



NORWICH City Council

Committee Name: Cabinet

Committee Date: 14/12/2022

Report Title: The council's provisional 2023/24 budget and medium-term financial strategy

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Interim Head of finance, audit and risk

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To consider proposals for the council's 2023/24 budget (general fund, HRA and capital programme) and updated medium-term financial position, including the principles for consultation.

Final budget proposals, alongside the outcome of the budget consultation work, will be brought back to Cabinet in February 2023 with a recommendation to consider and approve those proposals before it goes to February Budget Council for agreement alongside the council tax setting decision.

Recommendation:

- a) note the latest financial information and the financial strategy principles incorporated into the report, which enable the Council to set a balanced budget for 2023/24; and
- b) note the budget principles used for consultation and agree that budget consultation with businesses, residents, tenants and other interested stakeholders commences to inform the Council's budget setting decisions in February 2023.

Policy Framework

The Council has five corporate aims, which are:

- Aim 1 - People live independently and well in a diverse and safe city.
- Aim 2 – Norwich is a sustainable and healthy city.
- Aim 3 – Norwich has the infrastructure and housing it needs to be a successful city.
- Aim 4 – The city has an inclusive economy in which residents have equal opportunity to flourish.
- Aim 5 – Norwich City Council is in good shape to serve the city.

This report is relevant for all five corporate aims.

This report helps to meet the securing the council's finances objective of the COVID-19 Recovery Plan and provides the resources required to deliver the wider aims and objectives of the Plan.

Report Details

Background

1. Like all local authorities, Norwich City Council continues to face substantial financial challenges. Following on from a sustained period of austerity – the council is facing increasing demand for local services and significant inflationary rises in costs. The wider economic situation is putting huge financial pressures not just on council resources, but those of partners, local businesses, and residents, particularly the most vulnerable. The council also continues to manage the ongoing risk and uncertainty over future funding.
2. It is within this context and financial uncertainty that the council has developed the budget options for 2023/24 and its approach to ensuring a sustainable medium term financial strategy.
3. Nevertheless, the council's ambition for Norwich is undiminished. In February 2022, Full Council approved the Corporate Plan 2022-26. That document sets out the vision for the city and for the council over the next four years. It is also shaped by the Norwich 2040 City Vision. The corporate plan provides a framework for the decisions taken - how we prioritise and how we allocate the resources we have available to achieve these priorities.
4. A key priority in the corporate plan is putting the council on a sustainable financial footing and delivering services effectively and efficiently. Future budget decisions will need to balance delivering on the ambition and priorities of the council whilst ensuring the authority remains financially sustainable over the medium and longer term. As part of delivering this priority, it is important to ensure the continuous review and development of the council's medium-term financial strategy. This then informs the options and decisions for delivering balanced and sustainable budgets over the next four years and beyond.
5. 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 the investment required itself and, in some cases, there will be other groups and sectors better placed to lead the response to the challenges and opportunities ahead.
6. The council will therefore work with others to secure investment in the city's future and deliver the ambitious shared vision for Norwich, acting as 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

7. This report sets out 2023/24 budget proposals across the General Fund, the Housing Revenue Account, and the capital programme along with medium term expenditure and financing plans. It updates the report considered by cabinet in July 2022 which formed the basis for developing options to address the budget gap identified at that time.
8. This report outlines the budget principles which form the basis for public consultation on the general fund revenue and capital budgets for 2023/24. The views of residents and local businesses will be sought, via a public

budget consultation exercise; the results of that consultation will be made available before the budget is discussed and proposed by Cabinet on 8 February 2023 and finally approved by Council on 21 February 2023.

9. This report also provides an update on the implications from the recent Autumn Budget announcements, for local authority finances. Although the budget announcement gave details of the broad shape of public finances for the next 4 years, the impact on Norwich City Council will not be known in detail until the provisional local government finance settlement is published. The exact date of the settlement announcement is not known but in recent years it has been made in the immediate period leading up to Christmas.

