NORWICH City Council

Cabinet

Date: **Wednesday, 13 February 2019**
Time: **17:30**
Venue: **Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH**

Committee members:

Councillors:

Waters (chair)
Harris (vice chair)
Davis
Jones
Kendrick
Maguire
Packer
Stonard

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Agenda

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council's proposed non-financial investments (commercial) strategy and the Treasury Management Strategy.

8 **Exclusion of the public**
Consideration of exclusion of the public.

EXEMPT ITEMS:

(During consideration of these items the meeting is not likely to be open to the press and the public.)

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part 1 of Schedule 12 A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, members are asked to decide whether, in all circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

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*9 **Norwich Regeneration Ltd Business Plan (paragraph 3)**

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) as in para 3 of Schedule 12A to the Local Government Act 1972.

Date of publication**: Tuesday, 05 February 2019**

Report to	Cabinet	**Item**
	13 February 2019	5
Report of	Director of regeneration and development	
Subject	Employment practice research	

Purpose

To report the main findings of the Employment Practice Research which was commissioned by Norwich City Council as a result of a resolution by full council in 2018.

Recommendation

To:

(1) note the contents of the report; and

(2) consider appropriate actions in respect of the research project's policy recommendations especially with regard to encouraging employers to adopt good working practices

Corporate and service priorities

The report helps to meet the corporate priority a fair city

Financial implications

None currently

Ward/s: All Wards

Cabinet member: Councillor Waters - Leader

Contact officers

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Ellen Tilney, Economic Development Manager	01603 212501

Background documents

None

Report

Employment practice research aims and methodology

Background

1. The research was undertaken in response to a resolution in 2018 by full council, to:

   (1) Note with concern
   a) the woefully inadequate rates of pay which leave some people financially worse off than had they been unemployed;
   b) the poor treatment of workers who require time off to see to a family emergency, recover from sickness, or mourn a deceased relative
   c) the 'grey area' of self-employment in which many of the flexibilities and commonly accepted practices that are associated with this way of working is totally absent
   d) the confusing and changeable ways in which monthly earnings are calculated; and the ever-present threat of losing work and with it one's sole source of income, with no notice and no right of appeal.

   (2) ask the cabinet to commission research into the changing nature of work in Norwich with a view to using the findings to promote good employment practices across the city; to include facilitating a public conversation, as part of the Norwich 2040 Vision work, around Universal Basic Income, as one possible response to the ever changing nature of work.

   (3) ask the Leader of the Council and the cabinet member for resources to write to The Secretary of State for Business, Energy and Industrial Strategy asking him to:

   a) Ban exploitative zero hours contracts so that every worker gets a guaranteed number of hours each week.
   b) Give all workers equal rights from day one, whether part-time or full-time, temporary or permanent – so that working conditions are not driven down.
   c) Shift the burden of proof so that the law assumes a worker is an employee unless the employer can prove otherwise.
   d) Levy punitive fines on employers not meeting their responsibilities, helping to deter poor practice.
   e) Involve trade unions in enforcement and set up a Ministry of Labour with the resources to enforce all workers' rights.
   f) Ban the use of 'umbrella companies' for passing employer tax liabilities on to workers, and extend the remit of the Employment Agency Standards Inspectorate to cover policing umbrella companies to ensure compliance.
   g) Give employment agencies and end-users joint responsibility for ensuring that the rights of agency workers are enforced.
   h) Roll out sectoral collective bargaining and strengthening trade union rights, because empowering people to claim their own rights in the

workplace is the most effective means of enforcement and ensuring that workers have greater job security and adequate levels of pay to enjoy a decent quality of life.

(4) Ask the leader of the council to write to the two Norwich MPs to support resolution (3)

2. The research was undertaken as three separate strands:

   a) **Strand A** - The objectives of Strand A are to understand issues relating to zero-hour contracts and the Real Living Wage from the employer perspective. A total of 21 in-depth telephone interviews were undertaken with employers from health & social care, hospitality & leisure, retail and education sectors. Typically, these sectors rely on zero-hour contracts and are low waged. The researchers had difficulty persuading employers to take part in the research and failed to achieve the desired number. This was challenging because of the subject matter; low wages and zero hour contracts are controversial, sensitive and have negative connotations, so many employers did not want to discuss them. The researchers also found it was often impossible to get through to the person making the contractual decisions. This was exacerbated by the fact that such decisions are often made at Head Offices based outside Norwich. However, this does not have a huge impact upon the research findings as it is a piece of qualitative research, a method of observation to gather non-numerical data, rather than quantitative research which captures counts and measures.

   b) **Strand B** - The objective of Strand B is to understand issues relating to hard to fill vacancies that are often caused by lack of skills in certain key sectors. A total of 13 in-depth interviews with employers from manufacturing, construction, personal service (hairdressers etc.) and finance and business services sectors. The researchers had difficulty persuading employers to take part in the research and failed to achieve the desired number, for the reasons stated in Strand A, above. This does not have a huge impact upon the research findings as it is a piece of qualitative research, a method of observation to gather non-numerical data, rather than quantitative research which captures counts and measures.

   c) **Strand C** - The objective of Strand C is to examine issues facing Norwich workers relating to low pay and insecure employment. A total of 20 in-depth face to face interviews were carried out with Norwich residents. Four focus groups were undertaken (one with participants aged below 24 years on zero-hour contracts and minimum wage; one with participants aged 25 years and over on zero hour contracts and minimum wage; one with working families chief wage earners on zero hour contracts; one with working families chief wage earners on minimum wage).

Research findings

Strand A

3. The Strand A employers share some of their opinions with residents on the advantages and drawbacks of zero-hour contracts, but they tend to see the

arrangement from a different perspective. The contracts are popular amongst participating employers with over one third employing zero-hours staff. Over half believe that the contracts are integral to their business and indeed one third expect to increase their use of zero-hour contracts. In their opinion, the main advantage to both the employer and the worker is the flexibility that the contracts afford.

4. Strand A employers commented on how zero-hour contracts keep their costs down, an advantage that was also recognised by residents. Employers also feel that the contracts offer workers experience and can be a ‘foot in the door’ to permanent employment. When asked about the disadvantages of zero-hour contracts, employers tended not to see a downside for either themselves or their workers and this was because as individual employers they feel that they treat their zero-hours staff fairly and equally to those on permanent contracts. Although employers tend to focus on the advantages of zero-hour contracts, they do also see potential issues for businesses (staff cancelling at the last minute and feeling limited loyalty to the employer) and for workers (lack of financial stability).

Strand B

5. The Strand B employers struggle more than the Strand A employers to find quality applicants and this could be because they are advertising entry level positions. There are some common issues experienced by Strand B employers when recruiting entry level applicants: lack of basic skills; lack of understanding of what it takes to be an employee (attitude, teamwork, commitment); applicants will move on quickly to roles with better opportunities to progress.

6. More of the Strand B than Strand A employers taking part in the research experience hard to fill vacancies. They believe that vacancies can be hard to fill either because there are skills shortages relating to the industry or position, or because the hours can be quite unsociable. Strand B employers expect the number of hard to fill vacancies to increase due to a combination of industry changes and the impact of Brexit on staff provision.

Living wage

7. More Strand A than Strand B employers provide the government’s Living Wage to staff. Those who have moved from the Minimum Wage to the government’s Living Wage have felt a financial impact of the transition, and some have passed part of this to their customers through price increases. Most of the participating employers are aware of the Real Living Wage. More Strand B than Strand A employers have signed up to the Real Living Wage. Those who offer the Real Living Wage rate feel that it motivates staff, helps them to retain talent and is simply fair.

Council support

8. Employers suggested that the Council could offer support to businesses recruiting hard to fill vacancies by:

   a) Helping to improve the links between local employers and the Jobcentre, local schools and colleges.

b) Improving transport links to make commuting easier.
c) Working to attract people to the area.
d) Offering cost effective advertising opportunities.
e) Working with schools and colleges to teach young people what will be expected of them when they enter the workforce.

Strand C

9. Residents tended to use zero-hour contracts as a short-term solution used to fit within wider circumstances. These contracts suit younger and older workers especially. Most see zero-hour contracts as offering little security and plan to move to permanent contracts when their situations change. Residents understand the reasoning behind zero-hour contracts and acknowledge that they do suit many people at particular points in their lives. However, there is a strong belief that zero-hour contracts should afford some of the same employee protection as permanent contracts and in their opinion the following steps would go some way to achieving this:

    a) Providing holiday pay that is accrued over time
    b) Introduce sick pay and compassionate leave
    c) Ensuring equal and fair pay
    d) Equal and fair treatment (by the employer)
    e) Greater transparency around the laws governing zero-hour contracts
    f) More information, advice, guidance and support for those on zero-hour contracts

10. Residents generally viewed zero-hour contracts and some of the employers offering the contracts as unethical, accusing them of focussing solely on making profit. It was noted that there is huge variation in the way that zero-hour contract staff are treated –with some left feeling undervalued and demoralised. How well workers are treated not only depends on the employer but also on the individual manager. Many residents on zero-hour contracts (especially the younger ones) have drive and ambition and want to progress through hard work and commitment.

11. This talent will be lost to employers who do not show that they value their workforce. Employers who simply react to statutory salary increases and offer the bare minimum in terms of benefits may find it difficult to attract the best candidates. However, signing up to a voluntary scheme such as the Real Living Wage should set companies apart, improve perceptions and attract a higher number of applicants

12. The research findings are inextricably linked to at least two of the themes of the 2040 Norwich Vision: “a fair city” and “a dynamic city”. Indeed, the issues of low pay and poor working practices are unlikely to be resolved in the short–term.

13. It should be recognised that retail, hospitality & leisure and the care sector are affected by these issues at a national level, as well as locally. The city’s role as a major regional service centre means that it has a higher than average percentage of employment in the retail and hospitality & leisure sectors. Norwich’s position as a low wage economy means that residents working in these sectors are particularly impacted by low pay. Official data sources show

that earnings in Norwich are around 85 per cent of the national wage (94 per cent for part-time workers). Around 20 per cent of Norwich residents who work part-time earn less the £7.83 per hour; 10 per cent of all employed Norwich residents earn less than £7.83 per hour. Typically, low productivity is cited as the reason for low wages but research by the Joseph Rowntree Trust shows that the UK's productivity performs relatively strongly in some low-wage sectors, such as retail but not in others such as care and hospitality. The reasons for this are manifold and beyond the scope of this report but they include investment in human capital (training) and in physical capital.

14. The retail sector is suffering severe pressure from a number of fronts including online retail, a slowdown in consumer spending and Brexit uncertainties. The sector is already contracting and it is likely that retail employment will fall markedly in the years ahead.

15. The care sector is in crisis, research commissioned by Anchor (a charity) in 2018 found that care work is undervalued and is unlikely to be seen as a career choice. Indeed, by 2037 a shortfall of around one million discriminate social care workers is predicted. The problems of the care industry are well known. Staff turnover is high and pay is low. Many care providers say margins are too small to enable them to pay above the minimum wage. The sector is also highly fragmented with around 8,500 different agencies operating around the country. However, an increasing number of people are self-funding their care, going directly to providers rather than to the local authority and that is changing the model; this is being driven by the introduction of personal care budgets. The use of technology is also likely to change the care model particularly by cutting transaction costs, these savings could then be spent on increasing the quality of the care and on care worker's earnings.

16. As the research has shown, zero hour contracts in themselves are not always a problem and are sometimes the preferred option for residents particularly young people (especially students) and those above the state retirement age. Norwich's relatively young population means that there are lots of students who are happy to work on a zero hours basis because it provides extra income and can fit around tuition and study requirements – this may disadvantage the indigenous working age population because there is a large pool of student labour prepared to accept zero hours even if non students don't want them. Moreover, the main issue seems to lay with the way in which employees on zero hour contracts are treated by employers compared to other workers rather than the contracts themselves. The residents on zero hour contracts are not an homogenous group; some are treated well and others feel they are treated badly. It would seem that it is not zero hour contracts per se that are the problem, rather, it is the way in which employers discriminate against zero hour contract workers in terms of sick pay, holiday pay etc.

17. Further consideration must be given to the long term financial stability and perceived credit worthiness of workers reliant on zero hour contracts and low wages. These workers are highly likely to face difficulty accessing mainstream financial products such as mortgages, bank accounts, loans and other forms of, credit on an ongoing basis. Private sector tenancies may also be difficult to access.

Research policy recommendations

18. Zero-hours contracts are useful in certain circumstances and employers should be allowed to hire workers on this basis. However, zero-hour contracts should not give employers the opportunity to avoid their responsibilities. All staff, regardless of their contract, are entitled to employment rights and should be treated fairly and within the law. The research has shown that zero-hour contracts are open to abuse and measures need to be set in place to ensure that workers' rights are not compromised. Workers on zero-hour contracts are looking for safeguards which should be available to all ages, these include:

    - Sick pay and compassionate leave (offered to those meeting certain minimum working hour conditions)
    - Equal and fair pay (subject to the same rules as for salaried workers)
    - Information and a helpline for those on zero-hour contracts
    - Legislation that makes it an offence to use the threat of withdrawing hours to make unreasonable demands on workers

19. Stability is a huge concern for residents and a clear and transparent contract will help individuals to understand their rights and what the implications of such a contract means to them. The Council could encourage employers to provide contracts which include information such as:

- a statement of why a zero-hour contract is necessary
- whether the individual is an employee or worker and what employment rights they are entitled to
- the process by which work will be offered and assurance that they are not obliged to accept work on every occasion if they so wish
- how the individual's contract will be brought to an end
- the number and frequency of the hours that would be offered as part of the role and a clear explanation of what happens if that changes
- when and how work might be cancelled by the employer, and how they try to avoid this, and whether the individual can expect any compensation for costs they may have incurred
- the point at which a zero-hour contract would turn into a salaried contract (e.g. if the worker has been employed for six months on regular hours and this is likely to continue, then the worker should be offered a salaried contract which they are able to decline)

20. Workers on zero-hour contracts are asking for the introduction of benefits that they are already able to access, implying that they do not know that they are entitled to statutory employment rights. The Council needs to raise awareness amongst workers that they are entitled to annual leave and protection from discrimination. Employers should be forced to be open and transparent with workers regarding their statutory rights. Employers should consider whether a zero hours contract is the best type of contract for their business need depending on the nature of the work to be offered and the specific circumstances. Depending on the business need, alternatives might include:

    - offering overtime to permanent staff
    - recruiting a part time employee or someone on a fixed term contract

- offering annualised hours contracts if peaks in demand are known across a year

21. Workers on zero-hour contracts should be made aware of their rights and, along with employers, encouraged to:

    - Establish an effective weekly tracking system of hours worked to ensure annual leave entitlement is accurately accrued
    - Use monitoring systems to review hours worked over a number of weeks. If the shifts or number of hours worked is consistent over a period of time, these could be argued to be contractual through custom and practice and could be used as a prompt to move to a permanent contract

22. Employers who do not want the risk of developing a permanent staff from what is intended to be a flexible pool should vary shift patterns and the amount of work offered throughout the pool of workers. Employers should be encouraged to act ethically and ensure they have a sufficient core workforce on permanent contracts, offering such permanent opportunities to zero hours workers seeking permanent contracts in the first instance. Employers should also ensure that managers are adequately trained.

23. Low pay has a damaging effect on family life and the emotional health of workers. The impacts of low wages financially, emotionally and socially are extremely high. Often employees do not know how they will be able to pay their bills and this leads to constant stress and anxiety. The impact is also felt by their families with parents on low salaries believing that they are failing their children as they are not able to adequately provide for their needs. Employees are less likely to demonstrate loyalty to employers offering low wages and more likely to move to other employment.

24. The Real Living Wage is welcomed by residents who believe that it will motivate and retain talent and help with recruitment. Costs of the Living Wage are often passed on to customers - relatively painlessly. Therefore employers should be encouraged to volunteer to the Real Living Wage. Residents believe that employers who volunteer to the scheme demonstrate commitment to their employees – this could be shared with employers to encourage them to sign up.

25. It should be noted that many of the researcher's suggested policy recommendations are not within the delivery capacity of a district council, even if it had infinite resources.

26. However, the council could lobby central government and employer organisations with regard to encouraging good working practices. The council is already involved in the local Living Wage campaign and this should continue. A piece of work could be undertaken by the council's community engagement team, alongside unions, around ensuring that workers are advised of their rights. Maintaining and increasing the stock of social housing will, to an extent, provide an important safeguard for workers who are effectively denied access to mortgages and private sector rented accommodation.

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report

Report author to complete	
Committee:	Cabinet
Committee date:	13/02/19
Director / Head of service	Dave Moorcroft
Report subject:	Employment practice research
Date assessed:	28/01/19

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☒	☐	☐	The research in itself has no implications on value for money. If the council decides to undertake policy decisions based on the research findings this may well have implications but they are not considered within the scope of this report.
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	The research in itself has no implications on value for money. If the council decides to undertake policy decisions based on the research findings this may well have implications but they are not considered within the scope of this report.
ICT services	☒	☐	☐	The research in itself has no implications on value for money. If the council decides to undertake policy decisions based on the research findings this may well have implications but they are not considered within the scope of this report.
Economic development	☒	☐	☐	The research in itself has no implications on value for money. If the council decides to undertake policy decisions based on the research findings this may well have implications but they are not considered within the scope of this report.
Financial inclusion	☒	☐	☐	The research in itself has no implications on value for money. If the council decides to undertake policy decisions based on the research findings this may well have implications but they are not considered within the scope of this report.

	Impact			
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	☒	☐	☐	The research in itself has no social impact
S17 crime and disorder act 1998	☒	☐	☐	The research in itself has no social impact
Human Rights Act 1998	☒	☐	☐	The research in itself has no social impact
Health and well being	☒	☐	☐	The research in itself has no social impact
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	☒	☐	☐	The research in itself has no impact upon equality and diversity
Eliminating discrimination & harassment	☒	☐	☐	The research in itself has no impact upon equality and diversity
Advancing equality of opportunity	☒	☐	☐	The research in itself has no impact upon equality and diversity
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	☒	☐	☐	The research in itself has no environmental impact
Natural and built environment	☒	☐	☐	The research in itself has no environmental impact

	Impact			
Waste minimisation & resource use	☒	☐	☐	The research in itself has no environmental impact
Pollution	☒	☐	☐	The research in itself has no environmental impact
Sustainable procurement	☒	☐	☐	The research in itself has no environmental impact
Energy and climate change	☒	☐	☐	The research in itself has no environmental impact
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☐	☐	☒	The research may have a negative impact upon how the council is viewed by businesses which use the employment practices investigated within the research project.

Recommendations from impact assessment
Positive
The research has provided clarification of the impact of zero hour contracts and low wages in Norwich and has suggested possible actions in to support affected residents
Negative
The council should carefully manage actions undertaken in relation to the research recommendations and ensure that it continues to maintain a positive relationship with local employers.

Neutral
The report has no financial, environmental, equality and diversity or social implications for the council, it is for information only.
Issues
The council should carefully manage actions undertaken in relation to the research recommendations and ensure that it continues to maintain a positive dialogue with local employers.

Report to	Cabinet	**Item**
	13 February 2019	6
Report of	Strategy manager	
Subject	Corporate Plan 2019-2022	

Purpose

This sets out the background to the development of the new corporate plan to cover the period 2019-2022 with the corporate plan appended along with comments from scrutiny committee members.

Recommendation

To consider the draft corporate plan 2019-2022 along with scrutiny and public comments, and to agree any amendments for proposal to full council

Corporate and service priorities

The report helps to meet all the corporate priorities

Financial implications

This frames the council's entire budget and so accompanies the budget papers, but does not commit specific spend

Ward/s: All Wards

Cabinet member: Councillor Waters - Leader

Contact officers

Adam Clark, Strategy Manager 01603 212273

Background documents

None

Background

1. The council's constitution states that:

    - "Each year a draft corporate plan will be prepared setting out the overall strategic direction of the council including its vision, priorities and values. The plan guides everything the council will do for the city and its residents and visitors for the period. It, therefore, acts as the overarching policy framework of the council.
    - The draft corporate plan is drawn up in line with the council's medium term financial strategy and in parallel to the development of the budget for the period to ensure the necessary resources are in place for its delivery.
    - The draft corporate plan will be subject to discussion with the scrutiny committee, before being submitted, along with the comments and recommendations of the scrutiny committee, to the cabinet for agreement. Cabinet will then present the draft corporate plan to full council along with the draft budget for the coming year."

2. The corporate plan is therefore the document that summarises and informs the scope of the council's activities so that internal and external audiences have a clear understanding of what the council is seeking to achieve and how, broadly, it will steer and focus resource to achieve those priorities in collaboration with other organisations and residents.

3. Over the last 10 years Norwich City Council has faced significant financial challenges. The council has responded with a planned and carefully managed approach, looking ahead to smooth required savings out across future years, and seeking to protect front line services wherever possible.

4. The council's current corporate plan was adopted at a meeting of full council on 17 February 2015. It was originally intended to cover the period 2015-2020. It has been reviewed and refreshed to reflect changing circumstances every year, but the main vision, mission and priorities have remained the same. The corporate performance measures that track progress have also been reviewed annually.

5. In June 2016 cabinet resolved to adopt a forward looking approach to ensure it had the best possible opportunity to meet these financial challenges and match the shape and style of the council to the resources available noting in particular that "the council has reached the point where the potential for reconfiguration of services is increasingly limited and a redesign of the council is necessary. With the resources available to the council in future it will not be able to meet the aspirations of the corporate plan and new priorities need to be set that can be delivered within the resources available".

6. A report was approved by cabinet to initiate a process to:

    - Work with partners in the public, private, voluntary and community sector to develop a new city vision
    - Develop a revised corporate plan, priorities and performance measures which reflect that council's part in supporting that vision

- Determine a new blueprint or operating model to guide how the council works in future, which reflects available resources.

7. This has resulted in a fundamental review of the council's corporate plan, which ends the current corporate plan a year earlier than was originally intended. The rest of this report covers the development of a replacement plan and an overview of the content.

Corporate plan 2019-2022

8. A draft of a new corporate plan covering the period 2019-2022 has been appended to this report. This has been developed in the light of the wider city vision work, which has been undertaken under the 'Norwich 2040' banner. This started with a significant piece of resident and stakeholder engagement to identify consensus about what the strengths and challenges of Norwich are. It then continued with analysis of the findings to shape a vision for Norwich in 2040 which provides a shared set of aspirations for Norwich to be:

   - A creative city
   - A liveable city
   - A fair city
   - A connected city
   - A dynamic city

9. The full details of the city vision and how it was developed can be found on the city council website.

10. This city vision provides a framework within which the city council can articulate its role. The city vision is therefore the starting point for this corporate plan. This has been combined with information and analysis including:

   - Analysing information on levels of need in the city such as looking at demographics, economic, environmental and equalities data
   - Assessing the current environment the council operates in, including the national and local economic climate and policy and legislation for local government.
   - Understanding how other local authorities are responding to similar challenges
   - Looking at the potential future factors that may impact on Norwich and the council
   - Discussions with councillors and officers
   - Reflecting the Medium Term Financial Strategy and transformation programme which helps plan resource allocation

11. The revised corporate plan retains the same vision and mission statements as in the preceding plan:

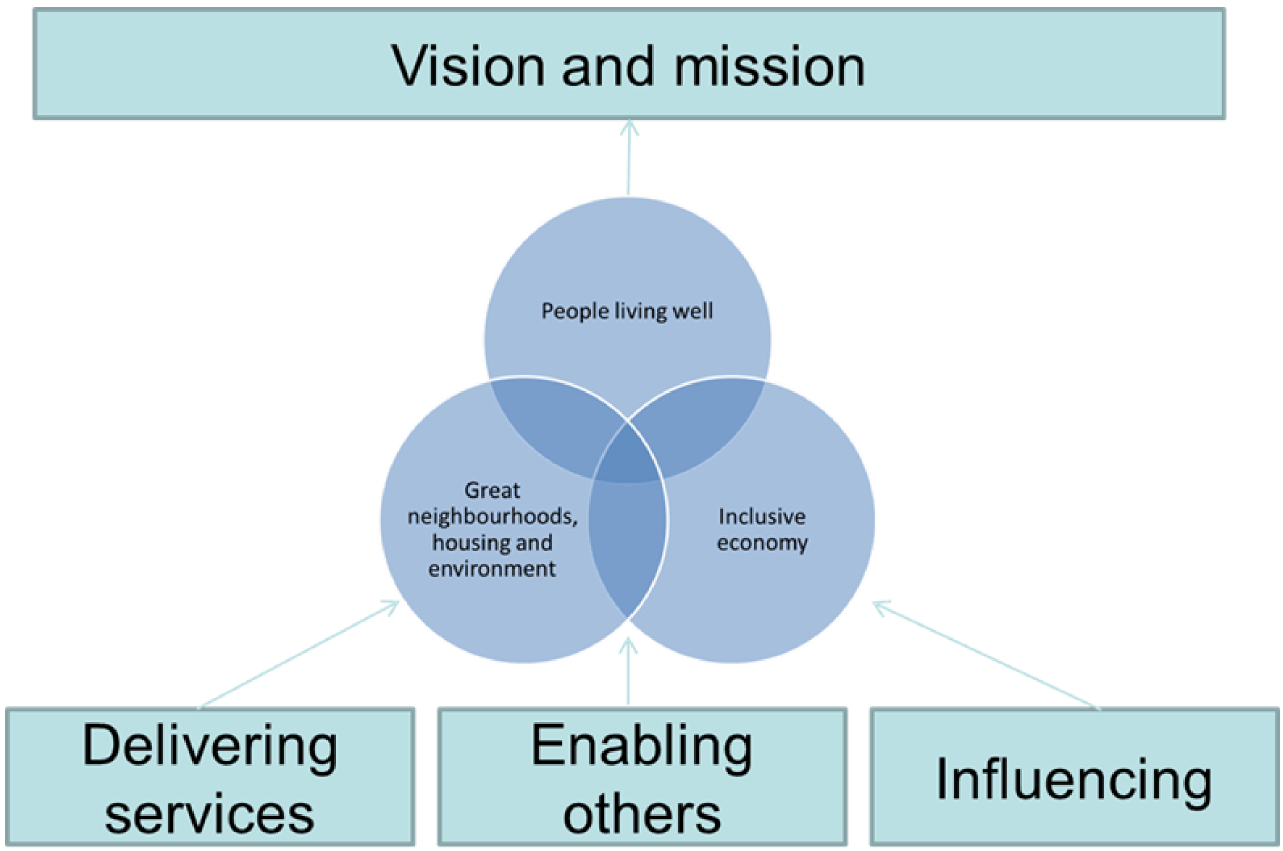
   The corporate vision – To make Norwich a fine city for all

   The corporate mission – To put people and the city first

12. Three new priorities are proposed:

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

13. The priorities are being developed to recognise their interconnected nature and the likelihood that many areas of work will impact on two or three of them, or require trade-offs between them. The strategies behind each priority are also being developed to recognise the different roles the council may play: delivery, enabling and influencing, linking back to the collective responsibilities of the city vision. This can be represented as follows:



14. Employee engagement and clarity around their roles in delivering these new objectives will be important. Consequently the strategies that sit underneath these priorities are being developed in a collaborative way with colleagues from across the council. Service plans will be replaced by cross cutting strategies and team plans will be adapted to ensure a golden thread from each employee up to the corporate priorities and encourage a more joined up way of working as envisaged in the Fit for the Future Programme. A draft of the corporate plan is appended to this report in appendix 1.

Performance Framework

15. Alongside changes to the corporate plan, the council is also developing a new performance framework to better measure its impact and to ensure the link to the wider city vision is maintained. It is proposed that this should include output measures; quality or quantity measures of the council's own activities, and outcome measures; measures of the "real world" position. The current performance framework includes a mixture of output and outcome measures and showing them separately will allow for greater clarity around how the council is delivering its own activities, whilst ensuring a continued focus on the real world impact and identification of areas where an enabling or influencing role could be adopted.

16. The proposed performance framework will be clustered around the new corporate priorities as well as metrics that indicate the performance of the council's corporate functions, such as finance, IT and HR under the banner of 'A healthy organisation'. This is shown in the following schematic:

17. The new performance framework is being built in the following way:

- Establishing the overall outcomes that contribute to the corporate priorities

- Identifying key outcome measures that indicate whether that outcome is being achieved. It should be underlined that these are the overall outcomes for the city not the specific outcomes for which the city council is exclusively responsible

- Identifying key outputs that measure the efficacy, quality or quantity of the council's own activity which make a contribution to the outcome and then onto the priority

- The individual proposed outcome and output measures are derived from a number of sources, including national data, data generated by the council's own activities, specific surveys and data sourced from other organisations. We expect that the framework will need to be reviewed annually to improve it.

18. As stated above, the outcomes and the outcome measures within the framework are not exclusively related to the council's own activities, but there should be a clear and logical link between the council's output measures and the outcomes they are intended to achieve. This provides employees and members with a framework within which to understand the 'why' of the council's services and activities.

19. An example of the distinction between outcome measures and output measures is in the table below. This shows how one of the component parts of the overall corporate priority of 'people living well' is that residents feel safe. This outcome then sets the context for our Anti-social behaviour responses and how we measure it:

Corporate Priority	People living well
Outcome	People feeling safe
Outcome measure	People feeling safe measured through the Local Area Survey
Output measures	Satisfaction with how ASB reports were handled Satisfaction with the outcome of ASB reports

20. Clearly the outcome of people feeling safe is also affected by a range of other factors, such as levels of crime in the city, visibility of policing, media stories, personal character, individual and community networks, all of which can impact on the outcome. The council's own activity in responding to Anti-social behaviour has a role, but not an exclusive one.

21. Below this there are team and individual objectives that contribute to the output, and ultimately to the outcome and corporate priority. This therefore provides the 'golden thread' that links every individual employee's work to the overall aims of the council.

22. This is one example of the full range of measures that will make up the performance framework. As this is a significant change to our performance framework, it has not been possible to provide the full framework with this report, as specific measures are still being developed. Cabinet members are asked for their views on the overall approach, and will be provided with the current draft of performance measures at the cabinet meeting for comment.

Scrutiny and public comments

23. The draft corporate plan was presented to the scrutiny committee on 13 December 2018. Comments were requested at the meeting and subsequently. The relevant section of the minutes and subsequent comments are included in appendix 2 of this report.

24. There were a series of comments on style, accessibility and specific wording which will be reflected in the version presented to budget council on 26 February 2019. There were also some comments around the substance of the corporate plan which are as follows:

    (1) The three new priorities could sit within two wider themes which could be envisaged as circles with sustainable development as the inner circle surrounded by a wider circle of democracy. This is outlined in the relevant appendix. An alternative would be to amend the 3 priorities to include explicit mention of sustainability and democracy. For example, 'Great neighbourhoods, local environment and housing' could become '*Sustainable* neighbourhoods, local environment and housing' and 'Inclusive economy' could become 'Inclusive economy *and democracy'.*

    (2) More prominence around climate change. The plan should include reference to a climate emergency such as threats of prolonged heat waves and flooding but it was accepted that it was difficult to find measures the council could adopt. It could include a climate change target such as 'keeping the city resilient in face of the changing climate'. Climate change should be incorporated into the policy and program of the organisation not just mitigated against. As the council was signed up to the UK 100 city's pledge it could be possible to highlight the council's commitment to climate change that way.

    (3) In terms of an inclusive economy the city council could strength the local economy through the local procurement of services and goods and encouraging others to do the same. This could increase resilience within the local economy.

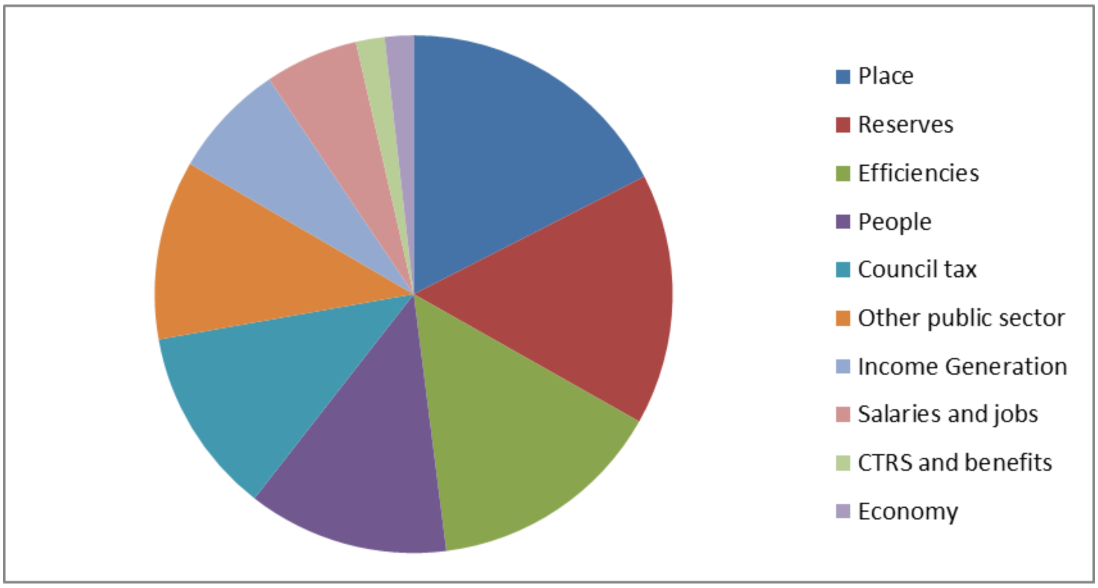
25. There were two opportunities for free-text comments in the 2019-20 budget consultation which were:

    - Do you have any comments?

- What other ideas should the council explore to make up the remainder of the savings gap over the next four years?

Not all respondents to the consultation responded to either or both questions.

26. There were a total of 240 comments across the 2 questions, many of which were on similar topics, so we have coded these according to the main subject. However this coding is somewhat subjective as several comments cover multiple themes. With this caveat, this crudely gives us the following breakdown of comments by category:



27. This shows that the largest proportions of topics were about issues to do with 'place' (covering housing, development, environment, transport etc). Next most numerous were comments on our approach to our finances, using reserves, making efficiencies and increasing council tax. The other significant numbers of comments were about 'people' issues such as homelessness and poverty, and about other public sector or national issues. Comments have been read and will be taken into account as the corporate plan is finalised.

Conclusion

28. The corporate plan 2019-2022 represents the aspiration of the city council to play its full part in the life and wellbeing of the residents and other stakeholders in the city, aligned to the co-produced vision for Norwich in 2040. This is through delivery of services, and playing an enabling and influencing role across the city. Alongside the MTFS and the budget, the cabinet are asked to comment on and endorse this draft corporate plan so that it can be taken forward to full council.

Integrated impact assessment	NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with the completion of the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	13 February 2019
Director / Head of service	Adam Clark, Strategy Manager
Report subject:	Corporate Plan 2019-2022
Date assessed:	4th February 2019

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☒	☐	☐	
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☐	☒	☐	The corporate plan gives an overview of everything that the council wishes to achieve. One of the new priorities is an inclusive economy, which will be a key ambition over the period of the corporate plan.
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☐	☒	☐	One of the new priorities is people living well, which includes health and wellbeing, will be a key ambition over the period of the corporate plan.

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☐	☒	☐	Throughout the corporate plan is a commitment to equality, and reducing the levels of inequality within the city. However, specific projects, services and initiatives will require further assessment to understand how they impact on different stakeholders, particularly individuals and communities with protected characteristics.
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☒	☐	☐	
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☐	☒	☐	Responding to climate change is one of key ambition covered in the over the period of the corporate plan.

	Impact			
(Please add an ‘x’ as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☒	☐	☐	

Recommendations from impact assessment
Positive
The new corporate priorities should be used to shape the council’s approach to policy and service delivery to ensure that they support the achievement of those priorities. Particular focus on ensuring effective assessment of the impact on groups with protected characteristics should be given in order to enhance positive and mitigate any potential negative impact
Negative
Neutral
The corporate plan at some level covers everything the council does, so there will inevitably be more detail to be provided around the impact on areas marked neutral in this assessment. However, much of this assessment is undertaken as the detail of activities and initiatives is developed.
Issues

NORWICH CITY COUNCIL

CORPORATE PLAN 2019 – 22

Introduction by Councillor Alan Waters, Leader of Norwich City Council

A new Corporate Plan

The City Council's Corporate Plan is a description of the council's priorities over the medium term. Each year there are adjustments to the plan to take account of changes at the local and national level. The budget that is debated and passed each February, alongside the Corporate Plan, provides the resources to deliver the council's political objectives.

For 2019/20 there is a step change. The report describes an entirely new Corporate Plan shaped to respond to the most uncertain period in our history and our city's history since the end of the Second World War, over 70 years ago.
There are a number of different factors in play. The first is the unresolved issue of how (or whether) we exit the European Union and on what terms. The second, the impact on the council's budget of a decade of continuous cuts in central government funding (well over 40% since 2010) with a lack of clarity about whether this funding trajectory will change or be reversed. The third, longer term changes that are moving more rapidly than anticipated to confront us in the next two decades, among which are climate change, automation, demographic shifts and galloping inequality.

Given that context, this corporate plan, despite the uncertainty, has to be clear about what it wants achieve and how that is to be done.

Faced with deep cuts in resources and the complexity of the issues we face as a city, the council embarked upon our most comprehensive public consultation ever, asking communities across the city about their vision of Norwich. The short answer is that residents are proud of their city but not its inequalities: among which are low pay, lack of affordable housing, increasing rough sleeping and a powerful sense of insecurity.

Following two successful 2040 Vision conferences the city council has reshaped its key priorities around three themes:

- Great neighbourhoods, housing and local environment
- Inclusive (good) growth
- People living well.

In delivering these priorities we will be not only be smart about how we use our resources but how we maximise resources working with other partners to make Norwich a great city for everyone. The Corporate Plan lays out that ambition and shows how a strong democratic council working collaboratively across Norwich can deliver (and advocate for) the policies and resources that all its citizens need to live a good live within the framework of a strong, creative and vibrant city.

Plan on a page

Infographic summarising vision, mission, values and priorities to be included with publication

Norwich 2040

The city of Norwich, like many others, is at a pivotal point in time. Over the last 12 months the city council has worked together with businesses, local authorities, young people, the voluntary sector, and community groups to develop a bold and ambitious vision, a clear long-term statement of what we want the future of Norwich to be, and things we can do together to get there.

The 2040 Norwich City Vision is rooted in the views of everyone in it, as well as those who visit it. Following significant engagement conducted over eight months by independent research company, Ignite, feedback reflects what we know Norwich to be: a vibrant growing city with social, economic and cultural strengths, offering a variety of experiences, which truly make it a unique destination city to live, learn, work and visit.

Jointly developing our city vision and sharing its ownership provides real direction for our journey to 2040, enabling the city to build on its strengths, tackle the challenges and maximise opportunities over the coming months and years, making Norwich a world-class city.

It also provides us with an insight into what role the city council can play in achieving that vision, which informs this corporate plan.

The key strengths and challenges for Norwich that were identified by the consultation were as follows:

<u>Strengths</u>
Safe
Good place to make a life
Friendly with a strong sense of community
Diversity
Events
Arts and culture
Retail and food scene
Rich history but forward looking
Parks and open spaces
Sustainability
Universities and research parks

<u>Challenges</u>
Inequality and lack of social mobility
Street homelessness and substance misuse
Traffic
Mixed, high quality, affordable housing
Secondary and vocational education and lifelong learning
Local jobs and economic growth
Social isolation
Diversity not seen as universally positive

This has given us a platform to develop the following themes for Norwich 2040 to be:

- A creative city
- A liveable city
- A fair city
- A connected city
- A dynamic city

You can read more about the city vision here. The rest of this document lays out how the city council proposes to play its part in delivering this shared vision.

Vision, Mission and Values

The corporate vision – To make Norwich a fine city for all

The corporate mission – To put people and the city first

The mission statement

Norwich City Council is at the heart of the city of Norwich.

We work creatively, flexibly and in partnership with others to create a city of which we can all be proud.

We provide good services to our residents, visitors and businesses, whilst enabling people to help themselves and ensuring that those who need extra help can access it.

We aim to be financially self-sufficient, to ensure the sustainability of our services.

Characteristics of the council

This means that we:

Understand our city and our customers, recognising the interconnected nature of the objectives we are seeking to achieve.

Take decisions based on a full understanding of the evidence and risks

Build relationships proactively and work collaboratively internally and externally and leverage resource where possible to deliver the best outcomes

Are agile and adaptable, to enable us to adjust our resources to deliver our priorities

Adopt commercial approaches where appropriate

Value and trust our staff and our partners and respect PACE values

Putting the characteristics into practice

Change is likely to be a constant in the future, and so putting this vision into practice will require us to create an organisation which is not rigid, but which is adaptable and can respond to change. And all this will require changes to our culture and skills, internal infrastructure and relationships with partners and citizens which need to be clearly articulated and shared across the organisation.

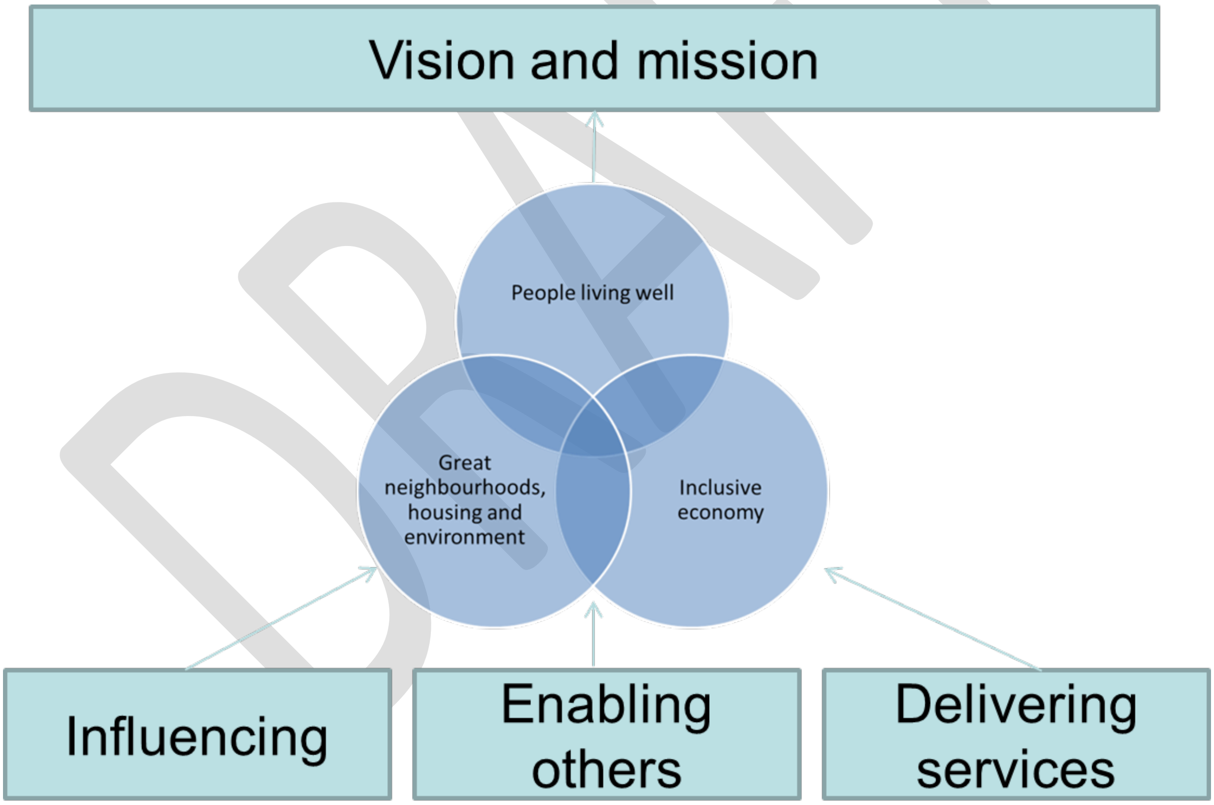
Financial challenge
At a glance infographic to be included with published version

Values

- Pride
- Accountability
- Collaboration
- Excellence

Our corporate priorities

Our corporate priorities are the outcomes that we want to see in Norwich. They steer everything we do, whether that be the services we deliver, other agencies' activities that we enable or the wider landscape that we influence. Even our corporate services, such as IT, HR and finance should support us to achieve these priorities. We use these to inform and align our strategies, policies and plans, so that all staff know how their role supports these priorities.



