

2. GENERAL FUND 2024/25 BUDGET AND MTFS

Forecast 2023/24 Outturn

- 2.1 The latest estimated outturn position on the General Fund, shows a forecast underspend of around £3m.
- 2.2 Most of the underspend has been generated within corporate finance. This is due to similar reasons as in 2022/23 where an increase in the level of interest generated by the council's day to day cash investments continues to be seen due to higher interest rates and relatively high cash balances. Once the impact of the additional treasury management income is removed, services budgets overall are showing a broadly balanced position.
- 2.3 In the update to the medium-term financial strategy, it has been assumed that any underspend achieved within 2023/24 will be utilised to support the implementation of the council's change programme as it responds to the priorities of the Corporate Plan. The updated forecast for Q3 will be reported to Members in February as well as an update on any impacts on reserve levels reported within the full budget papers.

Proposed 2024/25 Revenue Budget

Savings, growth and investment

- 2.4 Permanent savings/ additional income of £3.7m have been identified. This is higher than the savings target of £2.9m over 5 years identified in the MTFS update presented to Cabinet in July 2023. Updates to the MTFS assumptions, such as a slower growth in the Housing Benefit Subsidy gap, means that the provisional budget continues to show a balanced position, with no requirement to draw down on general reserves.
- 2.5 However, this must be caveated to reflect that pressures are very sensitive to future inflation rates and that the detail of the local government settlement has yet to be released; therefore, this position could worsen or improve.
- 2.6 Included within the savings figure are amounts relating to updated assumptions on the council's cash investments (£0.4m additional in 2024/25 followed by a reduction of £1.2m in 2025/26). The Council also has two £50m loans maturing in 2026 and 2028 but is operating on the expectation that they can be refinanced at similar rates, recognising that the economic outlook is forecasting falling interest rates in the medium term.
- 2.7 The focus for 2024/25 has been on the following themes, which are based around the council's journey to be a modern, efficient council:
- Delivery of the Existing Savings Programme
 - Income Optimisation and Automation
 - Fees and Charges
 - Asset Management (include Commercial Rental Income)
 - Corporate Items: Capital Financing
- 2.8 Delivery of existing savings clearly underpins the viability of the Medium-Term Financial Strategy. whilst the other four themes relate to the overall

efficiency and effectiveness of the authority to deliver against in the corporate priorities.

- 2.9 Outcomes will be driven by the Corporate Plan and the results of the Corporate Plan consultation will help drive the allocation of resources across the authority. By linking the Medium-Term Financial Strategy to the Corporate Plan, assurance can be provided that the resources required to deliver the planned outcomes and benefits will be in place and that as the Corporate Plan evolves the Medium Term Financial Strategy can be flexed to respond to any changes in priorities and/or the timing of outcomes.
- 2.10 The council will be consulting the public on the proposed approach to setting the budget and on the proposal for a council tax rise. An analysis of the results will be provided as part of the final budget report to Full Council in February.
- 2.11 The proposed 2024/25 budget currently includes provision for £1.2m of permanent budget growth (i.e. increases to the budget not arising from inflationary factors). The permanent growth has broadly been attributed towards additional resources to support economic growth and regeneration, environmental actions and to allow for capacity to address the Corporate Plan consultation outcomes. The additional resources are also intended to address statutory Health and Safety actions and known pressures in relation to elections and to support the provision of an in-house payroll service.

