NORWICH
City Council

Committee Name: Cabinet
Committee Date: 06/07/2022
Report Title: Medium Term Financial Strategy - Update

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of corporate and commercial services

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To set out an indicative Medium Term Financial Strategy through to 2026/27 alongside the key assumptions and risks.

Recommendations:

1) To note the current indicative MTFS projections;
2) To note the financial risks; and
3) Endorse an approach to the early identification of on-going actions to close the estimated budget gap over the medium term financial planning period.

Policy Framework

The Council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report is relevant for all five corporate priorities.

It addresses the corporate priority to ‘put the council on a sustainable financial footing and deliver services effectively and efficiently’ by delivering on the action to review and update the medium-term financial strategy.

This report helps to meet the securing the council’s finances objective of the COVID-19 Recovery Plan.

Background

1. Like all local authorities, Norwich City Council continues to face substantial financial challenges. Following on from a sustained period of austerity – the council is facing increasing demand for local services and significant inflationary rises in costs. The economic situation is putting huge financial pressures not just on council resources, but those of partners, local businesses, and residents, particularly the most vulnerable. The council also continues to manage the ongoing risk and uncertainty over future funding as well as long-term budgetary impacts arising from the Covid-19 recovery.

2. It is within this context and financial uncertainty that the council must review and develop its medium term financial strategy (MTFS) and approach to setting the budget in 2023/24 and beyond. The MTFS looks to model the expected external financial changes and internal budget pressures, to assess the overall impacts on the council's financial position over the next four years and establish a strategy for ensuring financial sustainability.

3. It is important to note that the assumptions and modelling underpinning the analysis in this report are themselves subject to significant uncertainty and will change over time as government plans for the resources for local authorities becomes clearer and the economic environment evolves. Cabinet will continue to be kept updated as things change but at this point the level of uncertainty is high and this needs to be borne in mind.

4. The MTFS approved by Full Council in February 2022 showed a need to make permanent gross savings of £9.950m over the next four years. In the budget paper, the council identified potential future savings of £1.800m against the cumulative target of £9.950m.

5. This paper outlines the key developments and factors influencing the MTFS, how they impact on the future savings challenge as well as the next steps for refining the MTFS and budget options for 2023/24. The paper also looks at the emerging pressures on the approved 2022/23 budget as a result of the wider economic inflationary pressures as well as the opportunities generated by improved covid recovery assumptions.

Strategic Context

6. In February 2022, Full Council approved the Corporate Plan 2022-26. The document sets out the vision for the city and for the council over the next four years. It is shaped by the Norwich 2040 City Vision, as well as the council's response to Covid-19. The corporate plan provides a framework for the decisions taken - how we prioritise and how we allocate the resources we have available to achieve these priorities.

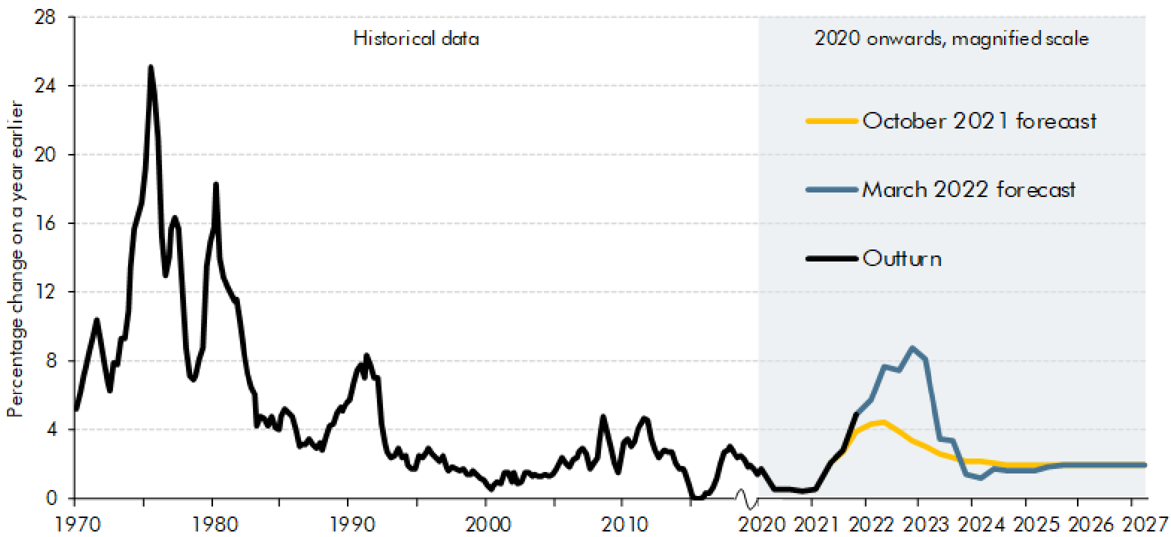
7. A key priority in the corporate plan is putting the council on a sustainable financial footing and delivering services effectively and efficiently. Future budget decisions will need to balance delivering on the ambition and priorities of the council whilst ensuring the authority remains financially sustainable over the medium and long term. As part of delivering this priority, it is important to ensure the continuous review and development of the council's medium-term

financial strategy. This then informs the options and decisions for delivering balanced and sustainable budgets over the next four years and beyond.

