NORWICH City Council

Scrutiny committee

Date: **Thursday, 03 February 2022**
Time: **16:30**
Venue: **Council chamber, City Hall, St Peters Street, Norwich, NR2 1NH**

All group pre-meeting briefing – 16:00 Council Chamber

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 actual meeting. The public will not be given access to the Council Chamber before 16:30.

Committee members:

Councillors:
Wright (Chair)
Fulton-McAlister (M) (Vice-chair)
Carlo
Driver
Everett
Galvin
Giles
Huntley
Manning
Osborn
Stutely
Thomas (Va)
Thomas (Vi)

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Agenda

		Page nos
1	**Apologies** To receive apologies for absence	
2	**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)	
3	**Scrutiny committee work programme for 2021/22** **Purpose -** To assist the scrutiny committee in setting the scrutiny work programme for 2021-22	**5 - 10**
4	**2022/23 Budget** **Purpose -** To carry out pre-scrutiny of the council's proposed budgets for 2022/23	**11 - 160**
5	**Appointment of the Chair** To appoint a Chair for the rest of the meeting	
6	**Exclusion of the public** Consideration of exclusion of the public.	
7	***Norwich City Services Limited Business Plan (para 3)** To follow	

Date of publication**: Wednesday, 26 January 2022**

NORWICH
City Council

Item 3

Committee Name: Scrutiny

Committee Date: 03/02/2022

Report Title: Scrutiny work programme

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of community services

Wards: All Wards

OPEN PUBLIC ITEM

Purpose:
The purpose of this report is to assist scrutiny committee members in setting the scrutiny committee work programme for 2021/22.

Recommendation:
It is recommended that members agree a realistic and deliverable scrutiny committee work programme for 2021/22.

Policy Framework:
The Council has three corporate priorities, which are:

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

This report meets the people living well and great neighbourhoods, housing and environment corporate priorities.

This report addresses the strategic actions in the Corporate Plan, in particular the healthy organisation.

This report helps to meet the adopted policies of the council.

This report helps to meet the objectives of the COVID-19 Recovery Plan.

Report Details

Developing a work programme for the scrutiny committee

1. When the scrutiny committee considers which items to include on the 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, policies and the COVID-19 recovery plan.

2. At scrutiny committee on 20 January 2022 the work programme was updated for the rest of the civic year 2021/2. The updated work programme is attached at Appendix A.

3. Scrutiny members have been asked to send their comments to the scrutiny liaison officer by e-mail to assist in setting a scope for the item scheduled for scrutiny on 17 March – 'A sustainable, inclusive Norwich economy following COVID-19'. These comments will then be collated and circulated by e-mail to all scrutiny committee members prior to this meeting to aid the discussion.

Recurring items

4. There are certain areas of work identified for the scrutiny committee that are of a recurring nature. Presently, these are the scrutiny committee work programme (each meeting), Equality Information Report (December), pre-scrutiny of the proposed budget (February) and the annual review of the scrutiny committee (March). At the committee meeting on 21 October 2021 it was agreed to add updates from the councils climate commission as a recurring item.

5. Updates are received from the council's representative on the Norfolk County Health and Overview Committee (NHOSC).

6. Updates are also received from the council's representative on the Norfolk Countywide Community Safety Partnership Scrutiny sub panel (NCCSPSSP).

Scope for scheduling items onto the work programme.

7. It has been 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.

8. Members will still have the opportunity on a monthly basis to revise the programme if and when required or due to changing events. This is done via the work programme standing item on the scrutiny committee agendas and members may wish to consider keeping some space on the work programme to facilitate this.

Consultation

9. Ward councillors, the public or other stakeholders have not been consulted (statutorily or otherwise). However the public are encouraged to submit topics for scrutiny via an interactive form on the council's website. The portfolio holder will be briefed as part of the regular portfolio holder briefing process.

Implications

Financial and Resources

10. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.

11. Any impact on resources resulting from this report will be accommodated within existing budgets or the relevant approvals will be sought if additional budget is required.

Legal

12. No specific legal advice has been sought or provided.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	None at this stage
Health, Social and Economic Impact	None at this stage
Crime and Disorder	None at this stage
Children and Adults Safeguarding	None at this stage
Environmental Impact	None at this stage

Risk Management

Risk	Consequence	Controls Required
None at this stage		

Other Options Considered

13. There have been no other options considered for this report.

Reasons for the decision/recommendation

14. This report will allow scrutiny to set and review the work programme for scrutiny for 2021/22.

Background papers: none

Appendices: none

Contact Officer: scrutiny liaison officer

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APPENDIX A

Annual work programme planning grid 2021-22

Date of meeting **Thursday at 16.30**	**Item**
2021	
27 May	Work programme. Appointment to Norfolk Health Overview and Scrutiny committee (NHOSC). Appointment to Norfolk Countywide Community Safety Partnership Scrutiny sub panel (NCCSPSSP).
24 June	Work programme. Bins on pavements, communal bins and fly-tipping - Andy Summers.
1 July	Scrutiny training – via zoom
15 July	Work programme. Verbal update from the NHOSC meeting held on 15 July (am). Air pollution from woodburning – Lesley Oldfield.
9 September **Online via zoom**	Air pollution from woodburning – continuation.
16 September	Ratification of resolutions made on 9 September. Appointment to Norfolk Health Overview and Scrutiny committee (NHOSC). Appointment to Norfolk Countywide Community Safety Partnership Scrutiny sub panel (NCCSPSSP). Second work programme setting meeting.
21 October	Work programme. (Including verbal update on the work of the select committee regarding communal bins). Review of the environmental strategy following Covid-19 (Portfolio Holder: Cllr Emma Hampton; Officers: Helen Chamberlin and Lou Rawsthorne).
Friday 12 November at 12.30	Extraordinary meeting. Health, safety and compliance in council homes. (Portfolio Holder: Cllr Gail Harris; Officers: Lou Rawsthorne)
18 November	Work programme. Update from the NHOSC meeting held on 4 November. The emerging new social inclusion agenda following COVID-19 (Portfolio Holder: Cllr Karen Davies; Officers: Helen Chamberlin and Ramona Herdman).
16 December	Work programme. Equality information report. (Portfolio Holder: Cllr Davis; Officers: Helen Chamberlin, Ramona Herdman, Ruth Newton, Emma Smith) Verbal update from the NCCSPSSP meeting held on 16 December (am).
10 January 2022	Additional meeting. Scrutiny of the business plans for Norwich Regeneration Limited. (Portfolio Holders: Cllr Mike Stonard; Officer Dave Shaw). The scrutiny of the business plan for Norwich City Services Limited has been postponed. (Portfolio Holder Cllr Cate Oliver and Officer Hannah Leys).

2022	
20 January	Work programme. Update from the NHOSC meeting held on 20 January (am) – This meeting has been postponed. Pre-scrutiny of the corporate plan and performance framework. (Portfolio Holder: Cllrs Alan Waters; Officers: Helen Chamberlin, Ramona Herdman, Ruth Newton, Emma Smith)
3 February	Work programme. To consider the 2022-23 budgets, medium term financial strategy and capital programme, along with capital strategy and treasury management strategy. (Portfolio Holder: Cllrs Alan Waters and Paul Kendrick; Officers: Annabel Scholes and Hannah Simpson) Scrutiny of the business plan for Norwich City Services Limited. (Portfolio Holder Cllr Cate Oliver and Officer Hannah Leys).
17 March	Work programme. Annual review of scrutiny committee. A sustainable, inclusive Norwich economy following COVID-19 (Portfolio Holder and officers tbc depending on Scrutiny Committee's confirmed areas of focus for the review). Update from the NCCSPSSP meeting held on 24 February. Update from the NHOSC meeting held on 10 March.

NORWICH
City Council

Item 4

Committee Name: Scrutiny
Committee Date: 03/02/2022
Report Title: Pre – scrutiny of the proposed budget for 2022/23

Portfolio:	Councillor Kendrick, cabinet member for resources
Report from:	Executive director of corporate and commercial services
Wards:	All Wards

OPEN PUBLIC ITEM

Purpose

The scrutiny committee meeting of 3 February 2022 will carry out pre-scrutiny of the council's proposed budgets for 2022/23.

The purpose of the meeting is to comment on the proposed budget papers for 2022/23; and make recommendations to cabinet regarding the proposed budgets' ability to deliver the council's overarching policy framework (as proposed in the corporate plan 2022-2026).

Council will be meeting to set the budgets for the financial year 2022/23 at its meeting on 22 February 2022.

The principles of budget scrutiny are provided in this report. Committee members are reminded of the link between the proposed corporate plan 2022-2026 and the need to set a budget capable of delivering this.

Recommendation:

To determine any recommendations to cabinet on the proposed budgets for 2022/23.

Policy Framework

The Council has three corporate priorities, which are:

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

This report meets all corporate priorities.

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

Report Details

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 proposed corporate plan 2022-2026? 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

5.1 Effective pre-budget scrutiny involves:

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

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

Consultation

Details against this requirement are provided in the draft Cabinet Cover Report.

Implications

Financial and Resources

Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.

Details against this requirement are provided in the draft Cabinet Cover Report.

Legal

Details against this requirement are provided in the draft Cabinet Cover Report.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Details against this requirement are provided in the draft Cabinet Cover Report.
Health, Social and Economic Impact	Details against this requirement are provided in the draft Cabinet Cover Report.
Crime and Disorder	Details against this requirement are provided in the draft Cabinet Cover Report.
Children and Adults Safeguarding	Details against this requirement are provided in the draft Cabinet Cover Report.
Environmental Impact	Details against this requirement are provided in the draft Cabinet Cover Report.

Risk Management

Details against this requirement are provided in the draft Cabinet Cover Report.

Reasons for the decision/recommendation

The Council has a legal duty to set a balanced budget before the statutory deadline. The recommendations are to allow effective pre-scrutiny of the budget.

Background papers: None

Appendices:

- Budget Cabinet – Cover Report (draft)
- Part 1: Local Government Finance – Economic and Statutory Context
- Part 2: General Fund – MTFS and 2022/23 Budget
- Part 3: HRA Business Plan and 2022/23 Budget
- Part 4: Capital and Commercial Strategy including Capital Programme
- Part 5: Treasury Management Strategy 2022/23
- Part 6: Summary of Key Financial Indicators
- Part 7: Chief Finance Officer's Statement
- Part 8: Glossary

Contact Officers:

Annabel Scholes, interim director of resources	01603 989201
Hannah Simpson, head of finance, audit & risk	01603 989569
Shaun Flaxman, senior finance business partner	01603 987574

Committee Name: Cabinet

Committee Date: 09/02/2022

Report Title: The council's 2022/23 budget and medium-term financial strategy

Portfolio:	Councillor Kendrick, cabinet member for resources
Report from:	Executive director of corporate and commercial services
Wards:	All Wards

OPEN PUBLIC ITEM

DRAFT

Purpose

To consider proposals for the council's 2022/23 budget (general fund, HRA and capital programme) along with the council's medium-term financial plans and the treasury management strategy.

Recommendation:

Cabinet is asked to:

a) Note the 2022/23 budget proposals and the Medium-Term Financial Strategy.

b) Note the budget consultation process that was followed and consider, as part of finalising the 2022/23 budget proposals for Council, the feedback as outlined in Appendix 2 (I).

c) Note the Section 7 report of the chief financial officer on the robustness of the budget estimates, the adequacy of reserves, and the key financial risks to the council.

d) Note that the Council Tax resolution for 2022/23, 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

i. The council's net revenue budget requirement as £17.713m for the financial year 2022/23 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).

ii. 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 £280.21 (paragraph 2.27) with the impact of the increase for all bands shown in Appendix 2 (E).

iii. The prudent minimum level of reserves for the council as £5.100m (paragraph 2.54).

iv. Setting aside the council's distribution of £0.675m from the Norfolk business Rates Pool into a new earmarked reserve to support future spend in line with the economic development objectives of the fund (paragraph 2.6).

v. Setting aside any 2021/22 underspend more than £0.426m into the business change earmarked reserve (paragraph 2.5).

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

vii. Delegation to the chief financial officer in consultation with the portfolio holder for resources inclusion of any minor changes consequent on the publication of the final local government settlement or subsequent additional grant allocations.

Housing Revenue Account

viii. The proposed Housing Revenue Account gross expenditure budget of £70.364m and gross income budgets of £70.610m for 2022/23 (paragraph 3.24).

ix. The use of the estimated surplus of £0.246m along with a further £6.096m of HRA general reserves to make a revenue budget contribution of £6.342m towards funding the 2022/23 HRA capital programme (paragraph 3.24).

x. A 4.1% increase in dwelling rents for 2022/23, in accordance with the Secretary of State issued Direction on the Rent Standard 2019. This enables authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%. This will result in an average weekly rent increase of £3.30 for Norwich tenants (paragraphs 3.30 to 3.35).

xi. That garage rents increase by 3.1%, based on CPI in September 2021 (paragraph 3.36).

xii. That the setting of tenants' service charges is delegated to the executive director of community services in consultation with the portfolio holder for Social Housing after engagement with tenant representatives (paragraph 3.37)

xiii. The prudent minimum level of Housing Revenue Account reserves as £5.848m (paragraph 3.56 and Table 3.5).

xiv. The creation of an earmarked reserve to fund the costs associated with HRA service transformation linked to a programme of review and improvement detailed in paragraphs 3.3 to 3.18. This reserve will be used to fund costs linked to the programme which are not delivering specific savings, for example project management and benchmarking with the release of funds being approved in accordance with paragraph 26 of the Council's Financial Regulations.

Capital and Commercial Strategy

xv. The proposed general fund capital programme 2022/23 to 2026/27 (2022/23: £29.347m; 5 years: £45.766m) and its method of funding as set out in table 4.3, table 4.5 and Appendix 4 (B).

xvi. Delegating to Cabinet, approval to include in the capital programme additional capital schemes funded wholly by grant where it meets the Council's aims (paragraph 27).

xvii. The proposed HRA capital programme 2022/23 to 2026/27 (2022/23: £38.860m; 5 years: £171.579m) and its method of funding as set out in table 4.3, table 4.6 and Appendix 4 (B).

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

Treasury Management Strategy

xix. The borrowing strategy 2022/23 through to 2026/27 (paragraphs 5.27 to 5.29).

xx. The capital and treasury prudential indicators and limits for 2022/23 through to 2026/27 contained within paragraphs 5.18 to 5.25 and table 5.3, including the Authorised Borrowing Limit for the council.

xxi. The Minimum Revenue Provision (MRP) policy statement described in paragraphs 5.37 to 5.41 and contained in Appendix 5 (section 5)

xxii. The (financial) Investment Strategy 2022/23 including changes to counterparty limits (paragraphs 5.42 to 5.88).

Summary of key financial indicators

xxiii. The indicators for 2022/23 through to 2025/26 contained in section 6.

Policy Framework

Subject to approval as part of another report on this agenda, the Council has five corporate aims, which are:

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

This report is relevant for all five corporate aims.

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

Report Details

Background

1. The council continues to face a substantial financial challenge. The sustained period of austerity over the past decade has decreased the city 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.
2. Alongside austerity, the council must manage increasing demands for its services – from demographic change and increasing complexity of need - and the ongoing and unprecedented risks arising from the Covid-19 pandemic as well as the longer-term uncertainty around changes in future local government funding.
3. Nevertheless, the council's ambition for Norwich is undiminished. In June 2020, Cabinet agreed the Covid-19 Blueprint for Recovery, one of the first in the country to do so. This document provided an overview of the council's initial response to the virus and identified several priority themes and actions which would frame the council's – and the city's – recovery. An update was provided to Cabinet on progress in October 2021, across the 8 Blueprint themes:
    - Securing the Council's finances
    - Modernising the Council; Re-imagining local services
    - Supporting the most vulnerable
    - Business and the local economy
    - Housing, regeneration, and development
    - Arts, Culture and Heritage
    - Climate change and the green economy
    - Harnessing social capital
4. The Blueprint made clear that the city's response to Covid 19 would require a partnership approach and over the last 2 years the city council has continued to work with City Vision partners within business, the community and beyond, to make progress on key issues to steer the city through this challenging period. The Norwich 2040 City Vision, of a city which is connected, creative, dynamic, fair, and liveable, is as vital as ever.
5. Alongside the Covid 19 Blueprint for recovery, the Council's Corporate Plan, which is on this meeting's agenda, sets out the council's contribution to the Norwich 2040 Vision, whilst this budget report sets out the financial framework and strategy for aiding the delivery of the Corporate Plan over the medium term. The Corporate Plan contains the following key aims:
    - Aim 1 - People live independently and well in a diverse and safe city.
    - Aim 2 – Norwich is a sustainable and healthy city.
    - Aim 3 – Norwich has the infrastructure and housing it needs to be a successful city.
    - Aim 4 – The city has an inclusive economy in which residents have equal opportunity to flourish.
    - Aim 5 – Norwich City Council is in good shape to serve the city.

6. The council is ambitious and wants to make a real difference to both the physical fabric of the city and to the lives of residents who live and work here. But given the financial constraints the council is unable to fund all the investment required itself and, in some cases, there will be other groups and sectors better placed to lead the response to the challenges and opportunities ahead.
7. The council will therefore work with others to secure investment in the city's future and deliver the ambitious shared vision for Norwich, acting as an "enabler" or "catalyst" for change, and ensure that its own resources, particularly its capital investment, are flexed as far as possible to deliver the key outcomes set out in the Corporate Plan.

Summary

8. This report sets out 2022/23 budget proposals across the General Fund, the Housing Revenue Account, and the capital programme along with expenditure and financing plans for the following four years – the Medium Term Financial Strategy.

General Fund

9. Although, for the first time in a decade, Whitehall funding to local government will see an increase in 2022/23, most of the funding for the city council comes in the form of short-term grants and the level of funding overall is not sufficient to meet the increasing demand for local services. In short, the sector as a whole – and Norwich City Council – has not received the required level of funding for over a decade and 2022/23 continues that trend. This, together with increased pressures from Covid, means that the council will not receive adequate resources to cover its costs over the medium term.
10. The financial settlement covered only 2022/23, with the government again implementing a 'roll forward' finance settlement. This means a further delay to the government's longer-term reforms to local government finance (see section 1).
11. Given the lack of clarity on future local government funding from April 2023, local authorities have no reliable basis on which to appropriately plan their medium-term budgets as it is unclear how much funding there will be, how it will be distributed, and the means of delivery particularly the extent to which some will be conditional. This makes financial planning over the medium term very difficult.
12. Consequentially, the forecasts for 2023/24 onwards in the MTFS are not to be taken as robust figures and they are largely based on the current status quo continuing, particularly concerning how much business rates income the government allows the city council to retain in the future. These forecasts will be monitored and adjusted at least annually in line with further detail from Government about future funding for the sector.
13. Current forecasts, given the caveats highlighted above, show that a further £9.95m of gross savings will need to be found from the General Fund over the four-year period from 2023/24. This level of savings represents 15% of the 2022/23 proposed gross expenditure budget (excluding the housing benefits budget).

14. It is important to note that the council's approach to business planning and setting its budget annually – and over the medium term – seeks to take a holistic approach to ensure that adequate resources are allocated to priority services. As well as identifying opportunities for efficiencies through service transformation and income generation, our approach to business planning also seeks to identify service areas which require increased funding – both in the short and medium term – to respond to increased demand or other pressures such as inflation.

15. Through this approach, the council also identifies areas which might require increased resources because they are a particular priority or because current resources are insufficient to deliver the quality of service required. A good example of this is the increase in resources allocated to regulatory services through this year's budget process, to ensure these crucial resident facing services are better able to respond to the needs of the city.

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

16. The council will be required to generate ongoing income and/or permanently reduce the cost of delivering local services if it is to balance its budget in future years. As the council takes decisions about how to bridge the required gap it will need to consider the balance not only between how savings are made – for instance, savings to workforce, suppliers, and assets – but also the relative balance between spending reductions and increased income.

17. The council has developed several provisional themes that underpin the approach to addressing the medium-term financial challenges as listed below. Further detail on these can be found in the October 2021 Cabinet paper Medium Term Financial Strategy Corporate Overview.

