Norwich City Council

SCRUTINY COMMITTEE

ITEM 6

REPORT for meeting to be held on 4 February 2021

Pre – scrutiny of the proposed budget for 2021/22

Summary:

The scrutiny committee meeting of 4 February 2021 will carry out pre-scrutiny of the council's proposed budgets for 2021/22.

The purpose of the meeting is to comment on the proposed budget papers for 2021/22; and make recommendations to cabinet regarding the proposed budgets' ability to deliver the council's overarching policy framework (the corporate plan 2019-2022).

Council will be meeting to set the budgets for the financial year 2021/22 at its meeting on 23 February 2021.

Conclusions: The principles of budget scrutiny are provided in this report. Committee members are reminded of the link between the corporate plan 2019-2022 and the need to set a budget capable of delivering this.

Recommendation: To determine any recommendations to cabinet on the proposed budgets for 2021/22.

Contact Officer

Annabel Scholes, interim director of resources	01603 987683
Shaun Flaxman, senior finance business partner	01603 987574
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1. The legal framework for financial scrutiny

1.1 Local Government Act 2000 – "it is the responsibility of the full council, on the recommendations of the executive (cabinet), to approve the budget and council tax demand. The role of scrutiny in the financial process is to hold the executive (cabinet) to account and to ensure that decisions are in the best interests of the community. Some scrutiny of budget setting and other financial planning processes is therefore essential".

1.2 All members of the council need to have an understanding of how council spending matches against the priorities of the organisation set out in the corporate plan. As elected councillors, members need to ensure that budget will enable the council to deliver them effectively.

1.3 The budget is drawn up in line with the council's corporate plan, which is the overarching policy framework for the council.

2. The role of budget pre-scrutiny

2.1 The scrutiny committee should seek to test, check, and evaluate the proposed budget through challenge. This may, if necessary, lead to advice and recommendations to the cabinet. The cabinet can use this as part of the testing of their proposed budget.

3. Key question

3.1 Will the budget as presented deliver the council's corporate plan 2019-2022? By the process of overview, the scrutiny committee will need to check that the budget plans are robust and realistic.

3.2 Over the course of the year scrutiny committee members monitor certain aspects of service delivery and performance against funding and at times review certain specific services. All corporate performance data reports are on the council's website. Members of the scrutiny committee should review this quarterly and identify any issues that require further scrutiny.

4. Effective pre budget scrutiny

4.1 Effective pre-budget scrutiny involves:

(a) checking that financial planning and the draft budget is sufficient to deliver the council's draft corporate plan;
(b) reviewing the draft budget to ensure that it is consistent with the council's commitments and spending plans;
(c) reviewing proposals within the draft budget and service review programme relating to savings or growth in line with the financial plan.

4.2 The relevant draft cabinet papers are appended to this report.

Report to	Cabinet
	10 February 2021
Report of	Interim Director of Resources (Section 151 Officer)
Subject	The council's 2021/22 budget and medium term financial strategy

Purpose

To consider proposals for the council's 2021/22 budget (general fund, HRA and capital programme) along with the medium term financial plans, non-financial investments (commercial) strategy and the treasury management strategy.

Recommendations:

Cabinet is asked to:

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

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

c) Note that the Council Tax resolution for 2021/22, 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.

d) Approve the creation of a new earmarked reserve to help manage the costs associated with business change activities.

Cabinet is asked to recommend to Council to approve:

General Fund

1. The council's net revenue budget requirement as £17.013m for the financial year 2021/22 including the budget allocations to services shown in Appendix 2 (C) and the savings and growth proposals set out in appendices 2 (F) and 2 (G).

2. An increase to Norwich City Council's element of the council tax of 1.99%, meaning that that the Band D council tax will be set at £274.74 (paragraph 2.28) with the impact of the increase for all bands shown in Appendix 2 (E).

3. The prudent minimum level of reserves for the council as £5.100m (paragraph 2.52).

4. Delegate to the chief finance officer (S.151 Officer), in consultation with the portfolio holder for resources and the portfolio polder for social inclusion, the award of any new business rates reliefs announced by government using discretionary relief powers as set out in paragraph 1.6. The full cost of granting this relief will be compensated through a section 31 grant from Government.

5. Transfers to earmarked reserves as set out in paragraphs 2.5, 2.6 and 2.7.

6. Delegate to the chief finance officer (s.151 officer) the approval of technical virements to make budget transfers where there is no underlying change in the budget intention as set out in Appendix 2(J) and paragraphs 2.19, 2.42 and 2.45.

Housing Revenue Account

7. The proposed Housing Revenue Account gross expenditure budget of £63.669m and gross income budgets of £68.708m for 2021/22 (paragraph 3.40).

8. The use of the estimated surplus of £5.039m along with a further £10.640 of HRA general reserves to make a revenue budget contribution of £15.679m towards funding the 2021/22 HRA capital programme (paragraph 3.40).

9. A 1.5% increase in dwelling rents for 2021/22, in accordance with following the Secretary of State issued Direction on the Rent Standard 2019. This enables authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%. This will result in an average weekly rent increase of £1.19 for Norwich tenants (paragraphs 3.45 to 3.50).

10. That garage rents remain at existing levels for 2021/22 (paragraph 3.51).

11. That the setting of tenants' service charges is delegated the director of people and neighbourhoods/director of community services in consultation with the portfolio holder for Social Housing after engagement with tenant representatives.

12. The prudent minimum level of Housing Revenue Account reserves as £5.848m (paragraph 3.71).

Capital Strategy

13. The proposed general fund capital programme 2021/22 to 2025/26 (2020/21: £20.617m; 5 years: £43.724m) and its method of funding as set out in table 4.3, table 4.4 and Appendix 4 (B).

14. The proposed HRA capital programme 2021/22 to 2025/26 (2020/21: £48.839m; 5 years: £206.519m) and its method of funding as set out in table 4.3, table 4.5 and Appendix 4 (B).

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

16. The 2020/21 General Fund capital programme is increased by £1.025m to facilitate expenditure of Towns' Deal funding as set out in paragraph 4.34.

17. The delegation to the chief finance officer (s.151 officer) in consultation with the director of place/director of development & city services, approval of adjustments to the 2020/21 and future capital programmes to reflect the inclusion of match funding towards Towns' Deal funded projects (paragraphs 4.32 to 4.35).

Non-financial Investments (Commercial) Strategy

18. The setting aside of 20% of the net income achieved from previous commercial property investment into the commercial property earmarked reserve as set out in paragraphs 5.13 to 5.15.

19. The council's policy and process for lending to Norwich Regeneration Limited as set out in paragraphs 5.20 to 5.23.

20. The council's policy and process for lending to Norwich City Services Ltd as set out in paragraphs 5.25 to 5.27.

Treasury Management Strategy

21. The borrowing strategy 2021/22 through to 2025/26 (paragraphs 6.21 to 6.24).

22. The capital and treasury prudential indicators and limits for 2021/22 through to 2025/26 contained within paragraphs 6.13 to 6.20 and tables 6.2 to 6.4, including the Authorised Borrowing Limit for the council.

23. The Minimum Revenue Provision (MRP) policy statement described in paragraphs 6.33 to 6.37 and contained in Appendix 6.

24. The (financial) Investment Strategy 2020/21 (paragraphs 6.38 to 6.73).

Summary of key financial indicators

25. The indicators for 2021/22 through to 2024/25 contained in section 7.

Corporate and service priorities

The report helps to meet all the corporate priorities.

Financial implications

This report presents the council's proposed 2021/22 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

Annabel Scholes, Interim Director of Resources (S.151 Officer)	01603 987683
Shaun Flaxman, Senior Finance Business Partner	01603 987574
Hannah Simpson, Strategic Finance Business Partner	01603 989569

Background documents

None

Background

1.1 The council continues to face a substantial financial challenge. The sustained period of austerity over the past decade 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 Alongside austerity, the council has to manage ongoing and unprecedented risk arising from the Covid-19 pandemic as well as the longer term uncertainty around changes in future local government funding.

1.3 Nevertheless the council's ambition for Norwich is undiminished. In June 2020, Cabinet agreed the Covid-19 Blueprint for Recovery, one of the first in the country to do so. This document provided an overview of the council's initial response to the virus, and identified a number of priority themes and actions which would to frame the council's – and the city's – recovery. An update was provided to Cabinet on progress in December 2020, across the 8 Blueprint themes:

- Securing the Council's finances
- Modernising the Council; Re-imagining local services
- Supporting the most vulnerable
- Business and the local economy
- Housing, regeneration and development
- Arts, Culture and Heritage
- Climate change and the green economy
- Harnessing social capital

1.4 The Blueprint made clear that the city's response to Covid 19 would require a partnership approach and over the last 12 months the city council has continued to work with City Vision partners within business, the community and beyond, to make progress on key issues to steer the city through this challenging period. The Norwich 2040 City Vision, of a city which is connected, creative, dynamic, fair and liveable, is as vital as ever.

1.5 Alongside the Covid 19 Blueprint for recovery, 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.

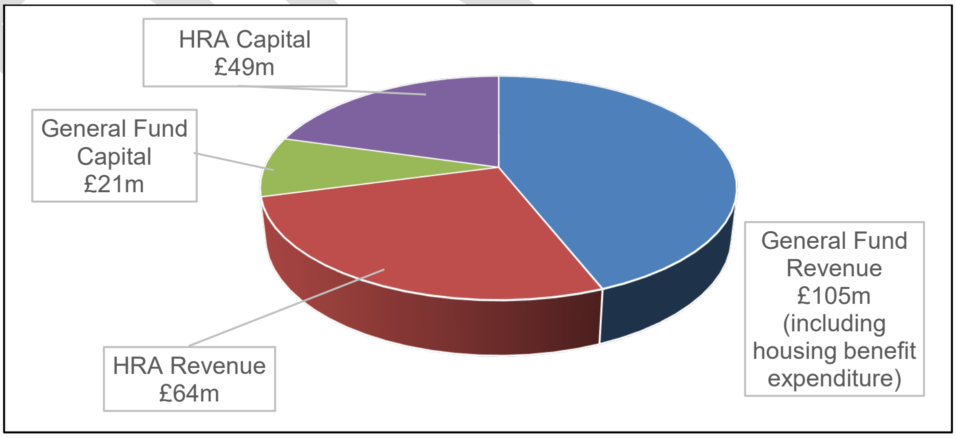
Chart 1: The Council's Key Priorities

1.6 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 2021/22 budget proposals that total £238m 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 2021/22



General Fund

1.9 The financial year 2021/22 is the eleventh year of austerity and the level of funding allocated to local government continues to be insufficient to support the demand for council services. This, together with increased pressures from Covid, means that the council will not receive adequate resources to cover its costs over the medium term.

1.10 The financial settlement covered only 2021/22, with the government implementing a 'roll forward' finance settlement. This means a one-year delay to the longer-term local government financial reforms (see section 1).

1.11 The provisional settlement for 2021/22 included a number of one-off Covid-19 related grants. The provisional allocations to Norwich for these grants totalled £1.521m. Other grant funding is expected to be available to the council through the announced extension of the sales, fees and charges reimbursement scheme until June 2021. The exact allocations will depend on the performance of the qualifying income streams but a £0.300m estimate has been included in the budget. These grants have removed the need to draw down on reserves in 2021/22 but the one-off nature of the funding means the longer term savings challenge for the council remains.

1.12 Given the lack of clarity on future local government funding from April 2022, local authorities have no reliable basis on which to appropriately plan their medium term budgets as it is unclear how much funding there will be, how it will be distributed, and the means of delivery.

1.13 Consequentially, the forecasts for 2022/23 onwards in the MTFS are not to be taken as robust figures and they are largely based on the current *status quo* continuing, particularly concerning how much business rates income the government allows the city council to retain in the future.

1.14 Current forecasts, given the caveats highlighted above, show that a further £11.8m of gross savings will need to be found over the four year period from 2022/23. This quantum of savings represents 21% of the 2021/22 proposed gross expenditure budget (excluding the housing benefits budget).

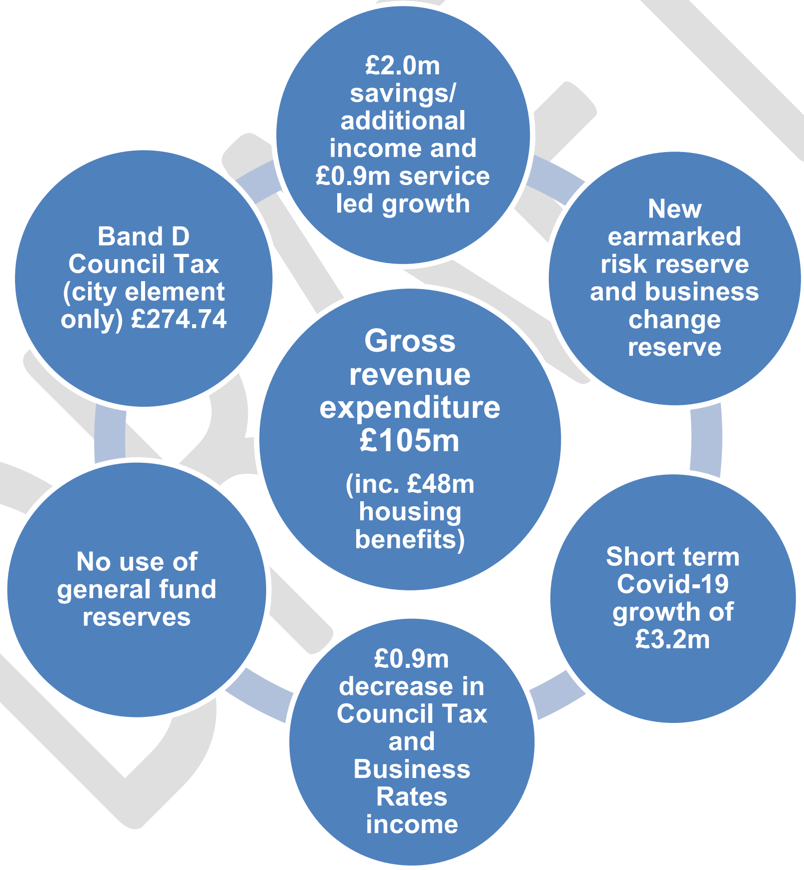
Responding to the medium-term challenge through a programme of service reform

1.15 If the one-off Covid grant monies from Government are stripped away, the council is left with a £2.2m structural budget deficit in 2021/22. In other words, the council's current funding is £2.2m less than it is spending on an annual basis. This means that the council will be required to generate ongoing income and/or permanently reduce the cost of delivering local services if it is to balance its budget in future years.

1.16 In order to respond to this challenges, the council has launched a programme of service reform, with a range of service reviews. These service reviews, which commenced in September 2020, will aim to identify savings options for future years. The service reviews will look to build on the momentum of, and lessons from, the council's response to Covid19 to identify new ways of delivering, to better meet the needs of our customers and deliver services more efficiently, thereby protecting frontline services where possible. There will be service specific and cross-cutting reviews on themes including digital council, delivering value from our assets, and simplifying and improving customer entry points. The aim of the reviews is to improve the efficiency of service delivery so as to avoid a reliance on service cuts to balance the budget in future years. However, given the scale of the challenge, reductions to some services cannot be ruled out.

1.17 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 reduce gradually towards the minimum prudential level as recommended by the chief finance officer.

Chart 3: Key figures in 2021/22 proposed general fund revenue budget



Housing Revenue Account (HRA)

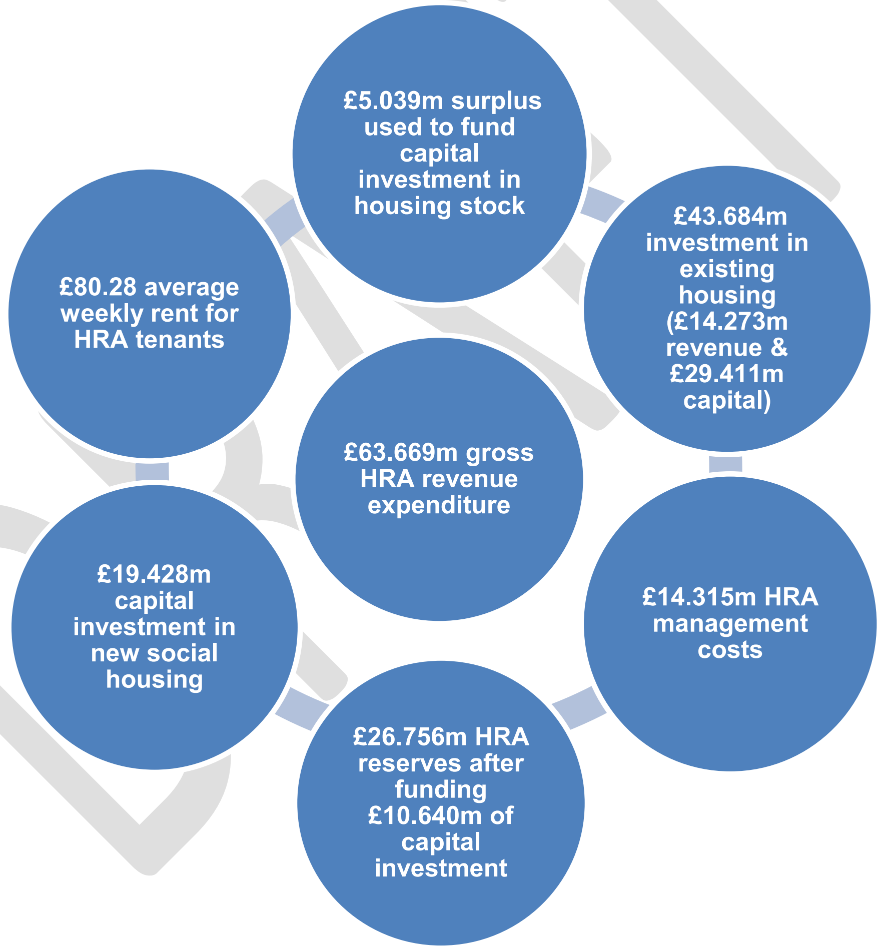
1.18 The council's HRA comprises expenditure and income plans related to the ownership and management of the council's social housing stock.

1.19 The HRA does not face the same financial pressures as the council's general fund, although the account has lost significant income in recent years from the government's enforced four year rent reduction enacted in the Welfare Reform and Work Act 2016. Additionally, there are significant potential risks to rental income streams arising from the Covid-19 pandemic, the accelerated 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 £5.039m in 2021/22 and it is proposed to use this surplus along with £10.640m of existing reserves to fund capital investment new social housing.

1.21 The Direction on the Rent Standard 2019 enables authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%, which would result in the average HRA rent increasing to £80.28.

Chart 4: Key figures in 2021/22 proposed HRA Business Plan



Capital strategy

1.22 The council's proposed capital programme for 2021/22 is £69.456m. 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

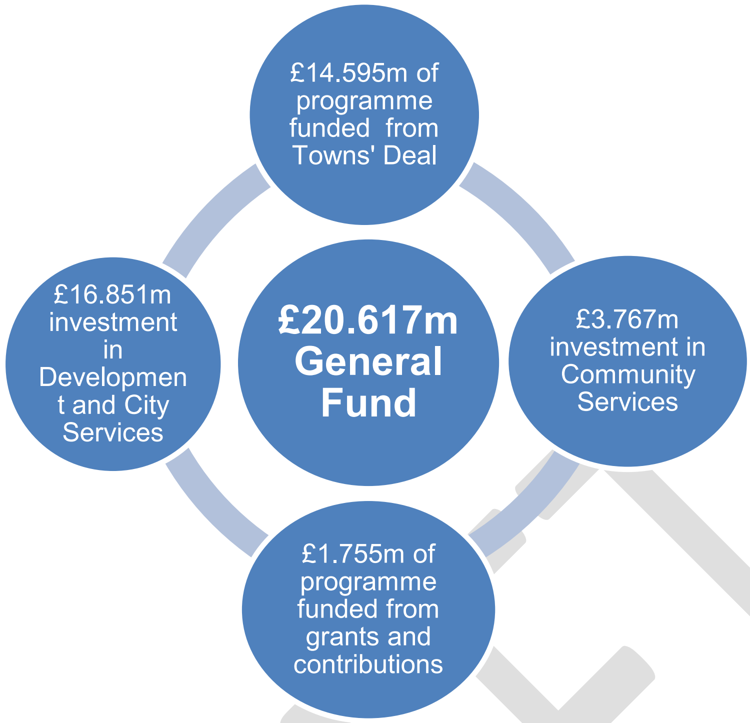
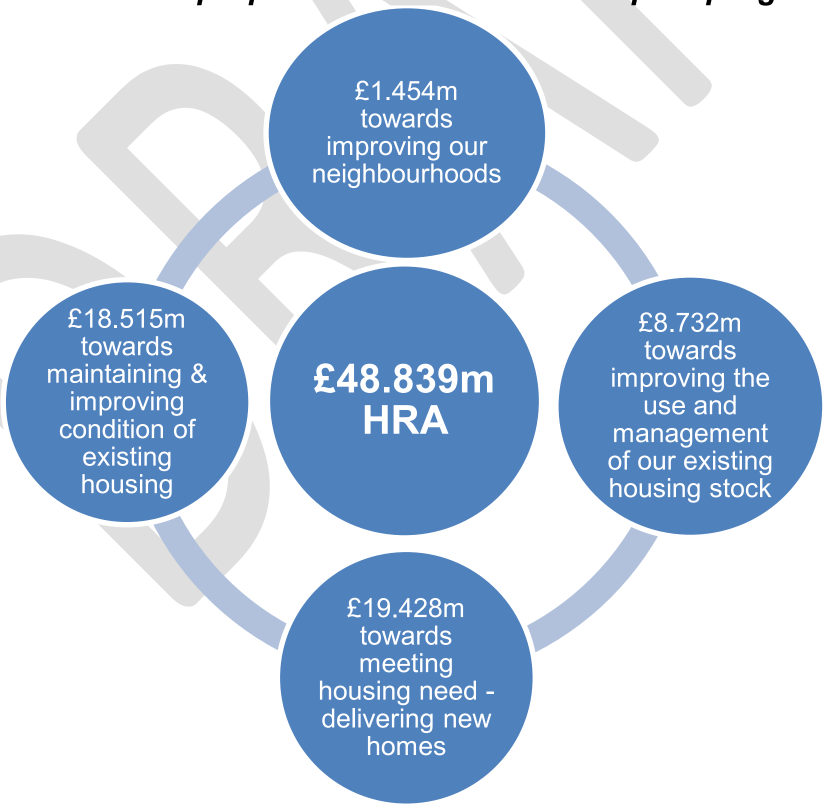


Chart 6: Illustration of proposals within the HRA capital programme



1.23 In addition to the proposals seeking approval by council to be included in the capital programme now, further capital projects may seek approval from Council later in the year, subject to viable Business Cases.

1.26 The council has developed 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 means 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 3.70) 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.

1.27 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.

1.28 The existing maintenance backlog on the council's existing general fund assets is estimated to be in excess of £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.