Wider Financial Context

8. Recent years have seen a huge degree of economic uncertainty following the Covid-19 pandemic alongside supply bottlenecks, rising inflation and the conflict in Ukraine. The Office for Budget Responsibility (OBR) noted in their March 2022 economic and fiscal outlook report the significant impact on real living standards with inflation outpacing growth in earnings. This is compounded by rising energy and fuel prices, with the report noting that petrol prices are already up a fifth since the OBR's October 2021 forecast and household energy bills set to jump by 54 per cent in April 2022. If wholesale energy prices remain as high as markets expect, energy bills are set to rise around another 40 per cent in October 2022, pushing inflation to a 40-year high (Table 1).

Table 1: CPI inflation



Source: Bank of England, ONS, OBR

9. The Office for National Statistics reported that the Consumer Prices Index (CPI) rose by 9.0% in the 12 months to April 2022, up from 7.0% in March. This is the highest CPI 12-month inflation rate in the National Statistics series, and estimates suggest that CPI would last have been higher sometime around 1982.

Financial implications in 2022/23

Review and actions from 2021/22 provisional outturn

10. The Combined Assurance Report Q4 2021/22 is a separate report on the same Cabinet agenda. This reports an underspend position on the general fund of £2.364m. Full detail on the financial position and variance analysis is provided as part of the provisional outturn report (on the same agenda).

11. As part of assessing the 2021/22 performance, deep dive reviews have been completed with Heads of Service to understand in detail the factors driving

budget variances, identify areas for enhanced forecasting approaches and establish where improved income performance is likely to be replicated in 2022/23 and beyond. See further detail in paragraphs 17, 18 and Table 1.

12. A further outcome of the reviews is that budget manager training will be refreshed with a focus on supporting budget managers to undertake improved scenario modelling and sensitivity analysis as part of budget forecasting. In addition, there is a need to embed a capital project management approach with enhanced capital governance that is responsive to delivery challenges and managing budget risks.

13. During August, a baseline budget review will commence, this will be led by finance in collaboration with service managers. This will look to identify where budgets need realignment, assess where improved income performance can be built in on a permanent basis or where actions are required to address budget pressures. The review will build assurance over all significant elements of the budget and thereby ensure a firm basis from which to monitor in-year performance. The outcome from this will inform the financial position for discussion at the scheduled Cabinet away-day in September and the corporate planning updates in the Autumn.

<u>Contract Management</u>

14. Effective contract management, ensuring the Council is delivering the intended outcomes from its contracts and securing value for money, is a core factor in securing delivery across both our revenue and capital programmes.

15. Our internal audit team, through their review programme, recognised the potential to strengthen the Council's contract management arrangements, as was further emphasised with the identified issues in our housing compliance programme. The Council has embarked on a programme of work to improve its contract management.

16. This has led to the provision of further training in respect of contract management, the introduction of contract management plans and other measures to support more effective contract management. These will be reported to the Audit Committee in July in more detail. Nonetheless, it is important to highlight that the implementation of these steps should assist the Council in facilitating more effective discussions around monitoring delivery, gaining early insight to potential challenges to revenue and capital budgets and potential reprofiling.

<u>Outcomes from Deep Dive reviews undertaken in June 2022</u>

17. During June, detailed discussions were held with heads of service to understand better the outturn position in 2021/22 and consider what actions would be necessary to ensure that the 2022/23 budget can be monitored more effectively with any consequent changes reflected in the budget as soon as possible.

18. As a result of those budget discussions with heads of service, some key themes have emerged which are set out below.

a. There are a small number of areas where the 2022/23 budget continues to include support because of the uncertainty associated with the timing for income levels returning to pre COVID 19 levels. In the event the 2021/22 outturn indicates that some income levels had performed more strongly and that this is expected to be a continuing feature in 2022/23. As a result some of the additional support provided could be removed although it is sensible to hold some of that in reserves to cover any remaining risk of that income performance not being achieved.
b. For a small number of other income areas the current income budget is already below the level of income achieved in 2021/22 and again this is expected to be a continuing factor from 2022/23 onwards; for these areas the income budget can be increased with a commensurate increase in the contingency in 2022/23, which can be used to contribute to covering some of the known inflationary pressures.
c. A one-off benefit has also been identified from the recycling contract which can be added to the contingency and also contribute to covering some of the inflationary pressures.