    - Driving value from our assets
    - Driving value from our contracts
    - Inward investment and growth
    - Service transformation
    - Commercialisation including fees and charges
    - Stopping areas of lower priority spend

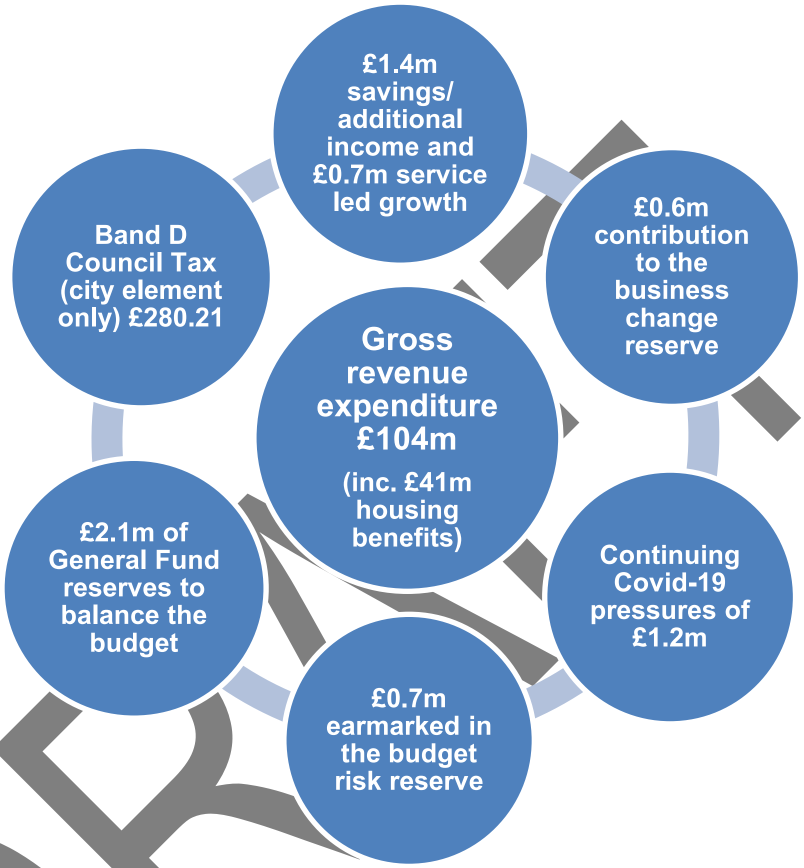
18. The work to develop a full range of options under each of the themes is underway and will form part of the ongoing service review programme. The priority is establishing sustainable service delivery options for the future which incorporate the learning from Covid-19 and how the council interacts with its residents, customers, and businesses. These options will require time to develop and be implemented and therefore they are expected to contribute to addressing the financial challenges in the latter years of the MTFS.

19. The aim of the reviews is to improve the overall efficiency and effectiveness of service delivery to avoid a reliance on service cuts to balance the budget. However, given the scale of the challenge, reductions to some services cannot be ruled out.

20. The council will plan to implement these savings in a controlled manner and by taking a strategic and medium-term and doing whatever it can to avoid a

short-term approach. It can do this because it has built-up general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. These will be used to partially fund the budget in a planned way over the next four financial years until the reserves are forecast to reduce gradually towards the minimum prudential level as recommended by the chief finance officer.

Chart 1: Key figures in 2022/23 proposed general fund revenue budget



Housing Revenue Account (HRA)

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

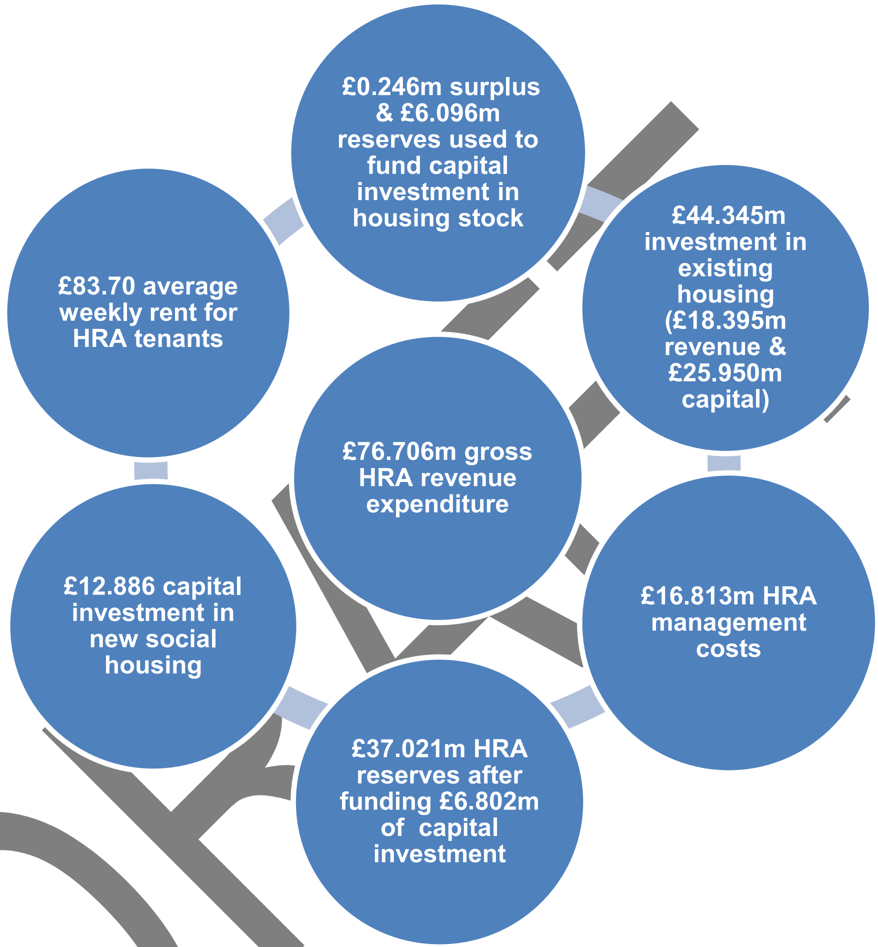
22. Although the HRA is in a relatively stable position in the short-term, there are future pressures and competing priorities on the budget linked to the council's ambitions around continuing to develop high quality new council housing and maintaining and renewing existing homes. The fund has also lost significant income in recent years from the government's enforced four-year rent reduction enacted in the Welfare Reform and Work Act 2016.

23. Additionally, there continues to be potential risks to rental income streams arising from the Covid-19 pandemic, the accelerated roll out of Universal Credit and the continuing Right-to-Buy legislation.

24. The HRA is forecast to make a surplus of income over expenditure of £0.246m in 2022/23 and it is proposed to use this surplus along with £6.096m of existing reserves to fund capital investment in new social housing.

25. The Direction on the Rent Standard 2019 enables authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%, which would result in the average HRA rent increasing to £83.70. The increase in rents is necessary to fund the council's future ambitions to continue to build new council homes in response to increasing demand and further investment existing homes.

Chart 2: Key figures in 2022/23 proposed HRA Business Plan



Capital and Commercial Strategy

26. The council's proposed capital investment programme for 2022/23 is £68.208m, with £217.346m to be invested in housing and vital infrastructure over the five years of the programme. An illustration of some of the key projects and programmes are given in charts 3 and 4 and the detail can be found in Appendix 4 (B).

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

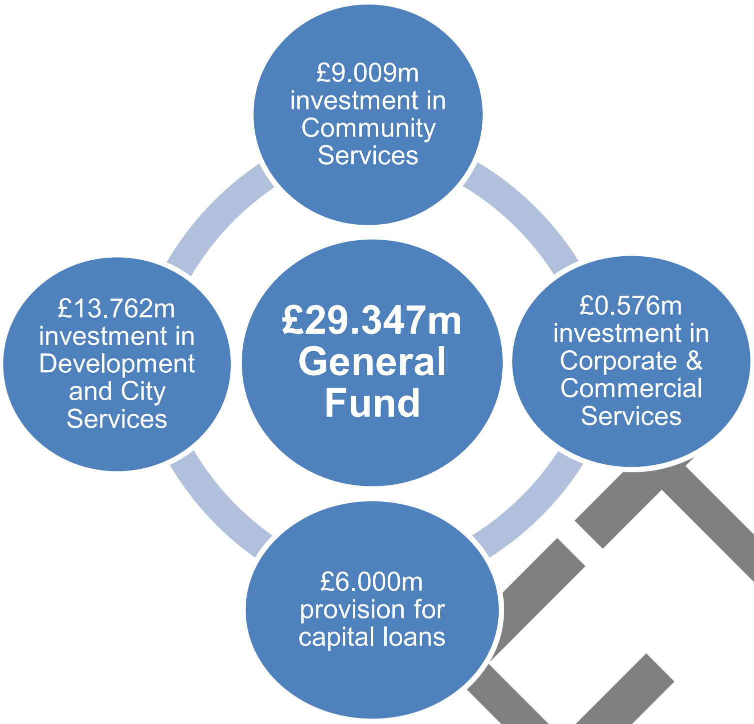
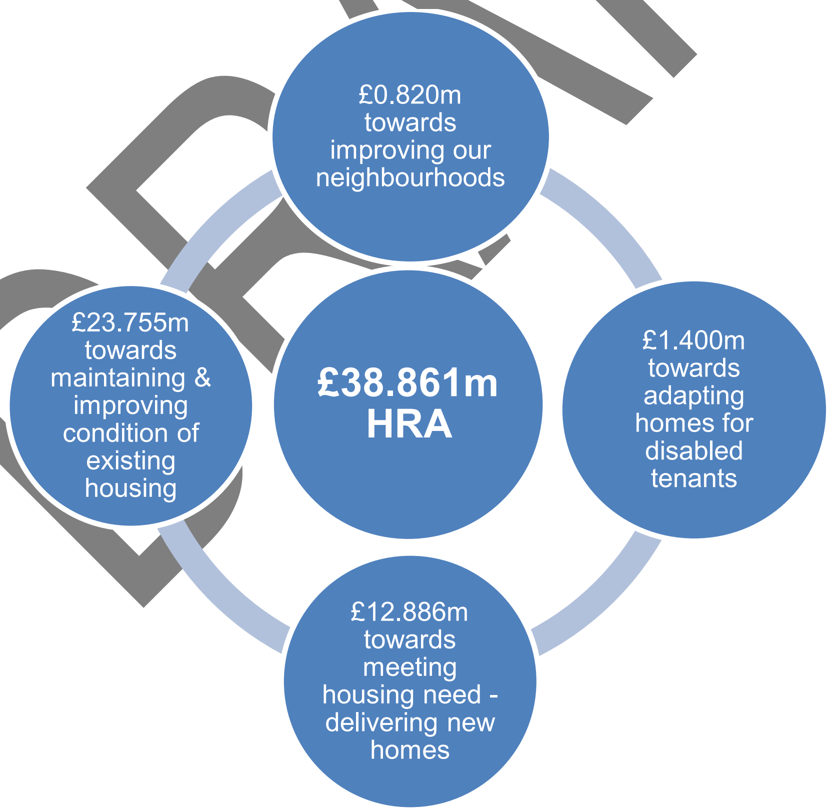


Chart 4: Illustration of proposals within the HRA capital programme



27. During the year the council is sometimes in receipt of additional grants which support new capital expenditure, and which can only be spent for that specific purpose. Provided that these schemes meet the council's corporate priorities, and the relevant conditions are acceptable to the chief financial

officer, it is proposed that delegated authority be given to Cabinet to add both the scheme and financing resources to the capital programme and allow such schemes to progress at pace.

28. The lifting of the HRA debt cap combined with the council's long term business planning approach means that the council, through its HRA, will seek to build more affordable homes in the city in the future. It has significant reserves that can be used for this purpose (see paragraph 3.70) and the HRA Business Plan demonstrates significant "headroom" for the HRA to borrow for this purpose whilst still ensuring the borrowing is prudent and affordable.

29. A revised asset management strategy is being finalised which is due to go to Cabinet in March, which will act as a framework for determining which assets the council should retain and invest in and which assets can be sold to stimulate renewal and generate capital receipts.

The council's overall financial position

30. The council has a strong balance sheet and owns over £1 billion of long-term assets (mostly land and property). In addition, it has significant reserves both for the general fund and HRA (see table 2.4 and table 3.4).

31. The council's general fund services are under the most financial pressure, both for revenue and capital expenditure. The huge uncertainties surrounding the changes in the local government finance regime from 2023/24 hinder robust forward financial planning for the general fund.

32. Total commercial income will equate to 11% of the general fund's gross expenditure budget for 2022/23 (table 6.6). To smooth any potential short term revenue losses associated with these commercial activities, income is set aside in earmarked reserves to mitigate against the risks.

33. The council's underlying need to borrow is forecast to reduce overall across the period to 2024/25 by £12.8m which is a 4% reduction from 2020/21. The balances are decreasing as there is limited capital expenditure forecast which is to be funded from borrowing, combined with the ongoing minimum revenue provision payments which reduce the capital financing requirement. The total indebtedness compared to the value of the council's assets (gearing ratio) decreases from 30% in 2021/22 to 29% in 2025/26 (table 6.5).

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

The council's approach to financial planning

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

- A prudent rather than optimistic assessment of future resources and unfunded cost pressures.
- An approach which identifies and funds pressures in priority services alongside the identification of opportunities for savings and increased

investment and makes resources available to invest in services which require it.

- A prudent and planned use of general reserves to fund expenditure and an annual risk-based assessment of the minimum amount of reserves the council should hold (minimum prudent level).
- The setting aside of some of the net income arising from commercial property investment into an earmarked reserve to mitigate against the risks inherent in holding these assets.
- A prudent approach to the amount of reserves held from Collection Fund surpluses given the inherently volatile nature of business rate collection and the impact of Covid on both business rates and council tax collection rates.
- A prudent approach in estimating future income from business rates and council tax, and the growth in the tax bases, given that changes to the local government funding regime could impact on the former, and both taxes may be affected by the current uncertainties surrounding Covid-19 and its potential impact on the national and local economy.
- A maximisation of external funding that meets the council's priorities.
- The holding of relevant 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 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

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

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

38. This report comprises a series of interlinked and comprehensive papers setting out proposals for the 2022/23 budget along with medium term expenditure and financing plans across the whole of the city council's

activities. Members may wish to consider each section in turn. A brief explanation of the contents is shown below.

1: Local Government Finance – economic and statutory context

This gives a summary of the current key national economic indicators and the state of public sector finances. It reflects on the uncertainty of changes that are intended to be made by government to the local government finance regime and describes all the regulatory changes that have recently been introduced or are under consideration where they might affect the preparation of the budget and MTFS report.

2: General Fund 2022/23 budget and MTFS

This sets out the proposed general fund revenue budget and its financing for 2022/23, including the proposed Council Tax for 2022/23, along with a forecast of the medium-term position.

3: Housing Revenue Account 2022/23 Budget and Business Plan

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2022/23 rental charges for tenants.

4: Capital and Commercial Strategy (including capital programme)

A requirement of CIPFA's Prudential Code, the Strategy sets out the council's budget and preliminary plan for capital expenditure over the next five years along with how it will be financed and delivered.

It also includes the council's non-financial investment strategy. This is a requirement of DLUHC Investment Code. The Strategy covers the council's change of approach to investments in commercial property, as well as its lending and equity investments in third party organisations.

5: Treasury Management Strategy

The strategy sets out proposals and indicators required for the effective management of the City'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.

6: 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 the extent of its potential risk exposure through the budget proposals, those contained within the capital strategy and the non-financial investments strategy.

7: 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.

8: 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.

Annex 1: Equality Impact of budget proposals

Background

1. Norwich City Council has identified permanent budget savings of £1.350m for the financial year 2022/23. To ensure that we discharge our public sector equality duty we must have due regard to the need to:

    - Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under the act.
    - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
    - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

2. Information on the residents of the city as well as council customers and employees can be found in the annual Equality Information Report published on the council's website.

Budget Context

3. The aim of the Equality Impact Assessment Process is to support good decision making; it encourages public bodies to understand how different people will be affected by their activities so that policies and services are appropriate and accessible to all and meet different people's needs. The aims of an EIA become especially important at times of tightened budgets, enabling us to:

    - Think about what the council is trying to achieve.
    - Consider what impact the decision will have on different groups.
    - Target resources to those who may be most vulnerable.
    - Fund services which respond to people's diverse needs and save money by getting it right first time.

4. As part of the Corporate Plan 2022-2026 it is proposed that we must focus our priorities and resources towards:

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

5. It is also important to understand the national and local context in which the budget and medium-term financial plan are being developed. The council has seen reductions in its long-term funding allocations from central government and with only a one-year local government settlement there remains significant uncertainty over future funding levels including the operation of the business rates retention scheme.

6. The level of funding allocated to local government continues to be insufficient to support the increasing demand for council services. This, together with increased pressures from Covid-19, means that the council will not receive adequate resources to cover its costs over the medium term.

7. Certain budget decisions – perhaps where they do not have an impact on service provision available to our residents – will not require specific Equality Impact Assessments. However, where there is a material impact on service provision, an individual EIA will be conducted before any change is implemented.

Cumulative Equality Impact Assessment of Budget 2022/23

8. Budget decisions can have different impacts on different groups of people, either changes to individual services or in the way those changes have an impact cumulatively. This appendix summarises the Equality Impact Assessment for the budget proposals for the financial year 2022/23. It highlights:
    - The key differential impacts of potential budget decisions for legally protected groups.
    - Where a single decision or series of decisions might have a greater negative impact on a specific group.
    - Ways in which negative effects across the council may be minimised or avoided, and where positive impacts can be maximised or created.

9. We have undertaken an initial screening of all budget proposals, including those relating to the HRA, to ascertain where a potential change impacts on service provision. This has identified those proposals that require an Equality Impact Assessment or consultation. In those cases, an Equality Impact Assessment template has been completed by service leads to identify the main potential impacts on groups covered by legislation (the protected characteristics in the Equality Act 2010).

10. Equality Impact Assessments (EIA) for specific proposals are developed as proposals are being finalised. This ensures that the impact is understood and mitigating actions that minimise disadvantage and tackle inequality are identified where possible. These initial assessments are made available so that members can make informed decisions. There may be some proposals that have implications for council employees for which details of consultation or Equalities Impact Assessments cannot be published owing to data protection or employment legislation.

11. The EIA process and consultation have been based on identifying whether service delivery impacts are likely to be different for a person because of their protected characteristic (with a focus on where impacts may be worse).

12. While assessing the cumulative impact of our proposals on equality groups, we have identified an additional factor that could compound the impact. This is the risk of financial exclusion (due to low income).

Equality Impact Assessment Findings

<u>Council Tax Increase</u>

13. The proposal within the report is that the 2022/23 budget includes an increase of 1.99% in the rate of council tax. The proposed 2022/23 Band D rate is therefore £280.21 compared to the current year rate of £274.74 – an increase of £5.47 per year.

14. Overall, this would result in an additional £0.2m of revenue to support council expenditure, therefore reducing the amount of savings which may otherwise

need to be achieved by cutting or reducing service provision for customers, including those who may be from vulnerable groups. An increase in council tax values will, however, have a financial impact for most households in Norwich. The increase may be particularly difficult for those who are already under financial pressure.

15. In terms of impact, since Council Tax is applicable to all properties it is not considered that the increase targets any one group, rather it is an increase that is applied across the board. It should be noted that most Norwich residents are within council tax Bands A and B where the annual increase is lower; the impact on all individual council tax bands is shown Appendix 2(E).

16. The main mitigation is that many people on low incomes can get Council Tax Support to help them pay their Council Tax bills. The council has retained a 100% Council Tax Support Scheme and the proposal is to maintain current levels of support and assistance in 2022/23. In addition, further support is in place through the council's discretionary policies for those who suffer hardship and other support such as the council's go-for-less scheme.

<u>Rent and Service Charge Increase</u>

17. The proposal within the report is that rents increase by 4.1% in line with the government's formula set out in the Direction on the Rent Standard 2019 which allows an increase up to the level of CPI in the preceding September plus 1%. This equates to an average increase of £3.30 per week. This increase applies equally to all properties and so is not considered to have a differential impact on any group having a protected characteristic. Support is however available for those on low incomes through the operation of Housing Benefit or in some cases Universal Credit.

18. Garage rent increase are proposed at 3.1%, based on the level of the September 2021 CPI inflation index; this also applies across the board and so is not considered to have any differential impact on those with protected characteristics.

<u>Savings and Income Proposals</u>

19. There has been an overall assessment of the Equality Impact Assessments that have been produced for the savings and income proposal and the findings are:

    - We acknowledge the need to ensure that our services are as accessible as possible. This will be central when looking at alternative models of delivery, including the use of technology to reduce our costs.
    - There are some fee increases for non-statutory services that we provide, and we understand that these fee increases all add up. This may not impact on specific protected characteristics but will impact on those who have a low income.

20. The equality impact assessments will continue to be updated as projects move through the feasibility appraisal and into implementation.

21. If there is a requirement to adapt the proposals as the full EIAs are finalised, there is financial mitigation (in the form of the budget risk reserve) put aside for any non-delivery or amendments to proposals.

Consultation

In line with the approach used in previous years, citizens, partners, and local businesses have been consulted on the proposed approach to meeting the savings target for 2022/23 and the proposed council tax level. The council carried out an online budget consultation survey which closed on 19 January 2021.

Appendix 2 (I) provides further detail on the results of the online budget consultation responses.

Tenant Involvement Panel representatives have been consulted over the proposed HRA rent increase. The impact was discussed with concerns raised regarding the effect of an increase on those struggling financially in the current climate, particularly considering the continued Covid-19 pandemic. 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 in line with the Rent Standard 2019.

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.

