

Unconfirmed



Minutes of a Meeting of the **Scrutiny Committee** held in the Conference Room, Riverside,
on **Thursday, 16 December 2021 at 6.30pm**

Members of the Committee present:

Councillor Edward Back, Councillor David Beavan, Councillor Stuart Bird, Councillor Mike Deacon, Councillor Louise Gooch, Councillor Colin Hedgley, Councillor Geoff Lynch

Other Members present:

Councillor Peter Byatt, Councillor Maurice Cook, Councillor Tony Cooper, Councillor Tony Goldson

Officers present:

Sarah Davis (Democratic Services Officer), Brian Mew (Chief Finance Officer & Section 151 Officer), Lorraine Rogers (Deputy Chief Finance Officer) and Alli Stone (Democratic Services Officer).

1 Apologies for Absence and Substitutions

Apologies for absence were received from Councillors Cloke and Robinson and their substitutes were Councillors Cooper and Goldson respectively. Apologies for absence were also received from Councillors Coulam, Gee and Topping.

2 Declarations of Interest

Councillor Back declared a local non-pecuniary interest in items 4 and 5 on the grounds that he was the Assistant Cabinet Member for Resources and took no part in the discussion or voting thereon.

3 Minutes

RESOLVED

That the minutes of the meeting held on 21 October 2021 be approved as a correct record and signed by the Chairman

4 Draft Medium Term Financial Strategy

The Committee received the report of the Cabinet Member with responsibility for Resources which presented an updated Medium Term Financial Strategy (MTFS) as of November 2021. He explained that the MTFS provided a baseline forecast of income

and expenditure and looked at the overall financial climate, including public finances and the local government financial environment.

The Cabinet Member reported that on 27 October the Chancellor delivered the Autumn Budget and Spending Review 2021. The Spending Review which covered the next three years (2022/23 to 2024/25) was broadly positive for local government, with funding much better than expected. The increase was very much front loaded with growth in grant funding in 2022/23 and no further general increase in the following two years. The draft MTFS assumed another year of the Revenue Support Grant and the Rural Services Delivery Grant, which was an additional £590k for next year. However, there was less certainty for continuation of the Lower Tier Services Grant and a new allocation of New Homes Bonus, so for now, these were not included in the MTFS beyond the current year.

The Committee was informed that the central assumption on Business Rates was a continuation of the current regime for another year, with changes taking place in 2023/24. East Suffolk was in an advantageous position under the current system and deferral of the reforms constituted a financial benefit of over £3m to the Council in 2022/23.

It was reported that the Provisional Local Government Finance Settlement had been released earlier in the day, which would provide greater detail on Government funding and Business Rates, but there was a considerable amount of analysis of the Settlement to be undertaken.

The updated Council Tax base was an improved position, with growth at 1.93% compared to 1% forecast earlier in the year. This amounted to additional income of £288k for 2022/23. A cautious approach had been taken with forecasting tax base growth in future years, with prudent assumptions regarding Local Council Tax Reduction Scheme (LCTRS) reliefs and collection rates, and completion of development sites levelling off.

As of November, the draft MTFS reported an updated budget gap of £1m for 2022/23, a reduction of £4.4m from the February position. This was primarily due to deferral of reforms to the Business Rates system. Future years were showing a slight increase on the February budget gap of between £700k and £800k, giving rise to potential annual budget gaps of around £6m.

It was explained that there were key areas of the budget still to be finalised which could have a significant impact on the budget position including the revenue implications of the capital programme, establishment costs and partnerships.

The Cabinet Member concluded that the 2022/23 budget would be presented to Cabinet and Council on 1 and 23 February respectively, along with further updates to the MTFS.

The Chairman reported that Councillor Beavan had submitted a number of written questions to the Cabinet Member in advance of the meeting and, to ensure everyone had the same information, these were read out in full, together with the responses as follows:

Page 3 tables - 2022/23 – Why do we expect an extra £2m of reduced income in 2022/23 which has had to be covered from reserves?

£2.370m of this is the collection fund deficit which is funded from the Business Rate Equalisation Reserve and makes up the bulk of the 'Use of Reserves' line of £2.7m.

Where does the other £3m expected extra income after the business rates bonanza for 2022/23 come from – Suffolk Pool benefits – RSG etc grants? How certain are they?

£3.115m Business Rates (one year delay effect). The remainder is:

- *£1.829m Business Rates Pooling Benefit*
- *£0.143m Council Tax income*
- *£0.191m Council Tax Surplus*
- *£0.672m Government Grants – RSG, RSDG, HB Admin Grant*
- *£0.120m additional net income from the investment in Moor Business Park and the two Business Centres*

Total £2.955m - We can be fairly certain on these, in particular once the settlement is confirmed.

