

Governance and Audit Committee

Tuesday, 12 September 2023

Attendees: Councillor Dave Harris, Councillor Alison Jay, Councillor Sara Naylor, Councillor Chris Pearson, Councillor Paul Smith, Councillor William Sunnucks

Also Attending:

Apologies: Councillor Rhys Smithson

Substitutes: Councillor Paul Dundas (for Councillor Rhys Smithson)

378 Minutes of Previous Meeting

RESOLVED that: the minutes of the meeting held on the 1 August 2023 be confirmed as a true record.

379 Colchester Borough Homes Annual Governance Statement 2022/23

Geof Beales, Client Services Manager for Colchester City Council introduced the report with Fiona Marshall, Chair of the Finance and Audit Committee at Colchester Borough Homes and Matt Armstrong, Director Business Improvement at Colchester Borough Homes. The Committee heard that the key issues that Colchester Borough Homes (CBH) had before it was the financial risk of stability going forward, with the current deficit of £784,000. It was noted that this was concerning as the organisation had been in surplus the year before. It was outlined that there were cost pressures associated with staffing and the employment of agency staff and that a proactive approach being taken to fill vacancies. The Committee heard that the biggest concern was that the Design and Construction Management Team who were in a deficit of £469,000 had been covered with reserves but detailed that this was not sustainable with reserves currently sitting at £1.2 million and that a proactive approach needed to be undertaken to address this. It was detailed that a 5-year business plan was being created to assess the mid-term viability as well as a reserves policy and looking at all costs. It was detailed that the lack of commissions for the Design and Construction Management Team was being investigated to line up projects in a collaborative approach with the City Council. It was detailed that the 5-year business plan would be looking at efficiencies and targets as well as the IT and digital strategy as well as external funding. It was identified that management fee increases were being investigated as well as service standards and detailed that Board Members were keen to take a collaborative approach and were keen to understand the CBH and Housing Revenue Account (HRA) in tandem and detailed that a Chairs group had been created to increase collaboration.

It was detailed that external pressures including the cost of living crisis were having an impact, that Ombudsmen were being more active within the Housing Sector, that there were key issues around homelessness which needed to be addressed in partnership with the Council.

Members discussed the report with comments from the Committee focussing on the wider picture and the collaboration across the organisations. Members queried the

rent rise restriction from the previous year and what financial impact this would have.

At the request of the Chair the Director of Business Improvement at CBH responded and detailed that the normal rent increase would be Consumer Price Index (CPI) plus 1% but due to CPI being so high the Government had capped increases at 7% and as such efficiency savings were made. It was noted that a third of the management fee was the repairs budget and this was hit hardest in terms of material costs. The Committee heard that the long-term impact would mean that the HRA business plan would need to be reviewed ready for the 2024/2025 budget. In response to a further question the Director of Business Improvement confirmed that if there was no cap it would have been an 11% rise in rent and that this had meant a loss of over £1.5 million income which would be compounded over time.

Members queried the impact of whether some of the capital programmes would be impacted or cancelled as part of the review process and how flexible CBH could be with regards to its fixed costs. At the request of the Chair the Director of Business Improvement responded that one of the biggest risks was a lack of projects as the profits were re-invested back into the business to reduce the deficit. The Chair of the Finance and Audit Committee at CBH detailed that it was a challenge to recruit staff and that getting the balance and flexibility right was difficult and that 80% of the management fee was for staff costs and that costs were escalating in terms of health and safety following the Grenfell fire as well as managing housing stock in the current pressurised environment. It was noted that CBH had explored the possibility of undertaking works outside of the Council to increase profits however this came with its own risks and could be reviewed in the future.

Members discussed the opportunities for the Design and Construction Management Team and whether their services could be offered to other authorities. It was confirmed that this was being looked at and other ALMO's did do this and could be reviewed but that there was a need for ensuring that Colchester City Council's aims could be met first without conflict. The Committee continued to discuss the report and questions were raised regarding the contract with Colchester City.

In response to questions from the Committee the Director of Business Improvement detailed that CBH was a management company and that since their inception their services had increased and had been asked to provide other housing services which are detailed in the management agreement. It was detailed the housing sector was regulated and that this meant that there were certain requirements as a registered housing provider and that staff pensions were part of the Local Government Pension Scheme and if there were any deficits these would be underwritten by the Council. It was noted that the pension scheme situation had changed from a £9 million deficit to an £11 million surplus due to the way the pension scheme had been set up. It was detailed that 70% of works carried out were HRA funded, with some works being funded from the General Fund and others being grant funded which usually required expedited works being done.