1.29 The council continues to 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

1.30 The council has a strong balance sheet and owns over £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 table 2.4 and table 3.4).

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 2022/23 hinder robust forward financial planning for the general fund.

1.32 Total commercial income will equate to 14% of the general fund's gross expenditure budget for 2021/22 (table 7.6). Income is set aside in earmarked reserves to mitigate against the risks associated with these commercial activities.

1.33 The funding of the proposed capital programme will increase the council's capital funding requirement (its indebtedness or underlying need to borrow). This is mainly driven by significant investment by the Housing Revenue Account in new social housing. If projects and programmes proceed to plan, then the capital financing requirement will increase by £31.7m from 2019/20 to 2023/24, a 10% increase (table 7.2). The total indebtedness compared to the value of the council's assets (gearing ratio) increases from 30% in 2019/20 to 33% in 2024/25 (table 7.5).

1.34 The council currently has £69m 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.

1.35 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).

The council's approach to financial planning

1.40 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 net income arising from commercial property investment into an earmarked reserve to mitigate against the risks inherent in holding these assets.

- 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 Covid-19 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 (to the value of £55m in 2021/22), 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

1.41 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.

1.42 In addition, regulatory codes of practice require Members to form views on the council's proposed change to commercial investments, its lending to third parties including its wholly owned subsidiary companies, and its equity investments whilst understanding new financial indicators showing the risks, proportionality and affordability of the commercial activities being proposed.

1.43 This report comprises a series of interlinked and comprehensive papers setting out proposals for the 2020/21 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 is shown below.

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 and describes all of the regulatory changes that have recently been introduced that affect the preparation of the budget report.

2: General Fund 2021/22 budget and MTFS

Sets out the proposed general fund revenue budget and its financing for 2021/22, including the proposed Council Tax for 2021/22, along with a forecast of the medium term position.

3: Housing Revenue Account 20201/22 Budget and Business Plan

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2021/22 rental charges for HRA tenants.

4: Capital Strategy

A requirement of 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 it will be financed and delivered.

5: Non-financial (Commercial) Investment Strategy

This is a requirement of MHCLG's Investment Code. The Strategy covers the council's change of approach to investments in commercial property, as well as its lending and equity investments in third party organisations, but particularly its wholly owned subsidiaries Norwich Regeneration Limited and Norwich City Services 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.

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.

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:	10 February 2021
Director / Head of service	Annabel Scholes
Report subject:	The council's 2021/22 budget and medium term financial strategy
Date assessed:	27 January 2021
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 will continue to be carried out at an appropriate time for the individual projects, activities and policies that constitute this budget and service review programme.
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☐	☒	☐	The proposed capital investment strategy will provide for improvements to the council's assets and the surrounding environment.

	Impact			
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☒	☐	☐	The budget paper clearly outlines a number of financial risks to the council, some of which have increased in light of changes to the wider economic environment. A number of measures have been put in place to mitigate the increased risk as set out in the recommendations from the impact assessment section.

Recommendations from impact assessment
Positive
None
Negative

The report includes several mitigating actions in terms of risk management, namely:

- The introduction of new earmarked reserves: (1) the budget risk reserve to manage the financial risks associated with both the future impacts of the pandemic and the delivery of the 2021/22 budget savings identified; (2) a business change reserve to fund costs linked to the council's transformational change programme. Further detail in Section 2 paragraphs 2.5 and 2.6.
- Existing earmarked reserves established to help mitigate the risk associated with commercial property acquisition and lending to Norwich Regeneration Limited.
- The maintenance of a Prudent Minimum Level of General Fund reserve.
- The requirement to produce robust Business Cases for large capital projects (many of which will generate commercial returns or savings) before Council approves the project within the capital programme.

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 2021), is given below.

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

Bank Interest Rate: The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 16 December 2020, the Committee judged that the existing stance of monetary policy remains appropriate. The MPC voted unanimously to maintain Bank Rate at 0.1%. The MPC will continue to monitor the situation closely. If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably. *Source: Bank of England – December 2020*
Inflation: Twelve-month CPI inflation fell to 0.3% in November, down from 0.7% in October. The weakness of recent outturns largely reflects the direct and indirect effects of Covid on the economy. CPI inflation is expected to rise quite sharply towards the target in the spring, as the VAT cut comes to an end and the large fall in energy prices earlier this year drops out of the annual comparison. The outlook for the economy remains unusually uncertain. It depends on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It will also depend on the responses of households, businesses and financial markets to these developments. *Source: Bank of England – December 2020*
Unemployment Rate and Average Earnings: The Government's furlough scheme has prevented a larger rise in unemployment. Grants, loans, and tax holidays and reliefs to businesses have helped them to hold onto workers, keep up to date with their taxes, and avoid insolvencies. Nonetheless, the OBR anticipates a significant rise in unemployment – to 7.5 per cent in its central forecast – as this support is withdrawn in the spring. *Source: Overview of the November 2020 Economic and fiscal outlook (Office for Budget Responsibility)*

Public Sector Finances:

The coronavirus pandemic has delivered the largest peacetime shock to the global economy on record. It has required the imposition of severe restrictions on economic and social life; driven unprecedented falls in national income; fuelled rises in public deficits and debt surpassed only in wartime; and created considerable uncertainty about the future.

During the first wave of infections, the UK locked down later and for longer than some of its European neighbours and experienced a deeper fall and slower recovery in economic activity. A resurgence of infections is now in progress across Europe and North America, prompting the tightening of public health restrictions and re-imposition of national lockdowns and taking the wind out of an already flagging recovery. That includes the UK, where GDP is set to fall by 11 per cent this year – the largest drop in annual output since the Great Frost of 1709.

The virus has also exacted a heavy and mounting toll on the public finances. In the OBR's central forecast, receipts this year are set to be £57 billion lower, and spending £281 billion higher, than last year. The Government has committed huge sums to treat the infected, control the spread of the virus, and cushion its financial impact on households and businesses. As support has been expanded and extended, including in the wake of the second wave of infections, the total cost this year is now forecast at £280 billion.

In the OBR's central forecast, the combined impact of the virus on the economy and the Government's fiscal policy response pushes the deficit this year to £394 billion (19 per cent of GDP), its highest level since 1944-45, and debt to 105 per cent of GDP, its highest level since 1959-60 (Chart 1.1). Borrowing falls back to around £102 billion (3.9 per cent of GDP) by 2025-26, but even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 billion (1 per cent of GDP) would be required to match day-to-day spending to receipts by the end of the five-year forecast period.

The increase in borrowing does render the public finances more vulnerable to changes in financing conditions and other future shocks.

Source: Overview of the November 2020 Economic and fiscal outlook (Office for Budget Responsibility)

The Chancellor has announced that the Budget 2021 will take place on Wednesday 3 March. A Spending Review is expected in Autumn 2021 although it is not clear what time period it will cover.

Provisional Local Government Finance Settlement

1.2 The Provisional Local Government Finance Settlement 2021/22 was published on 17 December 2020. The key announcements with relevance to Norwich City Council are summarised below. The specific funding allocations for Norwich are detailed in Part 2 of the Report.

1.3 **Spending Power:** Local authority core spending power is projected by the Government to rise by 4.5 per cent in cash terms, or £2.2 billion in 2021/22. This increase is largely due to the ability of social care authorities to increase their council tax bills by up to 5 percent. Revenue Support grant will increase in line with inflation.

1.4 **Covid support:** To support local authorities in England with Covid-19 pressures next year, the Government expects to provide over £3 billion in additional support. The additional support includes:

- £1.55 billion to meet additional expenditure pressures as a result of Covid-19;
- £670 million to support households that are least able to afford council tax payments:
- £762 million to compensate for 75 per cent of irrecoverable loss of council tax and business rates revenues in 2020/21; and
- extending the existing Covid-19 sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021

1.5 **Business Rates:** The business rates multiplier will be frozen for 2021/22. It will remain at 49.9p (small business multiplier) and 51.2p (national business multiplier). Councils will receive £650 million in compensation in 2021/22 for under-indexing of the business rates multiplier.

1.6 The Government is considering options for further Covid-19 related support through business rates reliefs. In order to ensure that any decisions best meet the evolving challenges presented by Covid-19, the Government are likely to outline plans for 2021/22 reliefs at the Budget in March. Local Authorities may be expected to use their discretionary relief powers (section 47 of the Local Government Act 1988, as amended) to grant any news reliefs in line with the relevant eligibility criteria set out in the guidelines. However, the full cost of granting this relief will be compensated through a section 31 grant from Government.

1.7 The Government again confirmed that it would delay the move to 75 per cent Business Rates Retention. In order to provide further stability to the sector, the Government has also decided not to proceed with a reset of business rates baselines in 2021/22.

1.8 The Government is undertaking a fundamental review of the business rates system and is currently considering responses to the call for evidence. A final report setting out the full conclusions of the review will be published in spring 2021.

1.9 **Council Tax:** For 2021/22, shire district councils will be able to increase their Band D council tax rate by up to 2%, or up to and including £5, whichever is higher (referendum limit). Social care authorities will be able to levy a 3 per cent adult social care precept (in addition to the existing basic referendum threshold of 2%). This can be spread over two years.

1.10 Police and Crime Commissioners (PCCs) in England will have the flexibility to increase funding in 2021/22 with a £15 council tax referendum limit on a Band D property.

1.11 **New Homes Bonus:** The Government will maintain the existing New Homes Bonus scheme for a further year with no new legacy payments. There will be a government consultation on reforms to the New Homes Bonus shortly, with a view to implementing reform in 2022/23.

1.12 **Other funding:** a number of additional funding streams were announced as part of the 2020 Spending review:

- An investment of £573 million in Disabled Facilities Grants and £71 million in the Care and Support Specialised Housing Fund, supporting people to live independently.

- UK Shared Prosperity Fund (UKSPF) to support the regeneration of towns and communities by targeting further investment at places most in need by supporting places, such as former industrial areas, deprived towns and coastal communities.

- Levelling Up Fund worth £4 billion for England is a new cross-departmental fund to invest in a broad range of high value local projects up to £20 million. The Government will publish a prospectus for the fund and launch the first round of competitions in the New Year.

- National Home Building Fund (NHBF), with initial funding of £7.1 billion over the next four years to unlock up to 860,000 homes.

- Reconfirming £12.2 billion for the Affordable Homes Programme (AHP).

- An additional £12 million to take forward the Government's radical planning reform agenda

- £254 million of additional resource funding, including £103 million announced earlier this year for accommodation and substance misuse, to support rough sleepers and those at risk of homelessness during Covid-19. The Government will also provide new funding to support prison leavers at risk of homelessness into private rental tenancies and will commit £87 million of capital funding in 2021/22 primarily to support the delivery of long-term accommodation for rough sleepers.

- £98 million of additional resource funding, bringing total funding to £125 million, to enable local authorities to deliver the new duty to support victims of domestic abuse and their children in safe accommodation in England

- The underlying core settlement for local authorities in 2021/22 includes providing £16 million to support modernisation of local authorities' cyber security systems.

Local Government Finance Post 2022

1.13 The financial settlement covered only 2021/22, with the government implementing a 'roll forward' finance settlement. This means a further one-year delay to the longer term local government financial reforms, including:

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

1.14 In the consultation document accompanying the provisional settlement, the Government confirms that it will, once the pandemic is over, continue to work with local government to understand the lasting impact the COVID-19 pandemic has had on both service demands and revenue raising.

1.15 The Government states that it will revisit the priorities for reform of the local government finance system, with the aim of ensuring that councils are set on a long-term trajectory of sustainable growth and fair resources. This process will take account of wider work on the fairer funding review, business rates reforms and the Adult Social Care system. Final decisions will be taken in the context of next year's Spending Review.

Regulatory Changes

Redmond Review

1.16 Alongside the settlement, The Secretary of State announced the Government's response to the Independent review of Local authority financial reporting and external audit (the Redmond Review). This included the following:

- The deadline for audits will be put back to September 30th for two years in 2021 and 2022.
- £15 million will be provided for councils in 2021/22 to pay for additional costs arising from new reporting requirements recommended by the Redmond review and expected increases audit fees driven by additional audit requirements arising from the new NAO code of practice.

The Government is still considering whether structural changes are required to the procurement and regulatory arrangements for local audit and will make a decision on that in 2021.

Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) recognises that the challenging financial environment has placed local authority finances under intense pressure. High profile failures of other local authorities have inevitably raised concerns about weaknesses in financial management across the sector. In response, CIPFA has published a Financial Management Code (the FM Code).

1.17 The Financial Management (FM) Code is intended to provide guidance about good and sustainable financial management, along with assurance that resources are being managed effectively. As such, the code requires authorities to demonstrate that processes are in place which satisfy the principles of good financial management. It identifies risks to financial sustainability and sets out details of a framework of assurance which reflects existing successful practices across the sector. Crucially, the code establishes explicit standards of financial management, and highlights that compliance with these is the collective responsibility of elected members, the chief finance officer and the wider Corporate Board.

1.18 The Code is based on the following principles:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

1.19 The principles are underpinned by financial management standards that the council will need to demonstrate compliance. The manner in which this is to be achieved is not prescribed, and CIPFA have issued further supporting guidance during the 2020/21 financial year.

1.20 The FM Code was published in late 2019 to take effect from April 2020, given the timing of the publication 2020/21 is a “shadow year” with full compliance expected in 2021-22. Many of the requirements of the FM Code represent good practice, which are already reflected in the council’s planning, policies and systems, however the council will undertake a review to identify any areas for improvement.

Property Investment

1.21 In March 2020 the government commenced a consultation on the Public Works Loan Board (PWLB) future funding terms. As part of the Spending Review announcement, the government has confirmed that it will reform the PWLB lending terms, ending the use of the PWLB for investment property bought primarily for yield.

1.22 Alongside the Spending Review, the Government has published revised lending terms for the PWLB and guidance to support local authorities to determine if a proposed project is an appropriate use of PWLB loans. The new terms apply to all loans arranged from 26 November 2020.

1.23 In response to the revised lending terms the Government has cut PWLB lending rates to gilts + 100 base points for Standard Rate and gilts + 80 base points for those authorities able to make use of the Certainty Rate.

1.24 The council's Non-Financial (Commercial) Investment Strategy forms Section 5 of this report. This has been updated to reflect the impact of the PWLB lending terms on the council's investment activity, as well decisions taken during 2020/21 in relation to investment decisions for its wholly owned subsidiaries.

2. GENERAL FUND 2021/22 BUDGET AND MTFS

Forecast 2020/21 Outturn

2.1 The latest position on the General Fund, as at Period 9 shows a forecast underspend of £1.303m.

2.2 The Covid-19 pandemic has had a huge impact right across the council's budgets in 2020/21. There has been increased spending in areas such as housing rough sleepers and enabling council staff to work efficiently from home - combined with a loss of income from sources such as car parks, commercial rents and events. The council responded quickly to these factors and through detailed reviews of internal spending identified in-year savings of over £3m to reduce the overall budget impact. This is money which was taken out of council budgets in-year to mitigate against the impact of the pandemic, which otherwise could have been spent on local services.

2.3 Also included in the forecast is the £2.8m of emergency funding confirmed from government, this has been used to support the council's ongoing response to the pandemic.

2.4 As it is clear that the financial risks associated with Covid-19 will continue to significantly impact the council in future years, it is vital that the council remains resilient to the future risks. Therefore although a budget underspend is now forecast, in December Cabinet agreed to continue to deliver the in-year savings with any improved financial position kept aside to manage the future risks.

2.5 In December Cabinet agreed to set up a new earmarked reserve which will be used to manage the financial risks associated with both the future impacts of the pandemic and the delivery of the 2021/22 budget savings identified. It is also proposed to create a further earmarked reserve to fund the costs associated with business change linked to the programme of service reviews taking place. This reserve will be used to fund costs linked to the change programme which are not delivering specific savings, for example project management and benchmarking. It will also support training and development of our workforce to ensure we have the skills required to deliver the ambitions of the Council.

2.6 Based on a review of the potential financial risks associated with the delivery of the 2021/22 budget it is proposed to transfer £0.700m of the current year underspend into the Budget Risk Reserve and £0.500m remainder into the Business Change Reserve.

2.7 As part of the response to the pandemic the government announced additional business rates reliefs to businesses in the retail, hospitality and leisure sectors. These reliefs have reduced the income received directly from business rates payers, with the lost income compensated for by a Section 31 grant from central government. The overall impact will be a deficit on the business rates collection fund and additional grant income received into the general fund. Due to the required accounting treatment, there will be a timing difference between when the two elements impact on the general fund (S31 grant income in 2020/21 and the deficit in 2021/22). To manage the impact of this it is proposed that the additional grant income received in 2020/21 is transferred into the S31 Earmarked reserve and returned into the general fund in 2021/22 to offset the impact of the business rates deficit.

Proposed 2021/22 Revenue Budget

2.8 The savings options for 2021/22 have been proposed from service areas and reviewed by finance, HR, strategy and legal. Proposals have then been reviewed by officers to assess the deliverability and impacts on the corporate plan. Service leads have completed deliverability assessments for savings items setting out key milestones, resource requirements and risks.

2.9 In line with the approach used in previous years, the council has consulted the public on the proposed approach to meeting the savings target and on the potential for a council tax rise. The consultation closed on 27 January 2021. An analysis of the results is given in Appendix 2 (I) which shows that XX% of people agree or strongly agree with the proposed council tax increase. [to be updated when survey closes on 27 January]

2.10 Appendix 2 (A) summaries the key movements in the base budget (i.e. 2020/21 approved budget) to arrive at the proposed 2021/22 budget. Appendix 2 (B) shows a subjective breakdown of the gross income and expenditure proposed.

2.11 Permanent savings/additional income of £2.009m have been identified, which includes £0.163m of additional efficiency stretch saving targets for services to meet in 2021/22. This is a shortfall against the savings target of £3.150m shown in the MTFS update presented to Cabinet in November 2020. A detailed summary of the proposed budget savings and growth is shown in Appendices 2 (F) and 2 (G), with items categorised as either growth, revenue generation or service efficiencies.

2.12 The budget proposals include £0.871m of budget growth (i.e. increases to the budget not arising from inflationary factors). The growth includes the impacts of higher recycling costs and a re-basing of planning fee income to current levels. The full list is shown in Appendix 2 (G).

2.13 It is important to note that the Council in the later part of the year saw an increase in the ongoing budget gap for 2021/22 due to the medium term impact of Covid-19. A number of short term growth items have been identified and built into the 2021/22 budgets. These items total £3.175m, with assumed reductions in the council’s car parking and rental income levels having the largest impact.

2.14 The budget gap has been closed by taking on some additional short term options such as changing the approach to funding the capital programme, by maximising the use of capital receipts for one year rather than the ongoing budget for the revenue support of the capital programme. These decisions are assumed to be reversed in 2022/23 in the MTFS. It is important to note whilst one-year measures assist in setting a balanced budget, they do not address the structural financial gap over the medium term. The council has significant financial challenges and will require the cross-cutting service reviews to drive forward the savings options for future years. Whilst service reviews will look at how services can be delivered differently and more efficiency, it is likely – given the scale of the challenge – that they will lead to a reduction in service capacity in some areas.

2.15 The updated MTFS presented to Cabinet in November 2020 forecast that £2.066m of general fund reserves would be needed to balance the budget in 2021/22. There has however been a significant shift in the reserves requirement since the November Cabinet paper following confirmation of the outcomes from the Spending Review and Local Government Finance Settlement. The main factor in this movement is additional one-off Covid-19 grant funding confirmed for 2021/22 and a higher than forecast allocation of New Homes Bonus. As a result, rather than requiring £2.066m from general reserves to balance the budget, the budget has been balanced without the use of reserves.

2.16 Whilst the additional one-off grants mean no drawn down of reserves in 2021/22 it must be noted that with only a one-year impact the future annual net savings requirement is not significantly affected.

2.17 In addition to the ongoing general fund base budget, the council will continue to fund expenditure contributing to the service review programme through the use of the Invest to Save and Business Change reserves. The current planned expenditure is £1.009m of which £0.545m is to be funded from the General Fund reserves and £0.464m from the HRA reserve. A significant proportion of the spend relates to project resources needed to support the insourcing of the Norse joint venture contracts. Full detail shown in Appendix 2 (H).

2.18 The council has successfully secured funding of £25m through the Towns' Fund. Whilst the majority of the costs associated with the projects are expected to be capital in nature, there will inevitably be revenue costs incurred in supporting and delivery the programme. Any such costs will need to be met from the overall £25m funding available, with Treasury guidance suggesting these should not exceeded more than 10% of the overall grant allocation.

2.19 At this stage the projects are still being developed into full business cases and the element of revenue cost will be refined as part of that process. Therefore the 2021/22 budget proposals presented do not included any additional revenue costs associated with the delivery of the programme. It is proposed that the revenue budget is grossed up to include these as the individual business cases are approved; this will involve a technical virement to increase the expenditure budgets along with an additional income budget to reflect the element of the grant allocated to the revenue costs (see Appendix 2(J) for more detail on technical virements). There will be no bottom line impact on the general fund as the extra spend will be matched by income.