We still have a £1m budget gap for 2022/23?

Budget is still a work in progress, and is particularly dependent on the Provisional settlement so not showing a balanced position at this time.

2.3 - What happens with our Treasury management if inflation goes up to 5% - how many of our investments will show a loss?

Inflation rate and interest rates are intrinsically linked, due to the fact that the Bank of England (generally) responds to higher inflation by tightening monetary policy and increasing interest rates. Consequently, investment returns should increase in a higher inflation and interest rate environment. The methodology behind the Council's investment strategy is to ensure a portfolio mix of instant access, and short and long term structured investments. Increases in interest rate will benefit instant access and short term deposits and will be reflected fairly rapidly in the portfolio due to a monthly rolling investment schedule. Due to their nature, the Council's longer term investments contained within the Multi Asset and Property Pooled Funds generally hold up well to market forces and early indications from fund managers reinforce this position.

How much are we making on the offices we bought at Lowestoft and Leiston. I see they returned some extra this year?

Net return on the two business centres (Lowestoft and Leiston) is £230k per annum and Moor Park is £120k. The additional £120k included in this report is net income that was too late to capture at the last budget round due to the timing of these acquisitions.

2.8 - Area of UNcertainty? Typo!?

Yes, typo, should be uncertainty.

2.9 - Has provisional local govt settlement been released?

Now expected this afternoon.

Appendix A - Council tax increase £4.95 on Band D (max £5) will be increasing at the maximum level. Retrospectively it might have been better to spread this over two years last year?

Freezing council tax last year was a policy measure to provide a measure of support to households at a peak period of the economic impact of the pandemic. Phasing this over two years would only have been of marginal financial benefit to the council.

4.32 - Is 525k income assumed from New Homes Bonus (NHB) in 2022/23? Does not year 8 of 548 become year nine next year? I don't understand the table

£525k NHB income in 2022/23 is the last legacy payment relating to a previous NHB allocation (year 9), similarly £548k (year 8) was the last legacy payment of that previous allocation. The £104k in 2021/22 is a one year only allocation with no legacy payments in subsequent years. At the moment, we are not currently anticipating a new allocation for 2022/23 in addition to the £525k legacy payment, although this will become clear in the Provisional settlement.

5.17 – A pay rise of 2% assumed but will this be acceptable with 5% inflation? Have we assessed the risks of inflation and energy price increases sufficiently?

Local Government pay for 2021 is yet to be agreed. As of October 2021 the National Employers' full and final pay offer for 2021 was:

- *With effect from 1 April 2021, an increase of 2.75 per cent on NJC pay point 1*
- *With effect from 1 April 2021, an increase of 1.75 per cent on all NJC pay points 2 and above*

With almost all staff on SCP 2 or above, a budget assumption of 2% for pay inflation is in line with the current pay deal offer, and would allow for some increase above that.

We have assumed 10% on energy costs for next year and then returning to 2.5% thereafter. A 10% increase is approximately £55k for the General Fund. There is exposure via our partners. We are closely monitoring utility costs with our Leisure contracts and monitoring inflationary pressures with our Operations partner through the budget monitoring.

6.6 - But reserves (from general reserves?) were used this year to balance the budget? Or does the positive balance revert to reserves?

Yes, £1.955m was budgeted to balance the current year from the In-Year Savings Reserve. Any positive balance on outturn this year will revert back to reserves, i.e. the In-Year Savings Reserve, as we will not be requiring as much.

6.10 - Reserves have halved because the earmarked reserves are being spent? Will they increase with new grants and projects? Will the general fund reserve be maintained at £6m?

The main reason for the use of reserves is the use of grants and external funding held for projects and specific initiatives, the Covid funding in particular, which held a balance of £15.7m at the start of the year. It is projected for the majority of this funding to be used by March 2022. Reserves could potential increase temporary if external funding for specific projects is received ahead of the need to spend. Grant funding is not recognised until it is realised or there is a high degree of certainty that it will be received. The current projection on reserves does not show any significant Council funds being added for projects. Presently the General Fund balance is to be maintained at £6m.

And lastly, why can we not borrow to build more homes for social rent in the HRA? According to the attached graphic from CIPFA, we are not very exposed to risk from borrowing for housing.