19. The following Table summarises these issues.

Table 1

	Estimated Impact (£000)
Bringing forward the unwinding of C-19 related income growth	
Commercial property investment income	(113)
Off-street car park income	(473)
Multi-storey car park income	(351)
Net interest earned	(85)
Additional income from deep dive process	
Recycling credits	(200)
Garden waste income	(175)
Net interest earned	(100)
One-off income	
Recycling profit share & contract rebate	(118)
	(1,615)

<u>In-year budget pressures</u>

20. There are several areas where financial pressures are emerging in 2022/23 and given the volatility of the wider economic condition these are subject to change as the financial year progresses and a clearer picture of service demand and costs is known.

21. Payroll is an identified area of budget pressure with pay awards likely to be increased considering the current inflationary impacts on the cost of living. The council's pay structure is primarily based on national negotiating body pay

spines and nationally negotiated settlements; the process for 2022/23 has not yet concluded and therefore there is uncertainty on the financial impact in 2022/23 as well as the future years of the MTFS (see paragraphs 30-32).

22. The 2022/23 budget included an assumed 2% pay award, and a range of scenarios have been modelled to understand the potential financial impact of any changes to that position. The changes to national insurance rates and bands along with a 2% higher pay award is estimated to cost an additional £0.6m to the general fund. As a clearer picture emerges of the national pay negotiations, the forecasts will be refined and reported to Cabinet through the quarterly assurance process. Similar pressures would also be seen in the HRA and will need to be reflected in the emerging business plan.

23. Many of the council's contracts have inflationary increases incorporated within them and how CPI and RPI measures move over the next 12 months will impact on the costs. Inflationary pressures have been identified on the council's waste and recycling collection contract with cost pressures in the 2022/23 financial year against the budget of approximately £0.340m. For other contracts, the inflation has been applied based on published measures last year and therefore the cost impacts will be seen as the year progresses, when re-tendered or from next financial year.

24. The economic situation is putting huge financial pressures on local businesses and residents, particularly the most vulnerable. It is likely that service demand pressures will emerge in the coming months with increases already been seen in contract through the council's homelessness service. This may also impact on council income streams and the levels of council tax and business rates collected, coming on top of the previous Covid-19 challenges.

25. In the past allowance has been made for demographic growth and other unavoidable growth such as changes to legislation to be met from a sum built into the budget. This has been maintained at £0.750m for each year of the MTFS although, given the extent of the gap being seen it is imperative that only unavoidable growth is allowed and as a first point of call efforts to contain within existing resources are made. As the planning cycle progresses this is an area where significant attention will be made to minimising this sum as it has a significant impact on the overall council's position.

Review of Medium-Term Financial Strategy Assumptions

26. The MTFS provides a projection of the cost of delivering current council services over the next 4 years alongside the expected scale of demand and projections for income forecasts. This provides us with an estimated budget gap, from which the council will need to identify options that deliver savings or generate additional income across all service areas.

27. In developing these savings options there is a need to address the budget position across the full four-year period. This is vital in creating a strategic medium-term approach to addressing the savings challenges and allows for the inclusion of projects that may have a longer lead in time or need up-front investment. The strategic use of reserves can assist with that process but fundamentally the identified budget gap needs to be resolved through the

identification and implementation of on-going budget reductions or increased income.

28. It is important that the MTFS is refreshed, and this report details the key updates made to the model since the budget and MTFS were considered by Cabinet in February, to reflect the latest inflationary pressures as well as opportunities to rebase budgets following a review of the 2021/22 budget outturn position. This update will also inform the budget setting process for 2023/24 and beyond. Assumptions will continue to be updated during the Autumn as more information on government funding becomes available with the final update provided to Cabinet and Council as part of the budget papers in February 2023.

29. The financial modelling also includes the cost to the council of services commissioned through the council's wholly owned companies, Norwich City Services Limited and Norwich Regeneration Limited. Income streams are also incorporated into the model from the council's provision of support services and loan financing to the companies.

Payroll & Pension Costs

30. Payroll and pension related costs make up a significant proportion of the general fund revenue budget and therefore the MTFS position is highly sensitive to changes in the modelling assumptions.

31. The council's pay structure is primarily based on national negotiating body pay spines and nationally negotiated settlements. The council also pays in accordance with Living Wage Foundation rates. The pay award process for 2022/23 has not yet concluded and therefore there is uncertainty on the financial impact in 2022/23 as well as the future years of the MTFS.

