NORWICH
City Council

Committee Name: Cabinet

Committee Date: 13/10/2021

Report Title: Medium Term Financial Strategy Corporate Overview

Portfolio:	Councillor Kendrick
Report from:	Executive director of corporate and commercial services (S151 officer)
Wards:	All wards
OPEN PUBLIC ITEM	

Purpose

To set out the latest position regarding the council's forecast overall budget envelope for 2022/23 and the Medium Term Financial Strategy through to 2026, and the assumptions which underpin the budget forecasts.

Recommendations:

To:

1) note the current MTFS projections and approach to updating key assumptions; and
2) endorse the approach and timetable for setting the 2022/23 budgets.

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets all the corporate priorities

This report addresses healthy organisation strategic action in the Corporate Plan

Report Details

1. Like all local authorities, Norwich City Council continues to face substantial financial challenges. The sustained period of austerity – coupled with increasing demand for local services - has decreased the council's own budgets, putting huge financial pressures not just on council resources, but those of partners, local businesses, and residents, particularly the most vulnerable.

2. The council also continues to manage the ongoing risk and uncertainty over future funding as well as the budgetary impacts from Covid-19. Despite this the council has consistently approached the financial challenges in a sensible and planned way and has always sought to manage the council's finances responsibly. The city council has already made significant savings over the last ten years; has taken steps to try to manage demand; and has been innovative in its approach to the generation of new income streams. Like all councils, Government funding remains uncertain therefore Norwich City Council will need to continue to look at alternative ways of generating income to pay for local services.

3. As the country attempts to navigate through the longer-term impacts of COVID-19, district councils – being closest to communities - have a vital role to play in community and economic recovery. In order to do this, councils need sustainable, sufficient funding and the flexibility to plan their finances in a way that suits their local circumstances and needs.

4. It is within this context and financial uncertainty that the council must develop its medium-term financial strategy and approach to setting the 2022/23 budget. This paper outlines the key developments influencing the MTFS, the estimated impacts on the future savings challenge as well as the next steps for refining the MTFS and budget options for 2022/23. The budget decisions will need to balance delivering on the ambition and priorities of the council whilst ensuring the authority remains financially sustainable over the medium and long term.

Strategic Context

5. The immediate impact of the Covid 19 pandemic has been clear. Norwich's claimant count, a proxy for unemployment, doubled in two months at the beginning of the pandemic (the fastest increase on record) and is only now starting to fall. Rent arrears in both public and private housing have increased significantly since the start of the pandemic. Disadvantaged communities have seen greater mortality as a result of the virus as well as being more likely suffer loss of income due to the pandemic's economic fallout.

6. Pressures around joblessness and reduced incomes are compounded by the rise in cost of living observed over the last few months. Inflation, largely driven by energy bills and food prices, jumped from 2% to 3.2% from July and August, with the Bank of England predicting a rise of up to 4% in the coming months. This is at the same time Government is set to cut the £20 weekly increase to Universal Credit introduced at the beginning of lockdown last year. The cumulative effect of benefit cuts and cost of living rises over the winter and into the spring means single out-of-work adults are set to be worse off by around £24 a week by April 2022, a significant fall of around 14

per cent to an already low income (Resolution Foundation). Low-earning families and single-parents are also unlikely to see sufficient pay rises to offset the rising cost of living this winter.

7. The longer-term impacts, alongside the consequences of Brexit are, as yet, unknown, but both create significant questions around the shape of our economy, and our city, in future years. In the year of COP 26, the impact of the Climate emergency and of extreme species loss is also central. How will the city change to reduce its environmental impact, and adapt to thrive in the new climate in which we live? And how can those changes be made in an inclusive way to ensure costs, and opportunities, are fairly distributed and that none of our many diverse communities across Norwich are left behind?

8. The Norwich 2040 City Vision sets out what we want our City to be in 2040: connected, creative, dynamic, fair and liveable, and provides a strong partnership within which the council is working to tackle the complex issues we face, for example through the Good Economy Commission and the Sustainable City working group.

9. The Corporate plan sets out how the council is working towards this vision through our priorities of People Living Well, Inclusive Economy and Great Neighbourhoods, Housing and Environment. The Corporate Plan will be updated for 2022/23 to recognise the changed context in which we are working, and the key areas for action within our priorities.

