Unconfirmed

Minutes of a Meeting of the **Scrutiny Committee** held in the Conference Room, Riverside, on **Thursday, 19 January 2023** at **6.30pm**

Members of the Committee present:
Councillor David Beavan, Councillor Stuart Bird, Councillor Linda Coulam, Councillor Tony Goldson, Councillor Louise Gooch, Councillor Tracey Green, Councillor Colin Hedgley, Councillor Geoff Lynch, Councillor Caroline Topping

Other Members present:
Councillor Maurice Cook, Councillor Mick Richardson

Officers present: Chris Bally (Chief Executive), Ben Bix (Democratic Services Officer), Andy Jarvis (Strategic Director), Brian Mew (Chief Finance Officer & Section 151 Officer), Lorraine Rogers (Deputy Chief Finance Officer), Isobel Rolfe (Political Group Support Officer (GLI)), Julian Sturman (Specialist Accountant – Capital and Treasury Management), Heather Tucker (Head of Housing), Amber Welham (Finance Business Partner – Housing), Nicola Wotton (Deputy Democratic Services Manager)

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1 Apologies for Absence and Substitutions

Apologies were received from Councillors Back, Deacon, Cloke and Robinson. Councillor Richardson was in attendance as substitute for Councillor Robinson.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

Upon the proposition of Councillor Hedgley, seconded by Councillor Coulam, the Committee

RESOLVED

That the Minutes of the Meeting held on 15 December 2022 be approved as a correct record and signed by the Chairman.

4 Matters Arising Update Sheet

The Committee noted the Matters Arising Update Sheet in relation to queries raised at the last meeting.

5 Capital Programme 2022-23 to 2026-27

The Cabinet Member with responsibility for Resources, Councillor Cook introduced report **ES/1418** and in so doing explained that the Council was required to agree a programme of capital expenditure for the coming four years as part of the annual budget setting process. The capital programme had been compiled and took account of the following main principles, to:

- Maintain an affordable four-year rolling capital programme
- Ensure capital resources are aligned with the Council's Strategic Plan
- Maximise available resources by actively seeking external funding and disposal of surplus assets; and
- Not to anticipate receipts from disposals until they were realised.

The General Fund capital programme included £260m of external contributions and grants towards financing the Council's £383m of capital investment for the Medium-Term Financial Strategy period. This represented 68% of the whole General Fund capital programme. The Housing Revenue Account capital programme totalled £83m for the Medium-Term Financial Strategy period and would benefit from £3m of external grants and contributions, which was 4% of the programme.

Councillor Cook emphasised that all capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). Debt was only a temporary source of finance, since loans and leases must be repaid, and therefore be replaced over time by other financing, usually from Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets could be used to replace debt finance. The Council's cumulative outstanding amount of debt finance was measured by the Capital Financing Requirement (CFR). That would increase with new debt-financed capital expenditure and reduces with MRP. The CFR was expected to increase by £72m between 2022/23 and 2026/27 due to capital projects potentially being financed through borrowing. Statutory guidance set out that debt should remain below the CFR. The programme as presented did not pre-empt the realisation of any future capital receipts. External funding was expected to be secured in respect of other major projects in the Programme, assisting the overall position and the ability of the Council to deliver on its Strategic Plan.

The Chairman thanked Councillor Cook for his introduction and invited questions from Members. Councillor Coulam noted the decline in public conveniences around Lowestoft Town Centre and queried whether there was provision in the budget to address that decline.

The Cabinet Member and the Chief Finance Officer reminded Members that many of the public conveniences in Lowestoft were actually owned by the Town Council; however, there was provision within the Asset Management Plan for repair and maintenance of those assets owned by the East Suffolk Council.

Councillor Beavan queried the value for money of the Southwold Enterprise Hub. There had been an objective for the income to the Council to match short term interest rate income, but the income to the Council was now estimated to be lower than this. The Strategic Director reminded the Committee that the Southwold Enterprise Hub was originally proposed by the Town Council for business support provision and diversification, and not as a profit-making development for East Suffolk Council. The security for East Suffolk Council was a 20% ownership stake in the Enterprise Hub and the right to receive 20% of the rent. The Town Council retained a right to buy-out the District Council's stake in the development.