Implications

Financial and Resources

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

This report presents the council's proposed 2022/23 budgets across all its activities along with its medium-term financial strategy. The financial implications of these proposals are given throughout the report.

Legal

There is a statutory duty to consult on the Council's budget with business ratepayers (S65 Local Government Finance Act 1992). It is also considered best practice to seek broader views through meaningful consultation with service users, residents, and partners.

Further duties to consult on specific proposals impacting users, including staff and unions also exist prior to implementation.

The Council has a legal duty to set a balanced budget before the statutory deadline.

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

Statutory Considerations

The proposed budget within this paper covers a wide range of council activity and spend. As a result, it is not possible to provide a detailed assessment of, for example, the impact on residents and others with protected characteristics under The Equality Act at this level. Existing council processes for equality impact assessments will continue to be carried out at an appropriate time for the individual projects, activities and policies that constitute this budget and service review programme.

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Equality Impact Assessments are required for any specific budget proposals and the impact of the totality of all measures. The overarching assessment is included within the cover report.
Health, Social and Economic Impact	Budget savings and investment proposals including capital investments are likely to have economic impacts on the area.
Crime and Disorder	No specific crime and disorder impacts are considered to arise from the Council's budget setting processes.
Children and Adults Safeguarding	No specific safeguarding issues are considered to arise from the Council's budget setting processes.
Environmental Impact	The proposed capital investment strategy will provide for improvements to the council's assets and the surrounding environment. It includes provision for the retrofitting of loft and cavity insulation and the provision of solar panels for 200 properties across both social and privately owned dwellings.

Risk Management

The budget paper clearly outlines several financial risks to the council, some of which have increased considering changes to the wider economic environment. These are further outlined in section 7 of the report.

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

a) Maintaining earmarked reserves, established to help mitigate risk, including:
   - The budget risk reserve to manage the financial risks associated with both the continuing impacts of the pandemic and the delivery of the 2022/23 budget savings.
   - The business change reserve to fund costs linked to the council's transformational change programme.
   - The commercial property reserve to manage the risks and costs associated with holding commercial property.
   - The Norwich Regeneration Limited reserve to mitigate financial risks from lending to the council's wholly owned company.

b) The maintenance of a Prudent Minimum Level of General Fund reserve.

c) The requirement to produce robust business cases for large capital projects (many of which will generate returns or savings) before a project commences. The process is further detailed in paragraph 4.63.

Reasons for the decision/recommendation

The Council has a legal duty to set a balanced budget before the statutory deadline.

Background papers: None

Appendices:

- Part 1: Local Government Finance – Economic and Statutory Context
- Part 2: General Fund – MTFS and 2022/23 Budget
- Part 3: HRA Business Plan and 2022/23 Budget
- Part 4: Capital and Commercial Strategy including Capital Programme
- Part 5: Treasury Management Strategy 2022/23
- Part 6: Summary of Key Financial Indicators
- Part 7: Chief Finance Officer's Statement
- Part 8: Glossary

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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 2022), is given below.

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

Inflation:

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the government's 2% inflation target, and in a way that helps to sustain growth and employment.

On 15 December 2021, the Office for National Statistics (ONS) published data showing that twelve-month inflation on the Consumer Prices Index (CPI) was 5.1% in November. As required by the remit for the Bank of England's Monetary Policy Committee (MPC) when inflation moves away from the 2% target by more than 1 percentage point in either direction, a letter is provided to the Chancellor which addresses the following:

- the reasons why inflation has moved away from the target, and the outlook for inflation;
- the policy action that the MPC is taking in response;
- the horizon over which the MPC judges it is appropriate to return inflation to the target;
- the trade-off that has been made by the MPC with regard to inflation and output variability in determining the scale and duration of any expected deviation of inflation from the target; and
- how this approach meets the Government's monetary policy objectives.

Why has inflation moved away from the 2% target?

The economic effects of Covid have led to a volatile evolution of price pressures. CPI inflation was at or below 1% during the first year of the pandemic, before rising rapidly towards, and then materially above, the MPC's 2% target over the recent period. As set out in recent Monetary Policy Reports and the minutes of MPC meetings, inflation has been expected to rise further above target in the near term.

In the November 2021 Report, CPI inflation was expected to peak at 5% next spring, and to average around 4½% over 2022. However, CPI inflation rose to 5.1% in November, 0.6 percentage points higher than expected in the November report.

Inflation has continued to be affected by global developments, particularly the economic recovery from the pandemic, and supply constraints in certain sectors. Consumer energy price inflation has risen further over recent months, as previous increases in wholesale electricity and gas prices were reflected in Ofgem's caps on household energy prices in October, and as the previous strength in oil prices has been passed on to the cost of fuel.

Disruption to supply chains, alongside elevated global demand for goods, has led to bottlenecks, which have exerted upward pressure on inflation globally.

Commodity prices have also risen sharply accounting for some of the increase.

The outlook for inflation CPI inflation is expected to remain around 5% through most of the winter period, and peak at around 6% in April 2022. The latter would be around one percentage point higher than expected in the November 2021 Monetary Policy Report. The further rise in inflation next spring is in large part expected to reflect current developments in wholesale gas and electricity futures prices, which will feed into Ofgem's updated retail price caps from April. CPI inflation is still expected to fall back in the second half of 2022.

What policy action is the MPC taking in response?

The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The framework recognises that there will be occasions when inflation will depart from the target because of shocks and disturbances. In circumstances when shocks to the economy are particularly large or the effects of shocks persist over an extended period, there may be trade-offs between the speed with which it aims to bring inflation back to the target and the consideration that should be placed on the variability of output.

In the recent unprecedented circumstances, the economy has been subject to very large and repeated shocks. Given the lag between changes in monetary policy and their effects on inflation, the MPC will focus on the medium-term prospects for inflation, including medium term inflation expectations, rather than factors that are likely to be transient. This approach is to set monetary policy so that inflation returns sustainably to its target at a conventional horizon of around two years.

Source: Bank of England – December 2021

Bank Base Rate:

At its November meeting, the MPC judged that, provided the incoming data, particularly on the labour market, were broadly in line with the central projections in the November Monetary Policy Report, it would be necessary over coming months to increase Bank Rate to return CPI inflation sustainably to the 2% target.

Recent economic developments suggest that these conditions have been met. The labour market is tight and has continued to tighten, and there are some signs of greater persistence in domestic cost and price pressures. Although the Omicron variant is likely to weigh on near-term activity, its impact on medium-term inflationary pressures is unclear at this stage.

The MPC judged that an increase in Bank Rate of 0.15 percentage points to 0.25% was warranted at the December MPC meeting. The MPC will review developments, including emerging evidence on the implications for the economy of the Omicron variant, as part of its forthcoming forecast round ahead of the February 2022 Monetary Policy Report.

Source: Bank of England – December 2021

The Council's Treasury Management advisers (Link Group) have also reviewed their own forecast of the base rate in the light of the December announcement by the Bank of England; their rationale is set out below:

"We are not expecting Bank Rate to go up fast after the initial rate rise; our view is that the supply potential of the economy has not taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to 5%. We ***are, therefore, forecasting four increases in Bank Rate over the forecast period to March 2025, ending at 1.25%.*** However, we are far from confident that these forecasts will not need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Source: Link Group December 2021

Unemployment Rate and Average Earnings:

Government schemes to sustain viable jobs and support household incomes through the pandemic have proved successful. The furlough scheme has allowed firms to keep paying workers – who might otherwise have been laid off – a large fraction of their normal earnings and the self-employment scheme has provided similar income support to them. As a result, unemployment rose only slightly from 4.0 per cent in the first quarter of 2020, to a peak of 5.2 per cent in the final quarter of 2020, far less than the shortfall in output over the same period would have implied. The recovery in output since the spring has led to a notable rise in the demand for labour and growing evidence of shortages in parts of the labour market.

The success of the furlough scheme has meant that much of the impact of the pandemic on total hours worked has come through average hours rather than employment. While on the scheme, workers were initially unable to work at all, weighing heavily on average hours which fell by 17 per cent between the first and second quarters of 2020. Hours have subsequently recovered faster than expected in the March 2021 forecast, leaving them only 2.7 per cent below pre-pandemic levels in the second quarter of 2021, compared to the 5.7 per cent assumption in the March 2021 forecast. This was largely the result of both activity and output recovering faster than expected, which contributed to there being approximately 1.2 million fewer people remaining on furlough in August than assumed in March. A rise in the proportion who are on part-time furlough, record levels of vacancies (over 1.1 million), and the fact that those left on the scheme were particularly concentrated in high-vacancy sectors suggests that many of them will either remain with their existing employer or will be able to find alternative work quite easily now that the scheme has closed. Although there remains a good deal of uncertainty, we expect the numbers flowing into unemployment after closure to be rather lower than we did in March (180,000 compared to 310,000).

Average earnings have held up much better than output over the pandemic and by the second quarter of 2021 were 4.9 per cent above pre-pandemic levels. Headline measures of annual average pay growth soared in the second quarter of 2021, with the ONS average weekly earnings growth series hitting 8.8 per cent on the year before. In part, this reflects a recovery from the unusually depressed wage levels a year earlier. It also reflects other effects, as job losses since the start of the pandemic have been concentrated in low-wage positions. These effects have begun to unwind since the summer, with job creation skewed towards social consumption sectors and younger age groups, where wage levels tend to be lower than average. Alongside this, the effect of furlough, which had been weighing on earnings during 2020, has reversed and since April 2021 begun to push up earnings as significant numbers flowed off furlough. Earnings growth has also been stoked by the tightening in labour market conditions, which has pushed vacancies to record levels.

Source: Overview of the November 2021 Economic and fiscal outlook (Office for Budget Responsibility)

Public Finances

The rebound in economic activity means that the public finances have performed better than expected in the OBR's March forecast. Public sector net borrowing (PSNB) and public sector net debt (PSND) in 2021-22 are forecast to be, respectively, £50.9 billion and 9.2 percentage points of GDP lower than expected in March.[20]

Tax receipts have performed better than expected, while spending on support schemes has been lower than forecast. These improvements mean that the government's 2021-22 financing requirement has been revised materially downwards.

However, the unprecedented package of support for jobs and businesses has still placed significant burdens on the public finances. Although lower than previously forecast, borrowing and debt remain at historically high levels. PSNB reached £319.9 billion in 2020-21, the highest level since World War Two, and the OBR expects borrowing will remain high at £183.0 billion this year. PSND increased from 84.2% of GDP in 2019-20 to 96.6% of GDP in 2020-21 and is forecast to reach 98.2% of GDP this year.

While the higher level of borrowing is currently affordable as the interest rate the government pays on its debt remains close to historical lows, the public finances remain vulnerable to future shocks. Taxpayer money spent servicing debt is money which could have been invested in public services, and a sustained one percentage point rise in interest rates and inflation is estimated to cost an extra £20.3 billion in 2024-25, rising to £22.8 billion in 2026-27.

Source Autumn Budget and Spending Review 2021 – HM Treasury

Provisional Local Government Finance Settlement

1.2 On the 16th December 2021 the Secretary of State for Levelling Up, Housing and Communities, Michael Gove, set out the Provisional Local Government Finance Settlement covering the year 2022/23 only.

1.3 The proposals set out relate to 2022/23 and are focused on stability. The government has said that it is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in several years. Over the coming months, they have proposed that they will work closely with the sector and other stakeholders to update the data and to look at the challenges and opportunities facing the sector before consulting on any potential changes.

1.4 The key announcements with relevance to Norwich City Council are summarised below. The specific funding allocations for Norwich are detailed in Part 2 of the Report.

1.5 On 27 October 2021 the Chancellor announced the 2021 Spending Review covering the government finances for the period 2022/23 to 2024/25. That set out that, on a like for like basis, the increase in local government funding is £4.9bn, or around 1.0% annually in real terms. However, only the one-year settlement for 2022/23 has been announced.

1.6 **Business Rates:** The business rates multiplier will be frozen again for 2022/23. It will remain at 49.9p (small business multiplier) and 51.2p (national business multiplier). Councils will continue to receive compensation in 2022/23 for the under-indexing of the business rates multiplier in this and previous years.

1.7 On the 8th November 2021 the Secretary of State for Levelling Up, Housing and Communities, Michael Gove, announced that the proposals for moving to a nationwide 75% scheme for business rates retention was being stopped.

1.8 Since 2013/14 Authorities have retained a proportion of business rates revenue generated in their area, alongside the ability to retain an element of business rate growth above government set baselines. This superseded an arrangement whereby business rates were pooled centrally and distributed as part of the local government settlement.

1.9 Since its inception a variety of variants have operated including several 100% pilot schemes. Currently most authorities operate a 50% retention scheme and a move to 75% had been expected before it was delayed firstly because of BREXIT and associated delays to the spending review and then more recently due to the COVID pandemic.

1.10 **Council Tax**: For 2022/23, 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).

1.11 **New Homes Bonus**: There is a final legacy payment of the New Homes Bonus due in 2022/23 which the government has confirmed it will continue to pay, however the government has now also said that it is proposing to roll-over last year's policy on NHB for a new round of NHB payments in 2022/23 using the 2021/22 methodology. The allocations for 2022/23 will be funded through a £554 million top slice of the Revenue Support Grant.

1.12 The previously announced additional funding streams, including allocations for the £200m of "cross-government Supporting Families programme", £37.8m for cyber security, and £34.5m to "strengthen local delivery and transparency" where not made in the provisional settlement and are to be subject to subsequent announcements.

1.13 The Lower Tier Services Grant was expected to be a one-off grant in 2021/22 however, as the primary purpose of this grant is to ensure that no authority has a reduction in Core Spending Power (CSP) the government has continued it for a further year in 2022/23, maintaining the overall level of the grant at the same level as previously.

1.14 A new 2022/23 Services Grant has been creating worth £822 million. This will be a one-off grant for 2022/23. The government has said it will work closely with the sector on how to best distribute this money for 2023/24 onwards. This funding will be excluded from any proposed baseline for transitional support which may be payable as a result of any proposed system changes. This new funding stream includes funding for local government costs for the increase in employer National Insurance Contributions.

Local Government Finance Post 2023

1.15 As highlighted previously the financial settlement covered only 2022/23, with the government implementing a 'roll forward' finance settlement. This means a further delay to the longer-term local government financial reforms.

1.16 The Secretary of State has announced that the government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. He has pointed out that the data used to assess this has not been updated in several years, dating from 2013/14 to a large degree, and even as far back as 2000. He has also stated that over the coming months, the Department for Levelling Up Housing and Communities (DLUHC) will work closely with the sector and other stakeholders to update this data and to look at the challenges and opportunities facing the sector before consulting on any potential changes.

1.17 As part of this, options will be considered to support local authorities through transitional protection. It should be noted that one off grant funding, such as for the 2022/23 Services Grant, provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.

Regulatory Changes

Changes to the Prudential Code and Treasury Management Code

1.18 On the 21st of Sept 2021 CIPFA released the second stage of consultation covering both of the above codes of practice, setting out proposed wording changes and associated explanatory information.

1.19 There are linkages between the proposed changes to the Prudential Code and the Treasury Management code of practice, particularly in relation to commercial investments.

The Prudential Code Changes

1.20 The focus of the Prudential Code proposals is to address the risks associated with commercial investments, including property acquisitions, known as debt for yield transactions, following comment from the Public Accounts Committee and National Audit Office reports. CIPFA have set out clearly their views on the appropriateness, or otherwise, of borrowing to enable commercial investments and have re-affirmed this position in a separate publication issued alongside the consultation documents entitled “Why authorities should not borrow to invest”.

1.21 Norwich CC currently has £103m of Investment Property on its balance sheet (31 March 2021) and so is directly impacted by the proposed code changes.

1.22 Despite CIPFA’s stated position, the Code’s statement that authorities ‘must not borrow to invest for the primary purpose of financial return’ is not intended to require the forced sale of existing commercial investments, whether commercial properties or financial investments. Selling these investments and using the proceeds to net down debt does however, reduce treasury risks and is therefore an option which should be kept under review, especially if new long-term borrowing is being considered.

The Treasury Management Code Changes

1.23 The second consultation, relating to changes to the treasury management code including prudential indicators, again reflects the detailed wording changes necessary to implement the principles set out in earlier consultation, alongside a number of other minor wording changes. In the main they support the changes to the prudential code i.e. that debt for yield transactions are to be avoided.

1.24 The main additional measures introduced is the use of the liability benchmark, maturity indicators a revised indicator for long term treasury management investments and an interest rate exposure indicator. These are covered in more detail in the Council's Treasury Management Strategy.

Consultation on Changes to the Capital Framework – Minimum Revenue Provision (MRP)

1.25 The government published a consultation document on the above topic on 30 November 2021.

1.26 The consultation focuses on addressing two issues:

(i) The use of capital resources to meet a revenue charge - in this case the minimum revenue provision.

(ii) The exclusion of some capital items from the MRP calculation, in respect of investment assets or capital loans.

1.27 Norwich CC, like several other authorities use capital loans for a variety of purposes including as loan finance for wholly owned companies and also to support regeneration activity in its area. Currently the council's MRP policy provides for no MRP charge to be made where there is sufficient evidence to demonstrate that repayment of the loan will be made. this assumption is tested on an annual basis with any impairments being made as a charge to revenue in the form of a voluntary revenue provision (VRP).

1.28 In cases where repayment continues to be likely the eventual capital receipt is then used to appropriately reduce debt.

1.29 There are a few reasons why requiring an MRP charge would cause particular difficulties:

(i) In the case of a repayable loan, if an MRP charge was required over the life of the loan, the debt would be fully amortised in addition to there being a capital receipt at the point of the loan redemption. As capital receipts can only be used for capital purposes, for example to undertake new capital expenditure or repay debt, effectively revenue resources have been converted into capital resources at a time when council's revenue resources are severely stretched.

(ii) In cases where capital loans are used for development or regeneration purposes the repayment period can often be short, to minimise risk, and in that circumstance the required MRP can be prohibitively high having the effect of preventing appropriate schemes progressing.

2. GENERAL FUND 2022/23 BUDGET AND MTFS

Forecast 2021/22 Outturn

2.1 The latest position on the General Fund, as at Quarter 3 shows a forecast underspend of £0.426m.

2.2 The Covid-19 pandemic has continued to have an impact right across the council's budgets in 2021/22. When the 2021/22 budget was set it incorporated a number of short-term growth items, including assumed reductions in the council's car parking and rental income levels as a result of continuing restrictions and market changes. These were prudent budget adjustments as income streams continue to operate below their pre-pandemic levels, while the governments income compensation scheme only covered the period to 30 June 2021.

2.3 Within the forecasts there is an underspend in relation to interest costs on council borrowing. The council budgeted to borrow £55m in relation to the general fund during 2021/22. Although the council does not maintain separate balance sheets for the general fund and housing revenue account, it has historically allocated borrowing between the two funds. This year to date, the council has taken £45m of new long-term borrowing, of which £15m was taken in relation to the general fund. The remaining £30m was in relation to the housing revenue account and was to secure new borrowing at historically low levels ahead of a scheduled repayment of self-financing debt in March 2023. The general fund borrowing in year two fixed rate 50-year loans with PWLB; one for £5m at an interest rate of 1.64% and another £10m at an interest rate of 1.70%. Cashflows are currently benefiting from government grant money in relation to business rates (due to be repaid later in the year) and therefore the current forecast assumes no further general fund borrowing in 2021/22. This has meant an in-year forecast saving on borrowing costs.

2.4 In November, Cabinet agreed the principle of setting the forecast borrowing costs underspend of £0.591m aside into an earmarked reserve to support the budget position in 2022/23. This transfer of funds has therefore been incorporated into the forecast position at Quarter 3.

2.5 In the updates to the medium-term financial strategy in this report, it has been assumed that the Period 9 underspend level of £0.426m is returned to general fund reserves to provide resilience for the future financial challenges. It is proposed that if any additional underspend materialises by the end of the 2021/22 financial year that this is set aside into the council's business change reserve to support the delivery of the council's change programme.

2.6 It has been confirmed that the council will be receiving a distribution of £0.675m from the Norfolk Business Rates Pool as agreed by Norfolk Leaders. It is proposed to set aside this income into an earmarked reserve to support future spend in line economic development objectives of the fund. The 2022/23 capital budget contains a proposal to complete a refurbishment of the recently purchased Carrow House site which is proposed to be funded from this pool distribution.

2.7 As part of the response to the pandemic the government announced additional business rates reliefs to businesses in the retail, hospitality and leisure sectors. These reliefs have reduced the income received directly from business rates payers, with the lost income compensated for by a Section 31 grant from central government. The overall impact will be a deficit on the business rates collection fund and additional grant income received into the general fund. Due to the required accounting treatment, there will be a timing difference between when the two elements impact on the general fund (S31 grant income in 2020/21 and the deficit in 2021/22). To manage the impact of this it is proposed that the additional grant income received in 2021/22 is transferred into the S31 Earmarked reserve and returned into the general fund in 2022/23 to offset the impact of the business rates deficit.

