NORWICH City Council

Scrutiny committee

Date: Thursday, 06 February 2020
Time: 16:30
Venue: Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH

All group pre-meeting briefing – 16:00 Mancroft Room

This is for members only and is not part of the formal scrutiny committee meeting which will follow at 16:30. The pre-meeting is an opportunity for the committee to make final preparations before the start of the formal meeting. The public will not be given access to the Mancroft room before 16:30.

Committee members:

Councillors:
Wright (Chair)
Ryan (Vice chair)
Carlo
Fulton-McAlister (M)
Giles
Grahame
Manning
McCartney-Gray
Oliver
Osborn
Sands (S)
Sarmezey
Thomas (Vi)

For further information please contact:

Committee officer: Lucy Palmer
t: (01603) 212416
e: lucypalmer@norwich.gov.uk

Democratic services
City Hall
Norwich
NR2 1NH

www.norwich.gov.uk

Information for members of the public

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IN TRAN communication for all

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Agenda

Page nos

1	**Apologies** To receive apologies for absence	
2	**Public questions/petitions** To receive questions / petitions from the public Please note that all questions must be received by the committee officer detailed on the front of the agenda by **10am on Monday 3 February 2020**. Petitions must be received must be received by the committee officer detailed on the front of the agenda by **10am on Wednesday 5 February 2020.** For guidance on submitting public questions or petitions please see appendix 1 of the council's constutition.	
3	**Declarations of interest** (Please note that it is the responsibility of individual members to declare an interest prior to the item if they arrive late for the meeting)	
4	**Minutes** To approve the accuracy of the minutes of the meeting held on 16 January 2020	**7 - 12**
5	**Update of the representative on the Norfolk Health Overview and Scrutiny Committee (verbal update)** To note the update of the representative on NHOSC	
6	**Scrutiny committee work programme 2019-20** **Purpose** - To consider the scrutiny committee work programme 2019-20	**13 - 20**
7	**Pre-scrutiny of the budget 2020-2021** **Purpose** - To determine any recommendations to cabinet on the proposed budgets for 2020 - 2021	**21 - 172**

Date of publication**: Wednesday, 29 January 2020**

T is this, the right **TIME** to review the issue and is there sufficient officer time and resource available?

O what would be the **OBJECTIVE** of the scrutiny?

P can **PERFORMANCE** in this area be improved by scrutiny input?

I what would be the public **INTEREST** in placing this topic onto the work programme?

C will any scrutiny activity on this matter contribute to the council's activities as agreed to in the **CORPORATE PLAN**?

Once the TOPIC analysis has been undertaken, a joint decision should then be reached as to whether a report to the scrutiny committee is required. If it is decided that a report is not required, the issue will not be pursued any further. However, if there are outstanding issues, these could be picked up by agreeing that a briefing email to members be sent, or other appropriate action by the relevant officer.

If it is agreed that the scrutiny request topic should be explored further by the scrutiny committee a short report should be written for a future meeting of the scrutiny committee, to be taken under the standing work programme item, so that members are able to consider if they should place the item on to the work programme. This report should outline a suggested approach if the committee was minded to take on the topic and outline the purpose using the outcome of the consideration of the topic via the TOPIC analysis. Also the report should provide an overview of the current position with regard to the topic under consideration.

By using the flowchart, it is hoped that members and officers will be aided when giving consideration to whether or not the item should be added to the scrutiny committee work programme. This should help to ensure that the scope and purpose will be covered by any future report. The outcome of this should further assist the committee and the officers working with the committee to be able to produce informed outcomes that are credible, influential with SMART recommendations.

Specific, **M**easurable, **A**ttainable, **R**elevant and **T**ime-bound

Scrutiny committee and a protocol for those attending meetings of the scrutiny committee

- All scrutiny committee meetings will be carried out in a spirit of mutual trust and respect

- Members of the scrutiny committee will not be subject to whipping arrangements by party groups

- Scrutiny committee members will work together and will attempt to achieve evidence based consensus and recommendations

- Members of the committee will take the lead in the selection of topics for scrutiny

- The scrutiny committee operates as a critical friend and offers constructive challenge to decision makers to support improved outcomes

- Invited attendees will be advised of the time, date and location of the meeting to which they are invited to give evidence

- The invited attendee will be made aware of the reasons for the invitation and of any documents and information that the committee wish them to provide

- Reasonable notice will be given to the invited attendee of ***all*** of the committees requirements so that these can be provided for in full at the earliest opportunity (there should be no nasty surprises at committee)

- Whenever possible it is expected that members of the scrutiny committee will share and plan questioning with the rest of the committee in advance of the meeting

- The invited attendee will be provided with copies of ***all relevant*** reports, papers and background information

- Practical arrangements, such as facilities for presentations will be in place. The layout of the meeting room will be appropriate

- The chair of the committee will introduce themselves to the invited attendee before evidence is given and; all those attending will be treated with courtesy and respect. The chair of the committee will make sure that all questions put to the witness are made in a clear and orderly manner

NORWICH
City Council

MINUTES

SCRUTINY COMMITTEE

16:35 to 19:20 **16 January 2020**

Present: Councillors Wright (chair), Ryan (vice chair), Carlo, Fulton-McAlister (M), Giles, Grahame, Manning, McCartney-Gray, Oliver, Osborn, Sands (S), Sarmezey and Thomas (Vi)

1. Public questions/petitions

There were no public questions or petitions.

2. Declarations of interest

There were no declarations of interest.

3. Minutes

RESOLVED to approve the accuracy of the minutes of the meetings held on 17 October 2019 and the exempt minutes of 17 December 2019.

4. Chair's update

The chair gave a verbal update on his attendance at the Centre for Public Scrutiny annual scrutiny conference. Lord Kerslake was the keynote speaker and he spoke about new models of scrutiny with regard to changes to local government and especially the formations of 'arm's length' companies and associated contracts. It was questioned whether cabinet members and councillors were best placed to serve on these boards and whether specialists should be used and would be held to account through the council's role as a shareholder.

Different models of scrutiny were discussed. At Devon county council, the scrutiny committee undertook 'spotlight' reviews. These were a task and finish group held in one day and officers would appear before the group throughout the day to give evidence and answer questions with recommendations formed at the end of the day. This council also looked at 'big ticket' items around a year before they would be presented to cabinet to develop them before they were added to the forward plan.
Bournemouth, Christchurch and Poole council used a scheme known as a 'rappointer' which was a single member task and finish group which culminated in an evidence based report back to the main committee. Members agreed that all of these different methods were interesting and could form discussions early in the new civic year when the scrutiny work programme was being developed.

The committee discussed the opportunity for the Centre for Public Scrutiny to undertake a scrutiny health check at Norwich City Council and agreed this would be beneficial.

RESOLVED to:

(1) note the chair's update; and

(2) ask the scrutiny liaison officer to contact the Centre for Public Scrutiny to organise a scrutiny health check to review ways of working based on best practice.

5. Scrutiny committee work programme 2019-2020

The chair presented the report. He said that the Police and Crime Commissioner (PCC) had been due to attend the January meeting of the scrutiny committee but had to rearrange. The scrutiny liaison officer would circulate alternative dates to members of the committee and an extraordinary meeting of scrutiny committee would be held to allow scrutiny members to question the PCC. Members were asked to email the scrutiny liaison officer with broad lines of questioning for the PCC.

Members discussed the timing of the LEP item as key officers and members were unable to make the date of 19 March 2020. It was proposed that another date be found in March to hold the scrutiny committee meeting for the LEP item and the young people and wellbeing item, postponed due to the General Election, could be added to the work programme early in the new civic year.

Members had received a briefing on Universal Basic income and agreed that this item would be taken off of the scrutiny committee work programme for the current civic year.

RESOLVED to

(1) note the scrutiny committee work programme 2019-20; and

(2) ask the scrutiny liaison officer to:

a) identify which date would be best for the LEP item and the young people and wellbeing item in consultation with key officers and chair and vice chair, potentially changing the date of the March scrutiny meeting if necessary; and

b) remove the Universal Basic Income item from the work programme

6. Corporate Plan 2020-21

The strategy manager presented the report. He explained that the Corporate Plan was a translation of political will into the day to day work of the council. The Corporate Plan spanned several years and the council was in the second year of the current

Corporate Plan which would be considered at full council alongside the budget papers in February. The performance framework was a series of high level objectives and measures which steered how resources were aligned. The performance framework was ambitious and it unpicked each of the corporate priorities. These cascaded to outcomes and then output measures which showed how well the council was performing.

The strategy manager suggested that overall, the Corporate Plan should stay the same as despite a changing landscape for local authorities, the outcomes and outputs were relevant measures. He suggested that it would be useful for the scrutiny committee to review these performance measures in September 2020 once a year's worth of data had been collected and recommendations had been received from internal audit.

The chair asked whether any changes would need to be made to the outcome measures with the removal of the highways function. The strategy manager said that the outcome measures should remain the same as the outcomes were still relevant to residents and members. Some elements that related to the city council's role in highways may be moved to the outcomes.

A member commented that it was difficult to see the trajectory of the performance measures on the report and suggested that a marker be added to the report to show the measures that the council had direct control over. The strategy manager said that the council was moving towards a more automated system which would show trends over time.

A member asked whether an indicator of trees removed and trees planted could be added to track trends as there was no other green infrastructure indicator.

In response to a member's question on whether the indicator measuring pay levels of those with protected characteristics could measure those at the lower end of the income scale to track data on disproportionally low wages, the strategy manager said that he was unsure if this could be reported on and would undertake some further research.

Members discussed affordable housing and the creation of neighbourhoods. A member questioned the definition of affordable housing and the strategy manager said that the government definition was used in the performance measures but members could consider using the percentage of income spent on housing as a measure of affordability. In addition to this, a member commented that he would like to see a measure on the number of affordable homes being built as a percentage to assess how close the council was to the 33% affordable homes target.

A member asked whether the footfall in the Business Improvement District (BID) could include Ber Street and Magdalen Street as residents in these areas felt that the free BID activities concentrated on the city centre. The director of strategy and culture said that the same points around the city needed to be used to for measurements and that indication was for measuring footfall in the city centre. Events were being planned for areas outside of the city centre such as the upcoming Love Light festival.

Members discussed antisocial behaviour and the measure showing residents satisfaction with antisocial behaviour services. The strategy manager said that a community safety co-ordinator had recently been appointed and that other vacancies in the team were being managed.

A member asked whether and indicator relating to the energy efficiency of private homes and not just council homes could be included. The strategy manager said that although there as data on these, it would be too difficult to translate it into a performance indicator. The fuel poverty metric was comprised of the efficiency of a home and the income of the residents.

(Councillor Vivien Thomas left the meeting at this point).

Discussion ensued on the performance measures and members discussed housing security, safeguarding and the percentage of tenants feeling safe, benefit appeals and insulation. The strategy manager reminded members that there would be an opportunity to submit further recommendations by email to him for cabinet to consider at its next meeting. The deadline for these submissions would be Friday 24 January.

(Councillors Carlo and Oliver left the meeting at this point).

Members discussed whether there was a need to review the narrative of the Corporate Plan to reflect work undertaken since it was agreed in 2019. It was suggested that these changes could be reflected in a preface or appendix to the Corporate Plan. The strategy manager said that annual statement included commentary on performance of the council which was reviewed each year by the council's audit committee.

RESOLVED to

1) Ask cabinet to consider including indicators to show:

   a) which measures NCC has direct control over

   b) trees removed and trees planted to identify trends

   c) the percentage of affordable houses being built

   d) the percentage of income being spent on housing

2) ask cabinet to consider undertaking a review of the narrative of the Corporate Plan at the mid-point to give an update on the work undertaken since the Corporate Plan was approved in 2019.

3) ask the strategy manager to investigate whether:

   a) the measure showing the pay levels of those with protected characteristics could be measured using those at the lower end of wages

   b) the number of safeguarding referrals from staff and members could be included

4) consider adding affordability of housing as a topic for the next civic years scrutiny committee work programme; and

5) ask members to email the strategy manager with any further recommendations on the performance measures to be taken forward to cabinet by Friday 24 January 2020

CHAIR

Norwich City Council

SCRUTINY COMMITTEE

Item No 6

REPORT for meeting to be held on Thursday 6 February **Scrutiny committee work programme 2019-20**	
Summary:	The purpose of this report is to assist committee members in setting the work programme for the rest of the civic year 2019-20.
Conclusions:	It is proposed that any discussion is agreed as a whole committee using 'TOPIC' criteria. This will assist members in achieving the goal of an agreed work programme that is met by consensus. The programme is a standing item at each committee meeting and can be adjusted as necessary.
Recommendation:	To: 1) consider the scrutiny committee work programme 2019-20; 2) agree dates for the two select committees to feedback to the scrutiny committee; and 3) to note that scrutiny committee will be convened on Tuesday 11 February at 10am to host the Police and Crime Commissioner for Norfolk. .

Report

1. When the scrutiny committee considers which items to include on its work programme, it is useful to do so in the context of what the focus is for the council over the coming year and to look at how activity aligns to the council's corporate plan.

2. This is so that the scrutiny committee will be able to consider where and how it can add value to the work being carried out towards achievement of the council's priorities and ensure that resources are being focused effectively.

3. Although sometimes not possible to achieve, it was previously agreed that the committee should agree as few as possible substantive topics per meeting. The main reason for this is to ensure that there is enough time for the committee to effectively consider the issues and has a fair chance of reaching sound, evidence based outcomes. Ideally, one main item per meeting would be the aim.

4. Members will have the opportunity on a monthly basis to revise the work programme if and when required or due to changing events.

5. Along with this report, members have a copy of the cabinet forward agenda for consideration.

6. It is proposed that any discussion is as a whole committee using the TOPIC criteria. This will assist members in achieving the goal of an agreed work programme that is met by consensus.

7. Members are asked to agree dates for the report back from select committees for the topics below:

   - Anti-social behaviour including fly tipping and city council processes.
   - The growth of short term lettings of homes in Norwich with input from the Independent Hoteliers Group.

8. Members are asked to note the additional scrutiny committee meeting to be convened on Tuesday 11 February at 10am to host the Police and Crime Commissioner for Norfolk.

9. The Local Anglia Enterprise Partnership (LEP) are not able to attend scrutiny committee on 19 March 2020. Councillor Alan Waters, Doug Field, LEP chair and Chris Starkie, LEP chief executive officer confirmed they will be pleased to attend if a mutually convenient date is found.

10. Members agreed that the young people and wellbeing topic would be re-scheduled. The scrutiny liaison officer is currently negotiating a date that the Stage 2 venue are able to host this.

11. Members are asked to begin submitting any topics that they would like

considered for inclusion in the 2020-21 work programme to the scrutiny liaison officer using then TOPIC form available under the scrutiny area of eCouncillor.

Annual work programme planning grid

Annual work programme planning grid (updated 23 January 2020)

Date of meeting Thursday at 16.30	Item
2019	
20 June	Work programme Norwich economic strategy
18 July	Work programme Transforming cities fund
19 September	Work programme Practical steps to improve air quality in Norwich and climate change update Report back from NHOSC meeting from 30 May and 25 July
17 October	Work programme Climate mitigation and transforming cities fund Report back from NHOSC meeting from 5 September
14 November **MEETING CANCELLED**	
12 December **MEETING CANCELLED**	
2020	
16 January	Work programme Chair's feedback from annual national scrutiny conference Corporate plan and performance framework.
6 February	Work programme Pre-scrutiny of the budget 2020/21 Report back from NHOSC meeting from 23 January
19 March	Work programme Annual review of the scrutiny committee

Notes:

To be rescheduled: Young people and well-being topic.

*Dates for the report back from select committees for the topics to be agreed:

- Anti-social behaviour including fly tipping and city council processes.
- The growth of short term lettings of homes in Norwich with input from the Independent Hoteliers Group.

NORWICH City Council

ALLOCATED ITEMS						
Meeting	**Report**	**Purpose**	**Portfolio holder + Senior Officer + Report author**	**Date report signed off by**	**Management clearance**	**Exempt?**
CABINET 12 FEB 2020	Greater Norwich Annual Growth Programme 2020/21– **KEY DECISION**	To consider the annual growth programme for Greater Norwich for 2020/21.	Cllr Stonard Graham Nelson Gwyn Jones		Graham Nelson	NO
CABINET 12 FEB 2020	Corporate plan 2020-21	To identify any amendments required to the corporate priorities and performance framework for 2020-2021	Cllr Alan Waters Adam Clark		Adam Clark	NO
CABINET 12 FEB 2020	Equalities Information Report 2020	To note the Equalities Information Report 2020	Cllr Karen Davis Adam Clark		Adam Clark	NO
CABINET 12 FEB 2020	Revenue and capital budget monitoring 2019/20 – Period 9	To update Cabinet on the forecast financial position of the council as at 31st December 2019.	Cllr Kendrick Hannah Simpson		Hannah Simpson	NO
CABINET 12 FEB 2020	Budgets, Medium Term Financial Strategy, HRA Business Plan, Capital Strategy & Treasury Management Strategy 2020/21	To propose for approval the 2020/21 budgets, medium term financial strategy and capital programme, along with capital strategy and treasury management strategy	Cllr Kendrick Hannah Simpson		Hannah Simpson	NO
CABINET 12 FEB 2020	Council tax reduction scheme 2020/21	To consider and recommend to council a council tax reduction scheme for 2020/21.	Cllr Davis		Hannah Simpson	NO

ALLOCATED ITEMS						
Meeting	**Report**	**Purpose**	**Portfolio holder + Senior Officer + Report author**	**Date report signed off by**	**Management clearance**	**Exempt?**
CABINET 12 FEB 2020	To award a contract for the replacement of Norwich city hall's space heating plant and controls - **KEY DECISION**	To seek **delegated** approval to award for the replacement of Norwich city hall's space heating plant and controls.	Cllr Kendrick Andy Watt Neil Watts / Brad Greeves		Andy Watt	NO
CABINET 12 FEB 2020	To award contracts – for various housing repair and maintenance works contracts - **KEY DECISION**	To seek approval to award contracts for various housing repair and maintenance works	Cllr Harris Lee Robson Neil Watts John Hodson		Lee Robson	NO
CABINET 12 FEB 2020	To award a contract for structural repairs at Chipperfield Road, Millers Lane and Pearcefield – **KEY DECISION**	To seek approval to award a contract for structural repairs at Chipperfield Road, Millers Lane and Pearcefield.	Cllr Harris Bob Cronk		Bob Cronk	NO
CABINET 12 FEB 2020	To award a contract for structural repairs at Blocks A, B and D, Heathgate – **KEY DECISION**	To seek approval to award a contract for structural repairs at Blocks A, B and D, Heathgate.	Cllr Harris Bob Cronk		Bob Cronk	NO
CABINET 12 FEB 2020	NPS Norwich Business Plan 2020	To consider the NPS Norwich Business Plan 2020	Cllr Kendrick Bob Cronk		Bob Cronk	NO
CABINET 12 FEB 2020	Pay Policy Statement 2020-21	To consider and recommend the pay policy statement for 2020-21.	Cllr Waters Dawn Bradshaw			NO

ALLOCATED ITEMS						
Meeting	**Report**	**Purpose**	**Portfolio holder + Senior Officer + Report author**	**Date report signed off by**	**Management clearance**	**Exempt?**
COUNCIL FEB 2020	The council's 2020/21 budget and medium term financial strategy	To consider and approve the 2020/21 budgets, medium term financial strategy and capital programme, along with capital strategy and treasury management strategy	Cllr Kendrick Hannah Simpson		Hannah Simpson	NO
COUNCIL FEB 2020	Council tax reduction scheme 2020/21	To consider and approve a council tax reduction scheme for 2020/21	Cllr Davis			NO
COUNCIL FEB 2020	Corporate plan 2020-21	To identify any amendments required to the corporate priorities and performance framework for 2020-2021	Cllr Alan Waters Adam Clark		Adam Clark	NO
COUNCIL FEB 2020	Pay Policy Statement 2020-21	To consider the pay policy statement for 2020-21.	Cllr Waters Dawn Bradshaw			NO
CABINET 11 MARCH 2020	Quarter 3 2019/20 quarterly performance report	To report progress against the delivery of the corporate plan priorities and key performance measures for quarter 3 of 2019/20	Cllr Waters Adam Clark		Adam Clark	NO
CABINET 11 MARCH 2020	Environmental Strategy	To consider the Environmental Strategy	Cllr Maguire Richard Willson Graham Nelson		Graham Nelson	NO
CABINET 11 MARCH 2020	Update on potential development sites.	To seek approval for the next steps on potential development sites	Cllr Stonard Graham Nelson Gwyn Jones		Graham Nelson	NO
CABINET 11 MARCH 2020	Update on potential development sites.- exempt appendix	To seek approval for the next steps on potential development sites	Cllr Stonard Graham Nelson Gwyn Jones		Graham Nelson	YES (Para 3)

ALLOCATED ITEMS						
Meeting	**Report**	**Purpose**	**Portfolio holder + Senior Officer + Report author**	**Date report signed off by**	**Management clearance**	**Exempt?**
CABINET 11 MARCH 2020	Scrutiny committee recommendations	To consider recommendations from Scrutiny committee	Cllr Kendrick Adam Clark		Adam Clark	NO
CABINET 11 MARCH 2020	Towns' Fund – **Key decision**	To inform Cabinet of Towns' Fund opportunity and governance arrangements	Cllr Waters Graham Nelson Ellen Tilney		Graham Nelson	NO
COUNCIL 17 MARCH 2020	SEV Policy					
CABINET JUNE 2020	Quarter 4 2019/20 quarterly performance report	To report progress against the delivery of the corporate plan priorities and key performance measures for quarter 4 of 2019/20	Cllr Waters Adam Clark		Adam Clark	NO
CABINET JUNE 2020	Revenue and capital budget monitoring 2019/20 – final outturn	To update on the revenue and capital outturns for the year 2019/20; the consequent General Fund and Housing Revenue Account balances; and to seek approval to delegate to officers the approval of carry-forward unspent capital budgets into the 2020/21 capital programme.	Cllr Kendrick			NO
CABINET JUNE 2020	Towns' Fund - **Key decision**	To update Cabinet on progress of Towns' Fund, including Town Investment Plan	Cllr Waters Graham Nelson Ellen Tilney		Graham Nelson	NO

Norwich City Council

SCRUTINY COMMITTEE

ITEM 7

REPORT for meeting to be held on 6 February 2020

Pre – scrutiny of the proposed budget for 2020/21

Summary:

The scrutiny committee meeting of 6 February 2020 will carry out pre-scrutiny of the council's proposed budgets for 2020/21.

The purpose of the meeting is to comment on the proposed budget papers for 2020/21; 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 2020/21 at its meeting on 25 February 2020.

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 2020/21.

Contact Officer

Hannah Simpson, interim chief finance officer	01603 212561
Shaun Flaxman, senior finance business partner	01603 212805
Annabel Scholes, interim corporate finance business partner	01603 213426

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 transformation 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
	12 February 2020
Report of	Chief finance officer (Section 151 Officer)
Subject	The council's 2020/21 budget and medium term financial strategy

Purpose

This report and its various sections and appendices set out proposals for the 2020/21 budget (general fund, HRA and capital programme) along with medium term expenditure and financing plans across the whole of the city council's activities. It also contains the council's proposed non-financial investments (commercial) strategy and the Treasury Management Strategy.

Recommendations:

Cabinet is asked to note:

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

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

c) That the Council Tax resolution for 2020/21, prepared in accordance with Sections 32-36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011, will be calculated and presented to Council for approval once Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk have agreed the precepts for the next financial year.

Cabinet is asked to recommend to Council to approve:

General Fund

1. The council's net revenue budget requirement as £17.888m for the financial year 2020/21 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 £269.38 (paragraph 2.23) 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 £4.289m (paragraph 2.46).

4. The award of new business rates reliefs using discretionary relief powers as set out in paragraph 1.4. The full cost of granting this relief will be compensated through a section 31 grant from Government.

Housing Revenue Account

5. The proposed Housing Revenue Account gross expenditure budget of £61.4m and gross income budgets of £68.1m for 2020/21 (paragraph 3.4).

6. Of the estimated surplus of £6.7m, £2.1m is used to make a revenue budget contribution towards funding of the 2020/21 HRA capital programme (paragraph 3.4).

7. A 2.7% increase in dwelling rents for 2020/21, 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% from April 2020. This will result in an average weekly rent increase of £2.07 for Norwich tenants (paragraphs 3.9 to 3.14).

8. A 2.7% increase in garage rents for 2020/21 (paragraph 3.15).

9. The transfer of £1m of underspend forecast to be achieved in 2019/20 to the HRA's spend-to-save earmarked reserve (paragraph 3.3).

10. The prudent minimum level of housing reserves as £5.874m (paragraph 3.34).

Capital Strategy

11. The proposed general fund capital programme 2020/21 to 2024/25 and its method of funding as set out in table 4.4, table 4.5 and Appendix 4 (B).

12. The proposed HRA capital programme 2020/21 to 2024/25 and its method of funding as set out in table 4.4, table 4.6 and Appendix 4 (B).

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

Non-financial Investments (Commercial) Strategy

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

15. Continuing to borrow in order to invest in commercial property outside of the city's boundaries in order to obtain the best opportunities available, diversify the portfolio, and thereby mitigate the risk of holding these investments (paragraph 1.32 and 5.9).

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

17. The council's policy and process for lending to Norwich Regeneration Limited as set out in paragraph 5.26.

18. The estimated loan facility (amount of lending) the council will need to make available to Norwich Regeneration Ltd to deliver its Business Plan as set out in table 5.2. Final decisions on lending will be subject to the process set out in paragraph 5.32.

19. The estimated equity investment the council will need to make in Norwich Regeneration Limited to deliver its Business Plan as set out in table 5.3. Final decisions on investments will be subject to the process set out in paragraph 5.32.

Treasury Management Strategy

20. The borrowing strategy 2020/21 through to 2024/25 (paragraphs 6.21 to 6.24).

21. The capital and treasury prudential indicators and limits for 2020/21 through to 2024/25 contained within paragraphs 6.13 to 6.20 and tables 6.2 to 6.4, including the Authorised Borrowing Limit for the council.