32. In the February 2022 MTFS, payroll-related inflation was estimated at 2.75% in 2023/24 and beyond to allow for an annual pay settlement, pay increments, and the impact of the Living Wage. Considering the expected increases in the living wage foundation levels and overall economic inflation forecasts, it is prudent to consider a range of possible pay scenarios across the life of the MTFS. The model has been updated to incorporate pay inflation of between 3% and 5% over the next four years. As shown in Table 4 the impact for every 1% on the pay award equates to around £0.240m additional cost. These estimates are not based on any evidential basis and are therefore illustrative.

33. The last triennial review of the council's Local Government Pension Scheme covered the period 2020/21 to 2022/23. The process for the next review by the scheme actuaries is underway (expected to complete by late 2022) and will determine the contribution levels for the three-year period starting 2023/24.

34. As part of their pre-valuation work, the actuaries have undertaken a high-level review of the council's investment and contribution strategies. This review has shown an improvement in the funding position of the council's pension scheme mainly because of investment performance. As a result, initial estimates indicate a potential cash freeze on the contribution level or a possible annual decrease over the three-year period. Based on the initial feedback the MTFS

assumptions have been updated to hold the pension deficit contribution rate at the 2022/23 level. This is a significant benefit to the budget position, reducing the four-year saving requirement by around £1.8m.

Contractual and other inflation

35. **General assumption:** A review of the CPI inflationary forecasts from the Office for Budget Responsibility has been undertaken and future inflation has been included on premises costs, supplies and services, and transport throughout the MTFS planning timeline. Inflation has been assumed at 6% in 2023/24, reducing gradually to the Bank of England's 2% target by 2026/27. Where more specific intelligence exists about how costs are expected to be impacted, this has been built into assumptions as detailed below.

36. **Utilities:** Our current gas framework is due to expire in March 2023. This is a significant risk to the Council, in that the current framework is presently using gas purchased at April 2021 prices and initial advice is that the Council could be expected to see an approx. £0.500m (150%) increase in rates for 2023/24.

37. Our electricity framework is due to expire in September 2023. Again, this presents a risk for the reasons set out above. At present, framework providers have not yet begun retendering for this period and as such only provisional estimates are being provided, albeit we are being forecast a similar 150% increase, which would mean a £0.250m increase in rates for 2023/24.

38. Whilst this principally may seem a budgetary pressure of £0.750m, a proportion of this is subsequently re-charged to commercial tenants and some of our residents through service charges. Whilst this may mitigate the Council's risk exposure, we have to be mindful of the impact this may have on our residents and tenants. Across the Council, work is being undertaken to see how this impact can be mitigated which will include analysis of billing arrangements and potential alternative purchasing options.

39. **Insurance:** In terms of the 2023/24 year, it is challenging to predict. The Global Insurance Market Index demonstrates that the rate of premium increases has been on a downwards trend, albeit this could be reversed with the current inflation rates increasing prices in raw materials and claims. For those lines where there may be more predictability, our insurance team are generally estimating a 10% increase in premiums, however the level of volatility could result in higher outturns. We will review opportunities to reduce potential costs (including coverage on individual lines and our settlement budgets) to mitigate this increase.

Covid-19 Recovery

40. Continuing short-term impacts of Covid-19 were built into the budget for 2022/23 totaling £1.230m, this included impacts on parking and commercial rents income. The MTFS assumes that the baseline budgets for 2023/24 are back to the pre-pandemic levels.

41. The review of the 2021/22 outturn position and current projections for 2022/23 suggest that the rate of income recovery is expected be faster and therefore

improved income levels are forecast. This is detailed further in paragraphs 17, 18 and Table 1.

Fees & Charges

42. Fees and Charges is an area where the Council can generate income from services where it makes a charge. Some fees are set by statute, but others can be varied to take account of costs. It is important that these charges are reviewed annually, and the expectation within the MTFS is that they will rise each year in line with inflation to ensure that they continue to recover the full costs of delivering those services.

43. We are proposing to review all fees and charges ahead of January 2023 to make sure that they recover the full cost of providing the services; we feel it is only fair that those using these services are not subsidised by those that do not although alongside this review we will also consider our policy on granting concessionary rates to certain groups.

44. Inflationary uplift assumptions have been applied to the income budgets for fees, charges and rental income. Inflation on income however is prudentially set to run 1% below the assumptions applied to expenditure budgets.