Proposed 2022/23 Revenue Budget

2.8 The savings options for 2022/23 have been proposed from service areas and reviewed by the Resources, Performance & Delivery Board which includes representation from each directorate, finance, strategy, HR and legal. Proposals have then been reviewed by the Corporate Leadership Team to assess the deliverability and impacts on the corporate plan. Service leads have completed deliverability assessments for savings items setting out key milestones, resource requirements and risks.

2.9 In line with the approach used in previous years, the council has consulted the public on the proposed approach to setting the budget and on the potential for a council tax rise. The consultation closed on 19 January 2022. An analysis of the results is given in Appendix 2 (I) and will provide useful feedback as the council shapes its future budget proposals. The consultation found that 50% of people agree or strongly agree with the proposed council tax increase, while 62% of people either agree or strongly agree with continuing to provide council tax relief at 100 per cent for those working age residents on low incomes.

2.10 Appendix 2 (A) summaries the key movements in the base budget (i.e. 2021/22 approved budget) to arrive at the proposed 2022/23 budget. Appendix 2 (B) shows a subjective breakdown of the gross income and expenditure proposed.

2.11 Permanent savings/additional income of £1.350m have been identified. This is lower than the savings target of £2.1m shown in the MTFS update presented to Cabinet in October 2021. The decision to build in a lower level of permanent savings in 2022/23 reflects both an improvement in the overall 4-year MTFS saving requirement of £0.650m and the decision to use some short-term savings measures (see paragraph 2.15) to ensure sufficient time and resources to implement the longer-term service reviews. A detailed summary of the proposed budget savings and growth is shown in Appendices 2 (F) and 2 (G).

2.12 The budget proposals include £0.714m of permanent budget growth (i.e. increases to the budget not arising from inflationary factors). The full list is shown in Appendix 2 (G).

2.13 The impacts of Covid-19 are still expected to impact the budget in 2022/23, in particular around the council's car parking and rental income levels. In

2021/22 budget growth relating to the pandemic totalled £3.175m. While there has been a recovery in income streams, the 2022/23 budget proposals still includes £1.230m of short-term impacts from Covid-19. It is currently assumed that these budgets recover to pre-pandemic levels in 2023/24.

2.14 The budget proposals include short term growth of £0.727m. This includes investment in the East Norwich Masterplan, Greater Norwich Local Plan and the production of a Contaminated Land Inspection Survey. There is also short-term holding costs associated with the Towns Fund projects to redevelop Carrow House and Townshend House which will be offset by rental income in future years. The full list is shown in Appendix 2 (G). There is also investment of £1.662m from the business change, invest to save and commercial property earmarked reserves to support specific projects in 2022/23. The full detail is shown in Appendix 2 (H).

2.15 The budget position has been closed by taking on some additional short-term options which total £1.877m (Appendix 2 (F)). These decisions are assumed to be reversed in 2023/24 in the MTFS. The largest elements of this balance relate to:

- £0.591m of 2021/22 borrowing cost underspend set aside into an earmarked reserve to support the budget position in 2022/23 (see paragraphs 2.3 and 2.4);
- £0.690m reduction in interest costs as a result of a lower borrowing requirement in 2022/23. This follows the decision to take £30m of Housing Revenue Account borrowing ahead of a planned loan repayment in March 2023; enabling the HRA to lock in favourable long term interest rates and reduce the cash borrowing need in year.

2.16 It is important to note whilst one-year measures assist in setting a balanced budget, they do not address the structural financial gap over the medium term. The council has significant financial challenges and will require the cross-cutting service reviews to drive forward the savings options for future years. Whilst service reviews will look at how services can be delivered differently and more efficiency, it is likely – given the scale of the challenge – that they will lead to a reduction in service capacity in some areas.

2.17 The updated MTFS presented to Cabinet in October 2021 forecast that £2.904m of general fund reserves would be needed to balance the budget in 2022/23. There has however been a significant shift in the reserves requirement since the October Cabinet paper following confirmation of the outcomes from the Local Government Finance Settlement. The main factor in this movement is additional grant funding confirmed for 2022/23, including a new Services Grant and the continuation for a further year of the New Homes Bonus scheme. As a result, rather than drawing down £2.904m from general reserves to balance the budget, the requirement is now reduced to £2.100m as well as topping up the Business Change earmarked reserve by £0.600m.

Chart 2.1: 2022/23 gross expenditure budget analysed by type of spend

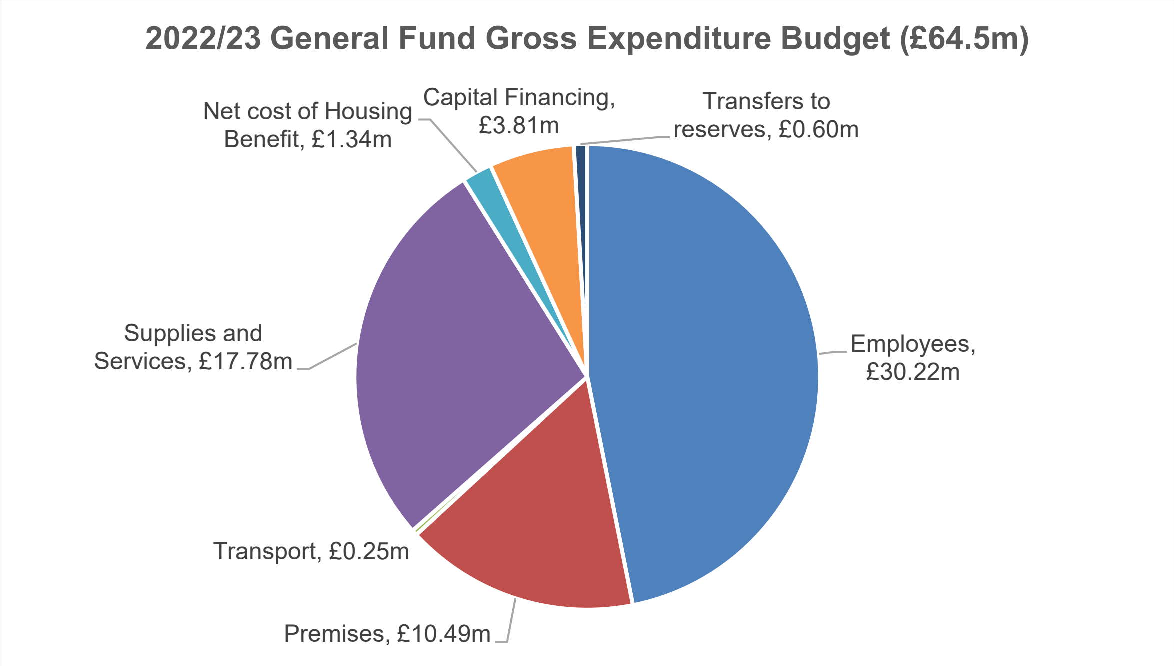
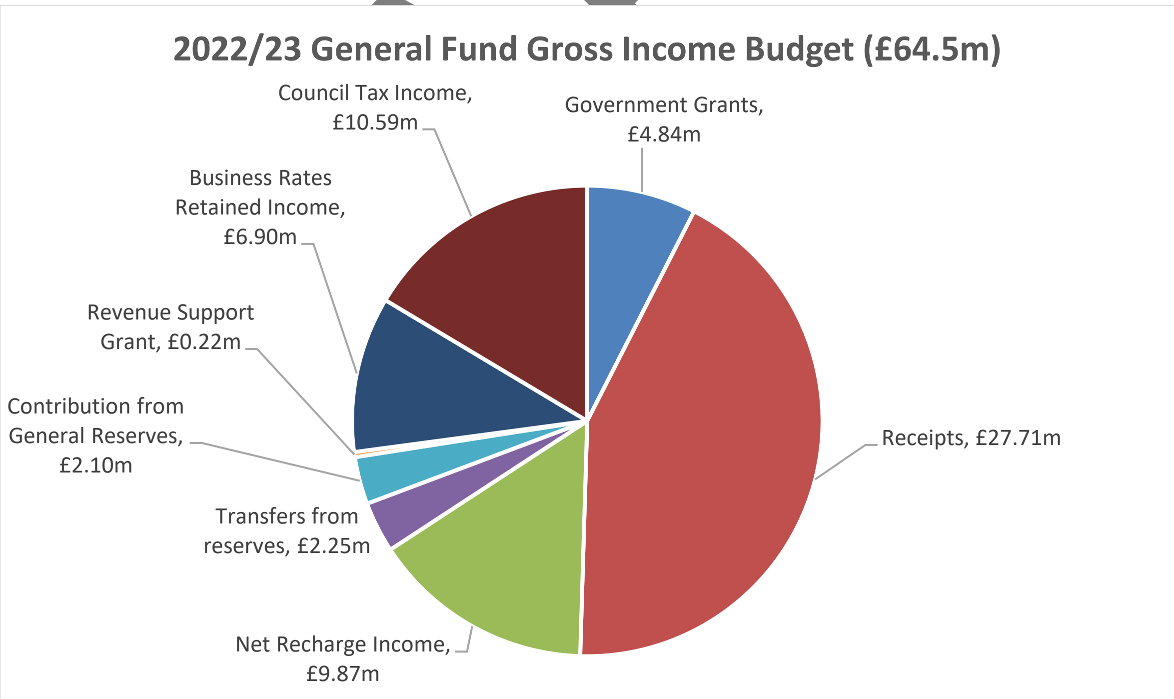


Chart 2.2: 2022/23 gross income budget analysed by type of income



Medium Term Financial Strategy (MTFS)

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

2.19 The principle adopted for a number of years has been to smooth the savings requirement over the medium term. This has been to prevent significant annual fluctuations in savings requirements and ensure a strategic approach can be taken to delivering savings projects. In order to smooth the savings requirements however it means that the council needs to draw down on general reserves. These are a one-off source of fund and therefore utilisation of reserves is not sustainable in the long term and the ongoing service reviews will need to form a key element of bringing the budget into balance over the next 12 months.

2.20 The 2022/23 MTFS maintains the previous approach of presenting a strategy to deliver a smoothed savings requirement over a 4 year period and utilising general reserves (down the prudent minimum level of £5.100m). Table 2.2 below shows the medium term financial projections for the years 2023/24 to 2026/27. The full MTFS by subjective group is shown in Appendix 2 (D).

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

	2023/24	2024/25	2025/26	2026/27
Budget base	21,688	24,416	27,128	29,230
Resources	(17,334)	(18,240)	(18,768)	(19,280)
Savings required (cumulative)	**4,354**	**6,176**	**8,360**	**9,950**
Planned use of reserves	(1,654)	(776)	(260)	0
Permanent savings (cumulative)	(2,700)	(5,400)	(8,100)	(9,950)
Of which savings are:				
Identified (cumulative)	(£1,072)	(£1,571)	(£1,739)	(£1,800)
Still to be identified (cumulative)	(£1,239)	(£3,244)	(£5,776)	(£7,565)

2.21 The MTFS shows a need to make permanent gross savings of £9.95m 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 £2.70m each year to 2025/26 and £1.85m in 2026/27.

2.22 The council has identified potential future savings of £1.800m against the cumulative target of £9.950m. These provisional options will continue to be investigated and potential savings values refined as part of the 2023/24 corporate business planning cycle. Further detail is shown in Appendix 2 (F).

Table 2.3: Smoothed net savings required 2023/24 to 2026/27 - Figures are in £000s

	2023/24	2024/25	2025/26	2026/27
Assumed annual service growth	750	750	750	750
Gross saving requirement	(2,700)	(2,700)	(2,700)	(1,850)
Net annual saving requirement	**(1,950)**	**(1,950)**	**(1,950)**	**(1,100)**

2.23 As noted in the introduction to this report, the estimates for 2023/24 onwards cannot to be taken as robust figures given the changes are expected to be introduced to the local government finance regime from 2023/24 onwards (and as described in Section 1 of this report).

2.24 The MTFS shows that the council has a significant savings challenge over the next 4 years and will require the cross-cutting service reviews to drive forward the savings options for future years. Whilst service reviews will look at how services can be delivered differently and more efficiency, it is likely – given the scale of the challenge – that they will lead to a reduction in service capacity in some areas. The risks over the deliverability of the saving requirement and mitigating actions are discussed in Section 7.

Key figures & assumptions in the 2022/23 budget and MTFS

Council Tax

2.25 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 2022/23.

2.26 A 1.99% increase to the Band D rate is proposed in the 2022/23 budget figures (£0.2m additional income). The proposed 2022/23 Band D rate is therefore £280.21 compared to the current year rate of £274.74 – an increase of £5.47. 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.

2.27 The figures shown will be reduced, for qualifying council taxpayers, by the council's Council Tax Reduction Scheme (CTR). Currently the total cost of the CTR scheme is £14.8m, of which the Norwich share is £2.0m.

2.28 The Council Tax base has been set at 37,788 which combined with the Band D rate gives a budgeted income of £10.589m in 2022/23.

2.29 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 1.25% per annum is also assumed for estimated growth in the number of dwellings in the Council's area. Given the 2020/21 council tax deficit is required to be spread over three years, no surplus is included in 2022/23 or 2023/24. The full calculation shown in Appendix 2 (E).

Business rates

2.30 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.

2.31 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.

2.32 On 8 October 2021, all Norfolk local authorities confirmed to MHCLG a provisional intention to create a Norfolk business rates pool in 2022/23.

2.33 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 by the Norfolk authorities in line with an agreed Memorandum of Understanding (MOU). Under the terms of the MOU, the collective pooled will be split:

- One third to Districts shared equally
- One third to the County Council
- One third to be distributed to Districts based on actual growth achieved, after an allocation of one third to the County Council.

2.34 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 ensure that each authority receives as a minimum 92.5% of their baseline funding.

2.35 The retained business rates forecasts are based on actual amounts collectable at December 2021 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.

2.36 The 2022/23 retained business rates have been budgeted at £6.691m along with a forecast deficit distribution from 2020/21 and 2021/22 of £10.807m. The deficit will be offset by income from the S31 Earmarked Reserve of £11.015m (as detailed in paragraph 2.7) and reflects the additional reliefs awarded as part of the government's response to the pandemic for which grant income was received in 2021/22. A breakdown of the business rates calculation is shown in Appendix 2 (E).

2.37 The forecasts for retained Business Rates income from 2023/24 assume current baseline amounts subject to inflationary increases. The MTFS also includes an allowance for the known final instalment of the spreading of the 2020/21 deficit (£0.288m) as allowed by government.

2.38 There remains a financial risk on business rates income from the impact of valuation appeals, in particular over the 2017 valuation list. The risk however for valuation appeals as a result of Covid-19 has been addressed as part of the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021 which received Royal Assent on 15 December 2021. By virtue of section 1 of the Act, the Valuation Office Agency, when making an alteration to a rating list, will not be permitted to take into account any matter that is directly or indirectly attributable to coronavirus.

Payroll

2.39 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 2.75% in 2023/24 and beyond to allow for an annual pay settlement, payroll drift, and the impact of the Living Wage. Additional estimates have been included for expected increases to pension deficit contributions; although these will be subject to the outcome of future triennial valuations of the pension scheme.

2.40 Included in the 2022/23 budget is a £300k vacancy factor. This reflects an assumed 1.5% assumed saving on staffing expenditure during the year due to staff turnover and is within the levels of underspend seen in recent years. The allowance has been budgeted at the directorate level and will be allocated to service areas during the year as underspend are identified using a technical virement. The allowance is assumed to be fully unwound in the MTFS by 2023/24.

Revenue contribution to capital

2.41 Previously the MTFS included an assumed £1.5m revenue contribution to capital as a funding source for the capital programme. This assumption was adjusted in the paper to Cabinet in October 2021 to reflect the impact of the decision to dispose of the airport industrial estate site, which is owned by Norwich City Council and held on express trust for Norfolk County Council, effectively giving joint ownership. Income derived from the estate is divided 60% Norfolk County Council and 40% Norwich City Council.

2.42 It is assumed that the estimated capital receipt will enable the capital programme for the next 4-5 years to be funded from receipts rather than requiring a contribution from the revenue budget. This contribution was previously assumed in the MTFS at £1.5m in 2022/23 onwards. To enable this approach it is assumed the sales of the site will be completed during 2022/23. The budget adjustments also take into account the loss of the council's share of the net income generated by the industrial estate.

Inflation

2.43 Based on advice from the Office for Budget Responsibility's (OBR) Consumer Price index (CPI) forecasts, future inflation has been included on premises costs, supplies and services, and transport throughout the MTFS planning timeline. Inflation has been assumed at 3.5% in 2023/24, reducing gradually to the Bank of England's 2% target by 2026/27. Inflation on income however is prudentially set to run below expenditure at 1.5% per annum.

Government Grants

2.44 The provisional Local Government Finance Settlement confirmed a number of specific grant allocations for the 2022/23 financial year only:

- Lower Tier Services Grant £0.269m
- Services Grant £0.413m

2.45 The provisional settlement confirmed a new single-year allocation of New Homes Bonus of £0.389m, which when combined with legacy payments means total grant of £0.546m in 2022/23.

2.46 The council has received confirmation of its allocation of Homelessness Prevention Grant of £0.596m and has assumed the Rough Sleeper Initiative Grant at the same level of funding as 2021/22. These grant receipts are matched by corresponding expenditure assumptions. The MTFS assumes the continuation of the grants and related expenditure for future years; any changes in the grant levels are therefore assumed will be offset by reductions in the related expenditure.

2.47 Other specific grants for future years have been estimated at 2021/22 levels, with the exception of Housing Benefit which have been estimated to reduce annually by 10% based on the service experience for other authorities moving to full universal credit service.

2.48 As a result of receiving only a one-year local government finance settlement allocation, the council does not have certainty over the future format of grant allocations – in particular, New Homes Bonus, Lower Tier Services Grant and Services Grant. In 2022/23 these allocations totalled £1.452m and an assumption has been made that the council will continue to receive two-thirds of that grant funding in some form in the future years of the MTFS. This is based on the understanding that the funding will be retained in the local government sector going forwards but is likely to be subject to revised allocations between authorities based on the updated resource need assessment (see Section1 for further background).

Capital financing budget

2.49 The capital financing budget includes interest charges from external borrowing and Minimum Revenue Provision charges. The budget for 2022/23 provides coverage for all existing external borrowing and an allowance for a further £15m of external borrowing spread across the financial year at a rate of 2%. Additional allowance for further general fund borrowing of £42m in subsequent years has been allowed for across the life of the MTFS to reflect that the council is currently under-borrowed relative to its capital financing requirement. The treasury position will continue to be actively managed as set out in Section 6: Treasury Management Strategy.

Income from wholly owned companies

2.50 The MTFS assumes a steady state loan interest income budget of £0.410m per annum arising from lending to Norwich Regeneration Ltd (NRL) for the life of the MTFS. The actual interest charges will be dependent on the cash flow requirements of the company and pace at which schemes are developed and loans repaid. The budget and MTFS forecasts do not include any possible dividend (profit share) income from the company.

2.51 The MTFS assumes £0.041m of interest income from Norwich City Services Ltd from the loan advanced to the company to undertake depot improvement works. The budget and MTFS forecasts do not include any possible dividend (profit share) income from the company.

2.52 Service level agreement charges, as agreed with the wholly owned companies, are included in the budget along with the related employee and services costs.

General Fund Reserves Position

The General Fund reserve

2.53 The prudent minimum level for the general fund reserve has been set at £5.100m. The smoothed MTFS brings the forecast reserves down to around Prudent Minimum Balance plus 10% by the end of 2025/26.