10. Covid 19, A blueprint for Recovery published in June 2020, established the priority actions required to drive forward the City's recovery. It includes how the organisation intends to operate going forward, how services may be delivered differently, and how the council will work in partnership with others to support the wider recovery of the city. The corporate priorities, and role the council plays in delivering these, will need to be balanced against the short- and medium-term financial constraints. An update on progress against those actions is a separate item on the meeting agenda.

11. Both of these documents – the corporate plan and Covid recovery blueprint – set out the council's strategic priorities and the actions we will take to deliver our ambitions and provide the framework for the allocation of council resources.

Wider Financial Context

12. In September the Chancellor detailed the plans for a multi-year Spending Review which will set the resource and capital budgets for 2022/23 to 2024/25 for Government Departments. This is due to conclude on 27th October 2021, alongside the Autumn Budget 2021 and updated fiscal envelope from the Office for Budget Responsibility (OBR). Local government has not received a multi-year settlement since before the Brexit referendum which has made it difficult to plan ahead with certainty.

13. The announcement from the Chancellor highlighted key themes that will be included in the Spending Review 2021:

   - Ensuring strong and innovative public services;
   - Levelling up across the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide where they lag

and working closely with local leaders; and strengthen the private sector where it is weak;

- Leading the transition to Net Zero across the country and more globally;
- Advancing Global Britain and seizing the opportunities of EU Exit;
- Delivering our Plan for Growth – delivering on our ambitious plans for an infrastructure and innovation revolution and cementing the UK as a scientific superpower, working in close partnership with the private sector.

14. On 7 September 2021 the Prime Minister announced plans to provide an additional £12 billion per year for health and social care on average over the next three years, to be funded by a new, UK-wide 1.25 per cent Health and Social Care Levy.

15. In common with previous years, the exact financial allocations for the Council will be released as part of the provisional local government finance settlement. The current expectation is that this will follow in December 2021.

16. Confirmation is awaited on the previously proposed longer term local government financial reforms, including:

    - 75% business rates retention with the aim of ensuring local authorities have more control over the money they raise and incentives to grow and reinvest in their local economies;
    - introducing reforms to the business rates retention system to increase stability and certainty;
    - reviewing the funding formula that determines funding allocations through the annual local government finance settlement (Fairer Funding Review); and
    - reform of the New Homes Bonus scheme.

Medium Term Financial Strategy (MTFS) Assumptions & Forecast

17. The MTFS provides a projection of the cost of delivering current council services over the next 5 years alongside the expected scale of demand and projections for income forecasts. This provides us with an estimated budget gap, from which the council will need to identify options that deliver savings or generate additional income across all areas of council spending

18. In developing these savings options there is a need to address the budget position across the full four-year period. This is vital in creating a strategic medium-term approach to addressing the savings challenges and allows for the inclusion of projects that may have a longer lead in time or need up-front investment.

19. The MTFS has been updated to reflect key areas where there is more up to date information available. It should be noted that assumptions will continue to be updated during the Autumn with the final update provided to Cabinet and Council as part of the budget papers in February 2022.

20. The financial modelling also includes the cost to the council of services commissioned through the council's wholly owned companies, Norwich City

Services Limited and Norwich Regeneration Limited. Income streams are also incorporated into the model from the council's provision of support services and loan financing to the companies.

Revenue Contribution to Capital

21. The main adjustment to the MTFS is in relation the council's interest in the Norwich Airport Industrial Estate (NAIE). The site is owned by Norwich City Council and held on express trust for Norfolk County Council, effectively giving joint ownership. Income derived from the estate is divided 60% Norfolk County Council and 40% Norwich City Council.

22. In July 2021 Cabinet approved the disposal of the airport industrial estate site. It is assumed that the estimated capital receipt will enable the capital programme for the next 4-5 years to be funded from receipts rather than requiring a contribution from the revenue budget. This contribution was previously assumed in the MTFS at £1.5m in 2022/23 onwards. To enable this, it is assumed the sales of the site will be completed by March 2023. The adjustment to the MTFS also takes into account the loss of the council's share of the net income generated by the industrial estate.