Housing benefit

45. In recent years the council has seen reducing level of subsidy recovery against its housing benefit expenditure, attributable to continuing growth in rent levels against fixed subsidy caps. The projection is this will continue to worsen over the life of the MTFS. Whilst every council is seeing increased natural migration to Universal Credit, Department of Work & Pensions (DWP) rules mean cases that attract 100% subsidy return are lost to councils, whilst DWP's strategy is to continue to leave temporary, exempt and supported accommodation cases with councils and it is these cases subject to punitive subsidy rules. Along with increased demand and rental market pressures, councils are therefore seeing increased subsidy loss.

46. There is an emerging risk in connection with historical housing subsidy claims that might require the repayment of previous years housing subsidy. An initial review of the potential liability has indicated that this could be in the region of £0.500m. As detailed in the Combined Assurance Report Q4 2021/22 (on the same agenda) this risk, alongside the other financial risks set out in this report, have been recognised by adding an element of the 2021/22 underspend to the Budget risk reserve.

Capital Financing

47. The capital financing budget includes interest charges from external borrowing and Minimum Revenue Provision charges. The budget for 2022/23 provides coverage for all existing external borrowing and an allowance for a further £15m of external borrowing spread across the financial year at a rate of 2%. Additional allowance for further general fund borrowing of £42m in subsequent years has been allowed for across the life of the MTFS to reflect that the council is currently under-borrowed relative to its capital financing requirement.

48. No changes have been made to the capital financing assumptions in the MTFS, however this is an area that will be reviewed as part of the 2023/24 business planning process. The review will take into account projections for the capital programme and its financing as well as the treasury management requirements.

Government Funding

49. As a result of receiving only a one-year local government finance settlement allocation for 2022/23, the council does not have certainty over the future format of grant allocations – in particular, New Homes Bonus, Lower Tier Services Grant and Services Grant.

50. In 2022/23 these allocations totalled £1.452m and an assumption was made in the MTFS that the council will continue to receive two-thirds of that grant funding in some form in the future years of the MTFS. This was based on the understanding that the funding will be retained in the local government sector going forwards but is likely to be subject to revised allocations between authorities based on the updated resource need assessment.

51. The future funding is likely to be dependent on the outcome of several local government funding reforms including the Fair Funding Review, business rates baseline reset and a replacement scheme for New Homes Bonus. These reforms were delayed from April 2022 but there is still no clarity about the timing of the reviews and implementation dates. Considering the lack of progress from government on developing and consulting on changes, there is potential for the reviews to be further delayed beyond April 2023.

52. Given the uncertainty, the MTFS assumptions have been maintained that grant funding reduces from current levels. If, however, there is another rollover settlement for local government in 2023/24 with grant levels maintained at current levels, the council would receive approximately £490k of additional funding compared to the MTFS assumption.

Council Tax & Business Rates

53. Any increase in the level of council tax is limited by the government's referendum principles, which currently for a district council have been set at a maximum of 2% or £5 each year since 2020/21. For future years of the MTFS, the same referendum principles have been assumed with the maximum assumed increase allowed being taken each year. An increase in the council tax base of 1.25% per annum is also assumed for estimated growth in the number of dwellings in the Council's area.

54. In recent years, the referendum levels have broadly mirrored the wider inflationary levels, but it is not yet clear whether this may mean an increase in the permitted rises for 2023/24 given the inflationary forecasts for this year are significantly above 2%. For every additional 1% increase in the Band D rate the council would generate approximately £110k of income.

55. The business rates multipliers are normally adjusted every year to reflect the Consumer Price Index (CPI) inflation figure for the September prior to the billing year. Where the government chose to cap the increase applied below the CPI increase, the council has previously, and will continue to assume, that they will be compensated via S31 grant for the difference. The MTFS has therefore been updated to apply the higher CPI forecasts and mirror the general inflationary assumptions.

56. The forecasts for retained Business Rates income from 2022/23 assume current baseline funding amounts and do not consider, the potentially significant changes in funding arising from 75% Business Rates Retention and the Fairer Funding Review.

Updated MTFS Position

57. Taking the above factors into account the updated MFTS shows an increase in the four-year savings target from £9.950m to £10.952m. This updated position builds in the inflationary pressures in the next few years as well as the improved pension contribution position. The fact that the additional pressures impact most significantly in the earlier years of the MTFS means that the projected budget gap for 2023/24 is £6.200m.

58. Previously the Council has adopted a ‘smoothing’ approach through general fund reserves to manage the uneven savings requirements however, the extent of the savings required in 2023/24 means that significant savings need to be found in the short term.

59. The provisional balance on the general fund reserve as at 31 March 2022 is £9.9m. The prudent minimum level for the reserve has been assessed at £5.1m. This allows for headroom in the reserve of £4.8m which it can be seen is insufficient to meet the estimated 2023/24 savings challenge of £6.2m in full.