Inflation

- 2.12 The increasing inflation levels have placed additional pressures on the council's finances. There are £2.6m of contractual and energy inflationary pressures included within the lifetime of the MTFP as well as £4.4m payroll pressures and £1.0m Housing Benefit pressures, this is on top of £4.5m of inflationary costs which have already been incorporated into the 2023/24 budget across pay, gas, electric and other contract costs.
- 2.13 The council's pay structure is primarily based on national negotiating body pay spines and nationally negotiated settlements. The process has only recently been concluded for the 2023/24 financial year at a level greater than the budgeted figure. An estimate of payroll inflation has been included within the provisional budget for 2024/25. Given that pay costs form a significant proportion of the council's budget and the uncertainty over future pay awards, this is a key budget risk (see paragraph 2.24).
- 2.14 Many of the council's contracts have inflationary increases incorporated within them and therefore the significant increases in CPI and RPI measures has created a clear pressure on the budget position. Inflationary increases have been applied across the council's main contracts based on current CPI levels, although there remains a risk that further cost pressures emerge as contracts come up for re-tender.

Council Tax & Business Rates

- 2.15 Any increase in the level of council tax is limited by referendum principles, which for a district council have been set at a maximum of up to 3% for 2024/25. This referendum level was confirmed in the finance policy statement for 2024/25 which was published on 5th December 2023.
- 2.16 A 2.99% increase to the Band D rate is proposed in the 2024/25 budget figures (£0.335m additional income). The proposed 2024/25 Band D rate is therefore £297.22 compared to the current year rate of £288.59 – an increase of £8.63. This will form the basis for public consultation.
- 2.17 This is for the Norwich City Council share of total council tax only and does not include the amounts required from preceptors - Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk. Appendix 2 (A) shows the proposed increases (for Norwich Coty Council only) by each Council Tax band.
- 2.18 The figures shown will be reduced, for qualifying council taxpayers, by the council's Council Tax Reduction Scheme (CTR). Currently the total cost of the CTR scheme is £14.69m, of which the Norwich share is around £1.94m.
- 2.19 The current estimate of the Council Tax base is 38,773 which combined with the Band D rate gives an expected income of £11.524m in 2024/25.
- 2.20 The forecasts for retained Business Rates income for 2024/25 assumes income in line with the council's baseline funding level as set by government but uprated for the September CPI level of 6.62%.
- 2.21 The Council is in a pool that shares the benefits of growth across Norfolk. There are currently no assumptions regarding changes to the business rate retention scheme in the Medium-Term Financial Plan due to long-term uncertainty regarding the government's plans for business rates. Overall, the council is better off from being in a pool than not. Collectively, Norfolk collects less resource from its business rate taxbase than its needs assessment suggests and therefore, retains the levy element.

Grants

- 2.22 Without the detail of the Provisional Local Government Financial Settlement the council does not yet have certainty over its grant funding levels in 2024/25.

The overall impacts of the Chancellor's Autumn Statement combined with a lack of progress in the previously announced funding reforms means the current assumption is that broadly a roll-forward settlement position is expected for 2024/25. The publication of the provisional Local Government Settlement later this month will provide further clarity.

Areas still to be confirmed

- 2.23 There are several areas where estimates included in the provisional budget will be updated ahead of the final proposed budget in February 2024. As outlined in Section 1 the council is awaiting the provisional financial settlement from Government in December 2023 which will confirm grant allocations and the business rates tariff to be applied. However, a finance policy statement was published on December 5th which gave some indications as set out below.
- 2.24 The key areas where updates are expected are detailed below:

- **Grant levels.** These will be outlined as part of the Provisional Local Government Finance Settlement and include the figures for Revenue Support Grant, Section 31 (business rate) compensatory grants, the New Homes Bonus, the Services Grant and the amount, if any, of any funding guarantee. The December 2023 policy statement confirmed that the New Homes Bonus would be continuing in 2024/25 (but with no indications beyond) and that a further year of the funding guarantee would be included to protect all authorities from receiving less than a 3% increase in its Core Spending Power (before Council tax decisions)
- **Business Rates Income.** The baseline funding level and tariff will be confirmed as part of the Local Government Finance settlement. The December policy statement confirmed that the business rate multiplier for small businesses would remain frozen whilst the standard multiplier would rise in line with CPI inflation. S31 grants would compensate authorities for any loss arising from the freezing of the SBR multiplier.
- **Council Tax.** The final council tax base and any estimated surplus from 2023/24 will be updated for the final budget papers.
- **Recharges.** A full review of recharges between services areas will be undertaken which may alter estimates of the overall recharge position for both the general fund and housing revenue account.