Chart 2.1: 2021/22 gross expenditure budget analysed by type of spend

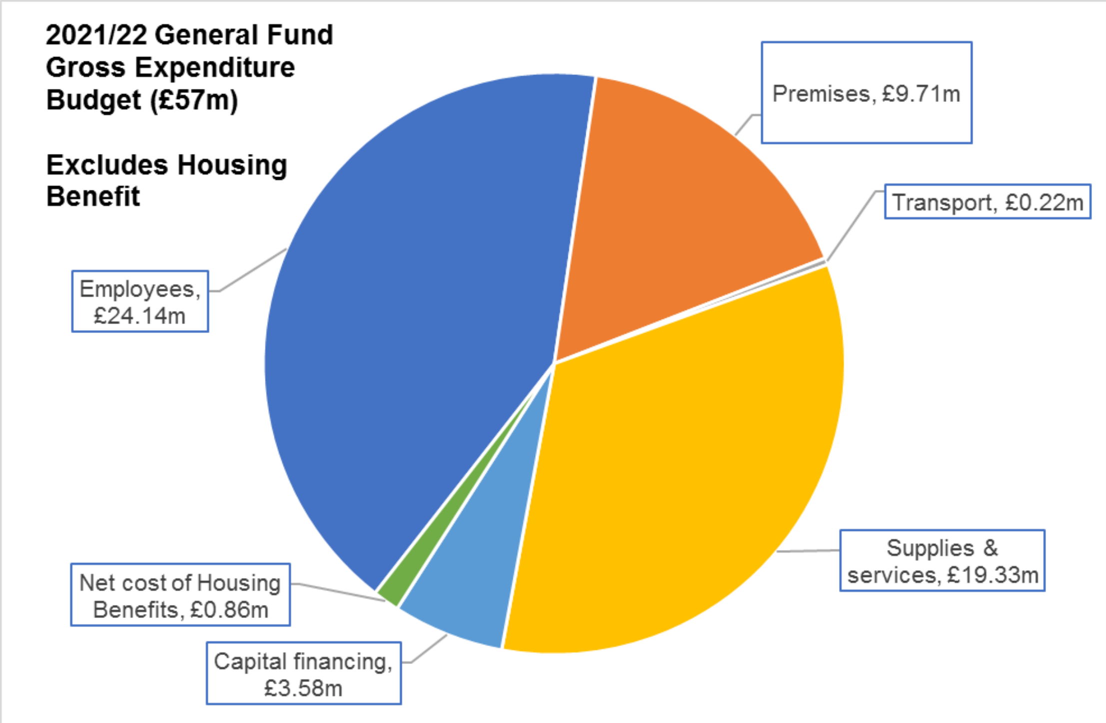
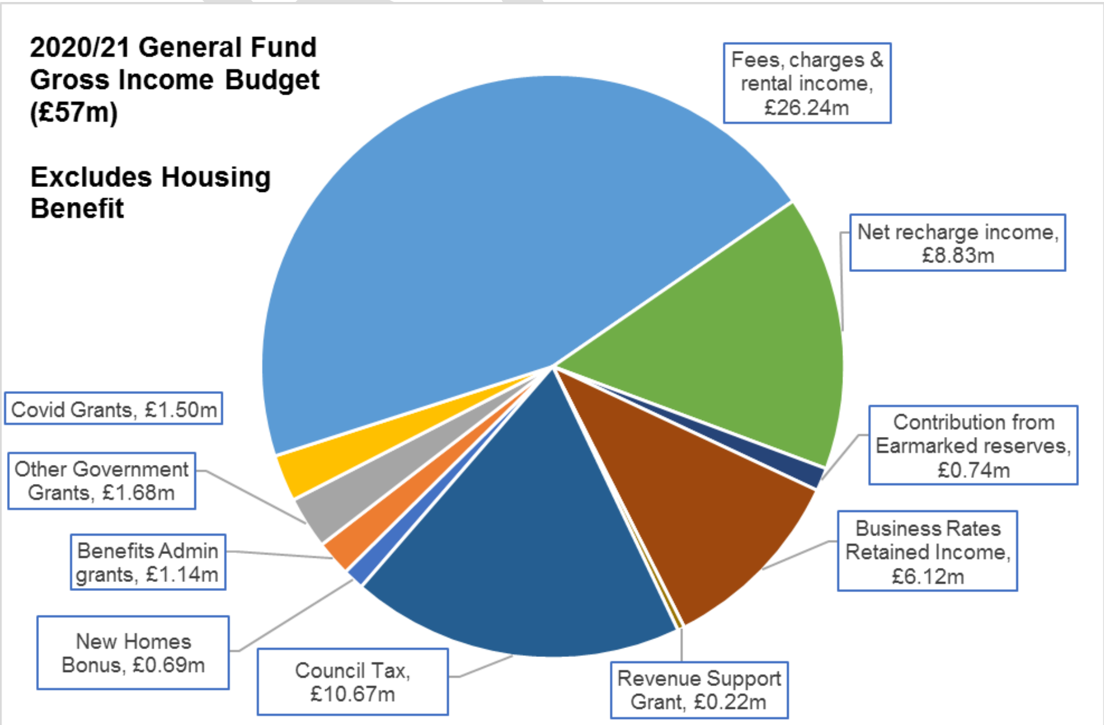


Chart 2.2: 2021/22 gross income budget analysed by type of income



Medium Term Financial Strategy (MTFS)

2.20 The MTFS is a forecast of the estimated cost of delivering current services over the next five years, compared to the anticipated funding streams to support council services. This results in a projected budget gap from which the future savings requirements are estimated.

2.21 The principle adopted for a number of years has been to smooth the savings requirement over the medium term. This has been to prevent significant annual fluctuations in savings requirements and ensure a strategic approach can be taken to delivering savings projects. In order to smooth the savings requirements however it means that the council needs to draw down on general reserves. These are a one-off source of fund and therefore utilisation of reserves is not sustainable in the long term and the ongoing service reviews will need to form a key element of bringing the budget into balance over the next two years.

2.22 The 2021/22 MTFS maintains the previous approach of presenting a strategy to deliver a smoothed savings requirement over a 4 year period and utilising general reserves (down the prudent minimum level of £5.2m). Table 2.2 below shows the medium term financial projections for the years 2022/23 to 2025/26. The full MTFS by subjective group is shown in Appendix 2 (D).

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

	2022/23	2023/24	2024/25	2025/26
Budget base	23,837	25,025	27,072	29,530
Resources	(16,369)	(16,786)	(17,288)	(17,745)
Savings required (cumulative)	**7,467**	**8,240**	**9,784**	**11,785**
Permanent savings (cumulative)	(3,200)	(6,400)	(9,600)	(11,800)
Short-term savings	(1,574)	0	0	0
Required use of reserves	**2,693**	**1,840**	**184**	**15**

2.23 Included in the 2021/22 budget are £3.175m of short term growth items, with the majority related to the impact of Covid-19 on the council's income streams in areas such as car parking, rental income, licensing income and fees and charge from cultural and leisure activities. At this stage it is not clear for how long and to what extent these impacts will be continue and therefore a high level assumption has been adopted to unwind the short term growth evenly over a two year period. This means that that base budget in 2022/23 includes £1.574m of short term growth (the 2nd year of assumed impact) which Table 2.2 assumes will be met from further one-off savings in 2022/23.

2.24 The MTFS shows a need to make permanent gross savings of £11.8m 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 £3.2m each year to 2024/25 and £2.2m in 2025/26.

Table 2.3: Smoothed net savings required 2022/23 to 2025/26 - Figures are in £000s

	2022/23	2023/24	2024/25	2025/26
Assumed annual service growth	750	750	750	750
Gross saving requirement	(3,200)	(3,200)	(3,200)	(2,200)
Net annual saving requirement	**(2,450)**	**(2,450)**	**(2,450)**	**(1,450)**

2.25 As noted in the introduction to this report, the estimates for 2022/23 onwards cannot to be taken as robust figures given the changes that will be introduced to the local government finance regime from 2022/23 onwards (and as described in Section 1 of this report).

2.26 The MTFS shows that the council has a significant savings challenge over the next 4 years and will require the cross-cutting service reviews to drive forward the savings options for future years. Whilst service reviews will look at how services can be delivered differently and more efficiency, it is likely – given the scale of the challenge – that they will lead to a reduction in service capacity in some areas. The risks over the deliverability of the saving requirement and mitigating actions are discussed in Section 8

Key figures & assumptions in the 2021/22 budget and MTFS

Council Tax

2.27 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 2% or £5 each year for 2021/22.

2.28 A 1.99% increase to the Band D rate is proposed in the 2021/22 budget figures (£0.2m additional income). The proposed 2021/22 Band D rate is therefore £274.74 compared to the current year rate of £269.38 – an increase of £5.36. 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.

2.29 The figures shown will be reduced, for qualifying council tax payers, by the council's Council Tax Reduction Scheme (CTR). Currently the total cost of the CTR scheme is £14.9m, of which the Norwich share is £2.1m.

2.30 The Council Tax base has been set at 37,408 which combined with the Band D rate gives a budgeted income of £10.277m in 2021/22.

2.31 In addition a collection fund surplus receipt from the prior year of £0.075m is proposed to be distributed in 2021/22. The full calculation shown in Appendix 2 (E). Whilst the overall net distribution is a surplus, it includes an element related to the forecast deficit for 2020/21. In line with government requirement this deficit will be spread equally over a three year period, with the first instalment in 2021/22.

2.32 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 1% per annum is also assumed for estimated growth in the number of dwellings in the Council's area. Given the 2020/21 council tax deficit is required to be spread over three years, no surplus is now assumed in 2022/23 and 2023/24.

Business rates

2.33 On 23 October 2020, all Norfolk local authorities confirmed to MHCLG a provisional intention to continue the Norfolk pool in 2021/22. This was caveated, reserving the right to revoke the pool in light of various uncertainties around business rates income, in particular the need for clarity about the extension of business rates reliefs into 2021/22.

2.34 Under the terms of the Governance Agreement, the Norfolk Pool would operate a safety net guarantee; this means the pool members collectively insure that each authority receives as a minimum 92.5% of their baseline funding. In light of the wider economic landscape and difficulty in forecasting business rates receipts there is a clear increase in the financial risks associated with operating a pooling arrangement in 2021/22. Additionally, the government to date has offered no assurances on the extension of reliefs into 2021/22, only stating that it is considering options for further Covid-19 related support.

2.35 Taking into account the risk / reward position suggested by the latest forecasts across Norfolk, and the wider uncertainties around both the forecasts and the level of business rates support to be provided next year, Norfolk Leaders have decided not to continue with pooling in 2021/22.

2.36 This decision will not impact on the council's business rates budgets in 2021/22. The small forecast levy (£0.060m) that would have been paid into the Norfolk's economic development fund will now be payable to central government. Without being part of a pooled arrangement, central government are now liable for any safety net payments – this would only be due however if the council's business rate income drops by more than 7.5% below its baseline funding level.

2.37 The retained business rates forecasts are based on actual amounts collectable at December 2020 which are then adjusted for local knowledge (i.e. appeals, charitable relief) and then uplifted by an inflationary increase to allow for the increase in the business rates multiplier (rates frozen for 2021/22).

2.38 The 2021/22 retained business rates have been budgeted at £6.310m along with a forecast deficit distribution from 2018/19 and 2019/20 of £17.318m. The majority of this a deficit (£17.192m) will be offset from income from the

S31 Earmarked Reserve (as detailed in paragraph 2.7) and reflects the additional reliefs awarded as part of the government's response to the pandemic. A breakdown of the business rates calculation is shown in Appendix 2 (E).

2.39 The forecasts for retained Business Rates income from 2022/23 assume current baseline amounts (with inflationary uplifts) 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 includes an allowance in 2022/23 and 2023/24 of £0.288m for the 2020/21 forecast business rates deficit that is being spread over a three year period. For the further years, estimated £300k per annum is allowed for any deficits arising on the Collection Fund.

2.40 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

2.41 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 2022/23 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.

2.42 Included in the 2021/22 budget is a £575k vacancy factor. This reflects an assumed 3% assumed saving on staffing expenditure during the year due to staff turnover and is within the levels of underspend seen in recent years. The allowance has been budgeted with the corporate codes and will be allocated to service areas once the management structures have been agreed using a technical virement (see Appendix 2(J)).

Revenue contribution to capital

2.43 To support the capital budget envelope, the council has built into its financial planning stepped increases in the revenue budget contribution to capital. For 2021/22 this was planned to be £1.550m. As part of the revenue budget pressures, a one-year decision has been taken to significantly reduce the revenue contribution in 2021/22 to £0.280m. This will result in more funding being required from capital receipts than originally planned, but this is affordable from existing GF capital receipt balances, which are forecast at £4.275m at the start of 2021/22 financial year.

2.44 For future years of the MTFS the revenue contribution to capital returns to the previous assumptions, so that by 2022/23 £1.5m is provided as a funding source to the capital programme along with a £0.300m contribution to cover the costs of the Homes Improvements Agency team.

Inflation

2.45 As part of the 2021/22 budget, contract inflation has been applied to the environmental services contract. The remainder of the MTFS allowance (£0.140m) will be held centrally until specific contractual uplifts are confirmed. Budget allocations from the central fund will require technical budget virements to be processed by finance – these do not alter the nature of the budget spend but enable the costs to be assigned to the appropriate service area (for further detail see Appendix 2(J). Any unrequired amounts of the central fund will be released as part of budget setting for 2022/23.

2.46 Based on advice from the Office for Budget Responsibility's (OBR) Consumer Price index (CPI) forecasts, future inflation has been included on premises costs, supplies and services, and transport throughout the MTFS planning timeline. Inflation on income however is prudentially set to run approximately at 1% below expenditure inflation.

Government Grants

2.47 The provisional Local Government Finance Settlement confirmed a number of Covid-19 related one-off grants:

- Covid-19 emergency funding grant £0.947m
- Lower Tier Services Grant £0.255m
- Council Tax Support Grant £0.319m

2.48 It has also been confirmed that the existing Covid-19 sales, fees and charges reimbursement scheme will operate for a further 3 months until the end of June 2021. An estimated £0.300m in additional income has been included in the 2021/22 budget, although the actual amounts will depend on the performance of the council's income streams during the first quarter of the year.

2.49 The provisional settlement confirmed a new single-year allocation of New Homes Bonus of £0.500m, which when combined with legacy payments means total grant of £0.689m in 2021/22. No future new allocations of New Homes Bonus have been included in the MTFS given the government's intention to implement an alternative housing incentive scheme going forwards.

2.50 The council has received confirmation of it allocation of Homelessness Prevention Grant of £0.596m. This has replaced the Flexible Homelessness Support grant and Homelessness Reduction Act New Burdens grant previously received. Central government has confirmed the continuation of the Rough Sleeper Initiative Grant and that authorities will receive at least the same level of funding as 2020/21. These grant receipts are matched by corresponding expenditure assumptions. The MTFS assumes the continuation of the grants and related expenditure for future years; any changes in the grant levels are therefore assumed will be offset by reductions in the related expenditure.

2.51 Other grants for future years have been estimated at 2020/21 levels, with the exception of Housing Benefit and Local Council Tax Support Administration Grants. These grants have been estimated to reduce annually by 5% based on the service experience for other authorities moving to full universal credit service.

Capital financing budget

2.52 The capital financing budget includes interest charges from external borrowing and Minimum Revenue Provision charges. The budget for 2021/22 provides coverage for all existing external borrowing and an allowance for a further £55m of external borrowing spread across the financial year at a rate of 3%. Additional allowance for further borrowing in subsequent years has been allowed for in the MTFS to fund the council's capital financing requirement. The treasury position will continue to be actively managed as set out in Section 6: Treasury Management Strategy.

Income from wholly owned companies

2.53 The MTFS assumes a steady state loan interest income budget of £0.420m per annum arising from lending to Norwich Regeneration Ltd (NRL) for the life of the MTFS. The actual interest charges will be dependent on the cash flow requirements of the company and pace at which schemes are developed and loans repaid. Prudently, no income is assumed for those schemes in the NRL business plan, which are yet to have the lending approved by Council as part of a full business case. The budget and MTFS forecasts do not include any possible dividend (profit share) income from the company.

2.54 The MTFS assumes £0.034m of interest income from Norwich City Services Ltd from the loan advanced to the company to undertake depot improvement works. No profit is assumed from the company before 2024/25 in line with the company's indicative business case. From 2024/25 an estimated £0.150m profit share return has been included.

General Fund Reserves Position

The General Fund reserve

2.55 The prudent minimum level for the general fund reserve has been set at £5.100m. The smoothed MTFS brings the forecast reserves down to around Prudent Minimum Balance plus 2.5% by the end of 2023/24.

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

	2021/22	2022/23	2023/24	2024/25	2025/26
Balance brought forward	(9,980)	(9,980)	(7,287)	(5,447)	(5,263)
Transfer (to)/from reserves	0	2,693	1,840	184	(15)
Balance carried forward	**(9,980)**	**(7,287)**	**(5,447)**	**(5,263)**	**(5,278)**

2.56 After 2024/25 savings will still need to be required if any inflationary increases or growth in costs are not able to be offset by rises in council tax, business rates and other income generated by the council. These savings will need to be made without relying on reserve contributions to balance the budget.

Earmarked Reserves

2.57 The General Fund holds a number of earmarked reserves which are held for specific purposes. The balances held in earmarked reserves are regularly reviewed to assess whether the funds are held at an appropriate level. The key reserves are summarised in Table 2.5.

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

	Actuals at 31 March 2020	Forecast 31 March 2021
Invest to Save Reserve To support the delivery of savings and efficiencies through the Future Shape Norwich Programme over the next 2-3 years.	**3,010**	**2,118**
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.	**2,047**	**2,047**
Insurance Reserve This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review.	**1,085**	**1,085**
Norwich Regeneration Ltd Reserve Established to smooth any fluctuations in net income received by the Council from lending to NRL. The reserve level was increased in 2019/20 to mitigate against any potential future Minimum Revenue Provision charges required to cover for estimated non-recovery of the loan balance. The recoverability of the loan will continue to be reviewed and should any element of the reserve not be required it can be returned to general reserves.	**4,000**	**4,000**

	Actuals at 31 March 2020	Forecast 31 March 2021
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. The increase in the reserve at 31 March 2021 reflects the additional grant income received in 2020/21 to compensate the council for additional business rates reliefs announced by HM Treasury as part of the Covid-19 response. It is proposed that these are returned to the general fund in 2021/22 to match the timing of the related collection fund deficit (see paragraph 2.7).	**2,045**	**19,237**
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.	**1,840**	**1,736**
General Fund Repairs Reserve To provide future funding for required maintenance on general fund properties. £0.2m proposed to be used in 2021/22 to fund required property maintenance.	**444**	**444**

Appendix 2 (A): Budget Resources breakdown and 2021/22 movements from the approved 2020/21 base budget

Budget Resources Analysis:

	2020/21	2021/22	
	£000		£000
Council Tax			
Projected tax base (2020/21: 37,003)		37,408	
Planned Council Tax increases			
Council Tax Increase		1.99%	
Council Tax Band D (2020/21: £269.38)		£274.74	
Council Tax Yield	9,968		10,277
Surplus/(deficit) on Collection Fund	321		75
Council Tax Support Grant	0		320
	10,289		**10,672**
Business Rates Retention Scheme			
RPI		0.00%	
Local Business Rates (including levy)	6,539		6,250
Surplus/(deficit) on Collection Fund	844		(17,293)
S31 grant transfer from reserves	0		17,167
	7,383		**6,124**
Revenue Support Grant	**216**		**217**
2021/22 Budget Resources	**17,888**		**17,013**

Movements from 2020/21 approved budget:

		£000
2020/21 Budget Resources		**(17,888)**
Budget movements:		
Increase in revenue support grant		(1)
Reduction in business rates income		1,259
Increase in council tax income		(383)
2021/22 Budget Resources		**(17,013)**

2020/21 Budget Requirement		**17,888**
Removal of prior year contribution to reserves		(517)
Inflation		916
Increase in pension deficit contributions		585
Increase in grant income		(2,310)
Increase in grant-related spend		855
Reduction in recharge income		65
Financing changes		
Decrease in revenue contribution to capital funding		(1,000)
Increase in corporate vacancy management factor		(175)
Reduction in insurance reserve contribution		(25)
Reduction in commercial earmarked reserve contribution		(200)
Use of repairs reserve to fund budgeted repairs		(200)
Reduction in interest and MRP		(450)
Budget movements		
Removal of unachieved rental income		688
Reduction in NRL loan interest		119
Housing Benefit budget rebasing		673
Senior Management Restructure – Director level		(169)
Senior Management Restructure – Head of Service level		174
Permanent growth - Appendix 2 (G)		871
Short term growth - Appendix 2 (G)		3,175
Revised Based Budget Requirement		**20,963**
Required Efficiencies		*(3,950)*
Permanent savings - Appendix 2 (F)	(1,768)	
Additional income - Appendix 2 (F)	(240)	
One-off savings - Appendix 2 (F)	(1,942)	
Total Efficiencies identified		**(3,950)**
Required contribution from general reserves		0
2021/22 Budget Requirement		**17,013**

Appendix 2 (B): 2021/22 proposed budget by subjective group

Subjective group	Budget 2020/21 £000	Budget 2021/22 £000	Change £000
Employees	23,879	24,145	266
Premises	10,152	9,706	(446)
Transport	230	220	(10)
Supplies & services	18,256	19,331	1,075
Housing benefit payments	50,116	47,770	(2,346)
Capital financing	6,594	3,573	(3,021)
Gross expenditure	**109,227**	**104,744**	**(4,483)**
Government grants	(52,630)	(51,919)	711
Fees, charges & rental income	(29,604)	(26,236)	3,368
Net recharge income	(9,245)	(8,367)	878
Gross income	**(91,479)**	**(86,987)**	**4,492**
Contribution from / to General Reserves	517	0	(517)
Contribution from Earmarked Reserves	(377)	(744)	(367)
Total Budgetary Requirement	**17,888**	**17,013**	**(875)**

Appendix 2 (C): 2021/22 proposed General Fund budget by service

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Chief Executive	267	0	267
Corporate Financing	2,067	(4,865)	(2,798)
Corporate & Commercial Services Management*	1,270	(464)	805
Finance, Audit & Risk	1,796	(1,023)	773
HR & Organisational Development	1,245	(465)	780
Legal & Procurement	3,119	(1,409)	1,711
Revenues & Benefits	52,087	(49,018)	3,069
Total Corporate & Commercial Services	**59,517**	**(57,244)**	**7,138**
Community Services Management	507	0	507
Customers, IT & Digital	5,997	(2,368)	3,629
Strategy, Engagement & Culture	3,907	(941)	2,967
Housing & Community Safety	7,146	(5,992)	1,153
Total Community Services	**17,557**	**(9,301)**	**8,256**
Development & City Services Management	496	0	496
Environment Services	17,952	(12,758)	5,194
Planning & Regulatory Services	3,762	(1,534)	2,228
Property & Economic Development	9,004	(12,027)	(3,023)
Total Development & City Services	**31,214**	**(26,319)**	**4,895**
Contribution from General Reserves		0	0
Contribution from Earmarked reserves		(744)	(744)
Budget Requirement	**109,849**	**(92,836)**	**17,013**
Revenue Support Grant		(217)	(217)
Business Rates Retained Income		(6,124)	(6,124)
Council Tax Income		(10,672)	(10,672)
Budget Resources		**(17,013)**	**(17,013)**

* Includes Project Place insourcing project costs £0.774m which are funded from the invest to save reserve. The income £0.464m is the HRA contribution and the GF contribution of £0.310m is shown within the £0.744m earmarked resource figure.