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

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Brought forward	(9,980)	(10,406)	(8,306)	(6,652)	(5,876)	(5,616)
Forecast outturn	(426)	0	0	0	0	0
Transfers (to)/from	0	2,100	1,654	776	260	0
Carried forward	**(10,406)**	**(8,306)**	**(6,652)**	**(5,876)**	**(5,616)**	**(5,616)**

2.54 After 2025/26 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

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

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

	Actual 31 March 2021	Forecast 31 March 2022	Forecast 31 March 2023
Invest to Save Reserve To support the delivery of savings and efficiencies through the Future Shape Norwich Programme over the next 2-3 years.	2,513	1,929	1,016
Budget Risk Reserve To manage the financial risks associated with both the future impacts of the pandemic and the delivery of the 2022/23 budget savings identified.	700	700	700
Business Change Reserve To fund costs linked to the council's change programme which are not delivering specific savings, for example project management, benchmarking and potential redundancies. It will also support training and development of our workforce to ensure we have the skills required to deliver the ambitions of the Council.	913	126	661

	Actual 31 March 2021	Forecast 31 March 2022	Forecast 31 March 2023
Commercial Property Reserve Established to reduce the risks associated with holding commercial property by providing funding for any future void and rent-free periods as well as repairs and upgrades to the investment portfolio.	2,465	2,376	1,851
Insurance Reserve This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review.	1,081	1,081	1,081
Norwich Regeneration Ltd Reserve Originally established to smooth any fluctuations in net income received by the Council from lending to NRL. The reserve level was increased in 2019/20 to mitigate against any potential future Minimum Revenue Provision charges required to cover for estimated non-recovery of the loan balance. The recoverability of the loan will continue to be reviewed and should any element of the reserve not be required it can be returned to general reserves.	3,350	2,700	2,050
S31 Grant Reserve Unutilised balance of S31 grant monies received in prior years from Central Government to fund Business Rates reliefs. The increase in the reserve as at 31 March 2021 reflects the additional grant income received in 2020/21 to compensate the council for additional business rates reliefs announced by HM Treasury as part of the Covid-19 response. These will be returned to the general fund over the next two years to match the timing of the related collection fund deficits (see paragraph 2.7).	19,518	13,422	2,350

	Actual 31 March 2021	Forecast 31 March 2022	Forecast 31 March 2023
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.	3,491	1,801	1,681
General Fund Repairs Reserve To provide future funding for required maintenance on general fund properties. £0.2m budgeted to be used in 2021/22 to fund required property maintenance.	831	573	573
Other minor reserves	143	143	143
Total	**35,005**	**24,851**	**12,006**

Appendix 2 (A): Budget Resources breakdown and 2022/23 movements from the approved 2021/22 base budget

Budget Resources Analysis:

	2021/22	2022/23	
	£000		£000
Council Tax			
Projected tax base (2021/22: 37,408)		37,788	
Planned Council Tax increases			
Council Tax Increase		1.99%	
Council Tax Band D (2021/22: £274.74)		£280.21	
Council Tax Yield	10,277		10,589
Surplus/(deficit) on Collection Fund	75		0
Council Tax Support Grant	320		0
	10,672		**10,589**
Business Rates Retention Scheme			
Local Business Rates (including levy)	6,250		6,691
Surplus/(deficit) on Collection Fund	(17,293)		(10,807)
S31 grant transfer from reserves	17,167		11,015
	6,124		**6,900**
Revenue Support Grant	**217**		**225**
Budget Resources	**17,013**		**17,713**

Movements from 2021/22 approved budget:

		£000
2021/22 Budget Resources		**(17,013)**
Budget movements:		
Increase in revenue support grant		(8)
Reduction in business rates income		(775)
Increase in council tax income		(236)
Loss of Council Tax Support Grant		319
2022/23 Budget Resources		**(17,713)**

2021/22 Budget Requirement		**17,013**
Budget movements		
Reversal of one-off items in the 2021/22 budget		161
MTFS and other movements		(210)
Inflation including pension deficit contributions		1,876
Reduction in grant income		929
Continued Covid-19 related short term growth		1,230
Permanent growth - Appendix 2 (G)		714
Short term growth - Appendix 2 (G)		727
Permanent savings & additional income - Appendix 2 (F)		(1,350)
Short-term savings - Appendix 2 (F)		(1,877)
New service investment from earmarked reserves		1,386
Earmarked reserve transfers to meet new service investment		(1,386)
Contribution to Business Change Reserve		600
Required contribution from general reserves		(2,100)
Revised 2022/23 Budget Requirement		**17,713**

Appendix 2 (B): 2022/23 proposed budget by subjective group

Subjective group	Budget 2021/22 £000	Budget 2022/23 £000	Movement £000
Employees	24,145	30,224	6,079
Premises	9,706	10,493	787
Transport	220	249	29
Supplies & services	19,331	17,775	(1,556)
Housing benefit payments	47,770	41,492	(6,278)
Capital financing	3,573	4,377	804
Gross expenditure	**104,744**	**104,610**	**(135)**
Government grants	(51,919)	(44,993)	6,926
Fees, charges & rental income	(26,236)	(27,713)	(1,477)
Net recharge income	(8,832)	(9,873)	(1,041)
Gross income	**(86,987)**	**(82,579)**	**4,408**
Contribution from General Reserves	0	(2,100)	(2,100)
Contribution to/from Earmarked Reserves	(744)	(2,218)	(1,474)
Total Budgetary Requirement	**17,013**	**17,713**	**699**

Explanation of key variances:

- Employee costs have increased by £6.079m. Included within this increase are inflationary adjustments for salaries, the increase in the national insurance rate for employers, and the council's pension deficit payments to the Norfolk Pension Fund (£1.3m). Salary costs have also been increased to reflect the transfer of employees from the council's joint venture NPS Norwich into the council (£2.6m), a significant proportion of these costs will be recharged to the housing revenue.

  The remaining increase reflects service growth items (Appendix 2 (G)) and additional resource costs to support the Towns Fund projects (the majority of which will be recharged to the specific capital projects.
- Supplies and services line has reduced in part to the transfer of employees from NPS Norwich, the costs of which move from contractual spend into the employee costs line. Also within the movement there is contractual inflation as well as the impacts of the savings (such as a reduction in environmental service contract costs) and growth items (such as the investment in the East Norwich Masterplan and implementation of the council's customer and digital strategy). Further detail in Appendices 2(F) and 2(G).
- The expected housing benefit expenditure and subsidy levels have been re-based on current levels. This has resulted in a reduction in the housing benefit payments line and corresponding reduction in assumed grant subsidy (shown with the Government Grants line).
- Income from fees and charges has increased following the partial reversal of the Covid-19 impacts in 2021/22 on car parking and rental income. There is also new income assumed in relation to a review of car parking charges (see Appendix 2(F)).

Appendix 2 (C): 2022/23 proposed General Fund budget by service

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Chief Executive	**335**	**(55)**	**280**
Corporate Financing	**(11,097)**	**9,688**	**(1,409)**
Corporate & Commercial Services Management	512	0	512
Finance, Audit & Risk	2,008	(1,128)	880
HR & Organisational Development	1,201	(413)	788
Legal & Procurement	3,298	(1,480)	1,818
Revenues & Benefits	45,340	(42,432)	2,908
Total Corporate & Commercial Services	**52,359**	**(45,453)**	**6,906**
Community Services Management	862	0	862
Customers, IT & Digital	7,689	(2,738)	4,952
Strategy, Engagement & Culture	3,948	(1,255)	2,694
Housing & Community Safety	7,606	(6,403)	1,203
Total Community Services	**20,106**	**(10,396)**	**9,710**
Development & City Services Management	583	0	583
Environment Services	19,179	(15,476)	3,703
Planning & Regulatory Services	4,510	(2,150)	2,360
Property & Economic Development	9,838	(10,634)	(797)
Total Development & City Services	**34,111**	**(28,261)**	**5,850**
Contribution from General Reserves		(2,100)	(2,100)
Contribution from Earmarked reserves		(2,818)	(2,818)
Contribution to Earmarked reserves	600		600
Budget Requirement	**97,108**	**(79,394)**	**17,713**

Revenue Support Grant		(225)	(225)
Business Rates Retained Income		(6,900)	(6,900)
Council Tax Income		(10,589)	(10,589)
Budget Resources		**(17,713)**	**(17,713)**

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

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Employees	30,224	31,188	32,352	33,557	34,780
Premises	10,493	10,568	10,782	10,965	11,115
Transport	249	249	250	251	251
Supplies & Services	17,775	16,847	17,100	17,320	17,502
Capital Charges	3,288	4,016	4,300	4,593	4,622
Housing Benefit Payments	41,492	39,727	38,270	36,940	36,940
Benefit Subsidy	(40,149)	(38,124)	(36,396)	(34,781)	(34,781)
Net recharge income	(9,873)	(10,048)	(10,048)	(10,048)	(10,048)
Contribution to Capital	525	0	0	0	0
Fee, charges, rental income	(27,713)	(29,001)	(29,277)	(29,558)	(29,842)
New Homes Bonus	(546)	0	0	0	0
Benefit/CTS Admin grant	(1,197)	(1,129)	(1,068)	(1,013)	(963)
Other Government Grants	(3,102)	(3,078)	(3,074)	(3,071)	(3,069)
Earmarked reserves transfer	(1,653)	(277)	(277)	(277)	(277)
Assumed growth cumulative		750	1,500	2,250	3,000
Subtotal budgets (no savings)	**19,813**	**21,688**	**24,414**	**27,128**	**29,230**

Business Rates	(6,900)	(6,400)	(6,874)	(7,033)	(7,164)
Formula Funding (RSG)	(225)	0	0	0	0
Council Tax	(10,588)	(10,934)	(11,366)	(11,735)	(12,116)
Total funding	**(17,713)**	**(17,334)**	**(18,240)**	**(18,768)**	**(19,280)**

Budget Gap	**2,100**	**4,354**	**6,174**	**8,360**	**9,950**

Gross savings needed (cumulative)	0	(2,700)	(5,400)	(8,100)	(9,950)
Planned use of reserves	(2,100)	(1,654)	(776)	(260)	0
Funding the budget gap	**(2,100)**	**(4,354)**	**(6,176)**	**(8,360)**	**(9,950)**

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)	6,778
Less: Levy to the Norfolk Pool for economic development & pooled growth	(86)
Less: Norwich Business Rates 2020/21 and 2021/22 deficit distribution	(10,807)
Plus: Transfer of prior year S31 grant from earmarked reserves	11,015
Total Business Rates Income 2022/23	**6,900**

B. Council Tax Calculation 2022/23

	No.	£
Budgetary requirement		**17,713,373**
- Revenue Support Grant		(224,804)
- Business Rates Distribution		(6,899,838)
= Council tax requirement		**10,588,731**
- Deficit on collection fund 2020/21		11,250
- Surplus on collection fund 2021/22		(11,406)
=Total Council tax income		**10,588,575**
Band D Equivalent properties	37,788	
Council tax (Band D)		**280.21**

C. Council tax increases 2021/22 to 2022/23, Bands A to H

Band	A	B	C	D	E	F	G	H
2021/22	**£183.16**	**£213.69**	**£244.21**	**£274.74**	**£335.79**	**£396.85**	**£457.90**	**£549.48**
Increase	£3.65	£4.25	£4.87	£5.47	£6.69	£7.90	£9.12	£10.94
2022/23	**£186.81**	**£217.94**	**£249.08**	**£280.21**	**£342.48**	**£404.75**	**£467.02**	**£560.42**

Appendix 2 (F): 2022/23 list of proposed budget savings/increased income

Theme	Directorate	Description	2022/23 £000	2023/24* £000	2024/25* £000	2025/26* £000	2026/27* £000
Efficiencies, funding changes and budget rebasing	Community	Refreshed council events programme after review of demand and impact	82				
	Community	Norman centre contract and efficiency improvements	6				
	Community	Deletion of unused grants budget	22				
	Community	Stationery savings -reduced stationary cost in line with current spend.	25				
	Development & City	Gypsy and Traveller Site Management – resulting from a change in provider of site management	4		50		
	Corp & Commercial	Household Notification Letters – cease sending every household annual confirmation of their electoral register entry.	30				
	Community	Housing Improvement Agency team to be funded from Disabled Facilities Grant	200				
	Development & City	Increase in planning fee income based on forecast demand	105				

Theme	Directorate	Description	2022/23 £000	2023/24* £000	2024/25* £000	2025/26* £000	2026/27* £000
Service Reviews	Community	Customer Contact service review - the savings as a result of a customer contact restructure.	106				
	Community	Efficiencies from the implementation of the customer and digital strategy from improved processes and channel shift.		112	160		
	Development & City	City Development service review	10				
	Corp & Commercial	Internal shared service – to assess how we can generate efficiencies through sharing of administrative functions	15	25	35	35	35
	Development & City	Review of waste and recycling collections – savings to be delivered through increased efficiencies of collection service		210	50		
	Community	Estimated longer term savings from move to community centre leases			16	49	
Fees & Charges	Community	The Halls – increased income assumptions after market analysis	10	10			
	Development & City	HMO licence fee increase based on 5yr licences	36	20			
	Development & City	Expansion of charges for Parking in parks – charges for parking in parks to be extended to car parks that have suitable infrastructure and space	25	10	10		

Theme	Directorate	Description	2022/23 £000	2023/24* £000	2024/25* £000	2025/26* £000	2026/27* £000
	Development & City	Review of Car Parking charges – charges have not been reviewed for a number of years, and new charges will be introduced to reflect the current market	360	480	120		
	Development & City	Review of Markets Income – the cost of renting a stall at the market increased last year for the first time in a number of years. This is a continuation of this process	38	38	38		
	Development & City	City Hall rental – income from potential rental of accommodation in City Hall	28	56			
	Development & City	Rental income from Old Carrow House following refurbishment as part of the Towns Fund project – income following associated capital expenditure to bring the building back into use.		100			
	Development & City	Introduction of food safety pre-inspection audits		10	20	24	26
	Development & City	Introduction of additional HMO licensing scheme				60	
Contracts	Development & City	Review of NCSL Contract – the specification for Grounds Maintenance and Street Cleaning is being reviewed to identify locations and activities that can be reduced or stopped, in consultation with stakeholders	195				

Theme	Directorate	Description	2022/23 £000	2023/24* £000	2024/25* £000	2025/26* £000	2026/27* £000
	Corp & Commercial	Reduction in contract costs for transactional banking services	53				
			1,350	**1,072**	**499**	**168**	**61**

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

Short Term Savings

Directorate	Description	2022/23 £000
Community Services	Temporary reduction in provision of council events	62
Development & City	Q1 Norwich Airport Industrial Estate income – decision has been made to sell the estate which is anticipated to complete at the start of Q2 resulting on one quarters income.	70
Development & City	Additional rent income from vaccination centre – anticipated income from the vaccination centre	47
Corporate	Risk-based deferral of commercial property reserve contribution	417
Corporate	2021/22 borrowing cost underspend set aside into an earmarked reserve to support the budget position in 2022/23	591
Corporate	Reduction in interest costs as a result of a lower borrowing requirement in 2022/23. This follows the decision to take £30m of Housing Revenue Account borrowing ahead of a planned loan repayment in March 2023; enabling the HRA to lock in favourable long term interest rates and reduce the cash borrowing need in year.	690
		1,877

Appendix 2 (G): 2022/23 list of proposed budget growth

Permanent Growth

Directorate	Description	2022/23 £000
Community	Additional staff resource for Environmental Strategy Team to support delivery of ambitious environmental agenda	60
Community	‘ New platform to improve quality of community engagement and council consultations	25
Community	To fund the cost of the IT service review / restructure.	61
Development & City	Planning & regulatory service review / restructure	143
Corporate & Commercial	Legal and Procurement service review – to support the services within the legal and procurement area in the capacity to deliver their team, directorate and corporate priorities effectively	115
Community	To upgrade our CRM system, including a new master data management system which is a key priority of the customer experience and digital strategy	90
Community	Additional mobile phone and lone worker system costs	80
Corporate & Commercial	Reduction in finance staff time to be capitalised	30
Development & City	Commercial property management and void costs – costs of property voids in terms of rates and service charges and rent collection fees for multi-let properties.	65
Development & City	Recycling contract costs in line with new contract.	35
	Other minor growth	10
		714

Short Term Growth

Directorate	Description	2022/23 £000
Community	Temporary increase in environmental strategy resource to support delivery of ambitious environmental agenda	30
Community	To fund the costs of ICT contracts. Savings have been made but the full £175k stretch savings have not been fully met.	58
Development & City	Biodiversity strategy evidence report to support development of planning policy	30
Development & City	East Norwich Masterplan development of SPD and stage 3	110
Development & City	Update to evidence base of HMOs across the city to support the potential for an additional licensing scheme	30
Development & City	Greater Norwich Local Plan – examination costs	100
Development & City	Contaminated Land Inspection Strategy – costs for desk-based assessments of sites	75
Development & City	Multi-storey car park asset life care plan – a structural inspection regime of the car parks in accordance with best practice	35
Development & City	Hold costs on Carrow House and Townshend House as part of the Towns Deal funded schemes – costs to cover void periods between construction completion and full letting, such costs covers interim rates, cleaning and service charges.	259
		727

Appendix 2 (H): Invest to Save Spend & Business Change Reserve Allocations 2022/23

	Invest to Save Reserve allocations	2022/23
		£000
1	Strategic funding role to enable access to grants and funding opportunities	45
2	Resource to support the expansion of charges for parking in parks	15
3	Building surveying consultancy to support asset management strategy – consultancy costs to improve data on assets including condition and energy performance information.	430
4	Professional advice to review the medium-term options to council accommodation with a view to reducing costs and generating income from the consolidation and use of space	80
5	Client property manager to continue service improvements to property services following the insourcing of property services	15
6	To fund the cost of additional technical IT resources to support the delivery of the Customers & digital strategy.	200
7	Revenues and Benefits overpayment and revenue collections resource	84
8	Joint venture transfer resource	8
		877

	Business Change Reserve allocations	2022/23
		£000
1	Transformation resource including change manager, graduate scheme members, programme manager and project accountant	250
2	Options appraisal for leisure provision	10
		260

	Commercial Property Reserve allocations	2022/23
		£000
1	Commercial property roof upgrades – improvements to roofs of two commercial properties to prolong life and reduce future liabilities for repair and maintenance.	125
2	Minimum Energy Efficiency works on general fund properties – improvements to commercial properties to ensure minimum energy efficiency standards are met and exceeded.	400
		525

There are also proposed transfers from other earmarked reserves in relation to the 2021/22 borrowing costs underspend (£0.591m) and from the Business Rates Pool reserve (£0.565m) to support the Carrow House capital project.

At this stage the figures are estimates of the required funding and other projects are expected to be identified during the year as part of the service reviews. Updates to the use of the Invest-to-Save and Business Changes reserves will be made through the budget monitoring reports taken to Cabinet throughout 2022/23.

Appendix 2 (I): Update on consultation responses on the proposed budget for 2022/23

This appendix gives members the results of the online consultation budget survey.

Summary:

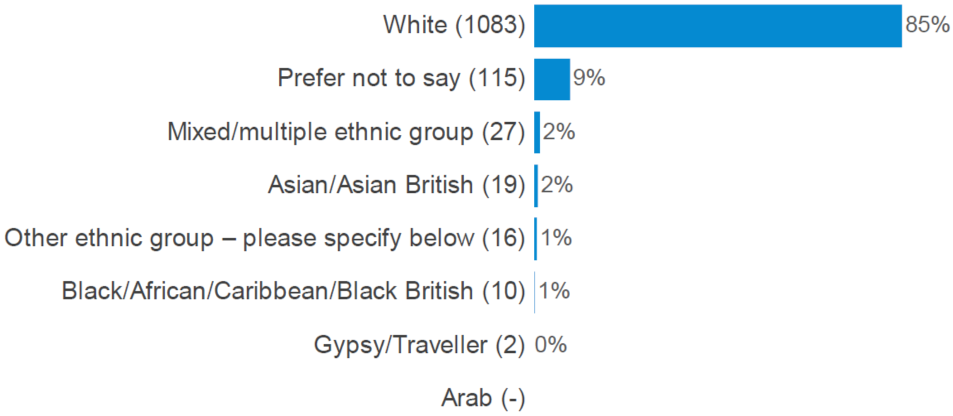
- The consultation received a total of 1307 responses.
- The majority of respondents either support or are indifferent towards increasing Council Tax (50% agree or strongly agree), with only 38% disagreeing or strongly disagreeing.
- A majority (62%) either agree or strongly agree that Norwich City Council should continue to provide council tax relief at 100% to residents on low incomes.
- A strong majority (80%) either agree or strongly agree that Norwich City Council should stop outsourcing services. This sentiment is also reflected by the open comment section.
- A majority (63%) either agree or strongly agree that the council should use its one-off reserves to smooth the budget gap.
- The three most valued services are waste and recycling, parks and open spaces, and housing services.
- Common themes throughout the open comments question, focusing on how the council might balance its budget, involved council operations (e.g. staff/offices/procedures), transport, and housing (among others).

Respondents' Profile:

The survey closed at midnight on Wednesday 19th January with a total of 1307 responses. The median age of those who responded was 49, this is significantly older than the Norwich median of 33.3. The survey did not ask any questions relating to gender. 85% (802) of respondents identified as white; this is less than Norwich as a whole (90.8% White) according to the 2011 Census (the latest data we have), but it is hard to know for sure due to the number of "Prefer not to say" answers received (9%). A full breakdown is shown in Figure 1. Other relevant respondent statistics include:

- 15% (192) of respondents identified as having a disability, while 77% (976) did not, and 8% (104) preferred not to say.
- The majority (56%) of those who responded work full time, with 15% also working part-time and 15% wholly retired from work. Only 1% (8) of the respondents are in full-time education.
- 83% (1068) of the respondents do not receive help from the council to pay their council tax, but 15% (190) do. 3% (33) replied "Don't know".
- 62% (802) of the respondents own their own home (with or without a mortgage), while many rent from the council (17%), from a private landlord (15%) or from a housing association (4%).

Figure 1. “Which of these groups do you consider you belong to?”