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

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

Summary of key financial indicators

24. The indicators for 2020/21 through to 2023/24 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 2020/21 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

Hannah Simpson, Interim Chief Finance Officer	01603 212561
Shaun Flaxman, Senior Finance Business Partner	01603 212805
Annabel Scholes, Interim Corporate Finance Business Partner	01603 213426

Background documents

None

Background

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

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

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

1.4 Alongside austerity, the council has to manage ongoing and unprecedented risk and uncertainty including significant changes in future local government funding from 2021/22 onwards and the possible impacts of Brexit.

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

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

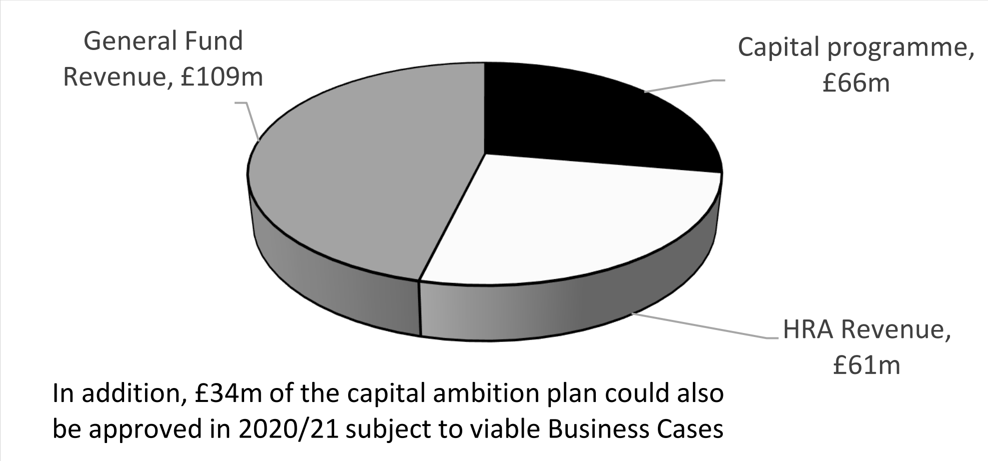
Chart 1: The Council's Key Priorities

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

Summary

1.8 This report sets out 2020/21 budget proposals that total £236m 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 2020/21



General Fund

1.9 The financial year 2020/21 is the tenth year of austerity and government-imposed funding cuts. The city council has already made efficiency savings, including the generation of new income streams, of some £37.4m over these ten years and further gross savings/increased income of £2.1m proposed in 2020/21.

1.10 Norwich Regeneration Ltd is currently in a challenging trading position having developed its first scheme at a financial loss to the company. As at 31 December, the company has a loan outstanding with the Council of £6.4m and insufficient assets to cover this liability in full. Considering the above position, it is proposed to significantly increase the balance on the reserve to £4.0m at the end of the 2019/20 financial year.

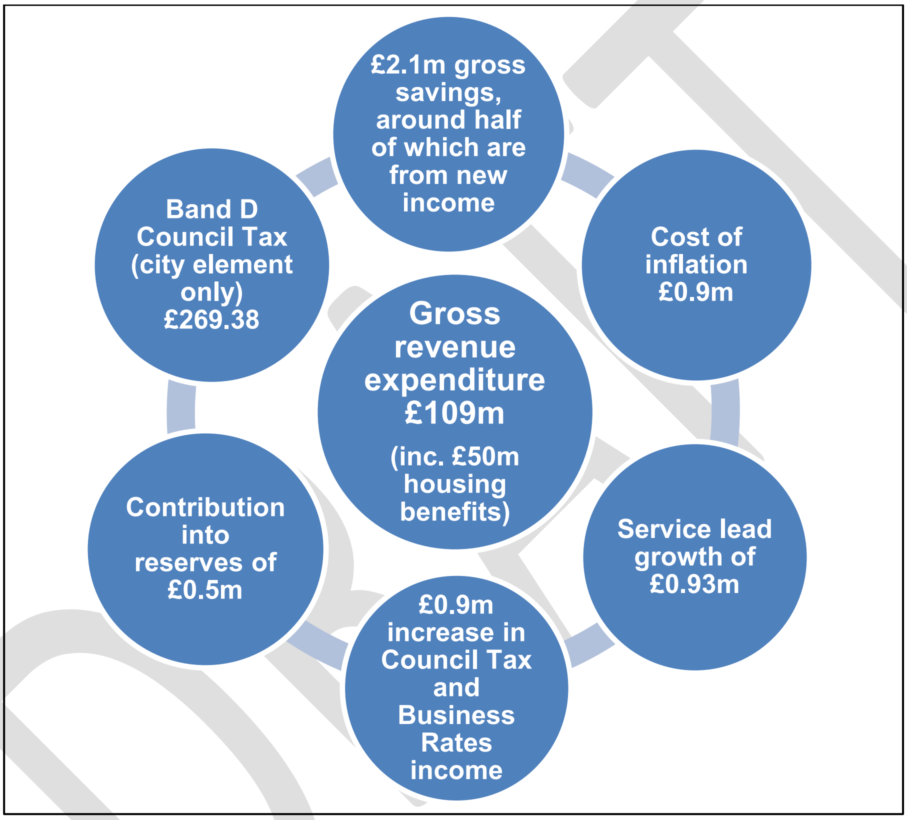
1.11 The financial settlement covered only 2020/21, with the government implementing a ‘roll forward’ finance settlement. This means a one-year delay to the longer-term local government financial reforms (see section 1).

1.12 Given the lack of clarity on future local government funding from April 2021, 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 2021/22 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 £10m of gross savings will need to be found over the four year period from 2021/22. This quantum of savings represents 17% of the 2020/21 proposed gross expenditure budget (excluding the housing benefits budget, which is fully funded via central government housing subsidy).

Chart 3: Key figures in 2020/21 proposed general fund revenue budget



1.15 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.

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

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

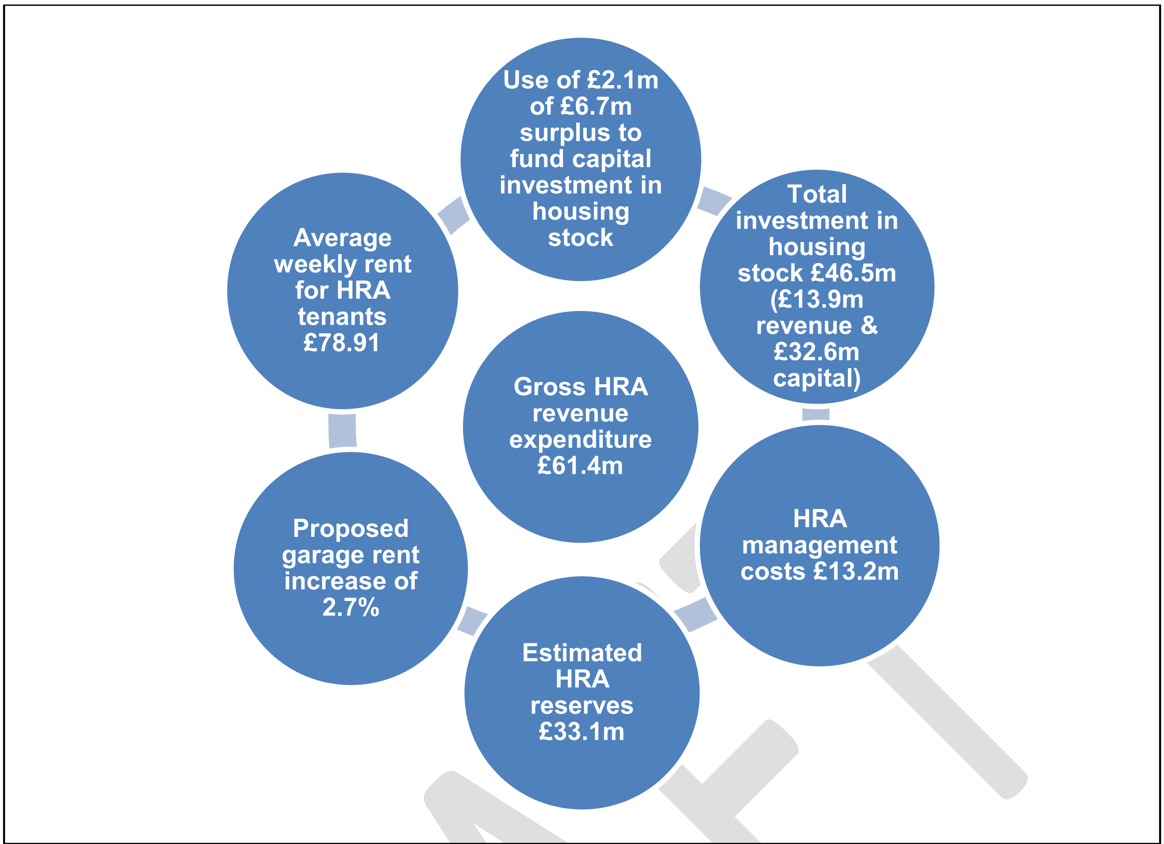
1.18 There are a number of key themes of work that are being advanced to meet the savings challenge, which are thought at this initial stage, to be able to cover 30% to 40% of the medium term "budget gap". These include:

- Increasing our income from commercial property and other sources
- Increasing the efficiency of our IT and services
- Supporting people to self-serve where they can
- Bringing some of our external contracts back into the council

1.19 However, difficult decisions will be required and it is almost inevitable that this council will need to review the nature and level of the services provided from 2021/22. The outcomes of the central government funding review will be critical in understanding the longer-term funding levels for the Council. A significant reduction in funding could require the council to move towards the provision of core statutory services only.

Housing Revenue Account (HRA)

Chart 4: Key figures in 2020/21 proposed HRA Business Plan



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

1.21 The HRA does not face the same financial pressures as the council's general fund, although the account has lost significant income over the past 4 years from the government's enforced rent reduction enacted in the Welfare Reform and Work Act 2016. Additionally, there are potential risks to rental income streams arising from the roll out of Universal Credit and the continuing Right-to-Buy legislation.

1.22 The HRA is forecast to make a surplus of income over expenditure of £6.7m in 2020/21 and it is proposed to use £2.1m of this surplus to fund capital investment in the housing stock. The remainder being transferred to reserves to finance new and replacement stock over the medium term.

1.23 Following a four year period of enforced rent reduction, 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% from April 2020, which would result in the average HRA rent increasing to £78.91.

Capital strategy

1.24 The council's proposed capital programme for 2020/21 is £65.5m. An illustration of some of the key projects and programmes are given in charts 5 and 6 and the detail can be found in Appendix 4 (B).

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

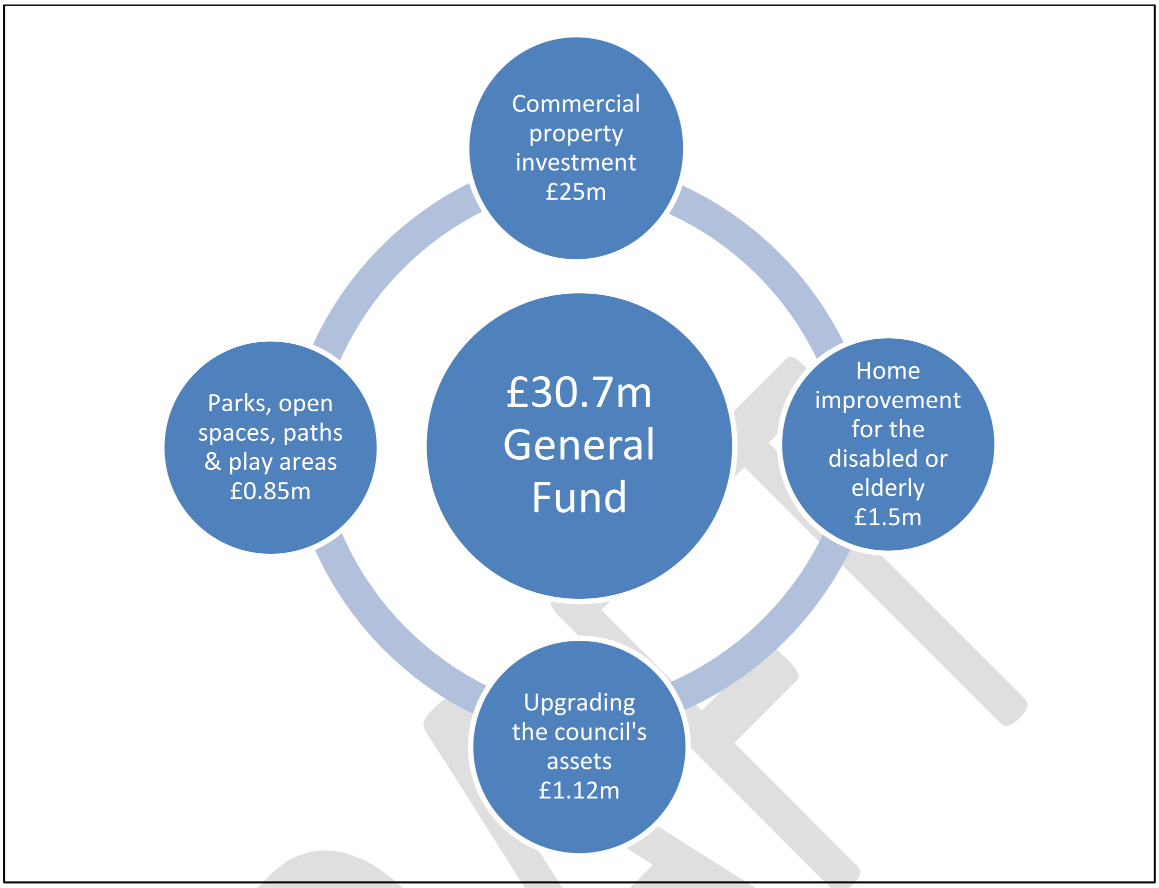
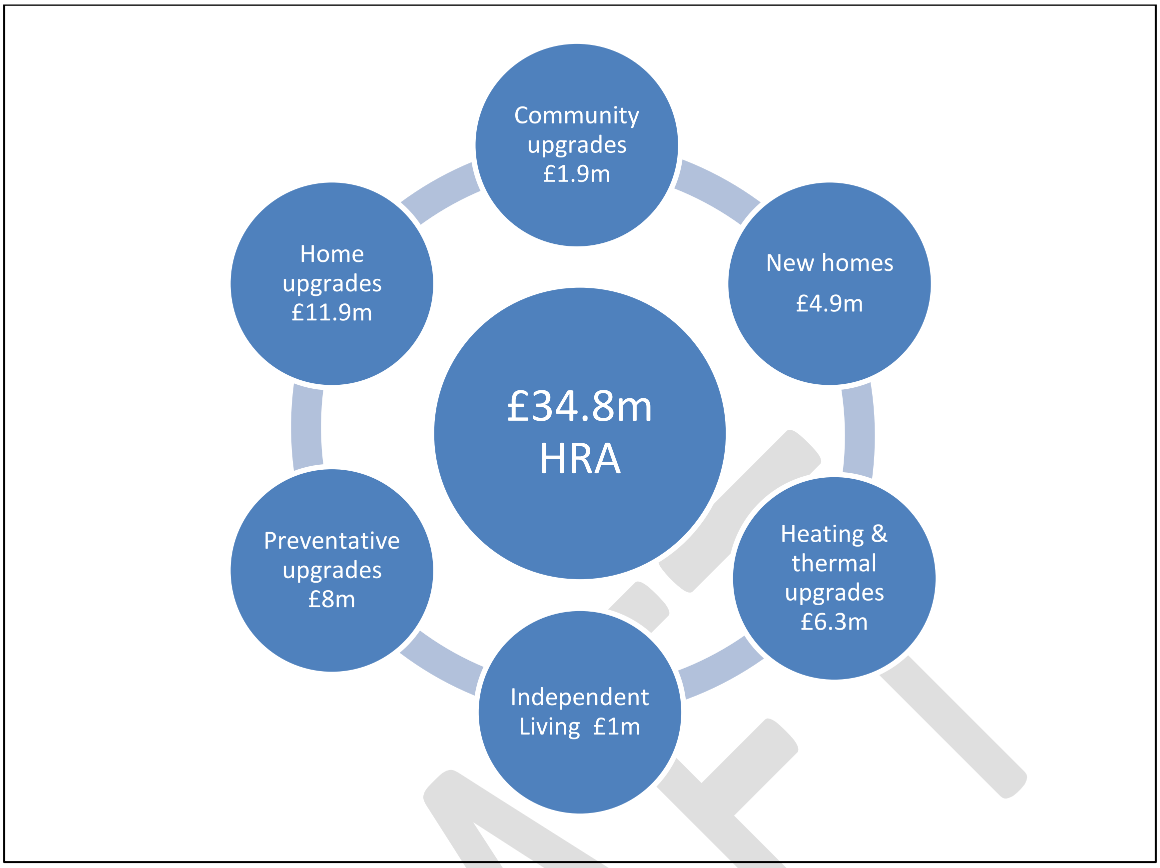


Chart 6: Illustration of proposals within the HRA capital programme



- New homes: £2.9m for HRA land and homes and £2m grant to other registered providers
- Heating & thermal upgrades – boilers, insulation, solar and PV panels
- Independent Living – disabled adaptations and sheltered alarms
- Preventative upgrades – structural improvements, roofing, lifts
- Home upgrades – kitchens, bathrooms, windows, doors, electrical works
- Community upgrades – door access control, CCTV, estate aesthetics & improvements, HRA estate shops

1.25 In addition to the proposals seeking approval by council to be included in the capital programme now, further capital ambition 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 and recent experience of house building (either itself or through its company) mean that the council, through its HRA account, will seek to build more affordable homes in the city in the future. It has significant reserves that could be used for this purpose (see paragraph 3.33) 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 continued to be estimated at approximately £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 is in the process of undertaking a comprehensive review of all of its non-HRA land and property assets to prioritise those that need investment, are not financially performing, or are surplus to service needs.

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 3.3).

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

1.32 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 2021/22 hinder robust forward financial planning for the general fund.

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

1.34 The investments proposed to be made are significant and are set out in section 5. In total £25m of expenditure is proposed in 2020/21 on commercial property investment, with the potential for further lending to third parties and equity investments (primarily with Norwich Regeneration Limited) if supported by an approved business case.

1.35 Total commercial income will equate to 14% of the general fund's gross expenditure budget for 2020/21 (table 7.6), although a significant amount of the anticipated new income is prudently not taken into the MTFS budget until it is realised and some is set aside in earmarked reserves to mitigate against the risks associated with these commercial activities.

1.36 The funding of non-financial investments along with the proposed capital programme and capital ambition projects will significantly increase the council's capital funding requirement (its indebtedness or underlying need to borrow). If projects and programmes proceed to plan, then the capital financing requirement will increase by £133m from 2018/19 to 2022/23, a 47% increase (table 7.2). The total indebtedness compared to the value of the council's assets (gearing ratio) increases from 27% in 2018/19 to 36% in 2022/23 (table 7.5).

1.37 The council currently has £72m 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.

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

1.39 The overall proposed direction of travel means more focus is being given to enhanced options appraisal, Business Case preparation, financial modelling, and commercial awareness so that robust decisions can be made.

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 new net income arising from commercial property investment into an earmarked reserve to mitigate against the risks inherent in undertaking these commercial activities.
- A prudent approach to the amount of reserves held in the Collection Fund given the inherently volatile nature of business rate collection.
- A cautious approach in estimating future income from business rates and council tax, and the growth in the tax bases, given that changes to the local government funding regime could impact on the former, and

both taxes may be affected by the current uncertainties surrounding Brexit and its potential impact on the national and local economy.

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

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

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

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

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

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

Contents of this budget report

1.41 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 commercial property investment, its lending to third parties including its wholly owned subsidiary company, and its equity investments whilst understanding new financial indicators showing the risks, proportionality and affordability of the commercial activities being proposed.

1.43 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 follow along with a "road map" (chart 7) attempting to show the basic terminology, interrelationships, and content of the report.

1: Local Government Finance – economic and statutory context

This gives a brief summary of the current key national economic indicators and the state of public sector finances. It summarises the changes that are intended to be made by government to the local government finance regime in 2021/22 onwards and describes all of the regulatory changes that have recently been introduced that affect the preparation of the budget report.

2: General Fund 2020/21 budget and MTFS

Sets out the proposed general fund revenue budget and its financing for 2020/21, including the proposed Council Tax for 2020/21, along with a forecast of the medium term position.

3: Housing Revenue Account 2020/21 Budget and Business Plan

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2020/21 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 investments in commercial property and its lending and equity investments in third party organisations, but particularly with Norwich Regeneration Limited.

6: Treasury Management Strategy

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

7: Summary of key financial indicators

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

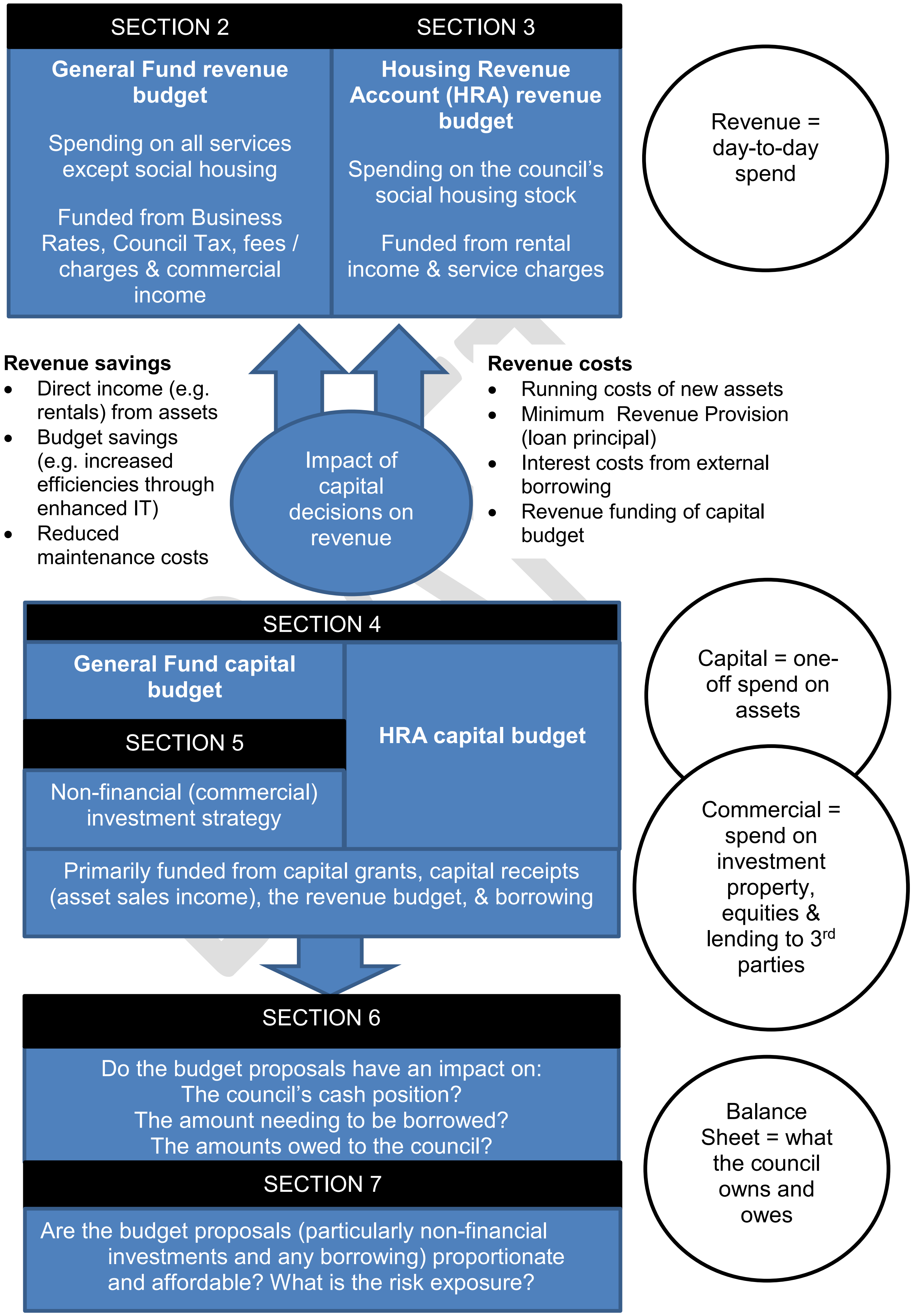
8: Chief Finance Officer's Statement

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

9: Financial glossary

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

Chart 7: Budget Report "road map"



Integrated impact assessment

NORWICH City Council

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

Report author to complete	
Committee:	Cabinet
Committee date:	12 February 2020
Director / Head of service	Hannah Simpson
Report subject:	The council's 2020/21 budget and medium term financial strategy
Date assessed:	29 January 2020
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)	X			
Eliminating discrimination & harassment	X			
Advancing equality of opportunity	X			The proposed budget within this paper covers a wide range of council activity and spend. As a result it is not possible to provide a detailed assessment of, for example, the impact on residents and others with protected characteristics under The Equality Act at this level. Existing council processes for equality impact assessments should continue to be carried out at an appropriate time for the individual projects, activities and policies that constitute this budget and transformation programme.
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	X			
Natural and built environment		X		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 risk profile of the Council has increased as the budget contains proposals to generate additional income from commercial activity and such income can be volatile and dependent on the health of the national and local economy.