Councillor Beavan sought clarification of the number of housing completions that had been achieved in 2022/23 and the reasons why the budget for new builds shown in Appendix G had been revised from £14.1m to £1.3m for 2022/23. The Strategic Director acknowledged that there had been delays in the new build programme and consequentially the properties had not yet been built. The Committee heard that projects would span over more than one financial year. For example, £8m of the £15.9m allocated in 2023/24 related to developments that would be completed in 2024/25 and 2025/26, providing 61 new homes. Members had also previously requested an exemplar Passivhaus development which would be more expensive than a traditional build. It was emphasised that the annual number of completions would vary, and illustratively the forthcoming South of Lake Lothing development could deliver between 300 and 400 new dwellings. Consequently, the Chairman requested that a table setting out the projected annual number of Council-led completions be provided to the Committee as a Matter Arising.

In response to further questions from the Chairman, Councillors Topping, Lynch and Goldson, officers clarified that:

- The acronym 'ER' meant Earmarked Reserves. In recent years, Cabinet had earmarked reserves for specific capital projects brought forward by Officers, for example the Sports Hub and the Memorial Wall in Felixstowe.
- Earmarked Reserves were a method to recognise future spending need and to then build up funds for these specific purposes
- East Suffolk Council owned the Town Council Offices in Leiston, which were leased to Leiston Town Council
- Where projects had identified external funding, if that was not secured then those projects would look to secure other funding or would not be pursued
- Unspent disabled facilities grant funding would be rolled over to future years, with no penalty
- The £2.29m external funding support for the Pakefield Coastal Resilience Project would be spent in accordance with the Shoreline Management Plan previously approved by the Council
- The Council had spent £120,000 on swimming pool covers as part of its mitigation of rising energy costs and to keep increases in management fees to a minimum. The Council had acted swiftly to procure the covers, and there was now a shortage of covers as other leisure providers had sought the same covers
- A decarbonisation report would be forthcoming to Cabinet which would include options relating to solar panels, as part of the consideration of renewable energy sources for Council owned property assets.

The Chairman concurred with Councillor Lynch that it would be helpful to understand the anticipated and if possible actual saving from the installation of swimming pool covers as a Matter Arising to report to the next ordinary meeting of the Committee.

Councillor Gooch advised Officers of a typographical error on page 18 of the report where £40.66m had been incorrectly presented as £40.66. Further, on page 32 of the report there were words omitted after *examples could be additional*… the Specialist Accountant – Capital and Treasury Management explained that the words that were not displayed correctly were …*ground source heat pumps and efficiency measures*. Turning to the General Fund Capital Programme table set out at Appendix A, Councillor Gooch sought clarification of why the Environment and Port Health expenditure line appeared erratic over future years. The Specialist Accountant – Capital and Treasury Management clarified that a new system was being introduced and the budget was profiled to account for that in the first two years and easing thereafter.
Councillor Topping asked why only £140,000 of the £3m allocated to refurbish St Peters Court in Lowestoft had been spent. The Strategic Director explained that the initial spend was for intrusive surveys, fire risk matters, and windows. A sprinkler system and fire doors had been installed promptly and budgeted for works would continue.

The Chairman invited the Committee to debate the report. There being no debate, the Chairman moved to approve the recommendations set out in the report, seconded by Councillor Lynch. A vote was taken, and it was by a majority

RESOLVED to RECOMMEND to Cabinet

1. The General Fund capital programme for 2022/23 to 2026/27 including revisions as shown in Appendix B
2. The Housing Revenue Account capital programme for 2022/23 to 2026/27 including revisions as shown in Appendix G

6 Housing Revenue Account (HRA) Budget Report 2023/24 to 2026/27

The Cabinet Member with responsibility for Resources, Councillor Cook introduced report **ES/1419** and summarised that the HRA budgets were fully funded to meet the Council's HRA spending plans, including the Capital Investment Programme and reserve balances in accordance with the HRA Financial Business Plan. Councillor Cook explained that Local Authorities were able to increase rents by up to CPI +1% utilising the September 2022 CPI value of 10.1% in calculating the increase. However, to protect current tenants the Government had applied a 7% rent increase cap for 2023/24 to strike a balance between the pressures that social housing providers were faced with and affordability for tenants. East Suffolk Council was proposing a 6% rent increase for 2023/24 to enable the HRA to meet its ambitions within its Capital Programme and continue to deliver services to tenants.