In response to further questions from Members regarding the management fee the Committee heard that the fee was agreed with the City Council whilst taking into account the HRA income of approximately £34 million and detailed that the management fee was mainly just the staff cost and the repairs cost noting that both

had been subject to inflationary pressures and as such it did mean that CBH had used some of their reserves to fund the repairs. Further to this it was noted that the accounts had been agreed and signed off and a link to them had been sent around to all Members to view. Some Members raised concerns regarding the management cost of each dwelling being higher than other management companies and whether any of this was associated with duplication. In response to this question the Director of Business Improvement detailed that CBH was benchmarked and was noted that the company was in the lower quarter of housing providers in terms of cost with high performance. It was detailed that the calculations on how this had been worked out would be shared with the Committee after the meeting but confirmed to Members that the cost was approximately £2 million cheaper than other providers of the same size.

The Chair asked that in future links be included in the report to publicly available data associated with the report.

The Committee continued to raise questions on issues including how the deficit would be addressed over time and whether it would affect performance and that the welfare of the residents was of paramount concern. In response to the questions regarding the deficit the Committee heard that CBH had created a deficit budget for the year of £200,000 which could be covered by reserves if required. It was noted that this was due to the issues raised earlier in the meeting including rising inflation and a demand for specialist staff. It was noted that satisfaction in housing had reduced across the sector and this was mainly based around repairs and communication. The Committee heard that there were currently 311 people in temporary accommodation and that there was a need for more properties with the current wait for a 3-bedroom house was 4 years. The Chair of the Finance and Audit Committee at Colchester Borough Homes added that the £200,000 was based on the recovery of the Design and Construction Management Teams work. The Client Services Manager for Colchester City Council detailed that if Members did want further information on CBH's performance then this could be brought back to a later meeting and that there was a significant change in housing regulations from 1 April 2024 with an increased emphasis on compliance and safety in the home. Further to this it was noted that there would be a league table of satisfaction from tenants and further powers given to the Ombudsmen which included unlimited fines.

Members discussed the £1.5 million loss of income due to the 7% rent cap and the projected deficit of £200,000, the satisfaction issue and that there was a conflict between getting people into homes as soon as possible and there being enough time to repair them prior to the next occupation. Discussion continued on the rent shortfall and whether the accounts for CBH needed to be brought before the Committee and what CBH were doing to make best use of the housing stock. At the request of the Chair the Client Services Manager detailed that there was a transfer incentive scheme and a policy to move tenants into a smaller property if they wished to downsize but there was no legal way to move to downsize.

At the request of the Chair Andrew Smalls, Section 151 Officer, outlined that there was a choice with regards to budget setting on increasing the rent cap and this would mean a trade-off of less money for repairs if it was not increased and that the CBH accounts would come back as part of the Councils Accounts discussion. Members discussed the history of how Councils were required to buy back their Council Homes

and that the expectation was that the rental income and CPI plus 1% every year would cover this cost.

RESOLVED that: the assurance provided by Colchester Borough Homes regarding its governance arrangements throughout 2022/23 be accepted.

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Financial Monitoring Report – End of Year 2022/23

The Section 151 Officer presented the report to the Committee noting that Council achieved a surplus of £163,000 when compared to the assumed budget imbalance for 2022/2023 and as such this would not need to be taken out of the General Fund. It was noted that the Council had dealt with an exceptional year with factors such as the invasion of Ukraine which had seen significant food price and energy price increases whilst also driving up inflation. The Committee heard that there had been a change in base rates for interest and that there had been a general slowdown in the economy with a change in demand patterns. As such the Committee heard that there had been multiple changes to the budget and the cost pressures, reductions in incomes and underspends which were detailed in paragraph 5.4. Further to this it was noted that there was a carryover of funds of just under £3 million and that there were questions on this/8 that would be reviewed with the portfolio holder. The Committee heard that there was an underspend in the Housing revenue Account (HRA) £25,000 and detailed that the changes in interest rates had caused a significant impact on both General Fund and HRA as well as a slowdown in capital spending. It was noted that the Council had seen significant increases in cash balances thanks to the interest rates rises.

Members discussed the report and queried the MRP and an overspend of £480,000 and queried how long this would be carried on the revenue fund and that there was very little headroom in the reserves for the HRA should any opportunities arise. At the request of the Chair the Section 151 Officer responded that the HRA was ring fenced and that its estimates were based on the forecasted 30-year business plan and that if there was more money available then it could be used to fund further capital expenditure but that there were mechanisms built into the account to flex it if required. Further to this the MRP loan was clarified as a loan to Amphora Energy for the heat network and that there was a further conversation to have regarding this network that would be happening soon.