Housing Benefit

23. In recent years the council has seen reducing level of 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, with an additional £0.3m pressure in 2022/23 compared to the February estimates. 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 and supported accommodation cases with councils and it is these cases subject to punitive subsidy rules. Along with increased demand and rental market pressures, councils are therefore seeing increased subsidy loss.

Council Tax and Business Rates

24. Any increase in the level of council tax is limited by referendum principles. In 2021/22 for a district council this was set at a maximum of 2% or £5 each year. For future years of the MTFS, the same referendum principles have been assumed at 1.99% with the maximum increase allowed being taken each year. An increase in the council tax base of 1% per annum is also assumed for estimated growth in the number of dwellings in the Council's area.

25. There remain areas of uncertainty in the tax base assumptions, in particular around levels of student exemptions, the impacts of the end of the furlough scheme on the council tax reduction scheme and the impacts of short supplies of building materials on when new property are completed. These factors will continue to be monitored closely over the coming months.

26. The forecasts for retained Business Rates income from 2022/23 assume current baseline funding amounts and do not take into account, as they are currently unknown, the potentially significant changes in funding arising from 75% Business Rates Retention and the Fairer Funding Review.

Short Term Growth

27. Included in the 2021/22 budget were £3.175m of short-term growth items, with the majority related to the impact of Covid-19 on the council's income streams in areas such as car parking, rental income, licensing income and fees and charge from cultural and leisure activities. Due to uncertainty over how long and to what extent these impacts will continue a high-level assumption was adopted in the February MTFS to unwind the short-term growth evenly over a two-year period.

28. Feedback has been sought from services on the levels of recovery and degree to which the short-term growth assumptions can be reversed. Overall, the estimated reversals of short-term growth in 2022/23 total £1.528m against the MTFS assumption of £1.546m. The recovery levels vary across the income streams with car parking remaining a significant area of challenge and uncertainty. As part of the ongoing work to reach a balanced budget position, the level of growth will continue to be scrutinised and managed downwards where possible.

29. The other key areas reviewed include:

- Payroll inflation – this has been retained at 2.5% per annum. An additional pressure has been included to reflect the 2021/22 pay award being above the 1% assumed in the current year budget. An additional 1% on the inflation adds approximately £210k extra cost on a permanent basis.
- Increased inflation assumptions on non-pay expenditure. Economic forecasts from the Bank of England indicate short term rises in CPI before falling back to the 2% target over the medium term. Price increases are a key risk, in particular around building supplies and utilities. An additional 1% on the inflation assumptions for 2022/23 adds approximately £140k of cost on non-payroll expenditure.
- Grant income estimates updated with assumed reductions over the MTFS period. A further year of revenue support grant has been included but no new New Homes Bonus allocation (just the legacy payments from prior years).
- Updated borrowing assumptions based on the current external debt levels and the assumption of additional borrowing for the GF (in line with the 21/22 budgets). This is a key assumption and will be updated in line with the emerging capital programme and cashflow requirements.

Updated MTFS Position

30. Table 1 shows the medium-term financial projections for the years 2022/23 to 2025/26. The council's future funding is less than its projected spending on an annual basis. This means that the council will be required to generate ongoing income, bear down on demand and transform the way services are delivered in order to balance its budget in future years.

31. Given the scale of the financial challenge, the council cannot at this stage rule out the need for stopping some activities. Where this is required, the potential impacts will be considered.

32. The MTFS maintains the previous approach of presenting a strategy to deliver a smoothed savings requirement over a 4-year period and utilising general reserves (down the prudent minimum level of £5.1m).

33. The modelling shows a need to make permanent gross savings of £10.56m over the next four years, assuming demand-led growth of £0.75m per annum. This is a reduction on the position in February 2021 mainly due to the reduction in the revenue contribution to capital over the four-year period (paras 21 and 22). This benefit has been applied in 2022/23 to reduce the permanent savings requirement to £2.10m. The permanent savings need increases however to £3.25m in 2023/24 and 2024/25 before reducing to £2.00m in 2025/26 (Table 2).

34. Included in the 2022/23 projections are £1.537m of short-term growth items relating to the ongoing impact of Covid-19 on the council's income streams in areas such as car parking, rental income and licensing income. These will need to be met by an additional short-term savings requirement. Any other short-term growth emerging from the budget setting process will also need to be offset from additional short-term saving options.