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

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Employees	24,145	25,324	26,320	27,391	28,497
Premises	9,706	10,207	10,365	10,552	10,752
Transport	220	223	226	230	235
Supplies & Services	19,330	19,172	19,319	19,666	20,041
Capital Charges	3,293	4,707	5,031	4,858	4,905
Housing Benefit Payments	47,768	47,970	48,170	48,370	48,570
Benefit Subsidy	(46,915)	(46,915)	(46,915)	(46,915)	(46,915)
Net recharge income	(8,367)	(8,557)	(8,557)	(8,557)	(8,557)
Contribution to Capital	280	1,800	1,800	1,800	1,800
Fee, charges, rental income	(26,236)	(27,700)	(29,286)	(29,667)	(29,930)
New Homes Bonus	(689)	(156)	0	0	0
Benefit/CTS Admin grant	(1,137)	(1,081)	(1,041)	(1,002)	(966)
Other Government Grants	(1,676)	(1,674)	(1,672)	(1,670)	(1,668)
One-off Covid Grants	(1,502)	0	0	0	0
Earmarked reserves transfer	(744)	(234)	(234)	(234)	(234)
Assumed growth cumulative		750	1,500	2,250	3,000
Subtotal budgets (no savings)	**17,012**	**23,836**	**25,026**	**27,072**	**29,530**
Business Rates	(6,124)	(5,782)	(5,880)	(5,979)	(6,098)
Formula Funding (RSG)	(217)	0	0	0	0
Council Tax	(10,671)	(10,587)	(10,906)	(11,309)	(11,647)
Total funding	**(17,012)**	**(16,369)**	**(16,786)**	**(17,288)**	**(17,745)**
Budget Gap	**0**	**7,467**	**8,240**	**9,784**	**11,785**
Gross savings needed (cumulative)		(3,200)	(6,400)	(9,600)	(11,800)
One-off saving needed		(1,574)	0	0	0
Required use of reserves	**0**	**2,693**	**1,840**	**184**	**15**

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

A. Business Rates Retained Income

	£000
Retained Income (including S31 grants for reliefs)	6,307
Less: Levy to the Norfolk Pool for economic development & pooled growth	(57)
Less: Norwich Business Rates 2019/20 and 20/21 deficit distribution	(17,293)
Plus: Transfer of prior year S31 grant from earmarked reserves	17,167
Total Business Rates Income 2021/22	**6,124**

B. Council Tax Calculation 2021/22

	No.	£
Budgetary requirement		**17,013,240**
- Revenue Support Grant		(217,280)
- Business Rates Distribution		(6,124,437)
= Council tax requirement		**10,671,523**
- Surplus on collection fund		(75,133)
- Local council tax support grant		(318,907)
=Total Council tax income		**10,277,474**
Band D Equivalent properties	37,408	
Council tax (Band D)		**274.74**

C. Council tax increases 2020/21 to 2021/22, Bands A to H

Band	A	B	C	D	E	F	G	H
2020/21	**£179.59**	**£209.52**	**£239.45**	**£269.38**	**£329.24**	**£389.10**	**£448.97**	**£538.76**
Increase	£3.57	£4.17	£4.76	£5.36	£6.55	£7.75	£8.93	£10.72
2021/22	**£183.16**	**£213.69**	**£244.21**	**£274.74**	**£335.79**	**£396.85**	**£457.90**	**£549.48**

Appendix 2 (F): 2021/22 list of proposed budget savings/increased income

Budget options – contract efficiencies, budget rebasing and review of recharges

	Theme	Description	2021/22 £000
1	Contract Reviews	Variations to existing contracts through delivering efficiencies and varying charging mechanisms	366
2	Alternative funding sources	Transfer of housing eligible expenditure to the Housing Revenue Account. Inclusion of new grant funding sources (i.e. Towns' Fund).	282
3	Budget rebasing	Minor budget reductions to reflect the current need	245
			893

Budget options – income generation

	Directorate	Service Area	Title	Description	2021/22 £000
4	Neighbourhoods	Parks and Open Spaces	Parks parking charges	New income stream generated by charging for parking in parks which currently provide free parking.	50
5	Neighbourhoods	Cemeteries	Growth in cemeteries income	Increase in access to green burials, and the use of Rosary Cemetery.	50
6	Neighbourhoods	Cemeteries	Increased cemeteries charge	Annual increase in fees in line with inflation and benchmarking.	20
7	Neighbourhoods	Integrated Waste Management	Increased garden waste charge	Price increase for garden waste subscriptions from £52 to £55 p.a. (6% increase)	29
8	Neighbourhoods	Community Centres	Community Centre transfer	Commercially run community centres - possible change to commercial let / sale for 2-3 properties	33
9	Neighbourhoods	Environmental Services	Clinical waste subsidy removal	Remove subsidy on commercial clinical waste disposal charges to several institutions	24
10	Resources	Financial Arrangements	Norwich City Services Ltd loan interest	Interest from Norwich City Services Ltd on loan for depot improvements	34
					240

Budget options – service transformation

	Directorate	Service Area	Title	Description	2021/22 £000
11	Place	Off-Street Parking	Alternative parking payment options	Increased payment options for car parking payments resulting in reduced cash collection costs and an assumed increase in income (as seen in other authorities).	111
12	Place	Pool Cars	Pool car fleet	Rationalisation of vehicle fleet	14
13	Place	Planning	Planning staffing	Reduction in an admin post which is currently vacant.	18
14	Resources	Revs and Bens	Revs & Bens Automation	5% efficiency target split across 2 years supported by the automation of tasks through investment in systems.	92
15	Strategy & Culture	IT Services	IT cost reductions	Renegotiation and rationalisation of multiple contracts	175
16	Strategy & Culture	Customer Contact	Digital First	Digital delivery of services following customer behaviour changes and channel shift during Covid-19. This will build on the work already done through full automation in parking permits and our successful appointments based approach.	114
17	Strategy & Culture	Tourism	Visitor Information	Re-focus on online information to align with customer behaviour changes as a result of Covid-19. Also develop an enhanced policy role to maximise and support partnership working.	113
18	Strategy & Culture	Mail Handling	Postage savings	Reduced postage costs linked to e-Billing and channel shift.	100
19	Strategy & Culture	Leisure	Leisure & culture post	Removal of vacant posts	48
	Multiple			Efficiency stretch targets across a number of service areas where full proposals were not available, but where there are regular underspends or ongoing system developments that have not yet delivered clear benefits.	90
					875

Short Term Savings

	Directorate	Service Area	Title	Description	2021/22 £000
20	Neighbourhoods	Cemeteries	Repairs cap	One year cap on general repairs and maintenance spend - only essential H&S works will be completed	10
21	Neighbourhoods	Street Cleansing	Street cleansing budget cap	One year cap in spend on the other contractual services budget	15
22	Neighbourhoods	Neighbourhood Operations	Neighbourhood ops budget cap	One year cap in spend on the projects budget.	8
23	Neighbourhoods	Housing Improvement Agency	Revenue contribution to capital	Reduction in revenue contribution to capital for Disabled Facilities adaptations - team costs covered by grant.	20
24	Place	NPSN Core Fee	NPSN core fee	5% reduction on GF element of the core fee	52
25	Place	General fund property repairs	GF responsive repairs	Reduced repairs budget on responsive repairs and planned maintenance (no reduction in programmed maintenance (safety and compliance))	325
26	Place	NPSN Pension Contribution	NPSN pension costs	Reduced pension contribution costs payable based on actuarial assessment.	85
27	Place	Environmental Strategy	Environmental Service events	Temporarily reduce environmental public events due to uncertainty over impact of Covid-19.	7
28	Place	Joint Ventures	NPSN Profit	Profit share assumption per NPSN business plan GF share.	25
29	Resources	Financing Arrangements	Interest cost reduction	The one-off saving figure based on analysis of expected external borrowing requirement during 21/22.	1,140
30	Strategy & Culture	Events	Events reduction	Temporarily reduce annual offering because of uncertainty around Covid-19 and link more closely to available grant funding.	226
31	Strategy & Culture	Norman Centre	Norman Centre cost reduction	Reducing expenditure to partially offset expected income losses in 21/22 relating to Covid-19.	4

	Directorate	Service Area	Title	Description	2021/22 £000
32	Strategy & Culture	St Andrews Hall	St Andrews cost reduction	Savings on expenditure e.g. temporary staffing costs and electricity costs if events do not go ahead. However, these savings will only go some way to covering loss of income.	25
					1,942

Appendix 2 (G): 2021/22 list of proposed budget growth

Permanent Growth

	Directorate	Service Area	Title	Description	2021/22 £000
33	Neighbourhoods	Waste Management	Recycling costs	Additional costs per tonnage for recycling	120
34	Neighbourhoods	Licensing	Licensing resource	Licensing business support post	20
35	Place	Asset Management	Site management	Additional gypsy and traveller site management costs	54
36	Place	Tree maintenance	Tree maintenance	Maintenance to trees located on General Fund sites	20
37	Place	Planning Fee	Planning fees	Reduction in planning fee income based on recent performance during Covid-19 and future assumptions.	170
38	Place	Planning	CNC Building Control	CNC building control - payments to cover contractual obligations.	23
39	Place	Car Parks	Business Rates	Business rates for re-opened Barn Road car park	42
40	Resources	Legal Services	Increased legal costs	Additional costs following re-provision of legal services contract	25
41	Resources	Elections	Electoral Management System	Development of systems to improve the efficiency of the electoral service (subject to business case)	30
42	Resources	HR	Additional HR resource	Additional resource to align with increased demand.	56
43	Resources	External Audit	Audit fee	Audit fee rise from additional regulatory changes.	30
44	Resources	Finance	Income budget rebasing	Cheque write-offs - unachievable income linked to reduced cheque use	80
45	Resources	Insurance	Insurance costs	Additional insurance premium costs	36
46	Strategy & Culture	Strategy	Digital Inclusion	Extension of Digital Inclusion Post following end of grant funding	23
47	Neighbourhoods	Environmental Services	Pension Rebate	Removal of pension rebate following end of joint venture arrangement	120
48	Various			Other minor growth (less than £10k individually)	22
					871

Short Term Growth

	Directorate	Service Area	Title	Description	2021/22 £000
49	Neighbourhoods	Citywide Services	NNE profit share	NNE profit share - possible reduction in Y1 for NSCL	110
50	Neighbourhoods	Licensing	Licensing income	Estimated reduction in income due to the impact of Covid-19	121
51	Place	Asset Management	Client asset manager	Additional resource for commercial property management	72
52	Place	Asset Management	Commercial rents	Projected reductions in commercial rental income due to impact of Covid-19	400
53	Place	Asset Management	Provision market	Adjustment in income budget to reflect a 5% void assumption	38
54	Place	Asset Management	Heating Boilers	Isolation valve maintenance for City Hall boilers	5
55	Place	Asset Management	City Hall rental income	Loss of rental income from vacant area within City Hall	27
56	Place	Asset Management	Bus shelter adverts	Reduction in forecast bus shelter advertising revenue	120
57	Place	Car Parks	Rose Lane MSCP	Additional battery costs for emergency lighting	5
58	Place	Car Parks	Multi-storey car parks	Projected reductions in income due to the impact of Covid-19	926
59	Place	Car Parks	Off-street car parks	Projected reductions in income due to the impact of Covid-19	539
60	Place	Planning	Greater Norwich Growth Plan	Additional contribution to pay for one off costs of examination	55
61	Resources	Finance	Interest income	Loss of interest income from investments due to nil or negative interest rates	190
62	Resources	Human Resources	Employee costs	Additional resource - transactional team leader	23

	Directorate	Service Area	Title	Description	2021/22 £000
63	Strategy & Culture	Culture	Leisure Services	Short term funding to address Covid-19 pressures	330
64	Strategy & Culture	Culture	The Halls	Projected reductions in income due to the impact of Covid-19	150
65	Strategy & Culture	Culture	The Norman Centre	Projected reductions in income due to the impact of Covid-19	37
66	Strategy & Culture	Strategy		Temporary business change resource	27
					3,175

Appendix 2 (H): Invest to Save Spend & Business Change Reserve Allocations 2021/22

	Description	General Fund	HRA	Total 2021/22
		£000	**£000**	**£000**
1	Project Place – resourcing costs associated with the insourcing of the joint venture contracts.	310	464	774
2	Transformation resource including change manager and programme manager	156	0	156
3	Revenues and Benefits overpayment and revenue collections resource	79	0	79
		545	**464**	**1,009**

At this stage the figures are estimates of the required funding and other projects are expected to be identified during the year as part of the service reviews. Updates to the use of the Invest-to-Save and Business Changes reserves will be made through the budget monitoring reports taken to Cabinet throughout 2021/22.

Appendix 2 (I): Update on consultation responses on the vision and proposed budget for 2021-22

[To be updated following the closure of the consultation period]

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 XXX responses were received. No data has been weighted. Number of respondents shown in brackets.

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.

Section A: Income received through council tax

1. To what extent do you support the council raising its share of council tax by 1.99 per cent in 2021-22 and using that money to protect key services in the future?

- Strongly agree (XX) XX%
- Agree (XX) XX%
- Neither agree nor disagree (XX) XX%
- Disagree (XX) XX%
- Strongly disagree (XX) XX%
- Don’t know (XX) XX%

B: Our Approach to Making Savings

2. Generating an additional £740,000 of savings through back office efficiencies and contractual changes.

   Do you agree with this approach to generating savings?

- Strongly agree (XX) XX%
- Agree (XX) XX%
- Neither agree nor disagree (XX) XX%
- Disagree (XX) XX%
- Strongly disagree (XX) XX%
- Don’t know (XX) XX%

3. Generating an additional £252,000 through measures such as reviewing our level of fee and charges and income from council assets.

   Do you agree with this approach to bringing in income?

- Strongly agree (XX) XX%
- Agree (XX) XX%
- Neither agree nor disagree (XX) XX%
- Disagree (XX) XX%
- Strongly disagree (XX) XX%
- Don’t know (XX) XX%

4. Generating an additional £775,000 through making changes to our services, so that they cost less to run and we can save money.

   Do you agree with this approach?

   - Strongly agree (XX) XX%
   - Agree (XX) XX%
   - Neither agree nor disagree (XX) XX%
   - Disagree (XX) XX%
   - Strongly disagree (XX) XX%
   - Don’t know (XX) XX%

Appendix 2 (J): Use of Technical Virements

A number of budget adjustments are expected to be required during the year for purely technical reasons.

These adjustments will include:

- Adjustments within the same cost centre and nominal area i.e. employee, premises, transport etc.
- Internal and central support recharges
- Realignment of budgets for repairs and insurance charges between cost centres
- Allocation of the centrally held inflation allocations
- Realignment and grossing up of budgets to reflect specific changes in grants or external funding (both capital and revenue)
- Adjustments required or arising from specific decisions approved by Council or Cabinet
- Allocation of sums to or from pooled/contingency budgets where these are within the overall budget but awaiting detailed allocation e.g. vacancy allowance
- The movement of budgets for specific functions or areas of work either within directorates or between directorates where the changes are for purely structural or reporting purposes and there is no change in the overall purpose for which the funding was allocated.

The Cover Report includes a recommendation that the approval of technical virements are delegated to the Chief Finance Officer (S.151 officer). It is proposed that these technical virements will not require in-year reporting to Cabinet. Any virements which are not technical in nature will continue to require approval within the existing delegated limits and be reported to Cabinet during the course of the year.

HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN AND 2021/22 BUDGET

Introduction

3.1 A suitable, decent and affordable home is fundamental to residents being able to enjoy a good quality of life. Norwich City Council has a proud tradition and history of building and providing good quality affordable housing for a significant number of the city's residents.

3.2 However, we are managing an increasingly scarce but precious resource. A growing population and the challenges of building new and maintaining existing homes to meet need and replace those lost through right to buy mean that the efficient, effective management of council houses, tenancies, waiting lists and lettings becomes more and more critical. In addition to these core management tasks are contributions and interventions on wider agendas, such as fuel poverty, digital inclusion and other social inequalities relating to health and well-being and poverty. This is compounded by work needed to management and renew from the Covid-19 pandemic and climate change. The council's budgets reflect and underpin the priorities we have set to meet these challenges.

3.3 The money that tenants pay in rent, coupled with income from some assets owned by the council, goes into the 'ring fenced' Housing Revenue Account (HRA). Over the last ten years, the council developed a sustainable HRA business plan that allowed the council to invest in the homes we already have, to meet the Norwich Standard, an enhanced decent home standard and to build new ones. The future sustainability of the HRA business plan balances our ambition to build and improve homes for social rent, with our need to maintain existing stock. The enforced 1% annual rent reduction from 2016 resulted in a loss of £222m over the life of the 30-year business plan but remedial action means the HRA remains relatively healthy particularly when modelled over longer periods.

3.4 The general downturn in the health of the UK economy, as well as the continuing implications of welfare reform (including the roll out of Universal Credit) has had a negative impact on the ability for many tenants to pay their rent. Covid-19 and the unknown impact of Brexit with exacerbate this impact.

3.5 Reduced spending on other essential public services provided by other agencies (e.g. social services and policing) has also increased the challenges facing the council in supporting tenants to sustain their tenancies, and in supporting and accommodating more vulnerable people with complex needs.

3.6 Whilst much of the HRA income is spent on repairs, maintenance and the upgrade of council homes, the HRA business plan creates opportunities to explore how HRA resources may support the council's developing and wider thinking about council housing.

3.7 The HRA Strategy adopted in November 2019 and the business plan informs all of the decisions about council housing including where, when and what new council housing is built - how much should and is spent on maintenance and management - what informs the way homes are allocated and let and how the council supports tenants to sustain tenancies.

3.8 Council homes and lifetime tenancies are considered a real asset, not a property or tenure of last resort and as a fundamental element to the life and future shared prosperity of the city. In this way the council's decisions can be based on the vision for the city, on housing need and peoples' aspirations and informed by financial realities.

National Policy Context

3.9 The HRA operates within a political environment therefore any changes in national housing policy can have a significant impact on our HRA Business Plan. Potential national policy impacts are factored into the business plan each year.

3.10 Welfare Reform represents the biggest change to the benefits system in a generation. Supporting our tenants through Welfare Reform and in particular the transition to Universal Credit continues to be a key priority. The roll out of Universal Credit has accelerated over the past year and will continue to be a key concern.

3.11 The draft Building Safety Bill published in July 2020 to bring forward reforms of the building and fire safety following the horrific Grenfell Tower fire in June 2017. In October, the government published the Social Housing White Paper which sets out a Charter for Social Housing Residents and also outlines plans for new regulation, a strengthened Housing Ombudsman to speed up complaints, and a set of tenant satisfaction measures that social landlords will have to report against.

3.12 The government has also launched a further consultation on mandating smoke and carbon monoxide alarms in rental homes, and has published a response to the Social Housing Green Paper consultation and Call for Evidence on the Review of Regulation.

Local Policy Context

3.13 The HRA business plan is set within a wider strategic context of the overall ambitions of Norwich City Council and those of the neighbourhood housing service.

3.14 Norwich City Council's '2040' Vision sets out the themes and ambitions for the city and for its citizens to continue to drive Norwich forward whilst ensuring that the benefits of success are felt by all residents. As a council, our corporate vision is to make Norwich a fine city for all and to put people and the city first.

3.15 In delivering its ambition, the council will focus on three main priorities:
- Great Neighbourhoods, housing and environment
- Inclusive economy – making sure that everyone who lives here can contribute to and benefit from, the city's success.
- People live well

3.16 Norwich City Council's corporate plan aims to capture the long-term ambitions for Norwich. The HRA business plan will continue to help support the corporate plan and feed into the key priorities for the council. As well as the overall corporate plan, the HRA Business Plan will also help to support a range of other related housing and corporate strategies.

The Housing Service

3.17 Our council housing ambition is to "provide good quality, well maintained affordable homes to meet local housing needs within a safe, clean and well cared for neighbourhood. We want to make a difference to peoples' lives by promoting independent living and to build sustainable communities, where people take responsibility for their own lives and those of their families". In order to achieve our vision we have identified four primary goals.

- 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.

Meeting Housing need - Delivering new homes

3.18 The council has worked in partnership with registered providers and developers (and its own wholly owned housing company) to increase the supply of homes for social affordable rent. Up to 300 additional homes are planned for major developments in small and medium sized sites including at Mile Cross, Argyle Street and Rayne Park as the Council gears up to commission and develop more social housing.

Maintaining and improving condition of existing housing

3.19 Each year the Housing Revenue Account spends around £8m on responsive repairs to its properties. These works are currently delivered by joint ventures but from 2022 will transfer to the wholly council owned Norwich City Services Ltd. (NCSL).

3.20 Stock condition surveys are carried out every five years on a rolling programme and form the basis of a revised 60-year investment plan and capital programme.

3.21 Currently our work on maintaining and improving condition of existing housing is based on all homes meeting the Norwich Standard. Enhancing the UK government's Decent Homes Standard, the council adopted the Norwich standard which requires that Norwich council homes will have:

• Kitchens no more than 20 years old.
• Bathrooms no older than 30 years.
• Heating boilers no older than 15 years.
• 100% with composite doors and electrical rewiring.

3.22 98% of our homes meet the Norwich Standard where tenants have agreed to the work taking place.

3.23 Our future capital and revenue spending programme will need to be mindful of the wider aspects of the older stock, to inform a strategy to ensure all stock is fit for the future. Options may be to remodel existing dwellings, dispose of poor performing dwellings and/or redevelop some properties to extend lifespan or improve the suitability and/or condition of the housing supply.

3.24 Following the Grenfell tragedy, the council completed fire safety works totalling in excess of £2m to ensure that in the unlikely event a fire starts, it is contained within the compartments of the dwelling as designed.

3.25 Built in the sixties with a 60-year lifespan, a recent review has highlighted significant costs emerging for the repair and maintenance of flats and the eight tower blocks.

Improving the use and management of our existing homes

3.26 Norwich has some aspects of housing that are distinctive, such as the relative popularity of living in tower blocks for existing tenants, but less enthusiasm among applicants. Only a third of our homes are families with children; of the 14,657 properties that the council own (April 2020), over half are flats. An increasing number of our new and existing tenants and applicants have needs other than requiring a home and some have very challenging needs, ranging from physical disability to mental health issues, providing a backdrop to the work we do which means that the Council is not and cannot be 'just a landlord'.

3.27 From a tenancy management perspective, we know the overwhelming majority of demand on the service relates to a minority of tenants requiring help and support to manage their tenancies and rent accounts. Our core function in terms of rent, is to make sure people can and do pay. Rent should not be seen as an optional payment, but a building block for living independent, active lives.

3.28 We are making a significant investment in IT systems to maximise the ability of tenants to do business with us digitally where desirable and necessary, but being mindful that not everyone can.

3.29 We will continue to provide timely money advice to people to maximise income and minimise cost to families, who may be struggling to make ends meet. Our properties will be well maintained throughout the life of the tenancy, but will be of a Norwich standard at letting.

3.30 We will continue to develop a comprehensive range of tenant involvement techniques that seek to engage all tenants in the management and shaping of the services available.

3.31 We will continue to build on the undoubted pride people feel about Norwich council housing, its history and tradition. We can do this by making sure council homes are a positive housing choice, not housing as last resort, by valuing the principle that the landlord role should respect a tenant's right to quiet enjoyment, fulfil our obligations as a landlord, champion tenants' rights and involvement and play our part in ensuring people can live in peace with their neighbours and live safely in well cared for neighbourhoods.

Improving our neighbourhoods

3.32 From April 2021, the housing service sits within the Community Services directorate and, in addition to the HRA expenditure on local open and communal amenities, also invests in wider projects which benefit the whole neighbourhood.

3.33 In the 2019/20 financial year, a £1m budget was set (an increase of 300%) to target areas in need of enhancement. This is in addition to our ongoing programmes to improve community safety and deter crime.

3.34 The model also provides an opportunity to more effectively deliver against the current neighbourhood strategy objectives. These are, that a successful, sustainable Norwich Standard neighbourhood will be:

- clean and well cared for by the community and the council
- feel safe to live in and move around
- contain community facilities and activities that cater for the needs of its community; whether young, old or with special or particular needs and interests
- have local people who take responsibility for their own lives and those of their family
- have lively challenging community organisations that champion the needs of the people and the neighbourhood and who work to meet those needs independently.