Full Results:

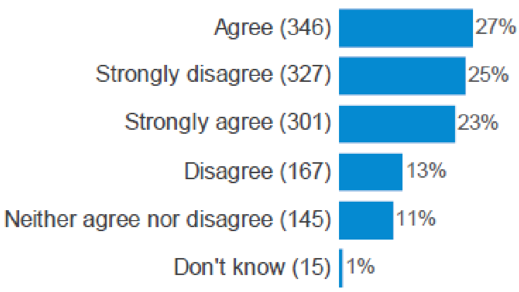
The following section breaks down the responses by question, little analysis/ commentary is provided as this is generally unnecessary when including the figures.

1. Please choose your FIRST most valued service from the drop-down list.

2. Please choose your SECOND most valued service from the drop-down list.

3. Please choose your THIRD most valued service from the drop-down list.

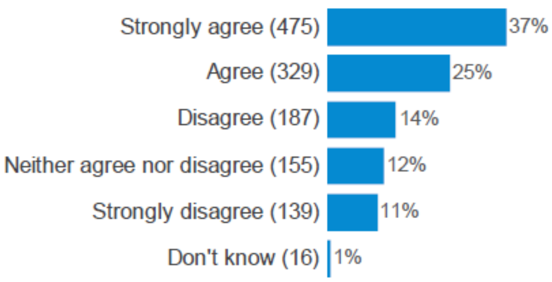
4. To what extent do you support the council raising its share of council tax by the maximum permitted level (subject to confirmation of up to 2 per cent) in 2022/23 to protect key services?



The majority either ***support*** or are indifferent to raising council tax.

- 50% strongly agree or agree
- 38% strongly disagree or disagree

5. To what extent to you support continuing to provide council tax relief at 100 per cent of those working age residents on low incomes?

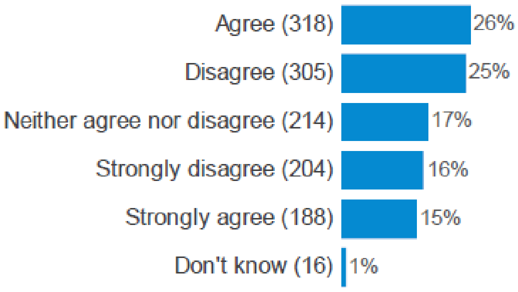


The majority ***support*** continuing to provide council tax relief at 100% to low-income residents.

- 62% strongly agree or agree
- 25% strongly disagree or disagree

6. To what extend to you agree that the council should review its assets by putting in place the following options?

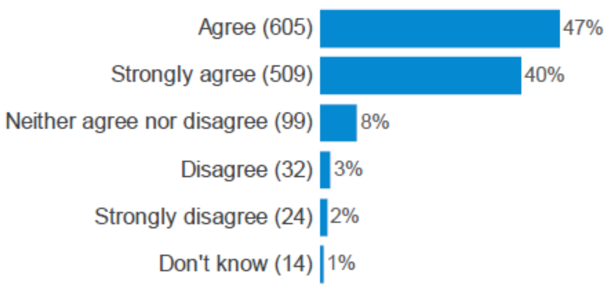
a) Review and dispose of assets



There is ***no clear majority*** supporting or opposing reviewing and disposing of assets.

- 41% strongly agree or agree
- 41% strongly disagree or disagree

b) Generate additional income from letting out our assets

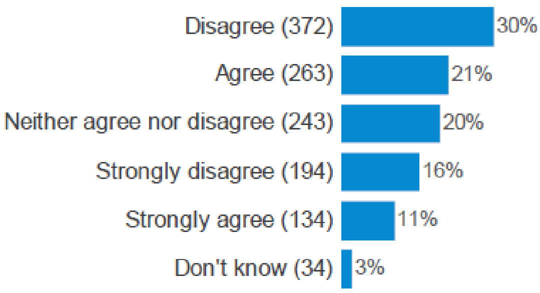


The majority ***support*** generating additional income from letting out assets.

- 87% strongly agree or agree
- 5% strongly disagree or disagree

7. To what extent do you agree that the council should review its contracts by putting in place the following options?

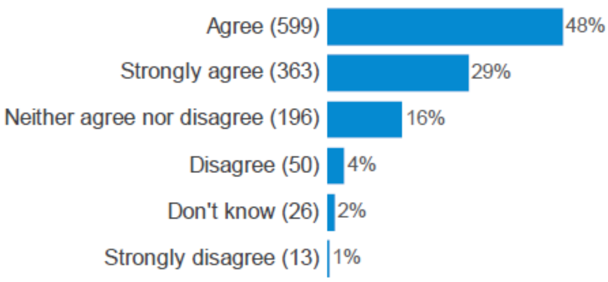
a) Reduce service delivery levels and costs at renewal



A significant proportion ***oppose*** reducing service delivery levels.

- 32% strongly agree or agree
- 46% strongly disagree or disagree

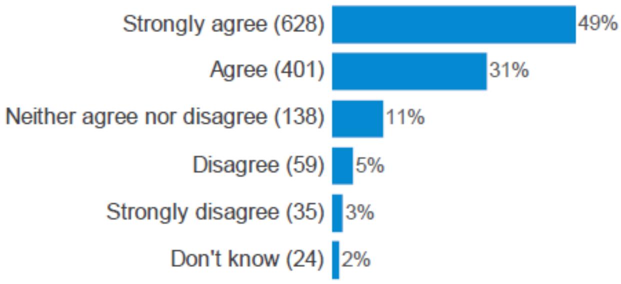
b) Improve service delivery for the same cost during the life of the contract



A majority ***support*** improving service delivery for the same cost.

- 77% strongly agree or agree
- 5% strongly disagree or disagree

c) Seek to create capacity in the council to deliver those services currently contracted for and stop using external contractors

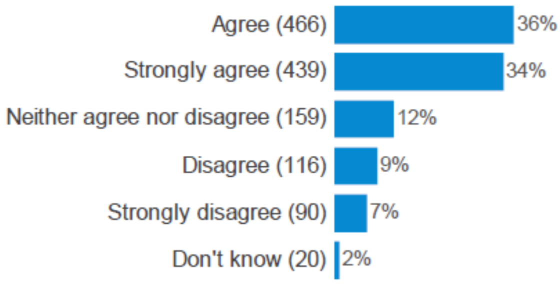


A majority ***support*** the council creating internal capacity and ending the outsourcing of services.

- 80% strongly agree or agree
- 8% strongly disagree or disagree

8. To that extent do you agree that the council should pursue opportunities for investment and growth proposals in its area?

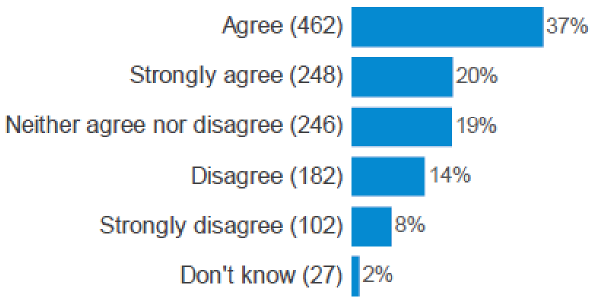
a) For social or mixed tenure housing schemes



A majority ***support*** pursuing opportunities for investment in social or mixed tenure housing schemes.

- 70% strongly agree or agree
- 16% strongly disagree or disagree

b) For commercial development

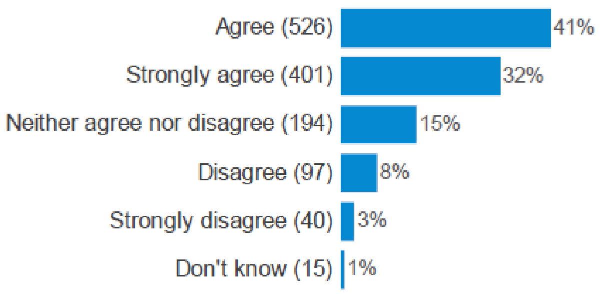


A majority ***support*** pursuing opportunities for commercial development

- 57% strongly agree or agree
- 22% strongly disagree or disagree

9. **To what extent do you agree that the council should review its services to residents?**

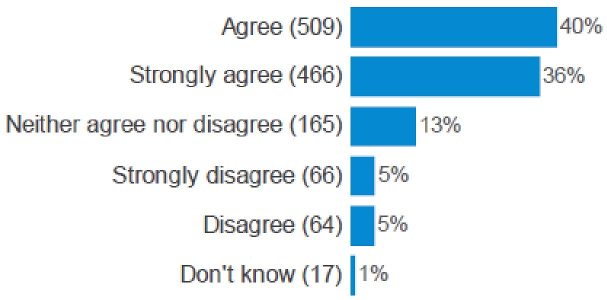
a) *Through increased use of information technology*



A majority ***support*** the council reviewing its services to residents with increased use of IT.

- 73% strongly agree or agree
- 11% strongly disagree or disagree

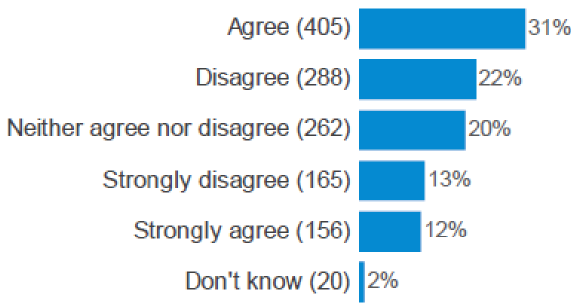
b) *Through hybrid working or more flexible work patterns for its staff*



A majority ***support*** the council reviewing its services to residents through hybrid working or more flexible work patterns.

- 76% strongly agree or agree
- 10% strongly disagree or disagree

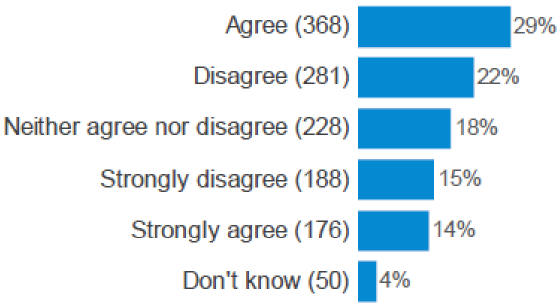
10. **To what extent do you agree that the council should prioritise increasing fees and charges for services to protect service delivery?**



A significant proportion ***support*** increasing fees and charges for services to protect delivery.

- 43% strongly agree or agree
- 35% strongly disagree or disagree

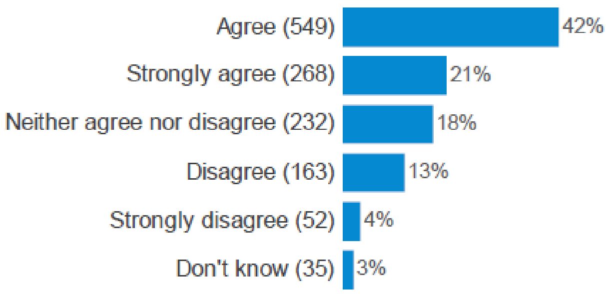
11. To what extent do you agree that the council should review its services and consider stopping some discretionary services?



A significant proportion ***support*** reviewing services and considering stopping some discretionary services.

- 43% strongly agree or agree
- 37% strongly disagree or disagree

12. To what extent do you agree that the council should use its one-off reserves to smooth the budget gap?



A majority ***support*** the council using its one-off reserves to smooth the budget gap.

- 63% strongly agree or agree
- 17% strongly disagree or disagree

13. Do you have any other ideas about how we can balance our budget through doing things differently, finding additional funding or making efficiencies?

Question 13 gave an open text box to answer this question, with respondents expressing their own ideas how Norwich City Council might balance its budget. Out of the 1307 responses, 653 gave additional comments. Due to the number of comments, these have been grouped into 10 key themes so that they can be analysed appropriately. These themes are, in no particular order, the following:

- Council operations (staff/offices/procedures)
- Council housing and related comments
- Transport-related comments
- Procurement and outsourcing of services
- Council-run events
- Revenue-raising ideas & comments
- Tax-related comments
- Local business-related comments
- Welfare-related comments (i.e. benefits)
- Miscellaneous

The following section will illustrate how many of the additional comments fell within each of these themes and will list a selection of comments that are both a) representative of the wider responses and b) insightful. The themes will be presented in order, with the most common appearing first. Comments have not been edited, so appear as typed by respondents. Comments often alluded to multiple themes, so the following percentages will not equal 100.

1. 37% (243) of the comments mentioned council operations related to, for instance, staff, offices, and procedures. A selection of these comments, chosen to reflect the wider tone, are below:

    - *“Reduce the amount of post you send out to households for communications and swap to other type of notices.”*
    - *“By renting out city Hall to businesses and not refurbishing the other council building unless absolutely necessary”*
    - *“Cut salaries of those in higher management and not offer such high salaries for new management recruitment”*
    - *“Focus on delivery of key services, e.g repairing houses and emptying bins rather than "engagement schemes" and one off projects”*
    - *“Freeze pay at top band levels in order to reduce staffing costs, as staffing costs is the biggest expenditure for the council. Reduce or scrap any yearly bonuses to senior and supervisory staff, like other public sector workers. This money could be diverted or invested into other services or money generating schemes.”*
    - *“From my own experience of working for local government, I would say there is scope for cost cutting in terms of reviewing systems and procedures, staffing and cutting back waste in the use of resources such as stationery.”*
    - *“Nothing specific, however, I would imagine that most of your processes are horribly bureaucratic and inefficient driven largely by institutionalised apathy and lethargy.”*
    - *“Reduce allowances for expenses, cut down on unnecessary management, pay cuts for senior managers. Sell City Hall and move into a more affordable, smaller building with staff working remotely as much as possible. Use technology to your advantage.”*
    - *“Share staff and deduplicate services with NCC and district councils. Structures services around population/customer needs and not outdated organisational structures”*

2. 29% (191) of the comments were grouped under “Miscellaneous”; this category accounts for the fact that not all responses would fit into one of the themes, so the comments include an eclectic mix of ideas, comments, and criticisms:

    - *“Why isn't more being done to create a better family-orientated nightime economy on Gentleman's Walk and around the market? In European countries such a space would be the focal point of a city with bars and cafes.. etc... not 'phone shops and opticians. In short, there's nothing drawing family groups into the city centre at night and its daft to limit footfall to just shop opening hours when there is money in licensing ...business rates etc... By having more family-friendly hospitality businesses on Gentleman's Walk NCC would stretch the retail day.. whereas at present the heart of the city dies at 5.00pm”*

- *"Allow and empower community groups to take on volunteers for some tasks like keeping streets clean so that Norwich can once again call itself a fine city."*
- *"No. Please do not cutback services any more. If possible. We are feeling the effects of losing vital services, especially ones that support and protect vulnerable people"*
- *"Concentrate on making Norwich attractive to tourists."*
- *"I would consider (1) an increase on tourism advertising, (2) taking a levy off private car parks, (3) a city-centre drop-off area for cars in return for a payment (like Stansted airport), (4) a water taxi park and ride, (5) obtaining sponsorship of street cleaning."*
- *"Reduce to rates for independent retailers in city centre in order to attract more footfall and charge more for the services they use - parking, office space etc. Find more space for outdoor dining and hospitality which will also attract more footfall. In order to attract more visitors to our city we need to show that it is a good and safe night out."*
- *"What about running a local lottery. Run an event to raise money"*
- *"Make more green spaces in the city which could encourage footfall and potentially regenerate the high street and increase income to city council"*

3. 25% (166) of the comments mention transport-related issues. While many of these relate more to Norfolk County Council policy, a selection are included below for illustration. There was a significant proportion of anti-bike lane and/or bus lane sentiment, but also plenty of praise for these initiatives. For instance:
    - *"Stop put cycling and bus lanes when roads are not wide enough making all the road closure and so many shops going out of business and before long people will just stop going into city"*
    - *"I am unsure if the council foots the bill for continuous road alteration projects for cycling or pedestrianisation, but this could be reduced until funds are more readily available."*
    - *"Become an eco city that massively improves cycle access and pathways by closing many main car routes into the city - see Amsterdam"*
    - *"Create more cycle lanes and bike infrastructure. Consider low traffic neighbourhoods. Charge for motorists driving into the city centre, and put towards initiatives to benefit the environment and encourage more cycling and walking."*
4. There was also a considerable amount of comments in favour of introducing a congestion-charge/ULEZ type scheme in Norwich city centre. A selection of comments include:
    - *"A congestion charge on non electric vehicles would be one idea."*
    - *Car-use causes major social, economic and environmental issues in Norwich. Not just congestion, pollution and the enormous CO2 emissions but by having a negative impact on the economic viability of communities (lack of good small grocery shops etc...). Surely Norwich City Council now needs to start charging cars to enter the city..*
    - *"Congestion charging for vehicles in the city centre - not enough drivers using park and ride, good for the city, pollution and environment"*

- *“Introduce a scalable ULEZ charge for vehicles entering the city with the most polluting and powerful paying most.”*
- *“Introduction of a tiered congestion charge in the city would be a logical step to generate revenue and address the horrendous level of congestion that plagues our fine city. It would also allow Norwich to begin to stand up for environmental issues, with unecessarily large vehicles (eg SUVs) being penalised hardest.”*

5. There was a mix of comments relating to parking in and around the city. Again, there is a mix of comments with many arguing that parking is too expensive, but a sizeable proportion arguing that the council should increase fees to maximise revenue from carparks. For instance:
    - *“Increase parking charges using auto reg systems to monitor”*
    - *“Increase car parking charges to the maximum.”*
    - *“Allow people to who have more than 2 adults living in the house and paying council tax to buy extra parking permits”*
    - *“Hurting peoples wallets in car parks will not attract them to the city.”*
    - *“car park fees are extortionate and people just won’t shop there”*
6. 14% (89) responses focus on council housing related issues. A selection of these are included below:
    - *“Build more houses for renting that the revenue goes to NCC”*
    - *“using some reserves of capital to build more properties and buying properties to be rented out for additional income"*
    - *“Invest in repair faster as long term delays create more damage to council and tenant”*
    - *“The subsided housing for council residents should be reviewed and subjected to new household income test. Residents with a greater ability to pay market value rent should be made to do so and not be subsidised by the council.”*
    - *“Dispose of housing to a Housing Association or similar”*
7. 10% (65) of the comments focus on the council’s procurement strategy and outsourcing of services. The vast majority of these relate to outsourcing and, as question 7c has already illustrated, most of these are in favour of bringing services back in house. Comments include:
    - *“Being more rigorous in contracting out services and negotiating fees, particularly roadworks and maintenance services.”*
    - *“Decrease in using outside contractors”*
    - *“Efficiencies - stop using costly consultants and find the skills in house by developing those skills in your staff.”*
    - *“Make sure that the council is as efficient as possible and use your own employees to provide services. Don’t use external contracts.”*
    - *“Outsourcing contracts can be more expensive and are used for convenience. I’d like to see councils creating their own jobs and taking some control away from the private sector.”*

- *“Stop all contracting - if an external company is making profit from a council contract then it's clear the council can reduce that cost by doing that service themselves at a reduced cost - lets stop external companies making profit from our services.”*

8. Several comments question the council’s current procurement strategies, with several specifically mentioning the Preston Model. Examples include:

    - *“Use local suppliers wherever possible rather than huge outsourcing companies; bring as much as possible in house or use local companies to supply services, taking the example of Preston”*
    - *“Try to buy goods and services locally as in the Preston model.”*
    - *“A procurement policy that prioritises local businesses and social enterprises, this would boost the local economy, reduce the council's carbon footprint and make a positive social impact on the city's residents. I think residents would accept a council tax rise more readily if they knew the money was being invested locally.”*

9. 8% (54) of responses mentioned (council) tax-related issues, for instance:

    - *“Adopt a more robust strategy for recovering unpaid Council Tax, Business Rates etc”*
    - *“Re-banding (or lobbying for) council tax, so higher value properties pay a bigger contribution.”*
    - *“Please do not raise council tax anymore.”*
    - *“Stop increasing council tax and business rates every year. You're aggressively attacking the working class.”*
    - *“Re weight the council tax levels to increase the cost of the higher cost bands. Norwich is a comparatively low council tax city and higher earners in larger properties could afford to pay more for living in a fine city. But there is also a significant low pay sector that needs protection from living cost increases.”*

10. There were also several comments noting support for increasing council tax, for instance:

    - *“I am a pensioner with only a government pension but I would be prepared for an increase in council tax to help pay for the wonderful amount of services we get.”*
    - *“No but I feel very happy to pay increased council tax as I firmly believe in quality council services”*
    - *“We are fortunate to have many discretionary services and it seems to me that the Council may need to consider them carefully. Increases in fees are desirable but the less well-off must not be forgotten. Thank you for what you do”.*
    - *“Increasing council tax and price for services is a better option for me than reducing services.”*

11. 6% (40) of responses gave ideas as to how the council could increase revenue, or suggested profit-making ideas, for example:

    - *“Introduce a tourism hotel levy.”*

- *“Create small units that the council rents out to start up businesses. This is an urgent requirement within Norwich”*
- *“Can the council run a lottery to raise money? This seems a really good way for charities to raise money.”*
- *“Look to invest in sustainable technologies including local generation of power”*
- *“Personally I believe you should employ more parking wardens and generate money through fines , as there is still many cars parked illegally”*

12. 6% (39) of responses gave comments relating to local businesses, mainly focusing on how businesses can be better supported. For instance:

- *“Promote Cafes to open on Gentlemans Walk , put tables and chairs out across the street during the Spring -Autumn period. Beautiful as it is when empty at night, that whole area of cultural beauty is kept dead, like a ghost town at night. Promote family cafes, not phone shops..”*
- *“Make more commercial premises available to small businesses by offering reductions in business rates. The city centre is facing challenges and any help to improve the viability of commerce would help the council’s coffers long term.”*
- *“Maybe reduce rents on some of your city centre commercial properties to encourage businesses to fill empty shops.”*
- *“Reduce to rates for independent retailers in city centre in order to attract more footfall”*
- *“Reducing rates on hard to let commercial properties to boost neighbourhood economies.”*

13. 6% (38) of responses gave comments relating to council-run events, with many comments claiming that cutting spending on these should be a priority:

- *“In times of budget deficits do you really need to spend so much money on civic events? e.g. Lord Mayors Procession, Fireworks Display etc etc...”*
- *“Cut spending on fireworks.”*
- *“Maybe reduce fireworks displays/ Christmas decorations”*
- *“Reduce spending on cultural or entertainment projects, unless they are forecast to produce additional income for the council.”*
- *“The lord mayor's parade, fireworks & new year fireworks are an unnecessary waste of public money”*

14. 4% (28) of responses gave comments relating to welfare (i.e. benefits) issues, with comments including:

- *“Better detection of - and action against - fraudulent claims on council support and services.”*
- *“Not sending multiple assessments of Housing/Council tax benefits in different envelopes requiring payment. Why send out multiple configurations at all?”*
- *“The subsided housing for council residents should be reviewed and subjected to new household income test.”*
- *“Cut back on councils office costs and cut befits to the unemployed”*

- *“Stop wasting money by ensuring those that claim benefits are actually entitled.”*

HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN AND 2022/23 BUDGET

Introduction

3.1 The city council owns, lets and manages approximately 14,500 homes and estates and provides services for approximately 3,500 leaseholders who own homes within its buildings. The money that tenants pay in rent, coupled with income from a small number of other assets, goes into the 'ring fenced' Housing Revenue Account (HRA). It is this money, alongside receipts for sold properties, any grants received and borrowing that pays for services to our tenants, building new homes and the repair and improvement of our tenant's homes.