Recommendations from impact assessment
Positive
None
Negative

The report includes several mitigating actions in terms of risk management, namely: • The earmarked reserves established to help mitigate the risk associated with commercial property acquisition and lending to Norwich Regeneration Limited. • The maintenance of a Prudent Minimum Level of General Fund reserve. • Enhanced forecasting and budget monitoring of income particularly that generated from the Council's commercial property portfolio. • The requirement to produce robust Business Cases for large capital projects (many of which will generate commercial returns or savings) before Council approves the project within the capital programme.
Neutral
None
Issues
None

1. LOCAL GOVERNMENT FINANCE – ECONOMIC AND STATUTORY CONTEXT

Key Economic Indicators and State of Public Finance

1.1 A summary of the key economic indicators, as at the time of writing this report (January 2020), 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 18 December 2019, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.75%. Monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target. The Committee will, among other factors, continue to monitor closely the responses of companies and households to Brexit developments as well as the prospects for a recovery in global growth. *Source: Bank of England – December 2019*
Inflation: CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in October to 1.5%. It is likely to remain close to or under 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. *Source: Link Asset Services*
GDP Growth: The OBR March forecast confirmed that they have not altered their assessment of the outlook for potential output, so the medium-term forecast is little changed: GDP growth still settles down to around 1.5% a year. *Source: Office for Budget Responsibility*
Unemployment Rate and Average Earnings: Growth in numbers employed had been quite resilient through 2019 until the three months to September where it fell by 58,000. The unemployment rate fell back again to a 44 year low of 3.8% on the Independent Labour Organisation measure in September, despite the fall in numbers employed, due to numbers leaving the work force. Wage inflation has been edging down from a high point of 3.9% in July to 3.8% in August and now 3.6% in September (3 month average regular pay, excluding bonuses). This meant that in real terms (i.e. wage rates higher than CPI inflation) earnings grew by about 1.9%. As the UK economy is services sector driven, an increase in household spending power is likely to feed through into providing support to the overall rate of economic growth in the coming months. *Source: Link Asset Services*

Public Sector Finances:

The early general election resulted in the cancellation of the planned Autumn Budget 2019, originally scheduled for 6 November. The next Budget is scheduled for 11 March 2020.

The Office for Budget Responsibility (OBR) had intended to publish an updated Economic and Fiscal Outlook to set out forecasts for the UK's public finances alongside the Autumn Budget 2019. When the Autumn Budget was cancelled, the OBR instead published a technical restatement of the March 2019. According to the OBR, the restated forecast "increases measured public sector net borrowing by roughly £20 billion a year, which means that the deficit would still be in excess of £30 billion in the final year of the forecast in 2023/24. By contrast, the restatement lowers our forecast for net debt."

Public sector net borrowing (PSNB) was £5.6 billion in November, £0.2 billion higher than last year but £0.5 billion lower than market expectations. Public sector net debt (PSND) in November 2019 was down 0.8 % of GDP from a year earlier. Around 0.5 percentage points of this drop is explained by the £4.9 billion sale of Bradford and Bingley mortgages by UK Asset Resolution (UKAR) in April and £8.5 billion in early repayments of Term Funding Scheme (TFS) loans since the start of the financial year.

The Provisional Finance Settlement set that across Local Government Core Spending Power (CSP) will increase by 6.3% in 2020/21, the highest increase in CSP in over a decade. This is the first real-terms increase in CSP since 2010.

Source: Office for Budget Responsibility and MHCLG

Provisional Local Government Finance Settlement

1.2 The Provisional Local Government Finance Settlement 2020/21 was published on 20 December 2019. The key announcements with relevance to Norwich City Council are summarised below:

1.3 **Business Rates:** The small business rate multiplier will be 49.9p, an increase of 1.63% compared to 49.1p in 2019/20. The multiplier increases in line with the Consumer Price Index (CPI) in the previous September.

1.4 The Government have announced, in a written ministerial statement, additional business rates measures that will apply from 1 April 2020. These measures will increase the current retail discount and extend that discount to cinemas and music venues; extend the duration of the local newspapers office space discount; and introduce an additional discount for public houses. The changes are as follows:

a) Currently retail premises receive a discount of one-third. In 2020/21, this will be increased to 50 percent for eligible retail premises that occupy a property with a Rateable Value less than £51,000. Eligible retail premises have been extended to include cinemas and music venues

b) Offices occupied by Local Newspapers will receive a discount of £1,500 for 5 years from 1 April 2020 until 31 March 2025
c) Public Houses with a rateable value less than £100,000 will receive a £1,000 discount in 2020/21. This will be in addition to the retail discount detailed above and will apply after the retail discount.

1.5 The Government have issued guidelines on the operation of these reliefs and State Aid rules will apply in the usual way. Local Authorities are expected to use their discretionary relief powers (section 47 of the Local Government Act 1988, as amended) to grant these 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.

1.6 Business rates 75% retention pilots agreed for 2019/20 will finish at the end of the financial year. The Government has decided not to run further pilot arrangements for 2020/21. The government has also promised a fundamental review of business rates.

1.7 **Council Tax:** For 2020/21, 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). For County Councils there is the continuation of the adult social care precept, allowing an additional 2% increase in Band D in 2020/21.

1.8 **New Homes Bonus:** The grant will continue for another year but the government intends to phase it out by 2023/24. For now, there is no change in the operation of the scheme in 2020/21: the scheme works in the same way and applies the same national growth baseline (0.4%).

1.9 The major change is that the new amounts earned will only attract a New Homes Bonus reward for one year (2020/21). The government is expected to consult on the future of the housing incentive in the spring.

1.10 For upper tier authorities the Chancellor announced £1bn of new adult social care grants in the SR19. There were three elements to the funding:

- **Winter Pressures Funding:** £240m continued from 2019/20 for councils to spend on adult social care services to help councils alleviate winter pressures on the NHS. This has now been rolled into the Improved Better Care Fund and its ring-fence removed.

- **Social Care Support Grant:** £410 million continued from 2019/20 for adults and children's social care. Councils should be using this additional funding to "ensure that adult social care pressures do not create additional demand on the NHS", "where necessary". However, councils can use this grant to fund social care services for older people, people with disabilities and children.

- **Social Care Support Grant:** £1bn in 2020/21 (as above). The two elements of the Social Care Support grant will be paid together (£1.41bn).

Local Government Finance Post 2021

1.11 The financial settlement covered only 2020/21, with the government implementing a 'roll forward' finance settlement for 2020/21. This means a 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).

1.12 In 2020 the Government plans to carry out a multi-year Spending Review, which will lay the groundwork for reforms. The government will continue to advance and consult upon the reforms, with the aim to implement them from 2021-22.

Fairer Funding Review

1.13 The aim of the review is to develop a more robust and up-to-date approach to distributing funding across all councils. The council responded to an initial consultation on proposals in February 2019, the Government are yet to publish a response to the consultation. It will be important that the council continues to engage with the consultation process as being an under-bounded city district it has spending needs and cost drivers that may not be typical of the majority of district councils who are largely rural in nature.

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

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

Business Rates Retention

1.16 The council responded to an initial consultation in February 2019, the Government are yet to publish the response to the consultation. The consultation sought views on options for the reform of the business rates retention system from 2020/21 onwards: including:

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

1.17 In the technical consultation on the Local Government Finance Settlement 2020/21 Government reconfirmed their intention to include a full business rates baseline reset in 2021/22. This means that all business rates growth local authorities have generated since 2013/14 will be included within their business rates baseline and the growth element redistributed within the system. Norwich has retained around £200-£400k of growth in recent years and this is therefore at risk from a full baseline reset. An allowance has been made for this within the medium term financial strategy.

Regulatory Changes

CIPFA Guidance Updates

1.18 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) and a Financial Resilience Index, both of which may have implications for the council’s budget setting process in future years as described in further detail below.

Financial Management Code

1.19 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.

1.20 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.

1.21 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 will be issuing further supporting guidance during the 2020/21 financial year. However, the Code sets out that it relies on "*the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone,"* and emphasises that it *"should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making"*.

1.22 The FM Code has been published to take effect from April 2020, but 2020/21 is a "shadow year," and full compliance is not expected until 2021-22. Although many of the requirements of the FM Code represent good practice, which are already reflected in the council's planning, policies and systems, it is therefore proposed that the council undertake a review during 2020/21 to identify any areas for improvement.

CIPFA's Financial Resilience Index

1.23 CIPFA has updated it financial resilience tool uses publically available data to compare similar authorities across a range of factors. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement.

1.24 There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance.

1.25 The financial resilience indicators for Norwich City Council are detailed in Section 8 of the report.

Prudential Property Investment

1.26 CIPFA published its guidance *Prudential property investment* in November 2019. This has been produced in light of the recent trend for authorities to purchase commercial property solely to make an investment return. This increased scale of investment was recognised in 2017 by revisions made to the CIPFA Prudential Code and the Treasury Management Code, as well as MHCLG's 2018 revised Investment Code.

1.27 The scope of the guidance extends to all acquisitions of land/buildings where rental income and/or capital appreciation are a substantial consideration in the decision whether to enter into the transaction. It sets out that the decision to acquire property intended to make an investment return will have three parts:

- The identification of the legal powers that support the proposed transactions (*Can we acquire commercial property*);
- Demonstration that the exercise of these powers would be reasonable (*Should we acquire commercial property*);
- Confirmation that the authority wishes to take the proposed course of action (*Will we acquire commercial property*).

1.28 The guidance draws the distinction between whether an authority is

- acquiring a property that will happen to make an investment return; and
- an investment that happens to be a property.

1.29 CIPFA considers that this is significant in determining if borrowing is justified to support the purchase. The guidance notes that '*it is probable that the use of a property acquisition power will facilitate use of borrowing powers, but much less probable that use of an investment power will have the same effect*'.

1.30 When considered as an investment, the guidance seeks to explain CIPFA's position (as signalled in the Prudential Code), that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. This has long been a principle of treasury management activity (e.g. deposits in banks and building societies) and the 2018 *Statutory Guidance on Local Government Investments* extended this to cover borrowing taken on to finance the acquisition of non-financial instruments (e.g. purchasing of commercial property and lending to third parties, such as wholly-owned companies).

1.31 The investment guidance recognises that it cannot prohibit the acquisition of commercial property by borrowing, but authorities not following the Prudential Code and Investment Guidance are expected to provide an explanation in their investment strategy.

1.32 The council's Non Financial (Commercial) Investment Strategy forms Section 5 of this report. It sets out the rationale for the council's investment activity, the need to fund these investments from borrowing and the investment principles. In line with MHCLG investment guidance, it also sets out the risk management processes in place.

1.33 The CIPFA guidance has only recently been published and the council will further consider any impacts from it on its strategy and disclosures. The council is committed to providing appropriate governance and open reporting of its commercial investment, thereby adhering to the key principle of transparency and accountability set out in the Investment Guidance.

2. GENERAL FUND 2020/21 BUDGET AND MTFS

Forecast 2019/20 Outturn

2.1 The latest position on the General Fund, as at Period 9 shows a forecast underspend of £2.283m.

2.2 A significant element (£0.792m) of the forecast underspend relates to additional net income from commercial property purchased in year. In line with the Council decision in February 2018, any surplus above the MTFS net income target, will be credited to the commercial property earmarked reserve, providing future funding for any void and rent free periods as well as any landlord repairs/upgrades. This is designed to safeguard the future value of the investment, thereby minimising the risk of holding these assets and any fluctuations in the income return.

2.3 A further element of the forecast underspend (£0.174m) relates to the council's lending to Norwich Regeneration Limited (NRL). Whilst the council budgets to borrow the money it lends to NRL it has to-date not needed to, and has temporarily used its cash holdings to fund the loans. This means that in 2019/20 there will be underspending in the financing costs budget as the council is not currently borrowing externally. It is proposed that this underspend is transferred to the NRL earmarked reserve.

2.4 The forecast outturn includes an unbudgeted one-off dividend income of £0.365m from Legislator 1656; the company is due to declare the dividend before the end of March 2020. The dividend relates to the income the company received from its sale of shares in Norwich Airport Ltd. It is proposed that this underspend is transferred to the NRL earmarked reserve (see further detail in paras 2.47 to 2.53).

2.5 The forecast outturn also includes a reduction in the 2019/20 revenue contribution to capital of £0.750m. There has been no change to the approved capital budget; it is just that a higher proportion of the spend will be funded from capital receipts rather than a contribution from the revenue account. It is proposed that this revenue underspend is transferred to the NRL earmarked reserve (see further detail in paras 2.3 to 2.55 and paras 5.28 to 5.29).

2.6 The council is part of the Norfolk wide Business Rates Retention Pilot for 2019/20, which will see 75% of business rates growth retained within the County, rather than 50% under the usual scheme. The pilot is currently progressing well, with quarterly countywide monitoring taking place as per the agreed governance arrangements. The full financial benefit to the council from participating in this pilot will be confirmed in July 2020, once all the Norfolk billing authorities have completed the NNDR3 government returns.

2.7 It is proposed that any additional business rates income above budget and any other remaining general fund underspend is transferred into the earmarked invest-to-save reserve. This reserve will be used to support the delivery of savings and efficiencies through the Fit for the Future programme.

Proposed 2020/21 Revenue Budget

2.8 The proposed 2020/21 budgets have been established following discussions between LGSS Finance and budget managers to determine realistic service budgets. All savings and growth items have been reviewed firstly by the Corporate Quality Assurance Group led by the Chief Finance Officer; and secondly by the Corporate Leadership Team.

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 24 January 2020. An analysis of the results is given in Appendix 2 (I) which shows that 58% of people agree or strongly agree with the proposed council tax increase.

2.10 Appendix 2 (A) summaries the key movements in the base budget (i.e. 2019/20 approved budget) to arrive at the proposed 2020/21 budget. Appendix 2 (B) shows a subjective breakdown of the gross income and expenditure proposed.

2.11 The MTFS approved by Council in February 2019 set out a net savings target for 2019/20, based on a 5-year smoothing savings strategy, of £1.8m (gross savings of £2.6m per annum). At that stage, it was forecast that £2.552m of general fund reserves would be needed to balance the budget in 2020/21.

2.12 The proposed budget includes net savings of £1.146m. 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. Adjustments made to the net recharge income relating to services provided to the Housing Revenue Account total £0.513m. When combined these result in net cost reductions to the general fund of £1.659m; this is slightly short of the original £1.8m savings target.

2.13 There has been a significant shift in the reserves requirement in 2020/21 compared to the previous year's MTFS forecast. Rather than requiring £2.552m from general reserves to balance the budget, the budget includes a £0.517m contribution into reserves. The main factor in this movement is the roll-over nature of the finance settlement and associated one year delay in the planned local government finance reforms including the Fairer Funding Review and business rates baseline reset. This delay has meant the forecast drops in business rates, revenue support grant and New Homes Bonus grant have not taken effect in 2020/21.

2.14 There have also been favourable movements in income council tax compared to last year's MTFS with higher than expected growth in the tax base and a higher distribution of the prior year surplus. These improved figures offset the shortfall in the savings target.

2.15 It must be noted that the delay in the local government reforms only has a one-year impact and therefore the future annual net savings is not significantly affected. The updated MTFS for 2020/21 now shifts the reductions in business rate income and government grants into the subsequent financial year (further detail in paragraph 2.32).

2.16 The budget proposals include £0.926m of budget growth (i.e. increases to the budget not arising from inflationary factors). The growth includes the removal of income from the Highways Agency agreement (which ends March 2020), loss of income from land searches following introduction of a new central government customer access portal, and a small percentage reduction in the Housing Benefit subsidy recovery rate.   The full list is shown in Appendix 2 (G).

2.17 In addition to the ongoing general fund base budget, significant one-off funds have been allocated to support the Fit-for-the–Future programme. The total planned expenditure is £724k of which £377k is to be funded from the General Fund Invest-to-Save earmarked reserve and £347k from the HRA Invest-to-Save 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).

Chart 2.1: 2020/21 gross expenditure budget analysed by type of spend

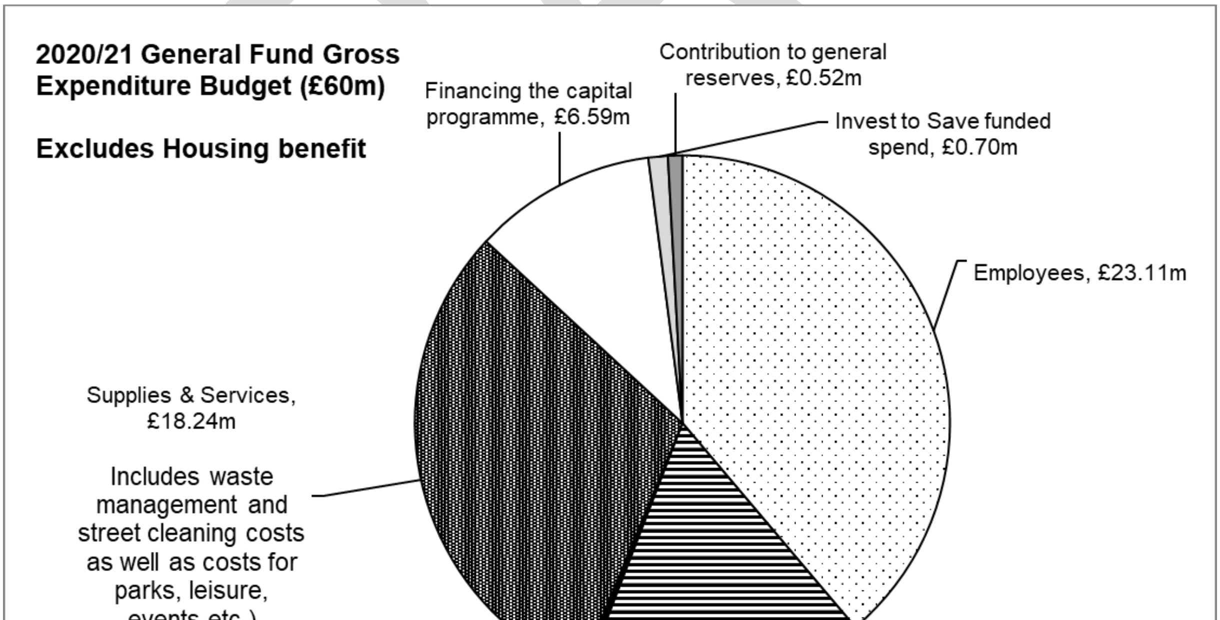
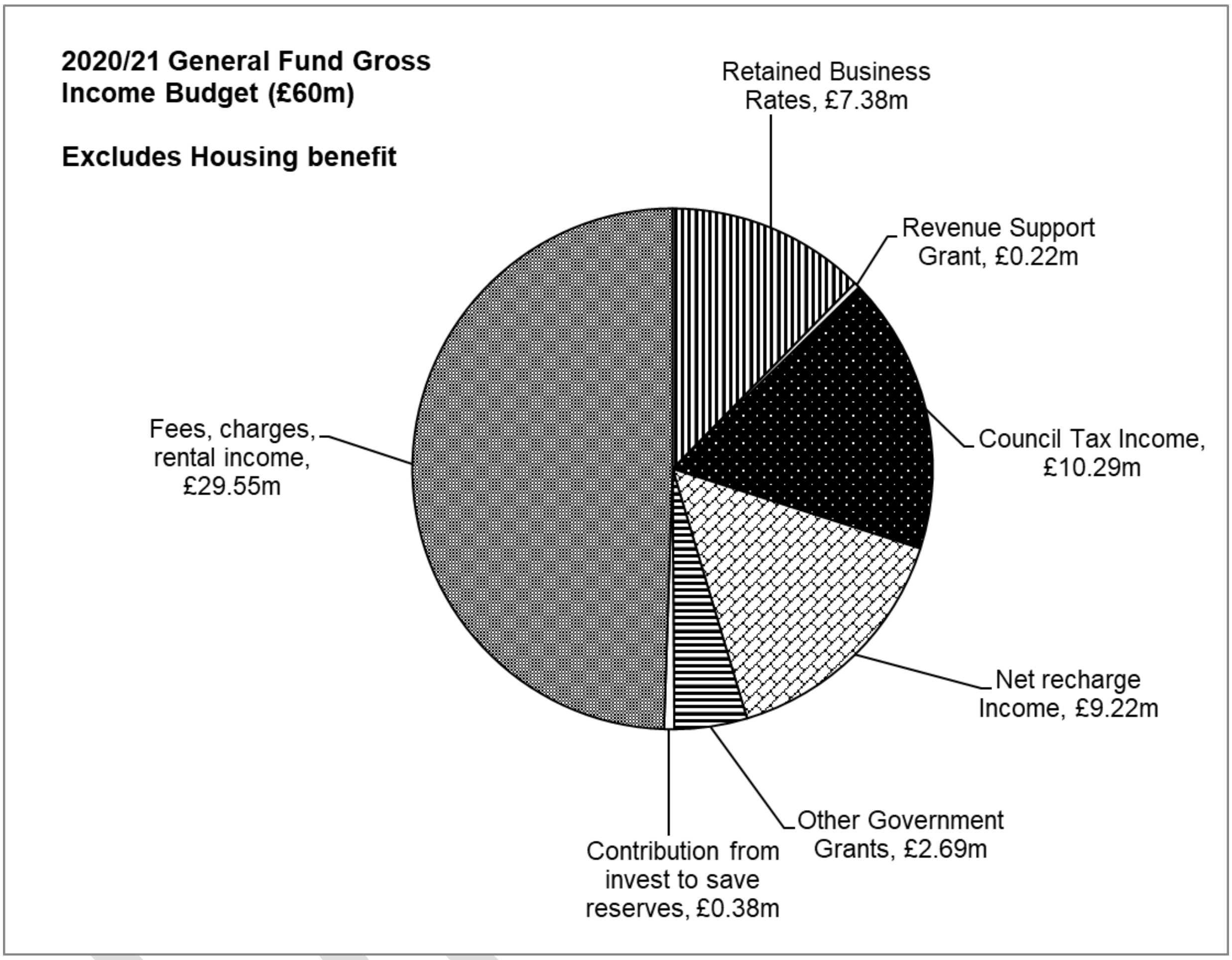


Chart 2.2: 2020/21 gross income budget analysed by type of income



Medium Term Financial Strategy (MTFS)

2.18 Table 2.2 below shows the medium term financial projections for the 5 years to 2024/25. The full MTFS by subjective group is shown in Appendix 2 (D).

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

	2021/22	2022/23	2023/24	2024/25
Budget Requirement (no savings)	20,789	23,129	25,414	27,474
Budget Resources	(16,149)	(16,580)	(17,024)	(17,479)
Budget Gap	**4,640**	**6,549**	**8,390**	**9,995**
Funding the budget gap:				
Cumulative gross savings needed	(2,490)	(4,980)	(7,470)	(9,960)

Planned use of reserves	(2,150)	(1,569)	(920)	(35)

2.19 The MTFS shows a need to make further gross savings of £10.0m over the next four years, assuming demand-led growth of £0.75m per annum. Following the existing “smoothed” approach this equates to gross savings of £2.49m each year to 2024/25.

Table 2.3: Smoothed net savings required 2021/22 to 2024/25 - Figures are in £’000s

	2021/22	2022/23	2023/24	2024/25
Assumed annual service growth	750	750	750	750
Gross saving requirement	(2,490)	(2,490)	(2,490)	(2,490)
Net annual saving requirement	**(1,740)**	**(1,740)**	**(1,740)**	**(1,740)**

2.20 As noted in the introduction to this report, the estimates for 2021/22 onwards are not to be taken as robust figures given the changes that will be introduced to the local government finance regime from 2021/22 onwards (and as described in Section 1 of this report).

2.21 The MTFS shows that the council has a significant savings challenge over the next 4 years. The risks over the deliverability and mitigating actions are discussed in *Appendix 8 (A): The key financial risks facing the council*.

Key figures & assumptions in the 2020/21 budget and MTFS

Council Tax

2.22 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 2020/21.

2.23 A 1.99% increase to the Band D rate is proposed in the 2020/21 budget figures (£194k additional income). The proposed 2020/21 Band D rate is therefore £269.38 compared to the current year rate of £264.13 – an increase of £5.25. 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.

2.24 The Council Tax base has been set at 37,003 which combined with the Band D rate gives a budgeted income of £9.97m in 2020/21. In addition a collection fund surplus receipt from the prior year of £0.316m is proposed to be distributed in 2020/21. The full calculation shown in Appendix 2 (E).

2.25 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 £14.2m, of which the Norwich share is £2.0m.

2.26 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 along with a £75k prior year surplus distribution per annum.

Business rates

2.27 Norfolk County Council and the seven district councils were selected to participate in the 2019/20 75% Retention Business Rate Pilot Scheme. Government has confirmed that the pilot arrangement will not continue into 2020/21. Following the discontinuation of the pilot, on 19 October 2019 Norfolk Leaders took the decision to form a business rates pool with the other Norfolk local authorities. This means a reversion to the arrangement in place prior to the pilot.

2.28 The business rates collected during the year by billing authorities are split between central government and local government. Billing authorities such as Norwich City Council initially retain 40% of the business rates collected in their area, with then either a tariff or top-up applied to redistribute business rates more evenly across authorities.

2.29 A baseline funding level is set by central government and a 'safety net' system operates to ensure that no authority's income drops by more than 7.5% below their baseline funding level.

2.30 The key benefit of the pooling arrangement is that rather than pay a 50% levy to government on business rates growth above the baseline, the income is retained locally in the Norfolk economic development fund. This funding is used to supplement economic development activity throughout the county.

2.31 There are also financial risks associated with pooling. Under the terms of the Governance Agreement, the Norfolk Pool operates a safety net guarantee; this means the pool members collectively insure that each authority receives as a minimum 92.5% of their baseline funding.

2.32 The retained business rates forecasts are based on actual amounts collectable at December 2019 which are then adjusted for local knowledge (i.e. appeals, charitable relief) and the uplifted by an inflationary increase to allow for the increase in the business rates multiplier.

2.33 The 2020/21 retained business rates have been budgeted at £6.539m along with a forecast surplus distribution from 2018/19 and 2019/20 of £0.844m. A breakdown of the business rates calculation is shown in Appendix 2 (E).

2.34 The forecasts for retained Business Rates income from 2021/20 assume current baseline amounts and do not take into account, as they are currently unknown, the potentially significant changes in funding arising from 75% Business Rates Retention and the Fairer Funding Review. The MTFS also assumes an annual inflationary rise in NNDR plus an allowance of £300k per annum for any deficits arising on the Collection Fund each year.

2.35 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

2.36 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 2021 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.