The Council's capital programme is in part financed through borrowing and subject to the overarching borrowing limits contained within the Council's prudential indicators. These limits cover both the General Fund and the HRA. The current capital programme maintains a borrowing position over the MTFS period just below this limit, so there is limited headroom for further borrowing, including on developing HRA properties. In addition to these limits, the other key factor in respect of borrowing is affordability, the ability of either the General Fund or the HRA to meet the revenue costs of borrowing, in the case of the HRA, primarily from rents as an income stream.

The Chairman invited questions from the Committee and Councillor Lynch queried if there was a total figure for the amount the Council was investing in green projects such as changing the vehicle fleet, to enable Members to focus on how much was being spent on getting to net zero. The Chief Finance Officer responded that the Capital Programme, which would be considered by Cabinet and this Committee in January, was divided by theme so where the primary theme was the environment he agreed it would be possible to pull out key projects on the revenue side based on the theme to get a total figure.

Councillor Gooch requested a full breakdown on the Transformational Environmental Budget and Environment Challenge Climate Change Budget and also queried if there were any economies of scale with any further scope of provision of services for cyber systems such as pooling with other Local Authorities. The Chief Finance Officer stated that he would liaise with the Head of Digital and Programme Management regarding procurement arrangements and email his response to Democratic Services for distribution to Members.

Councillor Gooch also queried if the Council bought fuel in bulk and if reference in the response to Councillor Beavan's question to "exposure to our partners" meant that the Council was working in partnership with them. The Chief Finance Officer clarified that this meant the Council's leisure providers and Norse. The Deputy Chief Finance Officer added that the Council was working with Norse to monitor their budgets given the fuel

inflation and at the moment this was being managed within existing budgets. The Chairman repeated Councillor Gooch's earlier question regarding opportunities for buying in bulk and the Deputy Chief Finance Officer reported that this would need to be discussed with partners.

Councillor Deacon asked how it was proposed to close the shortfall of £1m and the Cabinet Member responded that it depended on the outcome of the local government settlement received and the indicators might be a help towards bridging the gap. He added that the Council had also received a letter from Michael Gove which needed to be analysed to understand the impact. The MTFS would be updated in January so it was too early to say at the moment but their statutory role was to present a balanced budget which they would do.

Councillor Goldson referred to the Council Tax surplus and asked what this was based on and the Chief Finance Officer stated that the Collection Fund had a surplus and a deficit which needed to be taken account of and this figure related to last year's surplus. Councillor Goldson also pointed out that the Ringo costs had increased but car parking income was down and he queried why Ringo still provided the service if it was costing more money. The Cabinet Member acknowledged that the main loss of income had been car parking, although he was not sure the figures reflected what it would be in a "normal" year, and suggested that the question of contract value should be directed to the Cabinet Member for Transport.

Councillor Beavan thanked the Cabinet Member for the responses to his earlier questions and queried how the prudential limits were calculated and what factors were taken into account. The Cabinet Member commented that it was helpful to have questions in advance and he would discuss the process for this with officers. The Chief Finance Officer stated that the prudential limits were in the Council's Treasury Management Strategy and were worked on a prescribed formula based on the maximum a Local Authority could have. He confirmed that £70m had been borrowed when the HRA had become self-financing which most authorities with council housing stock had done. He added that this figure counted towards the overall borrowing limit the Council had.

The Chairman referred to the collection deficit for business rates during Covid particularly for the retail and hospitality sector and queried why the Government compensation figure was higher than the costs for the Council. The Chief Finance Officer explained that the grant exceeded the deficit which could be spread over three years so in other words the grant was more than the Council needed for that particular year. He added that the Council Tax and Business Rates system worked a year in arrears and so the Council had to account for the deficit in the following year and the actual deficit the year after that, which meant that it was difficult to present and explain that in these reports. He agreed to produce more analysis in the table to try to explain this more fully in future reports. In relation to Council Tax base, the Chief Finance Officer explained that there had been a rapid recovery between now and the estimates this time last year when those estimates had been made. With regard to Business Rates, he added that the Council had been helped by large grants and reliefs to businesses from the Government.

The Chairman also referred to the projected Council Tax figure rise of 2% on a Band D property by 2025/26 and queried if this would be a sustainable situation for East Suffolk Council given the cumulative effect of a 2% rise on household budgets. The Cabinet Member responded that the Government set the referendum limits of 2% or £5 and East Suffolk had the choice within that and in terms of budgeting forward, a decision had been taken to have a balanced approach that it might be necessary to increase Council Tax. He added that a 2% increase in the Council Tax base from the Council's perspective would equate to £4.95 in our terms. He continued that the budget had included a potential increase of 2% last year but in the end the Council had chosen not to increase its portion of the Tax so it depended on the decision that was made. He explained that the rate of inflation impacted on sustainability e.g. it had been 1.9% during Covid, in July it was 4.9% and now was 5.1% and interest rates had just gone up to 0.25%. He concluded that the Council would be consistent going forwards in that this was our base point for budgeting purposes.