60. If the level of savings required is not found on an on-going basis it is possible that the level of general reserves held by the Council could reach the minimum level of reserves by as soon as the end of 2023/24. Consequently, it is vital that the council identities options to deliver in full on an on-going basis the full four-year saving requirement. The priority areas will need to form a key element of bringing the budget into balance over the next 12-24 months.

Table 2: Summary Medium Term Financial – Figures are in £000s

	2023/24	2024/25	2025/26	2026/27
Budget base	23,684	19,589	21,090	21,131
Resources	(17,484)	(18,458)	(19,024)	(19,575)
Savings required (in-year)	**6,200**	**1,131**	**2,065**	**1,555**
Savings required (cumulative)	**6,200**	**7,331**	**9,397**	**10,952**

61. The council has identified potential future savings of £1.800m against the previous cumulative target of £10.952m. These provisional options were included in the 2022/23 budget report to Full Council and are shown in

Appendix 1. These will continue to be refined and developed into business cases with robust delivery plans as part of the 2023/24 corporate business planning cycle.

62. The deep dive reviews of the 2021/22 outturn position have also identified several areas where income budgets can be rebased because of current performance levels. These are shown as additional lines in Table 3 and are expected to be permanent adjustments to the base budgets and therefore contribute to addressing the financial challenge over the medium term.

Table 3: Figures are in £000s

	2023/24	2024/25	2025/26	2026/27
Permanent savings/income requirement (in-year)	**6,200**	**1,131**	**2,065**	**1,555**
Of which:				
Provisional savings outline in the 2022 budget paper (in year)	(592)	(859)	(288)	(61)
Deep dive: Recycling credit income	(200)			
Deep dive: Garden waste income	(175)			
Deep dive: Interest income	(100)			
Still to be identified (in-year)	**(5,133)**	**(272)**	**(1,777)**	**(1,494)**
Still to be identified (cumulative)	**(5,133)**	**(5,405)**	**(7,182)**	**(8,677)**

63. A transformation team has been set up with the council to co-ordinate and programme manage the range of projects identified to help deliver the financial savings/income requirements. The medium-term aim is that the team is self-financed through the savings realised by the overall programme. Given the lead in times required to deliver several the financial benefits, it may not be possible for the team to be self-funding in 2023/24. If this is the case, the annual cost of approximately £0.280m may need to be met (fully or in part) from additional short-term savings or a draw down from the business change earmarked reserve.

Risks & Uncertainties

64. There are number of significant financial risks and uncertainties over the period of the medium-term financial strategy. These include:

- Uncertainty over future inflationary levels and impacts on council expenditure;
- Implications of the Government’s ongoing reviews of local government funding, business rates and a replacement for New Homes Bonus;
- Future government policies e.g. National Waste Strategy, Planning White Paper, Levelling up and local government reorganisation;
- Capital requirements arising from the ongoing strategic review of the council’s asset portfolio and possible changes to capital accounting requirements;

- Uncertainty over the cost implications of delivering the council's Environmental Strategy and Biodiversity Strategy (paragraph 66);
- Impact of nutrient neutrality requirements on planning income (paragraphs 67-70).

65. A sensitivity analysis has been conducted against the key variables and Table 4 shows the potential impact in changes in the assumptions.

Table 4 – sensitivity analysis

Area	**Variable modelled**	**Impact (£000)**
Council Tax	1% movement on the Band D rate	110
Payroll	1% movement in the pay award	243
Pension rate	1% movement in the pension contribution rate	200
Contractual inflation	1% movement in CPI assumption	174
Utilities	1% movement in cost inflation level	153

Environmental Strategy & Biodiversity Strategy

66. Aligned to commitments made in the 2040 City Vision and the Corporate Plan, strategies will be published during 2022 which set out the principles and direction of travel for significant environmental programmes. These programmes include biodiversity improvement across the city and the decarbonisation of council owned homes and operational buildings, towards net zero targets. With regards the latter particularly, significant resources will be required to further insulate council owned homes and general buildings, and to provide renewable energy solutions, albeit over a long time frame. The strategy work of 2022 will provide order of cost estimates and indicate the feasibility of different funding options.

Nutrient neutrality

67. Along with other councils in Norfolk and elsewhere in the country, the city council has been notified by Natural England to quickly adopt a more rigorous approach to assess the effects of changes in water quality, in order to achieve 'nutrient neutrality'. As with all affected councils, this means the city council is currently unable to grant planning permission where a development is likely to add nutrient pollution to water, until we find a solution. Significant work has been undertaken to date to respond to this requirement and consultants have been brought in to work up the required mitigation strategy including short, medium and longer term solutions.