3.35 Our neighbourhoods are clean and well cared for, though there exists some problematical locations. We continue to look at ways to improve them to ensure we meet our obligations and the standards we set, within the resources available to us.

3.36 The HRA will continue to contribute to this joint work and work across other priorities. In particular, we need to ensure that HRA spending power does not only deliver first class services, but that the Norwich pound can add value to the local economy. As our services are brought back to the city council, we will continue to make sure our community assets like shops, communal areas and green spaces are seen as contributing to the neighbourhood and valued by local people.

Financial Background and Budget

3.37 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.

3.38 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 2020/21 Outturn

3.39 The latest position on the Housing Revenue Account (HRA), as at period 9, shows a forecast overspend of £0.413m which is largely due to the impact of the Covid-19 pandemic.

Proposed 2021/22 Revenue Budget

3.40 The budget proposes gross revenue expenditure of £63.669m and gross income of £68.708m, generating a surplus of £5.039m (Appendix 3 (A)). It is proposed to utilise this surplus along with a further £10.640m of HRA reserves to make a revenue contribution of £15.679m towards the funding of the 2021/22 HRA capital programme.

Chart 3.1: 2021/22 HRA gross revenue expenditure budget

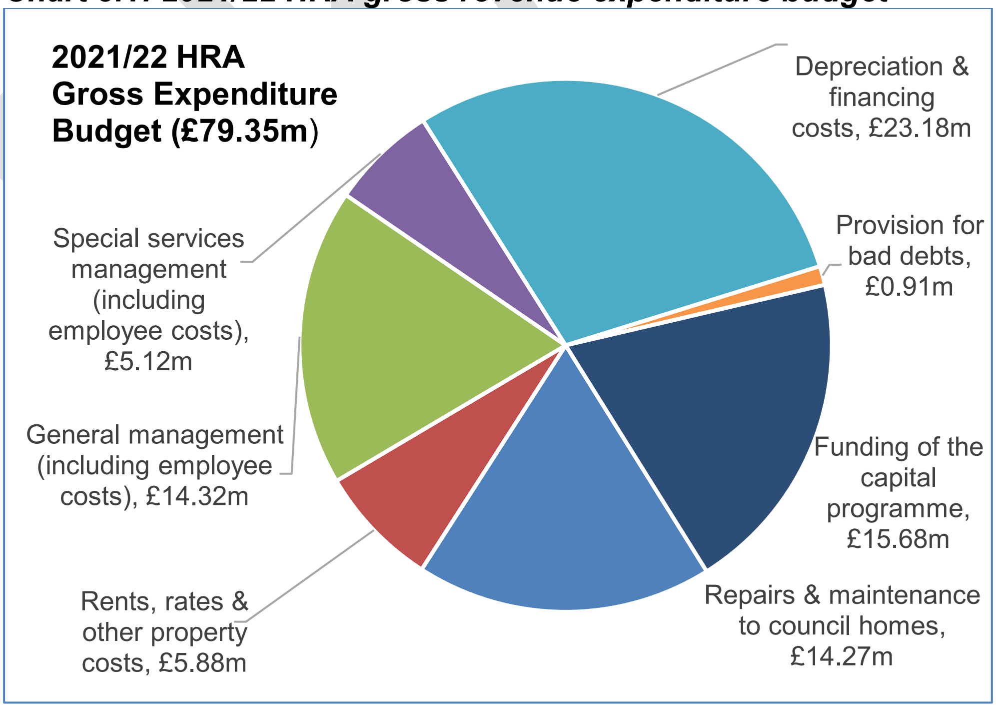
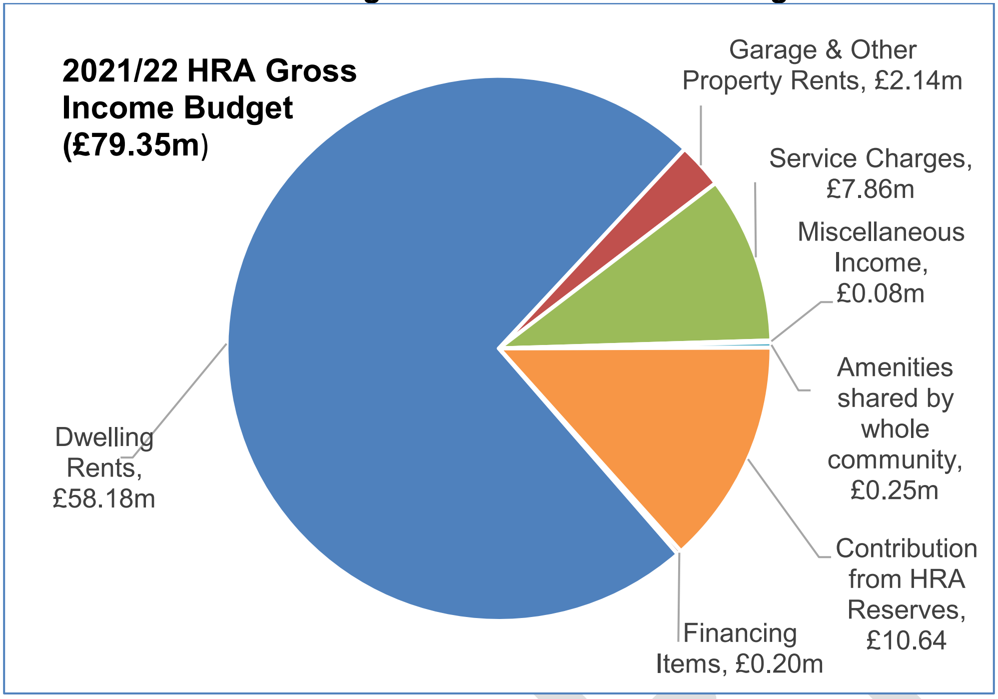


Chart 3.2: 2021/22 HRA gross revenue income budget



3.41 The key movements in the base budget (i.e. 2020/21 approved budget) to arrive at the proposed 2021/22 budget are summarised in Appendix 3 (B).

HRA Business Plan

3.42 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 and the resources required to implement the HRA Strategy.

3.43 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 plan.

3.44 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.

Council housing rents, garage rents, and service charges

3.45 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 was a loss of over £200m in rental income.

3.46 From 2020/21, the enforced 1% rent reduction ended and the Secretary of State issued the Direction on the Rent Standard 2019 which enabled authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1% from April 2020.

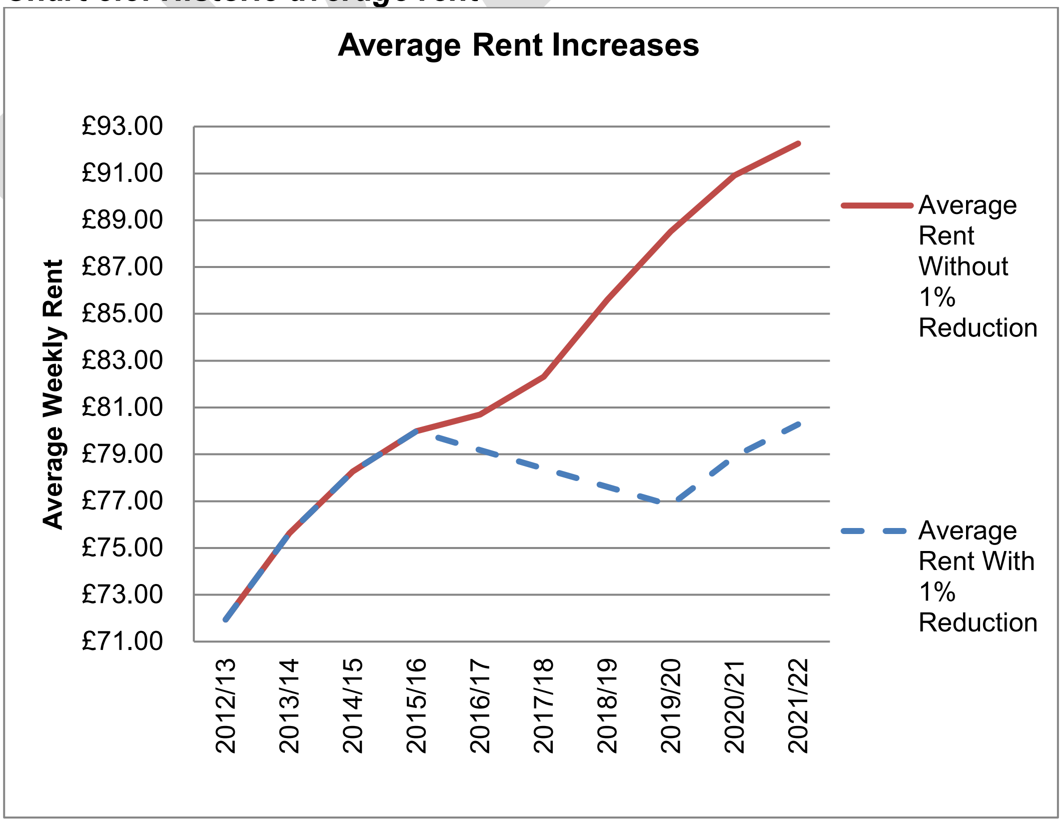
3.47 This results in a dwelling rent increase for 2021/22 of 1.5% which would generate an average weekly rent increase of £1.19 for Norwich tenants. The table below shows the minimum and maximum rent increases at 1.5%.

Table 3.1: Proposed dwelling rent increase 2021/22

Item	Average £	Maximum £	Minimum £
Rent 2020/21	79.09	140.46	54.35
CPI (@ 0.5%)	0.40	0.70	0.27
Additional 1%	0.79	1.40	0.54
Rent 2021/22 (at 1.5%)	80.28	142.56	55.16
Increase	**£1.19**	**£2.10**	**£0.81**

3.48 The impact of the four-year rent reduction is shown in the chart below, which plots the actual average rent against the calculated average rent had a rent reduction not been enforced. The proposed increase of 1.5% would mean that the average weekly rent is still lower than the 2016/17 average weekly rent had the reduction not been enforced.

Chart 3.3: Historic average rent



3.49 Alternative rent increases have been modelled and are shown in the table below along with the forecast impact on HRA borrowing over varying terms.

Table 3.2: Impact of rent increase options 2021/22

Option	Average increase	Year Debt Repayable	Resulting Loss of Rental Income over period	
			30 Years	60 Years
Formula 1.5%	£1.19	2049	-	-
Flat Rate 1%	£0.79	2051	£12.300m	£34.357m
Flat Rate 0.5%	£0.40	2052	£24.599m	£68.714m
No increase	£0.00	2054	£36.899m	£103.071m

3.50 To be updated following the Tenant Involvement Panel consultation on 28th January 2021.

3.51 An initial review of charges for garages has identified 15 different levels and typologies which need to be rationalised as part of the implementation of the new tenancy and estate management IT system. To simplify this process, it is proposed that garage rents are not increased for 2021/22.

3.52 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.

3.53 The impact of the Covid-19 pandemic combined with the continued roll out of Universal Credit is expected to impact on rent collection and associated bad debt. This has been reflected by an increase in bad debt provision budget of £0.708m for 2021/22. In addition, a provision of £1m is included within prudent minimum balance to mitigate against further pressures.

3.54 The void turnaround (period during which a property is unoccupied) has increased to 23 days predominantly due to the Covid-19 pandemic. The current budget provision is calculated on a void rate of 0.62%, which equates to rental income loss for void periods of £0.361m for 2021/22.

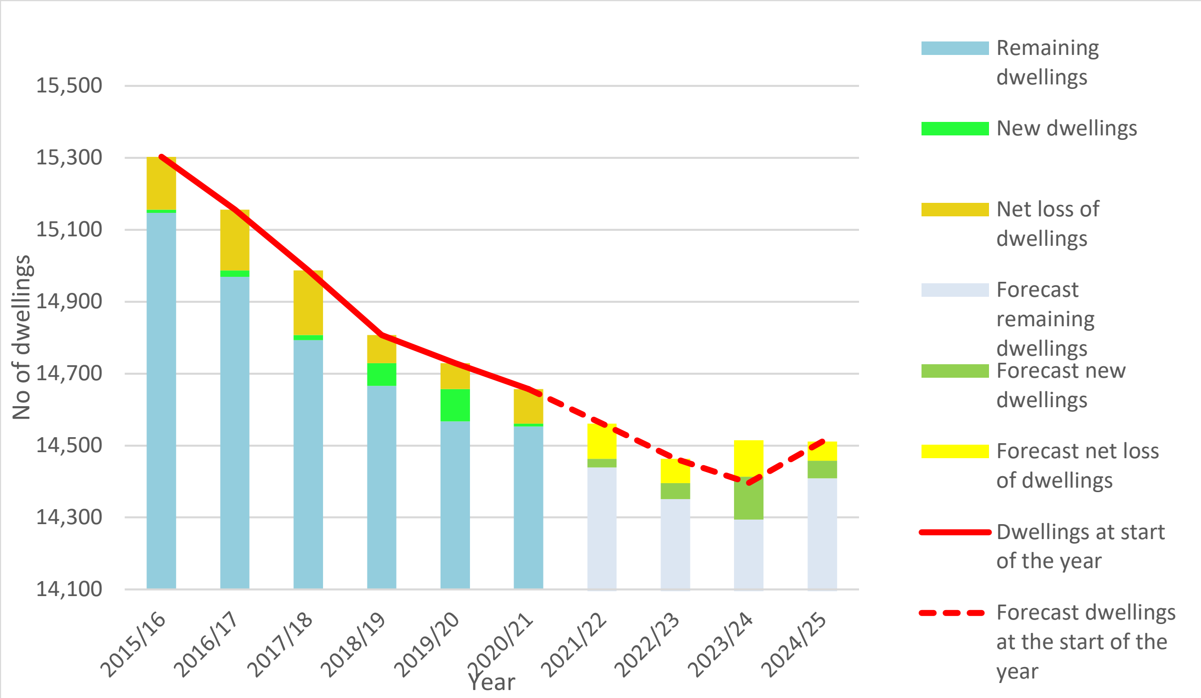
Council dwelling stock levels

3.55 During the first half of 2020/21, the number of Right-to-Buy purchases of HRA dwellings has significantly reduced from the same period in 2019/20, which is likely be due to delays resulting from the Covid-19 pandemic. This is reflected in the business plan, but it is anticipated that although the numbers of purchases may increase again in the short term, they will start to reduce in coming years, with a loss of 120 homes in 2021/22 and 110 in 2022/23, reducing to 100 homes each year for the following 5 years.

3.56 Over the past five years, 795 homes have been lost from social rent. Whilst the council is ambitious in its plans to build new social housing to meet local need, these are at risk of being subject to Right to Buy.

3.57 Table 3.3 below sets out the movement in the level of council housing stock over the past five years along with a forward projection over the next five years. Further detail is provided in Appendix 3 (D).

Chart 3.4: HRA dwelling stock movements



Capital expenditure plans

3.58 The HRA business plan includes expenditure arising from the proposed HRA capital budget as set out in section 4 of this report (capital strategy and 2021/22 capital budget).

3.59 Other major projects 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 additional potential HRA capital projects, the outcome of which is can be found in paragraph 4.37 of this report (capital strategy and 2021/22 capital budget).

3.60 The proposed HRA capital programme is based upon the HRA Strategy which contains 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

3.61 Following the government abolition of the HRA borrowing cap in 2018, the council can determine 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 section 6 of this report (Treasury Management Strategy 2021/22).

3.62 The decision to remove the borrowing cap gives the council more ability to invest in the existing housing stock and to increase its holdings. Future investment will be guided by the housing strategy

3.63 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):

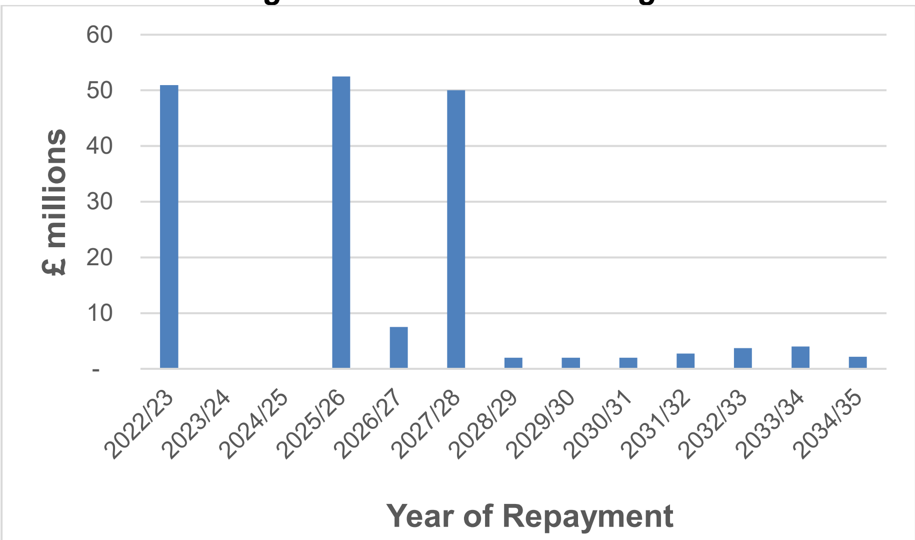
1. Right-to-Buy Retained 'One for One' capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. General HRA capital receipts
5. General Reserves
6. Revenue budget contributions
7. Borrowing

3.64 The current HRA Capital Financing Requirement (the need to borrow) is £207.517m, 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 to the Government 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 £31m of historic external borrowing, the most recent being taken over 23 years ago, along with £25m of internal borrowing.

3.65 HRA assets are currently valued at £809.806m (31 March 2020), which against a borrowing requirement of £207.517m equates to a loan-to-value gearing of 25.626%. This is lower than the national average gearing for local authorities of 28% and registered providers which is in excess of 60%.

3.66 Chart 3.5 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 from the Public Works and Loans Board, whilst all other loans shown constitute historic borrowing which will be repaid within 14 years.

Chart 3.5: Existing HRA external borrowing

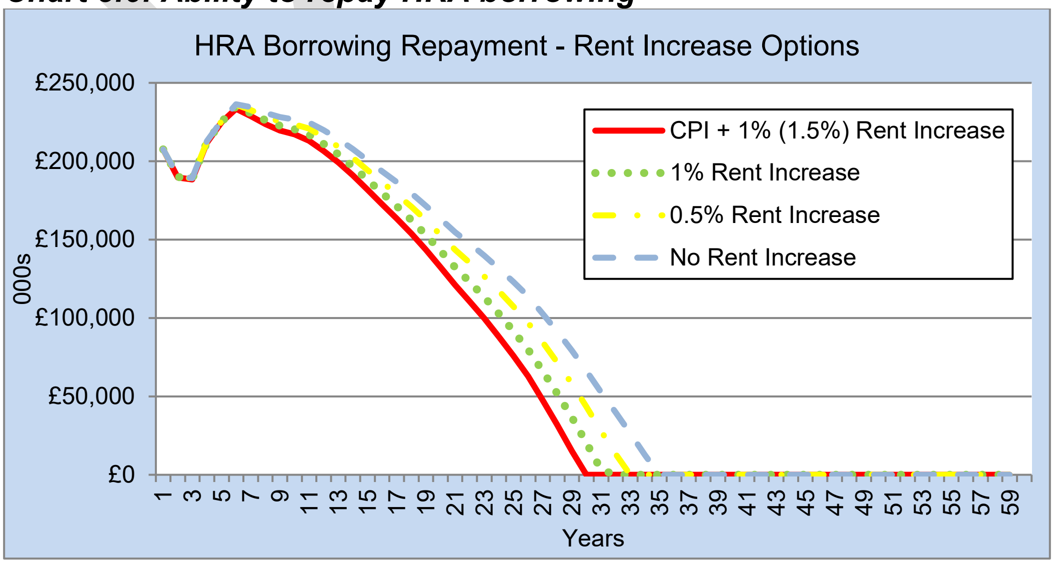


3.67 The HRA business plan assumes that the three significant loans of £50m will be refinanced by external borrowing upon reaching their redemption date, whilst the repayment of lower value loans will be financed through internal borrowing.

3.68 The 2020/21 HRA capital budget proposed in section 4 of this report does not require any new borrowing, although it is anticipated that in order to deliver significant levels of new social housing, additional borrowing will be required in future years.

3.69 The chart below shows that the implementation of a rent increase in line with the government formula (CPI+1%) of 1.5% will enable all borrowing assumed in the HRA business plan to be repaid within 29 years. Any increase lower than government formula will extend the repayment period as shown. The chart also demonstrates that the business plan remains sustainable over the 60 years planning period.

Chart 3.6: Ability to repay HRA borrowing



HRA Reserves Position

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

Table 3.4: Estimated HRA reserves position

Item	£000
Brought Forward from 2019/20	(33,968)
Forecast contribution to balances in 2020/21	(4,570)
Forecast HRA overspend 2020/21	413
Carried Forward to 2021/22	**(38,125)**
Forecast utilisation of balances in 2021/22	10,640
Carried Forward to 2022/23	**(27,485)**

3.71 The prudent minimum level set for the HRA reserve has been adjusted slightly to £5.848m (previously £5.874m) as set out in Table 3.5. The small reduction relates only to the budget based operational risk that exists in non-exceptional circumstances. Additional provision has been made for the risk of additional costs arising from the impact of welfare reforms and the Covid-19 pandemic on the economy and jobs in the city. Further provision is also made for potential interest costs that may arise from having to pay over unspent retained one for one Right to Buy receipts to central government plus other potential risks and unforeseen events.

Table 3.5: Prudent minimum level of HRA reserves

Potential Financial Risk	£000
Calculated operational risk	1,348
Potential issues arising from welfare reform	500
Potential issues arising from Covid-19 pandemic	1,000
Potential interest costs relating to retained one for one receipts	1,000
Unforeseen events	2,000
Estimated required level of HRA reserves	**5,848**

3.72 The level of general reserves is forecast to reduce in 2021/22, but this is due to the council's significant planned investment in new social housing during the year. The estimated reserves to carry forward into 2021/22 remain substantial (£27.485m) which not only provides a flexible funding resource for the HRA, but also ensures the financial resilience of the account and provides the council with options for service delivery and the funding of future capital expenditure whilst managing overall debt.