General Fund

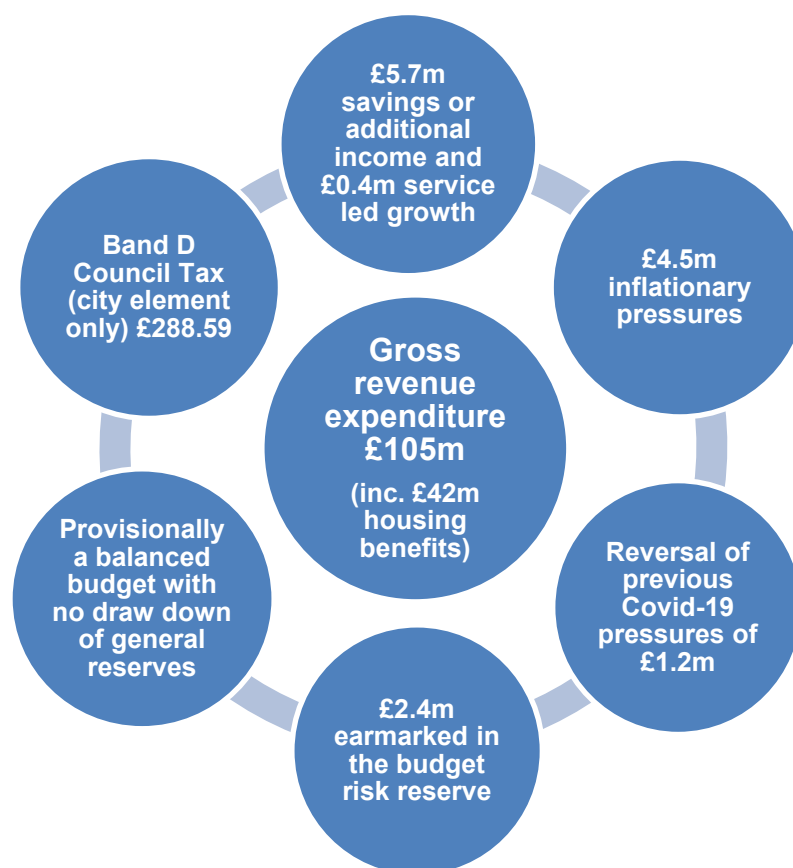
10. The Autumn Statement confirmed the scale of the financial challenges in the coming years, with significant tightening of departmental spending especially in the latter years of the spending review period. Much of this will be through not uprating funding allocations in line with inflation for all departments and the prioritisation of areas such as defence spending and the NHS, giving rise to real terms spending reductions for other areas of public services.
11. The pressures of the current inflationary levels are having a huge impact on council budgets, with funding not keeping pace with the rises in expenditure budgets, meaning that the council will not receive adequate resources to cover its costs over the medium term.
12. To balance the provisional general fund budget for 2023/24, £5.658m of savings and income proposals have been identified, the full detail of which is provided in Section 2 of the report, subject to consultation where appropriate.
13. The council is awaiting the provisional local government financial settlement, but the indications are broadly for a roll-forward settlement approach over the next two years. There is no update currently in terms of the government's longer-term reforms to local government finance and most commentators have taken the later years' financial information as highly speculative given that they fall after the next general election.
14. Given the lack of clarity on future local government funding, particularly from April 2025, 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 particularly the extent to which some will be conditional or subject to bidding processes. This makes financial planning over the medium term very difficult.
15. Consequentially, the forecasts for 2025/26 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. These forecasts will be monitored and adjusted at least annually in line with further detail from Government about future funding for the sector.
16. Current forecasts, given the caveats highlighted above, show that a further £4.866m of gross savings will need to be found from the general fund over the three-year period from 2024/25. This level of savings represents a further 8% of the 2023/24 provisional gross expenditure budget (excluding the housing benefits budget).

17. It is important to note that the council's approach to business planning and setting its budget annually – and its approach over the medium term – seeks to take a holistic approach to ensure that adequate resources are allocated to priority services. As well as identifying opportunities for efficiencies through service change and income generation, our approach to business planning also seeks to identify service areas which require increased funding to respond to increased demand or other pressures such as inflation.
18. Through this approach, the council identifies areas which might require increased resources because they are a particular priority or because current resources are insufficient to deliver the quality of service required. The increasing cost of housing benefit to the council, above the level of government subsidy, is an example of this which has been highlighted through the council's budget monitoring processes in 2022.

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

19. As the council takes decisions about how to achieve the required savings it will need to consider the balance not only between how savings are made – for instance, savings to workforce, suppliers and assets – but also the relative balance between spending reductions and increased income.
20. As part of the Future Shape Norwich programme, focus areas have been identified which have the potential to improve service delivery, operational efficiency and/or support the financial sustainability of the council. These themes cover:
 - Contract reform
 - Commercialisation
 - Driving value from our assets
 - Growth and regeneration
 - Service redesign
 - Workforce, culture and organisational development
21. Workstreams have been set up to support these key themes with business cases being developed for options spanning the period of the medium-term financial plan. The aim of the reviews is to improve the overall efficiency and effectiveness of service delivery to avoid a reliance on service cuts to balance the budget. However, given the scale of the challenge, reductions to some services cannot be ruled out.
22. The council will plan to implement these savings in a controlled manner and by taking a strategic approach and doing whatever it can to avoid a short-term approach. It has prudently built-up general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. These can be used to partially fund the budget in a planned way over the next four financial years or to support the costs of making the changes required, until the reserves are forecast to reduce gradually towards the minimum prudential level as recommended by the chief finance officer.