Table 1:

£'000s	2022/23	2023/24	2024/25	2025/26
Budget base	22,910	23,975	25,992	28,301
Resources	(16,369)	(16,786)	(17,288)	(17,745)
Savings required (cumulative)	**6,541**	**7,189**	**8,704**	**10,556**
Permanent savings (cumulative)	(2,100)	(5,350)	(8,600)	(10,600)
Short-term savings	(1,537)	0	0	0
Required use of reserves	**2,904**	**1,839**	**104**	**(44)**

Table 2:

£'000s	2022/23	2023/24	2024/25	2025/26
Assumed annual service growth	**750**	**750**	**750**	**750**
Permanent savings requirement	(2,100)	(3,250)	(3,250)	(2,000)
Short term savings requirement	(1,537)			
Total saving requirement	**(2,887)**	**(2,500)**	**(2,500)**	**(1,250)**

35. The smoothed MTFS brings the forecast reserves down to the Prudent Minimum Balance of £5.1m by the end of 2024/25 (Table 3). After 2024/25 savings will still need to be required if any inflationary increases or growth in costs are not able to be offset by rises in council tax, business rates and other income generated by the council. These savings will need to be made without relying on reserve contributions to balance the budget.

Table 3:

£'000s	2022/23	2023/24	2024/25	2025/26
Balance brought forward	**(9,980)**	**(7,076)**	**(5,237)**	**(5,133)**
Transfer (to)/from reserves	2,904	1,839	104	(44)
Balance carried forward	**(7,076)**	**(5,237)**	**(5,133)**	**(5,177)**

Budget Principles

36. As the council takes decisions about how to achieve the required savings it will need to consider the balance not only between how savings are made – for instance, savings to workforce, suppliers and assets – but also the relative balance between spending reductions and increased income.

37. The council has identified several provisional themes that underpin the approach to addressing the medium-term financial challenges.

    - **Fees and charges –** the council has a range of services that users pay for. Reviews will be undertaken to benchmark charges, understand future demand and identify potential additional revenue.

    - **Contracts** – given the level of spend the council has with suppliers it will be necessary to review key contracts and service specifications in the context of the current financial situation. There will be opportunities through the procurement process as current contracts come to an end but also the potential to drive out savings through negotiation and specification changes.

    - **Wholly-owned companies** – in 2020 the council took the decision to transfer the environmental services contract (April 2021) and housing repairs contract (April 2022) to the council's wholly-owned company Norwich City Services Ltd. The decision is expected to deliver significant benefits including:

        - greater direct influence and control over how services are provided;
        - the opportunity to refresh the specification of services provided to reflect current local, political, financial and environmental changes;
        - the opportunity to integrate with the council more effectively to provide a more seamless service to customers and users of services;
        - the opportunity for reduced costs when systems have been condensed and integrated – spreading costs across a wider base and increased buying power across the council.

      As part of the process to transfer services significant investment has been made by the council into the new company, including IT capabilities. The next stage following the transfer of services is to deliver the efficiencies enabled by the investment, recognising that the council's wholly owned companies are commissioned from within the overall budget envelope.

- **Service Transformation** – Covid-19 has forced the council to change how it operates and how it delivers services to residents, with the increased use of technology and channel shift away from face to face to online support. Whilst it is important to guard against digital exclusion, there is an opportunity to embed the learning from the council's response to reimagine how services are delivered.

  Building on the technological changes made to become a modern, flexible organisation. There may be opportunities to join up across teams in a more proactive way, with staff working towards clear outcomes rather than through specified processes, and empowering staff to achieve their objectives through greater trust and flexibility. Service reviews led by the senior management team are ongoing and will be looking at different delivery options and the use of technology to unlock efficiencies.

- **Driving value from our assets** – the council is in the process of undertaking a comprehensive review of all of its non-HRA land and property assets to prioritise those that need investment, are not financially performing, or are surplus to service needs will enable the council to make best use of its assets. In line with the approach being taken to identifying savings, the asset review is being carried out as close to the service as possible, as managers are best placed to understand the impact of assets on the delivery of service.