Discussion continued with Members noting the carryover and how was this shown in the following report of budget monitoring. At the request of the Chair the Section 151 Officer confirmed that they were still learning about the way Colchester dealt with its accounts and that some of the carryover could have been put into the reserves and was something that would be explored further in the 2024/25 budget. It was noted that there were other factors surrounding this that needed to be understood to inform whether they could be reviewed and if any funds could be put into reserves going forward. Members continued to discuss the report and queried the status of the General Fund and its movements of funds and it was noted that the way it was presented was being improved going forward. The Section 151 Officer agreed that a reserves statement would be beneficial and that the draft accounts for 2021/2022 would be published by the end of the week and detailed that significant work was being undertaken to prepare the 2022/2023 accounts which would clearly show the reserve balances and improvements in the presentational format.

Councillor Cory, Portfolio Holder for Resources, detailed that the carry forwards were cited for everything down to £1,000 and that they were allocated against projects and that the Cabinet was looking at dropping some of these.

Members continued to debate the report on issues including the accounts being provided and whether these would be reconcilable to the report before the Committee. At the request of the Chair the Section 151 Officer responded that this would be the case regarding the expenditure and income. Discussion continued with Councillors asking whether further figures could be shared regarding each department spend and that some of the carry forward spending was allocated to long term projects. Members debated the use of reserves to fund a budget deficit and detailed that this would be counterproductive.

RESOLVED that: the financial performance of General Fund Services and the Housing Revenue Account (HRA) for the year 2022/2023 be noted.

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Quarter 1 Budget Monitoring Report 2023/24

The Section 151 Officer presented the report to the Committee outlining the challenging financial circumstances that all Councils were facing which included interest rates and inflation costs. The Committee heard that this translated into higher wage costs for staff, as well as higher supplier costs and contract costs. The Committee heard that the wider picture included income streams decreasing with planning fees going down and that the discretionary spend from citizens was going down whilst demand for statutory services was rising. It was noted that there was significant concern regarding the ability to afford housing and confirmed that the projected overspend from the general fund from Q1 was £1.3 million that a further breakdown at a service level then the overspend was projected at £2.7 million which would be offset but higher interest earnings. It was noted that the single biggest pressure was homelessness costs as well as the Garden Waste income and vacancies. It was noted that the report did not include a subjective analysis and did not have a statement of reserves that would be included next time. The Committee heard that the Housing Revenue Accounts update included in the report detailed that there was a projected balance change of zero. Members heard that the Capital Programme provision had slowed down and that it was projected that it would be an underspend and that a full capital programme statement was included in appendix C of the report.

Councillor Cory, Portfolio Holder for Resources outlined that part of the slowdown in the capital programme was about de-risking the programme and lowering the Council's risk of impacts from the wider economy.

Members discussed the use of reserves and table 5.6 which had shown a change in the figures and queried whether £4 million was being used from reserves. The Section 151 Officer detailed that if things stayed as they were that would be the overall position and confirmed that the Council had £26 million of reserves which was a useful cushion against major shocks but it could only be spent once. Members heard that there was a lot of activity in the Council to bring down the overspend but there was not a place for complacency.

Members raised concerns regarding wage increases for staff with some Members noting that a 4% rise had been allocated in the budget but there had been a 14% cut in real terms and that there was concern of losing some experienced officers with specific concern being raised with the building control services. At the request of the Chair the Section 151 Officer detailed that wages were the single largest cost to the Council and that there was a balance between wages and services provided whilst giving a fair settlement and retaining staff. It was noted that inflation did not follow the anticipated pattern which had led to wage growth.

Members thanked officers for including the Capital Expenditure Report within the papers and a further question was asked regarding the interest rates rises and concern was raised regarding investments and what risks were involved and asked whether less investments could be included in the treasury management review as there was concern that investments could result in a Thurrock Council investment loss. The Chair responded to the points raised and outlined that the benefits from investments that the Council had received was not luck but prudent investments and that were monitored appropriately. The Section 151 Officer added that the Council managed its risk accordingly and detailed that whereas others had not the Government was reigning back investments through the Public Works Loan Board (PWLB) as the money would have to be repaid.

Discussion continued with Members noting that the Council had previously taken the strategic decision about taking on long term debt when interest rates were at a historic low which had been agreed across the political spectrum and that with regards to wage payments the Council was a Living Wage Employer which was not something that was replicated across Essex. Members raised serious concerns regarding homelessness and what was causing this and detailed that the cost of Bed and Breakfasts for a family was £1,300 a week whilst noting that the Government paid only £96 in housing benefit. Members noted that the Council had a statutory duty with regards to homelessness and that Section 21 evictions were exacerbating the problem alongside high private rental costs. Some Members were concerned that that the £1.3 million overspend could be surpassed by the end of the financial year.