Income from wholly owned companies

- 2.25 The MTFs assumes a steady state loan interest income budget arising from lending to Lion Homes (Norwich) Ltd. for the life of the MTFs. The actual interest charges will be dependent on the cash flow requirements of the company and pace at which schemes are developed and loans repaid. The budget and MTFs forecasts do not include any possible dividend (profit share) income from the company.
- 2.26 The budget and MTFs forecasts do not include any possible dividend (profit share) income from the council's wholly owned company Norwich City Services Ltd (NCSL).
- 2.27 Service level agreement charges, as agreed with the wholly owned companies, are included in the budget along with the related employee and services costs.

Budget Risks

- 2.28 At this stage, the combination of uncertainty over the financial settlement and the wider economic conditions means the level of risk associated with the provisional budget remains high but this will be mitigated to a degree by the publication of the provisional Local Government Settlement later in December. Some of the key risks are outlined below which will continue to be closely monitored. The council holds a budget risk reserve (current balance £2.4m) to provide resilience against emerging pressures delays in the delivery of savings and other unforeseen events.

- **Savings delivery & cost of change.** The budget includes £3.726m of savings and income proposals for delivery in 2024/25. This is a significant undertaking and will require close monitoring of delivery.
- **Inflation.** The volatility in inflation continues to pose a risk, which will need to be kept under review however current forecasts from the Bank of England and the Office for Budget Responsibility indicate that the peak may now have passed.
- **Housing Benefit.** In recent years the council has seen reducing level of HB subsidy recovery against its housing benefit expenditure, attributable to continuing growth in rent levels against fixed subsidy caps. The projection is this will continue to worsen over the life of the MTFS. Whilst every council is seeing increased natural migration to Universal Credit, Department of Work & Pensions (DWP) rules mean cases that attract 100% subsidy return are lost to councils, whilst DWP's strategy is to continue to leave temporary, exempt and supported accommodation cases with councils and it is these cases subject to punitive subsidy rules. The pressure in relation to exempt accommodation is approximately £1.0m and is projected to grow by between £0.144m and £0.244m per year over the life of the MTFS. Along with increased demand and rental market pressures, councils are therefore seeing increased subsidy loss.
- **Service Pressures.** The economic situation is continuing to put significant financial pressures on local businesses and residents, particularly the most vulnerable. It may also impact on all council income streams including fees and charges and the levels of council tax and business rates collected.

Medium Term Financial Strategy (MTFS)

- 2.29 The MTFS is a forecast of the estimated cost of delivering current services over the next five years, compared to the anticipated funding streams to support council services. This results in a projected budget gap from which the future savings requirements are estimated.
- 2.30 The July MTFS update identified a savings requirement of £8.194m over the four-year period to 2028/29 (Table 2.1). The updated MTFS is showing a savings requirement over the same period of £7.926m, of which £8.090m has been identified and incorporated into the budget proposals. This leaves a forecast small surplus over the MTFS period of £0.164m (Table 2.2).

Table 2.1: July 2023 Medium Term Financial Position – Figures are in £000s

	2024/25	2025/26	2026/27	2027/28	2028/29
Budget base	22,683	21,823	22,761	22,254	22,894
Resources	(19,802)	(20,308)	(20,829)	(21,365)	(21,918)
Savings required (in-year)	2,882	1,514	1,932	889	976
Savings required (cumulative)	2,882	4,396	6,329	7,218	8,194
Total estimated savings	2,200	1,748	1,298	42	0
Savings to be found	682	(234)	634	847	976
Residual savings (cumulative)	682	448	1,083	1,930	2,906

- 2.31 Since, July 2023, the Council has updated its projections for the changes attributable to inflation, pay, council tax, business rates and interest rate projections. The savings have also been reviewed for deliverability and been re-profiled where appropriate. Table 2.2 reflects the detailed implication of those changes. Table 2.2 is prior to existing savings being incorporated into the net gap.

