and upskilling, which is freeing up time for the more senior accountants.

Recommendation 5

“To manage the impact of reopening the HRA - EBC’s plans for a phased reopening are sensible, with appropriate ambitions set out for recruitment. These should nevertheless be considered with extreme care and highlighted as significant risks given the novelty of the initiative and the comparative scarcity of capable professionals. The impact of the HRA on other EBC functions and how its creation will change the Council’s culture, strategic character and decision-making should also be considered in detail.”

EBC response

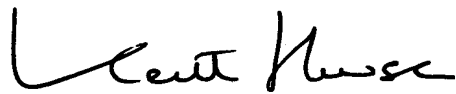
Supported: as the report acknowledges, the significant impact of this new service area on the Council is being carefully considered. We have already amended our corporate structure to recruit a Corporate Director to lead on Housing. In addition, recruitment for a Head of Housing and a Tenancy Support Officer is also under way. As a result, operational Housing work will be moved away from the Service Director of Finance, Improvement & Strategic Housing, which will free up more of his capacity for financial oversight.

Regular briefings have been put in place for both Councillors and senior staff to support with understanding of the HRA. A Councillor/officer working group develops draft HRA policies, which are then discussed by the Council’s Policy and Performance Scrutiny Committee before being taken to Cabinet for approval.

I trust that this letter fulfils your immediate requirements and helps you move to a final response. However, please do let me know if there is anything else that you require at this stage as our officers, as they did throughout the review, will be happy to assist and build on this engagement.

I have also sent a copy of this letter to the Council's Chief Executive, S151 Officer, Chair of the EBC Audit Committee, external auditors, and local MPs.

Yours sincerely

A handwritten signature in black ink, appearing to read "Keith House".

Councillor Keith House
Leader