68. In the immediate future there is a risk around the delivery of planning income budgets if the number of applications received into the department start to reduce. Month on month since March 2022 when the advice was received, submissions have reduced by 10 each month. Budgets are in a relatively good place at the start of the financial year due to two large schemes having been submitted at the end of 2021/22 and start of 2022/23, with most, if not all, of the fees having been included in this year's budgets. The same issues will also apply to pre-application advice requests coming into the department as well.

The income performance will continue to be closely monitored with updated forecasts provided as part of the quarterly performance reporting to Cabinet.

69. Additional costs to date are able to be met through the DLUHC funding of £100,000 per catchment area and spend is being coordinated through the Norfolk Strategic Planning Partnership at present time.

70. There will also be implications for the council's wholly owned company Norwich Regeneration Ltd as a property developer. These will be monitored through the shareholder panel and standard reporting through to Cabinet.

Priority Themes

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

72. As part of the Future Shape Norwich programme, focus areas have been identified which have the potential to improve service delivery, operational efficiency and/or support the financial sustainability of the council. These high value themes cover:
    - Contract reform
    - Commercialisation
    - Driving value from our assets
    - Growth and regeneration
    - Service redesign
    - Workforce, culture and organisational development

73. Workstreams have been set up to support these key themes with business cases being developed and reviewed over the summer.

HRA business plan

74. There is an ongoing comprehensive review of the HRA business plan (including stock condition data) which will support us in understanding how HRA financial capacity (over the 30-year term of the plan) can be aligned to invest in existing priorities and ambitions to meet new investment challenges arising from building safety legislation and climate change targets, including retrofitting our homes. The outcomes and implications from the review will be reported to Cabinet in the Autumn.

Consultation

75. In line with the approach used in previous years, citizens, HRA tenants, partners and local businesses will be consulted on the proposed approach to meeting the savings target for 2023/24 and the proposed council tax level.

Implications
Financial and Resources

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

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

Legal

78. The Local Government Finance Act 1992 requires the Council to set a balanced budget before the statutory deadline and the early identification of the estimated budget gap is essential to the achievement of that requirement.

79. The Council's Chief Financial Officer (S151) has a duty to report to Council on the adequacy of its reserves and the robustness of its budget estimates before the final decisions are taken on the budget and setting of the council tax. The report highlights the risk to the recommended minimum level of the Council's general fund reserves arising from the level of savings necessary in the early years of the MTFS.

80. There are no other specific legal implications arising from this report.

Statutory Considerations

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

Risk Management

Risk	Consequence	Controls Required
Current assumptions in the MTFS vary in the medium term to worsen the projections.	This increases the on-going financial shortfall.	Regular review and updates of the medium term financial strategy. Maintenance of council earmarked reserves for specific identified risks (e.g. budget risk reserve, commercial property reserve). The maintenance of a Prudent Minimum Level of General Fund reserve.

Other Options Considered

81. There are no alternative options to this report.

Reasons for the decision/recommendation

82. To highlight to Cabinet the impact of the updates to the medium term financial strategy based on the current position which has evolved since the budget and MTFS were last considered in February 2022; the implications for the budget process for 2023/24 and beyond.

Background papers: None

Appendices:
Appendix 1: Provisional identified budget savings/ increased income.
Appendix 2: Medium Term Financial Strategy Assumptions.
Appendix 3: MTFS Risks (Exempt appendix).

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Appendix 1: Provisional identified budget savings/increased income over MTFS period

The council has identified potential future savings of £1.800m against the cumulative target of £9.950m as at February 2022. These provisional options are shown in the table below and will continue to be investigated and potential savings values refined as part of the 2023/24 corporate business planning cycle.

The profile of the additional income assigned to the car parking charges has been moved back up one year to align with the revised operational timeframe for fee reviews. Modelling of fee options is currently being undertaken with the aim of refining the likely profile and outcome from fee reviews over the medium term.