A more detailed explanation of these priorities and how we seek to achieve them can be found in the strategy sections on the following pages. This is not an exhaustive list of everything we do, as there are core services that constitute our 'business as usual' that are not necessarily specifically mentioned in the following section.

People living well

What is our vision for this priority?
Norwich is a city in which many people enjoy a good quality of life, and is a social and cultural hub for the entire county. We want Norwich to continue to be a city which supports wellbeing, and one in which people enjoy living and working as well as visiting, This will entail playing our part in addressing the very real inequalities between the most and least deprived residents of the city.

How will this be achieved?
Working with our partners, we will:

- Support people in Norwich to feel safe and welcomed
- Provide means for people to lead healthy, connected, fulfilling lives, particularly those who are most vulnerable
- Ensure there is a range of cultural, leisure and social opportunities and activities for all
- Tackle homelessness and rough sleeping

How will we know we are having an impact?
Outcome measures

Output measures

What will the city council do?
Support those who visit, study, live and work in Norwich to feel safe and welcomed

- The city council have a range of roles in achieving this outcome. We will continue to deliver core services that help keep people safe, including community safety activities, safeguarding vulnerable people and providing CCTV.
- We will also continue to play an active role in key local partnerships around safety, such as the community safety partnership and working with our police colleagues and other partners to tackle anti-social behaviour and organised crime such as county lines, particularly where this occurs in our housing stock. We acknowledge that we are not always best placed to have the relationships with those most at risk, so where necessary we will commission or co-produce solutions with others where this is relevant, with the Voluntary, Community and Social Enterprise sector.
- We will celebrate and reflect Norwich's tradition of embracing diversity, whether that is through our ongoing support of Pride or tackling hate crime. We will also work with the county council to ensure that the public realm is accessible to all; we cannot guarantee universal accessibility but our commitment is to maintain meaningful dialogue with those who are most likely to be affected and work with them to implement an accessibility charter.

Provide means for people to lead healthy, connected, fulfilling lives, particularly those who are most vulnerable

- As a district council our services have a key role in addressing the wider determinants of health, which are the all the things that help people to live healthily, such as having enough money to live on, good housing and being connected to family and friends. So, even though we care about health and social care services, we are not the ones to ensure that they are working locally. What we will do is to work with colleagues in the health sector through our Healthy Norwich partnership and ensure that our assets such as housing, parks and open spaces support people to be active and well. Ultimately we want to see a reduction in the life expectancy gap between residents in the least and most deprived areas of the city, which will be supported through embedding health and wellbeing outcomes in all our policies.
- We will ensure that our frontline services are linked into wider health and wellbeing services. For example we will continue to build on existing social prescribing initiatives and early help arrangements that ensure that people reach the support they need more efficiently and before they reach crisis point. To achieve this, we will improve our use of our own and partners' evidence to identify when people may need some additional support.
- We will streamline and modernise our systems in order to enable self-serve for our customers accessing council services and will support people to develop the knowledge, skills and confidence to manage their lives online through our digital inclusion work. We will continue to provide access to services by telephone and by appointment for those who cannot go online, and for vulnerable customers with more complex needs. We will combine this universal approach of self-service by default with dedicated resource for those who are particularly vulnerable, such as our specialist support unit's work with tenant households. We will do this by building on the lessons learnt from our targeted approach to reducing inequalities, informed by data and evidence including our own, partners' and national information. This approach will not only inform the way that we apportion resource but we will also share this evidence with partners to help shape their delivery.
- We are committed to tackling poverty in the city, through addressing the drivers of poverty rather than simply stepping in when people have crisis. As Universal Credit continues to roll-out, we will ensure that residents have access to benefits, money and budgeting support with our own advisers and through commissioning services from others. We will also make sure our processing of benefits is efficient, accessible, automated and fair, and that our council tax reduction scheme reflects our commitment to supporting vulnerable people such as care leavers and people experiencing domestic abuse. We will have a firm but fair approach to collecting income and debt from residents, tenants and businesses which is transparent and joined-up so that people have the best opportunity to pay what they owe, whilst taking proportionate legal remedy where they choose not to.
- Food poverty is on the rise, both as a short-term crisis that drives people towards emergency provision, as well as a longer-term absence of a nutritious diet. The causes are complex and cover access to and affordability of food, elements of knowledge, skills and social norms, which require multi-faceted responses so we will work with the incipient Norwich food network to pilot and develop responses that address the drivers of food poverty locally.
- We will build on progress made over recent years in tackling fuel poverty in the city, which has financial and health benefits. A major component of this is

to support residents to reduce their utility costs through switch and save, our white label energy project and works to improve the energy efficiency of the council's own housing stock.

Ensure there is a range of cultural, leisure and social opportunities and activities which are accessible to all

- Residents and visitors value the extensive range of cultural and social opportunities that Norwich provides, from large-scale events such as the Lord Mayor's procession, Pride and the Halloween celebrations to smaller, local events in parks and communities. We want these to continue and will work to secure support and investment from other sources, such as the Business Improvement District and local businesses.
- Norwich is a hotbed of creativity and culture and our role in some arenas is simply to enable that to continue, through core services such as licensing and discretionary funding for arts and cultural activity of all scales. Our challenge to those delivering these is to find ways in which these can be as inclusive and accessible and to ensure that the opportunities are truly universal and reflect issues of low social mobility. We cannot guarantee that we will be able to provide the same amount of direct funding forever but we will continue to support the creative sector to source investment from key national funders.
- We know that that 'things to do' in the city such as leisure and cultural events brings vibrancy, employment and people to the city, so we will focus our activities where there is likely to be an opportunity to enhance economic and social benefit.
- As well as supporting people's physical health, physical activity of all sorts also contributes to wider wellbeing. We will continue to provide mechanisms for residents to access a range of activities, through direct provision and contracting of leisure facilities, and working with key partners, such as Active Norfolk to bring investment and to connect communities to diverse activities. As with the cultural offer in the city, we would like this to support wider social aims, such as community cohesion, employability and combatting social isolation.
- Ultimately we think that our residents and tenants are best placed to decide what activities they want to see in their community. Our role is primarily to help them access tools, skills and resources to enable them to realise these, such as access to space or equipment and opportunities to market their activities. Although we may provide small pots of funding to initiate new activities, we will not provide ongoing funding, but instead look to enable organisations to access external funding. We will continue to support sharing economy initiatives such as our Active Hours community currency and our 'stuff hubs'.

Tackle rough sleeping and homelessness

- Addressing the supply of affordable housing in the city is central to addressing the increasing issues of homelessness in the long-term, but other measures are required to resolve the recent rise in rough sleeping and homelessness in Norwich. Homelessness can often be a symptom of wider issues such as mental illness, drug and alcohol misuse or a history of offending made worse by reductions in housing support. First and foremost we have a legal responsibility to assess people who present as homeless or at risk and to develop an appropriate way forward to prevent their being homeless. We will continue our proactive approach to delivering this duty, including the extended duties under the Homelessness Reduction Act.

- However, this alone is not sufficient to tackle the complexities of rough sleeping and homelessness. So we will continue our collaborative work with public and other sector partners and commission services, jointly where possible, to address these. We will be implementing a ‘Housing First’ model that seeks to stabilise people in accommodation with wrap around support as a basis for addressing wider needs, whether they be mental health, substance misuse or social welfare needs. We will continue to use our resources to leverage funding for appropriate support so that we enable a systematic approach to homelessness rather than simply tackling the visible manifestations of this.
- It is evidenced that people who are sleeping rough in the city do not always lack accommodation, so we need to maintain a focus on addressing wider issues, and we will continue to collaborate with health colleagues around these, particularly where we have a dual responsibility as a landlord.
- We will also collaborate with neighbouring councils to ensure that whilst Norwich is a centre for services, it does not attract more vulnerable people and we will not simply plug gaps in services such as Supporting People that have been cut by other bodies.

Great neighbourhoods, housing and environment

What is our vision for this priority?
As a district council, much of what we do focuses on ‘place’ – the physical fabric that makes Norwich what it is, whether it be housing, green spaces, our approach to urban planning or keeping the city clean and resilient in the face of a changing climate and adverse weather. We aspire to be good stewards of the city, maintaining the character that makes Norwich a unique place, whilst taking opportunities to regenerate and develop the city to enhance it and support thriving communities.

How will this be achieved?
Working with our partners, we will:
- Maintain a clean and sustainable city with a good local environment that people value
- Ensure our services mitigate against any adverse effects of climate change and are efficient to reduce carbon emissions
- Build and maintain a range of affordable and social housing
- Improve the quality and safety of private sector housing
- Continue sensitive regeneration of the city that retains its unique character and meets local needs

How will we know we are having an impact?
Outcome measures

Output measures

What will the city council do?
Maintain a clean and sustainable city with a good local environment that people value

- The way we deal with waste as a system has huge environmental and economic impacts, as well as keeping the city clean, safe and pleasant for everyone. We will work with the Norfolk Waste Partnership to continue to decrease residual waste, with a particular focus on working with residents to increase recycling and food waste collection.
- We will also address the pockets of significant air pollution in the city. This will include encouraging a move from conventional motor vehicle usage, increasing the ease, safety and appeal of public transport, walking and cycling and improved transport management and enforcement making use of investment opportunities such as Transforming Cities.
- Steps will be taken to reduce emissions from motor vehicles as well, such as enforcing the switching off engines when stationary or requiring cleaner vehicles
- We will try to reduce fine particulate pollution from local sources based on better understanding of the sources of this and where practicable to do so.
- We will work with residents and tenants to keep our neighbourhoods and estates clean & tidy to encourage pride in communities and discourage ASB and crime. As well as managing our waste and recycling contracts, we will continue to support local groups who wish to take an active part in the

protection and enhancement of their local area, through taking an enabling approach.

- We still have a significant amount of green space under our own management, and we will develop an action plan through which we can retain this for residents and visitors within our financial constraints, whilst optimising access and environmental outcomes, such as biodiversity. This includes looking after and enhancing the abundance of trees that the city enjoys

Ensure our services mitigate against any adverse effects of climate change and are efficient to reduce carbon emissions

- We have a long-term environmental strategy which sets out our ambition that the needs of today's citizens can be met without compromising the ability of future citizens to meet their own needs. This means the City will continue to work on reducing its own carbon emissions whilst engaging with our communities to help them make more sustainable lifestyle choice, such as recycling more, wasting less food, travelling on foot or by bicycle, improving energy efficiency or taking up renewable energy.
- We will also work to increase and improve the electric vehicle charging provision in the city as well as supporting organisations that provide alternatives to car ownership
- We will ensure our services are planned with an awareness of the latest UK climate impact projections to ensure they adapt as necessary to the effects of climate change.

Build and maintain a range of good quality affordable and social housing

- We are the largest provider of social housing in the city and ensuring that our own housing is safe, well-maintained and that our tenants have the level of support that is appropriate to their needs is the biggest contribution we can make to addressing housing need in the city. We will take a risk-based approach, informed by evidence, to ensure that we are proportionate in our approach; this means that for many tenants, they are able to live happy independent lives, whereas others will be offered a range of support to ensure that they and their neighbours enjoy a healthy tenancy. We will also develop a longer-term plan for the maintenance and regeneration of our own housing and estates that explores how these assets can address persistent deprivation in the city.
- We need to address the shortage of housing in the city and this will partly be through our development company, Norwich Regeneration Limited, which builds both affordable and private sector housing, and via other partners such as housing associations. To do this the council will focus activity on land it owns to regenerate areas more generally, although it may purchase additional land where required.
- We need to strike a balance between numbers of houses, affordability, and quality. Where there is a tension between these factors, we will always try to optimise the numbers of affordable houses whilst still ensuring that they are of a good environmental standard. In tandem with this, we will explore innovative construction methods, such as modular housing.
- As well as committing our own resource to build affordable housing we will work with our fellow councils to prepare and implement the Greater Norwich Local Plan maximising the delivery of housing that meets the needs of the

people of Norwich and especially the delivery of affordable housing, where possible within the constraints of national planning policy and viability considerations.
- We will keep our evidence base on housing needs up to date to inform decisions on an appropriate housing mix in the city. We will seek to meet identified needs through a range of mechanisms including building specialist housing (for example for older people) or influencing developers to deliver specific accommodation (for example for students).

Improve the quality and safety of private sector housing

- Private sector rental has become an increasingly prevalent part of the housing mix in the city and is also now the fastest rising source of statutory homelessness. This means that some of the most vulnerable households in the city are in private sector rental properties. We will continue to deliver our statutory duties including the extended licencing of Homes of Multiple Occupation (HMOs), and will explore discretionary licencing where evidence indicates specific issues that need addressing. Ultimately, where necessary we will continue to take enforcement action against landlords who have unsafe and unhealthy properties.
- We will also seek ways to incentivise private landlords and owner-occupiers to go beyond this bare minimum and make sure that their properties are of good quality. This will includes schemes like Cosy City which provides grants to improve insulation and address fuel poverty and our Disabled Facilities Grants.
- As a private landlord, our development company, Norwich Regeneration Limited aims to be an exemplar of good practice. As well as benefitting those tenants directly, we hope that by so doing, this will influence other private landlords to follow this example in order to compete effectively.
- With the advent of Universal Credit there is a risk that private landlords will withdraw from the market so we need to work with landlords' associations and the DWP to mitigate this risk, through ensuring that landlords know where their tenants can get support to manage their Universal Credit claim, to budget effectively and to increase their income

Continue sensitive regeneration of the city that retains its unique character and meets local needs

- We will work with landowners and developers to bring forward development in the City in accordance with our adopted development plan;
- Norwich has a significant number of derelict and underused brownfield sites which are in need of redevelopment if the potential of Norwich is to be maximised. We will continue to work with willing and realistic owners and developers to make this happen but will also consider use the use of our statutory powers where funding allows to ensure that development is brought forward on stalled sites;
- We will work with Homes England and other partners to seek to maximising funding for address infrastructure and other constraints that may prevent the regeneration of sites;

- We will continue to promote high standards of design on all development requiring extensive engagement with the public and design review in relation to major redevelopments;
- We will improve the public realm in the City both through enhancement of current spaces where possible (such as the recent improvement to Westlegate and All Saints Green) and through the creation of new area of public realm within developments. Where new spaces are created we will continue to learn from best practice and engage to ensure that new places are welcoming and accessible to all.
- We have a convening role which will help influence how a range of stakeholders collaborate to use specific spaces and assets to support long-term shared aims. An example of this is our 10 year River Wensum strategy to make use of the river that runs through the city as an asset that can deliver economic and social benefits to the city.
- We will work with Historic England and local stakeholder groups to preserve and enhance the heritage of Norwich, taking direct action where heritage is at risk and working positively with owners to ensure that buildings are retained in active use. The City Council owns a large number of heritage assets in the City and these will be managed in accordance with our Heritage Investment Strategy.

Inclusive Economy

What is our vision for this priority?
Our overall aim, in partnership with others, is to continue to develop Norwich as a strong, vibrant and inclusive economy which is the key driver of growth and prosperity regionally, and one in which the benefits of economic activity are shared by all.

How will this be achieved?
Working with our partners, we will:
- Mobilise activity and investment that promotes a growing, diverse, innovative and resilient economy
- Address barriers to employability and enhance social mobility
- Improve the quality of jobs, particularly in low pay sectors
- Increase the impact of our assets and purchasing power on reducing inequality

How will we know we are having an impact?
Outcome measures

Output measures

What will the city council do?
Mobilise activity and investment that promotes a growing, diverse, innovative and resilient economy
- We are an ambitious city which is growing fast, particularly in digital and tech sectors. We are open for business and investment and want to work with the local businesses and universities to ensure that local young people have the opportunity to benefit from that growth. We will be making the case to central government, the LEP and others that Norwich is a key driver of regional growth and that investment in the city's economy is of wider benefit and requires place-based approaches rather than wider sectoral investment. We will work with the Fast Growth Cities Network to share learning on inclusive growth and lobby central government on the common issues that hinder it.
- We will continue to work with partners in the Greater Norwich Growth Board to deliver the City Deal for Greater Norwich which serves as a catalyst for additional homes and jobs. In so doing, our ambition remains to deliver on the planned growth whilst ensuring that the benefits of that benefit all. This ambition also shapes our approach to regenerating strategic brownfield sites and vacant properties that will attract investment to the city.
- We will develop under-used land held by the council to help regenerate the city economically, as well as socially and in terms of its environment. In addition the council will consider acquiring land and property to achieve economic and other outcomes (for example to address local market failure).
- We will buy commercial property to generate income which mitigates financial pressures.
- We have always sought to support local people to start and grow businesses; this remains our ambition, despite limited resource. This will include exploring how our buildings and other assets can support a diversity of businesses. This will necessitate finding a balance between income generation and social and

wider economic benefit, through developing a social value framework for use of our assets. For example we will continue to offer reduced rates and pop-up opportunities for new traders on Norwich Market.

- We will work with colleagues in the county council, other districts, the LEP and central government to develop infrastructure that will support businesses to thrive. This includes digital infrastructure (such as broadband), transport infrastructure and commercial incubation infrastructure, such as flexible workspaces and hubs. Our role in this is primarily to convene key stakeholders around this and support the development of clear priorities and consensus that will allow for competing agendas to be balanced.
- We will work with others to raise the profile of Norwich as a high quality city to invest and do business in, and to work, live and visit. For example, tourism is a key sector in the local economy so we will also continue to work closely with the Business Improvement District (BID) and local businesses to develop initiatives that attract people to the city centre and enhance the city centre experience so that a range of businesses flourish. As the key urban centre for the county and region, the economic benefits of this will be felt far beyond the city council boundaries.

Address barriers to education, training and employability to enhance opportunity, inclusion and social mobility

- We will boost the productivity of the workforce by securing investment in infrastructure to support better communications and transport, especially public transport, cycling and walking. This will reduce congestion and help people to reach all the major employment and education sites in the city without needing to use a car. Norwich has been shortlisted for a share of £1.28bn and we will work with Norfolk County Council and the Department for Transport to develop the programme, the business case and the detailed design and implementation of projects;
- We will continue to work with the social mobility opportunity area to ensure that this reflects the socio-economic factors that can hamper educational outcomes and limit access to good quality employment
- We will use our role as local employer to provide opportunities to those who face particular disadvantage in accessing work. We will continue to operate our guaranteed interview scheme in recruitment. We will explore opportunities to pool our own apprenticeship levy contribution with other local public service providers to develop a systematic approach to apprenticeships that will link local people to shortage occupations. We will develop work experience opportunities to target local people in groups that are disproportionately under-employed, such as claimants of disability benefits.
- We will continue to support ‘Building Futures in Norwich’, which provides construction industry placements for local young people. Building on this we will develop Community Employment Plans as part of the Greater Norwich Local Plan which will support local employment in construction in specific sites as well as in the longer terms usage of developments.

Improve the quality and diversity of jobs, particularly in low pay sectors

- We have a long-standing commitment to paying the real living wage to our workers and throughout our supply chain, including our commissioning of Voluntary, Community and Social Enterprise sectors. As well as increasing

individuals' income there is a benefit to the local economy in spending power and to businesses who see an increase in productivity and staff retention. We will continue to provide civic leadership around this and encourage ever more employers to adopt the real living wage.
- We will also build the evidence base about the low wage and precarious jobs market in the city in order to inform the development of a coherent approach to this. Although we cannot change national and international forces that will inevitably impact on our city (such as Brexit) we will aim to support a local response to them that mitigates the helps local people and businesses. Again, our role is primarily one of developing an evidence base and facilitating discussions and collaborative working between key stakeholders.

Increase the impact of our assets and purchasing power on reducing inequality
- Building on our existing social value in procurement framework, we will develop a partnership with key local organisations that have a long-term stake and presence in Norwich (sometimes known as 'Anchor Institutions'). This partnership will initially be focused on identifying how the collective influence of these organisations can impact positively on the local economy.
- We will scope an Inclusive Economy Commission with key partners to identify what issues and opportunities for collaborative action exist so that we can ensure that economic activity and growth in the city benefits all.

A healthy organisation

In order to achieve our corporate priorities, we aim to be financially self-sufficient and ensure the sustainability of our services. We want efficient and effective corporate services, such as IT, HR and finance, and optimal staff wellbeing.

How will this be achieved?
This means we need to be:
- Financially stable and resilient
- High performing

And to have:
- High levels of staff satisfaction
- High levels of customer satisfaction

How will we know we are having an impact?
Outcome measures

Output measures

Performance Framework

The measures from across the three corporate priorities as well the organisational health measures constitute us the performance framework as follows:

[The full suite of performance measures will be included here when published]

Scrutiny committee comments

Extract from minutes of the scrutiny committee meeting of 13 December 2018

(1) Members discussed the draft corporate plan. A member asked how to define social mobility. The strategy manager said with high levels of deprivation and intergenerational poverty in the city, the focus would be on children in households where employment was precarious and there was a lack of tertiary education. The focus was how by 2040 these children could be trained to undertake the jobs the city needed.

(2) A member raised that climate change should be more prominently incorporated into the corporate plan. The plan should include reference to a climate emergency such as threats of prolonged heat waves and flooding but it was accepted that it was difficult to find measures the council could adopt. The strategy manager said the environmental strategy was still in place and existed in conjunction with corporate plan.

(3) A member suggested that the corporate plan could include a climate change target such as ‘keeping the city resilient in face of the changing climate’. Climate change should be incorporated into the policy and program of the organisation not just mitigated against. In terms of an inclusive economy the city council could strength the local economy through the local procurement of services and goods and encouraging others to do the same. This could increase resilience within the local economy. The strategy manager said that the ‘Preston Model’ of a circular local economy with the council as one of several anchor institutions was hard to measure but that was the aspiration.

(4) A member suggested that as the council was signed up to the UK 100 city’s pledge it could be possible to highlight the council’s commitment to climate change that way.

(5) A member suggested that the three new priorities could sit within two wider themes which could be envisaged as circles with sustainable development as the inner circle surrounded by a wider circle of democracy. The democracy theme fitted visions, mission statement and putting people first. The explicit relationships the city council had with its citizens, stakeholders and partners could sit under the heading; ‘what are we doing to achieve democracy?’ This could be incorporated with transparency and encouraging the public to participate. For example the publication of open source data could encourage citizens to take an active role in their neighbourhoods.

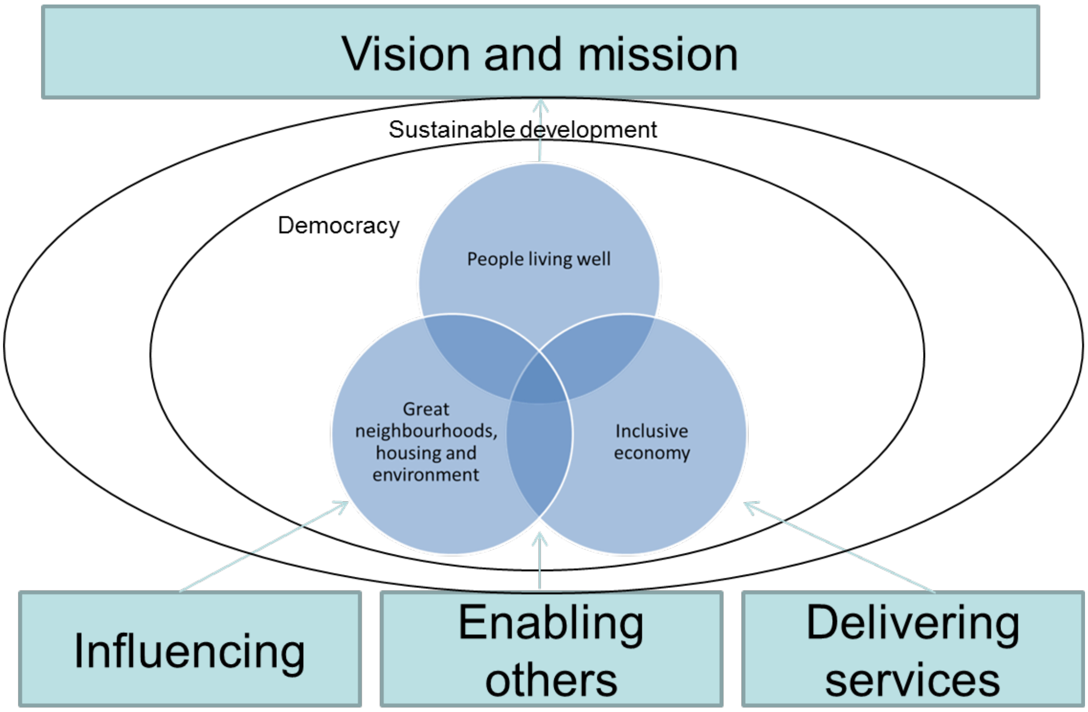
(6) In response to a member question the strategy manager said that the city vision work attempted to target those residents who did not habitually engage in consultations. There were big pieces of engagement ongoing via the local area survey. He emphasised that there was an engagement role for ward councillors too who were out in the community.

(7) A member said that the corporate plan was not as accessible as it could be.

Subsequent comments received from individual members of the committee:

Councillor Denise Carlo sent a series of comments which were discussed with the strategy manager. The following text represents both of these inputs:

- Add 2 overarching themes as an additional Corporate Plan Priority and entry in the Mission Statement.
    - Sustainable development: intended to avoid trade offs between economic, social and environment. Para 2.6 of Draft Plan – need to avoid trade offs and to achieve sustainable development instead.
    - Democracy
- The additional two themes to be depicted as 2 larger circles enclosing the 3 proposed smaller overlapping themes (circles) shown under 'Vision and Mission':



- Adding Democracy as a strand would make a statement on the Council's relationship with its citizens. It fits in with Council Fit for the Future Vision and enabling people to help themselves. It also fits with the Mission Statement to put people first. This new strand would involve modest additional resources.
- Under Democracy heading of 'What the City Council will do' could include values and measures such as:
    - Transparency: eg publish open source data; respond to FoI enquiries in a timely way.
    - Public participation: eg explore new methods of public participation; encourage citizens to get involved in looking after their neighbourhoods.
    - Communications: respond to customer enquiries with x days.

- Under Great neighbourhoods, housing and environment
    - Suggest adding: ‘reduce greenhouse gas emissions’. This is because ‘keeping the city resilient in the face of a changing climate’ doesn’t go far enough. As a City Council, we need to explicitly cut GHG emissions.
    - How will this be achieved?

    - Add to 2nd bullet, ‘policies and programmes’, to read, “ensure our services, policies and programmes mitigate against any adverse effects of climate change and are efficient to reduce carbon emissions”.
    Reason: reference to ‘services’ doesn’t go far enough. Whilst ‘policies and programmes’ could be seen as a sub-set of services, at the same time, services are a reflection of policies set by the Council and programmes adopted. Also, the Council has an important influencing role in shaping the agendas of its partnership bodies eg GNDP and New Anglia LEP and giving a lead generally.

Possible alternative to embedding sustainable development and democracy in one of the new priorities would be to use this amended text as the third priority (amendments shown in italics):

Inclusive economy *and democracy*

Vision	Our overall aim, in partnership with others, is to continue to develop Norwich as a strong, vibrant and inclusive economy which is the key driver of growth and prosperity regionally, and one in which the benefits of economic activity are shared by all *through sustainable development. This needs to be accompanied by transparent, inclusive democratic and civic engagement*
How will this be achieved? Working with our partners, we will:	• Mobilise activity and investment that promotes a growing, diverse, innovative and resilient economy • Address barriers to employability and enhance social mobility • Improve the quality of jobs, particularly in low pay sectors • Increase the impact of our assets and purchasing power on reducing inequality • *Encourage transparency and democratic engagement*
Outcomes	• Social mobility • Vibrant city centre • Good jobs • Circular local economy • Diverse, thriving businesses • *Greater involvement of citizens in community matters*

Cllr David Fullman made a series of helpful comments about phrasing and proof-reading observations which are not presented here but will be included in the final version. He also made the following points:

- I expected that there would be some mention of Indexes of Multiple Deprivation somewhere in the Performance Framework. The IMDs tell a good story about Norwich City Council in that the area scores high for Housing. However, this raises the IMDs overall for Norwich and disguises the failure of the education, health and police services in the City as evidenced in the IMDs for education, health and crime.
- The second bullet point in the section on social mobility (page14)worries me:
    - "We will continue to work with the social mobility opportunity area to ensure that this reflects the socio-economic factors that can hamper educational outcomes and limit access to good quality employment"
- The opportunity area is run by those people whose failure created or at least exacerbated the problem in the first place. It is therefore very stupid of the government to expect them to remedy the problem. The bullet point ignores those organisations in Norwich that do try to address the problem through alternative provision but are sidelined by the opportunity area.
- In the tables of outcome and output measures that were handed round at the meeting those items that measure individual responses should also include collection diversity information from the people who respond. This will eventually allow more detailed questions to be asked like 'why do male tenants feel more safe than female ones?' or 'why are white British people more satisfied with their neighbourhood?'. Of course any discrepancies will only show from analysis of the data. This approach would make the council more compliant with its duties under the Equality Act 2010.

Report to	Cabinet 13 February 2019	**Item**
Report of	Chief finance officer (Section 151 Officer)	7
Subject	The council's 2019/20 budget and medium term financial strategy	

Purpose

This report and its various sections and appendices set out proposals for the 2019/20 budget (general fund, HRA and capital programme) along with medium term expenditure and financing plans across the whole of the city council's activities. It also contains the council's proposed non-financial investments (commercial) strategy and the Treasury Management Strategy.

Recommendations:

Cabinet is asked to note:

a) The budget consultation process that was followed and the feedback gained as outlined in Appendix 2 (I).

b) Section 8 on the robustness of the budget estimates, the adequacy of reserves, and the key financial risks to the council.

c) That the Council Tax resolution for 2019/20, prepared in accordance with Sections 32-36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011, will be calculated and presented to Council for approval once Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk have agreed the precepts for the next financial year.

Cabinet is asked to recommend to Council to approve:

General Fund

1. The council's net revenue budget requirement as £16.772m for the financial year 2019/20 including the budget allocations to services shown in Appendix 2 (C) and the growth and savings proposals set out in appendices 2 (F) and 2 (G).

2. An increase to Norwich City Council's element of the council tax of 2.99%, meaning that that the Band D council tax will be set at £264.13 (paragraph 2.19) with the impact of the increase for all bands shown in Appendix 2 (E).

3. The planned use of £0.958m of General Fund reserves to finance the budget requirement in 2019/20 (shown in table 2.4).

4. The prudent minimum level of reserves for the council as £4.3m (paragraph 2.41).

Housing Revenue Account

5. The proposed Housing Revenue Account gross expenditure budget of £59.3m and gross income budgets of £67.4m for 2019/20 (paragraph 3.4).

6. Of the estimated surplus of £8.2m, £6m is used to make a revenue budget contribution towards funding of the 2019/20 HRA capital programme (paragraph 3.4).

7. The implementation of the minimum 1% rent reduction in accordance with legislation set down in the Welfare Reform and Work Act 2016 (paragraphs 3.11 to 3.12).

8. A 3.4% increase in garage rents for 2019/20 (paragraph 3.13).

9. The transfer of £1m of underspend forecast to be achieved in 2018/19 to the HRA's spend-to-save earmarked reserve (paragraph 3.3).

10. The prudent minimum level of housing reserves as £5.837m (paragraph 3.33).

Capital Strategy

11. Changes to the 2018/19 approved capital budget as set out in paragraphs 4.28 to 4.30.

12. The proposed general fund capital programme 2019/20 to 2022/23 and its method of funding as set out in table 4.7, table 4.8 and Appendix 4 (B).

13. The proposed HRA capital programme 2019/20 to 2022/23 and its method of funding as set out in table 4.7, table 4.9 and Appendix 4 (B).

14. The capital strategy, as required by CIPFA's Prudential Code.

15. The recommendation to undertake a comprehensive review of the entire general fund's land and property assets with a view to identifying those assets that need further investment and those which could be surplus to requirements (paragraph 4.20).

Non-financial Investments (Commercial) Strategy

16. The placing of security and yield above liquidity when considering commercial property investments as explained in paragraphs 5.15 to 5.18.

17. Continuing to invest in commercial property outside of the city's boundaries in order to obtain the best opportunities available, diversif12y the portfolio, and thereby mitigate the risk of holding these investments (paragraph 1.38).

18. The setting aside of 20% of the net new income achieved from commercial property investment into the commercial property earmarked reserve as set out in paragraphs 5.19 to 5.21.

19. The council's policy and process for lending to Norwich Regeneration Limited as set out in paragraph 5.28.

20. The proposed loan facility (amount of lending) the council will make available to Norwich as set out in table 5.1, subject to the process set out in 5.28.

21. The proposed equity investment the council will make in Norwich Regeneration Limited as set out in table 5.2, subject to the process set out in 5.28.

Treasury Management Strategy

22. A change to paragraph 74 of the 2018/19 treasury management strategy to change the rating shown in that paragraph from AAA to AA- (AA minus) in order to rectify an error in the document.

23. The borrowing strategy 2019/20 through to 2021/22 (paragraphs 6.19 to 6.30).

24. The capital and treasury prudential indicators and limits for 2019/20 through to 2021/22 contained within paragraphs 6.13 to 6.18 and tables 6.2 to 6.4, including the Authorised Borrowing Limit for the council.

25. The Minimum Revenue Provision (MRP) policy statement described in paragraphs 6.31 to 6.35 and contained in Appendix 6 (A).

26. The (financial) Investment Strategy 2019/20 (paragraphs 6.36 to 6.69).

Summary of key financial indicators

27. The indicators for 2019/20 through to 2021/22 contained in section 7.

28. Not to establish self-assessed limits for the indicators in this year's budget report as explained in paragraph 7.4.

Corporate and service priorities

The report helps to meet all the corporate priorities.

Financial implications

This report presents the council's proposed 2019/20 budgets across all of its activities along with its medium term financial strategy. The financial implications of these proposals are given throughout the report.

Ward/s: All Wards

Cabinet member: Councillor Kendrick - Resources

Contact officers

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Background documents

None

Background

1.1 The council continues to face a substantial financial challenge. The sustained period of austerity has decreased the city's council's own budgets whilst putting huge financial pressures not just on council resources, but those of partners, local businesses, and residents, particularly the most vulnerable residents.

1.2 The impact of government decisions on Universal Credit and mental health as examples, are putting increasing pressure on the council's services, in particular homelessness.

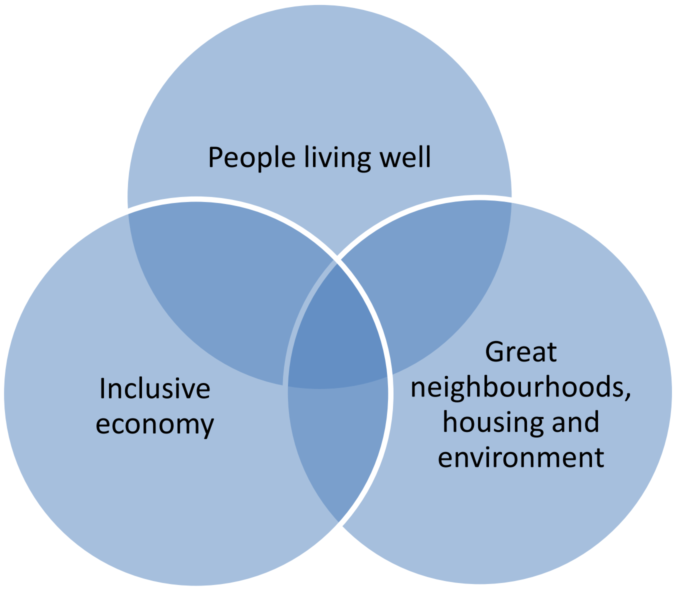
1.3 Additional burdens, such as the cost of extending the HMO licensing scheme in line with government's requirements, are often not fully funded by government and result in increased costs for the council.

1.4 Alongside austerity, the council has to manage ongoing and unprecedented risk and uncertainty including significant changes in future local government funding from 2020/21 onwards and the possible impacts of Brexit.

1.5 Nevertheless the council's ambition for Norwich is undiminished. Over the last 12 months the city council has worked together with businesses, local authorities, young people, the voluntary sector, and community groups to develop the Norwich 2040 Vision.

1.6 The Council's Corporate Plan, which is on this meeting's agenda, sets out the council's contribution to the Norwich 2040 Vision, whilst this budget report sets out the financial framework and strategy for aiding the delivery of the Corporate Plan over the medium term.

Chart 1: The Council's Key Priorities

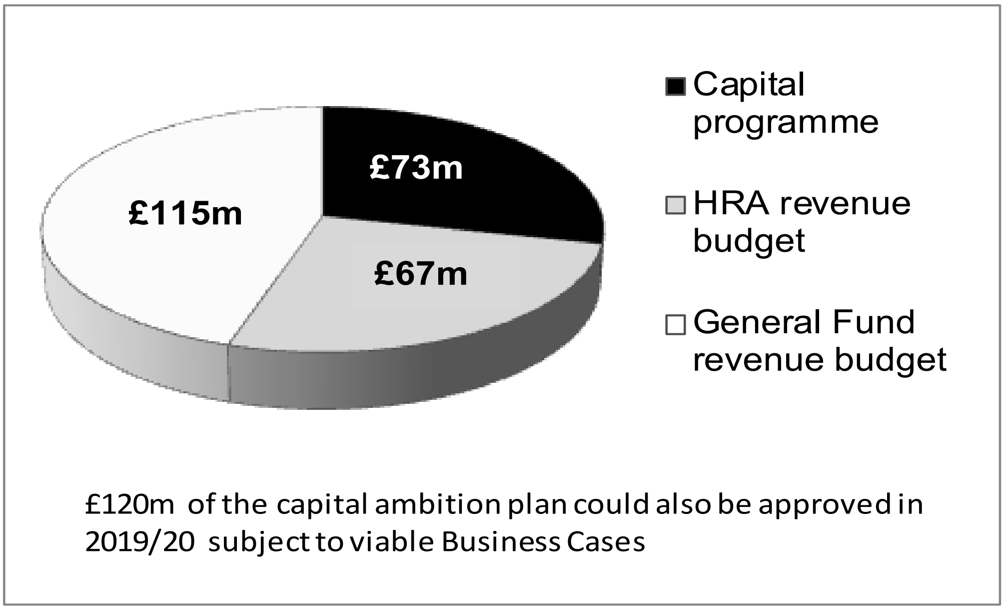


1.7 The council is ambitious and wants to make a real difference to both the physical fabric of the city and to the lives of residents who live and work here. But given the financial constraints the council is unable to fund all of the investment required itself. The council will therefore work with others to secure investment in the city's future, act an "enabler" or "catalyst" for change, and ensure that its own resources, particularly its capital investment, are flexed as far as possible to deliver the key outcomes set out in the Corporate Plan.

Summary

1.8 This report sets out 2019/20 budget proposals that total £255m across the General Fund, the Housing Revenue Account, and the capital programme along with expenditure and financing plans for the following four years.

Chart 2: proposed gross expenditure budgets for 2019/20



General Fund

1.9 The financial year 2019/20 is the ninth year of austerity and government-imposed funding cuts. The city council has already made efficiency savings, including the generation of new income streams, of some £35.5m over these nine years and further gross savings/increased income of £1.9m is proposed in 2019/20.

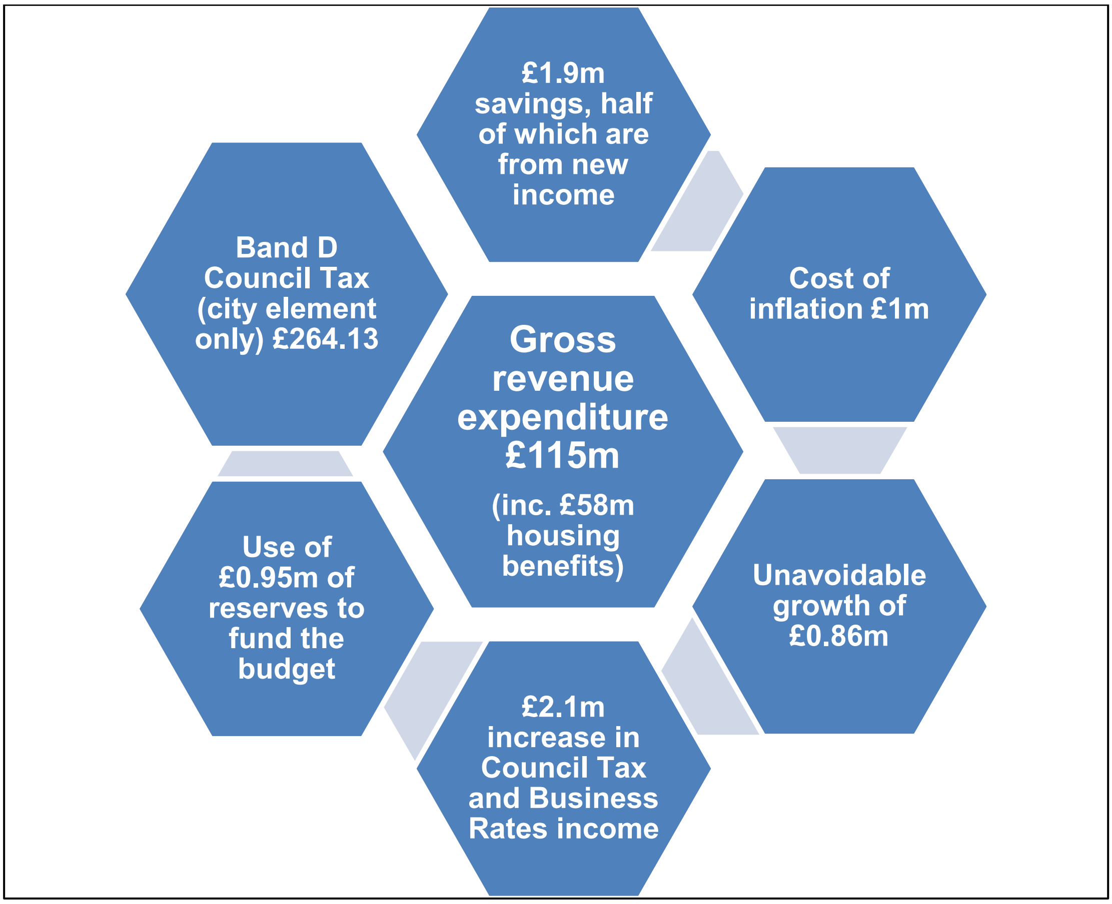
1.10 2019/20 is also the last year of the four year financial settlement given by central government in 2016 and the last year of the current local government funding regime (see section 1).

1.11 With further business rates retention, the results of the Comprehensive Spending Review, and the outcome of the Fair Funding Review all being implemented from April 2020, local authorities have no reliable basis on which to appropriately plan their budgets as it is unclear how much funding there will be from April 2020, how it will be distributed, and the means of delivery.

1.12 Consequentially, the forecasts for 2020/21 onwards in the MTFS are not to be taken as robust figures and they are largely based on the current *status quo* continuing, particularly with regards to how much business rates income the government allows the city council to retain in the future.

1.13 Current forecasts, given the caveats highlighted above, show that a further £10.3m of gross savings will need to be found over the four year period from 2020/21. This quantum of savings represents 18% of the 2019/20 proposed gross expenditure budget (excluding the housing benefits budget which is fully funded via central government housing subsidy).

Chart 3: Key figures in 2019/**20 proposed general fund revenue budget**



1.14 The council will plan to implement these savings in a controlled manner and by taking a strategic and medium-term rather than a short-term approach. It can do this because it has built-up significant general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. These will be used to partially fund the budget in a planned way over the next four financial years until the reserves are forecast to reach the minimum prudential level as recommended by the chief finance officer.