Revenue contribution to capital

2.37 In line with the 2019/20 MTFS, an additional £250k has been included in the budgeted revenue contribution to capital in 2020/21. The updated MTFS continues to increase this budget over the life of the MTFS, by £250k per annum, so that by 2022/23 £1.5m is provided as a funding source to the capital programme along with a £300k contribution to cover the costs of the Homes Improvements Agency team.

Inflation

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

Government Grants

2.39 The 2020/21 budgets reflect the role-over funding settlement deal. 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.

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

Capital financing budget

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

Income from investing in Norwich Regeneration Limited (NRL)

2.42 The MTFS assumes a steady state net income budget of £133k per annum arising from lending to NRL from 2021/22 onwards. Included within this is an allowance of £288k for the council's own financing costs (assuming external borrowing).

2.43 The budget reflects current forecast movements in the loan position over the MTFS period for the approved NRL schemes. The actual interest charges will be dependent on the cash flow requirements of the company and pace at which schemes are developed.

2.44 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. In the event that the budgeted income is below budget, the NRL earmarked reserve can be used to "smooth" any fluctuations. (See paragraphs 5.22 to 5.41 for background context about the council's lending to the company.

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

General Fund Reserves Position

The General Fund reserve

2.46 The prudent minimum level for the general fund reserve has been set at £4.298m. The smoothed MTFS brings the forecast reserves down to around Prudent Minimum Balance plus 15% by the end of 2023/24.

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

	2020/21	2021/22	2022/23	2023/24	2024/25
Balance brought forward	(9,194)	(9,711)	(7,561)	(5,992)	(5,072)
Transfer (to)/from reserves	(517)	2,150	1,569	920	35
Balance carried forward	**(9,711)**	**(7,561)**	**(5,992)**	**(5,072)**	**(5,037)**

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

Earmarked Reserves

2.48 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.

2.49 The Norwich Regeneration Ltd reserve was set up in 2017-18 to both smooth any fluctuations in net income received by the Council from lending to NRL and provide a fund to manage the risks associated with commercial activity. At 1 April 2019, the reserve balance stood at £0.293m.

2.50 Norwich Regeneration Ltd is currently in a challenging trading position having developed its first scheme at a financial loss to the company. As at 31 December 2019 the company had a loan outstanding with the Council of £6.4m and insufficient assets to cover this liability in full.

2.51 From the Council's perspective, and under International Financial Reporting Standards, an annual review must be undertaken to measure the credit risk of its loan book (i.e. third party lending). Any shortfall between the loan balance and the expected repayments over the life of the loan needs to be recognised through an impairment allowance. The review will be conducted as at 31 March but given the net liability forecasts for the company's balance sheet, an impairment assessment is likely.

2.52 In making the capital loan to the company, the Council has increased its Capital Financing Requirement (CFR), that is its overall indebtedness, which has to be funded at some point in time. Therefore, in an impairment situation, the Council will need to fund the loss by charging the General Fund revenue budget with increased Minimum Revenue Provision charges in order to cover the indebtedness that may not be financed through repayment of the loan.

2.53 Considering the above position, it is proposed to significantly increase the balance on the earmarked reserve to £4.0m at the end of the 2019/20 financial year. This reserve level will mitigate against any potential future Minimum Revenue Provision charges required to cover for estimated non-recovery of the loan balance. Whether the Council would need to make increased MRP costs in one year, or over a short period (say 5 years), would be subject to discussion with the external auditor.

2.54 It is proposed that the following transfers are made into the NRL reserve at the end of the 2019/20 financial year in order to increase the balance to £4m; £1.3m from 19/20 revenue underspend, £1m from general reserves and £1.4m from the Invest-to-Save reserve. The revenue underspend includes unbudgeted dividend income from Legislator 1656 (£365k), net

NRL interest above the budget (£177k) and unused revenue contribution to capital (£750k). The latter means that an increased portion of the 19/20 capital programme will be funded from capital receipts.

2.55 Whilst the knowledge and experience the company has gained in the first scheme should help to improve the profitability and net assets of the company going forwards; the loan assessment can only be based on the financial information for the currently approved schemes that Norwich Regeneration Ltd has in progress. As new projects are approved and delivered, 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.

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

	Actuals at 31 March 2019	Forecast 31 March 2020
Invest to Save Reserve To support the delivery of savings and efficiencies through the Fit for the Future Programme over the next 2-3 years.	4,262	2,279
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.	1,058	1,850
Insurance Reserve This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review.	935	935
Norwich Regeneration Ltd Reserve Established to smooth any fluctuations in net income received by the Council from lending to NRL.	293	4,000
S31 Grant Reserve Unutilised balance of S31 Grant monies received in prior years from Central Government to fund Business Rates reliefs. These monies will be transferred to the General Fund Reserves as and when required to offset any future business rates deficits.	2,045	2,045

	Actuals at 31 March 2019	Forecast 31 March 2020
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.	**1,841**	**1,640**

Appendix 2 (A): 2020/21 movements from the approved 2019/20 base budget

		£000
2019/20 Budget Requirement		**16,772**
Budget movements:		
Savings & Additional Income - Appendix 2 (F)	(2,072)	
Service growth - Appendix 2 (G)	926	
Movement in recharge income	(513)	
Net reduction in general fund costs		**(1,659)**
Inflation		**907**
Increase in revenue contribution to capital funding		**250**
Increase in pension deficit contributions		**222**
Movements in grant income		**(281)**
Movements in grant-related spend		**201**
Movement in contribution to / from general reserves		**1,476**
2020/21 Budget Requirement		**17,888**

2019/20 Budget Resources		**(16,772)**
Budget movements:		
Increase in revenue support grant		(216)
Increase in retained business rates		(594)
Increase in council tax income		(306)
2020/21 Budget Resources		**(17,888)**

Appendix 2 (B): 2020/21 proposed budget by subjective group

Subjective group	Budget 2019/20 £000	Budget 2020/21 £000	Change £000
Employees	21,438	23,879	2,441
Premises	10,517	10,152	(365)
Transport	266	230	(36)
Supplies & services	21,452	18,256	(3,196)
Housing benefit payments	57,906	50,116	(7,790)
Capital financing	4,254	6,594	2,340
Gross expenditure	**115,833**	**109,227**	**(6,606)**
Government grants	(60,623)	(52,630)	7,993
Fees, charges & rental income	(27,640)	(29,604)	(1,964)
Net recharge income	(9,129)	(9,245)	(116)
Gross income	**(97,392)**	**(91,479)**	**5,913**
Contribution from / to General Reserves	(958)	517	1,475
Contribution from Invest-to-Save Reserve	(711)	(377)	334
Total Budgetary Requirement	**16,772**	**17,888**	**1,116**

Appendix 2 (C): 2020/21 proposed General Fund budget by service

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Business Services	5,708	(1,187)	4,521
Democratic Services	1,308	(974)	334
Housing Benefit	50,116	(49,937)	179
Human Resources	990	(990)	0
Procurement & Service Improvement	4,290	(4,290)	0
Subtotal Business Relationship	**62,412**	**(57,378)**	**5,034**
Chief Executive	263	(263)	0
Strategy & Programme Management	1,462	(973)	489
Subtotal Chief Executive	**1,724**	**(1,236)**	**488**
Communications & Culture	2,756	(933)	1,823
Customer Contact	2,217	(2,311)	(94)
Subtotal Customers, Comms & Culture	**4,973**	**(3,243)**	**1,730**
Citywide Services	13,092	(2,589)	10,503
Neighbourhood Housing	4,538	(3,169)	1,369
Neighbourhood Services	758	(109)	649
Subtotal Neighbourhoods	**18,388**	**(5,866)**	**12,522**
City Development	11,508	(19,671)	(8,163)
Environmental Strategy	177	(177)	0
Director of Place	126	(126)	0
Planning	2,170	(690)	1,480
Property Services	2,132	(951)	1,181
Subtotal Regeneration & Growth	**16,113**	**(21,615)**	**(5,502)**
Corporate Financing	5,617	(2,142)	3,475
Contribution to General Reserves	517	0	517
Contribution from Invest-to-Save Reserve	0	(377)	(377)
Budget Requirement	**109,745**	**(91,857)**	**17,888**
Revenue Support Grant	0	(216)	(216)
Business Rates Retained Income	0	(7,383)	(7,383)
Council Tax	0	(10,289)	(10,289)
Budget Resources	**0**	**(17,888)**	**(17,888)**

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

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Employees	23,114	24,469	25,485	26,531	27,508
Premises	10,152	10,377	10,608	10,844	11,084
Transport	230	235	240	245	251
Supplies & Services	16,807	17,177	17,555	17,941	18,336
Capital Charges	5,294	5,344	5,386	5,430	5,476
Housing Benefit Payments	50,116	50,116	50,116	50,116	50,116
Benefit Subsidy	(49,937)	(49,936)	(49,936)	(49,936)	(49,936)
Third Party Payments	1,434	1,466	1,498	1,531	1,564
Net recharge income	(8,898)	(8,898)	(8,898)	(8,898)	(8,898)
Contribution to Capital	1,300	1,550	1,800	1,800	1,800
Fee, charges, rental income	(29,550)	(29,865)	(30,307)	(30,755)	(31,210)
New Homes Bonus	(693)	(189)	(156)	0	0
Benefit/CTS Admin grant	(912)	(866)	(823)	(750)	(685)
Other Grants	(1,089)	(941)	(939)	(935)	(932)
Assumed non-inflationary growth cumulative		750	1,500	2,250	3,000
Subtotal budgets (no savings)	**17,368**	**20,789**	**23,129**	**25,414**	**27,474**
Business Rates	(7,383)	(5,806)	(5,928)	(6,053)	(6,180)
Formula Funding (RSG)	(216)	0	0	0	0
Council Tax	(10,286)	(10,343)	(10,652)	(10,971)	(11,299)
Total funding	**(17,885)**	**(16,149)**	**(16,580)**	**(17,024)**	**(17,479)**
Budget Gap	**(517)**	**4,640**	**6,549**	**8,390**	**9,995**
Gross savings needed (cumulative)	0	(2,490)	(4,980)	(7,470)	(9,960)
Planned use of reserves	517	(2,150)	(1,569)	(920)	(35)
Funding the budget gap	**517**	**(4,640)**	**(6,549)**	**(8,390)**	**(9,995)**

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

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

A. Business Rates Retained Income

	£000
Retained Income (including S31 grants for reliefs)	6,937
Less: Levy to the Norfolk Pool for economic development & pooled growth	(398)
Plus: Norwich Business Rates 2018/19 and 19/20 surplus distribution	844
Total Business Rates Income 2020/21	**7,383**

B. Council Tax Calculation 2020/21

	No.	£
Budgetary requirement		**17,887,793**
- Revenue Support Grant		(216,085)
- Business Rates Distribution		(7,383,019)
= Council tax requirement		**10,288,689**
- Surplus on collection fund		(320,821)
=Total Council tax income		**9,967,868**
Band D Equivalent properties	37,003	
Council tax (Band D)		**269.38**

C. Council tax increases 2019/20 to 2020/21, Bands A to H

Band	A	B	C	D	E	F	G	H
2019/20	£176.09	£205.43	£234.78	£264.13	£322.83	£381.52	£440.22	£528.26
Increase	£3.50	£4.09	£4.67	£5.25	£6.41	£7.58	£8.75	£10.50
2020/21	**£179.59**	**£209.52**	**£239.45**	**£269.38**	**£329.24**	**£389.10**	**£448.97**	**£538.76**

Appendix 2 (F): 2020/21 list of proposed budget savings/increased income

	Project name	Description	Current budget	£000
Additional income generation				
1	Commercial property acquisition	Additional net income from the acquisition of new commercial property in line with the Council's strategy to generate income and maximise returns from assets, as agreed in the four-year financial sustainability plan. The net income includes an allowance for external borrowing interest costs and minimum revenue provision expense. The net internal rate of return on the investment assumed in the MTFS is 2% The Council will continue to set aside a proportion of the new net income generated into an ear-marked reserve. This will be used to provide funding for any future void and rent free periods as well as any repairs/upgrades required to the property to help safeguard the future value of the investment and the rental income stream, thereby minimising the risk of holding these assets and of fluctuations in the income return.	Existing gross rental from commercial property of £4.5m	(500)
2	Elections	Additional income in respect of police and crime commissioner election to be held in 20/21.		(80)
3	Car park additional income from tariff increase and increased usage	Growth in income associated with tariff reviews and increased usage of Rose Lane car park. Budget increase reflects current performance.	Existing off-street and multi-storey car park gross income of £5.9m	(254)
4	Existing portfolio	Additional rental income from council premises, including Swanton Road	Area office would be transferred to the	(10)

	Project name	Description	Current budget	£000
	rental income	and Lakenham Area Office.	general fund in advance of rental.	
5	Community Enabling team contribution	External contribution to part fund an existing community enabling post for 2 years		(20)
6	Minor Saving <£10k	Other budgeted income (individually below £5k).		(10)
Total Additional income generation				**(884)**
Service reviews and efficiencies				
7	Citywide other contractual service budget	Savings identified as part of service review carried out within citywide services		(23)
8	Citywide waste publicity budget	Reduction in costs relating to promotion and publicity of waste collection services.	Current budget is £46k	(16)
9	Licensing and enforcement restructure	Savings realised as part of the licensing and enforcement restructure completed in September 2019.		(146)
10	Leisure development review	Review of Sports and Leisure team resulting in removal of vacant post.		(18)

	Project name	Description	Current budget	£000
11	LGSS Insourcing	On 13 March 2019 Cabinet considered a paper on the future of LGSS and the possibility of bringing the LGSS staff/service back in to the council. The resolution was to bring the services back to the council. Both were subject to a valid business case. Following this decision notice was served on LGSS to exit the current PDA with effect from 31 March 2020. The LGSS service areas affected are: finance, IT, Internal Audit & Insurance Whilst overhead charges will be lost from 2020/21, the final net saving considers any additional costs going forwards that will arise from the service transfer.		(181)
12	NPSN Core Fee Reduction	Planned reduction of 6.5% (£222k) in the Norwich Property Services core fee. Approximately a third of the saving is passed on to the General Fund with the remainder being shared with the HRA and capital programme.	Current core fee budget of £3,203k	(64)
13	IT Service	Savings identified as part of IT service review.		(11)

	Project name	Description	Current budget	£000
14	Shared Amenities	The HRA pays for all grounds maintenance activities on HRA land. In order to account for use of the land by the wider community (those who are not HRA tenants) such as public access through housing open space, a charge is made to the general fund. Currently, the charge is based on a nominal percentage charge, as no relevant statistical information was available. Environmental Services are now in a position to provide detailed analysis of areas where the work is undertaken. These calculations lead to a reduction in the amount the general fund will pay for this service.	Current charge is £446k per annum	(242)
15	Reduced airport pension costs	Reduction in airport pension contribution costs following the latest triennial pension assessment carried out by the Norfolk Pension Fund.		(11)
16	Reduced Elections costs	Reduction in overall supplies and services costs of the election service based on recent trends.		(15)
17	Reduced Electoral Registration costs	Reduced temporary elections staff costs as a result of undertaking fewer visits in order to complete electoral registration forms.		(20)
18	Reduced Insurance Premiums	Reduction in insurance premiums following a retender of the contracts.	Current budget is £953k	(177)
19	Reduced planning training budget	Using apprenticeship levy fund rather than individual training budget	Current budget is £15k	(10)

	Project name	Description	Current budget	£000
20	Reduction in Insurance Contribution	The Council has an insurance earmarked reserve. This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review. Insurance Manager has assessed a lower contribution is needed into the insurance earmarked reserve in 20/21. This is based on an assessment of the likely claims payable in the period and the current balance of the reserve (£935k).	Current budget is £344k	(80)
21	Service Reviews	Service reviews – subject to consultation.		(137)
22	Minor Saving <£10k	Other budgeted savings (individually below £5k).		(35)
Total Service reviews and efficiencies				**(1,188)**
GROSS SAVINGS				**(2,072)**

Appendix 2 (G): 2020/21 list of proposed budget growth

	Growth Item	Description	£000
1	Highways Agency Transfer	Norfolk County Council terminated the Highways Agreement with effect from 1 April 2020. The growth represents the loss of income from Norfolk County Council which had previously contributed to the corporate overheads associated with providing the service (e.g. HR, finance, IT).	130
2	Customer Centre Support Officer	Following the customer centre refurbishment the service provision has recently been reviewed and there is a requirement to continue employment of a customer centre support officer for 44 hours per week. Budget increase is to cover these requirements.	13
3	Legal Costs	The current contract with nplaw for supply of legal services expires in 2020. Although the new agreement is work in progress, an estimation/indication at this stage is that the increased core costs for Norwich will be 50% higher than the current rate. The growth also incorporates a reduction in the profit share from the arrangement based on current performance.	125
4	Branch Secretary	Correction of budgeted hours for UNISON Branch Secretary. There has been no change in the establishment.	22
5	HB Subsidy	The current budgets were set on an overall subsidy recovery rate of 96.97%. Currently, this rate is lower at approximately 96%.	179
6	Card Transaction Fees	Since the closure of cashiers there has been an increase in the number of card transactions processed by the council. As there is a charge for every card payment taken, this increase has led to a corresponding increase in costs.	60
7	Private Sector Housing resource	Additional Private Sector Housing resources identified as part of service review.	61
8	Tree officer	Additional staffing required to fulfil the council's obligations with regards to tree inspections and tree safety.	26

	Growth Item	Description	£000
9	Telephone payment system	In order to supply a more secure payment option, additional upgrades to the telephone system are required	35
10	City Hall Rental	Tenant currently leasing an area of City hall office space is likely to vacate during 2020, resulting in a shortfall in rental income received.	63
11	Home Options Adverts	The general fund currently provides a vacant property advertising service to the HRA and other social landlords. Based on a recent review there has been a reduction in demand for this service, so a reduced income budget is required.	20
12	Increase in Minimum Revenue Provision (MRP) payment	Increase in MRP on existing properties based. The annuity method of charging MRP means gradual increases in payment over the life of the assets. This is planned for in the medium term financial strategy.	18
13	NRL Interest	Reduction in interest from Norwich Regeneration ltd due to a reduction in the loan value outstanding.	77
14	CNC profit share	Reduction in CNC Building control profit share based on most recent profit forecasts	20
15	Land Searches	HM Land registry have embarked on a country-wide programme to digitise and centralise land searches, which were currently administered by local authorities. Norwich's data was transferred and became centrally administered on the HMLR system on 11 July 2019. This change is estimated to generate a £60k loss of income.	60
16	Other growth	Other budgeted growth (individually below £10k)	18
Total Growth			**926**

Appendix 2 (H): Invest to Save Spend Allocations 2020/21

	Description	General Fund	HRA	Total 2020/21
		£000	**£000**	**£000**
1	Project Management Support for Fit for the Future	23	11	34
2	Corporate services support for Fit for the Future	54	18	71
3	Project Place – resourcing costs associated with the insourcing of the joint venture contracts. Includes programme and project management costs, as well as additional corporate support resource in IT, HR, finance and communications.	222	319	541
4	Revenues and Benefits overpayment and revenue collections resource	78	0	78
		377	**348**	**724**

At this stage the figures are estimates of the required funding. These are likely to change during the year and updates to the use of the Invest-to-Fund will be made through the budget monitoring reports taken to Cabinet throughout 2020/21.

Appendix 2 (I): Update on consultation responses on the vision and proposed budget for 2020-21

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

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

Across the public survey a total of 664 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.

1. To what extent do you support the council raising its share of council tax by 1.99 per cent in 2020-21 and using that money to protect key services in the future?

- Strongly agree (161) 25%
- Agree (215) 33%
- Neither agree nor disagree (77) 12%
- Disagree (62) 9%
- Strongly disagree (136) 21%
- Don't know (6) 1%

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

- Yes (425) 65%
- No (97) 15%
- Don't know (128) 20%

3. HOUSING REVENUE ACCOUNT (HRA) 2020/21 BUDGET AND BUSINESS PLAN

Background

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

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

Forecast 2019/20 Outturn

3.3 The latest position on the Housing Revenue Account (HRA), as at period 9, shows a forecast underspend of £1.64m. It is proposed to set aside £1m of this underspend into the HRA invest to save earmarked reserve to support the delivery of savings and efficiencies through the Fit for the Future programme.

Proposed 2020/21 Revenue Budget

3.4 The budget proposes gross revenue expenditure of £61.4m and gross income of £68.1m, generating a surplus of £6.7m (Appendix 3 (A)). It is proposed that £2.1m of this surplus is used to make a revenue contribution towards the funding of the 2020/21 HRA capital programme. The remainder being transferred to reserves to finance new and replacement stock over the medium term.

Chart 3.1: 2020/21 HRA gross revenue expenditure budget

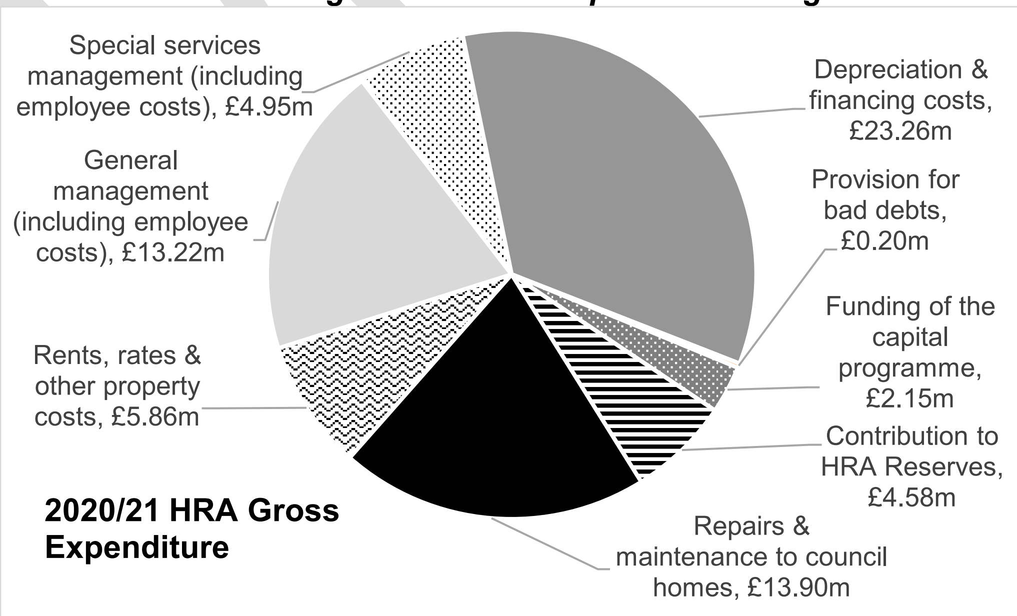
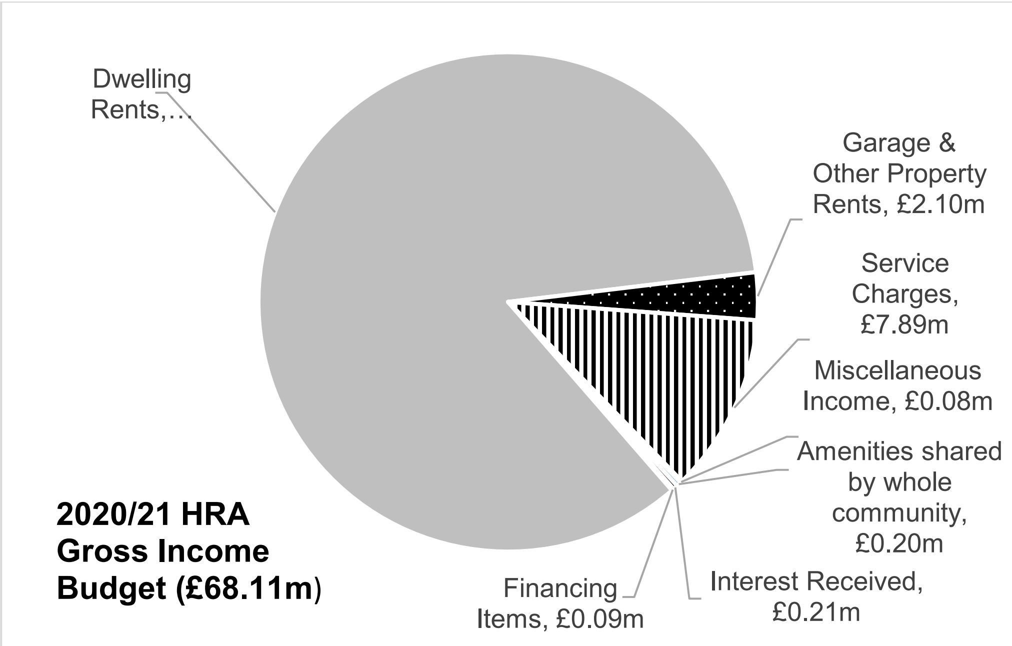


Chart 3.2: 2020/21 HRA gross revenue income budget



3.5 The key movements in the base budget (i.e. 2019/20 approved budget) to arrive at the proposed 2020/21 budget are summarised in Appendix 3 (B).

HRA Business Plan

3.6 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.

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

3.8 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

3.9 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.

3.10 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.