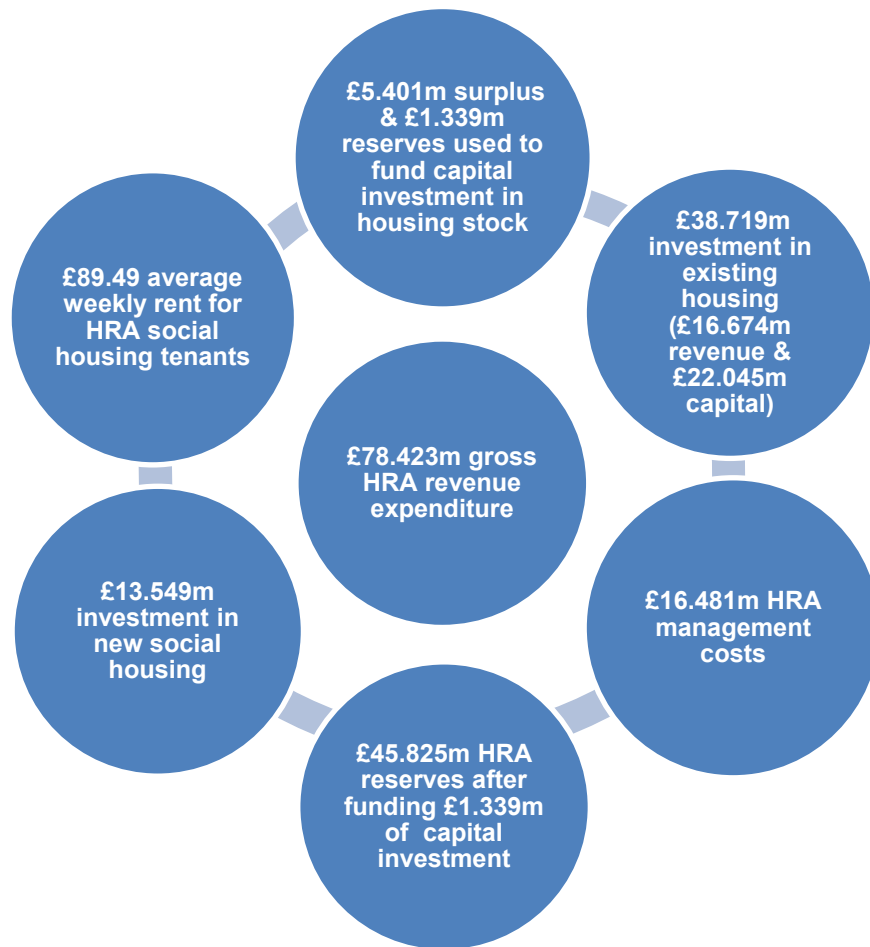
Chart 1: Key figures in 2023/24 proposed general fund revenue budget



Housing Revenue Account (HRA)

23. The council's HRA comprises expenditure and income plans related to the ownership and management of the council's social housing stock.
24. Although the HRA is in a relatively stable position in the short-term, there are future pressures and competing priorities for the budget linked to the council's ambitions around continuing to develop high quality new council housing and maintaining and renewing existing homes. The HRA has also lost significant income in recent years from the government's enforced four-year rent reduction enacted in the Welfare Reform and Work Act 2016.
25. Additionally, there continues to be potential risks to rental income streams arising from the roll out of Universal Credit and the Right-to-Buy legislation.
26. The HRA is forecast to make a surplus of income over expenditure of £5.401m in 2023/24 and it is proposed to use this surplus along with £1.339m of reserves to fund capital investment in new social housing.
27. 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%. In September 2022, CPI increased to 10.1% which would have resulted in a rent increase of 11.1%, however as part of the Autumn Statement, the government capped social housing rent increases for 2023/24 at 7% which will result in the average HRA rent increasing to £89.49. The increase in rents is necessary to fund the council's future ambitions to continue to build new council homes in response to demand and the increasing need to invest in existing homes.

Chart 2: Key figures in 2023/24 proposed HRA Business Plan



Capital Programme

28. The council's proposed capital investment programme for 2023/24 is £63.448m, with £214.167m to be invested in housing and infrastructure over the five years of the programme. An illustration of some of the key projects and programmes are given in charts 3 and 4 and the detail can be found in Appendix 4 (B).