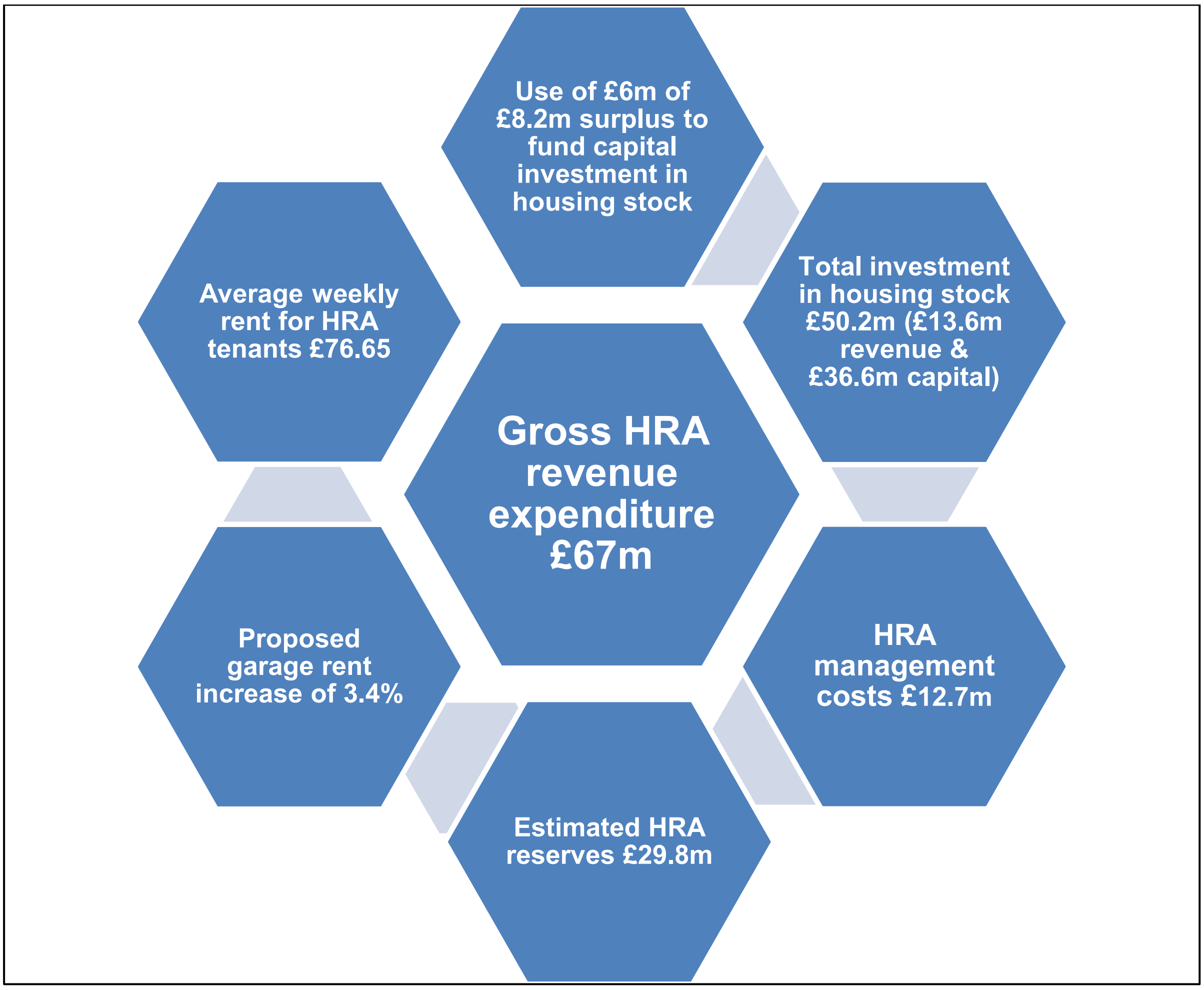
1.15 A key element of the council's proposals is to generate additional new net income from commercial activities, particularly through investing in commercial property. This council, along with many other local authorities, invests in property in order to protect key front line services, using the net rental income streams generated to part-fund the loss in government grant over the last nine years. Full details are given in the commercial property investment strategy (see https://www.norwich.gov.uk/commercialstrategy).

1.16 Current savings and income generation plans, including the fit for the future programme, are thought at this initial stage, to be able to cover 30% to 40% of the medium term “budget gap”. It is almost inevitable therefore, given current forecasts that this council will need to cut or reduce general fund services from 2020/21 onwards and move towards the provision of core statutory services only.

1.17 The council’s intention however is to protect all services currently provided for as long as possible whilst meeting the statutory need to set a balanced budget each year, maintaining financial stability over the medium term, and managing significant financial risks.

Housing Revenue Account (HRA)

***Chart 4: Key figures in 2019/*20 proposed HRA Business Plan**



1.18 The council’s HRA comprises expenditure and income plans related to the ownership and management of the council’s social housing stock.

1.19 The HRA does not face the same financial pressures as the council's general fund, although the account has lost significant income from the government's enforced rent reduction enacted in the Welfare Reform and Work Act 2016 and there are potential risks to rental income streams arising from the roll out of Universal Credit and the continuing Right-to-Buy legislation.

1.20 The HRA is forecast to make a surplus of income over expenditure of £8.2m in 2019/20 and it is proposed to use £6m of this surplus to fund capital investment in the housing stock.

1.21 2019/20 is the last year of the enforced rent reduction and average HRA rents will reduce to £76.65 per week.

Capital strategy

1.22 The council's proposed capital programme for 2019/20 is £72.5m. An illustration of some of the key projects and programmes are given in charts 5 and 6 and the detail can be found in Appendix 4 (B).

Chart 5: Illustration of proposals within the general fund capital programme

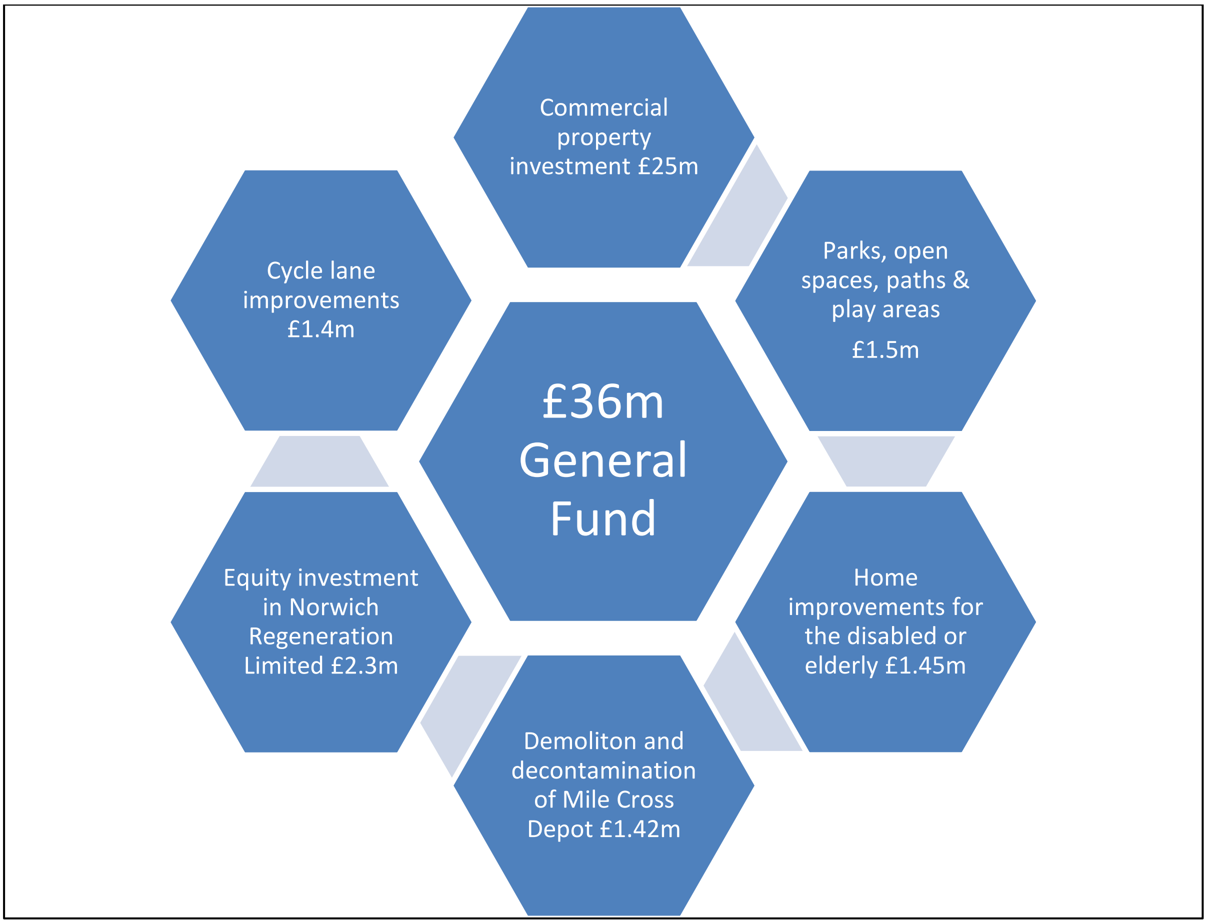
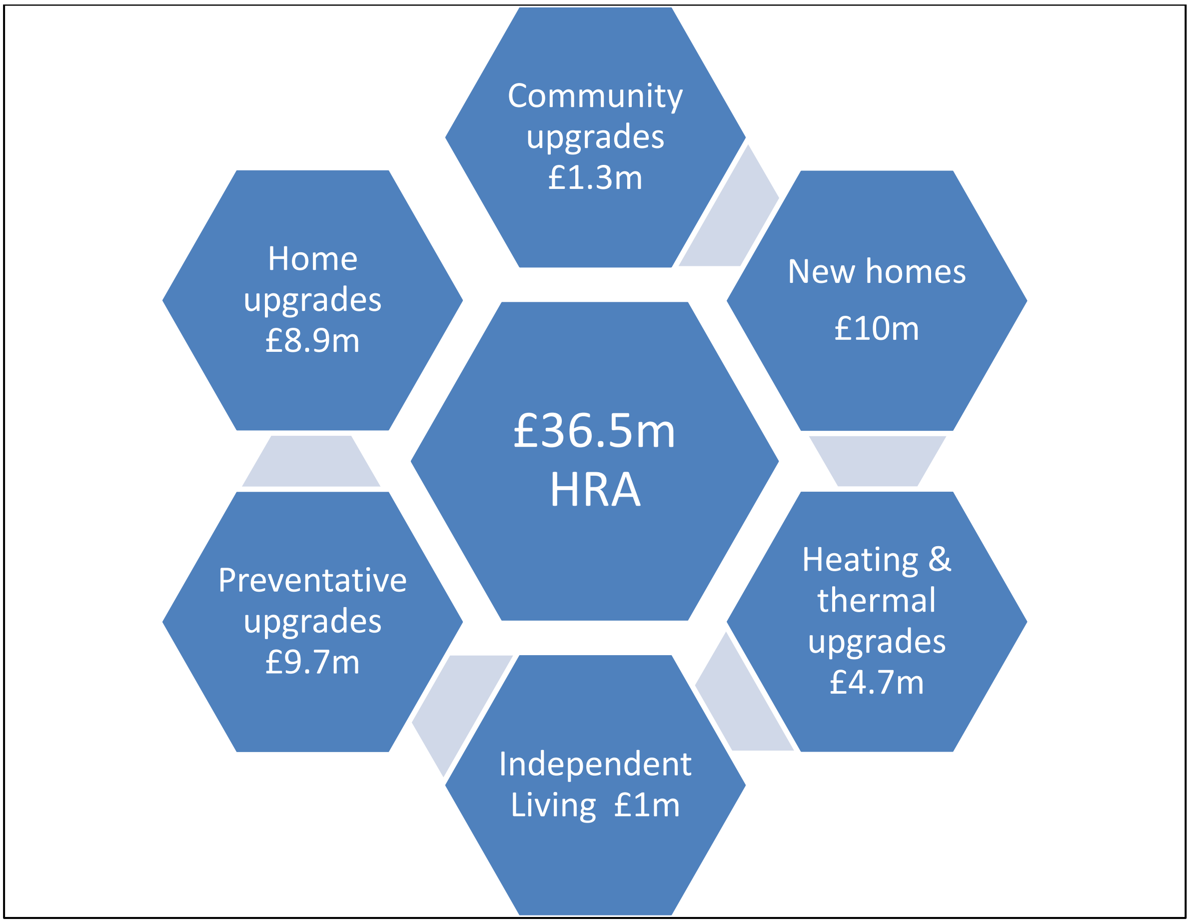


Chart 6: Illustration of proposals within the HRA capital programme



- New homes: £8m for HRA homes and £2m grant to other registered providers
- Heating & thermal upgrades – boilers, insulation, solar and PV panels
- Independent Living – disabled adaptations and sheltered alarms
- Preventative upgrades – structural improvements, roofing, lifts
- Home upgrades – kitchens, bathrooms, windows, doors, electrical works
- Community upgrades – door access control, CCTV, estate aesthetics & improvements, HRA estate shops

1.23 In addition to the proposals seeking approval by council to be included in the capital programme now, a further £148m of capital ambition projects may seek approval from council later in the year, subject to viable Business Cases. These schemes are described in paragraph 4.39.

1.24 Many of the capital ambition projects involve the council's wholly owned company building new homes for private sale and rental as well as affordable homes for sale to the council using the HRA account. These will deliver 587 new homes (of which 180 would be affordable homes).

1.25 The council is currently developing its Housing Strategy which will help guide future investment decisions. The lifting of the HRA debt gap combined with the council's long term business planning approach and recent experience of house building (either itself or through its company) mean that the council, through its HRA account, will seek to build more affordable homes in the city in the future. It has significant reserves that could be used for this purpose (see paragraph 3.34) and the HRA Business Plan demonstrates significant “headroom” for the HRA to borrow for this purpose whilst still ensuring the borrowing is prudent and affordable.

1.26 Unlike the HRA, the general fund has insufficient capital resources to meet investment needs for the future. The council owns many different general fund assets and there is some evidence to show that it may hold more land and property assets than similar councils (table 4.2).

1.27 The existing maintenance backlog on the council’s existing general fund assets is estimated at some £21m. Borrowing money to tackle this backlog is not an option for most of the properties requiring the expenditure, as the borrowing incurs financing costs that put extra costs onto the revenue budget whilst many of the improvements needed will not generate any new income streams, or sufficient budget savings, to cover these costs. Capital grants are not often readily available for the work needing to be undertaken and capital receipts (income from asset assets), which have traditionally been used in the past to fund this type of expenditure, are reducing.

1.28 The council is proposing to undertake 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.

The council’s overall financial position

1.29 The council has a strong balance sheet and owns some £1 billion of long term assets (mostly land and property – see table 7.1). In addition, it has significant reserves both for the general fund and HRA (see paragraphs 2.41 to 2.43 and 3.32 to 3.34).

1.30 CIPFA has produced financial stress indicators for the council which show that it is not currently “at risk” (see chart 8.1).

1.31 The council’s general fund services are under the most financial pressure, both for revenue and capital expenditure. The huge uncertainties surrounding the changes in the local government finance regime from 2020/21 hinder robust forward financial planning for the general fund.

1.32 Like many others, this council undertakes commercial activities which both contribute to its corporate priorities as well as generate new income streams to help fund front line services. These activities are classified as non-financial investments.

1.33 The investments proposed to be made are significant and are set out in section 5. In total just under £40m of expenditure is proposed in 2019/20 on commercial property investment, lending to third parties, and equity investments (the latter two primarily with Norwich Regeneration Limited).

1.34 9% of the general fund’s gross expenditure budget for 2019/20 will be funded from commercial income (table 7.6), although a significant amount of the anticipated new income is prudently not taken into the MTFS budget until it is realised and some is set aside in earmarked reserves to mitigate against the risks associated with these commercial activities.

1.35 The funding of non-financial investments along with the proposed capital programme and capital ambition projects will significantly increase the council's capital funding requirement (its indebtedness or underlying need to borrow). If projects and programmes proceed to plan, then the capital financing requirement will increase by £129m from 2017/18 to 2021/22, a 49% increase (table 7.2). The indebtedness compared to the value of the council's assets (gearing ratio) increases from 2% in 2018/19 to 11% in 2022/23 (table 7.5).

1.36 The council currently has £59m of cash holdings and will therefore need to borrow externally at some point to fund the capital financing requirement. The strategy for switching from internal to external borrowing is set out in Appendix 4 (C). Sufficient provision has been made in the proposed authorised limit for external borrowing to do this.

1.37 The council's policy for using borrowing as a means of funding capital expenditure is also described in Appendix 4 (C). Essentially the council will only borrow money (increase its capital financing requirement) in cases where there is a clear financial benefit, such as a new income stream or budget saving, that, at the very least, will fund the costs arising from the borrowing (interest and MRP costs).

1.38 The overall proposed direction of travel means more focus is being given to enhanced options appraisal, Business Case preparation, financial modelling, and commercial awareness so that robust decisions can be made. Recent appointments have significantly increased the council's skills and capacity in this regard (in the transformation and strategy team, in LGSS Finance, and in the Norwich Regeneration Limited). The council regularly appoints external specialists to assist in many of its commercial activities (particularly independent experts in property, tax, treasury management and financial modelling) and it plans to enhance its capacity to deliver the capital ambition plan through the restructuring of its property functions as part of the fit for the future programme.

The council's approach to financial planning

1.39 The council's approach to financial planning and budgeting across all of its activities is underpinned by the following key principles:

- A prudent rather than optimistic assessment of future resources and unfunded cost pressures.

- A prudent and planned use of general reserves to fund expenditure and an annual risk-based assessment of the minimum amount of reserves the council should hold (minimum prudent level).

- The setting aside of some of the new net income arising from commercial property investment and lending to Norwich Regeneration

Limited into earmarked reserves to mitigate against the risks inherent in undertaking these commercial activities.

- A prudent approach to the amount of reserves held in the Collection Fund given the inherently volatile nature of business rate collection.

- A cautious approach in estimating future income from business rates and council tax, and the growth in the tax bases, given that changes to the local government funding regime could impact on the former, and both taxes may be affected by the current uncertainties surrounding Brexit and its potential impact on the national and local economy.

- A maximisation of external grant funding that meets the council's priorities.

- The holding of general fund, HRA and capital contingency budgets at the corporate level to help ensure the council does not overspend in any one year.

- The full integration of revenue, capital, and treasury management decision making processes to ensure (a) the revenue implications of capital projects are accurately reflected in the MTFS and the annual budget, and (b) the authorised borrowing limit is sufficient to fund the council's capital plans whilst being prudent, affordable, and sustainable.

- The inclusion of savings and capital project proposals into the budget only when the figures and implementation plans are robust.

- The inclusion of the costs of external borrowing to fund capital projects (interest and MRP costs) into the revenue budget even if in practice the expenditure is temporarily funded from internal borrowing (use of the council's cash holdings).

- Other specific capital funding strategies as set out in Appendix 4 (C).

Contents of this budget report

1.40 The council's budget and finances are becoming increasingly complex and in order to understand the full picture Members and key stakeholders need to appreciate the distinctions between revenue and capital expenditure, general fund and Housing Revenue Account, and the different funding sources for each, whilst at the same time recognising that they all interconnect and impact on the council's balance sheet position, particularly its cash flow and any future borrowing requirements.

1.41 In addition, changes to regulatory codes of practice (described in section 1) require new sections in the budget report. Members will need to form views on the council's proposed commercial property investment, it's lending to third parties including its wholly owned subsidiary company, and its equity investments whilst understanding new financial indicators showing the risks, proportionality and affordability of the commercial activities being proposed.

1.42 This report comprises a series of interlinked and comprehensive papers setting out proposals for the 2019/20 budget along with medium term expenditure and financing plans across the whole of the city council's activities. Members may wish to consider each section in turn. A brief explanation of the contents follow along with a "road map" (chart 7) attempting to show the basic terminology, interrelationships, and content of the report.

1: Local Government Finance – economic and statutory context

This gives a brief summary of the current key national economic indicators and the state of public sector finances. It summarises the changes that are intended to be made by government to the local government finance regime in 2020/21 onwards and describes all of the regulatory changes that have recently been introduced that affect the preparation of the budget report.

2: General Fund 2019/20 budget and MTFS

Sets out the proposed general fund revenue budget and its financing for 2019/20, including the proposed Council Tax for 2019/20, along with a forecast of the medium term position.

3: Housing Revenue Account 2019/20 Budget and Business Plan

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2019/20 rental charges for HRA tenants.

4: Capital Strategy

This is a new requirement arising from changes made to CIPFA's Prudential Code. The Strategy sets out the council's budget and preliminary ambition plan for capital expenditure over the next five years along with how the investment will be financed and delivered.

5: Non-financial (Commercial) Investment Strategy

This is also a new requirement arising from changes made to MHCLG's Investment Code. The Strategy covers the council's investments in commercial property and its lending and equity investments in third party organisations, but particularly with Norwich Regeneration Limited.

6: Treasury Management Strategy

The strategy sets out proposals and indicators required for the effective management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; and the effective control of the risks associated with those activities.

7: Summary of key financial indicators

This section gives various indices, required under the Prudential and Investment codes, that allow members to come to a judgement on the proportionality, affordability and value of potential risk exposure of the budget proposals, in particular those contained within the capital strategy and the non-financial investments strategy.

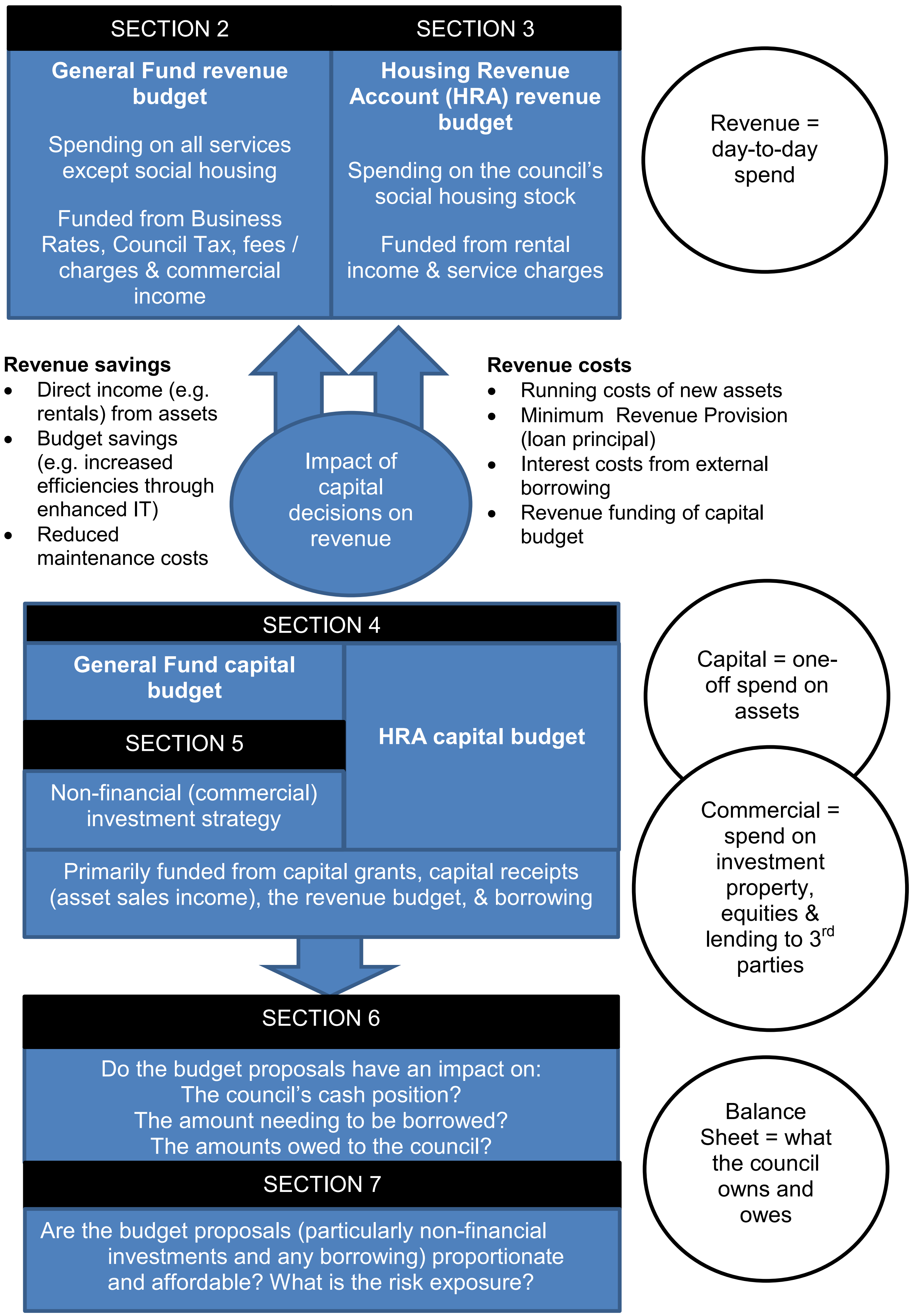
8: Chief Finance Officer’s Statement

This is a requirement of section 25 of the Local Government Act 2003. It covers the key financial risks facing the council and the chief finance officer’s opinion on the robustness of the estimates and the adequacy of the council’s reserves. New information is also provided on the analysis undertaken by CIPFA on the city council’s financial resilience.

9: Financial glossary

The budget papers by their very nature contain technical financial terms and concepts. An attempt is made in the glossary to explain these.

Chart 7: Budget Report "road map"



Integrated impact assessment	NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with the completion of the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	06 February 2019
Director / Head of service	Karen Watling
Report subject:	The council's 2019/20 budget and medium term financial strategy
Date assessed:	20 January 2019
Description:	This integrated impact assessment covers proposals for the General Fund revenue budget, the HRA Business Plan, the Council's capital investment strategy and the treasury management strategy

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The budget proposals will secure continuing value for money in the provision of services to council tax payers and other residents of the city, as well as the provision of works and services to council tenants.
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	The proposed budget within this paper covers a wide range of council activity and spend. As a result it is not possible to provide a detailed assessment of, for example, the impact on residents and others with protected characteristics under The Equality Act at this level. Existing council processes for equality impact assessments should continue to be carried out at an appropriate time for the individual projects, activities and policies that constitute this budget and transformation programme.
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	

	Impact			
Natural and built environment	☐	☒	☐	The proposed capital investment strategy will provide for improvements to the council’s assets and the surrounding environment. .
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☐	☐	☒	The risk profile of the Council has increased as the budget contains proposals to generate additional income from commercial activity and such income can be volatile and dependent on the health of the national and local economy.

Recommendations from impact assessment
Positive
None
Negative
The report includes several mitigating actions in terms of risk management, namely: • The 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. • Enhanced forecasting and budget monitoring of income particularly that generated from the Council’s commercial property portfolio. • 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.
Neutral
None
Issues
None

1. LOCAL GOVERNMENT FINANCE – ECONOMIC AND STATUTORY CONTEXT

Key Economic Indicators and State of Public Finance

1.1 A summary of the key economic indicators, as at the time of writing this report (January 2019), is given below.

Table 1.1: Key economic indicators & state of public sector finances

Bank Interest Rate: In August 2018, the Bank Of England's Monetary Policy Committee (MPC) raised Bank Rate to 0.75%. The MPC voted unanimously to maintain the Bank Rate at its October meeting. The Bank of England reports that stronger-than-expected activity and inflation outturns, as well as increases in short-term interest rates internationally, have pushed up the market-implied path for Bank Rate. It is now expected to reach around 1.4% in three years' time, up from 1.1% in August. The MPC continues to recognise that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal. The implications for the monetary policy will depend on the balance of the effects on demand, supply, and the exchange rate. *Source: Bank of England 'Inflation Report – November 2018'*
Inflation: Consumer Prices Index (CPI) inflation stood at 2.4% in September. The OBR forecasts CPI inflation to be 2.6% in 2018 and it is then expected to be around 2.0% for the rest of the forecast period. The ONS's headline measure of inflation, the Consumer Prices Index including owner occupiers' housing costs (CPIH) inflation, was 2.2% in September, a slight decrease from 2.4% in August. The government's objective is that CPIH will become its headline measure over time and work is ongoing to understand its properties compared to CPI and RPI. *Source: Autumn Budget 2018*
GDP Growth: The OBR forecasts annual GDP growth of 1.3% in 2018 and 1.6% in 2019. GDP growth dips slightly to 1.4% in 2020 and 2021, and then increases to 1.6% by 2023. The OBR has not attempted to predict the precise outcome of negotiations with the EU. Instead, it has made broad-brush assumptions, which have not changed since Autumn Statement 2016. However, the OBR has included a transition period in its forecast of exports and imports for the first time. This postpones the point at which EU exit affects imports and exports to 2021. *Source: Autumn Budget 2018 and Office for Budget Responsibility*

Unemployment Rate and Average Earnings: The employment level has continued to increase in 2018, while the unemployment rate has fallen further and now stands at 4.0% - the lowest rate since 1975. The OBR forecasts average earnings to grow by 2.6% in 2018 and 2.5% in 2019, before rising to 2.8% in 2020. *Source: Autumn Budget 2018*
Public Sector Finances: Medium term forecasts now suggest that public sector net borrowing will level-out at about £20bn in 2022-23 and 2023-24. This is an improvement on the forecasts in the last two fiscal announcements; with much of the improvement has been the result of better-than-expected taxation receipts. The Budget sets out the path of day-to-day spending by departments in aggregate for years beyond the current Spending Review period. From 2019-20 to 2023-24, Government spending, including the NHS settlement, is forecast to grow at an average of 1.2% per year in real terms. This was in contrast to the average cut in real -term funding in the 2015 Spending Review (-1.3%). Figures are not yet provided for individual departments, only for the whole public sector. It is unlikely however that local government as a whole will receive increases in future funding from government given funding promises already made to other areas such as the NHS. There also remains uncertainty over the split in local government funding between county and district councils; the expectation being a shift towards Counties in light of the challenges over adult social care and children's services. *Source: Office for Budget Responsibility and CIPFA*

Final Local Government Finance Settlement

1.2 The final Local Government Finance Settlement 2019-20 was published on 29 January 2019. The key announcements with relevance to Norwich City Council are summarised below:

1.3 **Business Rates Pilots:** 15 new 75% business rates pilots were announced. The Norfolk Business Rates Pool was successful in its application for the 2019/20 pilot. The Pool includes Norfolk County Council and the seven District Councils. Participation in the business rates pilot is forecast to deliver tangible benefits to the county as a whole, and will support the Government as it develops the new Business Rate Retention system for implementation in 2020-21.

1.4 The overall gain to Norfolk from piloting is estimated to be almost £8m, representing the additional 25% share of growth that will now be retained locally and shared between the Districts and County Council. This gain will provide additional funding for each council's revenue budget, helping to support and maintain vital local service provision. A proportion of retained rates will continue to be used to support vital economic development across the region through a Joint Investment Fund, with its use agreed by Leaders of all the Norfolk local authorities.

1.5 The pilot agreement will see the districts and county receive half of the additional local share each. The additional district growth will be further split 30% based on growth in the individual district and 70% shared across all seven districts. The additional one-off income for the Council (currently estimated at some £0.5m) will not be payable until 2020/21. This will be set aside to fund one-off expenditure projects and not incorporated into the MTFS.

1.6 **Business Rates:** There was a £180m surplus on the national levy account in 2017-18 (for the first time) and this will be redistributed by to local authorities based on need. Norwich is expected to receive £90k surplus distribution.

1.7 **Council Tax:** The core council tax referendum limit remains at 3% and there are no further increases in the adult social care precept (6% threshold over 3 years, with maximum 3% increase in any one year). The threshold for the Police and Crime Commissioners' precepts will increase to £24 (from the current £12).

1.8 **New Homes Bonus:** The national growth baseline will stay at 0.4%. The Government has decided to provide an additional £20m in 2019-20 so that the baseline can remain at 0.4%.

1.9 **Innovation Fund:** A package of support to help councils become more efficient was announced. It will support continuous performance improvement and the use of smarter technology. There will be a £7.5m innovation fund, with the first allocations already announced.

Local Government Finance Post 2020

Fairer Funding Review

1.10 Alongside the provisional local government finance settlement, the Government has launched a consultation "*A review of local authorities' relative needs and resources*". The aim of the consultation is to inform the development of a more robust and up-to-date approach to distributing funding across all councils.

1.11 The review will be used to set new baseline funding allocations for 2020/21 whilst considering transitional arrangements to ensure funding changes are introduced in a manageable way.

1.12 It will be important that Norwich City Council engages with the consultation as being an under-bounded city district it has spending needs and cost drivers that may not be typical of the majority of district councils who are largely rural in nature. The consultation will close on 21 February 2019.

1.13 The aim of the MCHLG is to move to a simpler formula for distributing the funding with fewer indicators, a reduction in the number of service-specific formulae, and funding more elements on a per capita basis.

1.14 The deprivation indicator has been removed from the Foundation Formula that will be used to distribute most of the funding available to district councils. In addition, the consultation seeks views on the relative merits of sparsity and density in distributing funding as well as views on whether the amount of resources that can be generated locally is taken into account, such as car parking income. All of these are likely to have an adverse impact on this council.

1.15 It is difficult to forecast the impact of the review on this council until government sets out the relative weightings of these indicators in the formula, and its damping (transitional) arrangements There is however consensus amongst local government finance practitioners that the bigger winners from the review are likely to be the county councils and many district councils with lower needs and high tax bases. London boroughs are expected to fare particularly badly from the proposals.

1.16 The council will need to continue to be mindful of any shift in service demand due to budget and service reductions undertaken elsewhere in the public sector such as happened with the changes to supporting people funded services.

1.17 The council also has a number of new burdens. This includes the responsibilities arising from the homelessness reduction act 2017 and the extension of the HMO licensing scheme (houses of multiple occupation) both of which were implemented during 2018-19.

1.18 Homelessness caseloads for officers have doubled with many more clients requiring advice. Three years Government grant has been provided but early indications are that this will be insufficient to meet the increased demand on the council.

1.19 The implementation of the new HMO licensing scheme requirements is meant to be recovered through licensing fees. However, this change will lead to an estimated increase in other enforcement costs of £80,000 per annum for which there is no additional Government grant.

Business Rates Retention

1.20 The Government has stated its intention that local government should retain 75% of taxes raised locally from 2019/20 onwards. It launches its latest consultation "*Business Rates Retention Reform*" alongside the provisional local government finance settlement. The consultation is seeking views on options for the reform of the business rates retention system from 2020-21 onwards. The consultation will close on 21 February 2019.

1.21 The consultation is seeking views on a number of areas, including:

- the mechanism and frequency for resetting Business Rates Baselines after 2020 – the baseline is the amount of business rates income a local authority is predicted to raise;
- safety net level – this mechanism ensures that no authority falls below a minimum level of their assessed need (currently expressed as a percentage);
- the business rates levy rate applied to growth above the business rates baseline;
- measuring business rates growth and incentivising pooling arrangements; and
- future tier splits applied between County Councils and District Councils, this will determine the allocation of risk and reward within the system.

1.22 There is also a proposal to simplify the business rates system whilst also addressing the volatility caused by appeals and valuation loss. In principle a clearer and less volatile system is welcome, however there remains a significant amount of technical work around the mechanisms to be finalised before implementation from April 2020.

1.23 Within the consultation, Government confirmed their intention to include a full business rates baseline reset in 2020/21. This means that all business rates growth local authorities have generated since 2013-14 will be included within their business rates baseline and the growth element redistributed within the system. Norwich has retained around £200-£250k of growth in recent years and this is therefore at risk from a full baseline reset. An allowance has been made for this within the MTFS.

Regulatory Changes

1.24 The last financial year in particular has seen increased national debate and commentary on the future financial sustainability of local government. The National Audit Office report on financial sustainability in local authorities, published in March 2018, following the s151 notices issued by Northamptonshire County Council, indicates that there is a heightened risk of more councils over the next four years falling into special measures as a result of not reconciling the pressures on budgets. (https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/#)

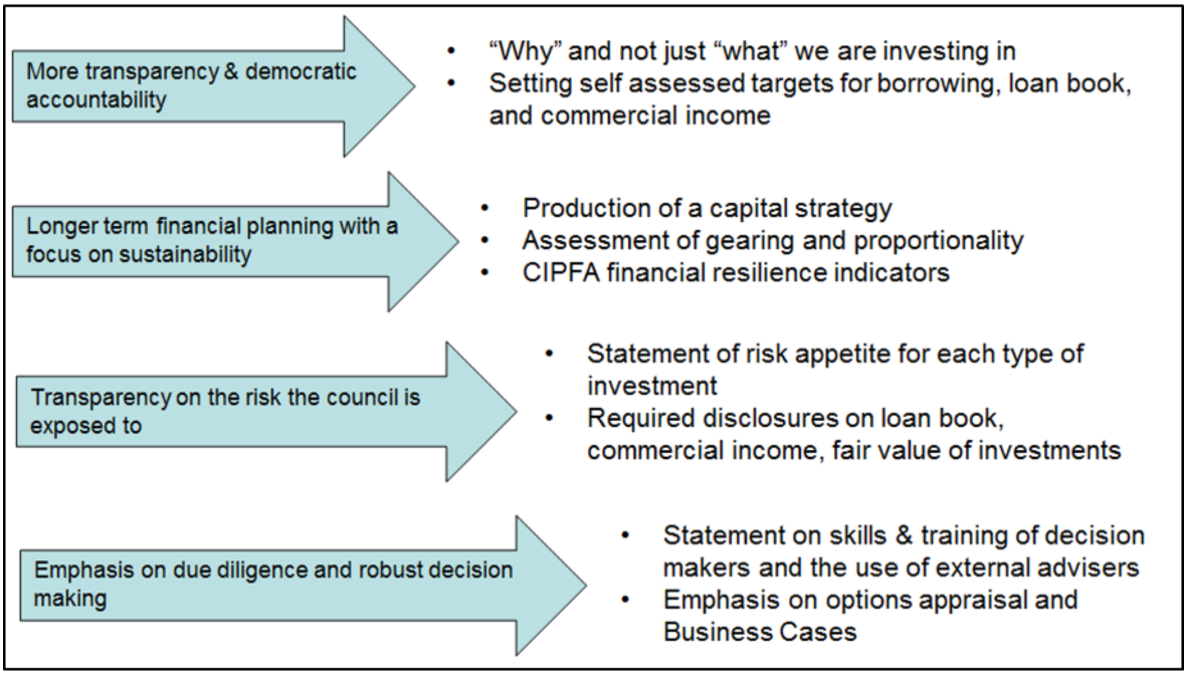
1.25 Coincidentally in July 2018, the Public Accounts Committee called on the government to work with the local authorities and key stakeholder bodies over the next 12 months to agree and publish a shared definition of local authority financial sustainability and a methodology for assessing the extent to which local authorities are at risk.

1.26 In parallel with this, there has been considerable discussion of local authorities' commercial activities, in particular the increased purchasing of commercial property in order to obtain new net income streams to offset the loss of funding from central government.

1.27 As a consequence of the above, a number of revisions have been made to various codes of practice (Prudential Code, Treasury Management Code, and Investment Code) that under statute councils must “have regard to” when making their budget decisions. In addition CIPFA have produced a financial resilience index for each English council and aims to publish a Financial Management Code of practice in this calendar year to take affect for 2020/21.

1.28 The following paragraphs contain a brief explanation of these changes whilst chart 1.1 summarises the overall “direction of travel” implicit in these regulatory changes.

Chart 1.1: Direction of travel arising from recent regulatory changes



Prudential Code and Treasury Management Code

1.29 CIPFA issued a revised Prudential Code (which governs local authority capital expenditure) and a revised Treasury Management Code (which governs local authority borrowings, investment, cash flows and risk decisions). Both of the revised codes are in response to developments arising from the Localism Act 2011, namely the fact that councils are using the general power of competence to engage in increased commercial activity. These updated codes became effective from 1 April 2018.

1.30 A key change is the requirement for councils to produce a capital strategy. The strategy needs to include:

- How the capital expenditure plans are aligned to corporate, service plans and, where relevant, the Local Plan
- An overview of asset management planning including maintenance/investment needs, planned disposals, & ongoing costs associated with existing assets

- A long term view of capital expenditure plans
- A summary of the governance process for approving & monitoring the capital budget including prioritisation, business case requirements, project management, and adherence to procurement policy
- A long term forecast of external debt, internal borrowing, capital receipts, the use of cash backed reserves, and impact on revenue budgets
- A summary of the knowledge and skills available to the authority.

1.31 The capital strategy must be approved by full Council as part of the integrated revenue, capital and treasury management planning process. In addition the chief finance officer needs to report explicitly on the deliverability, affordability, & the risks associated with the strategy

Investment Code

1.32 MHCLG issued revised investment guidance in February 2018 to local government. The guidance includes a new requirement for councils to prepare an investment strategy at least once a year with “non-financial investments” now being required to be considered in the strategy.

1.33 Non-financial investments include the purchasing of commercial property and lending to third parties, such as wholly-owned companies. They are different from financial investments such as deposits in banks and building societies which are normally reported in the annual Treasury Management Strategy.

1.34 Councils will be required to disclose the contribution that non-financial investments make “towards the service delivery objectives and / or place making role of the local authority”. In addition the Code requires the publication of various indices and self-assessed limits on the amount the council will borrow for non-financial investments, the amount it will lend to third parties, and the proportion of the budget that will be funded from commercial income. The aim is that councils ensure that their investment decisions are consistent with the requirements of fiscal sustainability, prudence and affordability and that council is held accountable for the financial decisions it takes.

1.35 Under the guidance councils may not “borrow in advance of need” to profit from the investment of the sums borrowed. This concept is not new but will now apply to non-financial investments. The guidance would seem suggest that borrowing cannot be undertaken to fund investments in commercial property outside of a council’s boundary as it is likely that the only policy objective for undertaking such an investment is to make a commercial return.

However, the Local Government Act 2003 (section 16) gives a definition of capital expenditure which explicitly includes the acquisition of property. The same act gives councils a statutory ability to borrow to fund capital expenditure. Consequently the guidance contained within the revised Investment Code is not at all clear and councils have continued to purchase commercial property outside of their administrative areas (as has this council).

1.36 This has prompted the president of CIPFA to issue a statement to local government (18 October 2018) stating that CIPFA:

- Considers that, where the scale of commercial investments including property is not proportionate to the resources of the authority, this is unlikely to be consistent with the requirements of the Prudential Code.

- Shares the concerns raised in relation to the recent continuation and (in a small number of cases) acceleration of the practice of borrowing to invest in commercial property

1.37 CIPFA consequentially has stated that it intends to issue more guidance in the near future on this issue, and have said that they might include defining what borrowing in advance of need is, what proportionality looks like, and what the appropriate ratios are for commercial income compared to the financial size of the council. To-date this further guidance has not been published.

1.38 Where a council chooses to disregard the Investment Code, it should set out why this is the case and what the council's relevant policies are. The commercial property investment strategy, approved by cabinet in December 2018, includes further acquisition of property outside of the city's boundaries, up to 40% by value of the total portfolio, in order to diversity the investment portfolio (in terms of location and tenancy type) and thereby reduce overall risk.

Statutory guidance on Minimum Revenue Provision

1.39 Minimum Revenue Provision (MRP) is the calculated annual charge to the general fund revenue budget to repay debt incurred in respect of capital expenditure financed by borrowing or other long term credit arrangements.

1.40 In February 2018 MHCLG issued revised MRP Guidance, setting out that no MRP will be charged in respect of loans to other bodies for capital expenditure purpose. The Council's MRP policy ensures that the capital receipts generated by the annual repayments on these loans will be put aside to repay debt and MRP will be charged if there is an expectation that any loan is not fully recoverable.

1.41 Councils will no longer be able to change their MRP policy in order to calculate that an overpayment was made in previous years.

1.42 The Guidance also requires a local authority to fully provide for debt taken on to acquire an asset classified as an investment property.

1.43 The chief finance officer can confirm that this council complies fully with this statutory guidance.

CIPFA's Financial Resilience Index and Financial Management Code

1.44 CIPFA has recently provided a tool with a group of indicators that it believes is able to "illustrate the trajectory of an authority's financial position within the context of each Authority's own comparator tier or nearest neighbours group".