Theme	Directorate	Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
	Development & City	Gypsy and Traveller Site Management – resulting from a change in provider of site management		50			**50**
	Community	Efficiencies from the implementation of the customer and digital strategy from improved processes and channel shift.	112	160			**272**
	Corp & Commercial	Internal shared service – to assess how we can generate efficiencies through sharing of administrative functions	25	35	35	35	**130**
	Development & City	Review of waste and recycling collections – savings to be delivered through increased efficiencies of collection service	210	50			**260**
	Community	Estimated longer term savings from move to community centre leases		16	50		**66**
Fees & Charges	Community	The Halls – increased income assumptions after market analysis	10				**10**

Theme	Directorate	Description	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
	Development & City	HMO licence fee increase based on 5yr licences	20				**20**
	Development & City	Expansion of charges for Parking in parks – charges for parking in parks to be extended to car parks that have suitable infrastructure and space	10	10			**20**
	Development & City	Review of Car Parking charges – charges have not been reviewed for a number of years, and new charges will be introduced to reflect the current market		480	120		**600**
	Development & City	Review of Markets Income – the cost of renting a stall at the market increased last year for the first time in a number of years. This is a continuation of this process	38	38			**76**
	Development & City	City Hall rental – income from potential rental of accommodation in City Hall	56				**56**
	Development & City	Rental income from Old Carrow House following refurbishment as part of the Towns Fund project – income following associated capital expenditure to bring the building back into use.	100				**100**
	Development & City	Introduction of food safety pre-inspection audits	10	20	24	26	**80**
	Development & City	Introduction of additional HMO licensing scheme			60		**60**
			592	**859**	**288**	**61**	**1,800**

Appendix 2: Medium Term Financial Strategy Assumptions

Budget Resources

	2023/24	2024/25	2025/26	2026/27
RESOURCES				
Council Tax				
Anticipated increase in taxbase	1.25%	1.25%	1.25%	1.25%
Projected taxbase	38,260	38,738	39,222	39,712
Planned Council Tax increases				
Council Tax Increase	1.99%	1.99%	1.99%	1.99%
Council Tax Band D £	285.79	291.48	297.28	303.20
Council Tax Yield (£000)	£10,934	£11,291	£11,660	£12,041
Surplus/(deficit) on Collection Fund (£000)	£0	£75	£75	£75
Council Tax Support Grant	£0	£0	£0	£0
	£10,934	**£11,366**	**£11,735**	**£12,116**
Business Rates Retention Scheme				
CPI assumption	6.00%	4.00%	3.00%	2.50%
Local Business Rates (£000)	£6,838	£7,091	£7,289	£7,459
Surplus/(deficit) on Collection Fund (£000)	(£288)	0	0	0
S31 grant transfer from reserves				
	£6,550	**£7,091**	**£7,289**	**£7,459**
Revenue Support Grant (£000)	**£0**	**£0**	**£0**	**£0**
Total Resources (£000)	**£17,484**	**£18,458**	**£19,024**	**£19,575**
Increase/(decrease) in resources (£000)	*-£229*	*£974*	*£567*	*£551*
% increase/(decrease) in resources (£000)	*-1.3%*	*5.6%*	*3.1%*	*2.9%*

Budget Requirement

EXPENDITURE				
Base Budget Requirement b/fwd (£000)	**£19,813**	**£23,933**	**£26,032**	**£28,674**
2022/23 inflationary pressures - ongoing impact				
Payroll additional costs 22/23	£625			
Contractual inflation 22/23	£340			
Inflation				
Payroll inflation %	4.50%	3.50%	3.50%	3.50%
Payroll inflation (£000)	£1,200	£974	£1,003	£1,032
Pension Deficit increases (£000)	£0	£0	£0	£0
Expenditure inflation assumption (£000)	£2,024	£235	£632	£539
Income inflation assumption (£000)	(£817)	(£474)	(£389)	(£297)
Changes in Grants	£340	£65	£58	£53
Reverse C-19 growth	(£1,230)			
Reverse one-off savings	£1,877			
Reverse one-off growth	(£727)			
Reverse one-off contribution to Business Change reserve	(£600)			
Removal of corporate vacancy factor	£300			
Housing Benefits net subsidy position movement	£260	£271	£285	£0
MRP & capital financing movements	(£473)	284	293	30
Permanent service-demand growth assumption	£750	£750	£750	£750
Total budget movements	**£3,871**	**£2,105**	**£2,632**	**£2,106**
Revised base budget requirement(£000)	**£23,684**	**£25,789**	**£28,421**	**£30,527**
Required Efficiencies (£000)	**(£6,200)**	**(£7,331)**	**(£9,396)**	**(£10,952)**
In year efficiencies (£000)	**(£6,200)**	**(£1,131)**	**(£2,065)**	**(£1,555)**

Identified savings/income (cumulative)	(£592)	(£1,451)	(£1,739)	(£1,800)
Deep dive: Recycling credit income	(£200)	(£200)	(£200)	(£200)
Deep dive: Garden waste income	(£175)	(£175)	(£175)	(£175)
Deep dive: Interest income	(£100)	(£100)	(£100)	(£100)
Still to be identified (cumulative)	(£5,133)	(£5,405)	(£7,182)	(£8,677)