Appendix 3 (A): 2021/22 proposed HRA budget by service

Division of Service	Budget 2020/21 £000	Budget 2021/22 £000	Change £000
Repairs & Maintenance	13,899	14,273	374
Rents, Rates, & Other Property Costs	5,858	5,875	17
General Management	13,216	14,315	1,099
Special Services (not provided to all tenants)	4,949	5,119	170
Depreciation & Impairment	23,264	23,176	(88)
Provision for Bad Debts	202	910	708
Adjustments & Financing Items			0
Gross HRA Expenditure	**61,388**	**63,669**	**2,281**
Dwelling Rents	(57,545)	(58,179)	(634)
Garage & Other Property Rents	(2,098)	(2,138)	(40)
Service Charges – General	(7,888)	(7,860)	28
Miscellaneous Income	(82)	(82)	0
Amenities shared by whole community	(204)	(254)	(50)
Interest Received	(210)	0	210
Adjustments & Financing Items	(88)	(196)	(108)
Gross HRA Income	**(68,115)**	**(68,708)**	**(593)**
Total Housing Revenue Account	**(6,727)**	**(5,039)**	**1,688**
Revenue contribution to capital	2,148	15,679	13,531
Contribution to/(from) HRA reserve	4,578	(10,640)	(15,218)
Total	**0**	**0**	**0**

Appendix 3 (B): 2021/22 movements from the approved 2020/21 base budget

Adjustment to Base	£000
HRA revenue contribution to capital	13,530
HRA contribution to/(from) reserves	(15,210)
Estates management	193
Employer pension contributions	(10)
Salaries	(81)
Shared services Norse (NNE)	38
Area housing offices	4
Total Adjustment to Base	**(1,536)**

Inflation	£000
Staff salary inflation and increments	87
Pension added years and pension deficit inflationary adjustments	218
Utility costs	71
TV aerial maintenance contract	11
Other (individually under £10k)	(4)
Total Growth and Inflation	**383**

Growth	£000
Bad debt provision	519
Employee/public liability insurance	25
Grounds maintenance contract for HRA areas	140
Insurance of dwellings sold	243
Projects – digital inclusion & financial Inclusion	21
Laundry equipment – lease contract renewal	12
Rayne Park – management fees	14
Repairs relating to general HRA properties	32
Repairs relating to void properties – increase in number of voids	250
Salaries/pension costs – building safety manager & tenancy officer	77
Software development & implementation – one-off revenue costs	415
Postage	42
Water service testing	40
Security improvements for the elderly/disabled	100
HRA additional staff costs	7
Other (individually under £10k)	13
Total Growth	**1,950**

Income Reduction	£000
Reduction in service charge income	375
Reduction in loans pool	210
Rents dwelling – void element	131
Rents garages – void element	99
Rents shops – void element	42
Reduction in commission from water	16
Other income reduction (individually under £10k)	4
Total Income Reduction	**877**

Savings	£000
Salaries/Pension costs	(17)
Sheltered alarm contract	(140)
Repairs – decrease in costs including general estate tidiness	(232)
Reduced unmetered water charges – due to move to metered supply	(217)
Professional advice/fees – desktop asset valuation only	(15)
Other savings (individually under £10k)	(15)
Total Savings	**(636)**

Income Increase	£000
Proposed increase in housing rent	(766)
Proposed increased income from service charges	(300)
Total Increased income	**(1,066)**

Recharges	£000
Central departmental support	325
Grounds maintenance recharge	(78)
Recharge for new ASB team costs	(112)
Repair recharges	11
Reduction in pool car recharges	(15)
Reduction in parking permit recharge	(23)
Reduction in property services support (NPSN) recharge	(127)
Recharge for general fund staff time spent on RITA project	34
Other recharges (individually under £10k)	11
Total Recharges	**27**

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

Project	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s
Meeting housing need - delivering new homes					
New Social Housing	17,378	20,812	15,165	4,748	2,920
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	6,290	8,450	8,800	8,500	8,000
Home Upgrades	8,535	7,233	6,686	5,965	6,580
Window & Door Upgrades	3,690	3,450	3,300	2,750	1,750
Improving the use and management of our existing housing stock					
Independent Living Upgrades	1,350	1,450	1,650	1,200	900
Sheltered Housing Regeneration	132	121	30	30	30
Heating Upgrades	6,675	5,325	4,500	4,150	3,900
Thermal Upgrades	575	1,125	1,000	1,000	1,000
Improving our neighbourhoods					
Community Upgrades	1,420	1,270	950	900	900
Community Centres	34	25	25	25	25
Fees	710	710	710	710	710
Total Proposed HRA Capital Programme	**48,839**	**52,021**	**44,866**	**32,028**	**28,765**

Appendix 3 (D): HRA dwelling stock movements

Council dwellings	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
No of dwellings at start of year	**15,303**	**15,156**	**14,987**	**14,807**	**14,729**	**14,657**	***14,561***	***14,463***	***14,396***	***14,511***
RTB sales in year	(151)	(163)	(187)	(138)	(156)	*(100)*	*(120)*	*(110)*	*(100)*	*(100)*
Non-RTB sales in year	(2)	(7)	(7)	(3)	(6)	*(4)*	*(2)*	*(2)*	*(2)*	*(2)*
Dwellings demolished	0	(17)	0	0	0	*0*	*0*	*0*	*0*	*0*
Dwelling conversions	(3)	2	4	2	2	*0*	*0*	*0*	*0*	*0*
New build dwellings	9	16	10	61	87	*0*	*14*	*35*	*207*	*39*
Dwelling acquisitions	0	0	0	0	1	*8*	*10*	*10*	*10*	*10*

Shaded cells in italics denote forecast movements

4. CAPITAL STRATEGY 2021/22 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 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).

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 service review programme and the formation of a housing commissioning team.

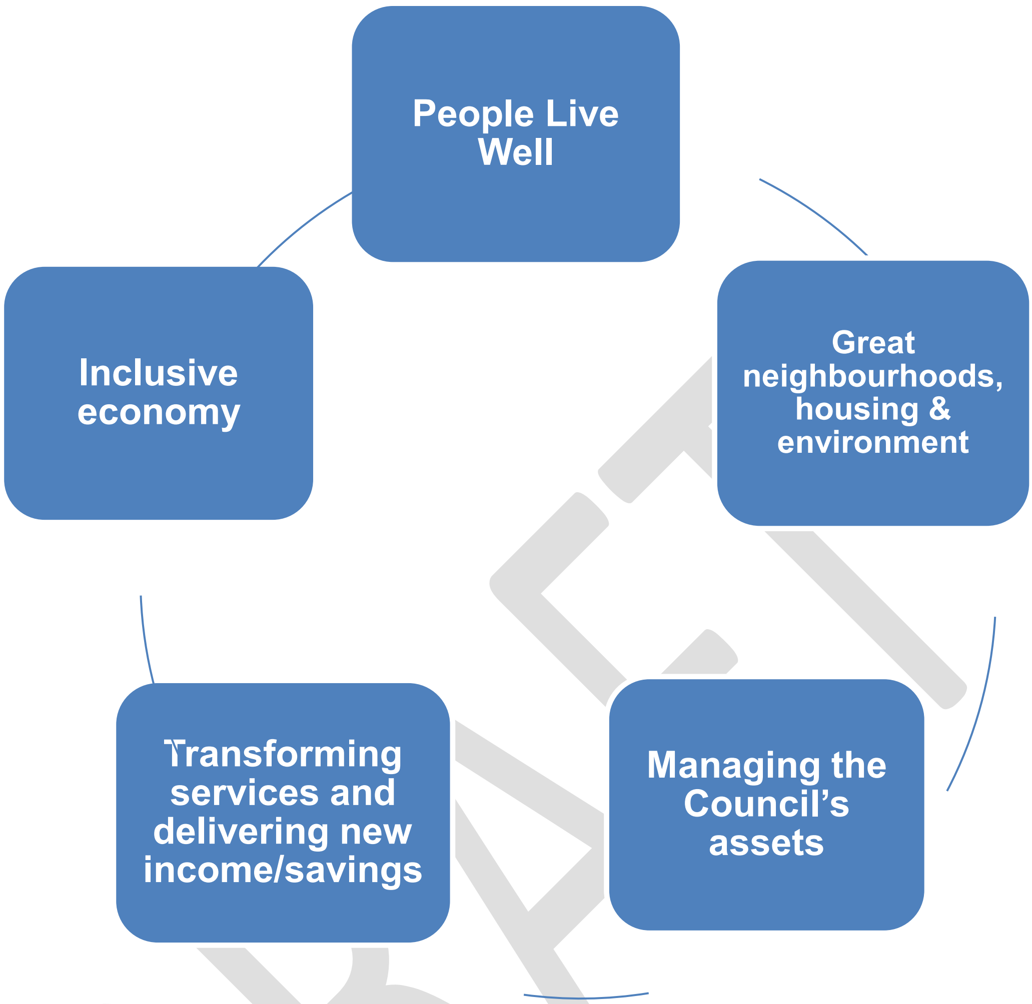
- The need to maintain or improve the physical condition of existing assets as they deteriorate, are less "fit-for-purpose", or fail to comply with regulatory requirements. These considerations are part of asset management planning.

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 future projects, that will deliver these objectives.

4.7 The council holds comprehensive data regarding the condition of its HRA property and continues to progress the undertaking of condition surveys on its general fund assets which will enable it to prepare longer term capital plans in the future.

4.8 This strategy will continue to evolve, and the time period it covers lengthen, as the council learns more about the condition of its general fund assets. It will be reviewed on an annual basis and officers will also keep under review good practice amongst other local authorities.

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 9 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

People live well	Great neighbourhoods, housing & environment	Inclusive economy	Managing the Council's assets	Transforming services and delivering efficiencies
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	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	Capital expenditure plans can contribute to this corporate priority by: • Mobilising investment that promotes a growing, diverse, innovative and resilient economy	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	The Council aims to be financially self-sufficient, to ensure the long-term sustainability of service delivery. Capital expenditure plans can contribute to the council's mission by investing capital in projects that generate savings in the revenue budget.
The capital strategy includes: • Access and infrastructure improvements to Ketts Heights and 21 Acre Wood • Improvement of facilities in parks • Disabled Facilities Grants • Development of the Make Space at the Norwich Halls project	The capital strategy includes: • Energy efficiency, electrical and roofing works at community centres • Establishment of a Compulsory Purchase Order revolving fund • Public realm improvements at St Giles and Hay Hill • New social housing developments at Mile Cross, Three Score, Argyle Street, Northumberland Street, Ailwyn Hall and King's Arms site • Significant council house upgrade programme	The capital strategy includes Towns' Fund investment enabling third-party providers to deliver the following projects: • Establishment of the Advanced Construction and Engineering Centre • Establishment of a digi-tech factory • Establishment of a digital hub	The capital strategy includes: • Works to increase energy efficiency at a number of properties • Installation of solar photovoltaic panels on the new NCSL depot • Rolling programme of major repairs to the city wall and closed churchyards • Works to enable the letting of Waterloo Park Cafe • Major refurbishment works to property at Exchange Street, Guildhall Hill and Ber Street • Electrical upgrades at St Andrew's Hall • Replacement boilers at the Norman Centre	The capital strategy includes: • Acquisition of IT, tools and equipment on behalf of NCSL • Investment in East Norwich development

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 932 property and land assets held by the General Fund and 14,879 held by the HRA. This is very high in comparison 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.

4.13 In overall terms the council's land and property holdings cost the council approximately £23.5m per annum and bring in a yearly income of £71.3m. 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 2019/20 was £1,030m.

4.14 The key asset classes are shown in table 4.2, along with the approximate number of assets held.

Table 4.2: the council's key asset classes

Asset class	No of assets
HRA property	14,879
Property and land portfolio	448
Car Parks	13
The Market	1
Operational Assets	5
Community Centres	15
Leisure, parks & open spaces	354
The Halls	1
Heritage assets	93
Cemeteries	2

General Fund asset management planning

4.15 The council currently does not have an up-to-date Asset Management Plan, although work continues to draw one together. In addition, many of the general fund assets have not had a condition survey undertaken in the recent past. Work is ongoing to address this but it will take some years to complete. It has therefore been 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 recent years with capital expenditure continuing to be being undertaken for emergency health and safety reasons rather than being planned and sustained investment.

4.17 When the focus is on reactive instead of planned improvements, the cost of works tends to be greater. This also has an adverse impact on the council's revenue repairs and maintenance budget.

4.18 An initial view, without having the benefit of up-to-date condition surveys for all assets held, is that in excess of £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 optimising 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 Comprehensive 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 £129m in the last six financial years in the HRA dwelling stock. These planned improvements have had the additional benefit of reducing the reactive repairs and maintenance revenue budget by £1.9m or 11.8%.

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

- 8.7% of the housing portfolio is over 90 years old.
- 27.2% of the stock is between 70 and 90 years old.
- 5,227 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 council housing strategy has now been adopted covering a five year period and identifies the following four primary goals:

- 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.

4.26 The proposed HRA capital programme seeks to contribute towards achieving these goals. Further detail is included within part 3 of this report – HRA business plan and 2021/22 budget.

Capital expenditure plans

4.27 The expenditure plans consist 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 2021/22 capital programme for delivery within that period.

- 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. Additional future projects that may arise will require a full business case for cabinet and council approval before they can be incorporated into the capital budget and implemented.

Forecast 2020/21 outturn

4.28 The latest forecast position as at period 9 shows the general fund capital programme is forecast to underspend by £31.959m and the Housing Revenue Account (HRA) capital programme is forecast to underspend by £29.099m. However, it is anticipated that an element of this will form a carry-forward request to enable some of the unspent budgets to be utilised in 2021/22.

2021/22 to 2025/26 capital programme

4.29 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 2021/22, although many of the projects proposed for 2021/22 will continue into 2022/23. The council continues to work towards a five-year rolling capital programme, which will provide greater certainty for delivery as well as for financial and resource planning.

4.30 The table below summarises the proposed 2021/22 overall capital budget along with indicative spending plans from 2022/23 to 2025/26. Details setting out the proposed projects and programmes within the general fund and HRA are found in Appendix 4 (B).

Table 4.3: General Fund and HRA capital programme

Directorate	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
General Fund (GF)						
Community Services	2,841	3,976	1,515	1,515	1,515	**11,362**
Development & City Services	17,961	7,627	1,904	1,465	2,103	**31,060**
Total GF Proposed Capital Programme	**20,802**	**11,603**	**3,419**	**2,980**	**3,618**	**42,421**
Housing Revenue Account (HRA)						
Community Services	29,411	29,159	27,651	25,230	23,795	**135,245**
Development & City Services	19,428	22,862	17,215	6,798	4,970	**71,273**
Total HRA Proposed Capital Programme	**48,839**	**52,021**	**44,866**	**32,028**	**28,765**	**206,519**
Total Proposed Capital Programme	**69,641**	**63,623**	**48,285**	**35,007**	**32,383**	**248,940**

4.31 In 2021/22 the capital programme aims to deliver the following key outcomes:

General Fund:

- £15.015m of investment in infrastructure, skills and economic development through six projects funded by the £25m Towns' Fund grant, with the remaining grant to be utilised in future years.
- £1.5m to improve private homes for older or disabled residents to enable them to continue living in their own home.

Housing Revenue Account:

- Meeting housing need - delivering new council homes
- Maintaining and improving condition of existing housing - £18.515m including 289 new kitchens, 510 new bathrooms plus 250 showers, 859 upgraded doors, 1,680 electrical upgrades or rewires and 300 individual homes plus a 15-storey block of flats receiving new windows.
- Improving the use and management of the existing housing stock - £8.732m including improvements to communal areas, 790 new heating systems and 5 communal boiler upgrades,110 solar/photovoltaic panel installations plus a £1.150m disabled adaptation and stair-lift installation programme.
- Improving neighbourhoods - £2.1m including 99 door entry system upgrades benefitting 625 homes and a £0.75m estate aesthetics programme.

Towns’ Deal Funding

4.32 The most significant non-housing capital expenditure next year will be associated with the Towns’ Deal. The majority of project budget funding set aside by Government for the Norwich Towns’ Deal is not yet sitting with the council but will be drawn down once Government are in receipt of full business cases.

4.33 Whilst the Towns’ Deal projects will be delivered in accordance with the council’s normal governance procedures additional Towns’ Deal specific governance has been put in place. The Towns’ Deal is intended to help drive forward long term, inclusive economic and productivity growth in Norwich. With this in mind an overall Towns’ Deal programme board has been set up to oversee delivery which includes not only council members and officers but also the local MPs, the chair of the Norwich 2040 Vision and a variety of business and education organisations. Internally an officer programme board has been set up to drive delivery of the projects forming the Towns’ Deal which sit with the council (noting that two are in the hands of City College and one with Norwich BID to deliver).

4.34 Utilisation of the Towns’ Deal funding has been profiled over three years, with initial expenditure planned to take place within the current financial year (2020/21). In order to do this it will be necessary to increase the 2020/21 general fund capital programme by £1.025m. Further details of the projects to benefit from this funding have been set out in Appendix 4 (B) of this report and were presented to cabinet on 20th January 2021.

4.35 Some Towns’ Deal projects propose to utilise match-funding in addition to the Government funding shown within this report. It will be necessary for the capital programme to be adjusted to include this once all of the match-funding has been confirmed.

Future capital programme

4.36 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 continues to explore 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 this.

4.37 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.

4.38 The future capital programme will continue to develop and reflect the priorities identified within the Council Housing Strategy which was approved by Cabinet in November 2019. Work continues to produce an updated general fund and

HRA asset management strategy, which will influence future capital programmes.

People Live Well:

- Options for improving the provision of temporary accommodation for the homeless continue to be explored.

Inclusive economy:

- The council continues to explore the potential 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. This may be through the HRA with the development of new social housing or in line with the council's non-financial investment strategy.

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. The Council Housing Strategy 2020-26 sets out the ambition to deliver new homes through the HRA, whilst the Future Housing Commissioning report approved by Cabinet and Council in July 2020 identifies the capacity within the HRA to develop further sites in future years.

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. This is indicated in the Council Housing Strategy 2020-26 which identifies the requirement to establish longer-term plans 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.

4.39 The financial consequences of capital projects identified within the Future Housing Commissioning report have been taken into account in the council's financial plans in the following manner:

- The HRA Business Plan does not include all potential projects identified within the Future Housing Commissioning report. 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 29 years up to a maximum of 42 years if all potential projects were to proceed. This shows that the Business Plan would remain sustainable over the 60 years planning period.

- 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 at least 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.

- Some future projects could generate additional revenue income for the council, however the general fund revenue budget has prudently not anticipated any additional income at this stage.

Funding the capital strategy

4.40 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.

4.41 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

4.42 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.

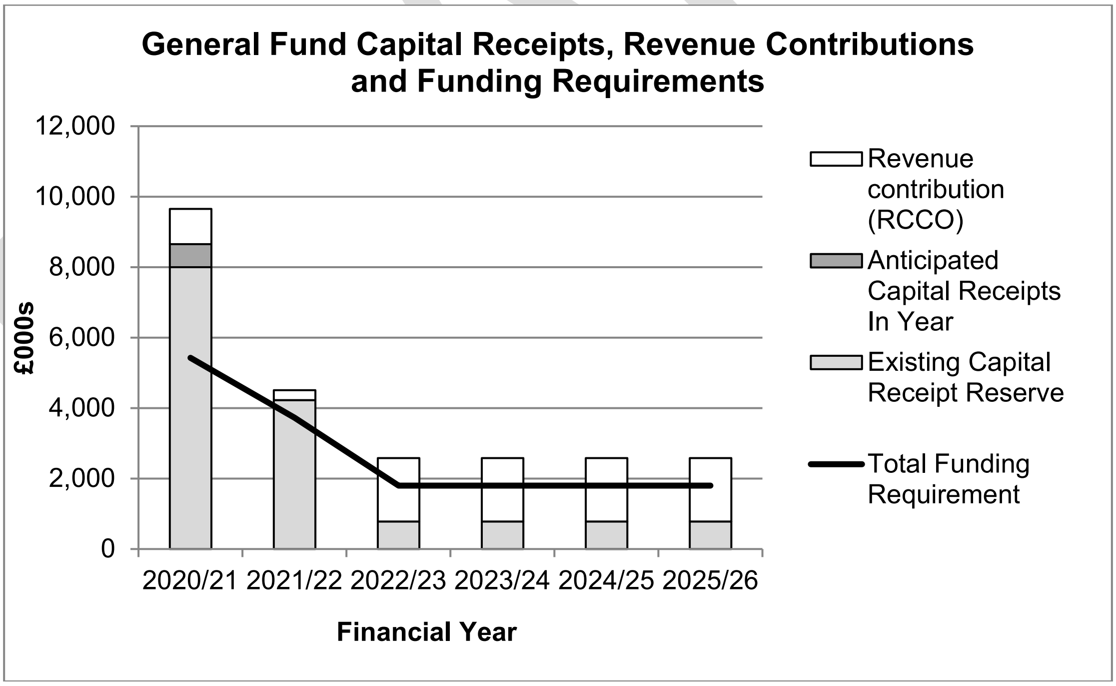
4.43 In the past, capital receipts have been the main funding source for the general fund capital programme. However, known receipts and intended sales continue to reduce, and no further receipts are currently identified from 2021/22.

4.44 Chart 4.3 shows a forecast of all known general fund capital receipts and revenue budget contributions over the next 5 years, along with current expenditure requirements (including setting aside £1.4m for known potential future capital liabilities).

4.45 In order to compensate for the reducing level of capital receipts, previous years' MTFS have included proposals to increase the revenue budget to fund a revenue contribution towards capital expenditure by £0.25m per annum until the funding source reaches a total of £1.8m. However, due to current pressures on the general fund budget, for 2021/22 only, it is proposed that the revenue contribution towards capital expenditure is reduced to £0.280m. This will mean that additional capital receipts will need to be utilised to fund the general fund capital programme, reducing the remaining capital receipt balance to £0.779m in 2022/23.

4.46 The level of capital receipts rely upon the completion of asset sales which cannot be guaranteed. Furthermore, additional potential capital liabilities such as costs arising from the future review of assets or other expenditure requirements that generate no income may arise, which would place a further demand on resources. In order to fund any additional costs, further capital receipts will need to be raised from the disposal of existing assets or revenue budget contributions will need to be increased.

Chart 4.2: General Fund Capital Receipts, Revenue Contributions and Funding Requirements



4.47 The consequential impact of a reducing level of capital receipts is that the size of the capital budget funded from capital receipts and the general fund revenue budget continues to be constrained by a "cap" or "budget envelope". 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. The requirement to review the asset base over the coming years remains, with the council needing to retain a sustainable level of assets to support service delivery.

Table 4.4: Proposed funding of the General Fund capital programme

GF Funding Source	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
GF Capital Receipts	1,532	0	0	0	0	**1,532**
RCCO	280	470	425	425	425	**2,025**
Grants & Contributions	16,260	8,828	1,140	1,140	1,140	**28,508**
Borrowing	674	262	0	0	0	**936**
Salix Borrowing	28	0	0	0	0	**28**
GNGB	226	290	1	8	0	**524**
CIL	1,393	1,718	1,853	1,407	2,053	**8,424**
Section 106	408	35	0	0	0	**443**
Total GF Capital Programme	**20,802**	**11,602**	**3,419**	**2,980**	**3,618**	**42,421**

Proposed funding of the HRA capital programme

4.50 The funding of the HRA capital programme follows the funding strategy set out in Appendix 4 (C). In addition, the £5.039m surplus income estimated for 2020/21 plus £10.640m of existing HRA general reserves are proposed to be used to fund 2021/22 capital expenditure.