Chart 3: Illustration of proposals within the general fund capital programme

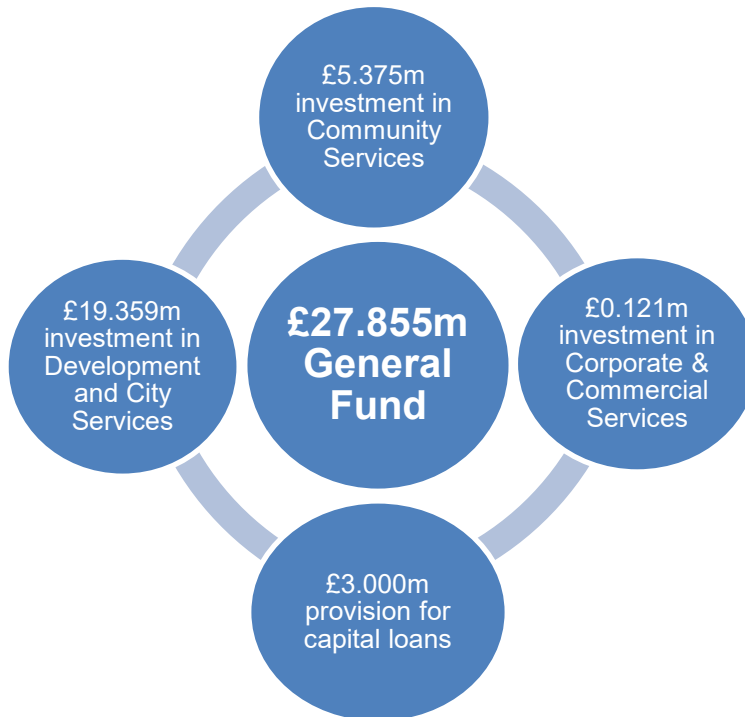
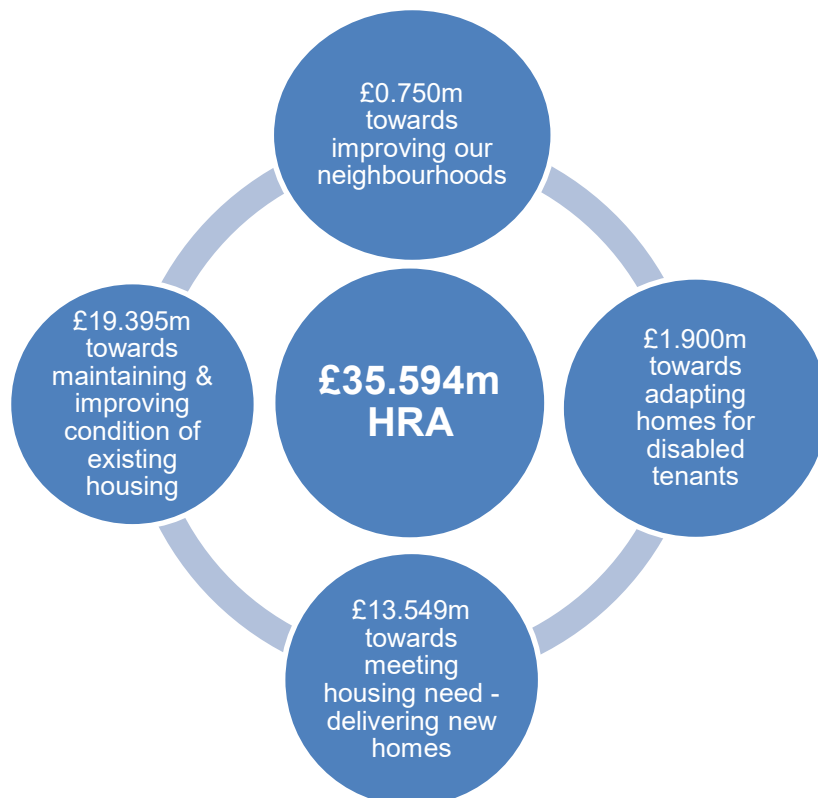


Chart 4: Illustration of proposals within the HRA capital programme



Equality Impact of budget proposals

29. To discharge our public sector equality duty and ensure we have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations we will undertake an initial screening of all budget

proposals to ascertain where there is a possible impact. This will identify those proposals that require a full Equality Impact Assessment or further consultation.