Table 2.2: Updated Medium Term Financial Position – Figures are in £000s

	2024/25	2025/26	2026/27	2027/28	2028/29
Budget base	23,587	21,394	22,186	22,160	22,843
Resources	(19,861)	(20,287)	(20,790)	(21,370)	(21,935)
Savings required (in-year)	3,726	1,107	1,395	789	908
Savings required (cumulative)	3,726	4,833	6,229	7,018	7,926

- 2.32 The council has identified a range of potential future savings of £8.090m against the revised cumulative target of £7.926m. These are provisional options and are still subject to a full budget validation process. All options will continue to be refined as part of finalising budget papers for February 2024 and future corporate business planning processes.

Table 2.3: Savings Plan to deliver on Gap – Figures are in £000s

	2024/25	2025/26	2026/27	2027/28	2028/29
Savings Re-profiled	1,760	2,170	2,359	310	0
Fees and Charges Additional	804	(449)	(153)	153	156
Capital Financing: Additional	962	(1,206)	(110)	(66)	0
Income Maximisation & Automation	200	200	200	200	200
Asset Management (incl. Commercial Rents)	0	0	0	200	200
Total estimated savings	3,726	715	2,296	797	556
Cumulative Savings	3,726	4,442	6,737	7,534	8,090

Savings Gap	3,726	1,107	1,395	789	908
Cumulative Savings Gap	3,726	4,833	6,229	7,018	7,926

Residual Gap	0	(392)	509	516	164
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- 2.33 It should be noted that, as the options are still subject to a full validation process it is likely that the savings figures may evolve and change as this work is completed. There is also a high degree of risk associated with the MTFs projections especially around government funding from 2025/26 onwards in light of the fiscal challenges outlined in the Autumn Statement. It is therefore important the council has plans that can flex to the financial position as a clearer view emerges.

MTFS Risks & Uncertainties

- 2.34 There are number of significant financial risks and uncertainties over the period of the medium-term financial strategy. These include:
- Future funding levels given the clear message in the Autumn Statement about the need to increase public sector productivity and the fiscal drag that is likely to impact upon unprotected public sector spending.
 - Uncertainty over future inflationary levels and impacts on council expenditure.
 - Quantum of the savings to be delivered and the associated costs to enable the required changes.
 - Capital requirements arising from the ongoing strategic review of the council's asset portfolio.
 - That a General Election will be held at some point during 2024/25.

General Fund Reserves Position

General Fund Unallocated Reserve

- 2.35 The prudent minimum level for the general fund reserve was set at £5.400m by full Council in February 2023 as part of the budget approval. This will be reviewed as part of the main budget report in February 2024 but is not expected to move significantly. The General Fund unallocated reserve, subject to delivering on savings is expected to remain at £8.248m over the

life of the Medium-Term Financial Strategy, which is above the prudent minimum level.

General Fund Earmarked Reserves

- 2.36 Taking account of the council's expected surplus in 2023/24, the overall general fund reserves (including earmarked reserves) are expected to increase from £25.134m to £26.838m. However, much of these resources are earmarked for specific purposes. It is only through tight fiscal management that the council can deliver services and reinvest in the city.
- 2.37 On the basis that provisional options have been identified to close the budgetary shortfall in the years 2024/25 to 2028/29 no further drawn downs from general reserves are currently forecast.
- 2.38 Additionally, keeping our cash-backed earmarked reserves has the secondary benefit of keeping cash balances higher and therefore, these reserves are able to be invested, generating cash returns that can be used to prevent the need for savings in the future.