3.2 As we continue to support our residents to manage and recover from the impacts of the Pandemic over the last year, we have seen an increase in demand for the services we provide to support our most vulnerable residents and those with complex lifestyles. We have acknowledged issues in relation to health, safety and compliance in our homes which we are working to rectify, and we have prepared to transfer our building repairs and maintenance services to our own company and bring our property services back to the city council from the 1st April 2022.

3.3 Going forward we face the challenge of funding improvements our council homes in line with our zero carbon ambitions. We will implement and meet the requirements outlined in the draft Building Safety Bill which bring forward necessary reforms to building and fire safety, and the Social Housing White Paper which sets out a Charter for Social Housing Residents and outlines plans for new consumer regulation, a strengthened Housing Ombudsman to speed up complaints resolution, and proposes future sector wide reporting against tenant satisfaction measures.

3.4 The current HRA Strategy 'Fit for the Future' describes our four primary goals:

- Delivering new homes
- Maintaining and improving condition of existing housing
- Improving the use and management of our existing housing
- Improving our neighbourhoods

3.5 The HRA budget 2022/23 reflects and underpin the priorities we have set to meet our ambitions and the challenges ahead.

Delivering new homes

3.6 The council works in partnership with registered providers, charities and developers, and its own wholly owned housing company, to increase the supply of council and housing association homes. Over the next 5 years, approximately 220 new homes are planned to be built on small and medium sized sites, including at Mile Cross, Argyle Street and Three Score.

Maintaining and improving condition of existing housing

3.7 Each year more that £10m is spent on repairing and maintaining our tenants' homes. From the 1st April 2022, the city council's new company, Norwich City Services Ltd will deliver these services. In 2022/23 a new approach will be developed to deliver a stronger, more responsive, and efficient service for our tenants. New services will be implemented and improved over a three-year period up to 2025.

3.8 Stock condition surveys of our homes form the basis of a 30-year investment plan and capital improvement program. The work which is planned to maintain and improve our existing homes is based on meeting the 'Norwich Standard'. The national Decent Homes standard is currently under review, alongside this review we will review our own 'Norwich Standard'.

3.9 Our major works investment programs were disrupted during 2020/21 by the lockdown restrictions implemented as part of the Pandemic response. It has taken time to catch up on delayed works and this will continue as necessary in 2022/23. We have committed to funding a programme of £23.755m over the next 12 months.

Improving our neighbourhoods

3.10 Our ambition is for all our neighbourhoods to be clean and well cared for, feel safe to live in and have facilities and activities that provide for the community. We know that there are some neighbourhoods where we need to improve standards.

3.11 This year we will continue to invest £0.820m in our programme of estate works, continue to resource and fund the reducing inequalities action areas (RITAs) and undertake a full review our estate services and standards. We will set a robust performance framework to drive improvements and residents' satisfaction.

3.12 We will also develop a new community safety strategy and review our anti-social behaviour services; this is in addition to our ongoing programmes to improve community safety and deter crime.

Improving the use and management of our existing housing

3.13 Overall demand for housing, the services and support required to sustain and retain a tenancy is increasing. This year we will invest in developing a new approach to service delivery, one which will seek to provide early intervention and the right level of support for our residents, at the right time. We will bring services and partners together where appropriate to improve services for residents.

3.14 We will develop a new asset management strategy, in which capital investment and revenue spending programmes take account of the age and condition of our homes, the future needs of the residents of Norwich, and the need to respond to new agendas such as climate change. Options to consider will be to remodel existing homes and buildings, and/or redevelop some properties to improve suitability and condition. We will continue to invest £1.400m in services which deliver disabled adaptations.

3.15 Investment of £0.387m in 2022/23 in continued development of our new housing IT system will provide enhanced digital services, meaning that our tenants can self-serve and access account information online. In response to the Social Housing White Paper, we will develop a wide range of tenant involvement opportunities to engage our tenants in the management and shaping their services.

The HRA Business Plan

3.16 The HRA 30-year Business Plan is refreshed each year to reflect the updated budget. The Business Plan is based on data sets, which includes stock condition data and rental income streams, and a set of financial assumptions e.g. inflation and loan costs.

3.17 The refreshed HRA Business Plan confirms that the income, investment and expenditure the Council has budgeted for in 2022/23 is sustainable within the 30-year term.

3.18 In 2022 we will carry out a comprehensive review of the HRA business plan (including stock condition data) which will support us in understanding how HRA financial capacity (over the 30-year term of the plan) can be aligned to invest in existing priorities and ambitions to meet new investment challenges arising from building safety legislation and climate change targets, including retrofitting our homes.

Financial Background and Budget

3.19 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.

3.20 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 2021/22 Outturn

3.21 The latest position on the Housing Revenue Account (HRA), as at period 9, shows a forecast underspend of £1.576m.

3.22 On the 1st April 2022, building maintenance and repairs services will be delivered by Norwich City Services Ltd (a Council wholly owned company). The services are currently delivered by Norwich Norse Building Ltd, which is a joint venture company owned by the Council and Norfolk Property Services. The finalisation of outstanding contractual issues and the winding up of the company will take place during 2022. Funding will be drawn from HRA balances when financials are fully reconciled and agreed.

3.23 On 12th November 2021, members approved the creation of a new HRA Compliance earmarked reserve to enable any HRA amounts established to support the Compliance Improvement Plan, unspent at year end, to be utilised in future years in relation to compliance works to HRA properties. approved the utilisation of HRA revenue repairs and maintenance budget to fund revenue works relating to the Compliance Improvement Plan.

Proposed 2022/23 Revenue Budget

3.24 The budget proposes gross revenue expenditure of £70.364m and gross income of £70.610m, generating a surplus of £0.246m, as shown in appendices 3 (A) and 3 (B). It is proposed to utilise this surplus along with a further £6.096m of HRA reserves to make a revenue contribution of £6.342m towards the funding of the 2022/23 HRA capital programme.

Chart 3.1: 2022/23 HRA gross revenue expenditure budget

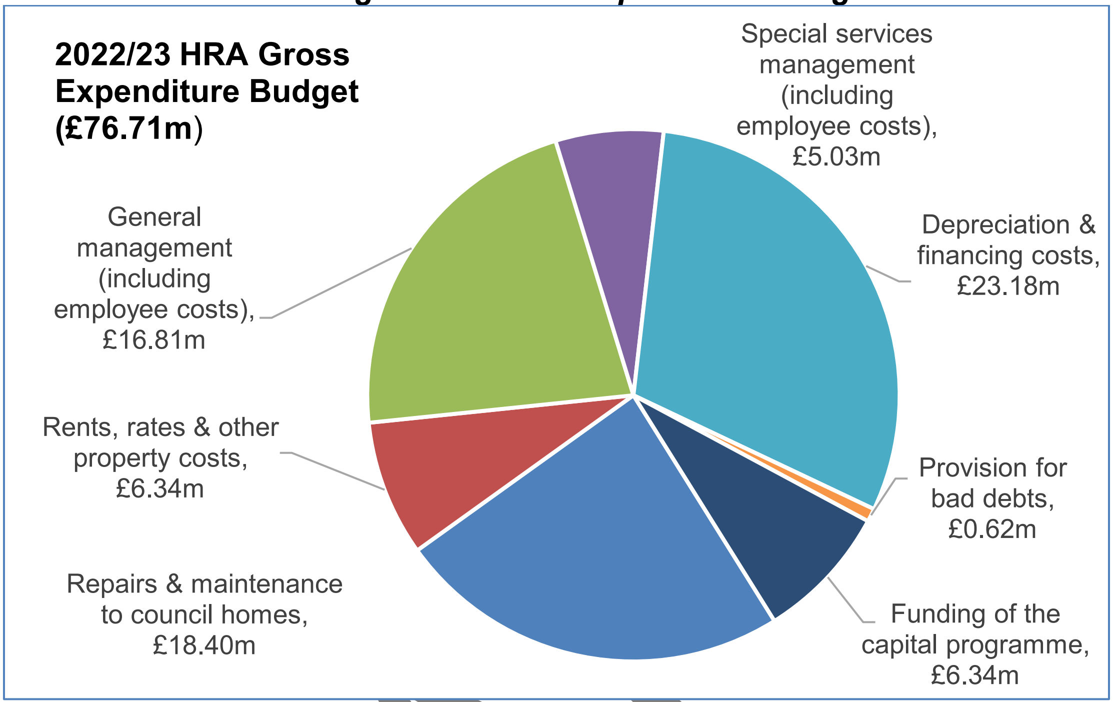
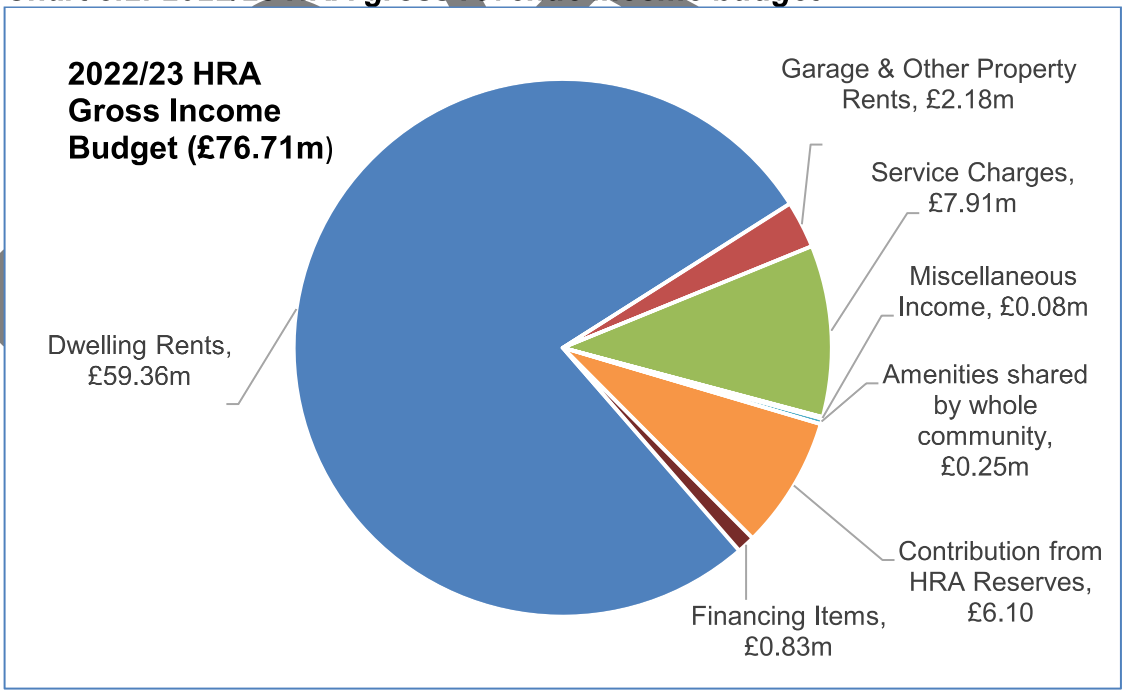


Chart 3.2: 2022/23 HRA gross revenue income budget



3.25 The key movements in the base budget (i.e. 2021/22 approved budget) to arrive at the proposed 2022/23 budget are summarised in Appendix 3 (C).

3.26 It is proposed to create an earmarked reserve to fund the costs associated with HRA service transformation linked to the programme of review and improvement detailed in paragraphs 3.3 to 3.18. This reserve will be used to fund costs linked to the programme which are not delivering specific savings, for example project management and benchmarking with the release of funds being approved in accordance with paragraph 26 of the Financial Regulations.

HRA Business Plan

3.27 Longer term financial strategy for the HRA is based upon a 30-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.

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

3.29 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

3.30 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.

3.31 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.

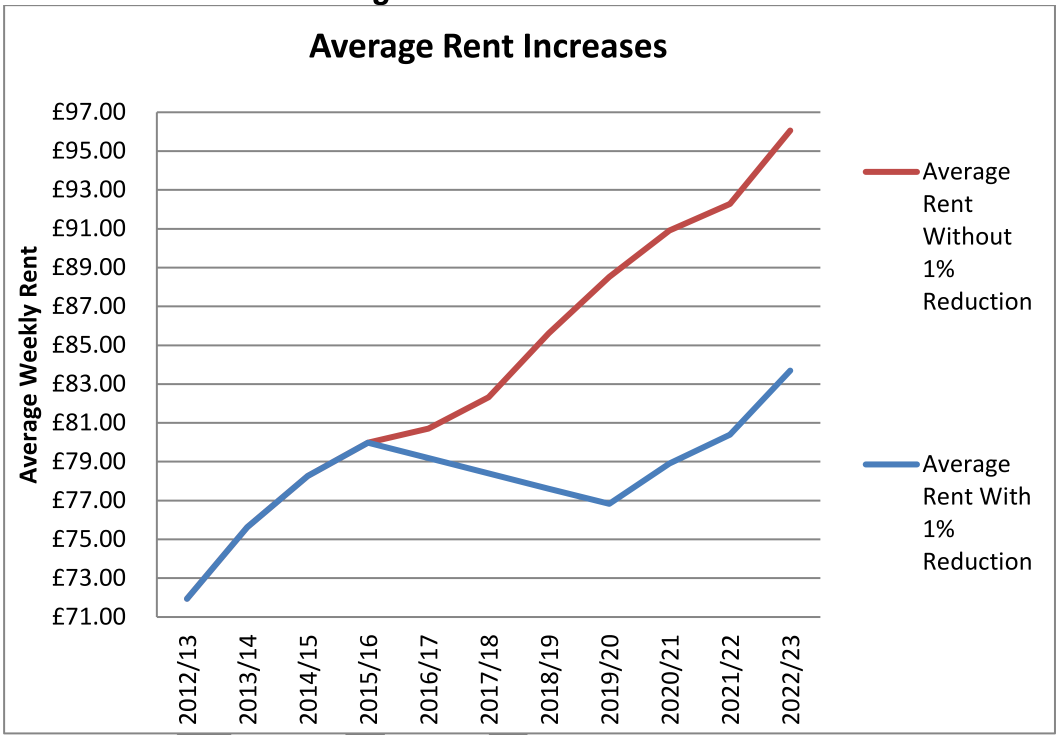
3.32 This results in a dwelling rent increase for 2022/23 of 4.1% which would generate an average weekly rent increase of £3.30 for Norwich tenants. The table below shows the minimum and maximum rent increases at 4.1%.

Table 3.1: Proposed dwelling rent increase 2022/23

Item	Average £	Maximum £	Minimum £
Rent 2021/22	80.40	142.57	57.23
CPI (@ 3.1%)	2.49	4.42	1.77
Additional 1%	0.80	1.43	0.57
Rent 2022/23 (at 4.1%)	83.70	148.42	59.58
Increase	**3.30**	**5.85**	**2.35**

3.33 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 4.1% would mean that the average weekly rent is still lower than the 2018/19 average weekly rent had the reduction not been enforced.

Chart 3.3: Historic average rent



3.34 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 2022/23

Rent Increase	Average increase	Resulting Loss of Rental Income over period	
		30 Years	60 Years
Formula 4.1%	£3.30	-	-
No increase	£0.00	£85.107m	£208.259m

3.35 Tenant Involvement Panel representatives have been consulted over the proposed increase at a meeting on 10th January 2022. The impact was discussed at length with concerns raised regarding the effect of an increase on those struggling financially in the current climate, particularly in light of the continued Covid-19 pandemic. 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 4.1% in line with the Rent Standard 2019.

3.36 For 2022/23 it is proposed to increase garage rents by 3.1%, based on CPI in September 2021.

3.37 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.

3.38 The bad debt provision budget was increased for 2021/22 to reflect the impact on rent collection and associated bad debt resulting from the Covid-19 pandemic combined with the continued roll out of Universal Credit. Based upon current forecasts, it is proposed that this provision may now reduce for 2022/23, although an additional provision of £1m included within prudent minimum balance to mitigate against further pressures will remain.

3.39 The void turnaround (period during which a property is unoccupied) has increased to 44 days. Initially this was due to the Covid-19 pandemic, but a backlog of voids work now exists which is resulting in longer periods between re-lettings. Work is underway to secure additional contractors to address the backlog of works and properties are being let promptly as soon as they are ready. The impact of the backlog is likely to last until at least the end of quarter 2 of 2022/23.

3.40 The current budget provision is calculated on a void rate of 0.80%, which equates to rental income loss for void periods of £0.483m for 2022/23.

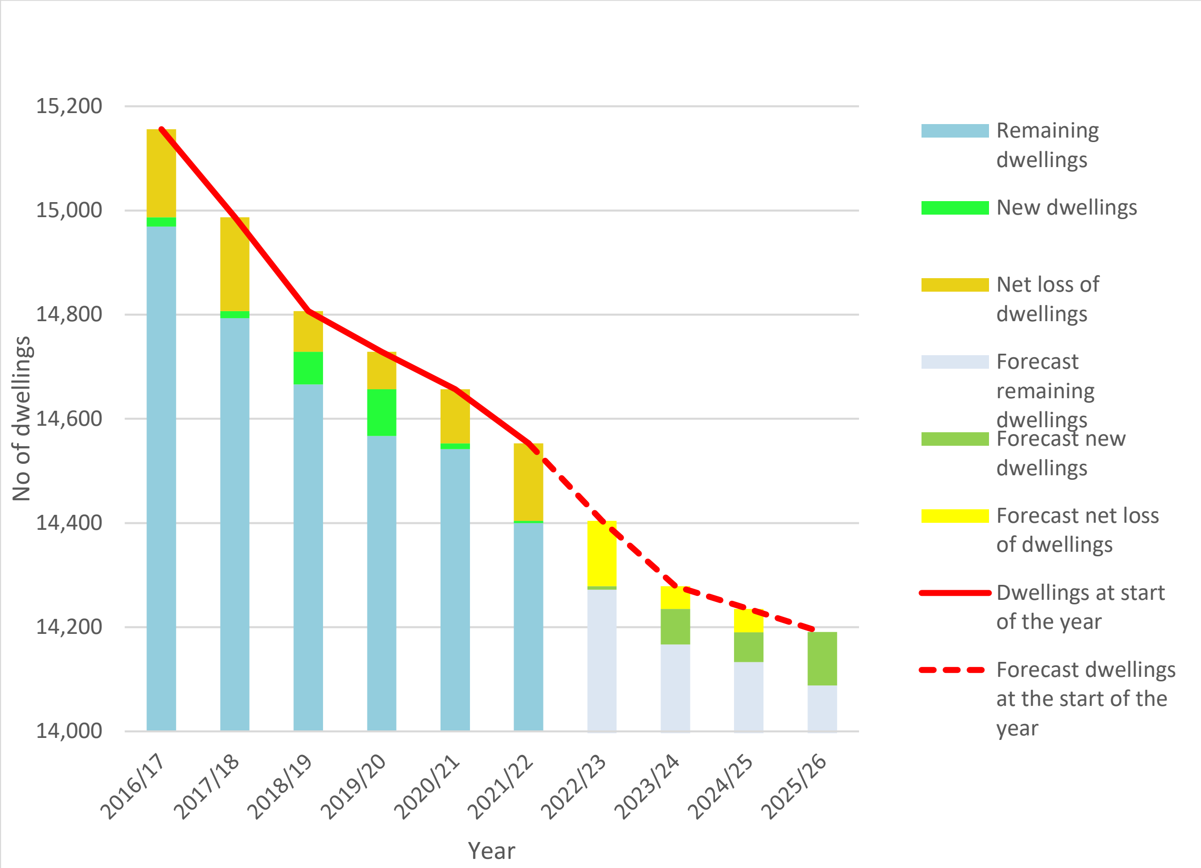
Council dwelling stock levels

3.41 Following a reduction in 2020/21, the number of Right-to-Buy purchases of HRA dwellings has started to increase during the first half of 2021/22. This is reflected in the business plan, but it is anticipated that although the numbers of purchases may increase again in the short term, they will start to reduce in coming years, with a loss of 130 homes in 2022/23 and 110 in 2023/24, reducing to 100 homes each year for the following 5 years.