The Council would continue to collect rent and service charges on a 50-week cycle except for those dwellings let as Temporary Accommodation. The proposed average weekly rent was £96.28 for 2023/24 -an increase of £3.89 compared to 2022/23. Councillor Cook explained that service charges could only recuperate the cost of providing a service. The proposed average weekly General Service Charge for Grouped

Homes for 2023/24 had been set at £16.10. An increase of £1.53 compared to 2022/23. Overall, the budget proposals forecasted an HRA working balance for 2023/24 of £2.903 million, maintaining it above the minimum acceptable limit of 10% of total income. The Chairman thanked Councillor Cook for his introduction and invited questions from Members.

Councillor Beavan thanked Officers for their response to his questions submitted in advance and asked three supplementary questions. Firstly, he queried the value for money of the retrofitting programme which would cost £1.8m in the first year to retrofit 17 houses; secondly whether the size of the budget for wall insulation was sufficient to make a real difference, and thirdly as there were 500 properties with an Energy Performance Certificate (EPC) rating of less than C, was there a risk of not maintaining all properties to the same standard. At the invitation of the Chairman, who also expressed concerns with the timescale and cost of the retrofitting programme, the Head of Housing explained that the Council was challenged to determine how it could maintain its compliance, housebuilding and retrofitting aspirations.

Turning to Councillor Beavan's questions, firstly two pilot retrofitting schemes were planned, and those schemes would be of a greater standard than ordinary retrofits, and not all retrofits would cost the same. The £1.8m budget had been reprofiled and increased in to £2.4m in 2023/24 and £2.7m in 2024/25. The budgets were based on estimated costs and were subject to change as there were capacity shortages in retrofitting skills and resources nationally. Secondly, the budget for wall insulation was appropriate because most of the housing stock already had sufficient insulation, and the budget was intended for properties that may need upgrading where the insulation was becoming old or needed replacement. Thirdly, each of the improvement and efficiency measures that would be undertaken would improve the EPC rating and EPCs would be completed on all properties as part of the stock condition surveys due to commence in 2023/24.

In response to Councillor Gooch, the Head of Housing emphasised the importance of the data collection during the stock condition surveys which would then inform the HRA Business Plan. The in-house DLO team did not currently have sufficient capacity to undertake the works but once the rate and scale of retrofitting had been established, consideration would be given to how best to deliver the schemes to best achieve economies of scale through a report to Cabinet.

In response to further questions from the Chairman and Councillors Coulam, Topping and Green, Officers clarified that:

- The forthcoming refresh of the HRA Business Plan would illustrate by when it was intended that all the Council's housing stock would be rated as with a minimum EPC of C
- Private sector housing adaptations for disabled residents were distinct from the Council's HRA stock, and were budgeted for and resourced separately
- Housing staff vacancies affected all providers and had been escalated to the corporate risk register
- Arrears had stabilized for the first time since universal credit had been introduced in 2015/16 and continued to be monitored. Contextually, the level of arrears at

5.79% of total rents and charges raised was below the local authority provider average of 8%

- Universal Credit was paid directly to the tenant, not the housing provider
- Short-term consultants had been engaged to tackle compliance issues in housing and consultancy fees had increased due to inflationary cost pressures
- The HRA did not currently charge any tenants full market rent as very few tenants were in a position to exceed the £60,000 annual household income threshold. The Cabinet Member cautioned that the cost of identifying those tenants (if any) outweighed the benefit of any additional income.

The Strategic Director explained that due to the circumstances of residents which included the rising cost of living, there would always be some level of rent arrears. The Council had invested in predictive analysis software to actively keep arrears to a minimum. Councillor Hedgley asked whether there were mitigations in place to help those residents in arrears and the Strategic Director explained that the Anglia Revenues Partnership and the Council's new Financial Inclusion Officers were able to offer support to those who needed it. The Cabinet Member further emphasised that the government had provided support through a non-repayable grant of £150 on Council Tax Bills, and the energy support credit of £400.

Councillor Gooch empathised with those tenants that had been overcharged rent and sought assurance that the Council would make clear that refunds would only be made by East Suffolk Council, not an unknown third party. Officers noted the feedback and offered assurance that refunds would be on a case-by-case basis, rather than a flat rate refund.

The Chairman invited Members to debate the recommendations. Councillor Beavan proposed an amendment to add an additional recommendation to bring forward a report to Cabinet within 12 months setting out a detailed programme to deliver the retrofitting projects. At the invitation of the Chairman, the Strategic Director cautioned that a programme would be forthcoming to Cabinet but not necessarily in the timescale indicated, as compliance matters had been prioritised. Councillor Gooch was of the view that the amendment would be more suitably directed to the Environment Task Group, which Councillor Beavan as proposer was content with.