Earmarked Reserves

- 2.39 The General Fund holds several earmarked reserves which are held for specific purposes. The balances held in earmarked reserves are regularly reviewed to assess whether the funds are held at an appropriate level. The key reserves are summarised in Table 2.4.

Invest to Save Reserve: To support the delivery of savings and efficiencies through the Future Shape Norwich Programme over the next 2-3 years.

Budget Risk Reserve: To manage the financial risks associated the delivery of the budget savings identified.

Business Change Reserve: To fund costs linked to the council's change programme which are not delivering specific savings, for example project management, benchmarking and potential redundancies. It will also support training and development of our workforce to ensure we have the skills required to deliver the ambitions of the Council.

Commercial Property Reserve: Established to reduce the risks associated with holding commercial property by providing funding for any future void and rent-free periods as well as repairs and upgrades to the investment portfolio.

Insurance Reserve: This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review.

Companies Reserve: Originally established to smooth any fluctuations in net income received by the Council from lending to Lion Homes. The reserve level was increased to mitigate against any potential future Minimum Revenue Provision charges required to cover for estimated non-recovery of the loan balance. The recoverability of the loan will continue to be reviewed and should any element of the reserve not be required it can be returned to general reserves.

S31 Grant Reserve (to be relabelled as Collection Fund Equalisation Reserve): Unutilised balance of S31 grant monies received in prior years from Central Government to fund Business Rates reliefs.

This will be used to manage the volatility in Collection Fund movements due to timing issues of Section 31 Grants and weakening of the business rate base over the early period of the Medium-Term Financial Strategy.

Revenue Grants Unapplied: Holds grants and contributions received which have yet to be applied to meet expenditure. The use of the balance is restricted and can only be used to fund the specific service area awarded the grant income.

General Fund Repairs Reserve: To provide future funding for required maintenance on general fund properties.

Business Rates Pool Reserve: This reserve is to support future spend in line with the economic development objectives of the fund.

Capital Financing Reserve: The newly created reserve to hold the resources necessary to manage any additional voluntary requirements.

Table 2.4: General Fund earmarked reserves (Figures are in £000s)

General Fund Reserves	31/03/2024	31/03/2025	31/03/2026	31/03/2027	31/03/2028	31/03/2029
Insurance Reserve	(311)	(311)	(311)	(311)	(311)	(311)
Other Reserves	(154)	(154)	(154)	(154)	(154)	(154)
Revenue Grants Unapplied Account	(3,860)	(3,860)	(3,860)	(3,860)	(3,860)	(3,860)
Collection Fund Equalisation Reserve	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Commercial Property Reserve	(2,041)	(2,041)	(2,041)	(2,041)	(2,041)	(2,041)
Companies Reserve	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)	(1,700)
Budget Risk Reserve	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
Business Change Reserve	(2,535)	(2,480)	(2,425)	(2,425)	(2,425)	(2,425)
Business Rates Pool	(110)	(110)	(110)	(110)	(110)	(110)
Invest to Save Reserve	(1,660)	(1,660)	(1,660)	(1,660)	(1,660)	(1,660)
Capital Financing Reserve	(1,189)	(1,269)	(1,349)	(1,429)	(1,509)	(1,589)
General Fund Balance	(8,249)	(8,249)	(8,249)	(8,249)	(8,249)	(8,249)
General Fund Repairs Reserve	(530)	(530)	(530)	(530)	(530)	(530)
Total	(26,839)	(26,864)	(26,889)	(26,969)	(27,049)	(27,129)

Appendix 2 (A): Council Tax Bands

Proposed Council tax increases 2023/24 to 2024/25, Bands A to H

Band	A	B	C	D	E	F	G	H
2023/24	£192.39	£224.46	£256.52	£288.59	£352.72	£416.85	£480.98	£577.18
Increase	£5.75	£6.71	£7.67	£8.63	£10.55	£12.46	£14.38	£17.26
2024/25	£198.14	£231.17	£264.19	£297.22	£363.27	£429.31	£495.36	£594.44