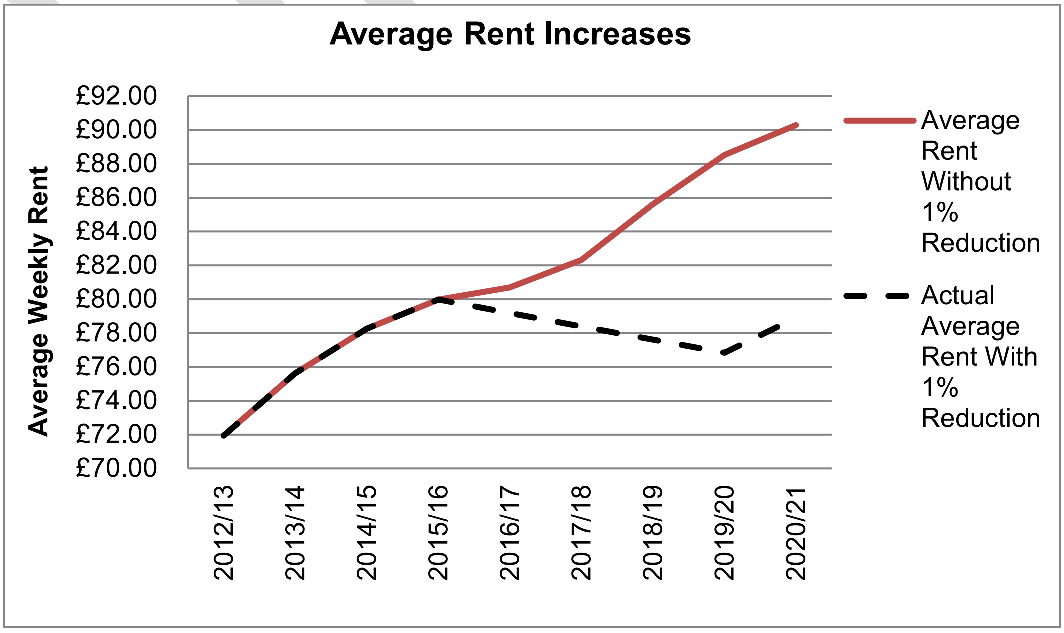
3.11 This results in a dwelling rent increase for 2020/21 of 2.7% which would generate an average weekly rent increase of £2.07 for Norwich tenants. The table below shows the minimum and maximum rent increases at 2.7%.

Table 3.1: Proposed dwelling rent increase 2020/21

Item	**Average £**	**Maximum £**	**Minimum £**
Rent 2019/20	75.80	136.67	54.58
CPI (@ 1.7%)	1.31	2.32	0.93
Additional 1%	0.77	1.37	0.55
Rent 2020/21 (at 2.7%)	78.91	140.36	56.05
Increase	**£2.07**	**£3.69**	**£1.47**

3.12 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 2.7% would mean that the average weekly rent is still lower than the average weekly rent in 2015/16.

Chart 3.3: Historic average rent



3.13 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 2020/21

Option	Average increase	Year Debt Repayable	Resulting Loss of Rental Income over period		
			5 Years	30 Years	60 Years
Formula 2.7%	£2.07	2044	-	-	-
Flat Rate 2%	£1.54	2045	£2m	£16m	£51m
Flat Rate 1%	£0.77	2048	£5m	£40m	£123m
No increase	£0.00	2053	£8m	£64m	£197m

3.14 Tenant Involvement Panel representatives have been consulted over the proposed increase and other options at a meeting on 9th January 2020. The impact of the options were discussed at length with concerns raised regarding the effect of an increase on those struggling in the current financial climate. However, the panel recognised that increases are inevitable if the level of investment in existing and new homes is to be maintained and endorsed the proposed rent increase of 2.7% in line with the Rent Standard 2019.

3.15 It is proposed that garage rents are increased by 2.7%. This is in line with the government formula for dwelling rents, based on CPI as at the preceding September (1.7%) plus 1%.

3.16 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.

3.17 The roll out of Universal Credit is expected to impact on rent collection and associated bad debt. This has been reflected in the business plan with an increase being made for bad debt provision of £0.78m for 2020/21 with a further £1.39m in 2021/22. In addition, a provision of £1m is included within prudent minimum balance to mitigate against further pressures.

3.18 The void turnaround (period during which a property is unoccupied) remains at 15 days. The current budget provision is calculated on a void rate of 0.40%, which equates to rental income loss for void periods of £0.2m for 2020/21.

Right-To-Buy

3.19 During the first half of 2019/20, the number of Right-to-Buy purchases of HRA dwellings has slightly increased from the same period in 2018/19. This is reflected in the business plan, but it is anticipated that the number of purchases will reduce in coming years, with a loss of 125 homes in 2020/21 and 113 in 2021/22, reducing to 100 homes each year for the following 5 years.

3.20 Over the past five years, 789 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.

Capital expenditure plans

3.21 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 2020/21 capital budget).

3.22 Other major projects contained within the council's capital ambition plan will need to be included in the HRA business plan once robust business cases have been approved. An assessment however has been undertaken of the affordability of all potential HRA capital ambition projects the outcome of which is can be found in paragraph 4.38 of this report (capital strategy and 2020/21 capital budget).

3.23 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

3.24 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 2020/21).

3.25 The decision to remove the borrowing cap gives the council more ability to invest in the existing housing stock and to increase is holdings. Future investment will be guided by the new housing strategy. In addition a number of the projects within the council's ambition plan include the HRA purchasing new affordable housing from the council's wholly owned company, Norwich Regeneration Limited (see section 4).

3.26 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):

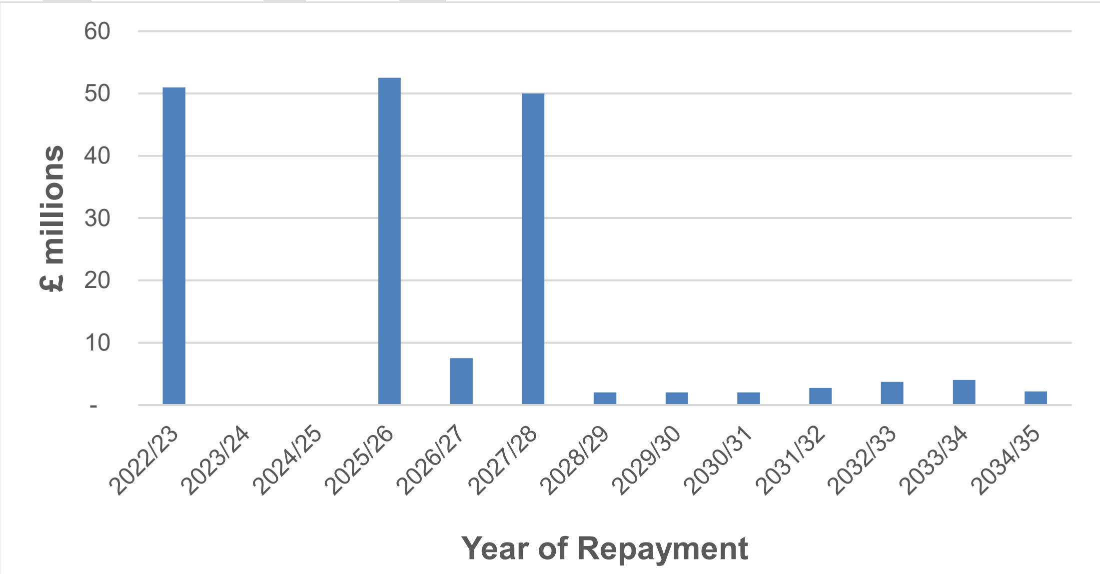
1. Right-to-Buy Retained ‘One for One’ capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. General HRA capital receipts
5. General Reserves
6. Revenue budget contributions
7. Borrowing

3.27 The current HRA Capital Financing Requirement (the need to borrow) is £205.7m, which includes the most recent HRA external borrowing of £149m undertaken as part of the HRA self-financing settlement in 2012 when the HRA subsidy system was abolished. This meant that the council no longer had to make payments of approximately £9m per annum 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 22 years ago, along with £25m of internal borrowing.

3.28 HRA assets are currently valued at £809m (31 March 2019), which against a borrowing requirement of £205.7m equates to a loan-to-value gearing of 25.43%. This is lower than the national average gearing for local authorities of 28% and registered providers which is in excess of 60%.

3.29 Chart 3.4 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 15 years.

Chart 3.4: Existing HRA External Borrowing

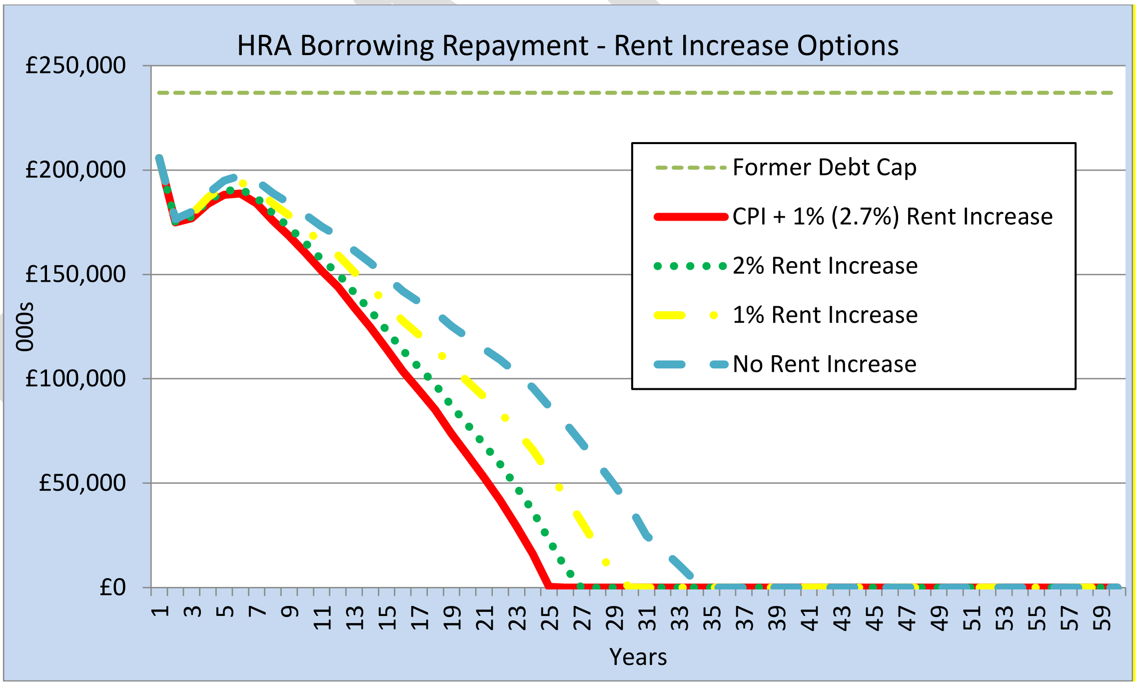


3.30 The HRA Business Plan assumes that the three significant loans of £50m will be refinanced by external borrowing upon reaching their redemption date, whilst the repayment of lower value loans will be financed through internal borrowing.

3.31 The 2020/21 HRA capital budget proposed in section 4 of this report does not require any new borrowing, although it is anticipated that a small amount of additional borrowing (£1.3m) may be required in future years. Additional borrowing is likely to be necessary in order to finance all of the HRA projects and programmes included within the council's capital ambition plan.

3.32 The chart below shows that the implementation of a rent increase in line with the government formula (CPI+1%) of 2.7% will enable all borrowing assumed in the HRA Business Plan to be repaid within 25 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 3.5: Ability to repay HRA borrowing



HRA Reserves Position

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

Table 3.3: Estimated HRA Reserves Position

Item	£000
Brought Forward from 2018/19	(30,903)
Forecast contribution to balances in 2019/20	(2,175)
Forecast HRA underspend 2019/20	(1,639)
Invest to save earmarked reserve	1,000
Carried Forward to 2020/21	**(33,717)**
Forecast contribution to balances in 2020/21	(4,578)
Carried Forward to 2021/22	**(38,295)**

3.34 The prudent minimum level set for the HRA reserve has been adjusted slightly to £5.874m (previously £5.837m). This maintains a provision for the risk of additional costs arising from the introduction of Welfare Reform and other potential risks and unforeseen events.

3.35 The estimated general reserves to carry forward into 2021/22 are substantial which not only provides a flexible funding resource for the HRA but also ensures the financial resilience of the account. Given the council's ambition to start to significantly invest capital resources into new and replacement housing stock over the medium term, this level of estimated reserves (over £38m) will give the council options, not only in terms of service delivery but in how the council will fund future capital expenditure whilst managing overall debt.

Appendix 3 (A): 2020/21 proposed HRA budget by service

Division of Service	Budget 2019/20 £000	Budget 2020/21 £000	Change £000
Repairs & Maintenance	13,603	13,899	296
Rents, Rates, & Other Property Costs	6,074	5,858	(216)
General Management	12,694	13,216	522
Special Services (not provided to all tenants)	4,692	4,949	257
Depreciation & Impairment	22,027	23,264	1,237
Provision for Bad Debts	170	202	32
Adjustments & Financing Items			0
Gross HRA Expenditure	**59,259**	**61,388**	**2,129**
Dwelling Rents	(56,699)	(57,545)	(846)
Garage & Other Property Rents	(2,175)	(2,098)	76
Service Charges – General	(7,927)	(7,888)	39
Miscellaneous Income	(82)	(82)	0
Amenities shared by whole community	(446)	(204)	242
Interest Received	(100)	(210)	(110)
Adjustments & Financing Items	(19)	(88)	(69)
Gross HRA Income	**(67,447)**	**(68,115)**	**(667)**
Total Housing Revenue Account	**(8,188)**	**(6,727)**	**1,461**
Revenue contribution to capital	6,013	2,148	(3,865)
Contribution to/(from) HRA reserve	2,175	4,578	2,403
Total	**0**	**0**	**0**

Appendix 3 (B): 2020/21 movements from the approved 2019/20 base budget

Adjustment to Base	£000
HRA Revenue Contribution to Capital	(3,865)
HRA contribution to/(from) reserves	2,403
Total Adjustment to Base	**(1,462)**

Inflation	£000
Staff salary inflation and increments	125
Pension added years and pension deficit inflationary adjustments	21
Utility costs	47
Norwich Norse Environmental Contract	99
TV aerial maintenance contract	39
Other (individually under £10k)	8
Total Growth and Inflation	**339**

Growth	£000
Repairs – increase in costs including structural works and cyclical maintenance requirements	330
Repairs relating to void properties – increase in number of voids	200
Bad debt provision	35
HRA element of housing strategy and development team	18
Increase in depreciation charge generated from increase in stock valuation and component prices	1,264
HRA contribution to costs of housing partnerships costs (50%)	37
Safer Neighbourhood post	40
Environmental Protection Act (EPA) mobile clean up team	70
Home ownership legal costs	10
Alarm service monitoring contract	36
Renewal of the financial inclusion advice consortium (HRA contribution)	15
Development feasibility costs for new social housing	100
Right to buy additional staff costs	3
HRA Income additional staff costs	5
Total Growth	**2,163**

Income Reduction	£000
Reduction in service charge income	73
Reduction in rooftop rental income generated from aerials	68
Other income reduction (individually under £10k)	10
Total Income Reduction	**151**

Savings	£000
Changes to area offices	(21)
Reduction in card payment costs	(31)
Reduction in training requirement	(30)
Garden tidy contract ended	(15)
Reduction in temporary staff costs due to end of tower block project in August 2020	(45)
Reduction in the insurance reserve contribution (HRA element)	(64)
Reduction in insurance premium upon renewal	(339)
Reduction in the amount of energy performance certificates required	(10)
Reduction in Home Options advertising costs	(20)
Reduction in joint venture costs	(162)
Total Savings	**(737)**

Income Increase	£'000
Additional income from interest	(110)
Increase in housing rent	(846)
Increased income from leasehold charges	(80)
Total Increased income	**(1,036)**

Recharges	£'000
Central departmental support	241
Reduction in contribution from GF in respect of shared amenities	242
Net use of HRA Invest to save reserve	63
Legal costs	44
Total Recharges	**590**

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

Neighbourhood Housing Goals	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Meeting housing need - delivering new homes					
New Social Housing	344	-	50	-	-
Land & Property Opportunities	2,500	2,500	2,500	2,500	2,500
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	7,969	7,550	7,550	7,000	5,560
Home Upgrades	7,750	6,955	6,250	5,870	5,105
Window & Door Upgrades	4,100	3,250	3,500	3,025	1,800
Improving the use and management of our existing housing stock					
Independent Living Upgrades	935	850	800	750	700
Sheltered Housing Regeneration	110	110	110	10	10
Heating Upgrades	5,600	4,000	4,000	4,150	3,550
Thermal Upgrades	650	900	1,050	850	740
Improving our neighbourhoods					
Tenancy & estate management IT system	230	-	-	-	-
Community Upgrades	1,860	1,150	1,100	1,050	1,050
Fees	719	719	719	719	719
Total Proposed HRA Capital Programme	**34,816**	**30,034**	**29,679**	**27,974**	**23,784**

4. CAPITAL STRATEGY 2020/21 ONWARDS

The wider context and capital investment objectives

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

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

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

4.4 At the highest level the council's Corporate Plan sets out the key priorities that the council wishes to deliver, either itself or with other key partners, namely:

- That people live well
- There are great neighbourhoods, housing and environment, and
- There is an inclusive economy

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

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

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

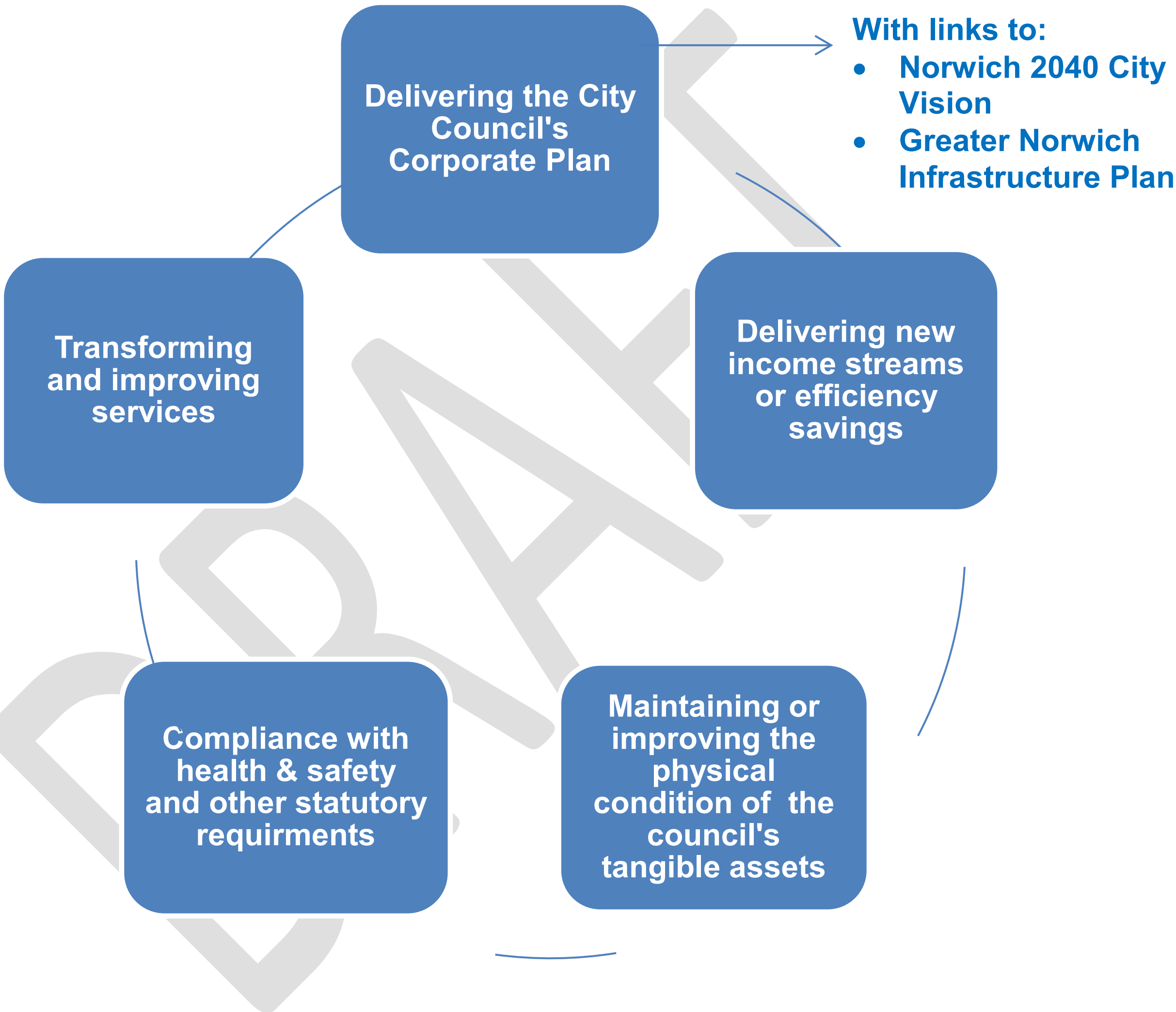
- The need to maintain or improve the physical condition of existing assets as they deteriorate, are less "fit-for-purpose", or fail to comply with regulatory requirements. These considerations are part of asset management planning.

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

4.7 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 new income/savings
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. The council will also adopt commercial approaches where appropriate. Capital expenditure plans can contribute to the council's mission by investing capital in assets that provide new net income streams and/or generate savings in the revenue budget.
The capital strategy includes: • Expansion of tennis facilities in parks • Disabled Facilities Grants • Improvements to parks, open spaces, play areas and football pitches • Restoration and improvement works to the Castle Gardens • The ambition to deliver options for temporary accommodation for the homeless	The capital strategy includes: • The purchase of new social housing at Northumberland Street • The purchase of additional social housing and land upon which to build new social housing as opportunities arise	The capital strategy includes: • The commercial property investment fund (this fund can be used to contribute to this priority when investment is within the City Council's boundaries). The ambition to: • Regenerate areas of the city to encourage investment in the local economy	The capital strategy includes the replacement of: • Earlham cemetery railings • Eaton Park pathways and changing room showers • Plant equipment at Riverside Leisure Centre • Lighting systems at St Giles MSCP, Riverside Walk, Exchange Street, The capital strategy also includes upgrades to: • HRA homes • City Hall • St Andrew's Hall	The capital strategy includes: • Investment in a replacement tenancy and estate management IT system • The commercial property investment fund

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 927 property assets held by the General Fund and 14,946 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 £26m per annum and bring in a yearly income of £78m. 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 2018/19 was £1,019m.

4.14 The key asset classes are shown in table 4.3, along with the approximate number of assets held.

Table 4.2: The direct costs and income of holding the council's assets

	General Fund £000	HRA £000
Repairs and maintenance	1,318	9,351
Grounds maintenance	2,121	622
Other running costs (utilities, insurance, Business Rates)	4,429	5,588
NPSN management costs	1,024	1,186
Gross holding costs	**8,893**	**16,747**
Rental and other income	(12,906)	(65,101)
Net income generated in 2018/19	**(4,014)**	**(48,354)**
Average capital cost per annum	1,781	24,432

Chart 4.2: the asset values of the council's land and property as at 31/03/19

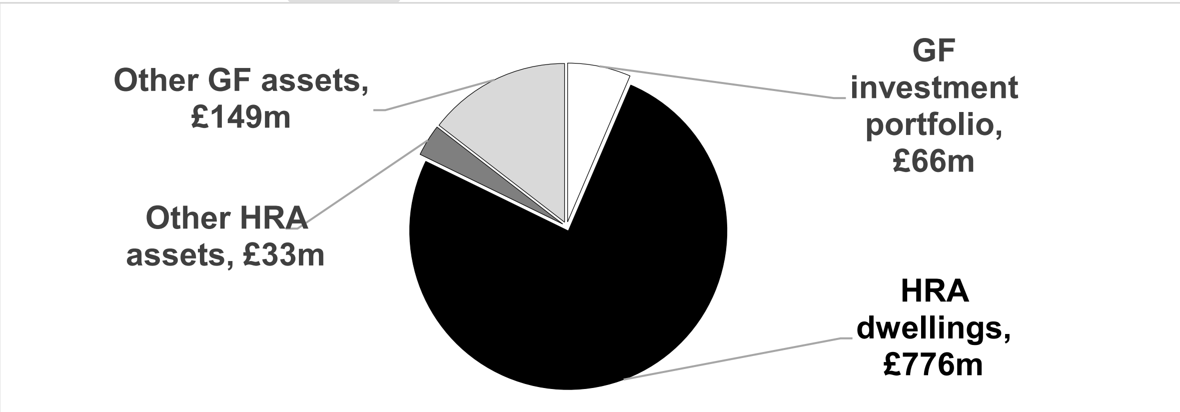


Table 4.3: the council's key asset classes

Asset class	No of assets
HRA property	14,946
Investment property	422
Car Parks	16
The Market	1 (190 stalls)
Operational Assets	6 inc City Hall
Community Centres	15
Leisure, parks & open spaces	363
The Halls	1
Heritage assets	92
Cemeteries	2

General Fund asset management planning

4.15 The council currently does not have an up-to-date Asset Management Plan, although work has started to draw one together. In addition, many of the general fund assets have not had a condition survey undertaken in the recent past. 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 the last three years with capital expenditure often increasingly being undertaken for emergency health and safety reasons rather than being planned and sustained investment.

4.17 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 some £21m of backlog maintenance is required on the council's assets over the medium term. Due to constrained finances, it is considered that this level of investment is unaffordable.

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

4.20 Therefore a comprehensive review of the entire general fund's land and property assets needs to be undertaken, with a view to 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 £137m 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 £3m or 20%.

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.
- 27.3% of the stock is between 70 and 90 years old.
- 5,303 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 2020-21 budget.

Capital expenditure plans

4.27 The expenditure plans consist of two kinds:

- <u>Short to medium term plans</u> (1 to 5 years):

  These are the projects and programmes that are being proposed to council as part of the 2020/21 capital programme for delivery within that period.

- <u>Medium to long-term plans</u> (5 to 10 years):

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

Forecast 2019/20 outturn

4.28 The latest forecast position as at period 9 shows the general fund capital programme is forecast to underspend by £5.6m and the Housing Revenue Account (HRA) capital programme is forecast to underspend by £13.1m. 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 2020/21.

2020/21 to 2024/25 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 2020/21, although many of the projects proposed for 2020/21 will continue into 2021/22. 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 2020/21 overall capital budget along with indicative spending plans from 2021/22 to 2024/25. Details setting out the proposed projects and programmes within the general fund and HRA are found in Appendix 4 (B).