1.45 The Financial Resilience Indicators tool has been provided, in year one, directly to individual authorities and their auditors via the chief finance officer. In subsequent years it will be made publically available.

1.46 The Institute also intends to publish a Financial Management Code of Practice later in the year and to make it a requirement within the code for the chief finance officer to reference the indicators in the section 25 statement included in the budget report.

1.47 The financial resilience indicators for Norwich City Council are shown and explained in section 7 of this budget report.

HRA Borrowing Cap

1.48 On 29th October 2018, the government abolished the HRA borrowing cap, with HRA borrowing to be controlled by the existing Prudential Code.

1.49 At this point in time, there is uncertainty as to whether the HRA, like the General Fund, will need to make provision for MRP (Minimum Revenue Provision) costs (see the glossary for definitions of these).

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2. GENERAL FUND 2019/20 BUDGET AND MTFS

Forecast 2018/19 Outturn

2.1 The latest position on the General Fund, as at period 9, shows a forecast underspend of £1.6m.

2.2 A significant element (£822k) of the forecast underspend relates to additional net income from commercial property purchased in year. In line with the Council decision in February 2018 any surplus, above the MTFS net income target, will be credited to the commercial property earmarked reserve, providing future funding for any void and rent free periods as well as any landlord repairs/upgrades. This is designed to safeguard the future value of the investment, thereby minimising the risk of holding these assets and any fluctuations in the income return.

2.3 A further element of the forecast underspend (£237k) relates to the council's lending to Norwich Regeneration Limited (NRL). Whilst the council budgets to borrow the money it lends to NRL is has, to-date not needed to and has temporarily used its cash holdings to fund the loans. This means that in 2018/19 there will be underspending in the financing costs budget as the council is not currently borrowing externally.

2.4 Any remaining underspend not arising from the two sources discussed above will be transferred to the earmarked invest-to-save reserve. This reserve will be used to support the delivery of savings and efficiencies through the fit for the future programme.

Proposed 2019/20 Revenue Budget

2.5 The proposed 2019/20 budget has been established following discussions between LGSS Finance and budget managers to determine realistic service budgets. All savings and growth items have been reviewed by the Corporate Quality Assurance Group led by the Chief Finance Officer and subsequently by the Corporate Leadership Team.

2.6 In line with the approach used in previous years, Cabinet agreed to consult the public on the proposed approach to meeting the savings target for 2019/20. It was also agreed to consult the public on the potential for a council tax rise. The consultation closed on 6 January 2019. An analysis of the results is given in Appendix 2 (I).

2.7 Appendix 2 (A) summaries the key movements in the base budget (i.e. 2018/19 approved budget) to arrive at the proposed 2019/20 budget. Appendix 2 (B) shows a subjective breakdown of the gross income and expenditure proposed.

Chart 2.1: 2019/20 gross expenditure budget analysed by type of spend

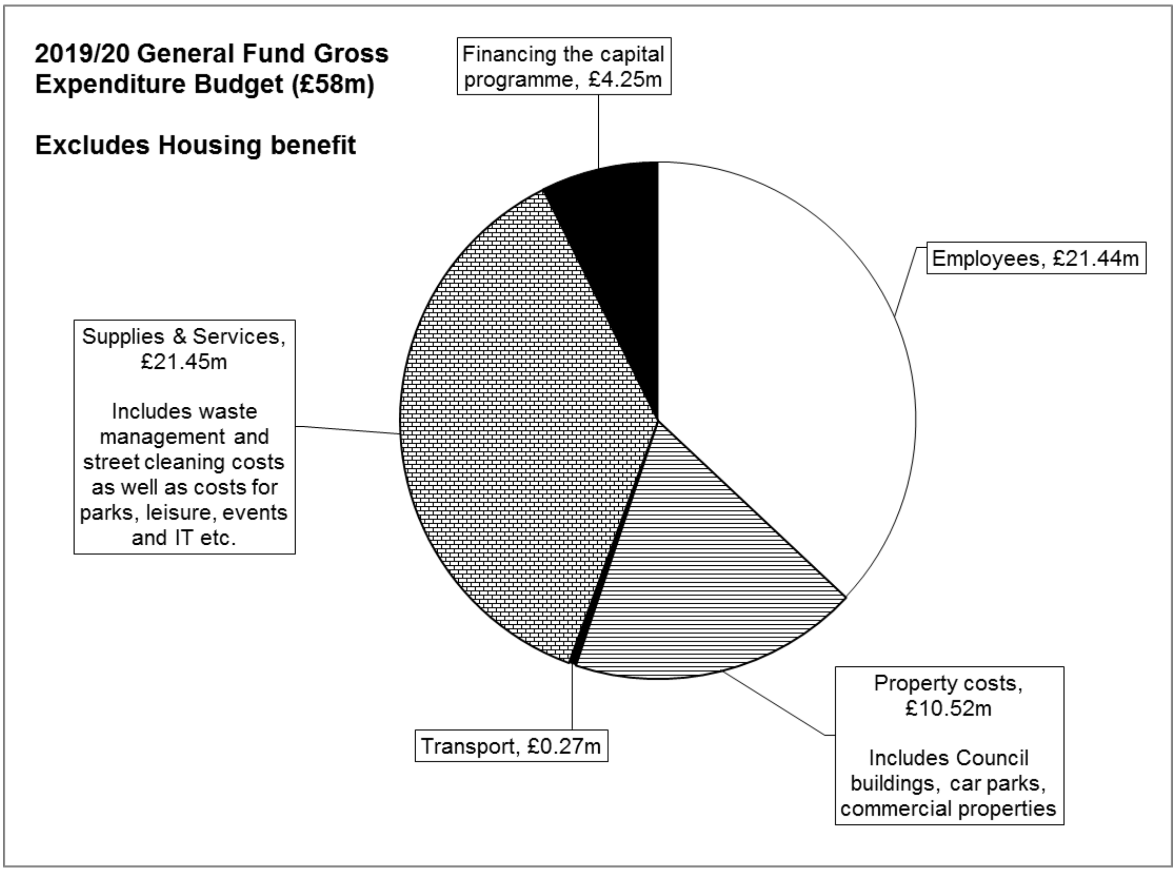
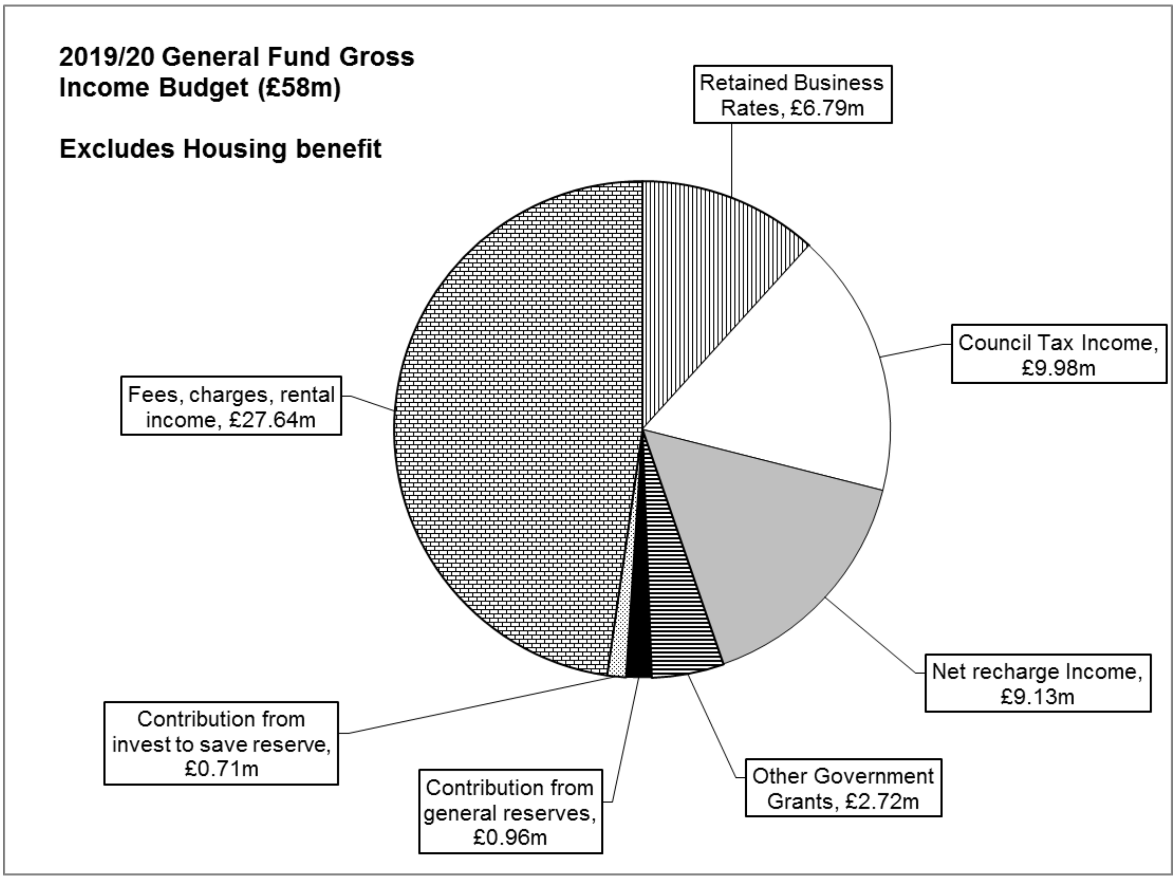


Chart 2.2: 2019/20 gross income budget analysed by type of income



2.8 There have been a number of changes from the emerging budget position considered by Cabinet in December 2018; these are set out in table 2.1. The movements have the impact of reducing the required use of general fund reserves to balance the budget.

Table 2.1: Movements from the Budget Update position (December 2018)

Changes to the budget requirement	**£000s**
Additional New Homes Bonus allocation	(156)
Other minor movements	(21)
Changes to Council Tax income	
Increase in 18/19 surplus distribution	(73)
Increase in tax base estimate	(112)
Changes to Business Rates income & Revenue Support Grant	
Further reduction in RSG (rolled into business rates income)	213
Increase in Business Rates income forecast	(462)
TOTAL MOVEMENT	**(611)**

2.9 The MTFS approved by Council in February 2018 set out a net savings target for 2018/19, based on a 5-year smoothing savings strategy, of £1.760m (gross savings of £2.5m per annum).

2.10 The proposed budget includes net savings of £1.046m. A detailed summary of the proposed budget savings and growth is shown in Appendices 2 (F) and 2 (G), with items categorised as either revenue generation or service efficiencies.

2.11 There have been favourable movements in income from business rates and council tax. This means that despite the shortfall in the savings target, when considered in line with other budget estimates the required use of reverses is £982k lower than expected in last year's budget report.

2.12 It should be noted that some of the beneficial movements in assumptions only have a one year impact and therefore the future annual net savings requirement has increased to £1.815m in future years (further detail in paragraph 2.16).

2.13 The budget proposals include £0.86m of budget growth (i.e. increases to the budget not arising from inflationary factors). The growth includes reductions in property rental income arising from the approved investment property disposal programme, as well as additional costs to support IT transformation.

2.14 In addition to the ongoing general fund base budget, significant one-off funds have been allocated to support the Fit-for-the–Future programme. The total planned expenditure is £858k of which £711k is to be funded from the General Fund Invest-to-Save earmarked reserve and £147k from the HRA Invest-to-Save reserve. Spend includes investment in IT mobile-working technology, and interim project management and HR resources. Further detail shown in Appendix 2 (H).

Medium Term Financial Strategy (MTFS)

2.15 Table 2.2 below shows the medium term financial projections for the 5 years to 2023/24. The full MTFS by subjective group is shown in Appendix 2 (D).

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

	2020/21	2021/22	2022/23	2023/24
Budget Requirement (no savings)	20,831	23,155	25,467	27,568
Budget Resources	(15,714)	(16,183)	(16,665)	(17,163)
Budget Gap	**5,117**	**6,972**	**8,802**	**10,405**
Funding the budget gap:				
Cumulative gross savings needed	(2,565)	(5,130)	(7,695)	(10,260)
Planned use of reserves	(2,552)	(1,842)	(1,107)	(145)

2.16 The MTFS shows a need to make further gross savings of £10.3m over the next four years, assuming demand-led growth of £0.75m per annum. Following the existing "smoothed" approach this equates to gross savings of £2.6m each year to 2023/24.

Table 2.3: Smoothed net savings required 2020/21 to 2023/24 - Figures are in £'000s

	2020/21	2021/22	2022/23	2023/24
Assumed annual service growth	750	750	750	750
Gross saving requirement	(2,565)	(2,565)	(2,565)	(2,565)
Net annual saving requirement	**1,815**	**1,815**	**1,815**	**1,815**

2.17 As noted in the introduction to this report, the estimates for 2020/21 onwards are not to be taken as robust figures given the changes that will be introduced to the local government finance regime from 2020/21 onwards (and as described in section 1 of this report).

Key figures & assumptions in the 2019/20 budget and MTFS

Council Tax

2.18 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 3% or £5 each year for 2019/20.

2.19 A 2.99% increase to the Band D rate is proposed in the 2019/20 budget figures (£280k additional income). The proposed 2019/20 Band D rate is therefore £264.13 compared to the current year rate of £256.46 – an increase of £7.67. 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 (E) shows the proposed increases by each Council Tax band.

2.20 The Council Tax base has been set at 36,325 which combined with the Band D rate gives a budgeted income of £9.59m in 2019/20. In addition a collection fund surplus receipt from the prior year of £389k is proposed to be distributed in 2019/20. The full calculation shown in Appendix 2 (E).

2.21 The figures shown will be reduced, for qualifying council tax payers, by the council's discount scheme (Council Tax Reduction Scheme). Currently the total cost of the CTR scheme is £13.7m, of which the Norwich share is £2.0m.

2.22 For future years of the MTFS, the same referendum principles have been assumed with the maximum increase allowed being taken each year. An increase in the council tax base of 0.5% per annum is also assumed for estimated growth in the number of dwellings in the Council's area along with a £75k prior year surplus distribution per annum.

Business rates

2.23 Norfolk County Council and the seven district councils were selected to participate in the 2019/20 75% Retention Business Rate Pilot Scheme. This means an additional 25% share of business rates growth will be retained locally and shared between the Districts and County Council.

2.24 Under the agreed terms of the application, the billing authorities will initially retain 42.5% of the business rates collected in their area (32.5% retained by Norfolk County Council), with a tariff or top up applied to redistribute business rates more evenly across authorities at a national level.

2.25 As was the case in previous years a proportion of retained growth will continue to be used to support vital economic development across the region through a Joint Investment Fund, with use agreed by Leaders of all the Norfolk local authorities.

2.26 A baseline funding level is set by central government and a 'safety net' system operates to ensure that no authority's income drops by more than a set percentage below their baseline funding level. For the 2019/20 Pilot authorities the safety net will operate at 5% below the baseline funding level.

2.27 The retained business rates forecasts are based on actual amounts collectable at December 2018 which are then adjusted for local knowledge (i.e. appeals, charitable relief) and the uplifted by an inflationary increase to allow for the increase in the business rates multiplier.

2.28 The 2019-20 retained business rates have been budgeted at £6.541m along with a forecast surplus distribution from 2018/19 of £0.248m. The additional one-off income for the Council (currently estimated at some £0.5m) from being in the pilot will not be payable until 2020/21 and has therefore not been included in the budget. A breakdown of the business rates calculation is shown in Appendix 2 (E).

2.29 The forecasts for retained Business Rates income from 2020/21 assume current (non-pilot) baseline 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. The MTFS also assumes an annual inflationary rise in NNDR plus an allowance of £300k per annum for any deficits arising on the Collection Fund each year.

2.30 There remains a significant financial risk on business rates income from the impact of valuation appeals, in particular over the 2017 valuation list. There remains limited information available regarding the level or impact of potential appeals.

Payroll

2.31 The MTFS shows growth in the Council's payroll cost (assuming current levels and numbers of staff employed). Payroll-related inflation has been estimated at 2.5% in 2020 and beyond to allow for an annual pay settlement, payroll drift, and the impact of the Living Wage. Additional estimates have been included for expected increases to pension deficit contributions; although these will be subject to the outcome of future triennial valuations of the pension scheme (the next one will take effect in 2020/21).

Revenue contribution to capital

2.32 In line with the 2018/19 MTFS, an additional £250k has been included in the budgeted revenue contribution to capital in 2019/20. The updated MTFS continues to increase this budget over the life of the MTFS, by £250k per annum, so that by 2022/23 £1.5m is provided as a funding source to the capital programme along with a £300k contribution to cover the costs of the Homes Improvements Agency team.

Inflation

2.33 Based on advice from the Office for Budget Responsibility (OBR) inflation has been included on premises costs, supplies and services, and transport throughout the MTFS planning timeline. Inflation on income however is prudentially set at 1.5% to run approximately 0.5% below expenditure inflation.

Government Grants

2.34 The 2019/20 budgets reflect the final year of the 4-year funding settlement deal. No Revenue Support Grant, or equivalent, is assumed in future years as this will cease from 2020. In addition, no future allocations of New Homes Bonus have been included in the MTFS in light of uncertainty over the future of the grant. If the current New Homes Bonus allocations are honoured by Government in 2020/21 the General Fund will benefit from an additional £276k.

2.35 Other grants for future years have been estimated at 2019/20 levels, with the exception of Housing Benefit, Universal Credit, and Local Council Tax Support Administration Grants. These grants have been estimated based on the experience of the Head of Service for Revenues and Benefits in line with trends for other authorities moving to full universal credit service.

2.36 The cost of extending the HMO licensing scheme in line with the Government's requirements will be recovered through licensing fees. However, this change could lead to an estimated increase in other enforcement costs of £80,000 per annum. There is no Government funding to cover those extra costs.

Capital financing budget

2.37 The capital financing budget includes interest charges from external borrowing and Minimum Revenue Provision charges. The budget includes provision to borrow externally for both the investment property acquisitions and lending to Norwich Regeneration Ltd. Whilst in the short term these investments may be funded from internal borrowing (from cash holdings) the budget prudently assumes the higher external borrowing costs.

Income from investing in Norwich Regeneration Limited (NRL)

2.38 The MTFS assumes a steady state net income budget of £327k per annum arising from lending to NRL. Included within this is an allowance of £245k for the council's own financing costs (assuming external borrowing).

2.39 The budget reflects the position arising from the existing loan made to the company. It is anticipated that as loans are advanced to and repaid by the company the gross interest income received by the council remains at a stable level. In the event that this is not the case the funds contained within the NRL earmarked reserve can be used to "smooth" any fluctuations. (See paragraphs 5.22 to 5.38 for background context about the council's lending to the company.

2.40 The budget and MTFS forecasts do not include any possible dividend (profit share) income from the company.

General Fund Reserves Position

The General Fund reserve

2.41 The prudent minimum level for the general fund reserve has been set at £4.3m. The smoothed MTFS brings the forecast reserves down to around Prudent Minimum Balance plus 15% by the end of 2023/24.

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

	2019/20	2020/21	2021/22	2022/23	2023/24
Balance B/Fwd.	**(11,652)**	**(10,694)**	**(8,142)**	**(6,300)**	**(5,193)**
Use of reserves	958	2,552	1,842	1,107	145
Balance C/Fwd.	**(10,694)**	**(8,142)**	**(6,300)**	**(5,193)**	**(5,048)**

2.42 After 2024 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.

2.43 In addition the General Fund holds a number of earmarked reserves. The key reserves are summarised in the table below.

Table 2.5: General Fund earmarked reserves (Figures are in £000s)

	Actuals at 31 March 2018	Forecast 31 March 2019
Invest to Save Reserve To support the delivery of savings and efficiencies through the Fit for the Future Programme over the next 2-3 years.	**2,648**	**2,418**
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.	**123**	**945**
Insurance Reserve This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review.	**681**	**773**
Norwich Regeneration Ltd Reserve Established to smooth any fluctuations in net income received by the Council from lending to NRL.	**50**	**287**

	Actuals at 31 March 2018	Forecast 31 March 2019
S31 Grant Reserve Unutilised balance of S31 Grant monies received in prior years from Central Government to fund Business Rates reliefs. These monies will be transferred to the General Fund Reserves as and when required to offset any future business rates deficits.	**2,165**	**1,833**
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. The majority of the balance is made up of S.106 contributions which are released each year to support the maintenance costs on specific assets e.g. play areas.	**2,072**	**1,929**

Appendix 2 (A): 2019/20 movements from the approved 2018/19 base budget

	£'000
2018/19 Budget Requirement	**15,696**
Budget movements:	
Inflation	1,027
Additional income (Appendix 2 (F))	(1,078)
Savings (Appendix 2 (F))	(825)
Service growth (Appendix 2 (G)	858
Service growth linked to specific new grants (cost neutral)	424
Rough sleeper Initiative grant funding (offsetting costs)	(340)
Increase in flexible homelessness support grant (offsetting costs)	(91)
Increase in revenue contribution to capital funding	250
Increase in pension deficit contributions	265
Increase in Minimum Revenue Provision	65
Reduction in housing benefit overpayment income following improved processing performance	297
Reduced in pension costs from end of the Airport PPP agreement	(148)
Reduction in New Homes Bonus grant	161
Loss of Second Homes grant income	36
Movements in other grants	78
Decrease in contribution from general reserves	546
Movement in recharge income relating to corporate costs and services provided directly to the Housing Revenue Account	(449)
2019/20 Budget Requirement	**16,772**

2018/19 Budget Resources	**(15,696)**
Budget movements:	
Reduction in revenue support grant	982
Increase in retained business rates	(1,491
Increase in council tax income	(567)
2019/20 Budget Resources	**(16,772)**

Appendix 2 (B): 2019/20 proposed budget by subjective group

Subjective group	Budget 2018/19 £000s	Budget 2019/20 £000s	Change £000s
Employees	20,557	21,438	881
Premises	10,398	10,517	119
Transport	283	266	(17)
Supplies & services	20,525	21,452	927
Housing benefit payments	56,580	57,906	1,326
Capital financing	2,573	4,254	1,681
Gross expenditure	**110,916**	**115,833**	**4,917**
Government grants	(59,517)	(60,623)	(1,106)
Fees, charges & rental income	(25,596)	(27,640)	(2,044)
Net recharge income	(8,603)	(9,129)	(526)
Gross income	**(93,716)**	**(97,392)**	**(3,676)**
Contribution from General Reserves	(1,504)	(958)	546
Contribution from Invest-to-Save Reserve		(711)	(711)
Total Budgetary Requirement	**15,696**	**16,772**	**1,076**

Appendix 2 (C): 2019/20 proposed General Fund budget by service

	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Business Services	5,752	(824)	4,928
Democratic Services	1,336	(876)	461
Housing Benefit	57,906	(57,906)	0
Human Resources	1,065	(1,065)	0
Procurement & Service Improvement	4,371	(4,371)	0
Subtotal Business Relationship	**70,430**	**(65,042)**	**5,388**
Chief Executive	259	(259)	0
Strategy & Programme Management	1,130	(762)	368
Subtotal Chief Executive	**1,389**	**(1,021)**	**368**
Communications & Culture	2,811	(1,015)	1,796
Customer Contact	2,206	(2,363)	(156)
Subtotal Customers, Comms & Culture	**5,017**	**(3,378)**	**1,639**
Citywide Services	13,415	(3,818)	9,597
Neighbourhood Housing	4,323	(2,825)	1,498
Neighbourhood Services	783	(113)	669
Subtotal Neighbourhoods	**18,521**	**(6,756)**	**11,765**
City Development	11,736	(15,877)	(4,140)
Environmental Strategy	174	(174)	0
Director of Regeneration & Development	135	(135)	0
Planning	2,137	(706)	1,431
Property Services	2,111	(957)	1,153
Subtotal Regeneration & Growth	**16,293**	**(17,849)**	**(1,556)**
Corporate Financing	4,183	(3,346)	837
Contribution from General Reserves		(958)	(958)
Contribution from Invest-to-Save Reserve		(711)	(711)
Budget Requirement	**115,833**	**(99,061)**	**16,772**
Revenue Support Grant		0	0
Business Rates Retained Income		(6,789)	(6,789)
Council Tax		(9,983)	(9,983)
Budget Resources	**0**	**(16,772)**	**(16,772)**

Note: Corporate financing includes interest costs, minimum revenue provision, New Homes Bonus, Council Tax Support Admin Subsidy Grants and contingency.

Appendix 2 (D): Breakdown of MTFS by subjective group

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Employees	20,825	21,779	22,698	23,594	24,518
Premises	10,517	10,749	10,985	11,227	11,474
Transport	266	272	278	284	290
Supplies & Services	16,858	17,161	17,538	17,924	18,319
Capital Charges	3,004	3,033	3,063	3,094	3,126
Housing Benefit Payments	57,906	57,906	57,906	57,906	57,906
Benefit Subsidy	(57,906)	(57,905)	(57,905)	(57,905)	(57,905)
Third Party Payments	4,494	4,592	4,693	4,797	4,902
Net recharge income	(8,981)	(8,981)	(8,981)	(8,981)	(8,981)
Contribution to Capital	1,050	1,300	1,550	1,800	1,800
Fee, charges, rental income	(27,585)	(27,963)	(28,348)	(28,739)	(29,161)
New Homes Bonus	(676)	0	0	0	0
Benefit/CTS Admin grant	(879)	(836)	(796)	(758)	(694)
Other Grants	(1,163)	(1,026)	(1,026)	(1,026)	(1,026)
Assumed non-inflationary growth cumulative		750	1,500	2,250	3,000
Subtotal budgets (no savings)	**17,730**	**20,831**	**23,155**	**25,467**	**27,568**
Business Rates	(6,789)	(5,708)	(5,829)	(5,951)	(6,076)
Formula Funding (RSG)	0	0	0	0	0
Council Tax	(9,983)	(10,006)	(10,354)	(10,714)	(11,087)
Total funding	**(16,772)**	**(15,714)**	**(16,183)**	**(16,665)**	**(17,163)**
Budget Gap	**958**	**5,117**	**6,972**	**8,802**	**10,405**
Gross savings needed (cumulative)	0	(2,565)	(5,130	(7,695)	(10,260)
Planned use of reserves	(958)	(2,552)	(1,842)	(1,107)	(145)
Funding the budget gap	**(958)**	**(5,117)**	**(6,972)**	**(8,802)**	**(10,405)**

MTFS excludes one-off costs that are funded from the Invest-to-Save reserve to support the Fit for the Future Programme.

Appendix 2 (E): Calculation of retained Business Rates income and Council Tax

A. Business Rates Retained Income

	£000s
Retained Income (including S31 grants for reliefs)	6,625
Plus: Budgeted Section 31 grant for indexation switch	192
Less: Levy to the Norfolk Pool for economic development & pooled growth	(276)
Plus: Norwich Business Rates 2018/19 surplus distribution	248
Total Business Rates Income 2019/20	**6,789**

B. Council Tax Calculation 2019/20

	No.	£
Budgetary requirement		**16,771,827**
- Revenue Support Grant		0
- Business Rates Distribution		(6,788,704)
= Council tax requirement		**9,983,123**
- Surplus on collection fund		(388,601)
=Total Council tax income		**9,594,522**
Band D Equivalent properties	36,325	
Council tax (Band D)		**264.13**

C. Council tax increases 2018/19 to 2019/20, Bands A to H

Band	A	B	C	D	E	F	G	H
2018/19	£170.97	£199.47	£227.96	£256.46	£313.45	£370.44	£427.43	£512.92
Increase	£5.12	£5.96	£6.82	£7.67	£9.38	£11.08	£12.79	£15.34
2019/20	**£176.09**	**£205.43**	**£234.78**	**£264.13**	**£322.83**	**£381.52**	**£440.22**	**£528.26**

Appendix 2 (F): 2019/20 list of proposed budget savings/increased income

	Project name	Description	Current budget	£'000
Additional income generation				
1	Commercial property acquisition	Additional net income from the acquisition of new commercial property in line with the Council's strategy to generate income and maximise returns from assets, as agreed in the four year financial sustainability plan. Currently approximately £285k of the net income has been secured or in the process of completion. The net income includes an allowance for external borrowing interest costs and minimum revenue provision expense. The net internal rate of return on the investment assumed in the MTFS is 2% The Council will continue to set aside a proportion of the new net income generated into an ear-marked reserve. This will be used to provide funding for any future void and rent free periods as well as any repairs/upgrades required to the property to help safeguard the future value of the investment and the rental income stream, thereby minimising the risk of holding these assets and of fluctuations in the income return.	Existing gross rental from commercial property of £3.3m	(500)
2	Commercial property rental income	Additional income already achieved from a commercial property purchased at the start of the 2018/19 financial year along with additional income from rent reviews of the existing property portfolio.	Existing gross rental from commercial property of £2.9m	(212)

3	Citywide Services Income	Increase to the budgeted income from integrated waste management services based on current performance levels: • Garden waste income (£33k) • Replacement bin income (£29k) • Recycling credits (£45k) • Contract discount (£75k) • Bulky waste income (£6k) Additional income is partially offset by increased citywide contract costs.	Existing income budgets: • Garden waste (£450k) • Replacement bin (£16k) • Recycling credits (£1,055k) • Contract discount (£300k) • Bulky waste (£48k)	(188)
4	Car park additional income from approved tariff increase	Growth in income associated with tariff reviews and increased usage of Rose Lane car park. Based on current performance.	Existing off-street and multi-storey car park gross income of £5.8m	(130)
5	Office rental	Additional income from the letting of office space above the Rose Lane car park.		(24)
6	Legal profit share	Net increase in income from a higher profit share from Nplaw (legal services) shared service offset against higher legal costs from increased usage.		(13)
7	Planning consultancy income	Increase in budgeted income; planning pre-application consultancy income in line with current performance.	Current income budget of £100k.	(10)
8	Other income	Budget income increases (individually below £5k).		(1)
Total Additional income generation				**(1,078)**

	Project name	Description	Current budget	£'000
Service reviews and efficiencies				
9	Mile Cross Depot Demolition	The Council successfully bid for £980k from the Land Release Fund to clear and decontaminate the Mile Cross site. The grant condition requires this to be used so as to make the site "released" for housing redevelopment by 2020. In September 2018 Council approved the decision to proceed with the demolition of the depot and the decontamination of the site given the lead in time required to procure and undertake the necessary works and the need to have the site cleared and decontaminated by the deadline of 2020. Revenue savings will be made through the exemption from business rates once the site is cleared and also reduced site security.		(122)
10	Vacancy factor	In recent years a significant element of the year-end underspends against budget has been due to staff salary underspends. These often arise due to the time lag in recruiting into vacant posts. The vacancy allowance is recognition of this expected underspend at the corporate level. It does not translate into service area targets for holding any vacancies, teams are budgeted for at their full establishment enabling them to recruit to all vacant posts during the year. The increase to the vacancy allowance this year reflects the recent levels of underspend. Within the MTFS the allowance is then slowly reduced over the next three years as the Fit for the Future structures are agreed and implemented.	Increase to the current allowance of £150k.	(250)

11	Re-basing of expenditure budgets in line with actual spend	Budget reductions based on expenditure areas with historic levels of underspend. Budgets have been rebased to the current levels of spend. The reductions cover budgets relating to advertising, apprentice levy contribution, City Hall, Lakenham area office, printing, promotions & publicity, staff advertising and taxis.		(140)
12	Training costs	Reduction in training budgets in line with past year spend and overall reductions in staff numbers. One-off training needs related specifically to the Fit For the Future work can be funded from the Invest-to-Save earmarked reserve.	Existing general fund budget of £229k. Separate existing HRA budget of £65k.	(56)
13	Reduction in contingency	Reduction in the General Fund contingency budget to reflect past years requirements. General reserves also provide additional contingency for any significant unexpected costs.	Existing General Fund contingency budget of £500k.	(100)
14	Economic Development	Reduction in the project budget in the economic development team. The budget has tended to be used for one-off pieces of work and been underspent in recent years. Proposed that any specific projects that cannot be funded within the current budget would be subject to a request to the contingency fund.	Reduction in budget from £170k to £114k.	(56)
15	CCTV maintenance	Reduction in CCTV maintenance costs following capital investment in equipment.	Existing budget of £65k.	(34)
16	Snow clearing	Reduction in snow clearing budgets in line with actual spend in recent years. Any additional costs arising from a severe winter would need to be met from the contingency budget.	Existing budget of £39k.	(29)

17	LGSS overhead	Reduction in LGSS overhead cost arising from a change in arrangements for processing external audit costs.	Existing budget of £268k.	(8)
18	Other savings	Budget savings (individually below £5k).		(31)
Total Service reviews and efficiencies				**(826)**

GROSS SAVINGS	**(1,904)**

Appendix 2 (G): 2019/20 list of proposed budget growth

	Growth Item	Description	£'000
1	Property rental	Loss of property rental due to planned disposals of lower income -generating property and vacant properties. This is in line with the approved disposal programme and review of the property portfolio.	198
2	IT transformation costs	Additional costs to support digital solution investment in IT infrastructure. This will support service redesign and digitalisation (benefits to be identified via customer journey mapping). In the longer term this is designed to enable a full line of business review including the replace / removal of legacy systems.	95
3	IT business-as-usual costs	Additional costs associated with Microsoft licences (£50k), the roll out of corporate WIFI across City Hall and The Halls (£23k) and additional annual support costs for a new CCT management systems after the current solution goes end-of-life in 2019 (£15k).	88
4	Living wage	The council is committed to paying the living wage as set by the living wage foundation. This is announced in November. The provisional draft budget has assumed a 30p per hour rise.	93
5	NEWS costs	Additional costs associated with the NEWS joint venture as a result of the exceptional volatility of the recycling markets.	85
6	Finance	Commercial Finance Business Partner to be provided via the LGSS contract. The post holder will be expected to play a key role in the Council's commercialisation agenda by providing commercial financial advice to senior officers and project teams and by developing robust Business Cases for possible new income streams.	83
7	Interest	Loss of interest income from a deferred capital receipt on the livestock market as a result of the deferred payment being received.	49

8	Working hours changes	Adjustments to salary budgets to match establishment.	42
9	Contaminated waste income	Reduction in contaminated waste shared income.	25
10	Community Safety Initiative	General Fund contribution to Community Safety Initiative.	20
11	Events storage	Events Team requires storage for a variety of bulky equipment which is essential to the service. Following the clearing of the Mile Cross Site, alternative storage premises are required.	18
12	Income from shared post	Removal of contribution from Breckland Council for a support officer in the Citywide team. The post is not currently filled, and the work has gone to Breckland council, therefore no more contribution.	15
13	HMO licensing team	Required staffing growth to enable the council to meet its statutory duty to deliver the recently extended statutory HMO licensing scheme. Majority of the costs of these posts are recoverable through the licence fee. The increase is sufficient to cover 2 additional posts. The second post will not be recruited until there is more clarity over the number of licensable HMOs and associated work load in Summer 2019.	10
14	Subscriptions	Increased subscription to PS Tax providing advice on a range of tax issues including VAT, stamp duty and corporation tax. Without appropriate tax knowledge there is risk that the council's commercial and redevelopment activities will not be managed for maximum effectiveness and value in regards to tax or incorrect decisions being taken. Additional CIPFA network subscriptions to support the increasing commercialisation strand of the Fit for the Future work stream.	10

15	City Hall hire fee income	Reduction in budget for City Hall hire fee income. The £11k target has not been achieved for some years and income is diminishing each year. There is little demand from external parties who are prepared to pay hire fees.	10
16	Mousehold Heath Conservators	Increased precept for repairs required to the Mousehold Pavilion.	6
17	Syrian refugees	In September 2018 Cabinet agreed to support an extension of the existing Syrian vulnerable person's resettlement scheme. As part of this proposed extension, the county council approached the city council about housing a further one hundred refugees over a further two year period through LetNCC. As a result of the extension the maximum contribution of Norwich City Council to the cover any rent shortfall as a result of the benefit cap has increased by £4,300.	4
18		Other minor growth (less than £5k individually)	7
Total Growth			**858**

Appendix 2 (H): Invest to Save Spend Allocations 2019/20

	Description	General Fund	HRA	Total 19/20
		£'000	**£'000**	**£'000**
1	Project Management resource for Fit for the Future	119	47	166
2	Corporate services support for Fit for the Future	141	64	204
3	IT Transformation programme management	42	14	56
4	Review of IT licenses to ensure best value	78	23	100
5	Contribution to capital for mobile kit to support IT transformation	200	0	200
6	Revenues & Benefit overpayment and revenue collections resource	75	0	75
7	Project Management resource for asset development projects	57	0	57
		712	**147**	**859**

Further detail on the key Fit for the Future work streams can be found in the Norwich City Council Fit for the Future Update presented at the December 2018 Cabinet meeting.

At this stage the figures are estimates of the required funding. These are likely to change during the year and updates to the use of the Invest-to-Fund will be made through the budget monitoring reports taken to Cabinet throughout 2019/20.

Appendix 2 (I): Update on consultation responses on the vision and proposed budget for 2019-20

Members will be aware that this year the council used a number of approaches to consultation in order to get a view from the city about what sort of city they wanted to see the future. This will help to inform the council's priorities going forward.

This appendix gives member the results of the online survey for only the questions that relate to the budget.

Across the public survey a total of 306 responses were received. The data in this report represents the results from those 306 responses. No data has been weighted.

Residents were also given an opportunity to submit comments. These will be analysed further and used to inform the future development of income and savings options.

1. Do you agree with the new draft priorities?

- Yes 70%
- No 15%
- Don't know 15%

2. Do you think we've identified the right ways to meet these priorities?

- Yes 53%
- No 23%
- Don't know 25%

3. Do you agree with this approach of protecting services by using reserves, generating additional income, making efficiencies?

- Yes 79%
- No 21%

4. To what extent do you support the council raising its share of council tax by 2.99 per cent in 2019-20 and using that money to protect key services in the future?

- Strongly agree 26%
- Agree 24%
- Neither agree nor disagree 9%
- Disagree 13%
- Strongly disagree 26%
- Don't know 2%

3. HOUSING REVENUE ACCOUNT (HRA) 2019/20 BUDGET AND BUSINESS PLAN

Background

3.1 The Housing Revenue Account (HRA) was established by the Local Government and Housing Act 1989 as a ring-fenced account separate to the general fund and contains income and expenditure related to the ownership and management of the council's social housing stock.

3.2 Prior to 2012/13 the HRA was funded at a national level through the housing subsidy regime. Since then it has been run on a self-financing basis i.e. all revenue and capital expenditure needs to be funded from the rents and service charges paid by tenants or funded by housing benefit.

Forecast 2018/19 Outturn

3.3 The latest position on the Housing Revenue Account (HRA), as at period 9, shows a forecast underspend of £2.40m. It is proposed to set aside £1m of this underspend into the HRA invest to save earmarked reserve to support the delivery of savings and efficiencies through the Fit for the Future programme

Proposed 2019/20 Revenue Budget

3.4 The budget proposes gross expenditure of £59.3m and gross income of £67.4m, generating a surplus of £8.2m (Appendix 3 (A)). It is proposed that £6m of this surplus is used to make a revenue contribution towards the funding of the 2019/20 HRA capital programme.

3.5 The key changes to the budget position reported in the emerging budget paper considered at Cabinet in December 2018, are as set out below:

Table 3.1: Key movements from December emerging budget position

Key movements from December Position:	£'000
Reduced income from service charges	223
Inclusion of tenancy management improvement budget	250
Updated water charges forecast (offset by change in Service Charge income)	(153)
Community Safety Initiative contribution	30
Reduction in decoration allowances costs based on current uptake	(20)
Additional budget for relocatable CCTV cameras	19
Reduction in revenue contribution to capital	(2,524)
Contribution to HRA Balances	2,175
TOTAL NET MOVEMENT	**0**

Chart 3.1: 2019/20 HRA gross revenue expenditure budget

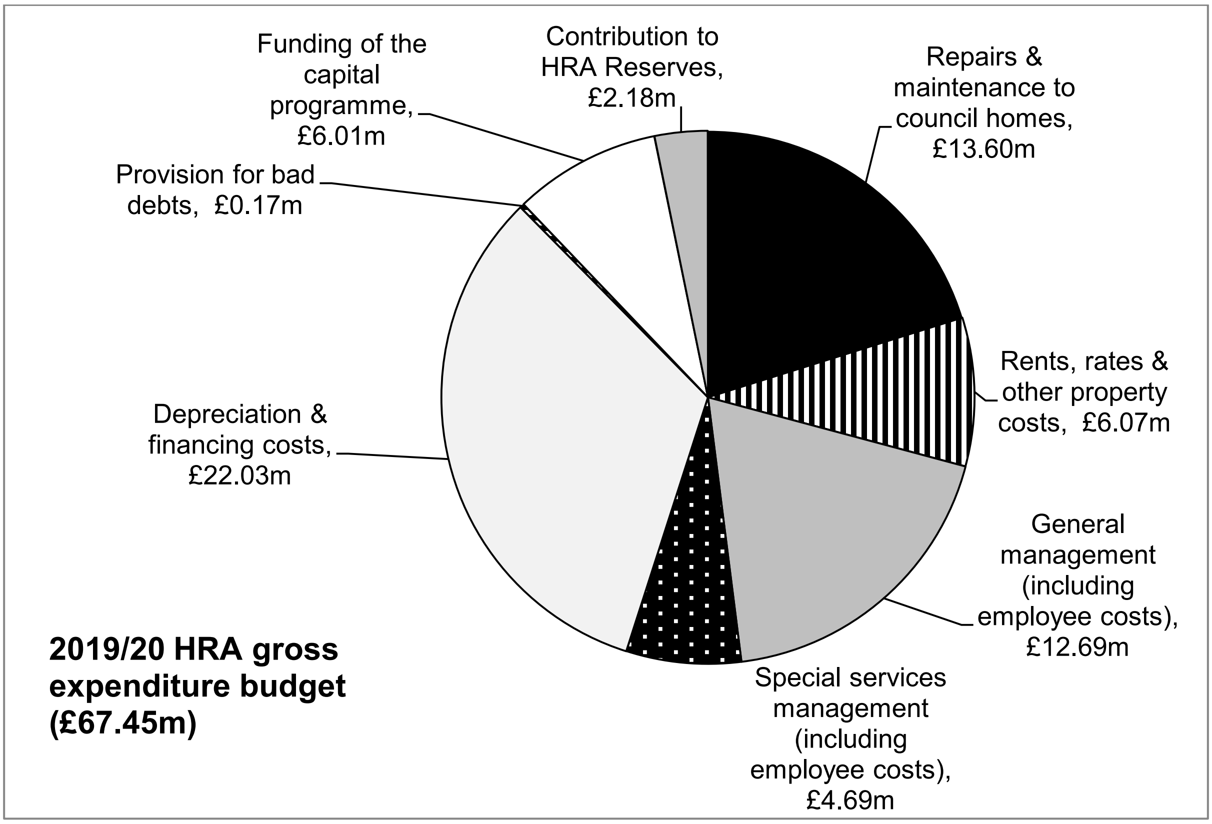
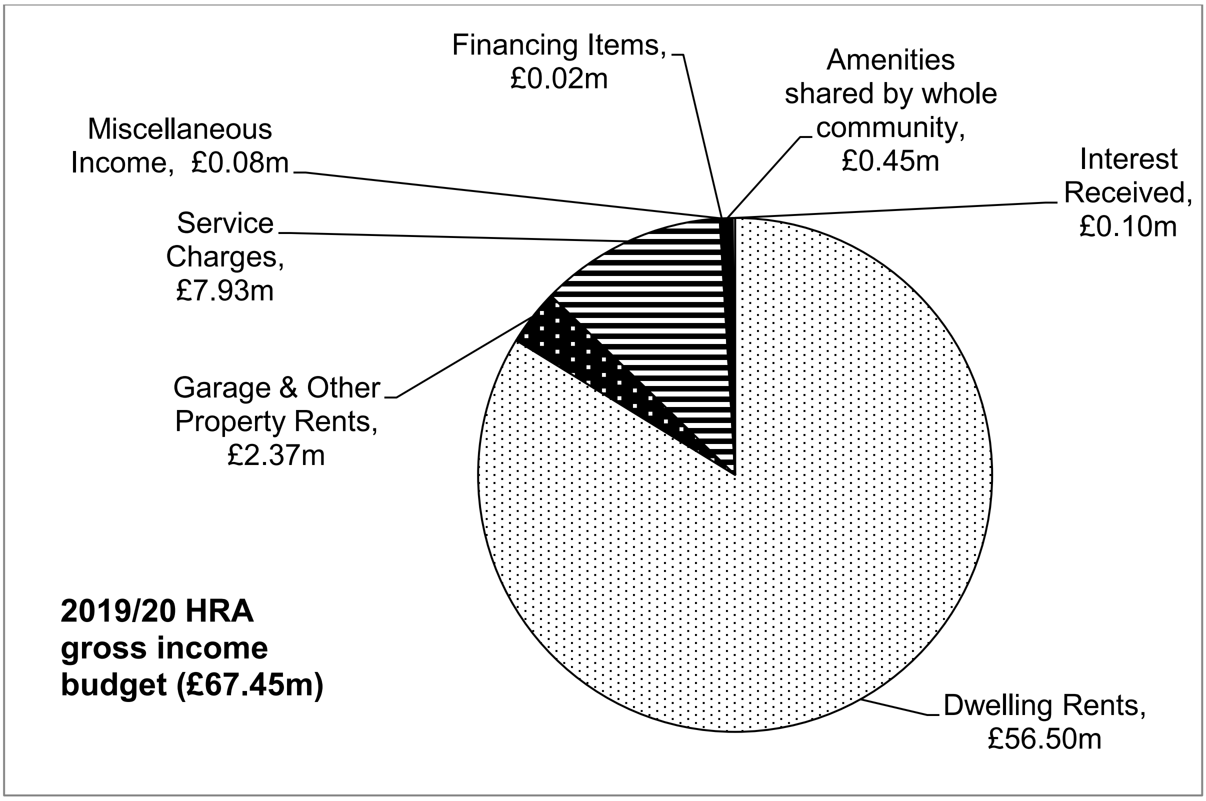


Chart 3.2: 2019/20 HRA gross revenue income budget



3.6 The key movements in the base budget (i.e. 2018/19 approved budget) to arrive at the proposed 2019/20 budget are summarised in Appendix 3 (B).