4.51 The remaining HRA general reserves (forecast at £27.485m at the end of 2021/22) will be held to provide a versatile resource to support priorities identified within the HRA Strategy, including the regeneration of existing assets and provision of new social housing.

Table 4.5: Proposed funding of the HRA capital programme

HRA Funding Source	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
Major Repairs Reserve	15,464	15,727	16,130	16,470	16,816	**80,607**
Capital Receipts	13,420	7,440	2,348	2,352	2,357	**27,917**
Revenue budget contributions	6,995	8,025	6,331	3,206	2,657	**27,213**
Retained “one for one” Receipts	11,654	9,161	4,084	4,205	3,656	**32,760**
Grants & Contributions	1,306	250	250	250	250	**2,306**
Borrowing	0	11,418	15,724	5,545	3,028	**35,716**
Total	**48,839**	**52,021**	**44,866**	**32,028**	**28,765**	**206,519**

Enabling our future vision

4.52 The capital programme captures the council’s vision and desire for projects and investment at a point in time for inclusion within this report. However, as the vision continues to grow, new projects and investments will continue to develop throughout the year, which will require business cases and financing plans to be formulated prior to approval by cabinet and council. If the project requires funding from external borrowing, it will need to 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

4.53 The Council will review the best delivery routes for implementing new capital projects 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.

- Housing Commissioning team: following external advice through East of England Local Government Association (EELGA), the council is in the process of establishing a small specialist in-house team to take forward new housing development on behalf of the HRA. It is anticipated that a significant proportion of the costs of the team will arise directly from the delivery of new council homes and will therefore be capitalised within existing project budgets.

- Teckal company: the council has sought external advice through East of England Local Government Association (EELGA) regarding establishing a Teckal company or subsidiary to deliver appropriate projects. The advice concluded that this was not the "best and most straightforward option" and therefore this option is not being progressed at this time.

- 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.

Delivering the capital strategy

Governance

4.54 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.
- Additionally, in order to support the committee structure and Corporate Leadership Team with future governance, a new governance board structure will be established.

4.55 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.

4.56 In addition, new projects not included within the existing of proposed capital 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.

4.57 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. The monitoring of expenditure against the approved budget, and the forecasting of the year-end outturn, is coordinated by Finance and reported to Cabinet every quarter as part of the overall corporate budget monitoring process.

Business Planning Process

Table 4.6: The council's business planning process

SUMMER	AUTUMN	FEBRUARY
New capital investment proposals drafted	CLT & members consider draft proposals	Council approves capital strategy

4.58 Capital project proposals should form part of the council's annual business planning process. Service and project level planning both informs and is derived from the overall policy framework of the agreed corporate plan and budget. This means that by autumn each year, capital project proposals for the following year(s) should be prepared for the pertaining corporate and political governance processes, which culminate in annual budget council in February.

Commissioning, appraisal, and programme/project management

4.59 The level of future capital investment coupled with the financial restrictions on both capital and revenue expenditure in the general fund require a step change in the quality of commissioning and project management and delivery.

4.60 To support the council's approach to capital investment:

- A commercial property investment strategy was approved by cabinet in December 2018, with a further revision approved in December 2019.

Additionally, officers are developing an approach to other capital investment to include:

- An asset management strategy to inform and support the capital programme.

- 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).

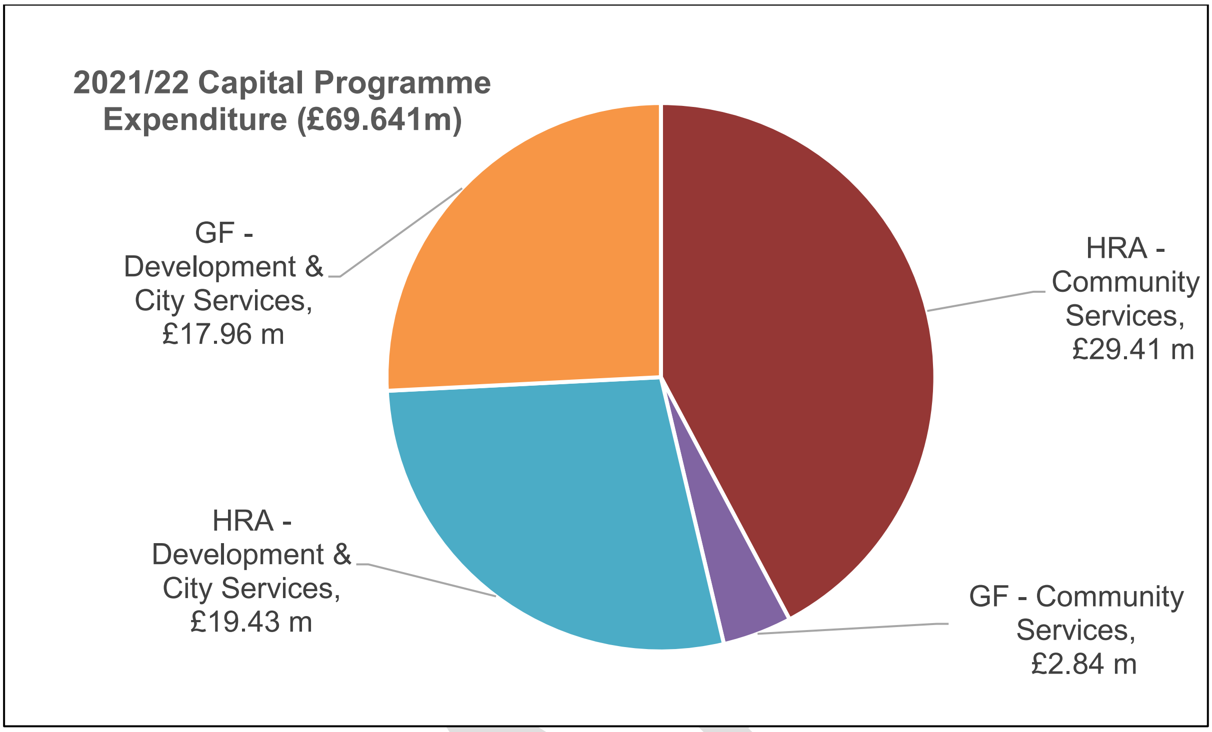
Knowledge and skills

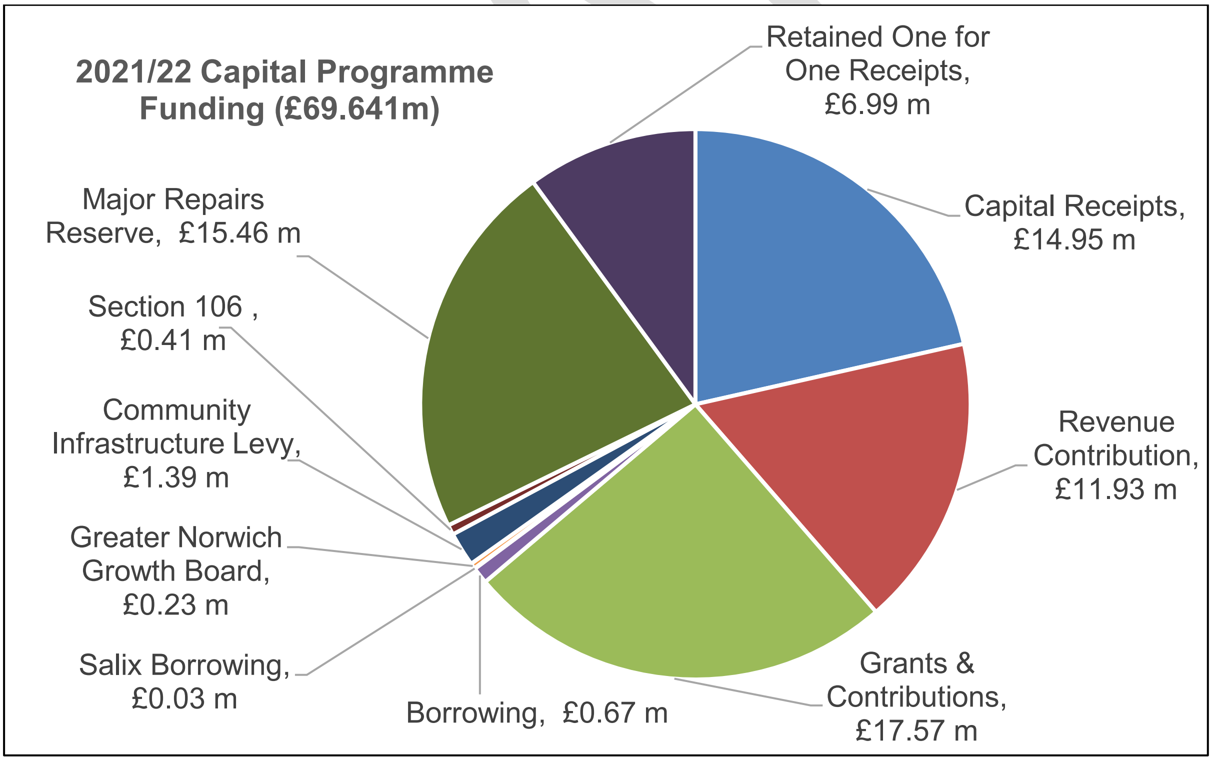
4.61 The council has professionally qualified staff, or access to such staff through its joint venture arrangements, across a range of disciplines including finance, legal, planning and property that allow for capital investment decisions to be robustly considered. These individuals follow continuous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

4.62 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, PS Tax for tax advice, covering both public sector as well as commercial tax issues, and Carter Jonas for property.

4.63 Internal and external training continues 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 2020/21





Appendix 4 (B): Proposed GF and HRA capital projects 2021/22 to 2025/26

Scheme	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
Community Services						
Community centres - energy efficiency works at West Earlham, Cadge, Eaton, Belvedere, Clover Hill and Chapel Break	60	0	0	0	0	**60**
Cadge Road Community Centre - re-roofing works	39	0	0	0	0	**39**
Towns' Fund Programme - Make space at the Norwich Halls	1,000	2,426	0	0	0	**3,426**
St Andrew's Hall – replacement of electrical distribution board, luminaires and upgrade to main bonding	17	0	0	0	0	**17**
St Andrew's Hall – St George's kitchen electrical upgrade	6	0	0	0	0	**6**
Norman Centre – replacement boilers	165	0	0	0	0	**165**
* Homes Improvement Agency - Better Care Fund/Disabled Facilities Grant	1,440	1,440	1,440	1,440	1,440	**7,200**
* Football pitch improvements - improved drainage, grass and goal facilities	40	35	0	0	0	**75**
* IT upgrades	75	75	75	75	75	**375**
GF Total - Community Services	**2,841**	**3,976**	**1,515**	**1,515**	**1,515**	**11,362**
Catton Grove Community Centre – Replacement of electrical distribution board, toilet luminaires and external lighting	9	0	0	0	0	**9**
HRA Upgrade Programme	29,377	29,134	27,626	25,205	23,770	**135,112**
Community centre assets - HRA impact	25	25	25	25	25	**125**
HRA Total - Community Services	**29,411**	**29,159**	**27,651**	**25,230**	**23,795**	**135,245**

Scheme	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
Development & City Services						
Park toilet refurbishment - Wensum, Heigham and Eaton parks	200	0	0	0	0	**200**
Waterloo Park Café - works to enable re-letting	36	0	0	0	0	**36**
Ketts Heights - access improvements, repairs to walls and infrastructure and creation of biodiversity habitat	109	203	0	0	0	**312**
21 Acre Wood - community access improvements	6	1	1	8	0	**16**
4A Guildhall Hill - remedy of dilapidations	86	0	0	0	0	**86**
38 Exchange Street - shop refurbishment	61	0	0	0	0	**61**
85-91 Ber Street - re-roofing works	41	0	0	0	0	**41**
Minimum Energy Efficiency Standard (MEES) - works to investment properties in various locations	40	0	0	0	0	**40**
Solar photovoltaic panels installed on NCSL depot	28	0	0	0	0	**28**
2 Old Meeting House Alley - electrical rewire and replacement boiler	12	0	0	0	0	**12**
City Walls - rolling programme of repairs	40	40	40	40	40	**200**
River Wensum - pontoon replacement	12	0	0	0	0	**12**
Closed churchyards - rolling programme of repairs - various locations	10	10	10	10	10	**50**
Norwich Yacht Station - replace rotten hardwood quay headings and capping timbers	8	0	0	0	0	**8**
Community Infrastructure Levy - contribution to strategic pool	1,393	1,718	1,853	1,407	2,053	**8,424**
Towns' Fund Programme - Compulsory Purchase Order revolving fund	4,924	0	0	0	0	**4,924**

Scheme	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
Towns' Fund Programme - advanced construction and engineering centre	3,100	0	0	0	0	**3,100**
Towns' Fund Programme - East Norwich	4,090	0	0	0	0	**4,090**
Towns' Fund Programme - digi-tech factory	500	0	0	0	0	**500**
Towns' Fund Programme - public realm improvements at St Giles and Hay Hill	1,000	3,000	0	0	0	**4,000**
Towns' Fund Programme - branding	118	0	0	0	0	**118**
Towns' Fund Programme - programme management	47	47	0	0	0	**94**
Towns' Fund Programme - digital hub	235	2,215	0	0	0	**2,450**
* Cemetery Railings - replacement of damaged railing panels	142	0	0	0	0	**142**
* Eaton Park path replacement - continuation of programme	45	45	0	0	0	**90**
* Marriott's Way/Hellesdon Station Green - infrastructure improvements	111	86	0	0	0	**197**
* NCSL – Acquisition of IT, tools and equipment (to be recharged to company)	674	262	0	0	0	**936**
* 20 Hurricane Way - demolition works	176	0	0	0	0	**176**
* Wensum Park stone wall - replacement of damaged dry-stone walls	20	0	0	0	0	**20**
* Transforming Cities funding - continuation of existing programme	368	0	0	0	0	**368**
* City Hall - replacement of space heating boilers	330	0	0	0	0	**330**
GF Total - Development & City Services	**17,961**	**7,627**	**1,904**	**1,465**	**2,103**	**31,060**
Argyle Street development	2,440	40	0	0	0	**2,480**
Capital grants to Registered Providers	2,000	2,000	2,000	2,000	2,000	**10,000**
Mile Cross Depot development	5,330	9,240	9,270	2,010	420	**26,270**

Scheme	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	5 Year Total £000s
Northumberland Street development	689	50	0	0	0	**739**
Housing opportunities fund	2,500	2,500	2,500	2,500	2,500	**12,500**
Site formation and demolition	50	50	50	50	50	**250**
Three Score phase 3 development	4,660	7,510	2,200	210	0	**14,580**
Ailwyn Hall redevelopment	827	908	1,179	28	0	**2,942**
Kings Arms redevelopment	932	564	16	0	0	**1,513**
HRA Total - Development & City Services	**19,428**	**22,862**	**17,215**	**6,798**	**4,970**	**71,273**

Total Proposed GF Capital Programme	20,802	11,603	3,419	2,980	3,618	**42,421**
Total Proposed HRA Capital Programme	48,839	52,021	44,866	32,028	28,765	**206,519**
Total Proposed Capital Programme	**69,641**	**63,623**	**48,285**	**35,007**	**32,383**	**248,940**

* Denotes schemes approved in previous years

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 MTFS usually includes a £0.25m annual increase in the budget, although it is proposed to suspended this for the 2021/22 financial year and 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 most versatile funding source and is therefore only utilised for capital expenditure after first taking into account resources available from grants, contributions, Major Repairs Reserve (MRR), 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, except for projects that are being part funded by Right to Buy Retained 'One For One' Receipts. Due to this restriction, this resource is utilised to fund the HRA capital upgrade programme after resources arising from grants, contributions and MRR have been applied, 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 service reviews 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.

Funding source	Description and proposed strategy for its use
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 money if the council funds the asset itself via borrowing.

Funding source	Description and proposed strategy for its use
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, these may be utilised to fund all HRA capital expenditure, except for projects that are being part funded by Right to Buy Retained 'One For One' Receipts. Due to this restriction, this resource is utilised to fund the HRA capital upgrade programme after resources arising from grants, contributions and MRR have been applied, 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 plus interest 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.

Funding source	Description and proposed strategy for its use
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.
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.

Funding source	Description and proposed strategy for its use
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.

Funding source	Description and proposed strategy for its use
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 Minimum Revenue Provision (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 Section 151 officer (chief finance officer), under the council's constitution, who is required to act in accordance with CIPFA's Treasury Management Code of practice. The Section 151 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 the minimum amount of cash deemed necessary for working capital purposes– (see the Treasury Management Strategy in section 6). (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 Section 151 officer from the council's treasury advisers, Link Asset Services, if necessary.

5. NON FINANCIAL (COMMERCIAL) INVESTMENT STRATEGY

Context

5.1. This report is a requirement of MHCLG's Investment Code and CIPFA's Prudential Code.

5.2. The council invests money for three broad purposes:

- 5.2.1. 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.
- 5.2.2. To support corporate priorities by lending to and/or buying shares in other organisations.
- 5.2.3. To support corporate priorities including housing and economic regeneration.

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. Until the changes to the PWLB lending criteria were confirmed in November 2020, the council had a higher risk appetite for non-financial investments than treasury investments given the contribution the former made to the delivery of corporate priorities and the long-term financial sustainably of the council.

5.5. To enable the Council to continue with its ambitious investment programme, it has removed any commercial investment primarily for yield that was previously approved but not committed, to ensure it can continue to utilise the PWLB as its primary lending source.

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

Commercial property investment

5.7. Whilst the council has held commercial property for decades, until recently it has been purchasing new property investments in line with the approved Commercial Property Investment Strategy and within the council's approved capital expenditure budget. As explained in paragraph 5.4, the Council will no longer be making new investments in commercial property primarily for yield and the capital programme has been amended accordingly.

5.8. The government's stated aim in changing the PWLB lending terms is to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime.

5.9. The government now requires each local authority to provide a high-level outline of their capital plan for the years ahead, categorising projects as service delivery, housing, regeneration, or the refinancing of existing debt, based on the s151 officer's assessment of which category is the best fit for the project. At the point of applying for a PWLB loan, applicants will be asked to confirm that this outline remains current and that the authority did not intend to buy commercial assets primarily for yield.

5.10. Up to March 2020, £75m of new investments were made, generating gross initial income of £4.7m and net initial income (after taking into account the financing costs of the acquisition) of £2.1m (a net initial return of 2.7%).

5.11. These assets will continue to be held (which is allowable within the government guidance) 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 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.

Asset Management Review

5.12. During 2021/22, the Council is committed to review, update and renew the council's property asset management strategy and plan, which will form the basis of any future investment proposed to Cabinet and Council.

5.13. The strategy will sit alongside the budget report and inform any revisions to the proposed capital strategy within this budget report. It will also replace the commercial property investment strategy that is paused for new investments for the reasons explained above.

Setting aside new net rental income into the earmarked reserve

5.14. 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.

5.15. It is estimated that this reserve will contain some £2.047m at the end of the financial year 2020/21. The reserve balance remains unchanged due to the need to address the pressures relating to Covid-19 early in 2020/21, rather than transferring the new net income achieved above the MTFS income target into the reserve as agreed at the time of setting the 2020/21 budget.

5.16. In line with the existing commercial property investment strategy, 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

5.17. 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).

5.18. 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.

5.19. 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 £15.858m with three borrowing organisations (as at 31 Dec 20), Norwich Regeneration Limited (£15.250m), Norwich City Services Limited (£0.5m) and the Norwich Preservation Trust (£0.108m).

5.20. 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)

5.21. During 2020/21 the cabinet received an update report at its June meeting in relation to NRL and approved the following recommendations:

1) that the council, as shareholder, supports Norwich Regeneration Ltd to continue the build out of Sections 2-4 at Rayne Park

2) recommend to council, as lender and shareholder, an increase in the loan facility for Norwich Regeneration Ltd up to a maximum of £21m (currently £11.4m).

3) recommend to council an adjustment to the capital programme to increase the equity investment in Norwich Regeneration Ltd up to a maximum of £6.2m (currently £2.724m) by acquiring up to 3.5m of £1 ordinary shares.

4) Approve the issuing of new shares by Norwich Regeneration Ltd; and

5) request Norwich Regeneration Ltd work alongside council officers to investigate and appraise options for the housing assets as further information becomes available on the wider impacts of Covid-19 on the housing market.

5.22. The current investment position is a loan totalling £15.250m and equity investment of £4.274m. Sections 2-4 of Rayne Park have progressed positively with sales reservations exceeding initial projections.

5.23. NRL are currently developing a business plan which will reported to Cabinet in March 2021 and seek approval for any variations to currently agreed investment parameters detailed in paragraph 5.21 above.

5.24. 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 requirement of International Financial Reporting Standard 9. At the end of 2019/20 there was an impairment of £4m on the council's loan to NRL. This was based on an assessment of how much of the current loan balance may not be recoverable from the company. The Council also established an earmarked reserve to cover the full cost of the impairment, which can be drawn down if the future business plan is not able to fully recover the investment to date.

NRL Business Model

5.25. 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.

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

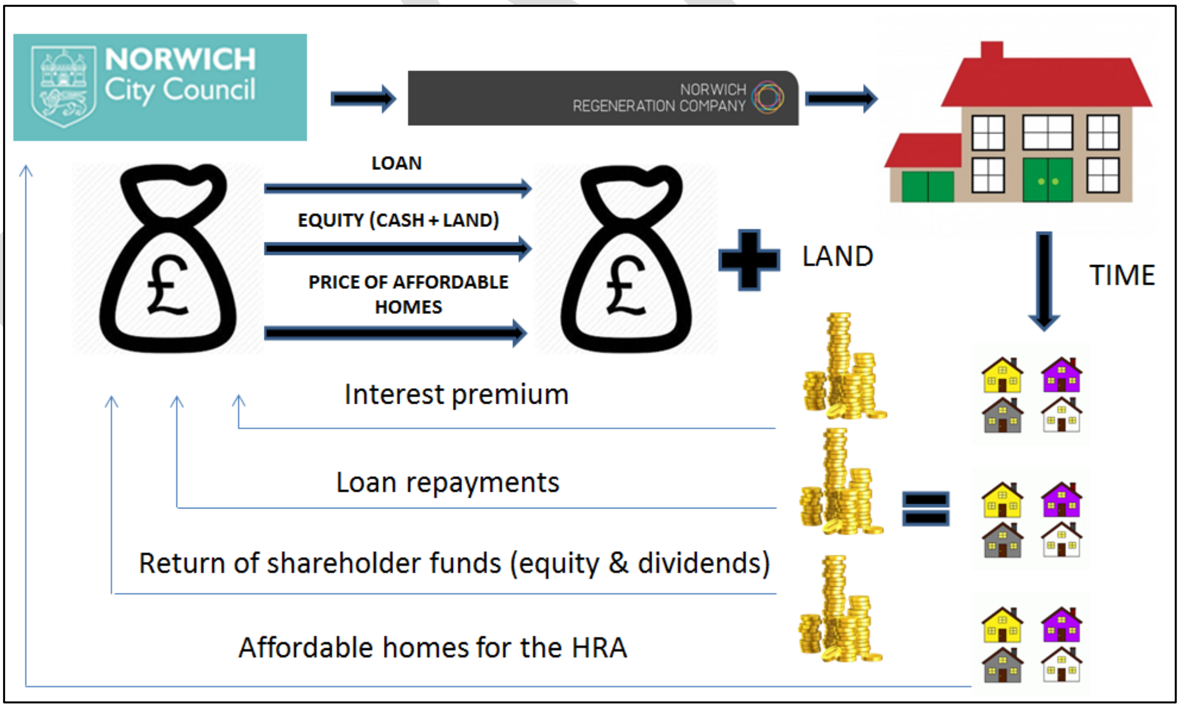
5) The company to borrow, at commercial interest rates and terms, from the council to fund the development of the private sector housing for rent and for sale.