Councillor Gooch referred to the Green Homes Grants and queried if more direction was received from the Government on energy efficiency for homes on low income households if it was likely the Council would receive financial support. The Cabinet Member responded that the budget only included figures that were known today and did not include anything that might come forward such as funding for retrofitting.

The Chief Finance Officer referred to the earlier questions relating to Ringo and explained that the increase in their charge to the Council had been due to the very large increase in cashless payments due to the pandemic. He added that there might be some offsetting savings arising from less cash collections being made. He also referred to the graph on page 61 which grouped projects by strategic theme and agreed that this could be developed for future reports to give Members more detailed information.

On the proposition of Councillor Deacon, seconded by Councillor Lynch, it was

RESOLVED

That, having reviewed and commented upon the MTFS, the Scrutiny Committee endorsed the recommendations from Cabinet as set out below:

1. Approve the draft Medium Term Financial Strategy attached as Appendix A.
2. Approve that Members and Officers develop proposals to set a balanced budget for 2022/23 and beyond.

5 Cabinet Member Update - Resources

The Committee received an update from Councillor Cook, Cabinet Member with responsibility for Resources who reported firstly on the achievements relating to his Portfolio over the last year as follows:

- A balanced Budget had been achieved including a freeze on District Council Tax and additional contribution of £110k to Towns and Parishes to restrict their

precept rises. A number followed the Council's lead and did not increase their precept.

- From the beginning of the Covid pandemic the Council paid out £130m in a range of grants to businesses and in support of communities.
- To increase transparency to Members and the public by introducing taking the final Budget to Cabinet and Full Council and introducing Half Yearly Performance reports.
- Supporting the Council in meeting its targets to build houses.
- In Treasury Management, Councillor Cook explained that security and liquidity came before yield. Investment in Multi Asset Trusts had been increased by a further £5m to boost the Council's income from long-term reserves. He explained that, as reported to the Audit & Governance Committee on 20th September, Officers were in the process of establishing an ethical investment statement to be included in the Treasury Management Strategy. He added that Members should note, however, that this had now been superseded by the proposed Treasury Management Code update which would require an Environmental, Social and Governance (ESG) policy to be implemented in the 2023/24 Strategy.
- Increased the Council's commercial income from the purchase and letting of the Moor Park Industrial site and the NWES Office accommodation complexes.
- Provided the Business case and other preparatory work towards to formation of the LATCo to take over the Waste Management and Grounds Management function from Norse and other future, yet to be announced, projects.
- Provided a new investment strategy and financial framework to the newly formed Southwold Harbour Management Committee.
- Received the agreement of the Government to close the second homes Council Tax / Business Rates loophole.
- Provided additional funding for the Gull Wing Bridge project in Lowestoft.

It was noted that, in Councillor Cook's own Ward, he had facilitated the agreement by three Parish Councils for a new Solar Energy Farm to provide electricity for 16,5k homes, which would save 11k of carbon each year, provided an income to the Parishes and provided a significant business rate contribution of £0.5m per year in the coming years which would benefit residents across the whole District.

Councillor Cook concluded that all these and many more activities had been undertaken to comply with the Council's ethos of creating sound income streams which, ultimately, helped to relieve the pressure to increase Council Tax for the benefit of all residents of the District.

Councillor Cook then went on to outline his key deliverables in the portfolio over the next six months, some of which were business as usual, but still important:

- Establishing the lead authority and rating arrangements for Freeport East.
- Managing significant levels of external funding and supporting major projects, e.g. Freeport East, Towns Fund, North Felixstowe, Lowestoft Flood Barrier, etc.
- Reconciliation, accounting for, and advising on, Covid support measures.
- Anglia Revenues Partnership
 - Continuing to deliver Test and Trace Support payment
 - Implementing Local Council Tax Reduction Scheme changes
 - Implementing and delivering new business rate relief
- Developing new strategic plan.
- Delivering a balanced budget.
- Embedding and developing full compliance with the CIPFA Financial Management Code.
- Working towards long term financial sustainability through the Financial Sustainability theme of the Strategic Plan.
- Revising the Council's Financial Procedure rules.
- Updating Treasury Management Strategies.
- Delivering the Finance workstream to establish the new Local Authority Trading Company.

Councillor Cook also made specific reference to the following:

- To see more of the Council's capital projects such as the Jubilee Parade and Lowestoft Beach Huts projects come on stream and provide additional capital and revenue incomes.
- Begin to see real investment in the Southwold Harbour Management Committee to provide an improved customer offer and increase income.