HRA Business Plan

3.7 Longer term financial strategy for the HRA is based upon a 60 year business plan, which models the revenue costs of intended capital investment alongside other forecasts of revenue expenditure and income to determine the resultant surplus or deficit over the life of the plan.

3.8 The longer-term perspective is crucial to ensure that the service and its primary assets, the housing stock, are fit for purpose and that intended investments in the stock are affordable and sustainable for the whole of the plan.

3.9 The business plan relies upon a combination of known and assumed economic factors and government announcements to generate a financial forecast. The key assumptions within the business plan are summarised in the paragraphs that follow.

3.10 Since the 2018/19 HRA budget report, there have been three key government announcements that improve the council's ability to deliver on its ambitions to increase and improve social housing in the borough. These are:

- Reversion to an index-linked setting policy from 1 April 2020.
- Not implement the enforced sale of higher value council houses.
- Removal of the HRA borrowing restriction.

Council housing rents, garage rents, and service charges

3.11 Historically, the level at which council housing rents were set was decided by the Council in line with guidance set out by the government and information provided by the HRA Business Plan. However, in 2016/17 the government's rent policy was replaced by an enforced minimum 1% reduction in rent for a four year period until March 2020, as set out in the Welfare Reform and Work Act 2016. The impact of this over a 30 year period is a loss of approximately £200m in rental income. This equates to a reduction of income to the HRA in excess of £6.5m per year.

3.12 The enforced 1% rent reduction continues for the final year in 2019/20, which means that for HRA tenants, the average weekly rent will be £76.65 equating to an average reduction of £0.77.

3.13 It is proposed that garage rents are increased by 3.4%. This is in line with the government formula for dwelling rents prior to the implementation of the mandatory rent reduction, based on CPI as at the preceding September (2.4%) plus 1%.

3.14 In accordance with the constitution, levels of tenants' service charges will be determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

3.15 The government has issued a consultation confirming its intention to introduce a new rent policy, ending the four year mandatory rent reduction and enabling social housing rents to increase by CPI plus 1% from 2020/21. This has been included within the HRA business plan with CPI being modelled at 2.4% for 2019/20 then averaging 2% throughout the planning period.

3.16 The roll out of Universal Credit is expected to impact on rent collection and associated bad debt. This has been reflected in the business plan with an increase being made for bad debt provision of £0.56m for 2019/20 with a further £0.58m in 2020/21. In addition, a provision of £2m is included within prudent minimum balance to mitigate against further pressures.

3.17 The void turnaround (period during which a property is unoccupied) has significantly reduced over recent years to 15 days. The current budget provision is calculated on a void rate of 0.36%, which equates to rental income loss for void periods of £0.2m for 2019/20.

Right-To-Buy

3.18 The Housing and Planning Act 2016 made provision for a determination to be imposed on Housing Revenue Accounts in order to compensate Registered Providers for financial losses incurred as a result of extended Right-To-Buy legislation. However, the government has now confirmed that this will no longer proceed.

3.19 During the year 2018/19 the number of Right-to-Buy purchases of HRA dwellings has reduced slightly from previous years. Based on this and other economic factors, the business plan assumes that this trend will continue with a loss of 130 homes in 2019/20 and 110 in 2020/21, reducing to 100 homes each year for the following 5 years.

Capital expenditure plans

3.20 The HRA business plan includes expenditure arising from the proposed HRA capital budget as set out in part 4 of this report (capital strategy and 2019/20 capital budget).

3.21 Other major projects contained within the council's capital ambition plan will need to be included in the HRA business plan once robust business cases have been approved. An assessment however has been undertaken of the affordability of those projects listed in 4.39 which are likely to submit Business Cases during the next three years for council approval. The assessment can be found in 4.40 of this report (capital strategy and 2019/20 capital budget).

3.22 The proposed HRA capital programme is based on the following neighbourhood housing primary goals, more detail of which is set out in Appendix 3 (C):

- Meeting housing need - delivering new homes
- Maintaining and improving condition of existing housing
- Improving the use and management of our existing housing stock
- Improving our neighbourhoods.

Capital financing plans

3.23 On 29th October 2018, the government abolished the HRA borrowing cap. This means that the council can determine itself how much it will borrow to fund capital expenditure, as long as it can demonstrate that the borrowing is affordable, prudent and sustainable as required by CIPFA's Prudential Code. The council does this for general fund capital expenditure by agreeing and monitoring a number of prudential indicators. These indicators now need to include the HRA and can be found in part 6 of this report (Treasury Management Strategy 2019/20).

3.24 The decision to remove the borrowing cap does give the council more ability to invest in the existing housing stock and to increase is holdings. A housing strategy is currently being produced which will guide this investment. In addition many of the projects within the council's ambition plan include the HRA purchasing new affordable housing from the council's wholly owned company, Norwich Regeneration Limited (see section 4).

3.25 How an individual capital scheme is funded will depend on the prevailing financial circumstances and the nature of the scheme (e.g. new build or enhancement of an existing asset). In practice there are six key funding sources which the council uses in the following priority order (more information is given on capital financing strategy in Appendix 4 (C):

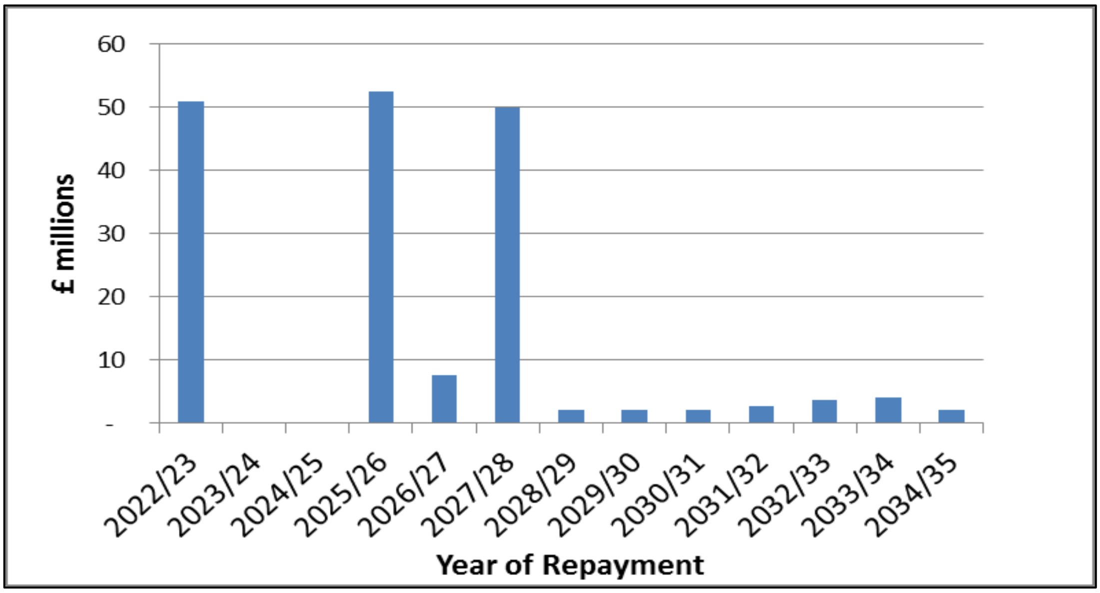
1. Right-to-Buy Retained 'One for One' capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. Revenue budget contributions
5. General HRA capital receipts
6. General Reserves
7. Borrowing

3.26 The current HRA Capital Financing Requirement (the need to borrow) is £205.7m, which includes the most recent HRA external borrowing of £149m undertaken as part of the HRA self-financing settlement in 2012 when the HRA subsidy system was abolished. This meant that the council no longer had to make payments of approximately £9m per annum into the subsidy system and was able to retain all future rental income in return for taking on a calculated share of the national housing debt. The remaining borrowing consists of £38m of historic external borrowing, the most recent being taken over 21 years ago, along with £19m of internal borrowing.

3.27 HRA assets are currently valued at £797.9m (31 March 2018), which against a borrowing requirement of £205.7m equates to a loan-to-value gearing of 25.78%.

3.28 Chart 3.3 sets out the redemption dates and values of current HRA external borrowing. The most recent borrowing for the HRA self-financing settlement in 2012 is represented by the three loans of approximately £50m each, whilst all other loans shown constitute historic borrowing which will be repaid within 15 years.

Chart 3.3: Existing HRA External Borrowing

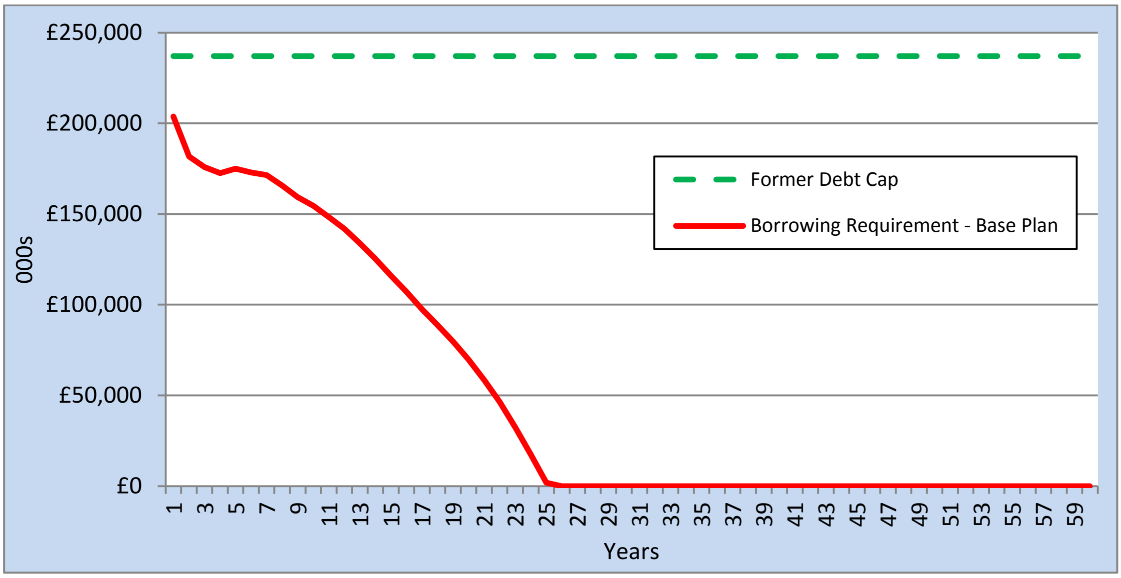


3.29 The HRA Business Plan assumes that the three significant loans of £50m will be refinanced by external borrowing upon reaching their redemption date, whilst the repayment of lower value loans will be financed through internal borrowing. LGSS Finance will review this policy to assess whether it may be more prudent to borrow for the loan repayments before 2022/23 whilst interest rates are at a relatively low level.

3.30 The HRA capital budget proposed in this report in section 4 does not require any new borrowing; however additional borrowing may be necessary in order to finance all of the HRA projects and programmes set out in the council's capital ambition plan.

3.31 The chart below shows that all borrowing assumed in the HRA Business Plan can be repaid within 25 years. This shows that the Business Plan is sustainable over the 60 years planning period.

Chart 3.4: Ability to repay HRA borrowing



HRA Reserves Position

3.32 The proposed budget will impact on the HRA balance as follows:

Table 3.2: Estimated HRA Reserves Position

Item	£'000
Brought Forward from 2017/18	(30,988)
Forecast use of balances 2018/19	2,550
Forecast HRA underspend 2018/19	(2,398)
Invest to save earmarked reserve	1,000
Carried Forward to 2019/20	**(29,836)**
Forecast contribution to balances in 2019/20	(2,175)
Carried Forward to 2020/21	**(32,011)**

3.33 The prudent minimum level set for the HRA reserve has been adjusted slightly to £5.837m (previously £5.844m). This removes the provision for risks posed by the now abolished proposal to introduce a determination to compensate Registered Providers for financial losses incurred as a result of extended Right-To-Buy legislation, but increases provision for the risk of additional costs arising from the introduction of Welfare Reform and unforeseen events.

3.34 The estimated general reserves to carry forward into 2020/21 are substantial which not only provides a flexible funding resource for the HRA but also ensures the financial resilience of the account. Given the council's ambition to start to significantly invest capital resources into new and replacement housing stock over the medium term, this level of estimated reserves (over £32m) will give the council options, not only in terms of service delivery but in how in how the council will fund future capital expenditure whilst manging overall debt.

Appendix 3 (A): 2019/20 proposed HRA budget by service

Division of Service	Budget 2018/19 £'000	Budget 2019/20 £'000	Change £'000
Repairs & Maintenance	13,487	13,603	116
Rents, Rates, & Other Property Costs	6,339	6,074	(266)
General Management	11,965	12,694	728
Special Services	4,819	4,692	(127)
Depreciation & Impairment	21,805	22,027	222
Provision for Bad Debts	190	170	(20)
Adjustments & Financing Items	1,052	-	(1,052)
Gross HRA Expenditure	**59,658**	**59,259**	**(398)**
Dwelling Rents	(56,968)	(56,504)	464
Garage & Other Property Rents	(2,228)	(2,369)	(141)
Service Charges – General	(8,414)	(7,927)	487
Miscellaneous Income	(115)	(82)	33
Amenities shared by whole community	(427)	(446)	(19)
Interest Received	(100)	(100)	0
Adjustments & Financing Items	-	(19)	(19)
Gross HRA Income	**(68,252)**	**(67,447)**	**805**
Total Housing Revenue Account	**(8,594)**	**(8,188)**	**406**
Revenue contribution to capital	11,144	6,013	(5,131)
Contribution to/(from) HRA reserve	(2,550)	2,175	4,725
Total	**0**	**0**	**0**

Appendix 3 (B): 2019/20 movements from the approved 2018/19 base budget

Adjustment to Base	£'000
HRA Revenue Contribution to Capital	(5,131)
HRA contribution to/(from) reserves	4,725
Total Adjustment to Base	**(406)**

Inflation	£'000
Staff salary inflation and increments	125
Pension added years and pension deficit inflationary adjustments	72
Electricity	52
Parking costs charged by Norfolk County Council	16
Other (individually under £10k)	37
Total Growth and Inflation	**303**

Growth	£'000
Significant increase in stock valuation, meaning higher depreciation charge on the structural element of the properties	504
Inclusion of a tenancy management improvement budget	250
Income collection solution	107
Rechargeable repairs write-offs	67
Staff to cover administration involved with tower decants	56
Insurance relating to leasehold properties	44
Maintenance costs of new CCTV equipment	38
Community safety initiative	30
HRA Income Assistant post	25
Total Growth	**1,120**

Income Reduction	£'000
Reduction in rents (mandatory 1% reduction)	567
Reduction in recharge to the general fund in respect of area office use	11
Other income reduction (individually under £10k)	4
Total Income Reduction	**581**

Savings	£'000
Repairs - reduction in costs	(881)
Reduction in contingency fund	(300)
Reduction in interest payable on loans	(282)
Restructure of sheltered housing service	(76)
Removal of grant expenditure budget - budget was required for 2018/19 only to support community alarm service transition	(67)
Rent write-offs reduction	(51)
Reduction in cost of rates on empty properties	(35)
Reduction in district heating oil costs	(26)

Bad debt provision reduction - housing rents	(20)
Reduction in void redecoration costs	(20)
Reduction in tree maintenance costs	(14)
Income from GF for a shared post	(12)
Other savings (individually under £10k)	(31)
Total Savings	**(1,815)**

Income Increase	**£'000**
Increase in income and reduction in void rent loss from garages	(150)
Increased income from leasehold charges	(47)
Reduction in void rent loss from dwellings	(38)
Joint venture pension rebate	(25)
Additional income (individually under £10k)	(7)
Total Increased income	**(267)**

Recharges	**£'000**
Central departmental support	386
Movement in recharge expenditure and income relating to corporate costs and services provided directly to or from the General Fund	170
Net use of HRA Invest to save reserve	(63)
Additional changes (individually under £10k)	(7)
Total Recharges	**487**

Appendix 3 (C): Neighbourhood Housing Goals – proposed capital programme

Neighbourhood Housing Goals	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Meeting housing need - delivering new homes					
New Social Housing	8,067	50	-	-	-
Site Development	50	50	50	50	50
Grants to Registered Housing Providers	2,000	2,000	2,000	2,000	2,000
Maintaining and improving condition of existing housing					
Preventative Upgrades	9,710	12,929	11,431	11,310	10,099
Home Upgrades	6,310	6,300	5,650	4,700	5,384
Window & Door Upgrades	2,652	2,900	2,450	3,450	720
Improving the use and management of our existing housing stock					
Independent Living Upgrades	990	700	650	550	350
Sheltered Housing Regeneration	-	100	100	100	-
Heating Upgrades	3,795	4,900	3,000	3,000	3,000
Thermal Upgrades	934	1,000	1,000	800	500
Improving our neighbourhoods					
New CCTV system	10	-	-	-	-
Community Upgrades	1,340	1,000	1,000	1,000	550
Fees	710	710	710	710	710
Total Proposed HRA Capital Programme	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**

4. CAPITAL STRATEGY 2019/20 ONWARDS

The wider context and capital investment objectives

4.1 Norwich City Council's Capital Strategy provides a valuable opportunity for engagement with full council to ensure that overall strategy, investment ambition, risk appetite and governance procedures are fully understood by all elected Members and other Council stakeholders.

4.2 This strategy sets out the council's budget and preliminary ambition plan for capital investment over the next five years. It describes how the council will manage, finance, and allocate capital investment in assets that will help to achieve the council's priorities, as well as its operational and statutory requirements. The affordability and proportionality of this strategy is considered in section 7 of the budget report.

4.3 It covers projects and programmes for the council's General Fund and Housing Revenue Account (HRA), and for the council's wholly owned subsidiary, Norwich Regeneration Limited (NRL).

4.4 At the highest level the council's Corporate Plan sets out the key priorities that the council wishes to deliver, either itself or with other key partners, namely:
- That people live well
- There are great neighbourhoods, housing and environment, and
- There is an inclusive economy

4.5 There are however additional drivers or needs for capital expenditure which are shown in chart 4.1. These comprise:

- Transforming council services through the fit for the future programme: this includes the need to invest in ICT which will help facilitate smarter ways of working.

- Creating new income streams to help protect general fund services that would otherwise be at risk of being reduced or cut: this is achieved primarily through the acquisition and investment in commercial property.

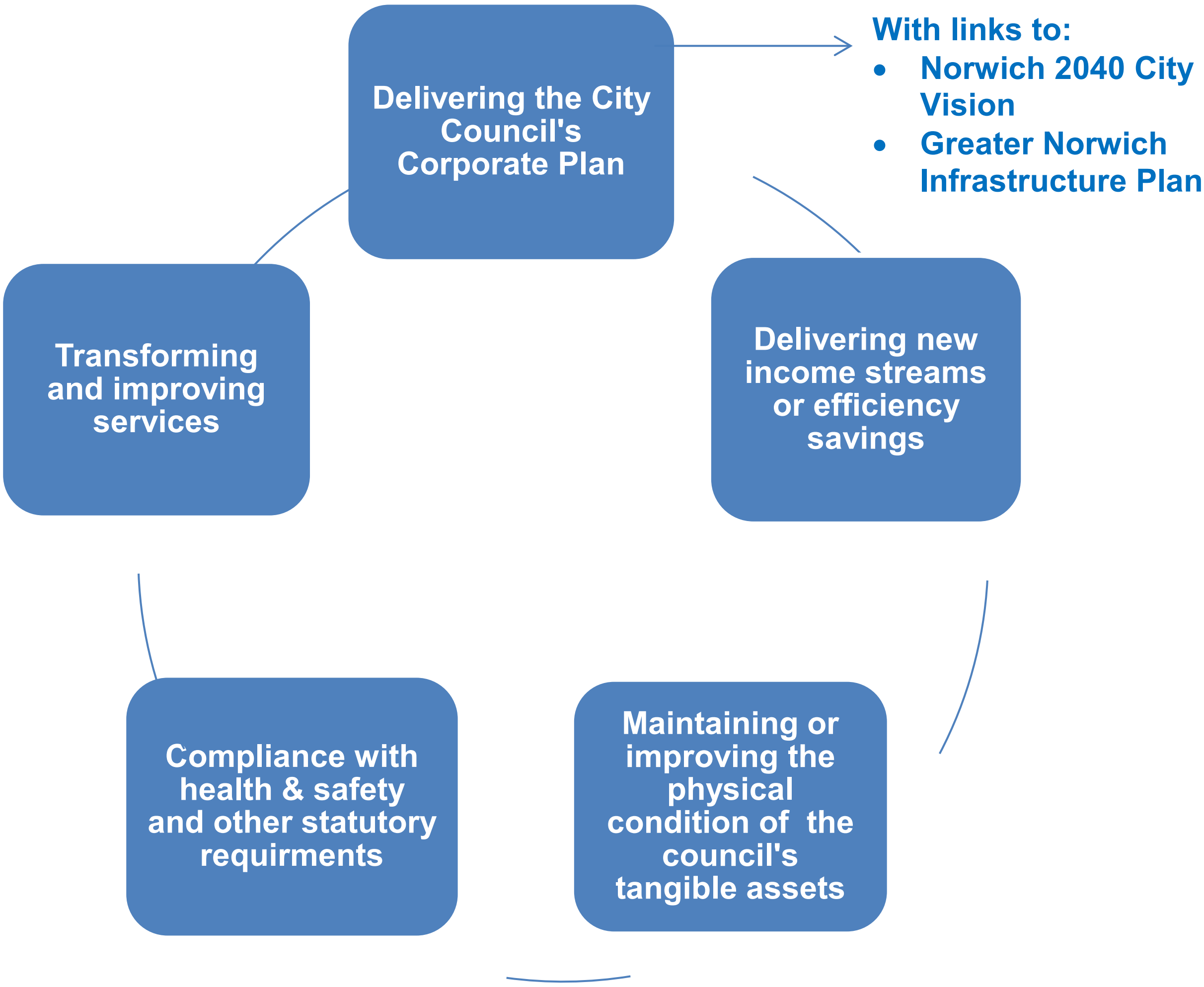
- The need to maintain or improve the physical condition of existing assets as they deteriorate, are less "fit-for-purpose", or fail to comply with regulatory requirements. These considerations are part of asset management planning.

4.6 The council's investment objectives for capital expenditure are shown in table 4.1 along with specific projects, either within the capital budget or within the ambition plan, that will deliver these objectives.

4.7 Apart from the HRA, the council does not have significant experience to-date of preparing longer term capital plans and its knowledge on the state of its land and property needs to be enhanced by undertaking condition surveys on many of its general fund assets.

4.8 This strategy therefore is not “set in stone” and will evolve, and the time period it covers lengthened, as it is reviewed on an annual basis. Officers will also keep under review good practice amongst other local authorities once other capital strategies start to be published in February 2019.

Chart 4.1: The key drivers for capital investment



Definition of capital expenditure

4.9 Capital expenditure is strictly defined as expenditure on the creation or enhancement of assets. The glossary in section 8 defines these terms.

4.10 Unless expenditure qualifies as capital it will normally be charged to the revenue budget in the period that the expenditure is incurred. If the expenditure meets the definition of capital, there may be opportunities available to finance the outlay from capital receipts or by spreading the cost over future years' revenue budgets by borrowing.

Table 4.1: The council's capital investment objectives

<table>
<tr><th>People live well</th><th>Great neighbourhoods, housing & environment</th><th>Inclusive economy</th><th>Managing the Council's assets</th><th>Transforming services and delivering new income/savings</th></tr>
<tr>
<td>Capital expenditure plans can contribute to this corporate priority by:
Supporting people in to feel safe and welcomed
Providing means for people to lead healthy, connected, fulfilling lives
Ensuring there is a range of cultural, leisure and social opportunities and activities for all</td>
<td>Capital expenditure plans can contribute to this corporate priority by:
Building and maintaining a range of social and private housing
Tackling homelessness and rough sleeping
Continuing with the sensitive regeneration of the city that retains its unique character and meets local needs</td>
<td>Capital expenditure plans can contribute to this corporate priority by:
Mobilising investment that promotes a growing, diverse, innovative and resilient economy</td>
<td>The council takes decisions based on a full understanding of the evidence and risks. Capital expenditure plans need to include spending on existing assets in order to:
Maintain or improve the physical condition of assets owned by the City
Comply with health & safety and other regulatory requirements
Ensure assets are "fit-for-purpose"
Protect the capital value of the assets and to avoid incurring significant future costs</td>
<td>The Council aims to be financially self-sufficient, to ensure the long-term sustainability of service delivery.

The council will also adopt commercial approaches where appropriate.

Capital expenditure plans can contribute to the council's mission by investing capital in assets that provide new net income streams and/or generate savings in the revenue budget.</td>
</tr>
<tr>
<td>The capital strategy includes:
A new CCTV system
Expansion of tennis in parks
New cycle / path ways
Disabled Facilities Grants
Improvements to parks, open spaces, play areas and football pitches
The ambition to provide new leisure & community facilities at Mile Cross
The ambition to significantly enhance the ability of the Halls to deliver cultural events
The ambition to deliver options for temporary accommodation for the homeless</td>
<td>The capital strategy includes:
New social housing at Goldsmith Street
The purchase of new social housing at Northumberland Street and at Rayne Park
Norwich Regeneration Ltd building homes for sale and for private rent at Rayne Park
The ambition for NRL to build new homes on other brownfield sites owned by the City Council</td>
<td>The capital strategy includes:
The commercial property investment fund (this fund can be used to contribute to this priority when investment is within the City Council's boundaries).
The ambition to:
regenerate the Airport Industrial Estate
develop the rear of City Hall to possibly include a new hotel or offices</td>
<td>The capital strategy includes the replacement of:
Grounds maintenance equipment
Earlham cemetery railings
Eaton Park pathways
Heating systems, plant & equipment at Riverside Leisure Centre
The capital strategy also includes upgrades to:
HRA homes
City Hall
Community Centres</td>
<td>The capital strategy includes:
Investment in the Fit for the Future transformation programme – ICT, digitalisation and telephony
The commercial property investment fund</td>
</tr>
</table>

Asset management planning

4.11 The overriding objective of asset management planning is to ensure that the council's land and property is appropriate, fit-for-purpose, and affordable.

4.12 The council holds a significant and very diverse asset portfolio comprising some 896 assets held by the General Fund and 15,206 held by the HRA. Table 4.2 shows that Norwich a very high number of general fund and HRA assets compared to similar district councils within the CIPFA comparator group, both in terms of actual numbers and in relative terms given the size of this council (as measured by the general fund net revenue expenditure for 2017/18).

Table 4.2: Comparative data including 2017/18 expenditure (figures in £000s)

Comparison of Norwich City Council property assets with similar district councils								
District	**Norwich**	**Exeter**	**Oxford**	**Ipswich**	**Guildford**	**Colchester**	**Newark & Sherwood**	**Basildon**
Population	**140,400**	128,900	154,600	138,500	147,800	190,100	121,000	184,500
GF net revenue expenditure	**14,829**	11,068	23,578	19,790	11,713	18,464	14,175	24,140
GF Cap Exp	**19,222**	8,385	18,811	69,157	13,944	9,500	11,300	9,801
No of GF Property Assets	**896**	478	704	400	623	280	321	419
No of HRA Dwellings	**14,807**	4,906	7,715	7,919	5,214	5,945	5,420	10,810
HRA Cap Exp	**28,636**	4,601	18,899	10,587	9,264	7,500	15,428	14,427
HRA Cap Exp per dwelling	**2**	1	2	1	2	1	3	1

4.13 In overall terms the council's land and property holdings cost the council some £26m per annum and bring in a yearly income of £79m. This is the direct expenditure involved and does not include the client side or service management costs involved in holding and managing the property. The value of the council's land and property assets as at the end of 2017/18 was £978m.

4.14 The key asset classes are shown in table 4.4, along with the approximate number of assets held, the impact of holding these assets on the revenue budget in 2017/18, and the capital expenditure costs incurred over the three year period 2015/16 to 2017/18.

Table 4.3: The direct costs and income of holding the council's assets

	General Fund £000	HRA £000
Repairs and maintenance	1,185	10,505
Grounds maintenance	2,097	570
Other running costs (utilities, insurance, Business Rates)	3,519	5,751
NPSN management costs	1,142	1,378
Gross holding costs	**7,943**	**18,204**
Rental and other income	(11,575)	(67,979)
Net income generated in 2017/18	**(3,632)**	**(49,775)**
Average capital cost per annum	3,672	28,173

Chart 4.2: the asset values of the council's land and property as at 31/03/18

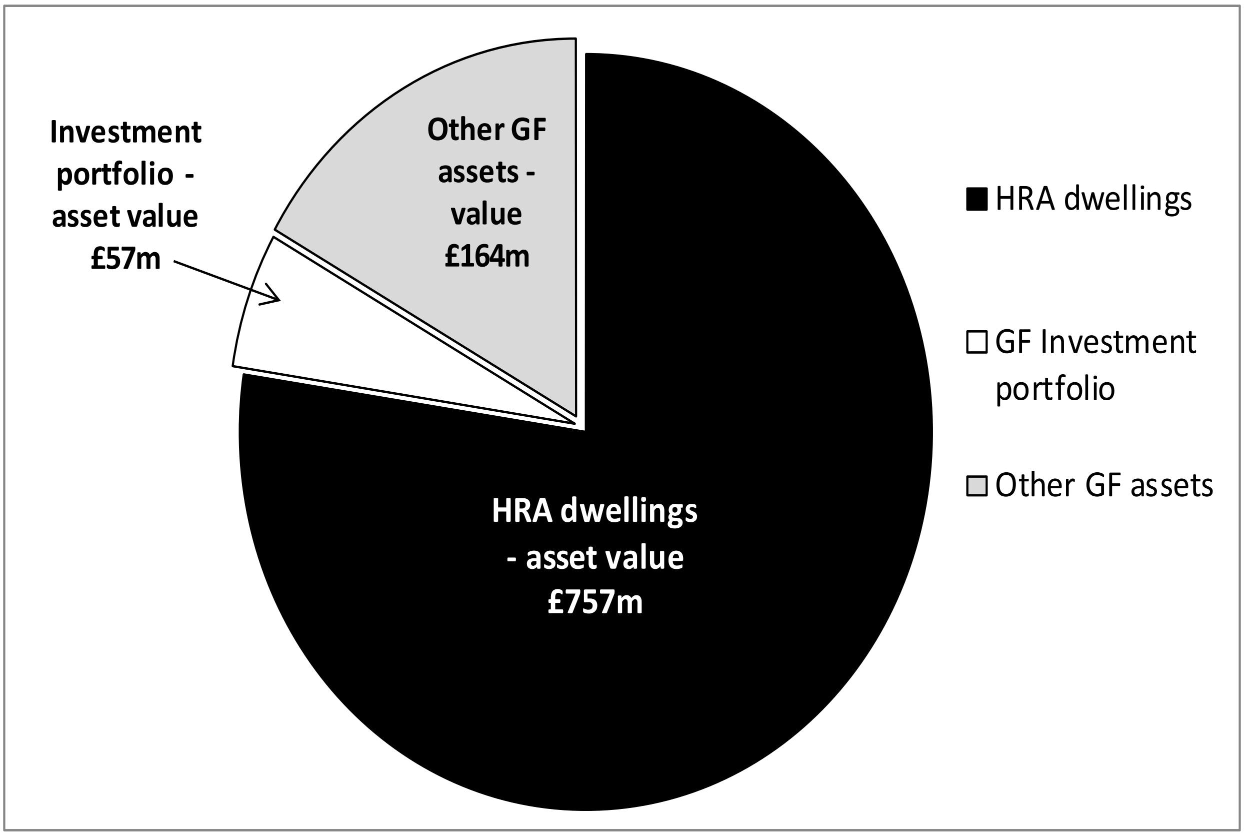


Table 4.4: the council's key asset classes

Asset class	No of assets	Revenue costs / income 2017/18	Capital costs
HRA property	15,026	Gross cost £18.2m, gross income £68.0, **net income £49.8m**	£36.8m 15/16, £24.4m 16/17, & £20.3m in 17/18
Investment property	430	Gross cost £1.2m, gross income £3.4m, **net income £2.2m**	£0.3m 15/16, £0.03m 16/17, & £0.004m in 17/18
Car Parks	18	Gross cost £2.8m, gross income £5.9m, **net income £3.1m**	£0.3m 15/16, £0.03m 16/17, & £0.004m in 17/18
The Market	1 (190 stalls)	Gross cost £0.57m, gross income £0.74m, **net income £0.17m**	No capital expenditure undertaken
Operational Assets	7 inc City Hall	Gross cost £1.5m, gross income £0.09m, **net expenditure £1.4m**	£0.004m 15/16, £0.1m 16/17, & £0.6m in 17/18
Community Centres	15	Gross cost £0.2m, gross income £0.0m, **net expenditure £0.2m**	£0.07m 15/16, £0.06m 16/17, & £0.03m in 17/18
Leisure	2	Gross cost £0.5m, gross income £0.3m, **net expenditure £0.2m**	£0.09m 15/16, £0.0m 16/17, & £0.03m in 17/18
The Halls	1	Gross cost £0.4m, gross income £0.2m, **net expenditure £0.2m**	£0.005m 15/16, £0.13m 16/17, & £0.001m in 17/18
Heritage assets	100	Gross cost £0.3m, gross income £0.03m, **net expenditure £0.27m**	£0.09m 15/16, no expenditure in 16/17 or 17/18
Cemeteries	2	Gross cost £0.36m, gross income £0.33m, **net expenditure £0.03m**	No capital expenditure undertaken
Parks & open spaces	290	Gross cost £3m, gross income £0.5m, **net expenditure £2.5m**	£0.3m 15/16, £0.2m 16/17, & £0.3m in 17/18
IT infrastructure & software	N/A	Gross cost £0.4m, gross income £0.0m, **net expenditure £0.4m**	£0.2m 15/16, £0.5m 16/17, & £0.5m in 17/18

NB – The investment property 2017/18 gross rental income does not include the new commercial property acquisitions made in 2018. The gross rental income budget for investment property in 2019/20 is £4.8m.

General Fund asset management planning

4.15 The council currently does not have an up-to-date Asset Management Plan, although work has started to draw one together. In addition many of the general fund assets have not had a condition survey undertaken in the recent past. It has therefore been very difficult to assess and quantify in this strategy the need for capital investment arising from the council's current general fund land and property holdings.

4.16 The focus therefore, unlike the HRA, has been largely on using the council's limited capital resources on reactive rather than planned improvements. This can be seen in the "spiky" investment made in each asset class over the last three years with capital expenditure often increasingly being undertaken for emergency health and safety reasons rather than being planned and sustained investment.

4.17 Higher capital costs are generally incurred when the focus is on reactive instead of planned improvements. This also has an adverse impact on the council's revenue repairs and maintenance budget.

4.18 A very initial view, without having the benefit of up-to-date condition surveys for all assets held, is that approximately some £21m of backlog maintenance is required on the council's assets over the medium term. Due to constrained finances it is considered that this level of investment is unaffordable.

4.19 There has been a tendency to consider capital investment proposals for a particular asset class in isolation rather than holistically and in relation to other potential priorities.

4.20 Therefore a comprehensive review of the entire general fund's land and property assets needs to be undertaken with a view to optimise the contribution property makes to the council's strategic and service objectives by identifying assets that require investment, are not financial performing, or are surplus to service needs.

Housing Revenue Account asset management planning

4.21 Unlike the general fund, recent condition surveys exist for HRA assets and the council has a good understanding of the future investment needs of the existing stock of HRA dwellings.

4.22 The council has invested £94m in the last six financial years in the HRA dwelling stock to bring key elements of the homes up to the Norwich Standard. These planned improvements have had the additional benefit of reducing the reactive repairs and maintenance revenue budget by £3m or 20%.

4.23 Housing assets are typically built with a 60-80 year life span in mind.

- 8.4% of the housing portfolio is over 90 years old.
- 26% of the stock is between 70 and 90 years old.

- 5,024 properties are over 70 years old and have reached or nearing their typical maintainable lifespan.

4.24 A shift in approach is currently being considered from planned long term maintenance in the existing dwelling stock towards a strategy of remodelling existing provision, replacing existing provision, and growth in the stock held by building/purchasing new homes.

4.25 A housing strategy is currently being written which will set out the key objectives for future capital investment for the HRA.

Capital expenditure plans

4.26 The expenditure plans are of two kinds:

- Short to medium term plans (1 to 5 years):

  These are the projects and programmes that are being proposed to council as part of the 2019/20 capital budget for delivery in that year (with many projects phased to be undertaken in 2020/21 as well in order to successfully complete).

- Medium to long-term plans (5 to 10 years):

  There is typically a long lead in time from identifying investment need or opportunity to implementation. The council's capital ambition plan comprises those (generally large and strategically important) projects that, given where they are in the project life cycle, will require a full business case for cabinet and council approval before they can be incorporated into the capital budget and implemented.

Forecast 2018/19 outturn and proposed budget virement and additions

4.27 The latest forecast position as at period 9 shows the general fund capital programme likely to underspend by £45.40m, however it is anticipated that £20m of this will form a carry-forward request to enable some of the unspent Asset Investment Programme budget to be utilised in 2019/20. The Housing Revenue Account (HRA) capital programme is forecast to underspend by £18.56m.

4.28 In order to ensure that the council, as shareholder, holds an appropriate level of equity in Norwich Regeneration Ltd for the ongoing development of Rayne Park Section 1, a capital investment of £0.52m is proposed in this financial year (see paragraphs 5.18 to 5.32 for further information).

4.29 As the general fund Asset Investment Programme is forecast to underspend by £42.23m in this financial year it is proposed to undertake the following virement.

Table 4.5: Proposed general fund capital budget virement

Project	Current Budget £'000	Proposed Virement £'000	Proposed Budget £'000
GF Asset Investment Programme	47,228	(524)	46,704
Equity Investment - NRL	0	524	524
Total	**47,228**	**0**	**47,228**

4.30 A recent survey of the two boilers at Riverside Leisure Centre identified that they were nearing the end of their operational life; therefore initial budget plans included provision for their replacement over a five year programme. One of the boilers has subsequently failed and there is a risk of the other also failing. Given the risk to business continuity, it is proposed that the 2018/19 General Fund capital programme is increased by £156,000 to enable both boilers to be replaced in March 2019.

Table 4.6: Proposed increase to general fund capital budget

Project	Current Budget £'000	Proposed Increase £'000	Proposed Budget £'000
5197 Riverside Leisure Centre – Plant & Equipment	12	156	168
Total	**12**	**156**	**168**

2019/20 to 2023/24 capital programme

4.31 Within a shorter timeframe the focus of the capital strategy is towards the delivery of particular schemes within an approved budget. The focus traditionally has been an annual investment plan for the next financial year and this continues for 2019/20 although many of the projects and programmes proposed for 2019/20 will continue into 2020/21. In future years the council aims to have a five year rolling capital programme, which will provide greater certainty for delivery as well as for financial and resource planning

4.32 The table below summarises the proposed 2019/20 overall capital budget along with indicative spending plans from 2020/21 to 2023/24. Details setting out the proposed projects and programmes within the general fund and HRA are found in Appendix 4 (B).

Table 4.7: General Fund and HRA capital programme

Capital Investment Objectives	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
People live well	5,749	3,221	3,243	3,528	3,445
Great neighbourhoods, housing & environment	11,542	2,100	2,050	2,050	2,050
Managing the Council's assets	27,609	31,500	26,643	25,848	21,542
Transforming services and delivering new income/savings	27,477	28,536	2,856	1,082	2,138
Capital Contingency	150	150	150	150	150
Total Capital Programme	**72,528**	**65,507**	**34,942**	**32,658**	**29,325**
General Fund Total	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**
HRA Total	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**

4.33 In 2019/20 the capital programme will deliver the following key outcomes:

General Fund:
- £25m of additional investment in commercial property, generating at least £500k of new net rental income to help finance general fund services.
- Over £1.5m on improvements for cyclists and other access improvements.
- £1.45m to improve private homes for older or disabled residents to enable them to continue living in their own home.
- £1.42m to demolish and decontaminate the Mile Cross former depot site.

Housing Revenue Account:
- Meeting housing need - delivering new homes - 31 new homes at Rayne Park and 6 new homes at Bullard Road.
- Maintaining and improving condition of existing housing - £22.9m including 328 new kitchens, 600 new bathrooms, 948 electrical upgrades, 1,071 upgraded doors, over 700 new heating systems, 262 replacement roofs and 170 individual homes plus 7 blocks of flats receiving new windows.
- Improving the use and management of the existing housing stock - £1.5m including 952 homes to benefit from door access control or CCTV installations and a £0.75m estate aesthetics programme.
- Improving neighbourhoods - £1.3m including 150 solar/photovoltaic panel installations and a £0.75m disabled adaptation and stair-lift installation programme.

Capital ambition plan

4.34 As well as the proposed capital programme, the council is continuing with its ambitions to make sustainable improvements to the borough and the lives of the residents. The Council recognises that it is likely to need significant investment to advance the priorities and ambitions being identified and is exploring the possibility of working with both the private sector and other public sector bodies to identify new funding streams and delivery mechanisms that can deliver the ambition.

4.35 These schemes will all need to follow the principles as set out in this Capital Strategy and full business cases will need to be submitted and approved before the schemes are recommended for inclusion in the capital budget.

4.36 The ambition plan is under development, although certain projects are at a more advanced stage of commissioning than others (see 4.38). The further development of the ambition plan will depend on the production and agreement of:

- A general fund asset management strategy,
- A Housing Strategy, which is currently being developed, as many of the council's ambitions for capital investment include the remodelling, replacing and growth of HRA social housing stock.

4.37 The future intention will be to articulate the capital ambition plan over a ten year period in terms of determining priorities, intended outcomes for stakeholders, and intended timescales. The council will also ensure that there is clarity on the level of affordability and proportionality, as the ambition plan will require significant future borrowing by the council.