Members queried the budget and reserve usage with the budget approved in February 2023 showing a usage of £1.09 million and had changed since then to £2.2 million as well as the figures within the MRP and whether this was based on the Capital Programme going ahead. A further query was raised regarding the pay negotiations and whether the 4% as detailed in the report was already out of date as a 5% offer had been rejected and whether the Capital Programme figures were out of date. Members discussed whether it would be beneficial to have a total spend on Capital Programmes to gauge the amount of money already spent as well as specific projects including Rowan House, Fieldgate Quay and the Town Hall.

At the request of the Chair Lucy Breadman, Strategic Director for Communities responded that there had been movement in the programme since the end of Q1 in June 2023 and confirmed that Members of the Committee had been invited to a workshop on the programme on the 28 September 2023 where the details of the questions could be addressed and confirmed that there were ongoing conversations with regards to the projects. It was noted that many projects were moving at pace including the Town Deal Fund and the Levelling Up Fund but some had been paused

until their financial viability had been assessed.

The Chief Executive addressed the Committee and outlined that negotiations were ongoing with regards to a pay deal and confirmed that the assumptions in the budget were accurate and fair given the direction from Cabinet to make an offer to the trade unions and negotiations would continue. It was noted that the public sector was trailing behind wage rises in terms of inflation and detailed that pay was a vital part of the reward package but it was only a part. The Chief Executive detailed that the assumptions in the report relating to Amphora were fair and accurate but it was known that the Amphora group of companies were under review but that the details of this could not yet be shared because of the commercial sensitivities and that the Council had a duty of care to the staff. The Chief Executive detailed that a draft report would be coming to the next Governance and Audit meeting and would be confirmed that it would be for the Cabinet to make the final decision on the options.

The Chair noted that Governance and Audit was the shareholding Committee for Colchester Commercial Holdings Limited (CCHL) and although it was not shown on the workplan it would be coming to the October 2023 meeting of Governance and Audit.

At the request of the Chair the Section 151 Officer confirmed that the MRP was suitable for the Capital Programme that had been presented to the Committee but did not mean that it could not be amended in the future as needed.

At the request of the Chair the Strategic Director for Communities detailed that capital versus revenue expenditure would be allocated correctly and that there would be a large amount of scrutiny on this. Further to this the Committee heard that the asset review was taking place because of the financial situation over the previous decade where assets had suffered and confirmed that this would not be a sustainable way forward and that the Council would be looking to use CBH services going forward.

Members raised queries regarding the Senior Management Team's work at Colchester City Council and CBH to mitigate overspends and whether any were available to share any of the mitigations from this. Further to this the Committee raised concerns about a more stringent recruitment freeze.

The Committee heard from the Portfolio Holder for Housing, Cllr Smith, that the Council was trying to increase the amount of temporary housing but confirmed that this was taking time and money.

The Chief Executive responded to the question regarding the recruitment freeze and outlined that there was a risk of losing staff and that there needed to be a saving of £500,000 in paid staff and if this was not achieved then the Section 151 Officer will need to look at this. It was detailed that the recruitment freeze had been brought in to address this and that every role for recruitment was reviewed with the Chief Executive and Chief Operating Officer where all options would be explored including partner working which was already in action in the Senior Leadership Team. The Committee heard that there would be an intensification of internal communications including regular webinars and listen and learn sessions as well as visiting every Team in the Council.

RESOLVED that: the General Fund revenue position at the end of Quarter 1 (30 June 2023) for 2023/2024, including actions being undertaken or proposed to ameliorate the position, where significant variances have been identified be noted (including appendices A and B)

And

That the General Fund capital position at the end of Quarter 1 (30 June 2023) for 2023/2024 be noted (including appendix C)

And

That the Housing Revenue Account revenue position at the end of Quarter 1 (30 June 2023) for 2023/2024, including actions proposed to ameliorate the position, where significant variances have been identified, be noted.

And

That a subjective analysis is provided in future for items and that a total spend of projects is included where possible in future reports to the Committee.

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Work Programme 2023-2024

The Chair detailed that October 2023 meeting of the Governance and Audit Committee would include an item on CCHL.

Members discussed the work programme and asked whether further items could be brought on reserves. The Chair detailed that in the first instance the Portfolio Holder for Resources should be contacted to provide these to Members. Discussion continued with Members asking to look at the statutory accounts and asked that something be included in the work programme. The Chair agreed that this would be included following consultation with the Section 151 Officer.

RESOLVED that: the Work Programme 2023/2024 be agreed as detailed in the report with the addition of and item be added for CCHL be added to the October meeting and that an item looking at the statutory accounts be added following consultation with the Chair and Section 151 Officer to agree an appropriate time.