30. An overall Equality Impact Assessment is contained in Section 5. Equality Impact Assessments for specific proposals will be developed as proposals are being finalised. This ensures that the impact is understood and mitigating actions that minimise disadvantage and tackle inequality are identified where possible. There may be some proposals that have implications for council employees for which details of consultation or Equalities Impact Assessments cannot be published owing to data protection or employment legislation.
31. Information on the residents of the city as well as council customers and employees can be found in the annual Equality Information Report published on the council's website.

Public Consultation and next steps

32. In line with the approach used in previous years, residents, partners and local businesses will be consulted on the proposed approach to meeting the savings target for 2023/24 including the proposed council tax level. Separate tenant consultations will seek views on the proposed increase in council rents and service charges which will follow in January. The budget consultation questionnaire is attached in Section 6 and will be made available online in the days following Cabinet consideration of this report. The budget consultation will be available to access online and additional engagement through a range of stakeholder groups will also be undertaken.
33. The next steps for the budget and MTFs proposals are set out below:

Scrutiny to consider the proposed General Fund revenue budget and MTFs, HRA Business Plan, capital strategy, investment strategy and capital programme	2 February 2023
Cabinet to recommend the General Fund revenue budget and MTFs, HRA Business Plan and capital programme	8 February 2023
Council to approve the General Fund revenue budget and MTFs, HRA Business Plan and capital programme	21 February 2023

Consultation

Consultation will take place through the online survey and the Council is actively considering ways to increase participation levels and ensure that it reflects the demographic composition of the city. A consultation period which will run until the 20th January is proposed and activity to encourage participation through the Council's citizen magazine and other routes shown to be effective elsewhere will be used as appropriate.

Tenant Involvement Panel representatives are due to be consulted on the proposed rent increase at a meeting on 18th January 2023.

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

Implications

Financial and Resources

Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its proposed Corporate Plan 2022-26 and Budget.

This report presents the council's proposed 2023/24 budgets across all its activities along with its medium-term financial strategy. The financial implications of these proposals are given throughout the report.

Legal

There is a statutory duty to consult on the Council's budget with business ratepayers (S65 Local Government Finance Act 1992). It is also considered best practice to seek broader views through meaningful consultation with service users, residents, and partners. Further duties to consult on specific proposals impacting users, including staff and unions also exist prior to implementation.

The Council has a legal duty to set a balanced budget before the statutory deadline. The Council's legal service has had opportunity to review all proposed budgetary savings and, as appropriate, outline specific legal requirements that will require consideration as savings proposals are implemented.

The Council's Chief Financial Officer (S151) has a duty to report to Council on the adequacy of its reserves and the robustness of its budget estimates before the final decisions are taken on the budget and setting of the council tax.

Statutory Considerations

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.

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Equality Impact Assessments are required for any specific budget proposals and the impact of the totality of all measures. The overarching assessment is included in Section 5.
Health, Social and Economic Impact	Budget savings and investment proposals including capital investments are likely to have economic impacts on the area.
Crime and Disorder	No specific crime and disorder impacts are considered to arise from the Council's budget setting processes.
Children and Adults Safeguarding	No specific safeguarding issues are considered to arise from the Council's budget setting processes.

Consideration	Details of any implications and proposed measures to address:
Environmental Impact	The proposed capital investment strategy will provide for improvements to the council's assets and the surrounding environment.

Risk Management

The budget paper clearly outlines several financial risks to the council, some of which have increased considering changes to the wider economic environment.

Several measures have been put in place to mitigate the increased risks, including:

- a) Maintaining earmarked reserves, established to help mitigate risk, including:
 - The budget risk reserve to manage the financial risks associated with both the continuing impacts of the pandemic and the delivery of the 2023/24 budget savings.
 - The business change reserve to fund costs linked to the council's change programme.
 - The commercial property reserve to manage the risks and costs associated with holding commercial property.
 - The Norwich Regeneration Limited reserve to mitigate financial risks from lending to the council's wholly owned company.
- b) The maintenance of a Prudent Minimum Level of General Fund reserve.
- c) The requirement to produce robust business cases for large capital projects (many of which will generate returns or savings) before a project commences.

Reasons for the decision/recommendation

The Council has a legal duty to consult on proposals and set a balanced budget before the statutory deadline.

Background papers: None

Appendices:

- Section 1: Local Government Finance – Economic and Statutory Context
- Section 2: General Fund – MTFs and 2023/24 Budget
- Section 3: HRA 2023/24 Budget
- Section 4: Capital Programme
- Section 5: Equality Impact Assessment
- Section 6: Public Consultation

Contact

Name: Neville Murton, Interim head of finance audit and risk, Corporate & Commercial Services (Deputy S.151 Officer)

Telephone number: 01603 987766

Email address: nevillemurton@norwich.gov.uk