Table 4.4: General Fund and HRA capital programme

Capital Investment Objectives	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
People live well	4,232	3,440	3,214	2,500	2,959
Great neighbourhoods, housing & environment	4,963	9,550	9,600	9,550	4,550
Managing the Council's assets	30,969	26,834	26,429	24,774	20,584
Transforming services and delivering new income/savings	25,230	0	0	0	0
Capital Contingency	150	150	150	150	150
Total Proposed Capital Programme	**65,544**	**39,974**	**39,393**	**36,974**	**28,242**
General Fund Total	**30,727**	**9,940**	**9,714**	**9,000**	**4,459**
HRA Total	**34,816**	**30,034**	**29,679**	**27,974**	**23,784**

4.31 In 2020/21 the capital programme aims to deliver the following key outcomes:

General Fund:
- £25m of additional investment in commercial property, generating at least £500k of new net rental income to help finance general fund services.
- £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 - £19.8m including 288 new kitchens, 580 new bathrooms, 1,050 upgraded doors and 398 individual homes plus 7 blocks of flats receiving new windows.
- Improving the use and management of the existing housing stock - £7.3m including improvements to communal areas, 700 new heating systems and a £0.75m estate aesthetics programme.
- Improving neighbourhoods - £2.1m including 140 solar/photovoltaic panel installations and a £0.75m disabled adaptation and stair-lift installation programme.

4.32 In addition to the proposed 2020/21 capital programme, Norwich is one of 100 towns and cities invited by the government to develop proposals for the new £3.6 billion Towns Fund which will focus on providing funds to improve infrastructure, skills and economic development. This is a two stage process;

the first of which is involves identifying investment priorities and project proposals, the second stage being the development of a bid for up to £25 million. In the 2019/20 financial year, the council has been able to draw down £173,000 of capacity funding to help us shape our bid. Further guidance is due relating to how the £25m will be apportioned between capital and revenue funding.

Capital ambition plan

4.33 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 the ambition.

4.34 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.

4.35 The ambition plan continues 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 asset management strategy, which will influence updates to the ambition plan in the future.

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

4.37 Work continues around the current ambition plan to establish viability, costings and financing options. All projects and programmes that are assessed for inclusion seek to primarily address the following key priorities:

<u>People Live Well:</u>

- Potential options for improving the provision of temporary accommodation for the homeless are being explored.

<u>Inclusive economy:</u>

- The council intends to develop under-used land and brown-field sites held by the council to help regenerate the city economically, as well as socially, and in terms of its environment. This may be through the HRA with the development of new social housing, through investment in commercial property or by investing land or cash equity in the council’s wholly owned subsidiary company, Norwich Regeneration Limited.

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 options for developing further new homes via the council's wholly owned subsidiary company, Norwich Regeneration Limited, continue to be explored.

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. As well as benefitting those tenants directly, it is hoped that by so doing, this will influence other private landlords to follow this example in order to compete effectively.

4.38 The financial consequences of capital projects arising from capital ambition plan have been taken into account in the council's financial plans in the following manner:

- The HRA Business Plan does not include potential projects from the capital ambition plan. However, a financial viability assessment of their impact on the HRA Business Plan demonstrates that their inclusion within the HRA capital programme would extend the period in which the HRA borrowing could be repaid, from 25 years up to a maximum of 35 years if all potential projects were to proceed within the next 5 years. This shows that the Business Plan would remain sustainable over the 60 years planning period.

- The cost of schemes that are likely to be undertaken by the council's company, Norwich Regeneration Limited, and which require the company to seek a loan and an equity share from the council, have been detailed in tables 5.2 and 5.3.

- 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.

- Many of the 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 (see paragraphs 2.41 to 2.44).

Funding the capital strategy

4.39 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.

4.40 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

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

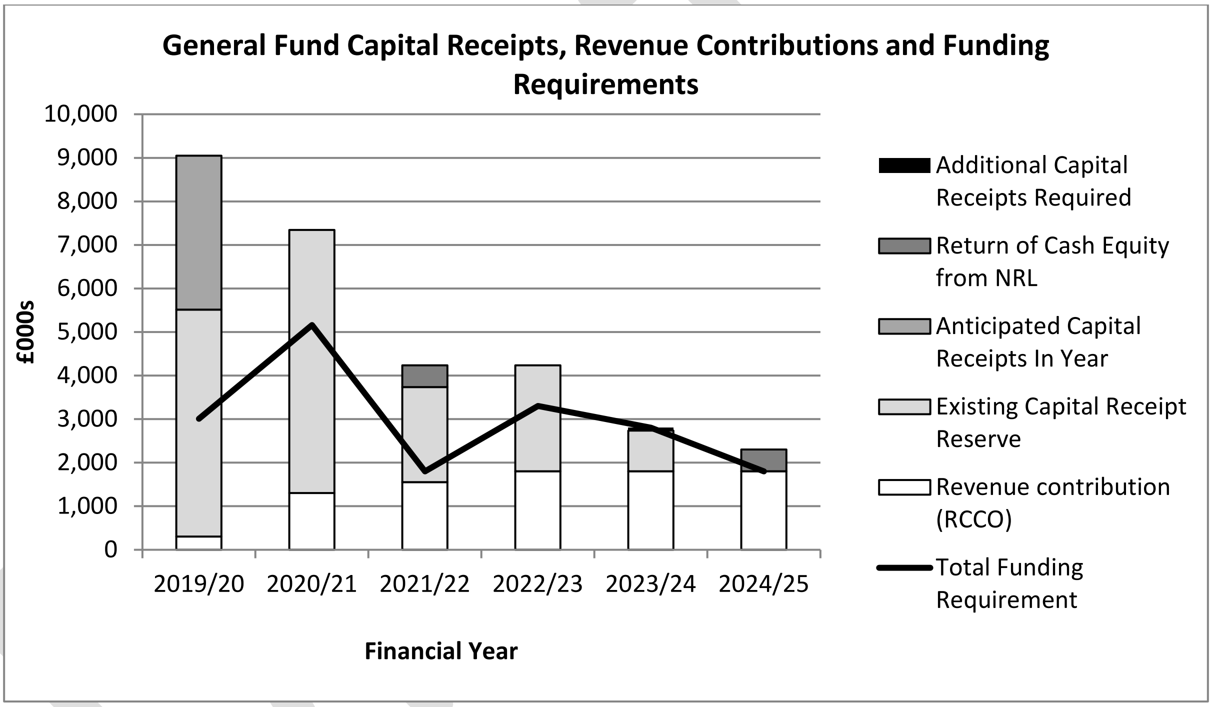
- The level of capital resources available, and
- The extent to which the revenue consequences of the programme, in terms of cost of borrowing or direct funding, can be accommodated within the revenue budget.

4.42 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 2020/21.

4.43 Chart 4.3 shows a forecast of all known capital receipts and revenue budget contributions over the next 5 years, along with current expenditure requirements (including setting aside £1.4m for known potential future capital liabilities and £4.5m for potential costs arising from the capital ambition plan). Although this indicates a small remaining capital receipt balance of £0.5m in 2024/25, there is a requirement to identify an additional capital receipt of £66K in 2023/24.

4.44 The level of capital receipts rely upon the completion of asset sales and the rate at which cash equity may be returned from NRL, which is in turn dependent upon the sales of new homes, neither of which can be guaranteed. Furthermore, additional potential capital liabilities such as costs arising from the insourcing of joint venture contracts, IT transformation, 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 4.3: General Fund Capital Receipts, Revenue Contributions and Funding Requirements



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

4.46 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.

4.47 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.

4.48 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.

4.49 The restrictions on investing in the council's existing assets do not necessarily apply to its investment property portfolio. The updated commercial property investment strategy agreed by Cabinet in December 2019, allows for the commercial property investment fund to be used as a funding source for capital improvements to existing stock, as well as for new acquisitions, if the investment meets the required internal net rate of return.

Table 4.5: Proposed funding of the General Fund capital programme

General Fund Capital Programme	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Capital Receipts	459	250	-	-	-
Revenue Contribution	1,300	1,550	1,800	1,800	1,800
Grant funded	1,499	6,432	6,200	6,200	1,200
Section 106	253	40	35	-	-
Greater Norwich Growth Partnership	441	188	87	1	8
Community Infrastructure Levy	1,775	1,481	1,592	999	1,451
Borrowing	25,000	-	-	-	-
Total	**30,727**	**9,940**	**9,714**	**9,000**	**4,459**

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) and paragraph 3.26. In addition, £2.1m of the £6.7m surplus income estimated for 2020/21 is proposed to be used to fund 2020/21 capital expenditure.

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

4.52 The general reserves currently held within the HRA (forecast at £33m for 2020/21) 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 4.6: Proposed funding of the HRA capital programme

HRA capital programme funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Major Repairs Reserve	15,394	15,278	15,176	15,073	14,971
Capital Receipts	14,125	6,167	1,793	1,793	1,793
Retained "one for one" RTB receipts	2,853	2,750	2,765	2,750	2,750
Contributions/Grants	453	250	250	250	250
Revenue budget contribution	1,991	5,588	8,332	8,107	4,020
Borrowing	-	-	1,362	-	-
Total	**34,816**	**30,034**	**29,679**	**27,974**	**23,784**

Proposed funding of the capital ambition plan

4.53 The business cases for all potential projects included in the capital ambition plan will require financing plans to be formulated prior to approval by cabinet and council. However, the underlying assumption for general fund projects, is that the majority of them will require external borrowing, and therefore must generate new income to cover at least the financing costs of the borrowing, or will be funded off the council's balance sheet through alternative delivery routes.

Alternative delivery routes

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

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

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

- Teckal company: the council has the option of establishing a Teckal company or subsidiary to deliver appropriate ambition projects. The council would remain in full control of the company and under EU procurement regulations would need to provide a minimum of 80% of its turnover but would benefit from a quicker procurement process whilst maintaining the ability to generate additional income. The Teckal company itself would be subject to local authority procurement rules.

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

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

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

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Delivering the capital strategy

Governance

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

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

of future capital investment proposals. The committee can also make recommendations to cabinet.

4.56 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.

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

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

4.59 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 two months as part of the overall corporate budget monitoring process.

Business Planning Process

Table 4.8: The council's business planning process

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

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

4.61 Recommendations are made from this group to corporate leadership team and the proposals approved by full Council in February.

Commissioning, appraisal, and programme/project management

4.62 The increased scale of capital investment proposed in the ambition plan 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.

4.63 To support Norwich City 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).
- Clear separation between those who prepare Business Cases within the council and those who quality assurance them.
- The use of the government's 5 case business model, based on HM Treasury Green Book Guidance on Better Business Cases, for large, crosscutting, or complex projects. As a rule of thumb these will generally be projects where investment is needed of £1m or over. This approach will enable the council to make sound investment decisions based on a consideration of the following five tests:
    - Is it needed? (Strategic Case)
    - Is it value for money? (Economic Case)
    - Is it viable? (Commercial Case)
    - Is it affordable? (Financial Case)
    - Is it achievable? (Management Case)
- The need for large complex investments to obtain corporate approval via Business Cases at key commitment points (gateways) to include:
    - Strategic Outline Case – to establish initial viability based on a defined Scope
    - Outline Business Case – to establish viability based on high level plans and delivery assumptions
    - Full Business Case – to establish viability based on detailed plans and delivery decisions

- Business Case Reviews – to ensure at key delivery stages that the case remains valid throughout.

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

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

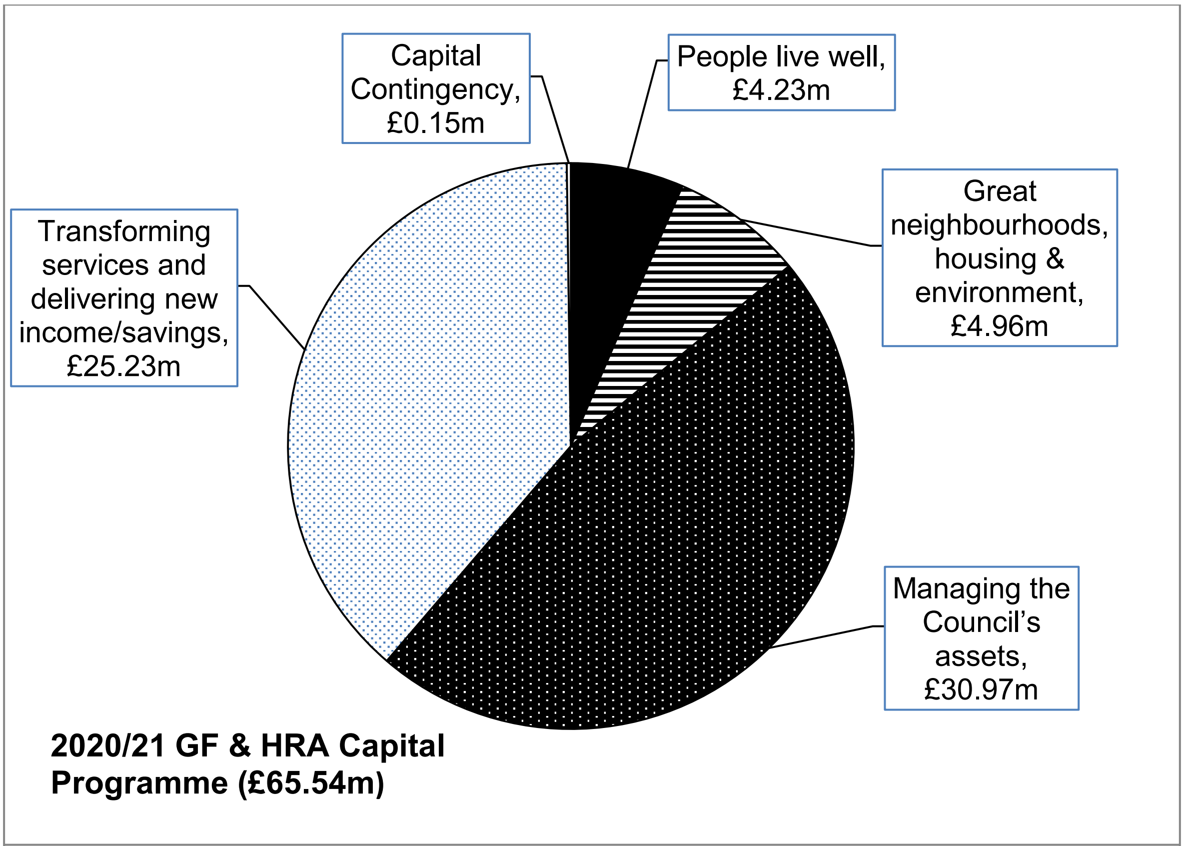
Knowledge and skills

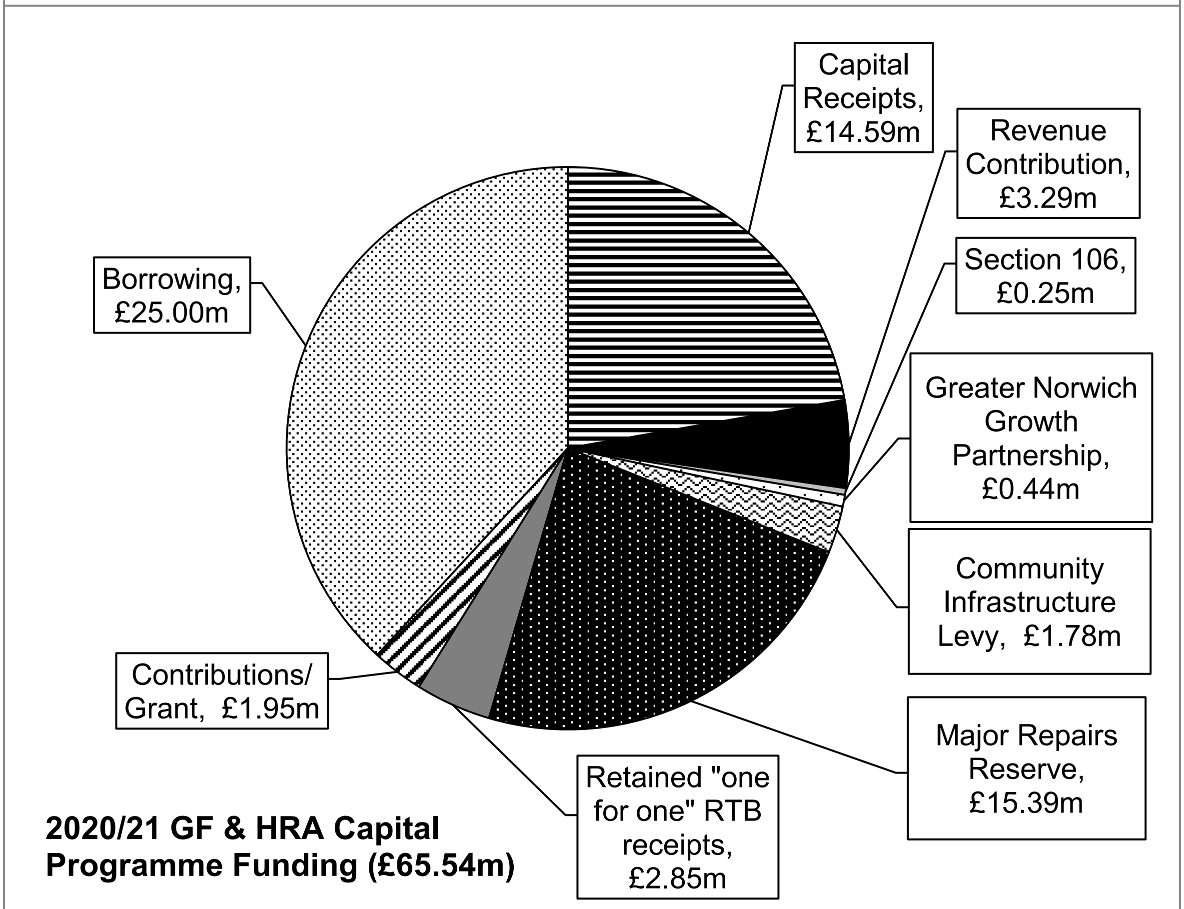
4.64 The council has professionally qualified staff, or access to such staff through its joint venture arrangements, across a range of disciplines including finance, legal, planning and property that allow for capital investment decisions to be robustly considered. These individuals follow continuous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

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

4.66 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 2020/21 to 2024/25

`	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
People live well					
CIL Neighbourhood - Future Programme	200	0	0	0	0
CIL Netherwood Green - Improve access & biodiversity. Reduce ASB.	7	0	0	0	0
CIL Strategic Pool Contribution	1,568	1,481	1,592	999	1,451
GNGB Community Access Improvements 20 Acre Wood	57	6	1	1	8
GNGB Marriott's Way/Hellesdon Station Green Infrastructure	36	111	86	0	0
GNGB Yare – Wensum green infrastructure links	95	0	0	0	0
GNGB/S106 Castle Gardens - Restoration and improvement works	212	0	0	0	0
GNGB/S106 Football pitch improvements	40	40	35	0	0
Home Improvement Agency Works - Cost re provision of Disabled Facilities Grants etc.	1,500	1,500	1,500	1,500	1,500
Norwich Parks Tennis expansion - Grass court replacement. Hard court upgrade.	423	0	0	0	0
Riverside Walk Adj NCFC - Construction of new cycle/pedestrian route.	0	302	0	0	0
S106 Bunkers Hill - Entrance & path improvements. Tree works.	31	0	0	0	0
S106 St Stephens Towers public realm	63	0	0	0	0
GF Total - People live well	**4,232**	**3,440**	**3,214**	**2,500**	**2,959**

Great neighbourhoods, housing & environment					
Private Sector Leasing – Empty homes	69	0	0	0	0
Housing Infrastructure Fund - Anglia Square	0	5,000	5,000	5,000	0
GF Total - Great neighbourhoods, housing & environment	**69**	**5,000**	**5,000**	**5,000**	**0**
Capital Grants to Registered Providers	2,000	2,000	2,000	2,000	2,000
Land & Property Opportunity Fund	2,500	2,500	2,500	2,500	2,500
Northumberland Street - New Build (HRA)	344	0	50	0	0
Site formation and demolition	50	50	50	50	50
HRA Total - Great neighbourhoods, housing & environment	**4,894**	**4,550**	**4,600**	**4,550**	**4,550**

Managing the Council's assets					
2 Upper King Street roof and windows upgrade	29	0	0	0	0
4 Exchange Street emergency lighting upgrade	7	0	0	0	0
City Hall chamber benches conservation	44	44	0	0	0
City Hall committee rooms conservation	0	0	14	14	0
City Hall conservation/refurbishment	0	100	100	100	100
City Hall space heating boiler upgrade	315	0	0	0	0
Earlham Cemetery gates refurbishment	28	0	0	0	0
Earlham Cemetery railings replacement	142	142	0	0	0
Eaton Park changing room shower replacement	17	0	0	0	0
Eaton Park path replacement	45	45	45	0	0
IT - Investment in IT infrastructure & telephony.	75	200	200	200	200
Multi storey car parks structural lifecare survey	33	0	0	0	0
Old Meeting House replacement fire detection system	11	0	0	0	0

Riverbank stabilisation (River Wensum)	15	57	33	33	0
Riverside Footpath district lighting upgrade	21	0	0	0	0
Riverside Leisure Centre replacement plant equipment	22	184	0	84	0
St Andrew's Hall refurbishment	280	60	0	0	0
St Giles multi storey car park lighting upgrade	104	0	0	0	0
St John Maddermarket retaining wall	70	0	0	0	0
Upgrade of council assets - additional future programme	0	499	958	919	1,050
Wensum Park stone wall	20	20	0	0	0
GF Total - Managing the Council's assets	**1,277**	**1,350**	**1,350**	**1,350**	**1,350**
Council Housing Community Upgrades	1,860	1,150	1,100	1,050	1,050
Council Housing Upgrade Fees	719	719	719	719	719
Council Housing Heating Upgrades	5,600	4,000	4,000	4,150	3,550
Council Housing Home Upgrades	7,750	6,955	6,250	5,870	5,105
Council Housing Independent Living Upgrades	935	850	800	750	700
Council Housing Preventative Upgrades	7,969	7,550	7,550	7,000	5,560
Council Housing Sheltered Housing Regeneration	110	110	110	10	10
Council Housing Thermal Upgrades	650	900	1,050	850	740
Council Housing Window & Door Upgrades	4,100	3,250	3,500	3,025	1,800
HRA Total - Managing the Council's assets	**29,692**	**25,484**	**25,079**	**23,424**	**19,234**

Transforming services and delivering new income/savings					
Property Acquisition - Commercial property acquisition for income.	25,000	0	0	0	0
Equity Investment - Norwich Regeneration Ltd	0	0	0	0	0
GF Total - Transforming services and delivering new income/savings	**25,000**	**0**	**0**	**0**	**0**

IT - Replacement tenancy & estate management system	230	0	0	0	0
HRA Total - Transforming services and delivering new income/savings	**230**	**0**	**0**	**0**	**0**

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

Total Proposed GF Capital Programme	**30,727**	**9,940**	**9,714**	**9,000**	**4,459**
Total Proposed HRA Capital Programme	**34,816**	**30,034**	**29,679**	**27,974**	**23,784**
Total Proposed Capital Programme	**65,544**	**39,974**	**39,393**	**36,974**	**28,242**

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

Funding source	Description and proposed strategy for its use
Revenue budget	**Description:** The use of the annual revenue budget to fund capital expenditure. **General Fund strategy**: The revenue budget (along with capital receipt income) is used to fund capital projects where there is no financial return from the investment to cover the costs of borrowing. The current MTFS includes a £0.25m annual increase in this budget but the general pressures on the general fund will limit the extent to which this may be used as a source of capital funding. **HRA strategy:** The HRA revenue contribution towards capital outlay (RCCO) is the 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 and non Right-to-Buy HRA 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 transformation that will generate savings in future years. This is subject to the council approving a policy on the flexible use of capital receipts. The council currently has sufficient funds in its earmarked spend-to-save reserves and therefore has no proposal to make use of these flexibilities.
Leasing	**Description:** A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset. Property,

	buildings and vehicles are common assets that are leased. Leasing offers a way of financing the use of assets over a period of time without actually having to buy them outright. **Strategy for its use:** Some of the assets used by the Council are financed by a lease arrangement, for example vehicles. There may be instances where leasing could offer value for money and it will remain a consideration when options are being appraised. However, given the relatively low cost of borrowing through PWLB compared to the implicit interest rates within any leased asset arrangement, it is likely to be better value for moany if the council funds the asset itself via borrowing.
Right-to-buy capital receipts	**Description:** Income arising from Right-to-Buy house sales comprising of two elements, local authority share and retained 'one for one' receipts. This funding source is only available to the HRA. **Local Authority Share:** An element of the capital receipts arising from the sale of HRA dwelling under Right-to-buy that may be retained indefinitely by the council and utilised to fund all HRA capital expenditure. **Strategy for its use**: As with other HRA capital receipts, 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.

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.
Section 106, GNGB and CIL	**Description:** Contributions paid by developers to mitigate the impact of new development across the city. **Section 106:** Contributions may be utilised to fund capital schemes but it must be in accordance with the obligations imposed by each legal agreement. These are now diminishing as S106s have instead largely been replaced by CIL contributions. **CIL (Community Infrastructure Levy)**: 80% of CIL contributions collected are paid to the Greater Norwich Growth Board (GNGB) to fund the Infrastructure Investment Fund in accordance with the existing memorandum of understanding. Where appropriate the council submits bids which may be utilised to fund capital schemes.

	15% of CIL contributions are retained for local neighbourhood sponsored schemes and allocated to fund minor capital schemes. Contributions may provide matched funding in order to secure grant funding from central government or the local enterprise partnership.
Borrowing	**Description: Internal borrowing** is the *temporary* use of the council's cash holdings to fund capital expenditure. **External borrowing** is the process of going to an external financial institution to obtain money. The council will only borrow money (either internally or externally) in cases where there is a clear financial benefit, such as a new income stream or a budget saving, that can, at the very least, fund the costs arising from the borrowing, namely interest charges & any 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 chief finance officer, under the council's constitution, who is required to act in accordance with CIPFA's Treasury Management Code of practice. The chief finance officer will decide whether to use internal instead of external borrowing as a temporary source of financing if at the time: (a) The council's overall cash holdings are above £17m (the minimum amount of cash deemed necessary for working capital purposes– see the Treasury Management Strategy in section 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 chief finance 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:
1) Because it has surplus cash as a result of day-to-day activities it invests the cash to make a return. These investments are part of treasury management good practice.
2) To support corporate priorities by lending to and/or buying shares in other organisations.
3) To earn income through commercial investment.