- **Inward investment and growth** – the council is ambitious and wants to make a real difference to both the physical fabric of the city and to the lives of residents who live and work here. The council will need to look at how it uses council and privately owned land to encourage inward investment and housing development. Such opportunities can generate income to the council (e.g. capital receipts) as well as grow our tax base to provide more sustainable sources of income over the longer term.

- **Commercialisation** – there is a benefit to developing commercial approaches to service delivery which focus on generating sustainable income streams. The council will need to consider proportionality and risk when commercialising services.

- **Stop doing some things –** While the budget approach aims to improve the efficiency of service, given the scale of the challenge, reductions to some services cannot be ruled out. With all options there will need to be a clear and robust analysis of the impacts.

Capital Programme

38. There are two main influences on the overall size of the general fund capital programme, namely:

    - The level of capital resources available, and
    - The extent to which the revenue consequences of the programme, in terms of cost of borrowing or direct funding, can be accommodated within the revenue budget.

39. The March 2021 budget paper set out a funding envelope of £1.5m for capital projects the require funding from the council (i.e. works not linked to grant funding or other contributions). The envelope was set at this level to balance the known capital requirements against the available funding (capital receipts levels and revenue contributions). As work progresses on the asset management strategy, the council will have a clearer picture of the future investment requirements and potential receipts from asset disposals.

40. The budget setting process will look to develop a capital programme which balances addressing ongoing maintenance and legislative requirements with investment in services which can drive service efficiencies and improvements. The capital envelope level will be reviewed in light of the identified capital priorities and assessed against the available funding options ahead of Budget Council in February 2022.

Budget Next Steps

41. Key next steps in preparing budget options and updating the MTFS are shown below:

- Officers continuing to develop and refine savings options, growth requirements and capital proposals - ongoing
- Government's 3-year Spending Review (SR21) – October
- Draft budget options to Cabinet for consideration before the end of 2021
- Consultation period for the proposed budget options – late 2021 – early 2022
- Provisional Local Government Finance Settlement – Date to be confirmed (assuming December)
- Budget Scrutiny, Cabinet and Council in February 2022

Consultation

42. In line with the approach used in previous years, citizens, HRA tenants, partners and local businesses will be consulted on the proposed approach to meeting the savings target for 2022/23 and the proposed council tax level. Further detail on the timetable is shown in paragraph 41.

Implications

Financial and Resources

43. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.

44. There are no direct proposals in this report that would reduce or increase resources. The financial position of the council is the focus of the report with the financial implications of the medium-term modelling detailed throughout.

Legal

45. There are no specific legal implications arising from this report.

Statutory Considerations

Consideration:	**Details of any implications and proposed measures to address:**
Equality and Diversity	No direct implications.
Health, Social and Economic Impact	No direct implications.
Crime and Disorder	No direct implications.
Children and Adults Safeguarding	No direct implications.
Environmental Impact	No direct implications.

Risk Management

Risks

46. The SR21 outcomes are better or worse than projected.

47. The current forecasts on continuing impact of Covid 19 do not reflect the future impacts accurately.

48. Inflation and other assumptions vary in the medium term to worsen the medium term projections and subsequent ongoing financial shortfall.

Controls

49. The 2021/22 budget and MTFS include several mitigating actions in terms of risk management, namely:

    - the budget risk reserve to manage the financial risks associated with both the future impacts of the pandemic and the delivery of the 2021/22 budget savings identified;
    - a business change reserve to fund costs linked to the council's transformational change programme;
    - earmarked reserves established to help mitigate the risk associated with commercial property acquisition and lending to Norwich Regeneration Limited;
    - The maintenance of a Prudent Minimum Level of General Fund reserve;
    - The requirement to produce robust Business Cases for large capital projects (many of which will generate commercial returns or savings) before Council approves the project within the capital programme.

50. It is currently intended to continue this approach to risk management throughout the development of the refreshed MTFS and budget processes for 2022/23 onwards, although it is important to reiterate the risks associated with the SR21.

51. All other risks identified through the corporate risk register will continue to be reviewed on a quarterly basis by cabinet.

Other Options Considered

52. There are no alternative options to this report.

Reasons for the decision/recommendation

For Cabinet to consider the Medium-Term Financial Strategy Corporate Overview.

Background papers:

None

Appendices:

None

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