The Chairman moved to a vote on the amendment proposed by Councillor Beavan, seconded by Councillor Topping, to insert an additional recommendation that:

A report be made to the Environment Task Group within 12 months setting out a detailed programme to deliver HRA Housing Stock retrofitting projects.

The amendment was **CARRIED**

The Chairman invited debate on the substantive recommendations, there being none the Chairman proposed, Councillor Coulam seconded, a vote was taken and the Committee unanimously

RESOLVED to RECOMMEND to Cabinet

1. The draft HRA budget for 2023/24, and the indicative figures for 2024/25 to 2026/27
2. Movements in HRA Reserves and Balances
3. Proposed rent increase of up to 6%. 1% less than the Government 7% rent Cap for 2023/24 rent setting
4. Service charges and associated fees for 2023/24
5. Rent and Service Charges to be charged over a 50-week period unless being used for Temporary Accommodation when a 52-week period will be applied
6. A report be made to the Environment Task Group within 12 months setting out a detailed programme to deliver HRA Housing Stock retrofitting projects.

To note the following:

7. Revised outturn position for 2022/23
8. Changes affecting public and private sector housing and welfare to be noted
9. Effects of the cost-of-living crisis to the HRA to be noted.

7 Draft General Fund Budget and Council Tax Report 2023/24

The Cabinet Member with responsibility for Resources, Councillor Cook introduced report **ES/1421** which provided an update on the draft Medium Term Financial Strategy (MTFS) as presented to Cabinet on 3 January and presented an initial draft of the Council's General Fund Budget for 2023/24. The MTFS provided a baseline forecast of income and expenditure in the context of the overall financial climate, including public finances and the local government financial environment.

Councillor Cook reported a change to the 2023/24 budget due to an update in Government funding following the Provisional Local Government Finance Settlement in December. Due to the new Funding Guarantee Allocation the Government funding to East Suffolk Council would increase by £1.1m next year. The budget gaps for the current year and next year had consequently changed since the report to Cabinet on 3 January:

- The 2022/23 budget gap had changed from £0.786m to £0.904m, an increase of £0.118m. The change was due to the ongoing review of the budget updates processed
- The 2023/24 budget gap had changed from £2.629m to £1.347m, a decrease of £1.282m. The change was due to the new Funding Guarantee Allocation along with further review of the updated budgets.

The proposal to use the In-Year Savings Reserve to fund those gaps remained appropriate, and a balanced budget continued to be presented in the report for both years. Councillor Cook explained that the 2023/24 referendum limit for Council Tax had been increased from 2% to 3%, but the £5 threshold for Shire Districts in two-tier areas remained the same. The report therefore proposed a Band D Council Tax for East Suffolk of £181.17 for 2023/24, an increase of £4.95 or 2.81%.

Reserves were projected at around £29m by the end of the MTFS, but that did not include the use of reserves beyond 2023/24 to fund future projected budget gaps. In addition to the exhaustion of the Covid-19 reserve, there were other reserves that were forecast to be fully or substantially utilised over the plan period, and not be replenished. Those reserves included: the In-Year Savings reserve, the New Homes Bonus reserve, the Transformation reserve, the Capital reserve and the Port Health reserve.

Councillor Cook drew the Committee's attention to prospective activities not yet factored into the MTFS, which had the potential to ease the budget gap toward the end of the MTFS period. Those activities included the Council Tax Premium on second homes and expected efficiencies from East Suffolk Services Ltd. However, despite those factors, and the uncertainty due to local government finance reforms, the range and scale of expenditure and income pressures indicated that a combination of actions would be needed to ensure a longer-term sustainable position including a phased use of reserves, maximisation of income, and the achievement of significant levels of savings.

Councillor Lynch referenced page 71 of the report and asked whether the 100% premium on second homes was the maximum premium and queried the criteria by which the Council would determine whether a property was a second home, and whether owners could avoid the premium. The Cabinet Member confirmed that the Council already knew which homes were second homes in the district, a heat-map visualisation was available, and a full report would be made to Full Council on 25 January. There were mechanisms in place to prevent the premium being avoided, including tightening of the criteria under which a second home could be registered for business rates rather than council tax. The Chief Finance Officer confirmed that 100% was the maximum premium and that further detail would be set out in the forthcoming report to Full Council.