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



Process for lending to Norwich City Services Limited (NCSL)

5.26. During 2020/21 the cabinet received a report at its June meeting in relation to formally establishing NCSL and approved the following recommendations (shown as an extract):

1. recommend to council that the capital programme is increased by £2.780m to provide a:

   a) £1.140m, 20 year loan to the wholly owned company to create a depot facility at a rate of 3%. The loan will be funded through prudential borrowing;

   b) £0.370m, equity investment to support the creation of the depot facility and establish an equity:loan ratio of 25%:75%. The equity investment will be funded from capital receipts;

   c) £1.270m budget for IT, tools and equipment which will be recharged to the company over the useful life of the assets.

2. approve a £0.5m working capital loan agreement to the wholly owned company at a rate of 1% above base rate to be repaid within 10 years of the service transfer dates.

5.27. As reported to cabinet in November 2020, the Chief Executive also approved that Norwich City Council enters into a loan agreement to provide Norwich City Services Ltd a further £0.2m of working capital finance to facilitate the depot roof works in 2020/21. As an urgent decision was required, the decision was taken by the chief executive under powers set out in Appendix 2 (para 5.4) of the constitution. It was made with the agreement of the Leader of the Council and Portfolio Holder for Resources. The chair of scrutiny and the monitoring officer were also consulted and agreed that the decision was required to be made urgently outside the normal decision making framework. The deputy 151 officer acted as the 151 officer to avoid any potential conflicts of interest in relation to the NCSL.

5.28. No further investment in NCSL is planned at this time above that already approved; although Cabinet was made aware in January 2021 that additional investment might be required once more service information is available for the Phase 2 building repairs service transfer.

Equity investments (Shareholdings)

5.29. The Council obtained shares in Norwich Airport Limited and in Legislator Companies 1656 and 1657 in March 2004 as part of the Public Private Partnership Agreement for Norwich airport. During 2019/20, the Council sold its shares in Norwich Airport Ltd, but it retains an equity investment in the two Legislator companies.

5.30. The Council also has equity investments in both its wholly owned subsidiaries: Norwich Regeneration Limited, 42,740 £100 shares and Norwich City Services Limited, 370,000 £1 shares.

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).

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 4.5 and 4.6.
- 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 S151 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 be 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

	31/03/2020 Actuals £000	%	31/12/2020 Actuals £000	%
Investments				
Banks	15,300	34.5	28,130	40.7
Building Societies	0	0.0	12,000	17.4
Local Authority	14,000	31.6	15,000	21.7
UK Government	0	0.0	0	0.0
Money Market Funds	15,000	33.9	14,000	20.3
TOTAL	**44,300**	**100.0**	**69,130**	**100.0**
Borrowing				
PWLB	214,107	97.4	214,107	97.4
Banks	5,000	2.3	5,000	2.3
Others	804	0.4	772	0.4
TOTAL	**219,911**	**100.0**	**219,879**	**100.0**

6.12 On the 31st of December 2020, the council held £219.879m of external borrowing and £69.130m of treasury investments.

The Prudential and Treasury Indicators 2021/22 – 2025/26

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 The Capital Financing Requirement (CFR) calculation is shown in table 6.3. 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.

6.15 The CFR incorporates interim figures in relation to the new reporting requirements detailed within IFRS16. The reporting standard requires certain leases currently accounted for through the revenue spend of the Council, to have its liabilities shown on the balance sheet if the lease has more than a year to run or is above a deminimus value. An example for Norwich are the vehicles procured through an operating lease.

6.16 This is a requirement of closing the accounts for 2021/22 and officers continue to undertake the required data gathering exercise, which will clarify the full impact on the CFR for the Council. At the time of writing, final guidance had not been issued by CIPFA. It is therefore important to note that there may be a requirement to refresh the authorised limit and operational boundary once the review is substantially complete later in the 2021/22 financial year.

6.17 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.

6.18 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.

6.19 Table 6.5 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 estimated capital financing requirement for the HRA as at 1 April 2020 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

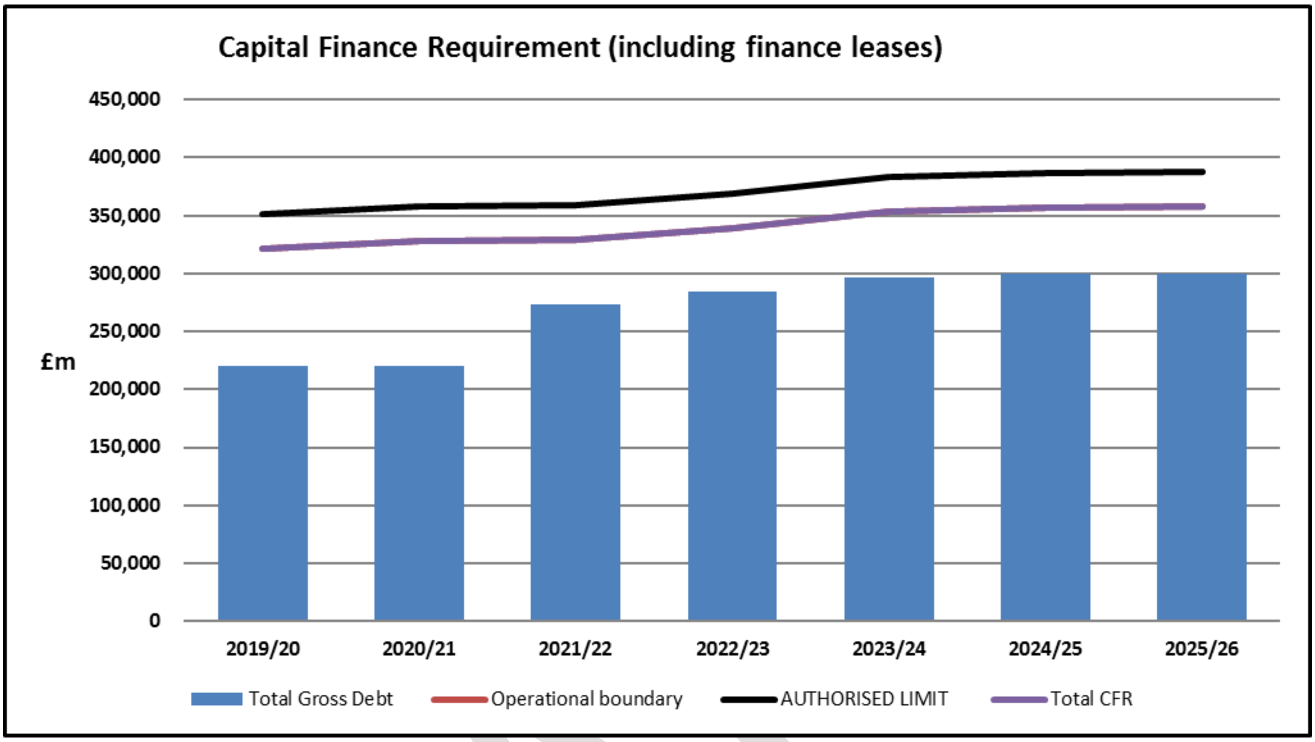


Table 6.2: The council's capital expenditure and financing plans

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital expenditure (without capital ambition)						
General Fund	9,057	20,617	13,089	3,419	2,980	3,618
Commercial properties	0	0	0	0	0	0
Total General Fund Expenditure	**9,057**	**20,617**	**13,089**	**3,419**	**2,980**	**3,618**
Housing Revenue Account	**23,630**	**48,839**	**52,021**	**44,866**	**32,027**	**28,765**
TOTAL CAPITAL EXPENDITURE	**32,687**	**69,456**	**65,110**	**48,285**	**35,007**	**32,383**
Financing						
Capital receipts	7,660	14,952	7,440	2,348	2,352	2,357
Revenue contribution	5,086	11,934	9,631	4,508	4,629	4,082
S106	93	408	35	0	0	0
Greater Norwich growth partnership	0	226	290	1	8	0
Community infrastructure levy	0	1,393	1,718	1,853	1,407	2,053
Major repairs reserve	13,368	15,464	15,727	16,130	16,470	16,816
Retained "one for one" RTB receipts	2,566	6,995	8,025	6,331	3,206	2,657
Contributions and grants	3,598	17,410	10,565	1,390	1,390	1,390
Capital spend to save reserve	0	0	0	0	0	0
Total	**32,371**	**68,782**	**53,431**	**32,561**	**29,462**	**29,355**
Borrowing need for the year	**316**	**674**	**11,679**	**15,724**	**5,545**	**3,028**
TOTAL FINANCING	**32,687**	**69,456**	**65,110**	**48,285**	**35,007**	**32,383**

NB: *2020/21 estimates in table 6.2 above include any potential expenditure that might need to be carried-forward into 2021/22).*

Table 6.3: Prudential and treasury Indicators

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital financing requirement at end of year						
General Fund	120,100	121,300	119,974	118,311	116,595	114,822
Housing Revenue Account	207,518	207,518	218,936	234,660	240,205	243,233
TOTAL	**327,618**	**328,818**	**338,910**	**352,971**	**356,800**	**358,055**
Annual change in capital financing requirement						
General fund	4,540	1,200	- 1,326	- 1,663	- 1,716	- 1,772
Housing Revenue Account	1,801	-	11,418	15,724	5,545	3,028
TOTAL	**6,341**	**1,200**	**10,092**	**14,061**	**3,829**	**1,256**
Gross Debt						
Borrowing	220,217	273,277	284,836	296,432	299,342	299,726
Operational boundary for external debt						
Operational boundary	327,618	328,818	338,910	352,971	356,800	358,055
Authorised limit for external debt						
Authorised limit	357,618	358,818	368,910	382,971	386,800	388,055
Actual external debt						
Borrowing	219,423	272,597	284,277	296,001	299,046	299,574
Debt maturity profile - all borrowing %						
Less than one year	1%	19%	1%	1%	18%	2%
Between one and two years	23%	1%	1%	18%	3%	17%
Between 2 and 5 years	27%	23%	40%	21%	19%	2%
Between 5 and 10 years	30%	22%	5%	6%	5%	4%
Between 10 and 15 years	6%	4%	3%	1%	1%	1%
Between 15 and 20 years	1%	0%	0%	0%	0%	0%
Over 20 years	12%	30%	51%	54%	55%	73%
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 investments > 365 days		£30m	£30m	£30m	£30m	£30m
Current treasury investments as at 31/12/2020 in excess of 1 year maturing in each year	-	-	-	-	-	-

Maturity Structure of borrowing Strategy

6.20 These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. These limits will also be applied to the 2020/21 outturn report.

Table 6.4: Maturity structure of borrowing

Maturity structure of fixed interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 15 years	0%	60%
15 years to 20 years	0%	60%
20 years and above	0%	80%

Borrowing Strategy

6.21 The capital expenditure plans set out in tables 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.

6.22 The table below summarises the council's forward projections for borrowing based on the assumptions given in tables 6.2 above.

Table 6.5: Estimated forward projections for borrowing

	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
External Debt						
Debt as at 1 April	219,107	219,423	272,597	284,277	296,001	299,046
Expected change in debt	316	53,174	11,680	11,724	3,045	528
Other long-term liabilities	794	680	559	432	296	152
Actual gross debt as at 31 March	**220,217**	**273,277**	**284,836**	**296,432**	**299,342**	**299,726**
Capital Financing Requirement	327,618	328,818	338,910	352,971	356,800	358,055
Under/(Over) borrowing	**107,401**	**55,541**	**54,074**	**56,539**	**57,458**	**58,329**

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.

6.23 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.

6.24 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 may rise as set out 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 Covid 19 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

6.25 CIPFA's Prudential Code paragraph 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.

6.26 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).

6.27 The council addresses its departure from this Code of Practice for non-financial investments (commercial property acquisitions) in paragraphs 1.29 to 1.31.

6.28 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

6.29 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).

6.30 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).

6.31 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)

6.32 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

6.33 The proposed MRP Policy Statement is set out in Appendix 6.

6.34 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.

6.35 The Council overpaid £6.632m of MRP in previous years. This amount is being gradually released to the general fund revenue budget on a straight line basis over the next 37 years.

6.36 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. All third party loans will be reviewed annually with an assessment made of any MRP payments required.

6.37 Currently there is no requirement for the HRA to make MRP provisions.

Investment Strategy

Investment and borrowing rates

6.38 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

6.39 PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction.

Table 6.6: Interest rate forecast as at January 2020

Link Group Interest Rate View	9.11.20												
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

6.40 Investment returns are likely to remain low during 2021/22 with no forecast increase in the following two years.

6.41 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

6.42 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period

6.43 The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

6.44 While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Treasury investment policy

6.45 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.

6.46 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

6.47 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.

6.48 Ratings will not be the sole determinant of the quality of an institution; the financial sector will be continuously monitored on both micro and macro basis and in relation to the economic and political environments in which 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.

6.49 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. For local authority or related counterparties, the financial standing and other available information will be considered before placing investments.

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

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

6.52 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.

6.53 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.

6.54 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.

6.55 The council will consider the use of new investment instruments after careful consideration by officers and approval by council.

6.56 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 6.7.

6.57 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 6.6 below.

Table 6.6: 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	£30m	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	£10m 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

6.58 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.

6.59 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.

Sovereign limits

6.60 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.

6.61 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.

6.62 Due to COVID, 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 2020/21), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

Table 6.7: Sovereign rating for 2020/21

AAA	Sweden	**AA**
Australia	Switzerland	Abu Dhabi (UAE)
Denmark		France
Germany	**AA+**	**AA-**
Luxembourg	Canada	Belgium
Netherlands	Finland	Hong Kong
Norway	USA	Qatar
Singapore		U.K.

Bank of England iteration UK bank stress tests

6.63 In addition to the use of credit ratings provided by the three main rating agencies the other factors identified in paragraphs 6.45 to 6.46 will be taken into consideration when selecting UK banks.

Money Market Funds (MMFs)

6.64 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

6.65 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

6.66 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

6.67 The council will continue to assess any newly-formed entities against existing criteria and those with sufficiently high ratings will be considered for investment purposes.

Investment risk benchmarking

6.68 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.

6.69 **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 0.039%.

6.70 **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 0.50 years, with a maximum of 1.00 year. However this benchmark may change if the Council decides to invest longer than 12 months.

6.71 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day (London Interbank Bid Rate) LIBID rate.

Ethical investment

6.72 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.

6.73 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)

6.74 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).

6.75 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 borrowing/investment rates.

Policy on use of financial derivatives

6.76 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: 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.

(C) 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 over a prudent timeframe to cover the potential non-repayment of part or all of the loan balance.

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.

Repayments included in annual finance leases are excluded from MRP as they are deemed to be a proxy for MRP.

7. SUMMARY OF KEY FINANCIAL INDICATORS

Background

7.1 Local government finance is subject to a high level of regulation. There are 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.

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 For the majority of indicators the council has not elected to set self-assessed limits. This will kept under review as better "bench-marking" data becomes available from other authorities. The annual limit in regards to borrowing is set in the Treasury Management Strategy (section 6).

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 2019/20 audited statement of accounts and project these forwards for this financial year and the three following years.

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 £220m as at the 31 March 2020 which is 20% of the value of the council's assets. In addition, the council had borrowed £101m 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 £321m (this figure is known as the capital financing requirement (CFR)).

Table 7.1 relevant extracts of the council's audited balance sheet (as at 31/03/20)

	31-Mar-20 £000	31-Mar-19 £000
Long term assets	1,077,939	1,046,128
Of which:		
- Investment properties	105,677	65,931
- Long term investments (equity shares in 3rd parties)	4,852	4,478
- Long term debtors (amounts lent to 3rd parties)	9,521	12,531
Long term borrowing	220,136	199,900
Current Assets	58,400	63,447
Current Liabilities	35,110	32,046

7.9 Long term investments (equity shares) as at the 31st March include a £2.7m shareholding in Norwich Regeneration Limited.

7.10 In the 2019/20 long term debtors the amounts lent to third parties on commercial terms comprise a £9.4m loan to Norwich Regeneration Limited and a £0.121m 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 2020 is 1.7:1, meaning the council held nearly 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 (in particular social housing and long term debtors) as well as its long term liabilities (its capital financing requirement or underlying need to borrow).

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.

Table 7.2 estimated values of key aspects of the council's balance sheet

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
	£000	£000	£000	£000	£000
Long term assets	1,077,939	1,087,162	1,087,108	1,087,053	1,086,997
Of which:					
- Investment property	105,677	105,677	105,677	105,677	105,677
- Equity shares in 3rd parties	4,852	6,402	6,402	6,402	6,402
- Amounts lent to 3rd parties	9,521	17,194	17,140	17,085	17,029
Capital Financing Requirement	321,277	327,618	328,818	338,910	352,971

NB strictly speaking only external borrowing will be shown in the Balance Sheet rather than the capital financing requirement.

7.14 The value of investment property is assumed to remain in line with current levels. No further additions to the investment portfolio are included; this is in line with the recent changes to the lending terms of the Public Works Loan Board (see further detail in para 1.21). For 2019/20, investment assets portfolio made up 10% of the overall value of the council's long term assets.

7.15 The council's underlying need to borrow is forecast to rise over the period to 2023/24 by £31.7m which is a 10% increase from 2020/21. The majority of the increase in capital financing requirement is driven by investment from the Housing Revenue Account in new social housing schemes. The projections shown assume 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 £69m of cash and short term investment holdings.

Further detail on the council's borrowing plans

7.17 Table 7.3 shows that a forecast increase in the council's underlying need to borrow (capital financing requirement) in 2020/21 arising from loan funding provided to Norwich Regeneration Ltd and Norwich City Services Ltd. In future years the annual minimum revenue provision charges begin to reduce the overall general fund capital financing requirement.

7.18 The capital financing requirement for the HRA is forecast to increase by £30m by 2023/24 as a result of the planned investment in new and existing social housing stock.

Table 7.3 estimated indebtedness (capital financing requirement (CFR))

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
	£000	£000	£000	£000	£000
General Fund CFR	115,561	120,100	121,300	119,974	118,311
Including:					
CFR for investment property	74,556	73,783	72,990	72,177	71,343
CFR for investment in equities	0	0	0	0	0
CFR for lending to 3rd parties	9,521	17,194	17,140	17,085	17,029
CFR total for HRA	205,716	207,518	207,518	218,936	234,660

NB the purchase of equity shares in Norwich Regeneration Limited has been 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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
General Fund (GF):					
Net service expenditure (NSE)	17,368	17,012	20,636	18,626	17,472
Gross service expenditure (GSE)	59,111	56,974	58,983	58,161	57,147
Opening GF CFR as a % of NSE	665%	706%	588%	644%	677%
Opening GF CFR as a percentage of GSE	195%	211%	206%	206%	207%
Opening CFR arising from non-financial investments as a % of GSE	142%	156%	150%	150%	152%
HRA:					
Gross service expenditure (GSE)	61,388	63,669	64,942	66,241	67,566
Opening CFR as a percentage of GSE	335%	326%	320%	331%	347%

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 207% in 2024/25 (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 2.07 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 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

	2020/21	2021/22	2022/23	2023/24	2024/25
Opening CFR as a % of the value of long term assets	30%	30%	30%	31%	32%
Opening CFR arising from non-financial investments as a % of the value of long term assets	8%	8%	8%	8%	8%

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
Net income from investment property	4,641	3,630	3,783	3,934	3,883
Net income from lending to third parties	251	249	249	249	249
Total net income from non-financial investments	4,892	3,879	4,032	4,183	4,133
Total net income as a % of NSE	28%	23%	20%	22%	24%
Gross income from investment property	7,591	6,542	6,742	6,942	6,942
Gross income from lending to third parties	539	454	454	454	454
Total gross income from non-financial investments	8,130	6,996	7,196	7,396	7,396
Total gross income as a % of GSE	14%	12%	12%	13%	13%

NB: NSE = Net Service Expenditure, GSE = Gross Service Expenditure

7.27 For 2021/22 the net and gross income from investment property shown in table 7.6 (and table 7.7) are based on the current 2021/22 budget assumptions. The budgeted gross income has been reduced by £0.4m in 21/22 to reflect the current challenges in income collection linked the Covid-19 pandemic and its wider economic impacts. The reduction in income is assumed to be unwound over a two year period.

7.28 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 budgeted to be obtained from car parks in 2021/22 is £1.75m, 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 2020/21 net service expenditure budget.

Investment cover ratio

7.29 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

	2020/21	2021/22	2022/23	2023/24	2024/25
General Fund	**£000**	**£000**	**£000**	**£000**	**£000**
Total gross income from non-financial investments	8,130	6,996	7,196	7,396	7,396
Interest expense	2,146	2,063	2,063	2,063	2,063
- As a % of gross income	26%	29%	29%	28%	28%

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, CIPFA's recommended good practice is that chief finance officers refer to the range of financial resilience indicators produced by CIPFA in their section 25 statements for 2020/21, but these indicators have not been refreshed for 2021/22.

8.3 Another 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) 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 2021/22 will be of the order of £5.100m for the General Fund and £5.848m 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.

8.8 As highlighted in Section 2 of this report it is clear that the financial risks associated with Covid-19 will continue to significantly impact the council in future years, it is vital that the council remains resilient to the future risks.

8.9 The detail of all reserves held for specific purposes is reported Section 2, paragraph 2.57. In addition two new reserves are proposed as detailed in paragraph 2.5 and 2.6.

Section 25 Statement

8.8 Allowing for the uncertainty and keys risks as set out in the Council's refreshed Corporate risk register approved by Cabinet in December 2020 (Corporate Risk Register), specifically:

- Risk: 1. Council Funding Short Term (covid-19 related)
- Risk: 2. Council Funding Medium- Long Term
- Risk: 3. Commercialisation (investment property, NRL, other commercial income sources)
- Risk: 5. Second wave of Covid-19
- Risk: 6. Impact of Brexit
- Risk: 10. Joint Venture contracts

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 Due to the impacts and risks associated with both Covid-19 and Brexit the Chief Finance Officer has some reservations on the deliverability of the capital strategy. It is important to note that the profiling of the capital programme was prepared prior to the current national lockdown and therefore slippage in the capital programme is highly probable.

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 2020/21 the safety net will operate at 92.5% 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 band 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 2021/22 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.