Councillor Cook concluded that he wished to look forward and help close the budget gaps whilst improving the offer for residents.

The Chairman thanked Councillor Cook and invited questions from the Committee.

Councillor Lynch commented that, whilst it was clear investment was taking place in lots of different projects, the Council appeared to be careful about borrowing. Reference was made to the Council's Risk Strategy and the Cabinet Member clarified that all the projects in the budget were analysed by the Team before they were agreed by Cabinet. He agreed that there was a massive programme with many projects underway and on track but this had brought pressure on Senior Management and,

therefore, it was essential that the Council had the right Project Managers in place. He added that security and liquidity of money was so far ahead of yield even though it was vitally important to get a balanced budget.

Councillor Hedgley asked if there were any plans to extend the solar farm project to other areas of East Suffolk. Councillor Cook responded that the Council had a very ambitious environmental agenda to he would love to see the project expanded and help towards achieving a carbon neutral budget.

In response to a question from Councillor Gooch, Councillor Cook stated that he was not aware of any possible sites identified for on shore wind farm developments in the District.

Councillor Beavan referred to the fact that he had spoken to a company who was interested in investing in a prototype generator for Southwold Harbour and Councillor Cook suggested that he speak to Andy Jarvis, Strategic Director, or Kerry Blair, Head of Operations to progress this further.

Councillor Deacon sought clarification on the most problematic issue which had arisen during Covid from a financial point of view and Councillor Cook responded that it was the uncertainty it caused, particularly in relation to its effect on the retail and hospitality industry. He added that no-one had foreseen Omicron which had led many people to question their arrangements and only meet if it was essential which impacted on these industries.

The Chairman referred to the diversification of income sources and queried if Councillor Cook saw the LATCo mirroring the County Council's arrangements in that it delivered services in house as well as bidding to provide services for other public/private sector bodies. Councillor Cook acknowledged that there was some potential for this but caveated that progress needed to be cautious. He added that an advantage was to access funding and borrowing from external commercial sources rather than being restricted to prudential indicators which restricted the Council. Need to be very careful that we do not enter into areas where do not have the expertise to excel and this was why a high level management expert would be recruited to ensure that the operation would be run efficiently for the Council and Council Tax payers.

The Chairman thanked Councillor Cook and the Finance Team for their report and responses to the Committee's questions.

6 Scrutiny Committee Annual Report 2020/21

The Chairman drew Members' attention to the Annual Report for the year 2020/21 which summarised the Committee's activities for that period. In the absence of any queries or comments, it was

RESOLVED

That the Annual Report by the Chairman of the Committee be received.

7 Recommendations to Cabinet - Update

The Committee received an update on the outcome of the Scrutiny Committee's recommendations for the following reviews which were considered by Cabinet at their meeting on 7 December 2021:

Waste Management - partially accepted

Housing Development - rejected

Empty Homes - accepted

Following Cabinet's view that it was not appropriate for them to send letters to external bodies but that the Scrutiny Committee could send letters direct, a discussion was held on whether the Scrutiny Committee should now send the three letters from the Waste Management review. Concern was expressed that the Committee needed to be mindful of whether it was likely such letters would have a positive outcome or even a response given the amount of Officer time required to write them. The point was made that, in this particular case, the Committee had held the review and decided at the time that it was appropriate for letters to be sent, albeit that Cabinet had now said they would not write the letters themselves. The Chairman reported that a letter of acknowledgement had been received from the University of Suffolk regarding the recent Dentistry review.

RESOLVED

That the outcome of the recommendations to Cabinet in relation to the three reviews be noted and the following three lobbying letters be sent in relation to the Waste Management review to:

- The relevant Minister for a fully digitised and traceable waste management service.
- Highways England to seek a review of its current policy so that electronic anti-littering message signs can be displayed again on the overhead gantries on both carriageways of the A14 between Ipswich and Felixstowe.
- The Port of Felixstowe to seek improved and affordable facilities for drivers at the Port (to minimise littering in lay-bys and potential health hazards).

8 Scrutiny Committee's Forward Work Programme

The Scrutiny Committee received and reviewed its current forward work programme and the Chairman reported that, with the agreement of Councillor Beavan, it had been agreed that the Covid review scheduled for February would not now include the grants process as the Head of Internal Audit would be providing a report on this in June 2022. Reference was made to the current vacant slot in the April meeting and it was agreed that this would be held for a possible topic currently being worked up by Councillor Deacon.

The meeting concluded at 8.15pm.

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Chairman