4.38 Whilst the ambition plan is not shared in this year's budget report because of the further work needed to it, (in terms of it being a phased, costed, and financed long-term), the projects and programmes being assessed for inclusion in the plan primarily address the following key priorities:

<u>People Live Well:</u>

- As well as supporting people's physical health, physical activity of all sorts also contributes to wider wellbeing. The council, with potential partners at Sports England, the CCG (Clinical Commissioning Group), the NHS and Norfolk County Council, is currently working on the production of a full business case analysing the feasibility of providing new leisure and community facilities at the former Mile Cross depot site. This capital ambition project will also support wider social aims, such as community cohesion, employability and combatting social isolation.

- Early work is being undertaken on the possible options available for improving the provision of temporary accommodation for the homeless.

Inclusive economy:

- The council intends to develop under-used land and brown-field sites held by the council to help regenerate the city economically, as well as socially, and in terms of its environment. As an example, officers are currently developing potential options for the development of land at the rear of city hall, at Norwich Airport Industrial Estate, and for enhancing the facilities provided to the Livestock Market.

Meeting housing need and delivering new homes:

- There is a shortage of housing in the city and the council intends to invest in the development of new housing. Whilst the strategy for the HRA to build new affordable housing is at its preliminary conceptual stage, options for developing new homes via the council's wholly owned subsidiary company, Norwich Regeneration Limited, are more advanced. The council's ambition plan and the company's Business Plan include housing development proposals, on either company or council owned land, at Rayne Park (sections 2 to 4), Three Score phase 3, the Mile Cross depot site, and in Ber Street and Argyll Street. These schemes will deliver some 587 new homes (of which 180 would be affordable homes).

Maintaining and improving the condition of existing HRA housing:

- The council is the largest provider of social housing in the city and ensuring that the housing stock is safe and well-maintained is the biggest contribution the council can make to addressing housing need in the city. As stated elsewhere in this budget report, the council is currently developing a housing strategy which will include a longer-term plan for the maintenance and regeneration of HRA housing and estates.

Improving the quality and safety of private sector housing:

- As a private landlord, the council's company, Norwich Regeneration Limited, aims to be an exemplar of good private landlord practice, by ensuring that properties built for private sector rental are of good quality. As well as benefitting those tenants directly, it is hoped that by so doing, this will influence other private landlords to follow this example in order to compete effectively. The company is developing a Business Case for council approval as shareholder to buy as well as build homes for private sector rental.

4.39 Some projects in the capital ambition plan are more advanced than others in terms of their commissioning. It is likely that the following schemes will seek council approval for inclusion into the capital programme during the course of this financial year, subject to viable business cases. The total costs at this stage are still very preliminary:

- Mile Cross depot redevelopment for housing and a new leisure / community facility (£72m).

- Mountergate residential and commercial development (£27m)
- Rayne Park (sections 2 to 4) housing development (£19m).
- Three Score phase 3 housing development (£18m).
- Ber Street and Argyle Street housing development (£7m).
- Residential conversion and purchase of homes to let (£2.5m).
- The ambition to deliver options for temporary accommodation for the homeless (£2m).
- Enhancement of facilities provided at the Livestock Market (£1m).

4.40 The financial consequences arising if these capital projects are approved have been taken into account in the council's financial plans in the following manner:

- The HRA Business Plan does not include these projects, as explained in paragraph 3.21. However a financial viability assessment of their impact on the HRA Business Plan demonstrates that their inclusion within the HRA capital programme would extend the period in which the HRA borrowing could be repaid, from 25 years to 27 years. This shows that the Business Plan would remain sustainable over the 60 years planning period.

- The cost of schemes that are likely to be undertaken by the council's company, Norwich Regeneration Limited, and which require the company to seek a loan and an equity share from the council, have been taken into account in (a) the proposed loan facility to be made available to NRL (table 5.1) and (b) the proposed equity investment into NRL (table 5.2).

- The borrowing that the council may need to undertake to finance the projects has been included in the capital financing requirement, operational boundary for external debt, and authorised limit for external debt calculations, as set out in the Treasury Management Strategy (section 6).

- No additional financing costs (interest or MRP costs) have been included in the general fund revenue budget as in order to be financial viable and receive council approval these schemes must <u>at least</u> be cost neutral to the revenue budget, in other words, each scheme must generate new income that will at the very least cover the financing costs of the project.

- Many of the projects could generate additional revenue income for the council, particularly those that will be undertaken by Norwich Regeneration Limited. However the general fund revenue budget has prudently not anticipated any additional income at this stage (see paragraphs 2.38 and 2.39).

Funding the capital strategy

4.41 The availability of funding plays a key part in the size and content of the capital programme. The impact of national cuts in grant funding has significantly reduced the level of government support for capital investment since 2010 and the council must now rely more on its own funding, and levering in other sources of external funding where this is possible.

4.42 The sources of funding available for capital investment by both the general fund and HRA and the proposed strategy for their use is found in Appendix 4 (C). It needs to be emphasised that the majority of these funding sources can only be used to fund capital expenditure and not the day-to-day costs of providing services.

Proposed funding of the general fund capital programme

4.43 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.

4.44 In the past, capital receipts have been the main funding source for the general fund capital programme. However, known receipts and intended sales are reducing over time, and at the time of writing this report, no further receipts are anticipated after 2019/20.

4.45 Chart 4.3 shows a forecast of all known capital receipts and revenue budget contributions over the next 5 years along with current expenditure requirements (including setting aside some £2.2m for known potential future capital liabilities). Although this indicates a remaining capital receipt balance of £3.9m in 2023/24, capital receipts rely upon the completion of asset sales and the rate at which cash equity may be returned from NRL is dependent upon the sales of new homes, neither of which can be guaranteed. Furthermore, additional expenditure requirements may arise that generate no income and must therefore be funded from capital receipts or revenue budget contributions.

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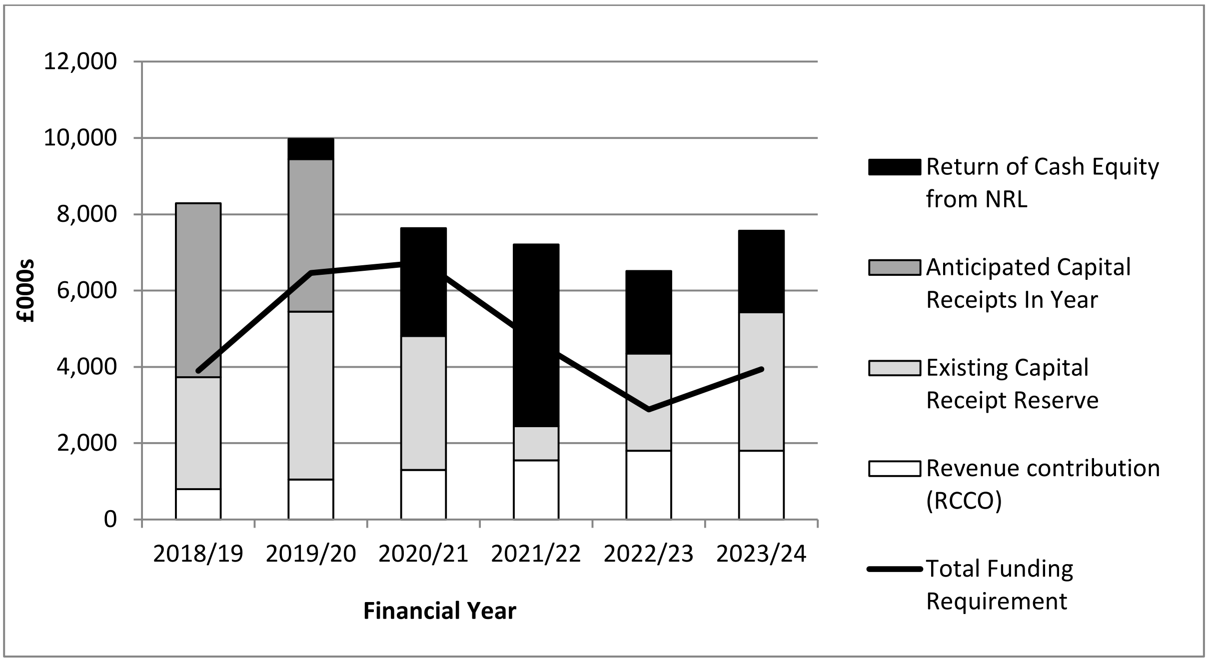
Chart 4.3: General Fund Capital Receipts, Revenue Contributions and Funding Requirements



4.46 To partially compensate for the reducing level of capital receipts, the MTFS includes proposals to increase the revenue budget to fund capital by £0.25m per annum until this funding source reaches a total of £1.8m per annum in 2022/23.

4.47 The consequential impact of a reducing level of capital receipts is that a “cap” or “budget envelope” has been set on the size of the capital budget that is funded from capital receipts and the general fund revenue budget. This cap is an average of £1.8m per annum over the next five years representing the amount that can be funded from known capital receipts and the planning assumptions contained with the MTFS revenue budget.

4.48 The implication of this restriction in general fund capital investment is that many maintenance needs on the council’s existing property assets cannot be currently met. Borrowing to fund this expenditure is unlikely to be an option in most cases as the majority of capital expenditure required is unlikely to generate new income streams that could cover the resultant increase in financing costs.

4.49 The continuing constraints on the availability of capital resources in the medium to long term and the direct impact on the revenue budget leaves little room for manoeuvre. As mentioned earlier in this section of the report, the council will need to critically review its asset base over the coming years with a view to retaining a sustainable level of assets to support service delivery.

4.50 Capital expenditure above the budget envelope is however being proposed for 2019/20 and future years. The majority of this expenditure is for investment in the council’s company, Norwich Regeneration Limited. This is a temporary use of capital receipts as the council anticipates that its equity investment will be returned when each NRL project completes and has sold the private sector homes on the open market (see paragraphs 5.33 to 5.44).

4.51 The restrictions on investing in the council's existing assets do not necessarily apply to its investment property portfolio. The commercial property investment strategy agreed by Cabinet in December 2018 now allows for the commercial property investment fund to be used as a funding source for capital improvements to existing stock, as well as for new acquisitions, if the investment meets the required internal net rate of return.

Table 4.8: Proposed funding of the General Fund capital programme

General Fund Capital Programme	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Capital receipts	3,963	3,712	2,474	6	1,017
Revenue budget contribution	1,050	1,300	1,550	1,800	1,800
Grant funded	3,506	1,382	1,150	1,150	1,150
Section 106	560	100	-	-	-
Greater Norwich Growth Partnership	395	206	150	-	-
Community Infrastructure Levy	1,285	1,169	1,578	2,033	1,995
Borrowing	25,000	25,000	-	-	-
Spend to save earmarked reserve	200	-	-	-	-
Total	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**

Proposed funding of the HRA capital programme

4.52 The funding of the HRA capital programme follows the funding strategy set out in Appendix 4 (C) and paragraph 3.22. In addition, £6m of the £8.4m surplus income estimated for 2019/20 is proposed to be used to fund 2019/20 capital expenditure (paragraph 3.4).

4.53 Historically the council's financing strategy for HRA capital investment has focussed on maximising the use of general reserves to reduce the level towards the prudent minimum balance. However, there has been a national shift in thinking recently from a view that councils should not hold reserves to a position where having reserves is now viewed as a prudent means of maintaining financial resilience.

4.54 The general reserves currently held within the HRA (forecast at £32m for 2019/20) will be held to provide a versatile resource to support priorities identified by the forthcoming HRA Strategy, including the regeneration of existing assets and provision of new social housing.

Table 4.9: Proposed funding of the HRA capital programme

HRA capital programme funding	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Major Repairs Reserve	25,067	14,726	14,726	14,726	14,726
Capital Receipts	-	9,618	3,691	3,247	-
Retained "one for one" RTB receipts	4,420	2,015	2,000	2,000	2,000
Contributions/Grants	1,067	250	250	250	250
Revenue budget contribution	6,013	6,030	7,372	7,446	6,387
Total	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**

Proposed funding of the capital ambition plan

4.55 As stated above the capital ambition plan is at a preliminary stage of development and financing plans for each project will need to be formulated as part of the Business Case for approval by cabinet and council. However that said, the underlying assumption, certainly for the general fund projects, is that the majority of them will require external borrowing, and therefore must generate new income to cover at least the financing costs of the borrowing, or will be funded off the council's balance sheet through alternative delivery routes.

Alternative delivery routes

4.56 The Council will review the best delivery routes for implementing projects in the capital ambition plan as part of the options appraisal undertaken in the Business Case. These delivery routes largely fall into the following categories:

- Self-develop: this involves the council undertaking the project independently and therefore provides the greatest level of potential return and control but also the greatest cost and exposure to risk.

- Norwich Regeneration Limited led: where capital ambition projects involve housing development the council has the option of commissioning its subsidiary company to undertake these. This provides a similar balance of risk and return as the self-develop approach.

- Joint-venture partnerships: these allow the council to use its assets (usually land and buildings) and possibly some finance, to attract long term investment from the private sector in order to deliver socio-economic development and regeneration. They are designed to encourage parties to pool resources to deliver regeneration with an acceptable balance of risk and return for all involved. This approach would be a new area for the council and would need considerable further work to progress.

- Developer led: this usually involves selling the opportunity to a developer, perhaps with an outline planning consent and Development Agreement in place. As an example, the council takes a developer led approach with housing associations.

- Community Involvement: changes in legislation brought in under the Localism Act have introduced the concept of Community Asset Transfer, Community Right to Challenge and Community Right to Bid for services. This has opened up a whole spectrum of opportunities of private sector investment in community-led capital projects, where deemed appropriate.

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Delivering the capital strategy

Governance

4.57 The council undertakes democratic decision-making and scrutiny processes which provide overall political direction and accountability for the investment proposed in the capital strategy. These processes include:

- The Council which is ultimately responsible for approving investment in the Capital Strategy.
- The Cabinet which is responsible for setting the corporate framework and political priorities to be reflected in the Capital Strategy.
- Scrutiny Committee which is responsible for the annual scrutiny of the proposed budget including the Capital Strategy and which can make recommendations to cabinet.
- Audit Committee which scrutinises the capital investment made in any financial year as reported in the annual Statement of Accounts and the risk of future capital investment proposals. The committee can also make recommendations to cabinet.

4.58 The capital programme is approved by full council as part of its annual budget report which sets out the funding of the capital programme, the schemes being proposed and how they contribute to the achievement of the Council's priorities, any consequential revenue budget implications, and information on the affordability, proportionality, and risk of the proposals.

4.59 A delegated approval process has been agreed by Cabinet for individual commercial property investment decisions within the overall budget approved by council for this activity. In addition, projects within the capital ambition programme require a full Business Case to be submitted to council for approval as and when the information and analysis is available to make a robust decision.

4.60 All capital expenditure must be carried out in accordance with the council's constitution, financial regulations, and contract procedures. Internal audit undertake regular audits of compliance.

4.61 The monitoring of expenditure against the approved budget, and the forecasting of the year-end outturn, is coordinated by LGSS Finance and reported to Cabinet every two months as part of the overall corporate budget monitoring process. In 2019/20 it is intended to report additional management information, alongside the financial figures, to show the progress being achieved on key and/or large capital projects.

Business Planning Process

Table 4.10: The council's business planning process

SUMMER	AUTUMN	DECEMBER	FEBRUARY
New capital investment proposals drafted	CQAG & CLT consider draft proposals	Cabinet considers emerging proposals	Council approves capital strategy

4.62 Service Directors and NPSN submit capital project proposals, via an outline project bid form, to the Corporate Quality Assurance Group (CQAG) in the autumn of each year for the officer group to review and quality assure the proposals with respect to the need for the investment, the key benefits expected to be delivered, the robustness of the financial estimates and delivery plans.

4.63 Recommendations are made from this group to corporate leadership team and the draft proposals are then set out in the emerging budget report considered by Cabinet annually in December and approved by full Council in February.

Commissioning, appraisal, and programme/project management

4.64 The increased scale of capital investment proposed in the ambition plan coupled with the financial restrictions on capital expenditure in the general fund require a step change in the quality of commissioning and project management and delivery.

4.65 As part of Norwich City Council's new approach to capital investment, officers are developing an approach to include:

- An evaluation and scoring mechanism to assist the prioritisation of projects submitted for inclusion within the capital programme.

- A requirement that all capital programmes and projects will be subject to comprehensive but proportionate appraisal (as part of a broader gateway approval system).

- Clear separation between those who prepare Business Cases within the council and those who quality assurance them.

- The use of the government's 5 case business model, based on HM Treasury Green Book Guidance on Better Business Cases, for large, crosscutting, or complex projects. As a rule of thumb these will generally be projects where investment is needed of £1m or over. This approach will enable the council to make sound investment decisions based on a consideration of the following five tests:

    - Is it needed? (Strategic Case)
    - Is it value for money? (Economic Case)
    - Is it viable? (Commercial Case)
    - Is it affordable? (Financial Case)
    - Is it achievable? (Management Case)

- The need for large complex investments to obtain corporate approval via Business Cases at key commitment points (gateways) to include:
    - Strategic Outline Case – to establish initial viability based on a defined Scope
    - Outline Business Case – to establish viability based on high level plans and delivery assumptions
    - Full Business Case – to establish viability based on detailed plans and delivery decisions
    - Business Case Reviews – to ensure at key delivery stages that the case remains valid throughout.

- Enhanced financial modelling for large projects including full life costing, Net Present Value discounted cash flows, and the stress testing of key assumptions.

- Corporate training on the 5 case business model and financial modelling for options appraisal for staff working on key and/or large projects.

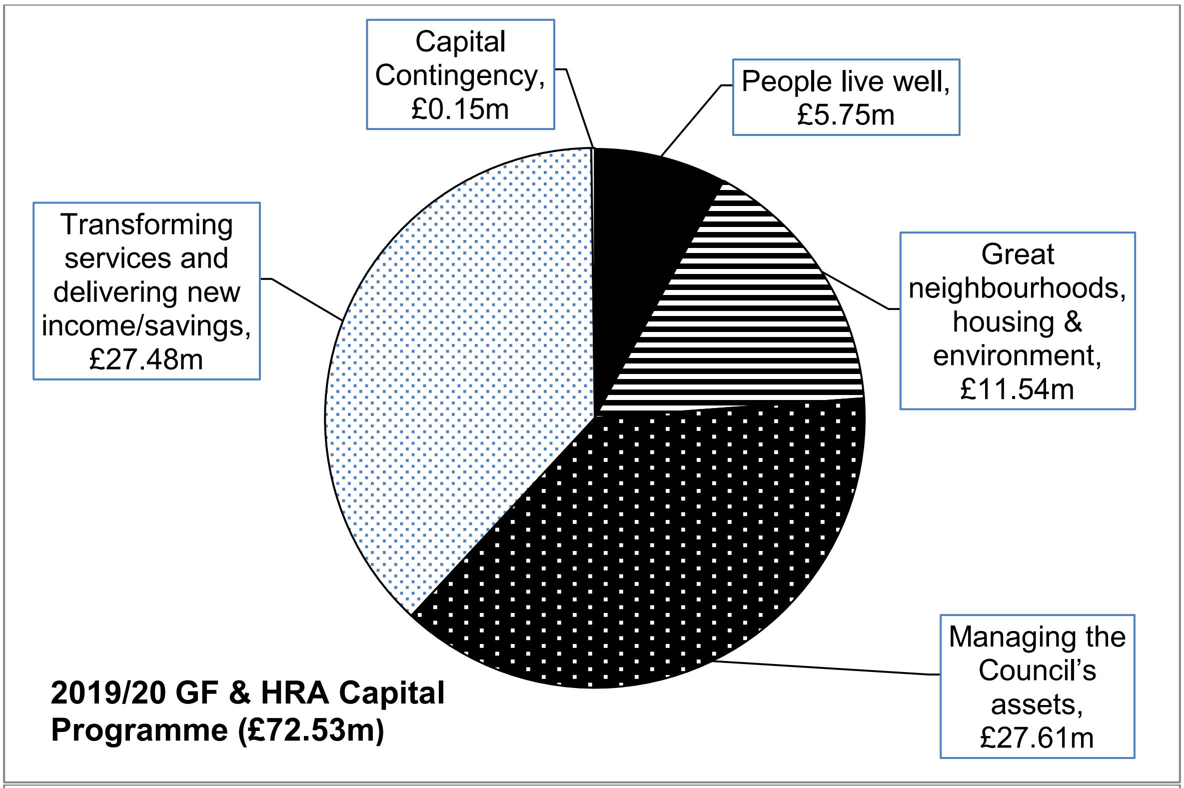
Knowledge and skills

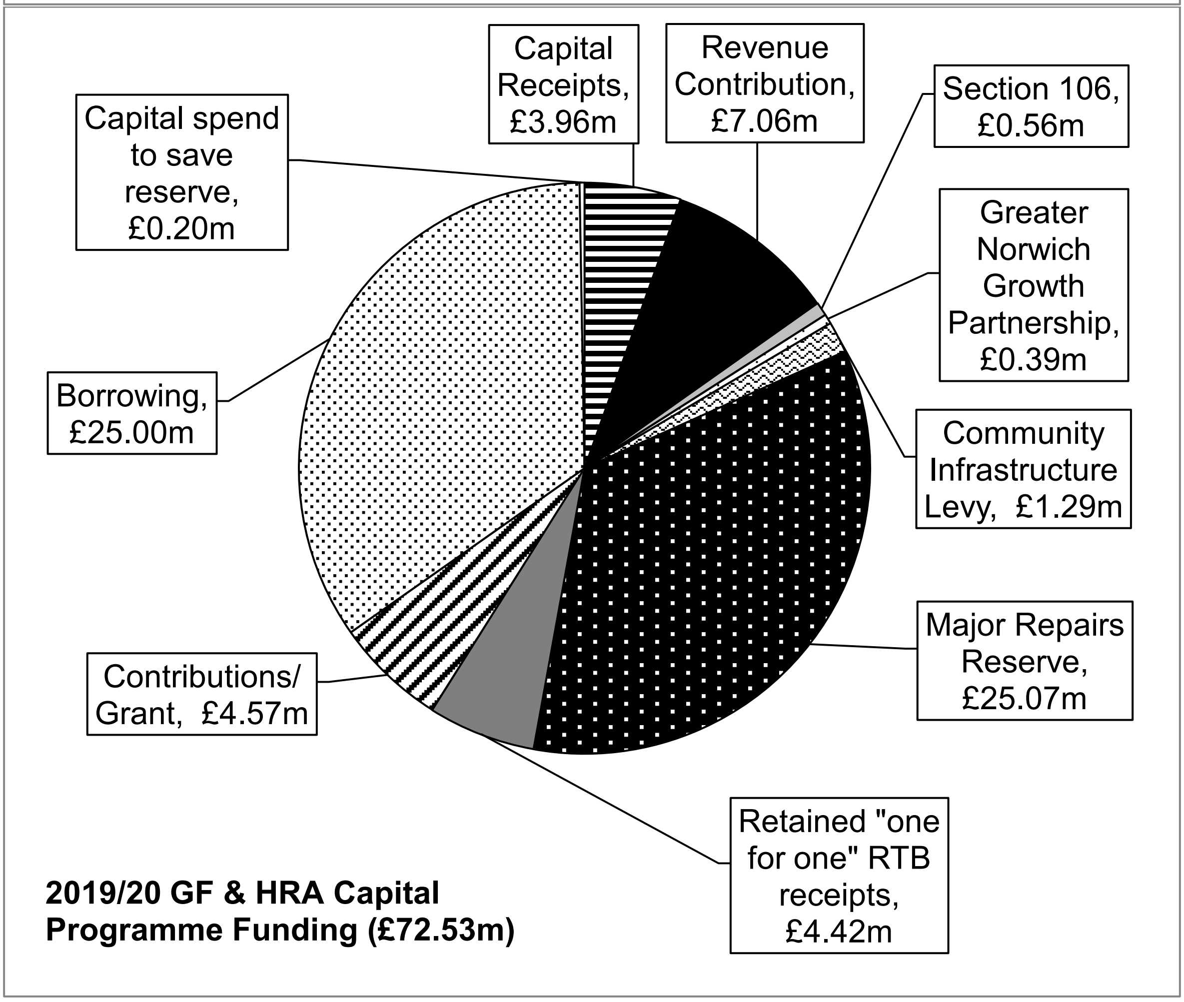
4.66 The council has professionally qualified staff, or access to such staff through its joint venture arrangements, across a range of disciplines including finance, legal, planning and property that allow for capital investment decisions to be robustly considered. These individuals follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

4.67 External professional advice is taken as and when required and will always be sought in consideration of any major commercial property investment decision or joint venture development. The council has current arrangements with Link Asset Services for providing treasury management guidance, PSTax for tax advice, covering both public sector as well as commercial tax issues, and Carter Jonas for property investment intelligence and assistance.

4.68 Internal and external training has and will continue to be offered to members to ensure they have up-to-date knowledge and expertise to understand and challenge capital investment decisions.

Appendix 4 (A): Proposed GF and HRA capital programme 2019/20





Appendix 4 (B): Proposed GF and HRA capital projects 2019/20 to 2023/24

Project	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
People live well					
Castle Gardens - Restoration and improvement works.	212	-	-	-	-
CCTV - New CCTV system for public spaces and tower blocks.	24	0	0	0	0
CIL George Fox Way - Wooded Area. Hedgerow and access improvements	3	0	0	0	0
CIL Mile Cross Pedestrian & Cycle Links - Enhancements Norman Centre / Mile Cross School	20	0	0	0	0
CIL Neighbourhood - Future Programme	0	150	200	200	225
CIL Netherwood Green - Improve access & biodiversity. Reduce ASB.	29	0	0	0	0
CIL Strategic Pool Contribution	1,198	1,019	1,378	1,833	1,770
CIL West Earlham Woods - Community led project to improve management.	5	0	0	0	0
DfT CCAG Safety Schemes - Earlham Road & Fiveways Roundabout.	1,360	0	0	0	0
Earlham Park Toilets - Replacement and provision of disabled facilities.	77	0	0	0	0
Eaton Park Path Replacement - Replace worn & uneven paths.	45	45	45	45	0
GNGP Earlham Millennium Green Phase 3 - Path and other access improvements.	18	0	0	0	0
GNGP Football Pitch Improvements	40	40	35	0	0
GNGP Riverside Walk - Improvements to allow access for all and better wayfinding.	180	0	0	0	0

GNGP Wensum Park Play Area - Redevelopment including new play equipment.	0	0	115	0	0
GNGP Yare - Wensum Green Infrastructure - Improved links for walking, cycling & wildlife.	75	95	0	0	0
Home Improvement Agency Works - Provision of Disabled Facilities Grants etc.	1,450	1,450	1,450	1,450	1,450
Ketts Heights - Restoration of structures. Improved access.	105	0	0	0	0
Norwich Parks Tennis expansion - Grass court replacement. Hard court upgrade.	435	0	0	0	0
Riverside Walk Adj NCFC - Construction of new cycle/pedestrian route.	0	302	0	0	0
S106 Bowthorpe Southern Park - Install new gates and replace fencing.	5	0	0	0	0
S106 Bowthorpe to Clover Hill Access - Improve pedestrian access from Rayne Park	69	0	0	0	0
S106 Bunkers Hill - Entrance & path improvements. Tree works.	59	0	0	0	0
S106 St George's open space and play improvements - Redevelopment.	88	100	0	0	0
S106 St Stephens Towers Public Realm - City Wall and pedestrian route works.	70	0	0	0	0
S106 Wensum Park Play Area - Redevelopment including new play equipment.	62	0	0	0	0
UEA to Eaton boardwalk - Extension of existing boardwalk.	90	0	0	0	0
Wensum Park Stone Wall - Replacement of dry stone walls.	20	20	20	0	0
GF Total - People live well	**5,739**	**3,221**	**3,243**	**3,528**	**3,445**

CCTV - New CCTV system for public spaces and tower blocks.	10	0	0	0	0
HRA Total - People live well	**10**	**0**	**0**	**0**	**0**

Great neighbourhoods, housing & environment					
Mile Cross Depot - Demolition and decontamination.	1,425	0	0	0	0
GF Total - Great neighbourhoods, housing & environment	**1,425**	**0**	**0**	**0**	**0**
Bullard Road	800	0	0	0	0
Capital Grants to Registered Providers	2,000	2,000	2,000	2,000	2,000
Northumberland Street - New Build (HRA)	299	50	0	0	0
Site formation and demolition	50	50	50	50	50
Rayne Park Section 1 - Acquisition from NRL	6,968	0	0	0	0
HRA Total - Great neighbourhoods, housing & environment	**10,117**	**2,100**	**2,050**	**2,050**	**2,050**

Managing the Council's assets					
Cemetery Gates - Refurbishment of damaged ornamental gates.	0	28	0	0	0
City Hall Heating System - Replacement of boiler plant & controls.	92	315	0	0	0
City Hall Kitchens & Toilets - Improve kitchen & toilet facilities for staff.	65	54	11	0	0
Community Centres - Electrical, heating lighting upgrades and external joinery repairs.	102	0	0	0	0
Earlham Cemetery Railings - Replacement of original railings.	0	142	142	0	0
Grounds Maintenance Equipment	170	0	0	0	0
IT BAU - Investment in IT infrastructure & telephony.	525	295	200	200	200

Motor Cycle Park - Works to protect concrete deck above public toilets & shops.	39	0	0	0	0
Non Trafficked Pedestrian Bridges - Major repairs.	33	33	33	0	0
Riverbank Stabilisation Yare & Wensum - including repairs to piling & quay headings.	33	33	33	0	0
Riverside Footpath District Lighting - Installation of replacement LED lighting.	21	21	21	0	0
Riverside Leisure Centre Plant - Replacement of heating system plant & equipment.	62	0	184	0	0
Rosary Cemetery Gate - Refurbishment of ornamental gates and surrounding railings..	0	11	0	0	0
St Andrews MSCP Roadway Lighting - Installation of replacement LED lighting.	0	30	29	29	29
Strangers Hall Stores Roof - Replacement of existing roof.	28	0	0	0	0
GF Total - Managing the Council's assets	**1,169**	**961**	**653**	**229**	**229**
Council Housing Community Upgrades	1,340	1,000	1,000	1,000	550
Council Housing Fees	710	710	710	710	710
Council Housing Heating Upgrades	3,795	4,900	3,000	3,000	3,000
Council Housing Home Upgrades	6,310	6,300	5,650	4,700	5,384
Council Housing Independent Living Upgrades	990	700	650	550	350
Council Housing Preventative Upgrades	9,710	12,929	11,431	11,310	10,099
Council Housing Sheltered Housing Regeneration	0	100	100	100	0
Council Housing Thermal Upgrades	934	1,000	1,000	800	500
Council Housing Window & Door Upgrades	2,652	2,900	2,450	3,450	720
HRA Total - Managing the Council's assets	**26,441**	**30,539**	**25,990**	**25,619**	**21,313**

Transforming services and delivering new income/savings					
Property Acquisition - Commercial property acquisition for income.	25,000	25,000	0	0	0
Equity Investment - Norwich Regeneration Ltd	2,277	3,536	2,856	1,082	2,138
IT Transformation - Digital platform development	200	0	0	0	0
GF Total - Transforming services and delivering new income/savings	**27,477**	**28,536**	**2,856**	**1,082**	**2,138**

GF Capital Contingency	**150**	**150**	**150**	**150**	**150**

Total Proposed GF Capital Programme	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**
Total Proposed HRA Capital Programme	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**
Total Proposed Capital Programme	**72,528**	**65,507**	**34,942**	**32,658**	**29,325**

Appendix 4 (C): The council's capital funding sources & strategy for their use

Funding source	Description and proposed strategy for its use
Revenue budget	**Description:** The use of the annual revenue budget to fund capital expenditure. **General Fund strategy**: The revenue budget (along with capital receipt income) is used to fund capital projects where there is no financial return from the investment to cover the costs of borrowing. The current MTFS includes a £0.25m annual increase in this budget but the general pressures on the general fund will limit the extent to which this may be used as a source of capital funding. **HRA strategy:** The HRA revenue contribution towards capital outlay (RCCO) is the next funding source for capital expenditure after first taking into account resources available from grants, contributions, MRR, and retained one for one RTB capital receipts.
Capital receipts	**Description:** Income arising from the sale of assets. Can only be used to fund capital expenditure or offset future debt costs. **General Fund strategy**: Capital receipts are used as a corporate resource. Capital receipts income (along with the revenue budget) is used to fund capital projects where there is no financial return from the investment to cover the costs of borrowing. **HRA strategy**: Non Right-to-buy HRA capital receipts arise from the disposal of HRA property and land and may be utilised to fund all HRA capital expenditure. Due to the lack of restrictions, this resource is only utilised once alternatives funding sources have been exhausted, but prior to the use of general reserves and borrowing. **Use of capitalisation flexibilities**: Regulations around the flexible use of capital receipts allow the council to use new capital receipts to fund the revenue costs of council transformation that will generate savings in future years. This is subject to the council approving a policy on the flexible use of capital receipts. The council currently has sufficient funds in its earmarked spend-to-save reserves and therefore has no proposal to make use of these flexibilities.
Leasing	**Description:** A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset. Property, buildings and vehicles are common assets that are leased. Leasing offers a way of financing the use of assets over a period of time without actually having to buy them outright.

	Strategy for its use: Some of the assets used by the Council are financed by a lease arrangement, for example vehicles. There may be instances where leasing could offer value for money and it will remain a consideration when options are being appraised. However, given the relatively low cost of borrowing through PWLB compared to the implicit interest rates within any leased asset arrangement, it is likely to be better value for moany if the council funds the asset itself via borrowing.
Right-to-buy capital receipts	**Description:** Income arising from Right-To-Buy house sales comprising of two elements, local authority share and retained 'one for one' receipts. This funding source is only available to the HRA. **Local Authority Share:** An element of the capital receipts arising from the sale of HRA dwelling under Right-to-buy that may be retained indefinitely by the council and utilised to fund all HRA capital expenditure. **Strategy for its use**: As with other HRA capital receipts, given its flexibility, this resource is only utilised once alternatives have been exhausted, but prior to the use of general reserves and borrowing. **Retained 'One For One' Receipts:** The use of this share is limited under statute and can only be used to fund up to 30% of the overall cost of new social housing and must be utilised within 3 years of the date of retention or be returned to central government along with a punitive interest charge. **Strategy for its use**: The use of this resource is maximised where possible and rigorous monitoring is undertaken during the year to ensure the council is not at risk of having to pay the receipts to central government. Council has prioritised the funding of its own HRA capital programme in utilising these receipts, but when unable to do so the priorities are: 1. Grant to Registered Providers to develop social rented housing, or when unable to do so: 2. Grant to Registered Providers to develop affordable rented housing.
General Reserves	**Description:** General reserves can be used to fund either revenue or capital expenditure.

	General Fund strategy: The general reserve is planned to be used to help finance the revenue budget over the MTFS until the reserve reaches the prudent minimum level. There are no plans for it to be used to fund capital expenditure. **HRA strategy:** The HRA general reserve is planned to be used as necessary to finance revenue and capital budgets in line with the HRA business plan, until the reserve reaches the prudent minimum balance. Although there are no immediate plans to utilise this resource for capital funding, it may be utilised in the future in order to fund the housing capital ambition plan and to minimise borrowing costs.
Major Repairs Reserve (MRR)	**Description:** The Major Repairs Reserve is created from an annual depreciation charge to HRA revenue budgets. **Strategy for its use**: This is used annually as the first source of funding for the HRA capital upgrade programme.
Capital grants	**Description**: Sums of money given to the council to fund, either in whole or in part, specific capital projects **Strategy for their use**: the council will actively pursue grants and contributions and other innovative solutions to the funding of capital investment schemes. This funding will be utilised in the first instance if the capital projects they fund meet the city's priorities and have no revenue budget or other onerous implications. To be noted: many grant awarding organisations now give a higher funding priority to those schemes that involve working with other public sector partners.
Section 106, GNGB and CIL	**Description:** Contributions paid by developers to mitigate the impact of new development across the city. **Section 106:** Contributions may be utilised to fund capital schemes but it must be in accordance with the obligations imposed by each legal agreement. These are now diminishing as S106s have instead largely been replaced by CIL contributions. **CIL (Community Infrastructure Levy)**: 80% of CIL contributions collected are paid to the Greater Norwich Growth Board (GNGB) to fund the Infrastructure Investment Fund in accordance with the existing memorandum of understanding. Where appropriate the council submits bids which may be utilised to fund capital schemes.

	15% of CIL contributions are retained for local neighbourhood sponsored schemes and allocated to fund minor capital schemes. Contributions may provide matched funding in order to secure grant funding from central government or the local enterprise partnership.
Borrowing	**Description: Internal borrowing** is the *temporary* use of the council's cash holdings to fund capital expenditure. **External borrowing** is the process of going to an external financial institution to obtain money The council will only borrow money (either internally or externally) in cases where there is a clear financial benefit, such as a new income stream or a budget saving, that can, at the very least, fund the costs arising from the borrowing, namely interest charges & any MRP costs. The council's borrowing will be proportionate to the size of the council's balance sheet and revenue budget. Regardless of whether the capital expenditure is funded through internal or external borrowing the revenue budget will assume the latter and will make budget provision for interest charges and MRP costs (the latter for the general fund only). All executive decisions on borrowing, investment or financing, within the limits and principles agreed by Council in the annual Treasury Management Strategy, are delegated to the chief finance officer, under the council's constitution, who is required to act in accordance with CIPFA's Treasury Management Code of practice. The chief finance officer will decide whether to use internal instead of external borrowing as a temporary source of financing if at the time: (a) The council's overall cash holdings are above £17m (the minimum amount of cash deemed necessary for working capital purposes– see the Treasury Management Strategy in section 7). (b) The net return from the new income stream (or budget saving), arising from the capital expenditure, is above that which would be obtained by depositing the cash on a short-term basis in a bank or building society. (c) There is no imminent likelihood of the Bank of England base rate increasing to the extent that it would be value for money for the council to borrow to fund any existing indebtedness as measured by the capital financing requirement (the council's underlying need to borrow). External advice will be sought by the chief finance officer from the council's treasury advisers, Link Asset Services, if necessary.

5. NON FINANCIAL (COMMERCIAL) INVESTMENT STRATEGY

Context

5.1 This is a new report for 2019/20 required by changes in MHCLG's Investment Code and CIPFA's Prudential Code, as discussed in section 1.

5.2 The council invests money for three broad purposes:
1) Because it has surplus cash as a result of day-to-day activities it invests the cash to make a return. These investments are part of treasury management good practice.
2) To support corporate priorities by lending to and/or buying shares in other organisations.
3) To earn income through commercial investment.

5.3 This section covers items 2 and 3 above which are termed non-financial investments. These are considered separately from "traditional" treasury management activities, contained in section 6, for ease of understanding and in order to separate treasury investments made under security, liquidity and yield principles from capital expenditure on assets, shares, and lending to third parties.

5.4 The council has a higher risk appetite for non-financial investments than treasury investments given the contribution the former make to the delivery of corporate priorities and the long-term financial sustainably of the council.

5.5 The financial indicators showing the affordability, proportionality and total potential risk exposure to the council arising from non-financial investments are given in section 7 of this report.

Commercial property investment

5.6 Whilst the council has held commercial property for decades, it has recently been purchasing new property investments in line with cabinet approvals in July 2016 and April 2017 and within the council's approved capital expenditure budget for this investment activity.

5.7 To date, £33m of new investments have been made, generating gross initial income of £2.1m and net initial income (after taking into account the financing costs of the acquisition) of £972k (a net initial return of 2.9%).

5.8 These assets are held primarily in order to generate a financial return for the council, although investments made within the city's boundaries can also contribute to the corporate priority of an "inclusive economy" by acquiring property or investing in existing council property to provide spaces for business to occupy. The investment property portfolio generates a source of income for the council which makes a significant contribution to the ongoing financing of council services, ensuring the financial sustainability of the council as government funding reduces.

5.9 The council will continue to invest prudently in commercial property and a total of £50m has been proposed in the capital budget for this investment (£25m per annum for 2019/20 and 2020/21) – these amounts are included in the capital strategy discussed in section 4.

5.10 The general fund revenue budget contains a new net income target arising from this investment of £500k per annum (for 2019/20 and 2020/21) representing a prudent 2% internal net rate of return – this amount is included in the budget and MTFS discussed in section 2.

5.11 The authorised limit for external debt, proposed in the Treasury Management Strategy in section 6, includes the borrowing that will be needed to further invest in commercial property.

Revised commercial property investment strategy

5.12 Cabinet recently approved a revised commercial property investment strategy at its meeting on 12 December 2018. The new strategy was written so that the council's rationale, investment principles, the acquisition process, and the due diligence undertaken is set out in one comprehensive document to provide a full and complete guide for council stakeholders.

5.13 It is not intended to repeat the contents of the commercial property investment strategy here. The strategy does however need to be read alongside this budget report as some of the requirements arising from the revised Investment Code are contained within that document (including the Council's rationale for investing in commercial property, the contribution the investment makes to corporate priorities, an analysis of the risks the council is potentially exposed to, the strategy of mitigating those risks (including the diversification of the property portfolio), and the statement on capacity, skills and the use of external advisers. (See https://www.norwich.gov.uk/commercialstrategy)

5.14 There are however two items included within the commercial property investment strategy that require full council approval, namely, the prioritisation of security, liquidity and yield of the investment and the setting aside of net new income into the commercial property earmarked reserve.

Investment principles

5.15 When investing in commercial property local authorities are obliged "to have regard to" MHCLG's Investment Code and the complementary Treasury Management Code produced by CIPFA. These codes stress the importance and long-held good practice of placing security and liquidity above yield (in that priority order) when making any investment decision. A council can choose to disregard the codes but must articulate its rationale for doing so and what the council's relevant policy will be.

5.16 The process of selling and buying property takes a lot longer than buying financial investments such as equities or government bonds or investing cash into bank and building society deposits. This is because of the unique nature of every property, its complexity (both physically and from a legal perspective), the large unit size, and the nature of the market in which transactions occur. Even in a buoyant market selling takes a long time and involves lengthy marketing periods that can easily take up to a year to conclude for limited market or complex assets. Investing directly in property therefore involves liquidity/transaction risk.

5.17 It is proposed that, whilst the council has noted and has had regard to the guidance in the codes, it has decided after careful consideration to depart from the guidance in this instance for the purpose of generating new income streams in order to help maintain a robust and sustainable financial position.

5.18 Instead it is proposed that council policy, in the case of commercial property investment, is to prioritise the security of the investment followed, in priority order, by yield and liquidity when considering the investment decision. In terms of commercial property investment these terms mean the following:

- **Security** – security of the investment (primarily term certain i.e. length of lease term remaining, exit strategy, prospects of reletting at expiry or if it were to fall vacant) and strength of tenant covenant
- **Yield** – the net return to the council that is appropriate for the level of risk being assumed, and
- **Liquidity** – to ensure that the property is attractive and marketable for the future.

Setting aside new net rental income into the earmarked reserve

5.19 The council agreed in February 2018, as part of the budget setting report, to the establishment of a commercial property earmarked reserve. The reserve is held to help mitigate the financial risks of holding commercial property and can be used to fund any future void periods, the granting of rent free periods to new tenants, and any landlord repairs.

5.20 It is estimated that this reserve will contain some £0.9m at the end of the financial year 2018/19. The reserve has been built up by transferring the new net income achieved above the MTFS income target into the reserve rather than into the general fund revenue budget

5.21 It is now proposed that 20% of future new net rental income (net income being gross income less assumed financing costs arising from external borrowing) will be credited annually to the commercial property earmarked reserve. The amount of money in the reserve will be reviewed every year as part of the budget setting process and will take into account the results of the annual portfolio review (as described in the commercial property investment strategy).

Council loan book

5.22 The Council has the ability to borrow funds at preferential rates to fund capital expenditure from the Public Works Loan Board (PWLB). Once borrowed, current capital rules allow these funds to be used to make capital loans ("onward lend/on-lend") to other organisations (specifically those that do not have access to PWLB loans).

5.23 In being a provider of capital finance, the Council is subject to statutory controls that restrict the loans that can be offered in order to avoid State Aid issues. Specifically, the Council:

- Must lend funds at a rate that is competitive with market rates for similar loan products;
- Must not on-lend funds at a rate lower than its own average borrowing rate, even if such rates are subsequently competitive; and
- Must not use the loan to provide State Aid in other ways, e.g. full or partial discounts on fees or charges incurred for: deferred instalment repayments; late payment of instalments; and full or partial premature loan redemption.