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

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

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

Commercial property investment

5.6 Whilst the council has held commercial property for decades, it has recently been purchasing new property investments in line with the approved Commercial Property Investment Strategy and within the council's approved capital expenditure budget for this investment activity.

5.7 Up to January 2020, £52m of new investments have been made, generating gross initial income of £3.2m and net initial income (after taking into account the financing costs of the acquisition) of £1.5m (a net initial return of 2.8%).

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

5.9 The council will continue to invest prudently in commercial property and an additional £25m is included in the capital budget for this investment– these amounts are included in the capital strategy discussed in section 4. This expenditure will be funded from borrowing.

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

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

Revised commercial property investment strategy

5.12 Cabinet recently approved a revised commercial property investment strategy at its meeting on 18 December 2019. The strategy was written so that the council's rationale, investment principles, the acquisition process, and the due diligence undertaken is set out in one comprehensive document to provide a full and complete guide for council stakeholders.

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

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

Investment principles

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

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

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

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

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

Setting aside new net rental income into the earmarked reserve

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

5.20 It is estimated that this reserve will contain some £1.5m at the end of the financial year 2019/20. The reserve has been built up by transferring the new net income achieved above the MTFS income target into the reserve rather than into the general fund revenue budget.

5.21 In line with the approved 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

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

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

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

5.24 Outside of the treasury management function, where the council lends in order to manage its cash holdings, the council currently has a loan book of just over £6.5m with two borrowing organisations (as at 31 Dec 19), Norwich Regeneration Limited (£6.4m) and the Norwich Preservation Trust (£121k).

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

Process for lending to Norwich Regeneration Limited (NRL)

5.26 As part of the 2019/20 budget, Full Council agreed the following process for lending to Norwich Regeneration Ltd:

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

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

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

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

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

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

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

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

Business Model

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

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

2) The council to purchase further shares in the company in order to meet State Aid and thin capitalisation requirements. This requires that the

company receives a reasonable amount of its funds from shareholders rather than all of the funding being obtained from external borrowing.

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

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

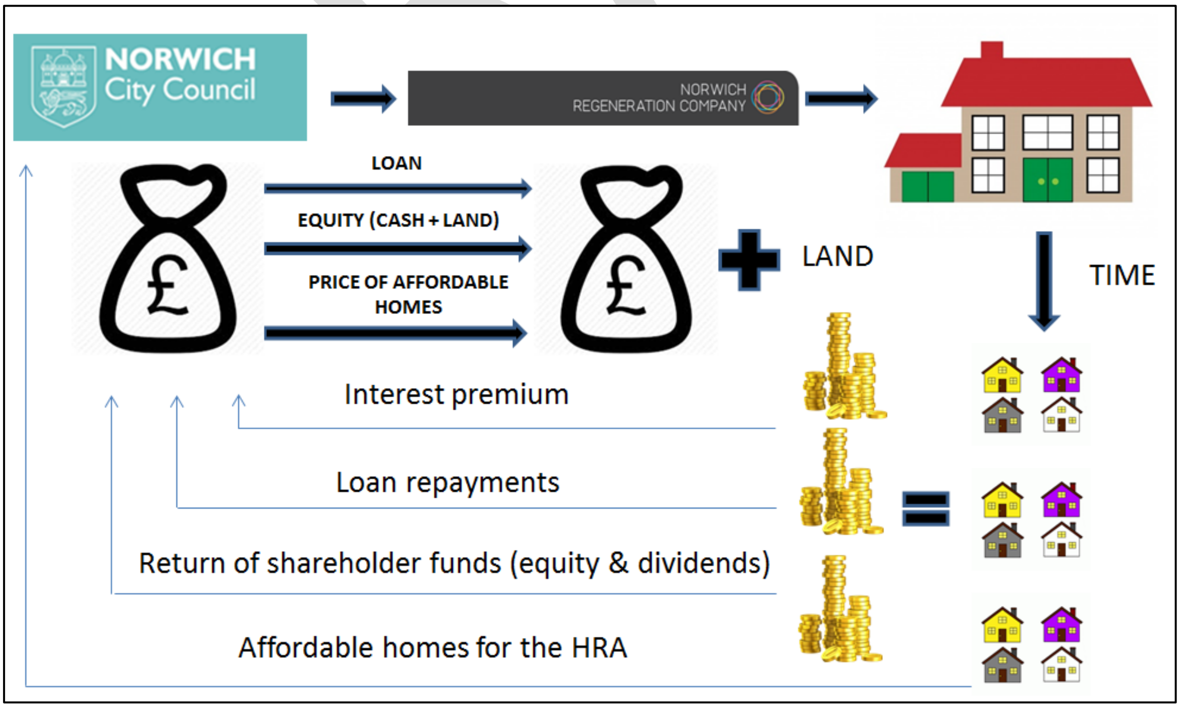
5) The company to borrow, at commercial interest rates and terms, from the council to fund the development of the private sector housing for rent and for sale.

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

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

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

Chart 5.1: Business model between the council and NRL



Background to setting up Norwich regeneration Limited and current approved lending arrangements

5.28 The Norwich Regeneration Limited company (wholly owned by the City Council) was set up in 2015 with three main aspirations in mind:

- Help the council to meet housing need
- Build properties to high environmental standards
- Take a more commercial approach to generate income for the council in a time of budget austerity

5.29 The 80-acre Three Score site in Bowthorpe, which was purchased by the council in the 1970s, has the capacity to accommodate a total of around 1,000 homes. In 2017, work began on the Rayne Park development at Bowthorpe to deliver approximately 170 homes (a mixture of private and social housing) for Norwich residents. Norwich Regeneration Company borrowed up to £12.4m to build and deliver homes on the first phase site of the site. The company paid back £6m of that loan while continuing to pay the council interest. Last November the council assessed the company's most recent business case and agreed to lend it up to £11.4m to fund the development of 74 additional new homes at Three Score. The council has earmarked £4m as part of its prudent financial planning to mitigate any risk that the loan may not be returned to the council in full. However, the council anticipates the company to begin making a profit in the coming years, which would allow it to arrange terms to pay back the loan.

5.30 Table 5.2 shows how the approved loan facility is expected to be drawn down by the company. The final phasing of the drawdowns may vary as cash flow projections are updated.

Table 5.1: approved loan facility available for lending to NRL

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Existing loan	6,400				
Forecast maximum lending	12,400	11,433	10,100	8,706	8,995
Forecast cumulative amount outstanding at year end	9,100	10,326	8,395	8,705	8,995

Future proposed lending to Norwich Regeneration Limited

5.31 The company's 2020/21 Business Plan contains proposals that would require it to seek further loan finance from the council over the next five financial years. The overall loan financing requirement per the Business Plan is shown in Table 5.2.

5.32 The decision to advance further loan financing will need to be supported by robust financial modelling, including sensitivity analysis, as well as a strong economic, commercial, management and strategic case for taking on a new project. Key lessons learned from the first phase of development are informing the future development of the company.

5.33 The Company's proposals are to complete future developments of Rayne Park (sections 2 to 4) and proceed with a number of additional developments of between 80-170 units. Other than Rayne Park (sections 2-4), all the other schemes are currently within the capital ambition scheme and therefore any further lending will be subject to a full business case and council approval.

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

Table 5.2: NRL forecast required loan facility (20/21 Business Plan)

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Existing loan (as at 31 Dec 19)	6,400					
Forecast maximum lending	12,400	13,500	16,750	23,000	27,500	24,500
Forecast cumulative amount outstanding at year end	7,800	13,500	16,750	23,000	20,000	18,500

5.35 The financial impact to the council of this proposed loan book is given in:
- Paragraphs 2.41 to 2.44: detailing the net impact on the general fund revenue budget.
- Section 7 setting out financial indices showing the affordability and proportionality of the lending being proposed.

Equity investments (Shareholdings)

5.36 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.

5.37 In October 2016 the council disposed of land at Bowthorpe to its wholly owned subsidiary, Norwich Regeneration Limited, in exchange for 22,000

£100 shares in the company. During 2018/19 the Council invested an additional £0.524m in the form of cash equity into the company.

5.38 The company's 2020/21 Business Plan contains proposals which will require further equity investment, both in terms of vesting additional council land into the company in exchange for shares and by the council purchasing additional shares. The additional investment relates to capital ambition schemes and therefore any further equity investment will be subject to a full business case and council approval.

Table 5.3: proposed council equity investment in NRL (excluding land)

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Existing equity investment	524					
Additional Equity investment	0	2,000	0	1,500	1,000	0
Return of shareholder funds	0	0	(500)	0	0	(500)
Cumulative equity investment	524	2,524	2,024	3,524	4,524	4,024

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

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

6. TREASURY MANAGEMENT STRATEGY

Background

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

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

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 costs and funding requirements of those capital ambition projects likely to seek Business Case approval from council during 2020/21 as identified in paragraph 4.37.
- 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 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

	31/03/2019 Actuals £000	%	31/12/2019 Actuals £000	%
Investments				
Banks	24,710	49.7	39,470	54.5
Building Societies	3,000	6.0	10,000	13.8
Local Authority	16,000	32.2	8,000	11.0
UK Government	6,000	12.1	0	0.0
Money Market Funds	0	0.0	15,000	20.7
TOTAL	**49,710**	**100.0**	**72,470**	**100.0**
Borrowing				
PWLB	194,107	97.2	214,107	97.5
Banks	5,000	2.5	5,000	2.3
Others	510	0.3	510	0.2
TOTAL	**199,617**	**100.0**	**219,617**	**100.0**

6.12 On the 31st of December 2019, the council held £219.617m of external borrowing and £72.470m of treasury investments.

The Prudential and Treasury Indicators 2020/21 – 2024/25

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

6.14 A summary of additional expenditure and financing plans, not yet included in the budget proposals, but for which business cases are likely to be submitted to council for approval within 2020/21 is shown in table 6.3.

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

6.16 The CFR 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.

6.17 This is a requirement of closing the accounts for 2020/21 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 2020/21 financial year.

6.18 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.

6.19 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.

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

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

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

c. The 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

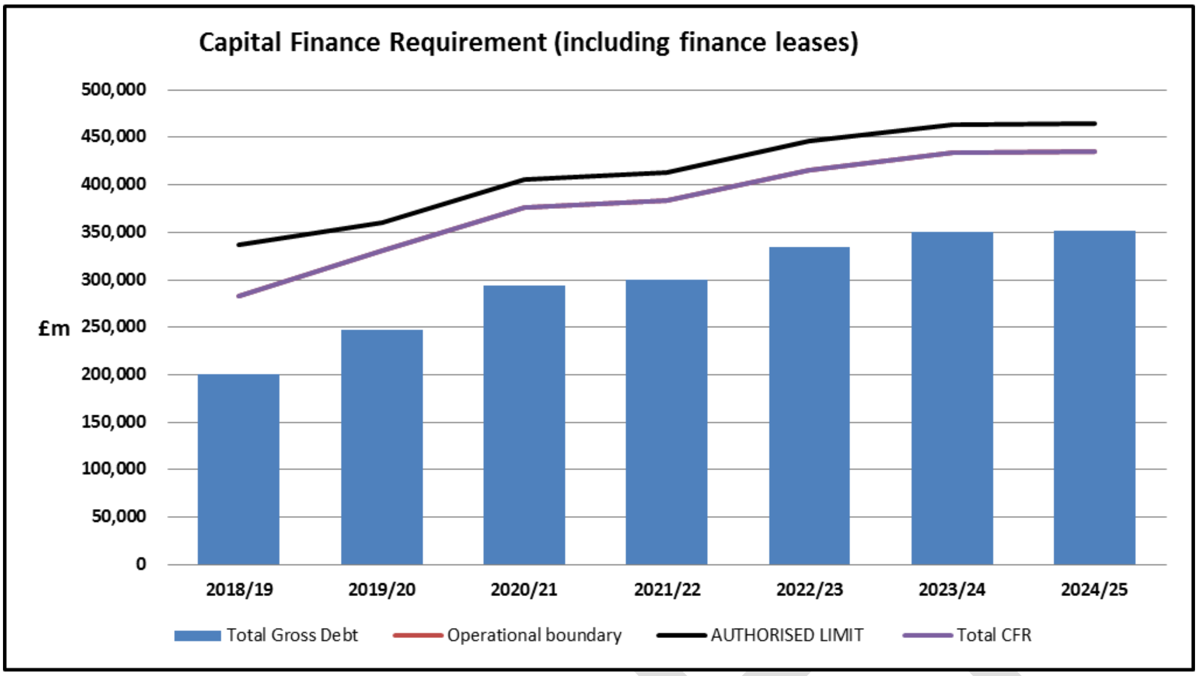


Table 6.2: The council's capital expenditure and financing plans

	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital expenditure (without capital ambition)						
General Fund	9,113	5,727	9,940	9,714	9,000	4,459
Commercial properties	45,518	25,000	0	0	0	0
Total General Fund Expenditure	**54,632**	**30,727**	**9,940**	**9,714**	**9,000**	**4,459**
Housing Revenue Account	**41,055**	**34,816**	**30,034**	**29,679**	**27,974**	**23,784**
TOTAL CAPITAL EXPENDITURE	**95,686**	**65,544**	**39,974**	**39,393**	**36,974**	**28,242**
Financing						
Capital receipts	5,644	14,885	6,717	2,093	2,093	2,093
Revenue contribution	6,313	2,991	6,838	9,832	9,607	5,520
S106	224	253	40	35	0	0
Greater Norwich growth partnership	294	441	188	87	1	8
Community infrastructure levy	1,015	1,775	1,481	1,592	999	1,451
Major repairs reserve	24,521	15,394	15,278	15,176	15,073	14,971
Retained "one for one" RTB receipts	7,057	2,853	2,750	2,765	2,750	2,750
Contributions and grants	4,899	1,953	6,682	6,450	6,450	1,450
Capital spend to save reserve	200	0	0	0	0	0
Total	**50,168**	**40,544**	**39,974**	**38,030**	**36,974**	**28,242**
Borrowing need for the year	**45,518**	**25,000**	**0**	**1,362**	**0**	**0**
TOTAL FINANCING	**95,686**	**65,544**	**39,974**	**39,393**	**36,974**	**28,242**

***NB**: 2019/20 estimates in table 6.2 above include any potential expenditure that might need to be carried-forward into 2020/21,as at the end of period 7 (October 2019).*

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

	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital expenditure - capital ambition projects and non-financial investments						
Non-financial investments	1,400	5,700	3,250	6,250	4,500	0
Capital ambition plan		**28,649**	**32,382**	**31,497**	**16,652**	**3,000**
BORROWING REQUIREMENT	**1,400**	**21,406**	**9,484**	**33,061**	**20,152**	**3,000**

Table 6.4: Prudential and treasury Indicators

	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital financing requirement at end of year						
General Fund	125,099	162,821	169,702	180,468	185,856	186,647
Housing Revenue Account	205,717	212,923	213,656	235,329	247,981	247,981
TOTAL	**330,816**	**375,744**	**383,359**	**415,798**	**433,837**	**434,629**
Annual change in capital financing requirement						
General fund	48,036	37,722	6,881	10,766	5,388	791
Housing Revenue Account	-	7,206	734	21,673	12,652	-
TOTAL	**48,036**	**44,928**	**7,614**	**32,439**	**18,040**	**791**
Gross Debt						
Borrowing	247,437	293,735	300,605	334,907	350,931	351,295
Operational boundary for external debt						
Operational boundary	330,816	375,744	383,359	415,798	433,837	434,629
Authorised limit for external debt						
Authorised limit	360,816	405,744	413,359	445,798	463,837	464,629
Actual external debt						
Borrowing	246,535	292,941	299,925	334,347	350,499	350,999
Debt maturity profile - all borrowing %						
Less than one year	0%	0%	1%	14%	1%	1%
Between one and two years	0%	1%	17%	1%	1%	15%
Between 2 and 5 years	25%	23%	20%	17%	33%	18%
Between 5 and 10 years	52%	47%	23%	16%	4%	5%
Between 10 and 15 years	7%	6%	4%	3%	2%	1%
Between 15 and 20 years	1%	1%	1%	0%	0%	0%
Over 20 years	14%	21%	34%	49%	59%	60%
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 31/12/2019 in excess of 1 year maturing in each year	-	-	-	-	-	-

Borrowing Strategy

6.21 The capital expenditure plans set out in tables 6.2 and 6.3 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 and 6.3 above.

Table 6.5: Estimated forward projections for borrowing

	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
External Debt						
Debt as at 1 April	199,617	246,535	292,941	299,925	334,347	350,499
Expected change in debt	46,918	46,406	6,984	34,423	16,152	500
Other long-term liabilities	902	794	680	559	432	296
Actual gross debt as at 31 March	**247,437**	**293,735**	**300,605**	**334,907**	**350,931**	**351,295**
Capital Financing Requirement	330,816	375,744	383,359	415,798	433,837	434,629
Under/(Over) borrowing	**83,379**	**82,009**	**82,754**	**80,891**	**82,906**	**83,333**

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 rise as set out in Appendix 4 (C) and below:

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

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

Policy on borrowing in advance of need

6.25 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. No MRP costs arising from lending to the company have therefore been included in the general fund revenue budget proposals.

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.

Table 6.6: Interest rate forecast as at January 2019

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

6.39 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

6.40 Borrowing interest rates were on a major falling trend during the first half of 2019/20 but then jumped up by 100 bps in October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. There was no prior warning that this would happen and it now means that every local authority has to reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme.

6.41 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

6.42 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.

6.43 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

6.44 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.

6.45 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.

6.46 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.

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

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

6.49 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.

6.50 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.

6.51 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.

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

6.53 While all investments will be denominated in sterling, investments will only be placed with counterparties from countries with a specified minimum sovereign rating in table 6.8.

6.54 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 6.7 below.

6.55 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.

6.56 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.

Table 6.7: specified and non-specified investment approved instruments and limits

Counterparty/Financial instrument	Minimum Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£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	£5m per fund £25m overall limit	n/a	n/a
Money MARKET Funds - LVNAV	AAA			n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£10m per LA	5 years	£5m per LA
Term Deposits with UK Building Societies	ratings for banks outlined below / Asset worth at least £2.5bn or both	12 months	£5m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	AAA	12 months	£15m	2 years	£10m
Banks (Term deposits, CD, Call & Notice accounts)	AA+ AA	12 months	£15m	12 months	£5m
Banks (Term deposits, CD, Call & Notice accounts)	AA- A+ A	12 months	£10m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	A-	6 months	£5m	n/a	n/a
Property Funds	credit loss analysis, financial and legal due diligence	n/a	n/a	n/a	£5m per fund
Loan Capital and other third party loans including parish councils	Subject to financial & legal due diligence	considered on individual basis	n/a	considered on individual basis	n/a

* Specialist advice will be obtained before the use of VNAV money market funds
** Local authorities will reviewed in line with CIPFA suggested indicators

Sovereign limits

6.57 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.

6.58 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.

6.59 If there were to be a disorderly Brexit, it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA. However if credit rating agencies downgrade the UK below AA- (the minimum Sovereign rating for 2019/20), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

Table 6.8: Sovereign rating for 2019/20

AAA	Sweden	**AA**
Australia	Switzerland	UK
Canada		
Denmark	**AA+**	**AA-**
Germany	Finland	Belgium
Netherlands	USA	
Singapore		

Bank of England iteration UK bank stress tests

6.60 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. The annual results of the UK bank stress test published via the Financial Policy Committee (FPC) will also be taken into account. The 2018 results stated that all 7 UK banks passed the tests although it should be noted that these tests do not provide investors with any form of guarantee as to the credit worthiness of the entities included.

Money Market Funds (MMFs)

6.61 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

6.62 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

6.63 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

6.64 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

6.65 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.

6.66 **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 0.011%.

6.67 **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.

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

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

Ethical investment

6.69 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.

6.70 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)

6.71 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).

6.72 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

6.73 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. Section 1 of the budget report summarised the recent changes made to various codes of practice which the council, under legislation, has a duty to have regard to when taking its budget decisions.

7.2 This section of the budget report provides information to show the affordability, proportionality and value of potential risk exposure with regard to the council's proposals for borrowing, lending to third parties, investment in equity shares in third parties, and investment in commercial property. These include capital ambition projects that may seek separate council approval during 2020/21 for incorporation into the capital budget.

7.3 MHCLG has suggested various financial indices that could be used to fulfil this requirement and recommends that councils should "where appropriate" consider setting self-assessed limits or targets for these indices. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf

7.4 As the indices were new in 2019/20 further assessment is needed in order for the council to sensibly assess where it sits as compared to similar district councils. It is therefore proposed not to set self-assessed limits for the indicators in this year's budget report but to wait until the council is in a position to have better "bench-marking" data available. 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 2018/19 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 £200m as at the 31 March 2019 which is 19% of the value of the council's assets. In addition, the council had borrowed £83m 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 £283m (this figure is known as the capital financing requirement (CFR)).

Table 7.1 relevant extracts of the council's audited balance sheet (as at 31/03/19)

	31-Mar-19 £000	31-Mar-18 £000
Long term assets	1,046,128	1,028,259
Of which:		
- Investment properties	65,931	56,729
- Long term investments (equity shares in 3rd parties)	4,478	3,024
- Long term debtors (amounts lent to 3rd parties)	12,531	11,634
Long term borrowing	199,900	199,902
Current Assets	63,447	65,080
Current Liabilities	32,046	29,596

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 2018/19 long term debtors the amounts lent to third parties on commercial terms comprise a £12.4m loan to Norwich Regeneration Limited and a £0.131m loan to Norwich Preservation Trust. The council also makes "soft" loans (on non-commercial terms) to others, for example home improvement loans to residents. Only the lending undertaken on commercial terms needs to be considered as part of the requirements arising from the revised Investment Code.

7.11 The liquidity or current ratio is a traditional method of assessing an organisation's ability to meet its debts as and when they fall due. It is calculated by dividing current assets by current liabilities. A ratio of more than one is generally accepted to show a low risk. The ratio for the council as at the end of March 2018 is 2:1, meaning the council held twice as many short term assets (e.g. cash deposits in banks and building societies) as compared to short term liabilities (mostly trade creditors).

Forecast Balance Sheet position

7.12 The council's budget proposals contained within this budget report will result in a growing balance sheet both in terms of the long term assets that will be held by the council (investment property, equities and long term debtors) as well as its long term liabilities (its capital financing requirement or underlying need to borrow).

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

	31/03/2019 £000	31/03/2020 £000	31/03/2021 £000	31/03/2022 £000	31/03/2023 £000
Long term assets	1,046,128	1,086,773	1,144,108	1,153,077	1,156,927
Of which:					
- Investment property	65,931	111,449	136,449	136,449	136,449
- Equity shares in 3rd parties	4,478	4,218	4,218	4,218	4,218
- Amounts lent to 3rd parties	12,531	7,918	13,604	16,840	23,075
- Balance of Capital ambition			26,649	32,382	29,997
Capital Financing Requirement	282,780	330,816	375,744	383,359	415,798

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

7.13 The forecasts show the likely trends rather than robust estimates. For example, the value of the council's land, property and heritage assets will change over time through capital expenditure, asset disposals, and annual valuations undertaken for the purposes of preparing the annual statement of accounts. No attempt has been made to forecast these changes.

7.14 The rise in the value of investment property assumes that the budget proposed for commercial property acquisition is spent and increases the value of the portfolio by the purchase price with no impairment realised. Given these assumptions the value of the commercial property portfolio compared to the overall value of the council's long term assets rises from 6.3% of the total in 2018/19 to 11.8% by 2022/23.

7.15 The council's underlying need to borrow is forecast to rise over the same period by £133m which is a 47% increase from 2018/19. This assumes that all projects, plans, and expenditure included in the budget proposals are undertaken in the expected timeframes. It is likely however that there will be some slippage in these plans and therefore a corresponding decrease in the underlying need to borrow figures.

7.16 Given the increases in the estimated capital financing requirement the council will need to undertake external borrowing in the near future, rather than using its cash to temporarily fund expenditure. As at the time of writing this report the council has £72m of cash and short term investment holdings.

Further detail on the council's borrowing plans

7.17 Table 7.3 shows that the forecast increase in the council's underlying need to borrow (capital financing requirement) arises from the non-financial investment activities being proposed by the council through its general fund account, namely commercial property investment and lending to third parties.

7.18 The capital financing requirement for the HRA is forecast to increase by £30m by 2022/23 when the capital ambition programme is included.

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

	31/03/2019 £000	31/03/2020 £000	31/03/2021 £000	31/03/2022 £000	31/03/2023 £000
General Fund CFR	77,063	125,099	162,821	169,702	180,468
Including:					
CFR for capital ambition plan	-	-	8,500	14,000	20,500
CFR for investment property	33,349	78,867	103,867	103,867	103,867
CFR for investment in equities	-	-	-	-	-
CFR for lending to 3rd parties	12,531	7,918	13,604	16,840	23,075
CFR total for HRA	205,716	205,717	212,923	213,656	235,329
Including:					
CFR for capital ambition plan	-	-	7,206	7,939	28,250

NB as explained in 5.40 the purchase of equity shares in Norwich Regeneration Limited will be funded from capital receipts and not by borrowing

7.19 It needs to be emphasised that the council's borrowing policy as explained in Appendix 4 (C), is that:

The council will only borrow money (either internally or externally) in cases where there is a clear financial benefit, such as a new income stream or a budget saving, that can, at the very least, fund the costs arising from the borrowing, namely interest charges & any MRP costs. (See section 9 – the financial glossary for an explanation of these terms).

7.20 This effectively means that the council will only borrow (increase its capital financing requirement) to fund capital expenditure plans on a project by project basis and only when a robust and viable Business Case for the project has been produced demonstrating, amongst other things, that the costs arising from the increase in capital financing requirement can be met by new income streams.

Capital Financing Requirement (CFR) to service expenditure

7.21 This indicator has been included as it is the first that MHCLG suggest is used. It shows how much the council's owes (capital financing requirement) as a percentage of how much the council spends on an annual basis.