Councillor Goldson sought three clarifications:

1. The type of properties that had been or would be transferred by the Council
2. In what circumstances would the Council invest in land
3. Whether the ambition of carbon neutrality was achievable

In response to Councillor Goldson, the Strategic Director, Chief Finance Officer and the Cabinet Member responded accordingly:

1. The Chief Finance Officer explained that the Council's land and property holdings were continually reviewed and that there were circumstances where disposal of the asset was the most appropriate business decision. Additionally, there was an ongoing community asset transfer programme to Parish and Town Councils.
2. The Council had invested in land for economic development including the Enterprise Hubs and the PowerPark. The Council had previously decided to constrain its land investments to land within the district and would continue to bring forward opportunities to invest where suitable property had been identified. Investment in suitable housing land would be made in accordance with the Housing Strategy.
3. The Strategic Director was confident that the forthcoming decarbonisation report to Cabinet would set out how the Council would achieve around a 70% reduction in Carbon emissions in future years and offset the remaining 30%.

In response to further questions from Councillors Gooch, Topping and Lynch, the Cabinet Member and Officers explained that:

- The feedback from residents' surveys were used to inform the existing and future Council priorities
- Due to inflationary cost increases, there had been an increase in the green waste subscription charge and the quantity of green waste collected had not yet returned to pre-Covid-19 levels
- There had been a reduction in parking income and a district-wide review of parking was underway which would establish options for Cabinet to consider
- A reserve with annual contributions had been built up for the forthcoming election, however the means of funding new Voter Authority Certificate Identification requirements would be reported back to the next ordinary meeting of the Committee as a Matter Arising
- The introduction of the second homes premium would not countermand extant long term empty homes premiums of up to 300%.

Councillor Beavan referred to the response to his advance question regarding agency costs and queried the rationale for the reduction to the budget and questioned where agency staff had been or would be replaced with salaried staff, whether that had been captured with an increase in salary budgets elsewhere. The Deputy Chief Finance Officer responded that some agency roles were highly specialised consultancy roles that were utilised for specific matters and would not then become salaried roles in the future. The reduction shown in the budget was in anticipation of more general agency roles no longer being required as the roles had been absorbed within budgeted establishment costs. The Chief Finance Officer further clarified that the budget was subject to flux and it was desirable to budget appropriately according to business need.

Councillor Gooch sought clarification of how earmarked reserves were set out in the report and considered that it would be clearer to delineate between those reserves that were earmarked for statutory services and those that were earmarked for discretionary projects. The Deputy Chief Finance Officer further described the categorisation of reserves as shown in Appendix A7. This is to assist with identifying reserve balances that are not earmarked for specific purposes and assured Members that reserves not ringfenced for specific purposes are challenged if they have not been used for some time.

The Chairman noted that the Cabinet had chosen to increase housing rents by 6% rather than the 7% ceiling set by the Government and queried whether a full analysis of the consequence on the level of Council Tax of not increasing rents by the ceiling amount had been undertaken. The Cabinet Member countered that there was a cost-of-living crisis and that the Cabinet had made the decision not to levy the maximum rent increase to its most vulnerable residents. Similarly, Cabinet had for the same reason, and having received a greater than anticipated Government settlement, chosen to increase Council Tax by less than the referendum threshold of 3%. The Cabinet was cognisant of the volatile financial landscape and inflation, and it would not have been prudent to not increase Council Tax in those circumstances.

The Chairman called upon Members to debate the recommendations. There being no debate, the Chairman moved the recommendations duly seconded by Councillor Coulam, a vote was taken and it was by a majority

RESOLVED to RECOMMEND to Cabinet

1. To approve the 2023/24 General Fund Revenue Budget as set out in the report and summarised in Appendix A5 and notes the budget forecast for 2024/25 and beyond;
2. To approve the reserves and balances movements as presented in Appendix A7; and
3. To approve a proposed Band D Council Tax for East Suffolk Council of £181.17 for 2023/24, an increase of £4.95 or 2.81%.

8 Scrutiny Committee's Forward Work Programme

The Chairman reminded Members that an Extraordinary Committee meeting would be held on Thursday, 26 January 2023 at 6.30pm to review the governance arrangements for the Council's Local Authority Trading Companies (LATCOs). Members had been consulted on the scope for that topic by email and Officers had prepared responses in the Committee report. Members also noted that at the meeting on 16 February 2023, the Committee would review of the impact of the new integrated care system on council services.

The meeting concluded at 8.48pm

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Chairman