5.24 Outside of the treasury management function, where the council lends in order to manage its cash holdings, the council currently has a loan book of just over £11.6m with two borrowing organisations, Norwich Regeneration Limited (£11.5m) and the Norwich Preservation Trust (£134k).

5.25 In making loans the council is exposing itself to the risk that the borrower defaults on repayments. The council must therefore ensure that the loan is prudent and that the risk implications have been fully considered, both with regard to the individual loan and the cumulative total of the loan book.

Process for lending to Norwich Regeneration Limited (NRL)

5.26 Up to now, any lending to the council's wholly owned subsidiary, NRL, has been enacted on a case-by-case basis with separate reports seeking approval to lend submitted to cabinet and Council when the loan finance is required.

5.27 Given the scale and frequency of loan finance being requested by Norwich Regeneration Limited in its Business Plan (see separate item on this cabinet's agenda) it is proposed to formalise the council's lending policy and process as part of this budget report.

5.28 It is proposed that:

1) The Board of Norwich Regeneration Limited is requested to establish a business and financial planning process that enables the company to put forwards it forecast loan financing and equity requirements annually in line with Norwich City's Council's corporate budget process timetable.

2) The Board of Norwich Regeneration Limited is asked to submit its loan financing and equity investment requirements as part of its annual Business Plan for Cabinet approval.

3) The Business Plan will include details and outcomes of the developments and business lines being proposed along with timelines, an analysis of key risks, and detailed financial modelling.

4) The total amount of loan and equity investments into the company will be proposed to full council for approval as part of the annual budget setting process.

5) The final agreement to lend and invest will be made when the company's Board of Directors submits a full Business Case for the project to Cabinet. If the particular project is already within the approved capital budget, and project costs do not exceed the budget estimates, Cabinet will take the final decision to lend. If the project is within the council's capital ambition plan the Business Case requires full council approval.

6) Delegated authority is given to the council's Chief Executive, in consultation with the Chief Finance Officer and Leader or Deputy Leader of the council to agree the details of the loan agreement with the company, taking into account the following:
   - The yield (interest rate) agreed will reflect a commercial market return, the risk of the investment proposal, and the opportunity cost of using those funds elsewhere.
   - Any lending is legally secured against the company's assets and/or guarantee from a linked third party.
   - A loan agreement is drawn up between the council and the company by NPlaw or an alternative legal adviser.

7) In order for the council to safeguard its investment in the company and to undertake robust due diligence, it is proposed that delegated authority is given to the council's chief finance officer to:
   - Specify the format, contents, and standards of the financial modelling to be undertaken to support the company's Business Plans and Business Cases that are submitted to the council for approval, and
   - Specify the content and frequency of the financial monitoring reports required from the company to show its on-going and year-end financial position.

8) An expected credit loss model calculation is undertaken annually to measure the credit risk of the loan book and reported in the council's Statement of Accounts. This is a new requirement arising from International Financial Reporting Standard 9.

Future proposed lending to Norwich Regeneration Limited

5.29 The council has already made available £11.5m of loans to the company to part fund the development of 79 new homes at Rayne Park, section 1.

5.30 The council's investment in its subsidiary company contributes to the delivery of one of the key priorities in the corporate plan, namely that of "great neighbourhoods, housing and environment" through:

- Building and maintaining a range of good quality affordable and social housing.
- Developing the council's key brownfield sites.
- Improving the quality and safety of private sector housing.

5.31 The company's 2019/20 Business Plan contains proposals that would require it to seek further loan finance from the council over the next five financial years. One of the company's purposes is to generate profit through residential property development and letting.

5.32 The Company's proposals are to complete the development of Rayne Park (sections 2 to 4) and to proceed with Three Score phase 3. These two developments are on land at Bowthorpe already owned by the company. The Business Plan contains further proposals for housing development on council owned land at the Mile Cross depot site, and at Ber Street and Argyll Street. The successful delivery of these developments would result in 587 new affordable homes of which 180 would be affordable and 1 commercial property for rental.

5.33 Although specific details will vary for each development project undertaken by the company, and the detail of the proposals are commercially confidential, the basic business model proposed in the company's Business Plan can be described as follows:

1) The council to vest land for housing development to the company in return for shares.

2) The council to purchase further shares in the company in order to meet State Aid and thin capitalisation requirements. This requires that the company receives a reasonable amount of its funds from shareholders rather than all of the funding being obtained from external borrowing.

3) The company to develop housing that is planning policy compliant for affordable housing (33%).

4) The reminder of the housing to be a mix of private sector sales and homes for private sector rental.

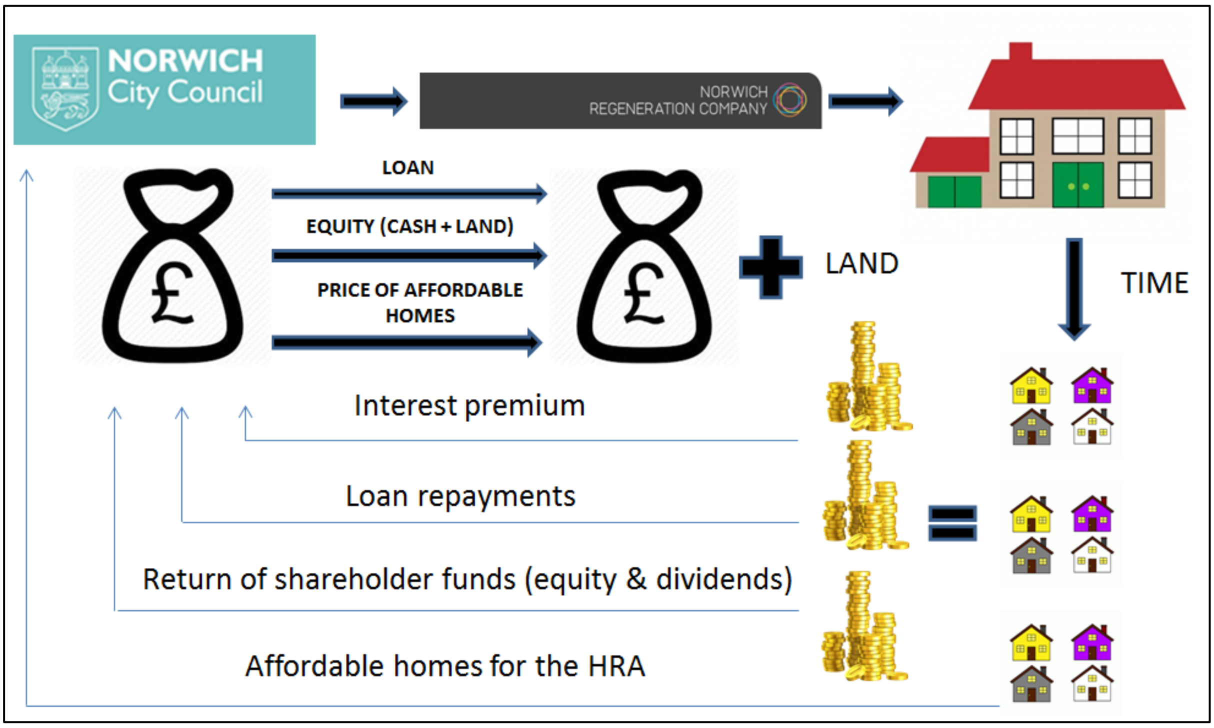
5) The company to borrow, at commercial interest rates and terms, from the council to fund the development of the private sector housing for rent and for sale.

6) The affordable homes to be purchased by the council's Housing Revenue Account (HRA) at negotiated terms and in staged payments, underpinned by a Development Agreement, taking into account the tenanted market value of the homes and the statutory requirement for the council to achieve value for money.

7) The company to repay the loan used to fund the development costs of the private sector homes for sale once those homes have been sold.

8) The remainder of the loan to be repaid over an agreed long-term period with the company using the rental income received from the private sector rentals to fund the interest charges thereby providing the council with a long term income stream to help fund core council services.

Chart 5.1: Business model between the council and NRL



5.34 The company is currently experiencing longer build completion times by the contractor and slower house sales at Rayne Park section 1 than were anticipated in the company's previous Business Plan. The uncertainties existing over Brexit have depressed the housing market and the company therefore currently finds itself in a difficult trading environment. In addition to the market conditions, the recently appointed Managing Director has reviewed the company's internal operational arrangements to-date and has proposals to enhance the delivery of the company's objectives for future sections and projects. Further details are given in the company's 2019/20 Business Plan, which is a separate report on this meeting's agenda.

5.35 The council will therefore keep future lending to the company under review and, as proposed in 5.28 (5) above, the final decision to lend to the company will be dependent on the production of a full robust Business Case for the proposal.

Table 5.1: proposed loan facility to be made available for lending to NRL

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000	2023/24 £000
Existing loan	11,500					
New lending	981	10,926	16,625	9,790	4,525	1,730
Loan repayments	0	(9,304)	(10,614)	(11,855)	(7,640)	(1,730)
Cumulative amount outstanding	12,481	14,103	20,114	18,049	14,934	14,934

5.36 In terms of budget setting purposes, it is proposed that a total loan facility (new lending) for the company is agreed as per table 5.1 totalling £56m over the next six years. These are the maximum amounts requested by the company and assume that the loan finance is drawn down on a project by project basis rather than by looking at the bottom line cash position of the company.

5.37 The table also shows estimated repayments from the company to give the forecast cumulative total of borrowing remaining to be repaid at the end of each year. These repayments are dependent on the company being able to sell the affordable homes to the HRA and a proportion of the private sector homes on the open market. If the sales occur as planned then the total risk exposure would be the cumulative amount of loan outstanding at the end of each year which would be secured on the assets (private sector rental homes) of the company.

5.38 The financial impact to the council of this proposed loan book is given in:

- Paragraphs 2.38 to 2.40: detailing the net impact on the general fund revenue budget.
- Section 7 setting out financial indices showing the affordability and proportionality of the lending being proposed.

Equity investments (Shareholdings)

5.39 Until 2016 the council only owned shares in Norwich Airport Limited and in Legislator Companies 1656 and 1657 that were purchased in March 2004 as part of the Public Private Partnership Agreement for Norwich airport. These shares are still held by the council, although discussions are currently underway with Norwich Airport Limited and Norfolk County Council (which also holds shares in these companies) on the future way forward when the

Public Private Partnership Agreement comes to an agreed end on 1 March 2019.

5.40 In October 2016 the council disposed of land at Bowthorpe to its wholly owned subsidiary, Norwich Regeneration Limited, in exchange for 22,000 £100 shares in the company.

5.41 The company's 2019/20 Business Plan contains proposals seeking further equity investment, both in terms of vesting additional council land into the company in exchange for shares and by the council purchasing additional shares.

5.42 The capital strategy in section 4 contains budget proposals for the general fund to purchase further shares in the company totalling £12.4m. For ease of reference, those proposals are shown in table 5.2.

Table 5.2: proposed council equity investment in NRL (excluding land)

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000	2023/24 £000
Equity investment	524	2,277	3,536	2,856	1,082	2,138
Return of shareholder funds	0	(524)	(2,826)	(4,761)	(2,164)	(2,138)
Cumulative amount outstanding	524	2,277	2,987	1,082	0	0

5.43 It has been assumed that the purchase of shares will be funded from general fund capital receipts, as this will not increase the council's overall indebtedness (need to borrow), and that this will be on a temporary basis, with the company returning shareholder funds when it receives sufficient income from selling homes on the open market and to the HRA. There is therefore a risk that (a) the council may not get back its investment, and (b) given the time involved to sell assets there are insufficient capital receipts to fund both this and the rest of the general fund capital budget.

5.44 No assumptions have been made in the general fund revenue budget about the dividend return the council may receive from these equity investments.

6. TREASURY MANAGEMENT STRATEGY

Background

6.1 CIPFA (the Chartered Institute of Public Finance & Accountancy) defines treasury management as: *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

6.2 This section of the budget report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to relevant codes of practice and guidance issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and the MHCLG (Ministry for Housing, Communities & Local Government). Recent changes to these codes are explained in section 2 of this budget report.

6.3 This section therefore fulfils the need for council to approve:

- A treasury management strategy before the start of each financial year (as required by CIPFA's Treasury Management Code).
- Prudential indicators to ensure that the council's capital investment plans are affordable, prudent and sustainable (as required by CIPFA's Prudential Code).
- An investment strategy before the start of each financial year (as required by MHCLG's Investment Code).
- A Minimum Revenue Provision (MRP) policy (as required by MHCLG's MRP guidance).

6.4 The council's investment in commercial property, equity shares, and lending to third parties is considered in the non-financial (commercial) investment strategy in section 5.

6.5 However for the purposes of clarity, the projections, indicators and limits given in this section of the budget report include:

- The general fund and HRA proposed capital programme and its funding as set out in tables 4.6, 4.8, and 4.9.
- The costs and funding requirements of those capital ambition projects likely to seek Business Case approval from council during 2019/20 as identified in paragraph 4.39.
- The implications for the council's capital financing requirement and borrowing position arising from the non-financial investments proposed in section 5 of this report.

Treasury management reporting requirements

6.6 The council is required to receive and approve as a minimum, three main reports each year which incorporate a variety of polices, estimates and actuals.

- Prudential and treasury indicators and treasury strategy (this report)
- A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury management role of the Section 151 Officer

6.7 The S151 (responsible) officer is responsible for:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the information required by internal or external audit is supplied;
- Recommending the appointment of external service providers;
- Ensuring that due diligence has been carried out on all treasury investments and is in accordance with the risk appetite and approved policies of the authority;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- Training and qualifications of members responsible for treasury management approval and scrutiny as well as officers responsible for the day to day operations of treasury management.

Treasury management practices

6.8 Norwich City Council has adopted the CIPFA Treasury Management Code.

Training

6.9 The CIPFA Code requires the responsible officer to ensure that all members with responsibility for treasury management receive adequate training in this area. The chief finance officer is responsible for this function. The training needs of treasury management officers are periodically reviewed.

Treasury management advisers

6.10 The council uses Link Asset Services as its external treasury management advisors.

6.11 Responsibility for treasury management decisions remains with the council at all times. Although the council will from time to time require the services of specialists, consultants and advisers in order to acquire access to specialist skills, undue reliance will not placed upon the services and advice provided.

Treasury Management Strategy

Current Treasury Portfolio Position

Table 6.1: The Council's current investment and borrowing position

	31/03/2018 Actuals £000s	%	31/01/2019 Actuals £000s	%
Investments				
Banks	14,770	29.1	26,750	45.5
Building Societies	13,650	26.9	9,000	15.3
Local Authority	7,250	14.3	8,000	13.6
Money Market Funds	15,000	29.6	15,000	25.5
TOTAL	**50,670**	**100.0**	**58,750**	**100.0**
Borrowing				
PWLB	196,107	97.3	194,107	97.2
Banks	5,000	2.5	5,000	2.5
Others	510	0.3	510	0.3
TOTAL	**201,617**	**100.0**	**199,617**	**100.0**

6.12 On the 31st of January 2019, the council held £199,617m of external borrowing and £58,750m of treasury investments.

The Prudential and Treasury Indicators 2019/20 – 2023/24

6.13 The council's capital expenditure plans are a key driver of treasury management activity. A summary of the council's capital budget plans and how these are being financed is shown in table 6.2.

6.14 A summary of additional expenditure and financing plans, not yet included in the budget proposals, but for which business cases are likely to be submitted to council for approval within 2019/20 is shown in table 6.3.

6.15 The Capital Financing Requirement (CFR) calculation is shown in table 6.4. This is the total historic outstanding capital expenditure yet to be financed from revenue or capital resources and a future projection of CFR based on capital expenditure plans. It is a measure of the council's indebtedness, and therefore its underlying borrowing need. The CFR also includes other long term liabilities such as finance leases.

6.16 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's expected life.

6.17 The repayment of loan debt by the council's wholly owned company NRL will also reduce the CFR where the loan is financed by borrowing.

6.18 Table 6.4 sets out the required affordable borrowing limit, namely:

a. The operational boundary - the limit beyond which external debt is not normally expected to exceed.

b. The authorised limit for gross external debt - a statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents the legal limit on the maximum level of borrowing beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It is also the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

c. The capital financing requirement for the HRA is £205.717m and this has been included in the authorised limit.

d. The HRA debt cap at the time it was removed in October 2018 was £236.989m.

Chart 6.1: Forecast of CFR and borrowing limits

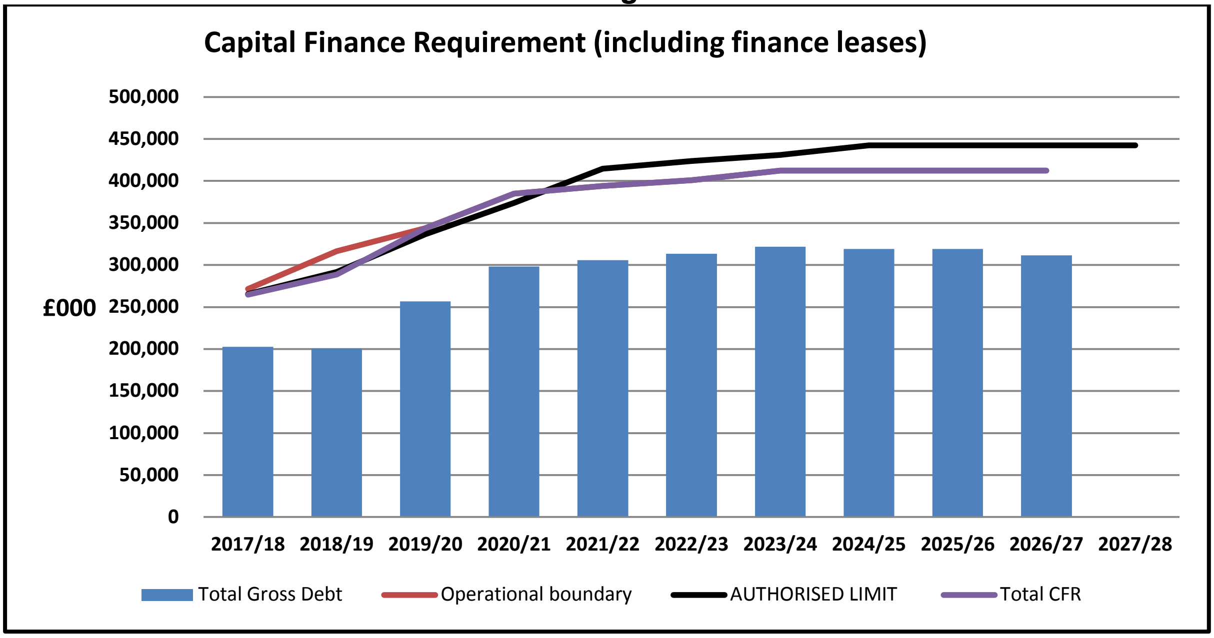


Table 6.2: The council's capital expenditure and financing plans

	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Capital expenditure (without capital ambition)						
General Fund	8,910	8,682	4,333	4,046	3,907	3,824
Equity in NRL	524	2,277	3,536	2,856	1,082	2,138
Loan to NRL	404	0	0	0	0	0
Commercial properties	24,344	25,000	25,000	0	0	0
Total General Fund Expenditure	**34,182**	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**
Housing Revenue Account	**27,160**	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**
Total Capital Expenditure	**61,341**	**72,528**	**65,507**	**34,942**	**32,658**	**29,325**
Planned brought forward of commercial property acquisition into 2019/20	0	20,000	0	0	0	0
Total Capital Expenditure after planned commercial properties acquisition carry forward	**61,341**	**92,528**	**65,507**	**34,942**	**32,658**	**29,325**
Financing						
Capital receipts	3,095	3,963	13,330	6,165	3,253	1,017
Revenue contribution	11,944	7,063	7,330	8,922	9,246	8,187
S106	220	560	100	0	0	0
Greater Norwich growth partnership	116	395	206	150	0	0
Community infrastructure levy	951	1,285	1,169	1,578	2,033	1,995
Major repairs reserve	11,427	25,067	14,726	14,726	14,726	14,726
Retained "one for one" RTB receipts	4,490	4,420	2,015	2,000	2,000	2,000
Contributions and grants	4,350	4,574	1,632	1,400	1,400	1,400
Capital spend to save reserve	0	200	0	0	0	0
Total	**36,594**	**47,528**	**40,507**	**34,942**	**32,658**	**29,325**
Borrowing need for the year	**24,747**	**25,000**	**25,000**	**0**	**0**	**0**
Financing	**61,341**	**72,528**	**65,507**	**34,942**	**32,658**	**29,325**
Borrowing need for planned carry forward of commercial property acquision budget	**0**	**20,000**	**0**	**0**	**0**	**0**
Total Financing	**61,341**	**92,528**	**65,507**	**34,942**	**32,658**	**29,325**

Table 6.3: Borrowing requirement (net) for capital ambition plan and non-financial investments

	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Borrowing need for capital ambition projects and non-financial investments						
Non-financial investments	577	1,622	6,011	-2,065	-3,115	0
Capital ambition plan	**0**	9,529	10,729	12,028	11,177	12,427
Total borrowing requirement	**577**	**11,151**	**16,740**	**9,963**	**8,062**	**12,427**

Table 6.4: Prudential and treasury Indicators

	2018/19 Estimate £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Capital financing requirement at end of year						
General fund	82,836	138,189	179,096	188,189	195,343	206,821
Housing Revenue Account	205,717	205,717	205,717	205,717	205,717	205,717
TOTAL	**288,553**	**343,906**	**384,813**	**393,906**	**401,060**	**412,538**
Annual change in capital financing requirement						
General Fund annual change in CFR	23,918	55,353	40,907	9,093	7,154	11,478
HRA annual change in CFR	0	0	0	0	0	0
TOTAL	**23,918**	**55,353**	**40,907**	**9,093**	**7,154**	**11,478**
Gross Debt						
Borrowing	200,620	256,669	298,302	305,651	313,592	321,891
Operational boundary for external debt						
Operational boundary	316,600	343,906	384,813	393,906	401,060	412,538
Authorised limit for external debt						
Authorised limit	336,600	373,906	414,813	423,906	431,060	442,538
Actual external debt						
Borrowing	199,617	255,768	297,507	304,970	313,033	321,460
Debt maturity profile - all borrowing %						
Less than one year	5%	4%	3%	3%	5%	3%
Between one and two years	3%	4%	3%	20%	17%	3%
Between 2 and 5 years	20%	23%	20%	20%	20%	36%
Between 5 and 10 years	40%	46%	40%	22%	20%	10%
Between 10 and 15 years	5%	6%	8%	7%	7%	8%
Between 15 and 20 years	5%	4%	8%	6%	7%	8%
Between 20 and 25 years	10%	4%	5%	5%	6%	8%
Between 25 and 30 years	5%	4%	4%	5%	6%	8%
Over 30 years	7%	5%	9%	12%	12%	16%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**
Upper limit for fixed interest rates	100%	100%	100%	100%	100%	100%
Upper limit for variable interest rates	20%	20%	20%	20%	20%	20%
Upper limit for treasury investments in excess of 365 days (£m)		£30m	£30m	£30m	£30m	£30m
Current treasury investments as at 31/12/2018 in excess of 1 year maturing in each year	-	-	-	-	-	-

Borrowing Strategy

6.19 The capital expenditure plans set out in tables 6.1 and 6.2 above, provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, ensuring that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

6.20 The table below summarises the council's forward projections for borrowing based on the assumptions given in paragraph 6.5 above.

Table 6.5: Estimated forward projections for borrowing

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
External Debt						
Debt at 1 April	201,617	199,617	255,768	297,507	304,970	313,033
Expected change in debt	-2,000	56,151	41,740	7,463	8,062	8,427
Other long-term liabilities	1,003	902	794	680	559	432
Actual gross debt at 31 March	200,620	256,669	298,302	305,651	313,592	321,891
Capital Financing Requirement	288,553	343,906	384,813	393,906	401,060	412,538
Under/ (over) borrowing	**87,933**	**87,237**	**86,512**	**88,255**	**87,468**	**90,647**

N.B. Other long-term liabilities are any liabilities are other credit arrangements that are outstanding for periods in excess of 12 months e.g. finance leases.

6.21 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.22 The council has been well served by this policy over the last few years. The Section 151 Officer will continue to review and adopt a pragmatic approach to changing circumstances in order to avoid incurring higher borrowing costs in the future when interest rates rise as set out in Appendix 4 (C) and below:

- If it is felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from sudden increase in inflation risks or impact of Brexit on the UK economy, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Policy on borrowing in advance of need

6.23 CIPFA's Prudential Code paragraph 45, 62 (and E16) allows borrowing in advance of need when changes in interest rates mean that it benefits the council to borrow before the planned expenditure is incurred. This will be considered carefully and appropriate advice will be sought from the council's treasury management advisers.

6.24 Borrowing in advance of need from a treasury management perspective will be made within the following constraints:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 3 years in advance of need (current and next two financial years).

6.25 The council addresses its departure from this Code of Practice for non-financial investments (commercial property acquisitions) in paragraph 1.38.

6.26 The risks associated with any advanced borrowing from a treasury management perspective will be subject to appraisal and will be reported via the mid-year or annual Treasury Management reports.

Debt rescheduling

6.27 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

6.28 Any rescheduling will take account of:

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.29 Although unlikely in the current interest rate environment, consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely, as short term rates on investments are currently lower than rates paid on existing debt.

UK Municipal Bond Agency (MBA)

6.30 It is possible that the MBA will be offering loans to local authorities in the future at rates expected to be lowered than offered by the PWLB. The Council may make use of this new source of borrowing as and when appropriate.

Minimum Revenue Provision Policy Statement

6.31 The proposed MRP Policy Statement is set out in Appendix 6 (A).

6.32 The Council is required to pay off a proportion of the accumulated unfunded capital expenditure each year (capital financing requirement) through an annual revenue charge (the MRP). This includes MRP for commercial properties and other non-treasury investments financed by borrowing.

6.33 The Council overpaid £6.632m of MRP in previous years. This amount is being released to the general fund revenue budget on a straight line basis over the next 38 years.

6.34 It should be noted that it is not the council's policy to charge minimum revenue provision (MRP) on loans to third parties so long as there is no indication that the loan will not be repaid in full. No MRP costs arising from lending to the company have therefore been included in the general fund revenue budget proposals.

6.35 Currently there is no requirement for the HRA to make MRP provisions. It is at the time of writing this report uncertain whether this will change as a consequence of the recent removal of the HRA debt cap.

Investment Strategy

Investment and borrowing rates

6.36 An interest rate forecast for the next three years is shown in the table below. It is based on the assumption that an agreement will be reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is likely to cause short to medium term gilt yields to fall. If there is a disorderly 'Brexit', any cut in Bank rate would be likely to last for a longer period and would also depress short and medium gilt yields correspondingly. However it is possible that the government could act to protect economic growth by implementing a fiscal stimulus.

Table 6.6: Interest rate forecast as at January 2019

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5 yr PWLB View	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10 yr PWLB View	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25 yr PWLB View	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB View	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

Source: Link Asset Services

Treasury investment policy

6.37 The council's treasury management investment policy has regard to MHCLG's Guidance on Local Government Investments ("the Guidance") and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") as well as the CIPFA Treasury Management Guidance Notes 2018. The Council's treasury management investment priorities will be Security first, Liquidity second, and then Yield.

6.38 All funds invested by the in-house treasury management team as part of the normal treasury management processes are made with reference to the cash flow requirements of the council and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Careful consideration will be given before investing sums identified for longer term investments.

Risk Assessment and Creditworthiness Policy

6.39 Management of risk is placed in high priority in accordance with the MHCLG and CIPFA Guidance. In order to minimise the risk to treasury investments, the council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which it maintains. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.

6.40 Ratings will not be the sole determinant of the quality of an institution; the financial sector will be continuously monitored in on both micro and macro basis and in relation to the economic and political environments in these institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this, the council will engage with its advisors to watch the market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

6.41 Other information sources used will include the financial press, share price and other such information relating to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties such as Core Tier 1 ratios published by the Bank of England. For local authority or related counterparties, the financial standing and other available information will be considered before placing investments.

6.42 Where applicable consideration will be given to the materiality of expected credit losses for treasury investments before they are used.

6.43 The counterparty list for treasury investments will be revised from time to time and submitted to council for approval as necessary.

6.44 In its selection process, the council will apply its approved minimum criteria to the lowest available rating for any institution. Credit rating information is supplied by Link Asset Services; the Council's treasury consultants. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

6.45 Any rating changes, rating watches (notification of a possible change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. Where a credit rating agency announces that a rating is on review for possible downgrade so that it may fall below the approved rating criteria, then no investments other than existing will be made with that organisation until the outcome of the review is announced.

6.46 The list of types of investment instruments that the treasury management team are authorised to use are categorised as specified and non- specified investments.

- **Specified investments** that the Council will use are high security and high liquidity investments in sterling and with a maturity of no more than a year.

- **Non-specified investments** are high security, high credit quality, in some cases more complex instruments for periods in excess of one year.

6.47 The council will consider the use of new investment instruments after careful consideration by officers and approval by council..

6.48 While all investments will be denominated in sterling, investments will only be placed with counterparties from countries with a specified minimum sovereign rating in table 6.8.

6.49 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 6.7 below.

6.50 The identification and rationale supporting the selection of these investments, the maximum limits and monetary limits to be applied are set out in table 6.7 below.

6.51 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

Changes to 2018/19 treasury management strategy

6.52 Members are asked to approve an error in paragraph 74 of the 2018/19 treasury management strategy and change the rating shown in that paragraph from AAA to AA-.

Table 6.7: specified and non-specified investment approved instruments and limits

Counterparty/Financial instrument	Minimum Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£15m	n/a	n/a
UK Government gilts	UK Sovereign rating	12 months	£15m	3 years	£5m
UK Government Treasury bills	UK Sovereign rating	6 months	£10m	n/a	n/a
Money Market Funds - CNAV	AAA	Liquid	£5m per fund £25m overall limit	n/a	n/a
Money MARKET Funds - LVNAV	AAA			n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£10m per LA	5 years	£5m per LA
Term Deposits with UK Building Societies	ratings for banks outlined below / Asset worth at least £2.5bn or both	12 months	£5m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	AAA	12 months	£15m	2 years	£10m
Banks (Term deposits, CD, Call & Notice accounts)	AA+ AA	12 months	£15m	12 months	£5m
Banks (Term deposits, CD, Call & Notice accounts)	AA- A+ A	12 months	£10m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	A-	6 months	£5m	n/a	n/a
Property Funds	credit loss analysis, financial and legal due diligence	n/a	n/a	n/a	£5m per fund
Loan Capital and other third party loans including parish councils	Subject to financial & legal due diligence	considered on individual basis	n/a	considered on individual basis	n/a

* Specialist advice will be obtained before the use of VNAV money market funds
** Local authorities will reviewed in line with CIPFA suggested indicators

Sovereign limits

6.53 Alongside changes in banking regulations which are focused on improving the banking sectors resilience to financial and economic stress, due care will be taken to consider the country, group and sector exposure of the Council's investments.

6.54 The Council will only use approved counterparties from the UK and countries with a sovereign credit rating from the three main rating agencies equal to or above AA-. In addition:

- No more than 20% will be placed with any non-UK country at any time and would always be sterling investments
- Sector limits will be monitored regularly for appropriateness.

6.55 If there were to be a disorderly Brexit, it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA. However if credit rating agencies downgrade the UK below AA- (the minimum Sovereign rating for 2019/20), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

Table 6.8: Sovereign rating for 2019/20

AAA	Sweden	**AA**
Australia	Switzerland	UK
Canada		
Denmark	**AA+**	**AA-**
Germany	Finland	Belgium
Netherlands	USA	
Singapore		

Bank of England iteration UK bank stress tests

6.56 In addition to the use of credit ratings provided by the three main rating agencies the other factors identified in paragraphs 6.40 to 6.41 will be taken into consideration when selecting UK banks. The annual results of the UK bank stress test published via the Financial Policy Committee (FPC) will also be taken into account. The 2018 results stated that all 7 UK banks passed the tests although it should be noted that these tests do not provide investors with any form of guarantee as to the credit worthiness of the entities included.

Money Market Funds (MMFs)

6.57 Money market funds are pooled investment vehicles consisting of instruments similar to those used by the council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and analyst team. Fees are deducted from the interest paid to the council.

Building societies

6.58 Although the regulation of building societies is no longer any different to that of banks, the council may use building societies which have a minimum asset size of £2bn but will restrict these types of investments to fixed deposits subject to lower cash limit and shorter time limit.

Current account banking

6.59 The council's current accounts are held with Barclays bank UK Plc (Ring Fenced Bank RFB). In the event of the credit rating of Barclays bank UK Plc (RFB) falling to a point lower than the council's minimum credit criteria of A- long term rating, the council will treat its bank as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day.

UK banks – ring fencing

6.60 Although the structure of large UK banks included in the ring-fencing regulatory requirement have changed as reported in the Mid Year treasury management report presented to cabinet in December, the fundamentals of credit assessment have not. The council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings will be considered for investment purposes.

Investment risk benchmarking

6.61 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual Treasury Management report.

6.62 **Security benchmark** – Counterparty risk will increase as duration of investment increases. The council will continue its policy of investing the majority of its investments with duration of less than 12 months. The council's maximum security risk benchmark for the current portfolio, when compared to the historic default tables is 0.041%.

6.63 **Liquidity** – in respect of this area the council seeks to maintain:

- Bank overdraft – zero balance
- Liquid short term deposits of at least £1m available with a week's notice.
- Weighted average life benchmark is expected to be 0.22 years, with a maximum of 1.00 year. However this benchmark may change if the Council decides to invest longer than 12 months.

6.64 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day (London Interbank Bid Rate) LIBID rate.

Ethical investment

6.65 The council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values.

6.66 This applies to direct treasury investment only. The council's normal money market activity would usually be with financial institutions which may have unknown indirect links with companies which the council will be unable to monitor. However, where known links are publicly available the council will not knowingly invest.

Policy on charging interest to the Housing Revenue Account (HRA)

6.67 Following the reform of housing finance, the council can adopt its own policy on sharing interest costs and income between the General Fund (GF) and the Housing Revenue Account (HRA).

6.68 The CIPFA Code recommends that authorities state their policy on this matter each year in their treasury management strategy. The charge is required to be fair to the general fund and to the HRA. This council's policy is to charge the HRA with an element of any under-borrowing or surplus cash at the Council's pooled investment rate.

Policy on use of financial derivatives

6.69 The council will not use standalone derivatives except where they can be clearly demonstrated to reduce the overall level of financial risk that the council is exposed to.

APPENDIX 6 (A): Minimum Revenue Provision (MRP) policy statement

For capital expenditure incurred:

(A) From 1st April 2008 for all unsupported borrowing (excluding finance leases) the MRP policy will be to; charge MRP on an annuity basis (using the prevailing rate of interest at the time) so that there is provision for the full repayment of debt over 50 years; Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

(B) MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(D) Expenditure in respect of loans made to third parties will not be subject to a minimum revenue provision as the Council will have undertaken sufficient due diligence to expect these loans will be repaid in full to the Council by a capital receipt either during the loan agreement term or at the end of the agreement. Therefore the Council considers that it can take a prudent view that the debt will be repaid in full at the end of the loan agreement (or during if it is an instalment loan), so MRP in addition to the loan debt repayments is not necessary. Each loan will be reviewed on an annual basis to ensure that is no change in the expectation that there will be a full repayment of the loan. If, upon review, this is no longer found to be the case then a minimum revenue provision will be made to cover the repayment of the loan.

This is subject to the following details:

1) An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). The asset life will be determined by the Chief Finance Officer based on the standard schedule of asset lives provided by an appropriately qualified asset valuer will generally be used (as stated in the Statement of Accounts accounting policies).

2) MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

3) Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case. Where this is the case the chief finance officer will first seek approval from Full Council.

4) There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

5) Repayments included in annual finance leases are excluded from MRP as they are deemed to be a proxy for MRP.

APPENDIX 6 (B): Recent regulatory changes to Money Market Funds since mid year treasury management report

On the 19th December 2018, for English Authorities, The Local Government (Miscellaneous Amendments) (EU Exit) Regulations 2018 was laid before parliament, which comes into force on Brexit "exit day". Within the amendments, there was an item which provided a revised definition of a "money market fund", as the existing legislation (which remains in force until Brexit "exit day") makes reference to European legislation. On "exit day" this will replace the current definition as follows:

Amendment of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

5.—(1) The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003(**d**) are amended as follows.

(2) In regulation 1(5) (interpretation) for the definition of "money market fund" substitute—

"money market fund" means a collective investment undertaking which is—

(a) an **authorised** unit trust scheme authorised under section 243A of the Financial Services and Markets Act 2000(**e**);

(b) an **authorised** contractual scheme authorised under section 261EA(**f**) of that Act;

(c) an open-ended investment company **authorised** under regulation 14(1A) of the Open-ended Investment Companies Regulations 2001(**g**); or

(d) an **authorised** AIF which is a MMF within the meaning of regulation 2(1) of the Alternative Investment Fund Managers Regulations 2013(**h**)."

The general concern raised by the Council's treasury adviser Link treasury services about the new definition is that it suggests that to meet it a money market fund must be authorised by the Financial Conduct Authority (FCA).

At present, all money market funds are either directly (if UK domiciled) or indirectly "recognised" (via "passporting" of permissions) by the Financial Conduct Authority (FCA) and that at the point of exit, those who are indirectly authorised would lose this status.

To counter this potential issue, the FCA is introducing a Temporary Passporting Regime, which is also passing through legislation at present. This was consulted on late last year and provides EEA-domiciled funds with a Temporary Passport "recognition" to continue marketing their funds on the same basis to customers in the UK as they have done pre-Brexit. Money market funds (MMF) had the ability to sign up to the new regime from 7th January and their discussions with fund managers has shown that all money market funds which the Council currently invests in or likely to invest in have already signed up, where required.

As a result of these changes, Local Authorities should have no issue in continuing using both UK and EEA-domiciled MMFs both now and in a post-Brexit environment. During the Temporary regime, which is proposed to run for a maximum of 3 years, the FCA will provide windows of opportunity to allow funds to achieve a permanent passporting right to continue to market their non-UK domiciled fund in the UK.

The additional, the definitions as they stand currently allow for both UK and EEA-domiciled to be exempt from the definition of capital expenditure. However, there is a potential issue that the new definitions, due to the fact they only use the word "authorised" and do not include the word "recognised".

In addition with ongoing discussions with HM Treasury to ensure that there is no change in the products that local authorities can treat as capital investments, discussions are being held by the advisory community with individual managers, as well as their trade association IMMFA and government sources to seek clarification on the issue. Any adverse changes will be reported to Committee at the earliest reporting date.

Currently a wide range of funds are able to present themselves as being exempt from treatment as capital expenditure due to the current MMF definition, which essentially includes reference to UCITs structures. Therefore, the potential issue is wider than just MMF investments, as it could also include some Ultra and Short-Dated Bond Funds as well as Multi-Asset Income Funds which are not domiciled / authorised in the UK.

These new definitions, as they currently stand, do not come into force until "exit day". This is currently scheduled for 29th March 2019, but recent events have suggested that it may yet be delayed. In the intervening time, the Council will continue to liaise with its treasury adviser as they work with the wider fund management industry and government contacts to gain full clarification and push for change, if it is required.

7. SUMMARY OF KEY FINANCIAL INDICATORS

Background

7.1 Local government finance is subject to a high level of regulation. Section 1 of the budget report summarised the recent changes made to various codes of practice which the council, under legislation, has a duty to have regard to when taking its budget decisions.

7.2 This section of the budget report provides information to show the affordability, proportionality and value of potential risk exposure with regard to the council's proposals for borrowing, lending to third parties, investment in equity shares in third parties, and investment in commercial property. These include capital ambition projects which are likely to seek separate council approval during 2019/20 for incorporation into the capital budget.

7.3 MHCLG has suggested various financial indices that could be used to fulfil this requirement and recommends that councils should "where appropriate" consider setting self-assessed limits or targets for these indices. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf

7.4 As at the time of writing this report, very few councils have published their 2019/20 budget reports to show their approach to this new requirement and, more importantly, their calculated financial indices in order for the council to sensibly assess where it sits as compared to similar district councils. It is therefore proposed not to set self-assessed limits for the indicators in this year's budget report but to wait until the council is in a position to have better "bench-marking" data available.

7.5 The indices chosen as being the most appropriate for the council's circumstances at present take as their starting point figures from the 2017/18 audited statement of accounts and project these forwards for this financial year and the three following years. As this new reporting requirement becomes more embedded, the forecasting of the indices can be extended in future years' budget reports.

7.6 The MHCLG do not specify any indices for the HRA – they are given in the tables that follow where appropriate to do so.

Latest audited Balance Sheet position - strong

7.7 The balance sheet provides a "snapshot" of the council's financial position at a specific point in time showing what it owns and owes. The council currently has a strong balance sheet position and has total long term assets valued at just over one billion pounds sterling, most of which are land and property assets including the council's HRA housing

7.8 It had external borrowing of some £200m as at the 31 March 2018 which is 19% of the value of the council's assets. In addition the council had borrowed some £65m internally from its own cash holdings to temporarily fund capital expenditure and investments. The total long term indebtedness of the council at the end of last financial year was therefore £265m (this figure is known as the capital financing requirement (CFR)).

Table 7.1 relevant extracts of the council's audited balance sheet (as at 31/03/18)

	31-Mar-18 £000	31-Mar-17 £000
Long term assets	1,028,259	944,497
Of which:		
- Investment properties	56,729	41,773
- Long term investments (equity shares in 3rd parties)	3,024	3,042
- Long term debtors (amounts lent to 3rd parties)	11,634	0
Long term borrowing	199,902	201,904
Current Assets	65,080	83,682
Current Liabilities	29,596	42,207

7.9 Long term investments (equity shares) as at the 31st March comprised of a £2.2m shareholding in Norwich Regeneration Limited and £0.8m (historical cost) of shares in Norwich Airport Limited.

7.10 In long term debtors the amounts lent to third parties on commercial terms comprise a £11.5m loan to Norwich Regeneration Limited and a £0.134m loan to Norwich Preservation Trust. The council also makes "soft" loans (on non-commercial terms) to others, for example home improvement loans to residents. Only the lending undertaken on commercial terms needs to be considered as part of the requirements arising from the revised Investment Code.

7.11 The liquidity or current ratio is a traditional method of assessing an organisation's ability to meet its debts as and when they fall due. It is calculated by dividing current assets by current liabilities. A ratio of more than one is generally accepted to show a low risk. The ratio for the council as at the end of March 2018 is 2.2:1, meaning the council held twice as many short term assets (e.g. cash deposits in banks and building societies) as compared to short term liabilities (mostly trade creditors).

Forecast Balance Sheet position

7.12 The council's budget proposals contained within this budget report will result in a growing balance sheet both in terms of the long term assets that will be held by the council (investment property, equities and long term debtors) as well as its long term liabilities (its capital financing requirement or underlying need to borrow).

Table 7.2 estimated values of key aspects of the council's balance sheet

	31/3/18 £000	31/3/19 £000	31/3/20 £000	31/3/21 £000	31/3/22 £000
Long term assets	1,028,259	1,049,029	1,097,391	1,129,098	1,125,114
Of which:					
- Investment property	56,729	76,007	121,007	146,007	146,007
- Equity shares in 3rd parties	3,024	3,548	5,301	6,011	4,106
- Amounts lent to 3rd parties	11,644	12,612	14,221	20,218	18,139
Capital Financing Requirement	264,635	288,553	343,906	384,813	393,906

NB strictly speaking only external borrowing will be shown in the Balance Sheet rather than the capital financing requirement.

7.13 The forecasts show the likely trends rather than robust estimates. For example, the value of the council's land, property and heritage assets will change over time through capital expenditure, asset disposals, and annual valuations undertaken for the purposes of preparing the annual statement of accounts. No attempt has been made to forecast these changes.