7.22 Some further explanation is necessary about this indicator:

- MHCLG has asked for a comparison against "net service expenditure" which they interpret as being a "proxy for the size and financial strength of a local authority". Net service expenditure, for the general fund, comprises that part of the revenue budget that is funded from retained Business Rates, Council Tax, and any revenue support grant.

- However all councils are required to set a balanced budget and do this by balancing total expenditure to the estimated total income likely to be received which includes tax income along with all the fees and charges generated by the council. The gross service expenditure budget is therefore a much better indicator of real spending power and financial size, particularly as this council generates a lot of other fees and charges income used to fund service expenditure.

- The gross service expenditure figures given below for the general fund exclude housing benefit payments which is funded by central government and assumes that the budget is reduced each year by the annual net savings target forecast in the MTFS.

Table 7.4: capital financing requirement (CFR) as a % of service expenditure

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
General Fund:					
Net service expenditure (NSE)	17,730	17,368	18,299	18,149	17,944
Gross service expenditure (GSE)	57,927	59,111	58,128	57,592	56,852
Opening General Fund CFR as a % of NSE	435%	720%	890%	935%	1006%
Opening General Fund CFR as a percentage of GSE	133%	212%	280%	295%	317%
Opening CFR arising from non-financial investments as a % of GSE	79%	147%	202%	210%	223%
HRA:					
Gross service expenditure (GSE)	59,259	61,388	62,616	63,868	65,145
Opening CFR as a percentage of GSE	347%	335%	340%	335%	361%

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 317% in 2023/24 (table 7.4) means that the forecast total indebtedness for the general fund in that year is equal to the total value of the general fund's gross expenditure budget for 3.17 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

	2018/19	2019/20	2020/21	2021/22	2022/23
CFR as a % of the value of long term assets	27%	30%	33%	33%	36%
CFR arising from non-financial investments as a % of the value of long term assets	4%	8%	10%	10%	11%

The council's non-financial (commercial) investments

Commercial income to service expenditure

7.26 This ratio shows the general fund's dependence on commercial income to deliver core general fund services.

Table 7.6: commercial income to service expenditure

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Net income from investment property	2,437	3,422	3,373	3,322	3,269
Net income from lending to third parties	284	251	132	132	132
Total net income from non-financial investments	2,721	3,673	3,505	3,454	3,401
Total net income as a % of NSE	15%	21%	19%	19%	19%
Gross income from investment property	4,892	7,582	7,582	7,582	7,582
Gross income from lending to third parties	572	539	420	420	420
Total gross income from non-financial investments	5,464	8,121	8,002	8,002	8,002
Total gross income as a % of GSE	9%	14%	14%	14%	14%

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

7.27 The net and gross income from investment property shown in table 7.6 (and table 7.7) for 2021/22 onwards are based on the 2020/21 budget assumptions. The council intends to undertake improvements to the way rental income achieved by the investment portfolio is forecast and monitored. A "zero-based" approach is needed for each property taking into account lease termination and rental review dates.

7.28 As explained in paragraphs 2.41 and 2.44, a very prudent approach has been taken in the general fund budget with regards to future anticipated income from lending and investing in Norwich Regeneration Limited. The new income will be taken into the budget only when it is actually received.

7.29 Income from the council's car parks is not included in this analysis as the primary reason for owning and managing them is not solely for profit making purposes. However the income is significant and of a commercial nature. The net income forecast to be obtained from car parks in 2020/21 is £3.13m, which if added into the net income from non-financial investments shown in the table above, would mean that commercial income is some 38% of the 2020/21 net service expenditure budget.

Investment cover ratio

7.30 This shows the gross income from non-financial investments compared to the interest expense. Many of the recent investments have been funded from internal borrowing and have not incurred any interest expenses. Therefore in order to calculate this ratio it has been assumed that the recent investments have been financed by external borrowing.

Table 7.7: investment cover ratio

General Fund	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Total gross income from non-financial investments	5,464	8,121	8,002	8,002	8,002
Interest expense	1,427	2,641	2,641	2,641	2,641
- As a % of gross income	26%	33%	33%	33%	33%

Target income and benchmarking of returns

7.31 This shows the net revenue income target assumed in the 2020/21 budget for non-financial and financial investments.

7.32 The average return made from commercial property acquisitions to-date is 2.9% - the amount above 2% will go to the commercial property earmarked reserve.

7.33 No assumptions have been made in the MTFS regarding dividends (profit share) arising from the council's equity investment in NRL.

Table 7.8: Net revenue target assumed in MTFS

Investments made in:	2020/21 target in MTFS
Commercial property	2.00%
Lending to third parties	2.25%
Equity investment in third parties	0%
Short term lending to banks/building societies	0.88%

8. CHIEF FINANCE OFFICER'S STATEMENT

Statutory requirements

8.1 Section 25 of the Local Government Act 2003 places specific responsibilities on the Chief Finance Officer to report on the robustness of the budget and the adequacy of proposed financial reserves when the council is considering its budget requirement. The council is required to have regard to this statement when it sets the budget.

8.2 In addition, CIPFA's recommended good practice is that chief finance officers refer to the range of financial resilience indicators recently produced by CIPFA in their section 25 statements for 2020/21, before this becomes a requirement under the new CIPFA Financial Management Code.

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) what she sees as the key risks associated with the proposed budget, so that council is clear on these risks and the proposed mitigation factors when making its budget decision.

8.5 A key mitigation for the risks mentioned in Appendix 8 (A) is the Chief Finance Officer's estimate of a prudent level of reserves. The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

8.6 There has been no change in the methodology for calculating the prudent minimum balance of reserves for both the general fund and the HRA. In both cases, an assessment of three years cover for operational risks has been made covering the main areas of expenditure and income. In addition, amounts have been included for unforeseen events and specific risks such as business rates retention and the impact of welfare reform.

8.7 The risk analysis shows that a prudent minimum level of reserves for 2020/21 will be of the order of £4.298m for the General Fund and £5.874m for the Housing Revenue Account. Further detail of the calculations is available on request. Further comfort is taken from the record council has in managing and delivering to budget in-year and that the budget proposals contain both corporate contingency budgets and specific earmarked reserves for the council's commercial activities.

Section 25 Statement

8.8 Allowing for the uncertainty and keys risks set out in Appendix 8 (A), it is the opinion of the Chief Finance Officer that the budget has been prepared on realistic assumptions and that it represents a robust budget which provides for an adequate level of reserves.

8.9 It is also the opinion of the Chief Finance Officer that the capital strategy, as set out in section 4, is affordable and prudent as demonstrated by the prudential indicators set out in the Treasury Management Strategy (section 6).

8.10 The Chief Finance Officer does have some reservations on the deliverability of the capital strategy both in terms of the council's and NPSN's capacity to deliver and the council's ability to bring forward for approval many of the projects in the capital ambition plan given the current uncertainties around the economy and housing market.

CIPFA's Financial Resilience Indicators

8.11 The following chart shows the financial resilience indicators as compiled for Norwich City Council by CIPFA. The indicators are based on published general fund outturn figures for 2018/19 and the three prior financial years. The indices compare the council to all English district councils in determining a "score" and whether the council is at higher or lower risk. As these indices will be published by CIPFA, full information on them has been given in this budget report in order to guide council on their meaning.

Chart 8.1: Indicators of Financial Stress analysed for Norwich City Council

Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.86	100.00	100.00
Level of Reserves	23.28%	152.79%	300.00%
Change In Reserves	-51.16%	38.06%	490.83%
Interest Payable/ Net Revenue Expenditure	-7.13%	55.86%	525.04%
Gross External Debt	£0k	£200,620k	£1,212,343k
Fees & Charges to Service Expenditure Ratio	1.58%	31.00%	70.32%
Council Tax Requirement / Net Revenue Expenditure	36.95%	62.61%	100.00%
Growth Above Baseline	-129.00%	11.00%	287.00%

Source: CIFPA

Table 8.1: Description of each index and what it means

Indicator	Description	What it means
1. Reserves Sustainability Measure	This indicator is the ratio between the current level of reserves and the average change in reserve in each of the past three years. A negative value (which implies reserves have increased) or one greater than 100 is recoded to 100.	A score of 100% has been given to each council that has increased its overall reserves over the 3 year period i.e. 2015/16 to 2018/19. The majority of English district councils including this council have increased rather than depleted their overall reserves. CIPFA view this as beneficial and a sign of lower financial risk.
2. Level of reserves	This is the ratio of the current level of reserves (total usable excluding public health and schools) to the council's net revenue expenditure.	Norwich sits in the middle of the comparator group with CIPFA "capping" the score at 300% as some district councils have very large reserves as compared to their net revenue expenditure.
3. Change in reserves	This indicator shows the average percentage change in reserves (total usable excluding public health and schools) over the past three years.	CIPFA deem the council as lower risk as up to 2018/19 it has been increasing its usable general reserves. This trend is forecast to continue in 2019/20.
4. Interest Payable/Net Revenue Expenditure	This indicator is the ratio of interest payable and net revenue expenditure	With a score of 56%, Norwich shows a very high risk on this indicator. CIPFA's calculation takes the annual interest charge for both General Fund and Housing Revenue Account borrowing and shows it over the net revenue expenditure for the General Fund only. This approach does not therefore recognise the HRA rental income, which is used to meet the interest costs associated with self-financing borrowing. If the calculation were adapted to include only General Fund borrowing costs then the score would reduce to 4%. This would show as significantly less risky.

5. **Gross External Debt**	This indicator compares the gross external held by a council.	The external borrowing of £201k relates to both the General Fund (£21m) and Housing Revenue Account (£180m). The long-term assets of the council at 31 March 2019 were £1,046m. The external debt was 20% of the asset value.
6. **Fees & Charges to Service Expenditure ratio**	This indicator shows the proportion of fees and charges against the council's total service expenditure.	The figure for the council is 31% and considered lower risk compared to other district councils.
7. **Council Tax Requirement/Net Revenue Expenditure**	This indicator shows the ratio of council tax as a proportion of net expenditure.	The figure for the council is 63% which is moderately high risk compared to other district councils. There are a number of councils able to fund over 80% of their net expenditure from Council Tax alone. It should be noted that Norwich generates net income from a range of sources other than Council Tax and reductions in RSG and New Homes Bonus have already been built into the MTFS assumptions.
8. **Growth Above Baseline**	This indicator is calculated as the difference between the baseline funding level and retained rates income, over the baseline funding level.	Norwich shows as low risk compared to other district councils. CIPFA have assumed that it is less risky to have a low level of business rates growth. This may be due to the pending local government financing reforms, which include a potential business rates baseline reset that could redistribute the current growth.

8.12 Local authorities are complex democratically accountable organisations whose long-term financial performance depends on the Government, statutory requirements and a complex interlocking web of financial and non-financial decisions over a prolonged period of time. Other than short-term financial viability, they simply cannot be understood using a number of indicators. In particular:

- The index is essentially retrospective and has a short term focus. All quantitative assessment frameworks are “point in time” assessments that are largely backward looking. The value and great skill has always been and will always remain the judgement that extends that assessment reliably into the future.

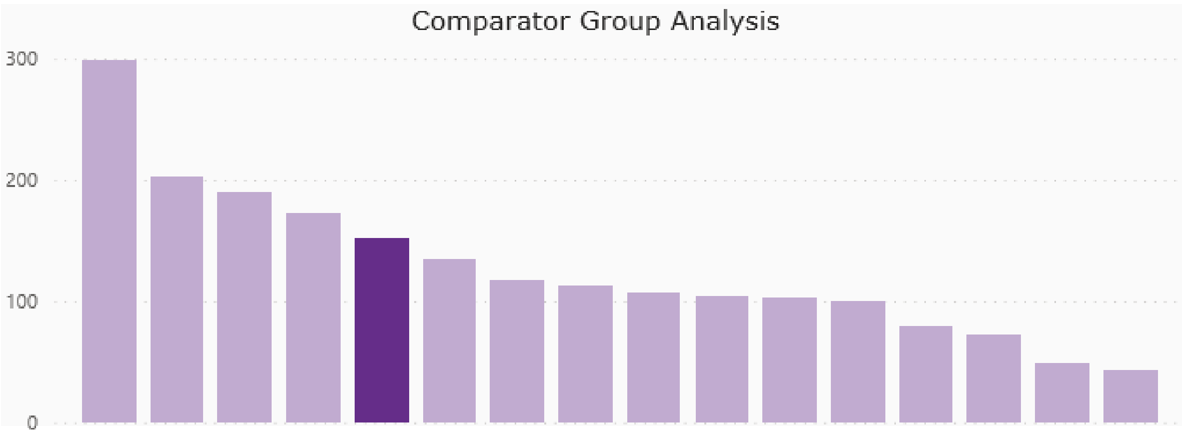
- Data without context is meaningless. Effective interpretation and correct responses to the findings of the index require context and other data.

8.13 CIPFA uses “net revenue expenditure” as the basis of the percentage calculation for many of the indices. As mentioned elsewhere in this report, net revenue expenditure comprises the budget amount funded by council tax, retained business rates, and revenue support grant. It is used by CIPFA and MHCLG as a “proxy” for the size and financial strength of the local authority - as this is the amount, failing all other income sources, the council would expect to receive in each year.

8.14 In terms of all the indicators, the comparison of total reserves, whether general/unallocated or earmarked is probably the most useful indicator of financial stability, at least in the short to medium term.

8.15 The charts below show the position of Norwich, given as a thick black line, in terms of the total general fund reserves held at the end of 2018/19 as compared to all English district councils and how the reserves grew over the four year period CIPFA have analysed.

Charts 8.2: Level of reserves for Norwich City Council as at end of 2018/19 compared to our CIPFA nearest neighbours (from CIPFA’s financial resilience model)



Appendix 8 (A): The key financial risks facing the council

RISK	DESCRIPTION	MITIGATION PROPOSED
Medium term financial uncertainty	Given the lack of clarity on future local government funding post March 2021, as described in section 1 of this report, it has not been possible to undertake meaningful and robust medium term financial planning for the financial year 2021/22 and onwards.	This uncertainty over the future places greater importance on the need to maintain a prudent minimum balance of reserves, both for the general fund and the HRA, to manage any changes in future public sector funding. The proposals contained within this budget report maintain general reserves above the prudent minimum balance until 2024/25 (for the General Fund) and for the whole medium term planning period for the HRA. Prudent estimates have been taken into account in the MTFS of grant funding which is at risk of being reduced or removed, for example New Homes Bonus, and Housing Benefit / Council Tax Support Admin Grant.
Scale of general fund budget savings required over the medium term	The proposals show a need, based on current financial planning assumptions, for the council to achieve gross savings totalling £10m over the 4 year period 2021/22 to 2024/25. The 20/21 budget is proposing net savings of £1.7m, which is only £0.1m short of the original target. The saving challenge in future years remains significant and it will be dependent on the outcomes of the local government funding reforms. Current savings and income generation plans, including the fit for the future programme, are thought at this initial stage, to be able to cover 30% to 40% of the medium term “budget gap”.	The council will plan to implement these savings in a controlled manner and by taking a strategic and medium-term rather than a short-term approach. It can do this because it has built-up significant general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. There are a number of key themes of work that are being advanced to meet the savings challenge: • Increasing our income from commercial property and other sources • Increasing the efficiency of our IT and services • Supporting people to self-serve where they can • Bringing some of our external contracts back into the council However difficult decisions will be required and it is almost inevitable that this council will need to review the nature and level of the services provided from 21/22. The outcomes of the central government funding review will be critical in understanding the longer-term funding

RISK	DESCRIPTION	MITIGATION PROPOSED
		levels for the Council. A significant reduction in funding could require the council to move towards the provision of core statutory services only. The CFO takes comfort in the fact that the council has had a successful track record in setting a balanced budget and achieving the required budget savings since public sector austerity commenced in 2011/12. In addition, and through its underspending of the approved budget over the last three financial years, the council has the funding needed in the spend-to-save earmarked reserve to implement the further transformational changes that will be needed to achieve the savings required.
Brexit and the potential impact on the economy	There remains uncertainty surrounding the economic impacts of the UK decision to leave the European Union. The key risks to this council would arise if Brexit triggers a recession in the national economy. This scenario could have adverse impacts on the council's income budgets ranging from council tax payments, Business Rates, car parking fees, and rental income from commercial property investments. In addition, any long term decrease in private house sales and prices would be financially challenging for the council's wholly owned subsidiary, Norwich Regeneration Limited, and to the financial viability and hence successful delivery of many of the projects contained within the council's capital ambition plan.	The potential issues surrounding Brexit, are currently being reviewed, along with other Norfolk councils and public sector partners, as part of business continuity planning. Prudent levels of earmarked reserves are being held for the council's commercial activities (see below) and in the Collection Fund, particularly for Business Rates collection. The projects contained within the council's capital ambition plan require separate council approval once a full Business Case is able to be produced on a robust basis. The council has enhanced the quality of its business cases by using the government's 5 case methodology for large complex projects along with improved financial modelling facilitated by Finance. The Business Case will therefore need to include any impact that Brexit may have on the particular project and include contingency provisions within the financial viability model before council approves the project's inclusion into the capital budget.

RISK	DESCRIPTION	MITIGATION PROPOSED
Increase in interest rates	The council's underlying need to borrow as expressed by its capital financing requirement will increase over the medium term financial period and the council will need to enter into new external borrowing to fund its capital ambition plan and non-financial investments. On 9th October 2019, the Treasury and Public Works Loan Board increased the margin of interest rates over gilt yields by 100 basis points for all new borrowing. There was no prior warming this would happen and it has increased the council's cost of borrowing. A future interest rate rise could both (a) make a commercial investment financial unviable and (b) could increase the cost of servicing the debt to the revenue budget.	The HRA business plan contains a prudent assumption of future borrowing at 5% - which is well above current PWLB interest rates. Future General Fund borrowing will relate to commercial property acquisition, capital ambition projects and lending to NRL. The modelling for all such projects include prudent borrowing assumptions and appropriate sensitivity analysis over interest rates, mitigating against the risk that a project become unviable due to interest rate increases. The Council will continue to liaise with its external Treasury Advisors to closely monitor interest rates, as well as assess any alternative sources of funding.
Business Rates income	This is a highly volatile source of revenue and various factors, including business closures, successful appeals against rateable values, changes in property usage from office/industrial to residential, and changes to the health of the local and national economy can cause reductions in business rate revenue. Norwich City Council currently collects £76m of business rates income and retains £6.7m.	Officers from Revenues & Benefits and LGSS Finance regularly meet to monitor the income being collected during the year and this is reported to cabinet every other month via the corporate budget monitoring report. Prudent levels of earmarked reserves are provided within the overall Collection Fund for bad debts and rateable value decreases. The risk of the Council not achieving the business rates income level it is allowed by government to keep (termed the "baseline" level) is mitigated by there being a "safety net" in place. The maximum risk the council is therefore exposed to in 2020/21 is some £0.85m. This could be covered in any one year by the S31 earmarked reserve.

RISK	DESCRIPTION	MITIGATION PROPOSED
Increasing reliance on commercial income	The council's General Fund revenue budget contains some £4.8m of rental income from investment properties as well as £0.6m generated by lending to Norwich Regeneration Limited. This income currently funds 9% of the General Fund gross revenue budget and this proportion will increase over the medium term. Further information, as required under MHCLG's revised Investment Code, is given in section 5.	The amount of income being generated in-year is subject to formal regular monitoring by Heads of Service and Finance and reported to cabinet every other month in the budget monitoring report. Council agreed in 2018 to establish two earmarked reserves for its commercial activities: • The commercial property reserve - estimated balance at end of 19/20 of £1.5m • The NRL reserve – estimated balance at end of 19/20 of £4m
Impairment of third party loans result in additional general fund charges	In making loans the council is exposing itself to the risk that the borrower defaults on repayments. The main loan the Council has made is with its wholly owned housing company, Norwich Regeneration Ltd. As at 31 December 2019 the company has a loan outstanding of £6.4m and the approved maximum lending to the company is £11.4m. Norwich Regeneration is currently in a challenging trading position having developed its first scheme at a financial loss. As a result, the company currently has insufficient assets to cover in full the loan liability and it is expected that an impairment allowance (provision for the estimated non-recoverable element) will need to be made. In making the capital loan to the company, the Council increased its Capital Financing Requirement (its overall indebtedness) which has to be funded at some point in time. In an impairment situation, the Council will need to fund the loss by charging the General Fund revenue budget with increased Minimum Revenue Provision charges in order to cover the indebtedness that may not be financed through repayment of the loan.	To mitigate the risk to the General Fund budget, this paper is proposing to significantly increase the balance on the NRL earmarked reserve to £4.0m at the end of the 2019/20 financial year (see Part 2: 2.53). This reserve level acts as a contingency against any potential future Minimum Revenue Provision charges required to cover for estimated non-recovery of the loan balance. Future lending to NRL or other third parties will follow the process set out in Section 5 of the budget report. Any final agreement to lend or invest will only be taken when the company's board of Directors submits a full Business Case for the project to Cabinet. All business cases will include robust financial modelling and sensitivity analysis both at the project and company level. From a finance perspective, professionals with both commercial and company accounting experience support the company.

RISK	DESCRIPTION	MITIGATION PROPOSED
Legislative changes resulting in a curtailment of local government's ability to undertake commercial investments	In November 2019, CIPFA released additional guidance *Prudential property investment.* This is detailed in Section 1 of the budget report. The guidance raises concerns about whether borrowing can be justified where purchases have been made using investment powers. Although MHCLG's Investment Code guidance recognises that it cannot prohibit the acquisition of commercial property by borrowing, authorities deviating from the guidance are expected to provide an explanation in their investment strategy. Both the guidance and legal interpretation is not clear cut, but they do reflect the overarching concern from both Cipfa and MHCLG about the risks that councils are exposing themselves to. Further guidance or legislative changes in this area bring a risk to the deliverability of the council's future commercial strategy and the ability to generate new income streams.	The council's Commercial Investment Strategy clearly sets out the rationale for the council's investment activity and that the council intends to fund these investments from borrowing. The CIPFA guidance was only recently been published and the council will further consider any impacts from it on its strategy and disclosures. The council is committed to providing appropriate governance and open reporting of its commercial investment, thereby adhering to the key principle of transparency and accountability set out in the Investment Guidance. The council will keep its legislative and financial powers under review.
Deliverability of the capital strategy	The primary risk relates to the deliverability of the capital strategy which the CFO is now required to comment on. In recent years NPSN and the council's client side has had difficulty in delivering the entire capital programme and significant underspending against the budget has been a yearly occurrence. This is likely to continue in the short-term given the inevitable disruption associated with service & organisational design.	In-year progress of delivering the capital programme will be monitored by Finance every two months as part of the corporate budget monitoring process. In addition to the financial figures, information will also be given, for key projects, on milestone progress and any issues being encountered.

RISK	DESCRIPTION	MITIGATION PROPOSED
Ability to fund capital costs associated with the insourcing of joint venture contracts	Total financial impacts are still in the process of being calculated and appraised, in relation to the Council's intention to insource its joint venture contracts. A key risk is the potentially significant capital investment required to provide the necessary accommodation, vehicles and equipment to support the insourcing of services. If these need to be procured up-front, rather than being paid annually through the existing leasing contracts, significant capital investment could be required by either the council and/or company increasing the pressure on the General Fund's limited capital resources.	Finance will continue to work closely with the project team to understand and assess the capital requirements, costs and procurement options. There is currently no capital budget proposed for 2020/21 relating to accommodation, vehicles or equipment. An allowance has been made in the capital ambition figures shown in Section 6 of the report. Once the capital implications have been refined, any required amendments to the capital programme will be brought back to Full Council for approval.

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 ban D (e.g. Band A = 6/9, Band H = 19/9)
Council Tax Base	The number of properties from which it is estimated council tax will be collected, expressed as band D equivalent properties
Council Tax Surplus or Deficit	A surplus/deficit arising from either more or less council tax being collected than expected. This would be as a consequence of variations in collection rate or to the estimated increase in the number of properties
Council Tax Precept	The levy made by the precepting authorities (Norfolk County Council and Police & Crime Commissioner) on Norwich City Council as billing authority requiring the latter to collect income from council tax payers on their behalf.
Council Tax Reduction Scheme	The Council Tax Reduction (CTR) scheme helps people on low incomes and/or certain welfare benefits to pay their council tax bill. CTR replaced the national council tax benefit scheme with effect from 1 April 2013.
Council Tax Requirement	The amount of funding required to be raised from council tax to meet the general fund expenditure budget after taking into account all other funding available.
Counter-parties	List of approved financial institutions with which the council can place investments with.
Credit rating	A measure of the credit worthiness of a borrower. A credit rating can be assigned to an organisation or a specific debt issue/financial obligation. There are a number of credit ratings agencies but the main three are Standard & Poor's, Fitch or Moody's.
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do.

Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence. This is only budgeted as a cost in the HRA.
Disabled Facility Grant (DFG)	A central government grant that contributes towards the cost of providing adaptations and facilities to enable disabled people to continue living in their own homes.
DMADF	Debt Management Agency Deposit Facility.
Earmarked Reserve	Reserves earmarked for a specific type of future spend.
Enhancement (of an asset)	Enhancing an asset is the carrying out of works which are intended to substantially: • lengthen the useful life of the asset • increase the open market value of the asset • increase the extent to which the asset can or will be used in connection with the functions of the local authority Repairs & maintenance is revenue expenditure
European Economic Area (EEA)	The EEA includes EU countries and also Iceland, Liechtenstein and Norway; it allows them to be part of the EU's single market.
External Borrowing	External borrowing is the process of going to an external financial institution to obtain money. The council would generally borrow from the Public Works Loans Board (PWLB) due to its favourable rates for public sector bodies, but other institutions also offer loan finance to councils.
Equity	An ownership interest in a business.
External Gross Debt	Long-term liabilities including Private Finance initiatives and Finance Leases
Expected Credit Loss	Weighted loss on loans should the borrower default. Calculated by multiplying the probability of occurring with the net loss and with the exposure to the loss.
Fairer Funding Review	A review by central government on how to allocate local authority funding to individual councils that is planned to be implemented from 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.