7.14 The rise in the value of investment property assumes that the budget proposed for commercial property acquisition is spent and increases the value of the portfolio by the purchase price with no impairment realised. Given these assumptions the value of the commercial property portfolio compared to the overall value of the council's long term assets rises from 5.5% of the total in 2017/18 to 13% in 2021/22.

7.15 The council's underlying need to borrow is forecast to rise over the same period by £129m which is a 49% increase from 2017/18. This assumes that all projects, plans, and expenditure included in the budget proposals are undertaken in the expected timeframes. It is likely however that there will be some slippage in these plans and therefore a corresponding decrease in the underlying need to borrow figures.

7.16 Given the increases in the estimated capital financing requirement the council will need to undertake external borrowing in the near future, rather than using its cash to temporarily fund expenditure. As at the time of writing this report the council has £59m of cash holdings.

Further detail on the council's borrowing plans

7.17 Table 7.3 shows that the forecast increase in the council's underlying need to borrow (capital financing requirement) arises from the non-financial investment activities being proposed by the council through its general fund account, namely commercial property investment and lending to third parties.

7.18 The capital financing requirement for the HRA is currently forecast not to change over the time period analysed. This is because capital investment plans for the HRA housing stock have yet to be finalised and await the production and approval of a Housing Strategy as explained in section 4 of this report. The proposed HRA capital programme and the capital ambition projects that maybe approved during 2019/20 do not require any borrowing to be undertaken as they can be funded from other sources.

Table 7.3 estimated indebtedness (capital financing requirement (CFR))

	31/3/18 £000	31/3/19 £000	31/3/20 £000	31/3/21 £000	31/3/22 £000
General Fund CFR	58,918	82,836	138,189	179,096	188,189
Including:					
CFR for capital ambition plan	0	9,529	20,258	32,286	43,463
CFR for investment property	13,627	37,971	82,971	107,971	107,971
CFR for investment in equities	0	0	0	0	0
CFR for lending to 3rd parties	11,626	12,594	14,202	20,199	18,119
CFR total for HRA	205,717	205,717	205,717	205,717	205,717

NB as explained in 5.43 the purchase of equity shares in Norwich Regeneration Limited will be funded from capital receipts and not by borrowing

7.19 It needs to be emphasised that the council's borrowing policy as explained in Appendix 4 (C), is that:

The council will only borrow money (either internally or externally) in cases where there is a clear financial benefit, such as a new income stream or a budget saving, that can, at the very least, fund the costs arising from the borrowing, namely interest charges & any MRP costs. (See section 9 – the financial glossary for an explanation of these terms).

7.20 This effectively means that the council will only borrow (increase its capital financing requirement) to fund capital expenditure plans on a project by project basis and only when a robust and viable Business Case for the project has been produced demonstrating, amongst other things, that the costs arising from the increase in capital financing requirement can be met by new income streams.

Capital Financing Requirement (CFR) to service expenditure

7.21 This indicator has been included as it is the first that MHCLG suggest is used. It shows how much the council's owes (capital financing requirement) as a percentage of how much the council spends on an annual basis.

7.22 Some further explanation is necessary about this indicator:

- MHCLG has asked for a comparison against "net service expenditure" which they interpret as being a "proxy for the size and financial strength of a local authority". Net service expenditure, for the general fund, comprises that part of the revenue budget that is funded from retained Business Rates, Council Tax, and any revenue support grant.

- However all councils are required to set a balanced budget and do this by balancing total expenditure to the estimated total income likely to be received which includes tax income along with all the fees and charges generated by the council. The gross service expenditure budget is therefore a much better indicator of real spending power and financial size, particularly as this council generates a lot of other fees and charges income used to fund service expenditure.

- The gross service expenditure figures given below for the general fund exclude housing benefit payments which is funded by central government and assumes that the budget is reduced each year by the annual net savings target forecast in the MTFS.

Table 7.4: capital financing requirement (CFR) as a % of service expenditure

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
General Fund:					
Net service expenditure (NSE)	17,200	17,730	18,266	18,025	17,772
Gross Service Expenditure (GSE)	54,336	57,927	57,071	57,175	57,275
CFR as a % of NSE	343%	467%	757%	994%	1059%
CFR as a percentage of GSE	108%	143%	242%	313%	329%
CFR arising from non-financial investments as a % of GSE	46%	104%	206%	281%	296%
HRA:					
Gross service expenditure (GSE)	59,658	59,259	60,444	61,653	62,886
CFR as a percentage of GSE	345%	347%	340%	334%	327%

NB: NSE = Net Service Expenditure, GSE = Gross Service Expenditure

7.23 The indicators show the total value of the council's capital financing requirement compared to one year's spending total either on a net or gross basis. The indicators do not fairly represent the council's risk exposure as the council would not need to repay all of its indebtedness in one financial year. This would be like asking a home owner to repay his/her total mortgage suddenly out of annual salary and any savings held instead of over the longer term mortgage period.

7.24 For further ease of understanding, the forecast figure of 329% in 2022/23 (table 7.4) means that the forecast total indebtedness for the general fund in that year is equal to the total value of the general fund's gross expenditure budget for 3.29 years.

Capital Financing Requirement (CFR) to asset value (Gearing ratio)

7.25 The gearing ratio shows the council's total indebtedness compared to the total value of the council's assets (both general fund and HRA assets). It is a an indicator of the extent to which an organisation's debt is covered by assets. The ratio for the council is considered to be low.

Table 7.5: capital financing requirement (CFR) as a % of the value of long term assets

	2018/19	2019/20	2020/21	2021/22	2022/23
CFR as a % of the value of long term assets	26%	28%	31%	34%	35%
CFR arising from non-financial investments as a % of the value of long term assets	2%	5%	9%	11%	11%

The council's non-financial (commercial) investments

Commercial income to service expenditure

7.26 This ratio shows the general fund's dependence on commercial income to deliver core general fund services.

Table 7.6: commercial income to service expenditure

	2018/19 £0	2019/20 £0	2020/21 £0	2021/22 £0	2022/23 £0
Net income from investment property	2,241	2,450	2,930	2,903	2,875
net income from lending to third parties	327	327	327	327	327
Total net income from non-financial investments	2,568	2,777	3,257	3,230	3,202
Total net income as a % of NSE	15%	16%	18%	18%	18%
Gross income from investment property	3,864	4,785	5,931	5,931	5,931
Gross income from lending to third parties	572	572	572	572	572
Total gross income from non-financial investments	4,436	5,357	6,503	6,503	6,503
Total gross income as a % of GSE	8%	9%	11%	11%	11%

NB: NSE = Net Service Expenditure, GSE = Gross Service Expenditure

7.27 The net and gross income from investment property shown in table 7.6 (and table 7.7) for 2020/21 onwards are based on the 2019/20 budget assumptions. The council intends to undertake improvements to the way rental income achieved by the investment portfolio is forecast and monitored. A "zero-based" approach is needed for each property taking into account lease termination and rental review dates.

7.28 As explained in paragraphs 2.38 and 2.40, a very prudent approach has been taken in the general fund budget with regards to future anticipated income from lending and investing in Norwich Regeneration Limited. The new income will be taken into the budget only when it is actually received.

7.29 Income from the council's car parks is not included in this analysis as the primary reason for owning and managing them is not solely for profit making purposes. However the income is significant and of a commercial nature. The net income forecast to be obtained from car parks in 2019/20 is £3.18m, which if added into the net income from non-financial investments shown in the table above, would mean that commercial income is some 33% of the 2019/20 net service expenditure budget.

Investment cover ratio

7.30 This shows the gross income from non-financial investments compared to the interest expense. Many of the recent investments have been funded from internal borrowing and have not incurred any interest expenses. Therefore in order to calculate this ratio it has been assumed that the recent investments have been financed by external borrowing.

Table 7.7: investment cover ratio

General Fund	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Total gross income from non-financial investments	4,436	5,357	6,503	6,507	6,507
Interest expense	885	1,275	1,733	1,733	1,733
- As a % of gross income	23%	27%	29%	29%	29%

Target income and benchmarking of returns

7.31 This shows the net revenue income target assumed in the 2019/20 budget for non-financial and financial investments.

7.32 The average return made from commercial property acquisitions to-date is 2.9% - the amount above 2% will go to the commercial property earmarked reserve

7.33 No assumptions have been made in the MTFS regarding dividends (profit share) arising from the council's equity investment in NRL.

Table 7.8: Net revenue target assumed in MTFS

Investments made in:	2019/20 target in MTFS
Commercial property	2.00%
Lending to third parties	2.50%
Equity investment in third parties	0%
Short term lending to banks/building societies	0.88%

8. CHIEF FINANCE OFFICER'S STATEMENT

Statutory requirements

8.1 Section 25 of the Local Government Act 2003 places specific responsibilities on the Chief Finance Officer to report on the robustness of the budget and the adequacy of proposed financial reserves when the council is considering its budget requirement. The council is required to have regard to this statement when it sets the budget.

8.2 In addition, and as discussed in section 1 of this report, CIPFA's recommended good practice is that chief finance officers refer to the range of financial resilience indicators recently produced by CIPFA in their section 25 statements for 2019/20 before this becomes a requirement under the new CIPFA Financial Management Code.

8.3 Another new requirement is that under CIPFA's revised Prudential Code the Chief Finance Officer must report on the deliverability, affordability, & the risks associated with the capital strategy.

Key risks and the prudent minimum balance of general reserves

8.4 In fulfilling the statutory responsibilities the Chief Finance Officer has set out in Appendix 8 (A) what she sees as the key risks associated with the proposed budget, so that council is clear on these risks and the proposed mitigation factors when making its budget decision.

8.5 A key mitigation for the risks mentioned in Appendix 8 (A) is the Chief Finance Officer's estimate of a prudent level of reserves. The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

8.6 There has been no change in the methodology for calculating the prudent minimum balance of reserves for both the general fund and the HRA In both cases, an assessment of three years cover for operational risks has been made covering the main areas of expenditure and income. In addition, amounts have been included for unforeseen events and specific risks such as business rates retention and the impact of welfare reform.

8.7 The risk analysis shows that a prudent minimum level of reserves for 2019/20 will be of the order of £4.332m for the General Fund and £5.837m for the Housing Revenue Account. Further detail of the calculations is available on request. Further comfort is taken from the record council has in managing and delivering to budget in-year and that the budget proposals contain both corporate contingency budgets and specific earmarked reserves for the council's commercial activities.

Section 25 Statement

8.8 Allowing for the uncertainty and keys risks set out in Appendix 8 (A), it is the opinion of the Chief Finance Officer that the budget has been prepared on realistic assumptions and that it represents a robust budget which provides for an adequate level of reserves.

8.9 It is also the opinion of the Chief Finance Officer that the capital strategy, as set out in section 4, is affordable and prudent as demonstrated by the prudential indicators set out in the Treasury Management Strategy (section 6).

8.10 The Chief Finance Officer does have some reservations on the deliverability of the capital strategy both in terms of the council's and NPSN's capacity to deliver and the council's ability to bring forward for approval many of the projects in the capital ambition plan given the current uncertainties to the economy and housing market arising from Brexit.

CIPFA's Financial Resilience Indicators

8.11 The following chart shows the financial resilience indicators as compiled for Norwich City Council by CIPFA. The indicators are based on published general fund outturn figures for 2017/18 and the three prior financial years. The indices compare the council to all English district councils in determining a "score" and whether the council is at higher or lower risk. As these indices will be published by CIPFA, full information on them has been given in this budget report in order to guide council on their meaning.

Chart 8.1: Indicators of Financial Stress analysed for Norwich City Council

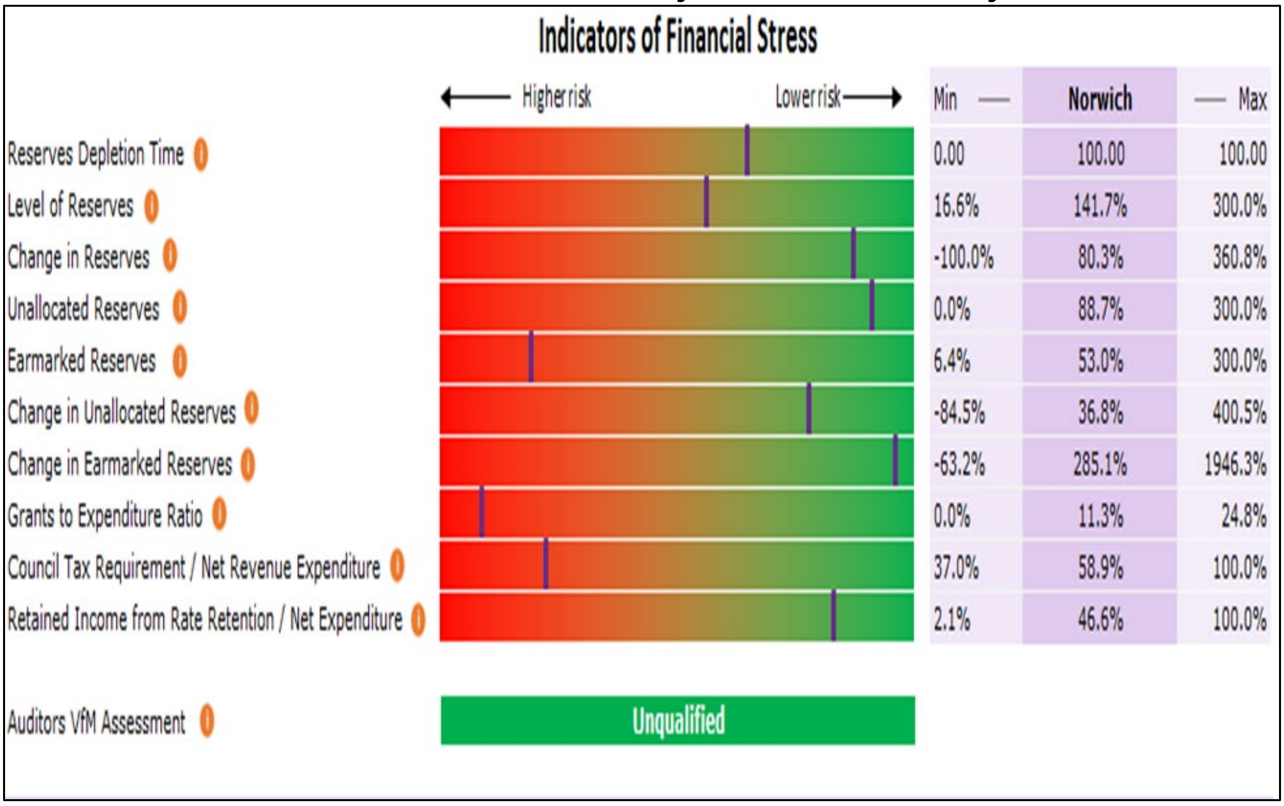


Table 8.1: Description of each index and what it means

Indicator	Description	What it means
1. Reserves depletion	This is the ratio of the current level of reserves and the average change in reserves in each of the last three years	A score of 100% has been given to each council that has increased its overall reserves over the 3 year period i.e. 2014/15 to 2017/8. 83% of English district councils including this council have increased rather than depleted their overall reserves. CIPFA view this as beneficial and a sign of lower financial risk.
2. Level of reserves	The ratio of the council's 2017/18 total useable reserves (i.e. general and earmarked) to the council's net revenue expenditure	Norwich sits in the middle of the comparator group with CIPFA "capping" the score at 300% as some district councils have very large reserves as compared to their net revenue expenditure.
3. Change in reserves	This indicator shows the average percentage change in useable reserves over the 4 year period	CIPFA deem the council as lower risk as up to 2017/18 it has been increasing both unallocated and general reserves. This trend is forecast to continue in 2018/19.
4. Unallocated reserves	This indicator is calculated as the total percentage of unallocated (i.e. general) reserves, in 2017/18, to net revenue expenditure	CIPFA assess the council as low risk. The council does better in this score compared to 2 above because in 2017/18 most of the council's reserves were held as general rather than earmarked reserves
5. Earmarked reserves	This indicator is calculated as the total percentage of earmarked reserves, in 2017/18, to net revenue expenditure	CIPFA view the council as being at high risk as the council has generally held its reserves as unallocated rather than earmarked reserves.
6. Change in unallocated and earmarked reserves	This indicator shows the average percentage change in these reserves over the 4 year period	The council is assessed to be at lower risk on both indices. Over the time period the council both increased its general reserves as well as establishing, at the end of 2017/18, the earmarked spend to save reserve. The practice of earmarking reserves continued in 2017/18 with the establishment of the commercial property and NRL reserves.

7. Revenue Support Grant to expenditure ratio	This indicator shows the proportion of net revenue expenditure funded by RSG	The council has a figure of 11% for this, which is higher risk compared to others. However this council has already built the reduction and loss of RSG into its MTFS.
8. Council tax requirement	Shows the percentage of net revenue expenditure funded by council tax	The figure for the council is 59% , which is high risk compared to other district councils. CIPFA has assumed that due to the comparatively low dependence on council tax there is a high grant dependency. In essence, this repeats the risk shown in the grant to expenditure ratio.
9. Retained income from rate retention	Shows the percentage of net revenue expenditure funded by business rate retention	Norwich shows a figure of 47% for this, which is low risk compared to other district councils. CIPFA have assumed that it is less risky to have a higher rate of funding from business rates due to the ability to generate income from growth in the tax base.

8.12 Local authorities are complex democratically accountable organisations whose long-term financial performance depends on the Government, statutory requirements and a complex interlocking web of financial and non-financial decisions over a prolonged period of time. Other than short-term financial viability, they simply cannot be understood using a number of indicators. In particular:

- Many of the indicators measure the same things in different ways. For example, there are seven indicators dealing with reserves, many of which require interpretation to understand properly.

- The index is essentially retrospective and has a short term focus. All quantitative assessment frameworks are “point in time” assessments that are largely backward looking. The value and great skill has always been and will always remain the judgement that extends that assessment reliably into the future.

- Data without context is meaningless. Effective interpretation and correct responses to the findings of the index require context and other data.

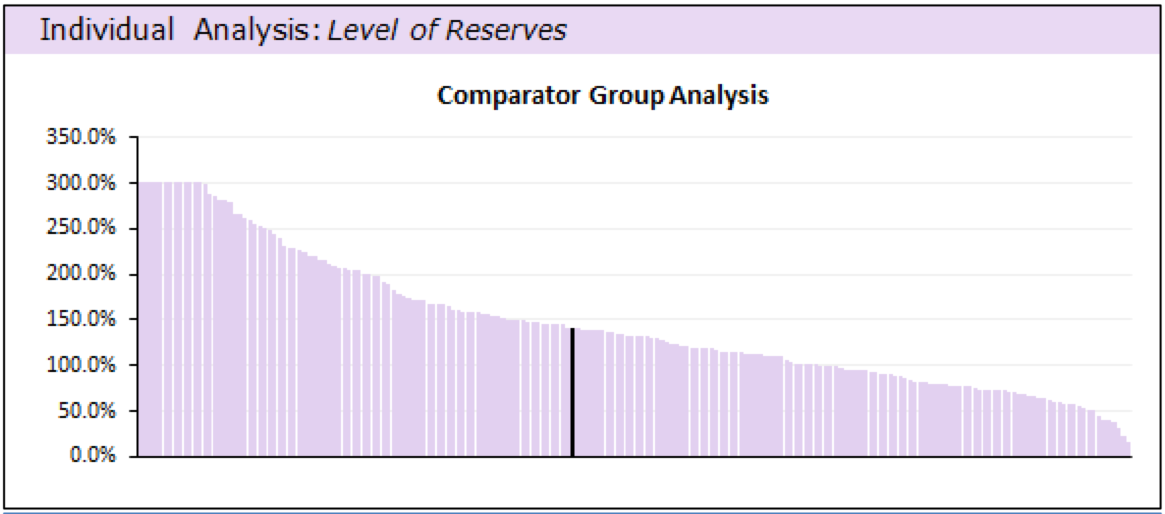
8.13 CIPFA uses “net revenue expenditure” as the basis of the percentage calculation for many of the indices. As mentioned elsewhere in this report, net revenue expenditure comprises the budget amount funded by council tax, retained business rates, and revenue support grant. It is used by CIPFA and MHCLG as a “proxy” for the size and financial strength of the local authority - as this is the amount, failing all other income sources, the council would expect to receive in each year.

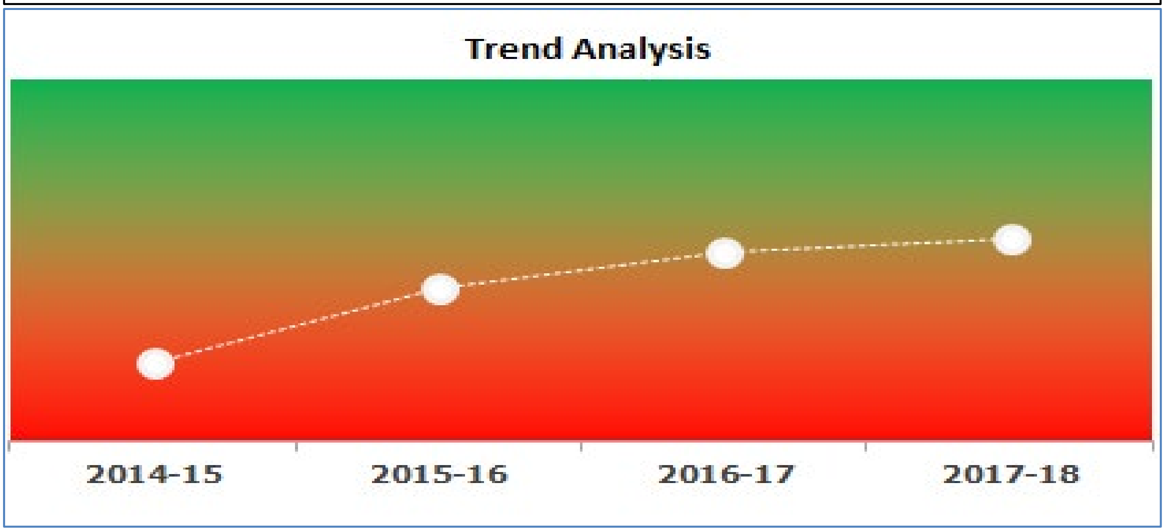
8.14 Whilst net revenue expenditure is a useful figure as it is readily available from the statement of accounts for all council types and sizes, it does distort the analysis undertaken by CIPFA. As an example, in 2017/18 Revenue Support Grant was 11% of net revenue expenditure, in terms of the gross amount of income the general fund received it was 3% - a low percentage of the total resources and therefore not necessarily an indicator showing high risk.

8.15 In terms of all the indicators, the comparison of total reserves, whether general/unallocated or earmarked is probably the most useful indicator of financial stability, at least in the short to medium term.

8.16 The charts below show the position of Norwich, given as a thick black line, in terms of the total general fund reserves held at the end of 2017/18 as compared to all English district councils and how the reserves grew over the four year period CIPFA have analysed.

Charts 8.2 & 8.3: – level of reserves for Norwich City Council as at end of 2017/18 (from CIPFA's financial resilience model)





Appendix 8 (A): The key financial risks facing the council

RISK	DESCRIPTION	MITIGATION PROPOSED
Medium term financial uncertainty	Given the lack of clarity on future local government funding post March 2020, as described in section 1 of this report, it has not been possible to undertake meaningful and robust medium term financial planning for the financial year 2020/21 and onwards.	This uncertainty over the future places greater importance on the need to maintain a prudent minimum balance of reserves, both for the general fund and the HRA, to manage any changes in future public sector funding. The proposals contained within this budget report maintain general reserves above the prudent minimum balance until 2024/25 (for the General Fund) and for the whole medium term planning period for the HRA. Prudent estimates have been taken into account in the MTFS of grant funding which is at risk of being reduced or removed, for example New Homes Bonus, and Housing Benefit / Council Tax Support Admin. Grant.
Scale of general fund budget savings required over the medium term	The proposals show a need, based on current financial planning assumptions, for the council to achieve gross savings totalling £10.3m over the 4 year period 2020/21 to 2023/24. This is the second year where the council has not put forward proposals to deliver, in totality, the savings target contained in the MTFS. Instead it has benefited from increasing income from council tax & business rates and one-off financing sources to balance the budget. Current savings and income generation plans, including the fit for the future programme, are thought at this initial stage, to be able to cover 30% to 40% of the medium term "budget gap".	The council will plan to implement these savings in a controlled manner and by taking a strategic and medium-term rather than a short-term approach. It can do this because it has built-up significant general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. However difficult decisions will be required and it is almost inevitable that this council will need to cut or reduce services from 2020/21 onwards and move towards the provision of core statutory services only. The CFO takes comfort in the fact that the council has had a successful track record in setting a balanced budget and achieving the required budget savings since public sector austerity commenced in 2011/12. In addition, and through its underspending of the approved budget over the last two financial years, the council has the funding needed in the spend-to-save earmarked reserve to implement the further transformational changes that will be needed to achieve the savings required.

RISK	DESCRIPTION	MITIGATION PROPOSED
Brexit and the potential impact on the economy	At the moment there is uncertainty surrounding the manner in which the UK may leave the European Union. The key risks to this council would arise if Brexit triggers a recession in the national economy. This scenario could have adverse impacts on the council's income budgets ranging from council tax payments, Business Rates, car parking fees, and rental income from commercial property investments. In addition, any long term decrease in private house sales and prices would be financially challenging for the council's wholly owned subsidiary, Norwich Regeneration Limited, and to the financial viability and hence successful delivery of many of the projects contained within the council's capital ambition plan. The other key risk of Brexit is inflation on construction being higher than RPI due to labour shortages and/or the importing of building materials from the EU.	The potential issues surrounding Brexit, and in particular a "no-deal" Brexit, are currently being reviewed, along with other Norfolk councils and public sector partners, as part of business continuity planning. It is difficult, and potentially misleading given the lack of any certainties, to try and quantify these risks at this point in time. Prudent levels of earmarked reserves are being held for the council's commercial activities (see below) and in the Collection Fund, particularly for Business Rates collection. The projects contained within the council's capital ambition plan require separate council approval once a full Business Case is able to be produced on a robust basis. The council intends to enhance the quality of its business cases by using the government's 5 case methodology for large complex projects along with improved financial modelling facilitated by LGSS Finance. The Business Case will therefore need to include any impact that Brexit may have on the particular project and include contingency provisions within the financial viability model before council approves the project's inclusion into the capital budget.
Increase in interest rates	The council 's underlying need to borrow as expressed by its capital financing requirement will increase over the medium term financial period and the council will need to enter into new external borrowing to fund its capital ambition plan and non-financial investments. An interest rate rise could both (a) make a commercial investment financial unviable and (b) could increase the cost of servicing the debt to the revenue budget.	The HRA business plan contains a prudent assumption of future borrowing at 5% - which is well above current PWLB interest rates. Future General Fund borrowing will relate to commercial property acquisition, capital ambition projects and lending to NRL. The modelling for all such projects include prudent borrowing assumptions and appropriate sensitivity analysis over interest rates, mitigating against the risk that a project become unviable due to interest rate increases.

RISK	DESCRIPTION	MITIGATION PROPOSED
Business Rates income	This is a highly volatile source of revenue and various factors, including business closures, successful appeals against rateable values, changes in property usage from office/industrial to residential, and changes to the health of the local and national economy can cause reductions in business rate revenue. Norwich City Council currently collects some £76m of business rates income and retains some £6.7m.	Officers from Revenues & Benefits and LGSS Finance regularly meet to monitor the income being collected during the year and this is reported to cabinet every other month via the corporate budget monitoring report. Prudent levels of earmarked reserves are provided within the overall Collection Fund for bad debts and rateable value decreases. The risk of the Council not achieving the business rates income level it is allowed by government to keep (termed the "baseline" level) is mitigated by there being a "safety net" in place. The maximum risk the council is therefore exposed to in 2019/20 is some £0.55m.
Increasing reliance on commercial income	The council's General Fund revenue budget contains some £4.8m of rental income from investment properties as well as £0.6m generated by lending to Norwich Regeneration Limited. This income currently funds 9% of the General Fund gross revenue budget and this proportion will increase over the medium term. Further information, as required under MHCLG's revised Investment Code, is given in section 5.	The amount of income being generated in-year is subject to formal regular monitoring by Heads of Service and LGSS Finance and reported to cabinet every other month in the budget monitoring report. Council agreed in 2018 to establish two earmarked reserves for its commercial activities: • The commercial property reserve - estimated balance at end of 18/19 of £0.95m • The NRL reserve – estimated balance at end of 18/19 of £0.3m
Legislative changes resulting in a curtailment of local government's ability to undertake commercial investments	CIPFA issued a statement to local government (18 October 2018) stating that it intends to issue more guidance in the near future on commercial property investment. The local government finance settlement in December stated that the MHCLG and HM Treasury were considering "further possible interventions" where councils are deemed to be exposing themselves and taxpayers to too much risk.	To-date CIPFA has not produced any revised guidance. The Local Government minister has subsequently stated that ministers will not curtail most councils' investments and that concerns about overexposure apply only to a "handful" of authorities. (Local Government Chronicle, January 2019). The council will keep its legislative and financial powers under review.

RISK	DESCRIPTION	MITIGATION PROPOSED
Insourcing of the joint ventures and reorganisation of the council's property functions	The primary risk relates to the deliverability of the capital strategy which the CFO is now required to comment on, although it should be noted that the budget proposals do not include any potential costs that may arise from insourcing the JVs. In recent years NPSN and the council's client side has had difficulty in delivering the entire capital programme and significant underspending against the budget has been a yearly occurrence. This is likely to continue in the short-term given the disruption that is inevitable with significant changes to service & organisational design.	In-year progress of delivering the capital programme will be monitored by LGSS Finance every two months as part of the corporate budget monitoring process. In addition to the financial figures, information will also be given, for key projects, on milestone progress and any issues being encountered.

9. GLOSSARY OF TERMS USED IN THE BUDGET REPORT

Asset	*Tangible asset* – an asset that has a physical form such as machinery, vehicles, ICT, equipment, buildings and land. *Intangible asset* – an asset that is not physical in nature such as goodwill, brands, patents & copyrights and shares.
Authorised Contract Scheme (ACS)	This is a UK authorised, tax transparent fund.
Authorised Limit for External Borrowing	A statutory limit that sets the maximum level of gross external borrowing for the council.
Base Budget	The budget from the previous year is taken forward to create the initial budget for the next year before inflation, savings, growth and other adjustments are added.
Baseline Funding Level	Authorities' share of the local share of business rates determined by an index-linked assessment of their needs undertaken in 2012–13.
Benchmark	A benchmark is used to measure a security's value
Billing Authority	This is a council such as Norwich City Council which is responsible for collecting the Council Tax and Business Rates in its administrative area.
Bond	A debt instrument in which an investor lends money for a specific period of time at a fixed rate of interest. Examples are corporate (issued by companies), financials (issued by banks and building societies), Supranational (issued by Supranational such as the European Development Bank), and government bonds.
Brexit	"Brexit' is the phrase coined to describe the process of the UK withdrawing from the European Union. The UK joined the EU in 1973.
Business Rates	Business Rates is the usual term for the National Non-Domestic Rate, a property tax charged on all properties which are not used for residential purposes.
Business Rates baseline	The amount of business rates income a local authority is predicted to raise.

Business Rates Safety Net	The method of protecting an authority which sees its annual business rates income drop below its baseline funding level. Such authorities receive a safety net payment at the end of the financial year from central government. For 2019/20 the safety net will operate at 95% of the baseline funding for Norwich City Council.
Business rates Levy	Authorities which experience growth in business rates income pay a levy. As Norwich is a pooled authority; any levy is payable to the Norfolk Business rates Pool.
Business Rate appeals	Since the introduction of the Business Rates Retention Scheme, Local Authorities are liable for successful appeals against business rates charged to businesses. The Valuation Office Agency operates a Check, Challenge and Appeal process for business rates appeals against the 2017 and later rating lists.
Business Rates Retention	This was introduced in 2013 and designed to give local authorities more control over the money raised locally; removing the ring-fencing of incorporated grants and promoting and rewarding local economic growth. Currently 50% of business rates are retained within local government, with a redistribution mechanism in place across individual local authorities.
Business Rates Pilot	In December 2017, the government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75% in April 2020. In order to test increased business rates retention and to aid understanding of how to transition into a reformed business rates retention system in April 2020, the government has selected a number of local authorities in England to take part in pilot schemes.
Capital Expenditure	Expenditure on the creation of enhancement of assets, for example: • The acquisition, reclamation or enhancement of land • The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures • The acquisition, installation or replacement of moveable plant, machinery, and vehicles • The acquisition or preparation of computer programs if these will be used for longer than one year

Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources.
Capital Receipt	This is income received from the disposal of an interest in a capital asset. The income can only be used to finance capital expenditure or to reduce future debt liabilities.
Capitalisation	The proportion of a company's equity to debt finance. See "Thin capitalisation".
Certainty rate	The government reduces interest rates on loans from the Public Works Loan Board (PWLB) by 20 basis points (00.20%) to councils who provide information specified on their plans for long-term borrowing and capital spending. Norwich complies with this.
Certificate of Deposit (CD)	These are time deposits commonly sold in financial Markets (e.g. banks and building societies).
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a professional institute for accountants working in the public services and in other bodies where public money needs to be managed. It has a role in setting coeds and standards that regulate the use of public money.
Collection Fund	The collection fund is a separate statutory fund, which shows the income received from business rates and council tax, and the distribution to preceptors and the city council.
Constant Net Asset Value Money Market Funds (CNAV)	This refers to money market funds which use amortised cost accounting to value all of their assets. Their aim is to maintain a net asset value or value of a share of the fund.
Contingency budget	A sum put aside to cover unforeseen expenditure during the period of the budget.
Community Infrastructure Levy (CIL)	The Community Infrastructure Levy (CIL) is a planning charge based on legislation that came into force in April 2010. When adopted, a CIL allows the Council to raise contributions from new developments to help pay for infrastructure that is needed to support planning growth. Where a CILcharging schedule is in place, it largely replaces S106 obligations in delivering strategic infrastructure.

Comprehensive Spending Review	A governmental process carried out by HM Treasury to set expenditure limits for the medium term for each central government department.
Council Tax	A tax on domestic property set by local authorities and based on the value of the property within eight bands, A to H. The council tax value of each band is expressed as a proportion of ban D (e.g. Band A = 6/9, Band H = 19/9)
Council Tax Base	The number of properties from which it is estimated council tax will be collected, expressed as band D equivalent properties
Council Tax Surplus or Deficit	A surplus/deficit arising from either more or less council tax being collected than expected. This would be as a consequence of variations in collection rate or to the estimated increase in the number of properties
Council Tax Precept	The levy made by the precepting authorities (Norfolk County Council and Police & Crime Commissioner) on Norwich City Council as billing authority requiring the latter to collect income from council tax payers on their behalf.
Council Tax Reduction Scheme	The Council Tax Reduction (CTR) scheme helps people on low incomes and/or certain welfare benefits to pay their council tax bill. CTR replaced the national council tax benefit scheme with effect from 1 April 2013.
Council Tax Requirement	The amount of funding required to be raised from council tax to meet the general fund expenditure budget after taking into account all other funding available.
Counter-parties	List of approved financial institutions with which the council can place investments with.
Credit rating	A measure of the credit worthiness of a borrower. A credit rating can be assigned to an organisation or a specific debt issue/financial obligation. There are a number of credit ratings agencies but the main three are Standard & Poor's, Fitch or Moody's.
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do.

Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence. This is only budgeted as a cost in the HRA.
Disabled Facility Grant (DFG)	A central government grant that contributes towards the cost of providing adaptations and facilities to enable disabled people to continue living in their own homes.
DMADF	Debt Management Agency Deposit Facility.
Earmarked Reserve	Reserves earmarked for a specific type of future spend.
Enhancement (of an asset)	Enhancing an asset is the carrying out of works which are intended to substantially: • lengthen the useful life of the asset • increase the open market value of the asset • increase the extent to which the asset can or will be used in connection with the functions of the local authority Repairs & maintenance is revenue expenditure
European Economic Area (EEA)	The EEA includes EU countries and also Iceland, Liechtenstein and Norway; it allows them to be part of the EU's single market.
External Borrowing	External borrowing is the process of going to an external financial institution to obtain money. The council would generally borrow from the Public Works Loans Board (PWLB) due to its favourable rates for public sector bodies, but other institutions also offer loan finance to councils.
Equity	An ownership interest in a business.
External Gross Debt	Long-term liabilities including Private Finance initiatives and Finance Leases
Expected Credit Loss	Weighted loss on loans should the borrower default. Calculated by multiplying the probability of occurring with the net loss and with the exposure to the loss.
Fairer Funding Review	A review by central government on how to allocate local authority funding to individual councils that is planned to be implemented from 2020/21 onwards.

Finance Lease	Where a lease is classified as a finance lease, then the substance of the transaction is considered to be the same as if the authority had purchased the asset and financed it through taking out a loan. The authority therefore recognises its interest in the asset together with a liability for the same amount. The lease payments are then treated in a similar way to loan repayments, being split between the repayment of the liability and a finance charge.
Financial Conduct Authority (FCA)	This is the body that regulates the financial services industry in the UK.
Floating rate note (FRN)	Issued by Banks, Building Societies and Supranational organisations. The Coupon often re-sets every three months at a set premium to 3 month Libor, which is a rating environment, can help to mitigate interest rate risk.
General Fund	The account to which the cost of providing the Council Services is charged that are paid for from Council Tax and Government Grants (excluding the Housing Revenue Account).
General Reserve	This is a usable reserve which has not been earmarked for a specific future use. The Medium Term Financial Strategy is to use this reserve over the next four years to part fund the annual budget.
Gilt	A UK Government bond, sterling denominated, issued by HM Treasury.
Growth	An increase in expenditure not due to inflation/price changes but arising from growth in service demand or a change in legislation impacting on the service
Housing Revenue Account (HRA)	The Housing Revenue Account is a statutory account maintained separately from General Fund services. It includes all expenditure and income relating to the provision, maintenance and administration of council housing and associated areas such as HRA shops and garages
IFRS	International Financial Reporting Standards.
Internal Borrowing	Internal borrowing is the *temporary* use of the council's cash holdings to fund capital expenditure. Whilst this has to be repaid it does not represent a formal debt in the same way as external borrowing

Institutional Money Market Fund Association (IMMFA)	This is the trade association which represents the European domiciled money market funds. A key requirement of membership is the requirement that funds must have the highest credit rating possible of triple A.
Investment Code	Sets out practices that local authorities are “obliged to have regard to” when making investment decisions. Published by the MHCLG.
LIBOR	London Interbank Offered Rate is the rate of interest that banks charge to lend money to each other. The rates are set on a daily basis and used as a reference price for floating rate securities.
Liquidity	A measure of how quickly the deposit of investment can be returned.
Local Government Finance Settlement	The annual determination of local authority spending made by the government and debated by parliament. A provisional settlement is announced before Christmas with the final settlement announced in late January.
London Interbank Bid Rate (LIBID)	The bid rate that participating London banks are willing to pay for Eurocurrency deposits and other bank’s unsecured funds in the London interbank market.
Low Volatility Money Market Funds (LNVAV)	These refer to money market funds that use amortised cost accounting for assets with a residual maturity of less than 90 days as well as value assets using constant net asset value rounded to 2 decimals.
Major Repairs Reserve (MRR)	The Major Repairs Reserve is a source of funding for the HRA capital upgrades programme generated by an annual asset depreciation charge to the HRA revenue budget.
MCHLG	The Ministry of Housing, Communities and Local Government (MHCLG) .
Minimum Revenue Provision (MRP)	A statutory charge to the general fund revenue budget for future debt repayments (external borrowing in the capital programme). This charge has an impact on the council’s bottom line. The council has to set out its MRP policy in the annual Treasury Management Strategy
Net Asset Value (NAV)	Value of an entity’s total assets minus the value of its total liabilities

New Homes Bonus	A grant paid by central government to local councils to reflect and incentivise housing growth in their areas. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use.
Net Service Expenditure	Net service expenditure comprises that part of the revenue budget that is funded from retained Business Rates, Council Tax, and any revenue support grant.
Non-financial investments	Investments made primarily for a financial return comprising commercial property acquisitions, lending to third parties on commercial terms and equity investments (shareholdings) in third parties.
Non-Specified Investments	These are investments that do not meet the conditions laid down for specified investments and potentially carry additional risks e.g. lending for periods typically beyond 1 year
Office for Budget Responsibility (OBR)	The Office for Budget Responsibility was created in 2010 to provide independent and authoritative analysis of the UK’s public finances.
Office for National Statistics (ONS)	The UK's largest independent producer of official statistics and the recognised national statistical institute of the UK. Main responsibilities are collecting, analysing and disseminating statistics about the UK's economy, society and population.
Operating lease	An operating lease is a contract that allows for the use of an asset but does not convey rights of ownership of that asset. An operating lease represents an off-balance sheet financing of assets.
Operational Boundary	This indicator is based on the same estimates as the Authorised Limit for External debt but reflects the most likely prudent but not worst case scenario but without the additional headroom for borrowing included in the Authorised Limit.

Prudential Code	The Prudential Code for Local Authority Investment was introduced by CIPFA and local government is obliged “to have regard” to the code as part of the Local Government Act 2003. The key objectives of the code are that capital investment plans are affordable, prudent and sustainable. The code details the indicators that must be set annually and monitored throughout the financial year. The council’s prudential indicators are found in section 8 of the report in the Treasury Management Strategy.
Public Works Loans Board (PWLB)	The Public Works Loan Board (PWLB) is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury that lends money from the National Loans Fund to local authorities.
Reserves	The accumulation of surpluses and deficits over past years. Reserves of a revenue nature can be spent or earmarked at the discretion of the Council. Reserves of a capital nature may have some restrictions placed on them as to their use.
Revenue Expenditure	Comprises the day to day costs associated with running the council’s services and financing the council’s outstanding debt.
Revenue Support Grant	Introduced in 1990, this is the central grant given to local authorities to support their services. In recent years, local authorities’ income from grant has decreased and a higher proportion now comes from business rates and council tax.
Section 106	In considering an application for planning permission, the Council may seek to secure benefits to an area through the negotiation of a ‘planning obligation’ with the developer. Such obligations are authorised by Section 106 of the Town and Country Planning Act 1990. The Council may therefore, in some Instances, receive funds to enable it to undertake works arising from these obligations. Examples of works include the provision or improvements of community facilities (parks/play areas), affordable housing and improved transport facilities.

Section 25 Notice	Under Section 25 of the Local Government Act 2003 the S151 officer is required to state in the budget report their view on the robustness of estimates for the coming year, the medium-term financial strategy, and the adequacy of proposed reserves and balances. The council is required to take this into account when making its budget and taxation decisions.
Specified Investments	All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.
Spending Review	An announcement made by central government of its future spending plans for the public sector including local government. The last spending review took place in 2015 and covers the four years up to and including 2019/20. The next spending review is in 2019.
Subjective Analysis	The classification of expenditure and income according to the nature of the items, for example, employee costs, premises, transport, supplies & services, fees & charges income, and grant income.
Subsidiary company	A company that is owned or controlled by another parent company or body.
Term deposits (TD)	This is used to describe a money deposit at a banking institution that cannot be withdrawn for a specific term or period of time.
Thin capitalisation	A company with too little equity finance and too much debt finance.
Treasury bill (T- bill)	A short-dated instrument issued by HM Treasury. Usually considered safe, liquid and secure. UK government rated.
Treasury management	The management of the local authority's investments and cash flows, its banking, money market and capital market transactions: the effective control of the risks associated with those activities: and the pursuit of the optimum performance consistent with those risks.
Treasury Management Code	The Treasury Management Code of Practice, published by CIPFA, regulates the management of borrowing, investments, & banking. It requires the council to agree & monitor a number of indicators and Treasury Management Practices – these are found in section 6 of this report in the Treasury Management Strategy.

UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years.
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury.
Unit Trust (UT):	A collective investment fund that is priced, bough, and sold in units that represent a mixture of the securities underlying the fund.
Variable Net Asset Value Money Market Funds (VNAV)	These refer to money market funds which use mark-to market accounting to value some of their assets. The net asset value of these funds will vary by a slight amount, due to the changing value of assets.