3.42 Over the past five years, 756 homes have been lost from social rent. Whilst the council is ambitious in its plans to build new social housing to meet local need, these are at risk of being subject to Right to Buy.

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

Chart 3.4: HRA dwelling stock movements



Capital expenditure plans

3.44 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 2022/23 capital budget).

3.45 The proposed HRA capital programme is based upon the HRA Strategy which contains the following neighbourhood housing primary goals:

- 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

3.46 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 2022/23).

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

3.48 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):

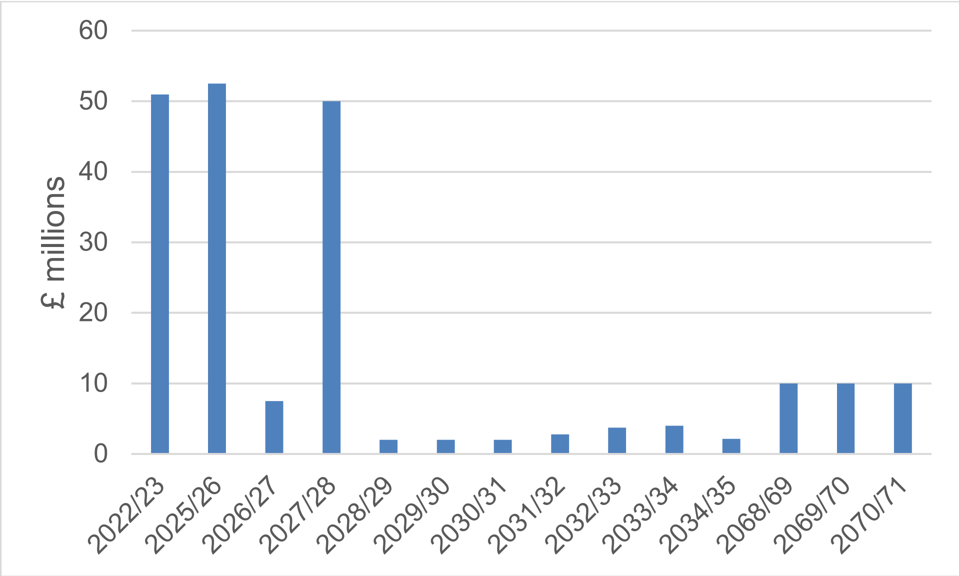
1. Right-to-Buy Retained ‘One for One’ capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. General HRA capital receipts
5. General reserves
6. Revenue budget contributions
7. Borrowing

3.49 The current HRA Capital Financing Requirement (the need to borrow) is £207.517m. The most recent HRA external borrowing of £30m has been taken in advance to support the refinancing in 2022/23 of an existing loan of £49m which formed part of the £149m loan undertaken to fund 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 24 years ago.

3.50 HRA assets are currently valued at £833.529m (31 March 2021), which against a borrowing requirement of £207.517m equates to a loan-to-value gearing of 24.896%. This is lower than the national average gearing for local authorities of 28% and the national average for registered providers which is in excess of 60%.

3.51 Chart 3.5 sets out the redemption dates and values of current HRA external borrowing. The most recent borrowing in 2021 and 2012 is represented by loans totalling approximately £179m from the Public Works and Loans Board, whilst all other loans shown constitute historic borrowing which will be repaid within 13 years.

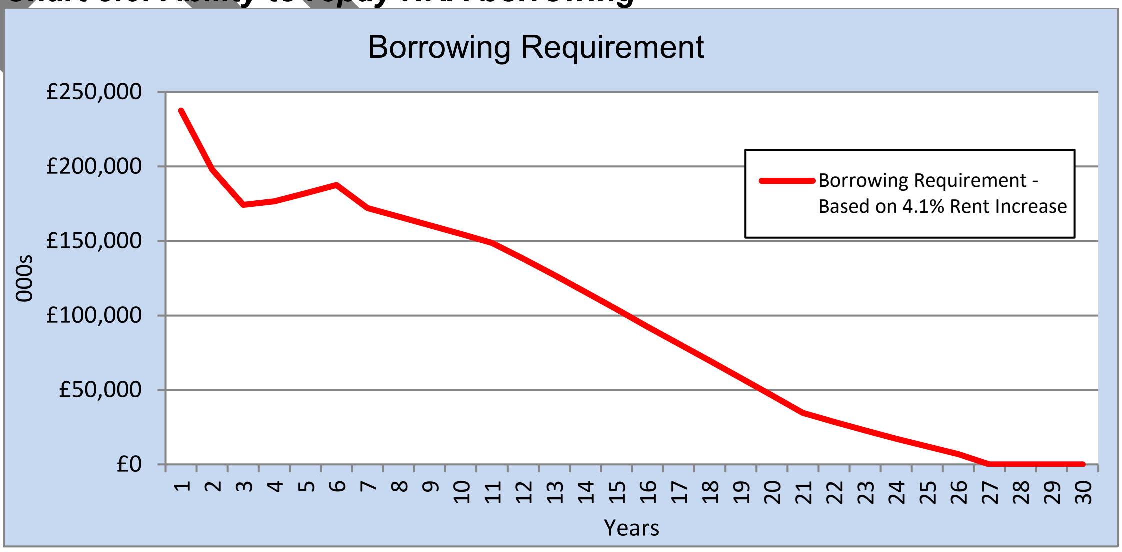
Chart 3.5: Existing HRA external borrowing



3.52 The 2021/22 HRA capital budget proposed in section 4 of this report does not require any new borrowing, although it is anticipated that in order to deliver significant levels of new social housing, additional borrowing will be required in future years.

3.53 The chart below shows that the implementation of a rent increase in line with the government formula (CPI+1%) of 4.1% will enable all borrowing assumed in the HRA business plan to be repaid within 26 years. Any increase lower than government formula will extend the repayment period. The chart also demonstrates that the business plan remains sustainable over the 30 year planning period.

Chart 3.6: Ability to repay HRA borrowing



HRA Reserves Position

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

Table 3.4: Estimated HRA reserves position

Item	£000
Brought Forward from 2020/21	(43,368)
Budgeted utilisation of balances in 2021/22	10,640
Adjustment to forecast utilisation of balances in 2021/22	(9,519)
Forecast HRA underspend 2021/22	(1,576)
Carried Forward to 2022/23	**(43,823)**
Proposed utilisation of balances in 2022/23	6,802
Carried Forward to 2023/24	**(37,021)**

3.55 The level of general reserves is forecast to reduce in 2022/23, but this is due to the council's significant planned investment in new social housing during the year. The estimated reserves to carry forward into 2023/24 remain substantial (£37.021m) which not only provides a flexible funding resource for the HRA, but also ensures the financial resilience of the account and provides the council with options for service delivery and the funding of future capital expenditure whilst managing overall debt.

3.56 It is proposed that the prudent minimum level set for the HRA reserve should remain unchanged for 2022/23 as set out in Table 3.5. Provision has been made for the risk of additional costs arising from the impact of welfare reforms and the Covid-19 pandemic on the economy and jobs in the city. Further provision is also made for potential interest costs that may arise from having to pay over unspent retained one for one Right to Buy receipts to central government plus other potential risks and unforeseen events.

Table 3.5: Prudent minimum level of HRA reserves

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

Appendix 3 (A): 2022/23 proposed HRA budget by service

Division of Service	Budget 2021/22 £000	Budget 2022/23 £000	Change £000
Repairs & Maintenance	14,273	18,395	4,122
Rents, Rates, & Other Property Costs	5,875	6,336	461
General Management	14,315	16,813	2,497
Special Services (not provided to all tenants)	5,119	5,025	(94)
Depreciation & Impairment	23,176	23,176	0
Provision for Bad Debts	910	619	(291)
Gross HRA Expenditure	**63,669**	**70,364**	**6,695**
Dwelling Rents	(58,179)	(59,358)	(1,178)
Garage & Other Property Rents	(2,138)	(2,177)	(39)
Service Charges – General	(7,860)	(7,914)	(54)
Miscellaneous Income	(82)	(82)	0
Amenities shared by whole community	(254)	(254)	0
Adjustments & Financing Items	(196)	(827)	(631)
Gross HRA Income	**(68,708)**	**(70,610)**	**(1,903)**
Total Housing Revenue Account	**(5,039)**	**(246)**	**4,792**
Revenue contribution to capital	15,679	6,342	(9,336)
Contribution to/(from) HRA reserve	(10,640)	(6,096)	4,544
Total	**0**	**0**	**0**

Explanation of key variances:

- Repairs & maintenance costs have increased by £4.122m. Included within this increase is short-term growth of £2.130m for the backlog of repairs, £0.463m for additional sub-contractor costs for the first year only of the NCSL contract and £0.150m for compliance works. Permanent growth includes £0.697m for the increased cost of repairs, £0.295m of repairs contingency to cover increases in material costs and £0.200m for compliance works.
- Rents, rates & other property costs have increased by £0.461m, £0.250m of this is to cover an update to the HRA stock condition survey.
- General management costs have risen by £2.497m, which includes a £0.500m contribution to a service transformation reserve, £0.492m for additional staff (building safety managers, asset consultants, senior housing team and apprentices), £0.396 increased corporate recharges, £0.387m to improve system and service working practices following the implementation of new IT systems and £0.144m as the net cost of the housing delivery team.

Appendix 3 (B): 2022/23 proposed HRA budget

Division of Service	Budget 2022/23 £000
General repairs	3,683
Major & minor repairs	3,558
Other repairs	108
Repairs contingency	295
Void repairs	4,023
Heating servicing & repairs	1,800
Structural, drainage, watermains & insulation	1,340
Electrical & mechanical servicing & repairs	959
Compliance works	708
Painting programme	600
Minor disabled adaptations	250
Estate aesthetics	150
Repairs recharges	1,026
Rechargeable repairs	(105)
Repairs & Maintenance Total	**18,395**
Rents, rates, & other property costs Total	**6,336**
Housing management costs	1,061
Neighbourhood services & void management	2,638
Tenancy services & support	224
Anti-social behaviour, domestic abuse & specialist support	1,350
Income collection	1,867
Innovation & improvement	692
Home ownership	655
Transformation reserve	500
Contingency	250
Housing delivery	575
Property related costs	66
General management recharges	6,934
General Management Total	**16,813**
Estate management	2,580
District heating	560
Sheltered housing service	1,182
Caretaking service	703
Special Services Total	**5,025**
Depreciation & impairment Total	**23,176**
Provision for bad debts Total	**619**
Gross HRA Expenditure	**70,364**

Division of Service	Budget 2022/23 £000
Dwelling rents	(59,358)
Garage & other property rents	(2,177)
Service charge income	(7,914)
Miscellaneous Income	(82)
Amenities shared by whole community	(254)
Adjustments & financing items	(827)
Gross HRA Income	(70,610)

Appendix 3 (C): 2022/23 movements from the approved 2021/22 base budget

Item	Adjustment to Base & Other Movement £000	Inflation £000	Permanent Savings/ Increased Income £000	Permanent Growth £000	Short Term Growth £000	Total £000
HRA revenue contribution to capital	(9,336)	0	0	0	0	(9,336)
HRA contribution to/(from) reserves	4,544	0	0	0	0	4,544
Software packages	(415)	0	0	0	0	(415)
Contingency	78	0	0	0	0	78
Staff salary growth, inflation and increments	0	350	0	0	0	350
Business & system process improvements	0	0	0	214	173	387
Pension added years and pension deficit inflationary adjustments	0	15	0	0	0	15
Other (individually under £10k)	0	22	0	0	0	22
Repairs relating to HRA properties	0	0	(1,262)	1,747	1,443	1,928
Repairs relating to HRA properties contingency	0	0	0	295	0	295
Void works relating to HRA properties	0	0	(23)	120	1,150	1,246
Housing delivery team	0	0	0	568	8	575
Contribution to service transformation reserve	0	0	0	0	500	500
Software packages	0	0	0	15	0	15
Compliance works to HRA properties	0	0	0	200	150	350
Professional fees – stock condition survey, asset consultants & legal	0	0	(20)	0	411	391
Salary & pension costs – building safety managers, apprentices & environmental improvements staff	0	0	0	303	78	381
Environmental improvements	0	0	0	75	0	75

Item	Adjustment to Base & Other Movement £000	Inflation £000	Permanent Savings/ Increased Income £000	Permanent Growth £000	Short Term Growth £000	Total £000
Caretakers – enhanced communal area cleaning	0	0	0	77	0	77
Grounds & tree maintenance for HRA areas	0	10	0	0	0	10
Grants	0	0	0	25	0	25
Insurance of dwellings sold	0	15	0	0	0	15
Rents dwelling – void element	0	0	0	0	497	497
Bad debt provision	0	0	(291)	0	0	(291)
Adaptations to newly purchased dwellings	0	0	(250)	0	0	(250)
Debt management expenses	0	0	(40)	0	0	(40)
Compensation to tenants (reduced requirement)	0	0	(35)	0	0	(35)
Proposed increase in housing rent			(1,675)			(1,675)
Proposed increased income from service charges			(54)			(54)
Proposed increase in garage rent			(39)			(39)
Corporate support to the HRA recharge	417					417
Property services support recharge	368					368
Neighbourhood housing recharge	45					45
Grounds maintenance recharge	39					39
Housing delivery team recharged to NRL & capital projects	(431)					(431)
Central departmental support recharge	(80)					(80)
Total	**(4,772)**	**413**	**(3,689)**	**3,638**	**4,410**	**0**

Appendix 3 (D): HRA dwelling stock movements

Council dwellings	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
No of dwellings at start of year	**15,156**	**14,987**	**14,807**	**14,729**	**14,657**	***14,553***	***14,404***	***14,279***	***14,235***	***14,190***
RTB sales in year	(163)	(187)	(138)	(156)	(112)	*(151)*	*(130)*	*(110)*	*(100)*	*(100)*
Non-RTB sales in year	(7)	(7)	(3)	(6)	(3)	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*
Dwellings demolished	(17)	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Dwelling conversions	2	4	2	2	0	*0*	*0*	*0*	*0*	*0*
New build dwellings	16	10	61	87	0	*0*	*5*	*66*	*55*	*101*
Dwelling acquisitions	0	0	0	1	11	*4*	*2*	*2*	*2*	*2*

Shaded cells in italics denote forecast movements

4. CAPITAL AND COMMERCIAL STRATEGY

The wider context and capital investment objectives

4.1. Norwich City Council's Capital and Commercial 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. It is also a requirement of the Investment Code and the Prudential Code that a commercial strategy exists to inform investments, which are not Treasury Management investments, but which include investing in assets, shares or loans to companies and third parties in support of its corporate priorities.

4.3. The overall strategy sets out the council's programme and budget for capital investment over the next five years in support of all its capital expenditure items. It describes how the council will manage, finance, and allocate capital investment towards assets that will help to achieve the council's priorities, as well as its operational and statutory requirements. The affordability of this strategy is considered in part 6 of the budget report.

4.4. It covers projects and programmes and investments financed through both the council's General Fund and Housing Revenue Account (HRA).

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

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

4.6. There are however additional drivers or needs for capital expenditure. These comprise:

- Using assets to support the transformation of council services through the service review programme. Asset investment in services can be designed to generate both new sustainable income streams as well as improving efficiency of service delivery and the reduction of costs.
- 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 the Council's asset management planning processes.

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

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

4.9. To enable the Council to continue with its ambitious investment programme, it has removed any commercial investment funded through borrowing, which was primarily for yield to ensure it can continue to utilise the PWLB as its primary lending source.

4.10. The council holds some data regarding the condition of its HRA property although continues to undertake condition surveys on both its general fund and HRA assets which will enable it to prepare longer term capital plans in the future.

4.11. 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.

Commercial property investment

4.12. Whilst the council has held commercial property for decades, until recently it has been purchasing new property investments in line with the previous Commercial Property Investment Strategy and within the council's approved capital expenditure budget. Because of changes to the Treasury Management and Prudential Codes of practice, the Council will no longer be making new investments in commercial property primarily for yield where this would be funded by borrowing and the capital programme has been amended accordingly.

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

4.14. However, the Code's statement that authorities 'must not borrow to invest for the primary purpose of financial return' is not intended to require the forced sale of existing commercial investments, whether commercial properties or financial investments. Selling these investments and using the proceeds to net down debt does, however, reduce treasury risks and is therefore an option which should be kept under review, especially if new long-term borrowing is being considered.

4.15. The Code requires that authorities which are net borrowers should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies (section 5 of the budget report). The options should include use of the sale proceeds to repay debt or reduce new borrowing requirements. Authorities should not take new borrowing if financial investments for commercial purposes can reasonably be realised, based on a financial appraisal which takes account of financial implications and risk reduction benefits.

4.16. This enables authorities to weigh the risk reduction benefits of sale against the loss of income and the current sale value of the investments; the code also makes it clear that where an authority has existing commercial properties, the requirement that an authority must not borrow to invest for the primary purpose of financial return, is not intended to prevent authorities from appropriate capital repair, renewal or updating of existing properties.

Setting aside net rental income into the earmarked reserve

4.17. The council has agreed 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.

4.18. In line with the existing commercial strategy, 20% of future new net rental income 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 consider the results of the annual portfolio review.

Capital Loans

4.19. The Council can 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).

4.20. In being a provider of capital finance, the Council is subject to statutory controls that restrict the loans that can be offered 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.

4.21. Additionally proposed changes to the Capital Financing Regulations are being consulted on (until 8 February 2022) which would require all capital expenditure, including capital loans and investment assets, to be subject to a Minimum Revenue Provision (MRP) charge. Currently NCC ‘s MRP policy allows for no MRP to be charged to the revenue account where repayment of a capital loan is certain.

4.22. These proposed changes will have a material impact on future considerations relating to the provision of capital loans; currently the draft proposals are indicating that changes will be made no earlier than April 2023 and will not be applied retrospectively.

4.23. The council has a loan book of £8.063m with three borrowing organisations (as at 31 Dec 21): Norwich Regeneration Limited (£6.150m), Norwich City Services Limited (£1.820m) and the Norwich Preservation Trust (£0.093m).

4.24. 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 regarding the individual loan and the cumulative total of the loan book. The application of a charge on assets is a way of mitigating risk on external loans.

Norwich Regeneration Limited (NRL)

4.25. NRL are currently finalising their business plan for 2022/23 which will be reported to Cabinet in February 2022; this seeks further investment in 2022/23 totalling an additional £2m which replaces previously approved requests for £2m in each of 2021/22 and 2022/23 (i.e. £4m in total).

4.26. An expected credit loss model calculation is undertaken annually to measure the credit risk of the loan book and reported in the council's Statement of Accounts. This is a requirement of International Financial Reporting Standard 9. At the end of 2020/21 there was an impairment of £3.350m on the council's loan to NRL. This was based on an assessment of how much of the current loan balance may not be recoverable from the company. The Council has established an earmarked reserve to cover the full cost of the impairment, which can be drawn down if the future business plan is not able to fully recover the investment to date.

NRL Business Model

4.27. 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:

- The council to purchase further shares in the company to meet State Aid and capitalisation requirements. This requires that the company receives a reasonable amount of its funds from shareholders rather than all the funding being obtained from external borrowing.
- The company to develop housing that is planning policy compliant for affordable housing.
- The remainder of the housing to be a mix of private sector sales and homes for private sector rental.
- 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.
- 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, considering the tenanted market value of the homes and the statutory requirement for the council to achieve value for money.
- 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.
- 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 4.1: The proposed key drivers for capital investment

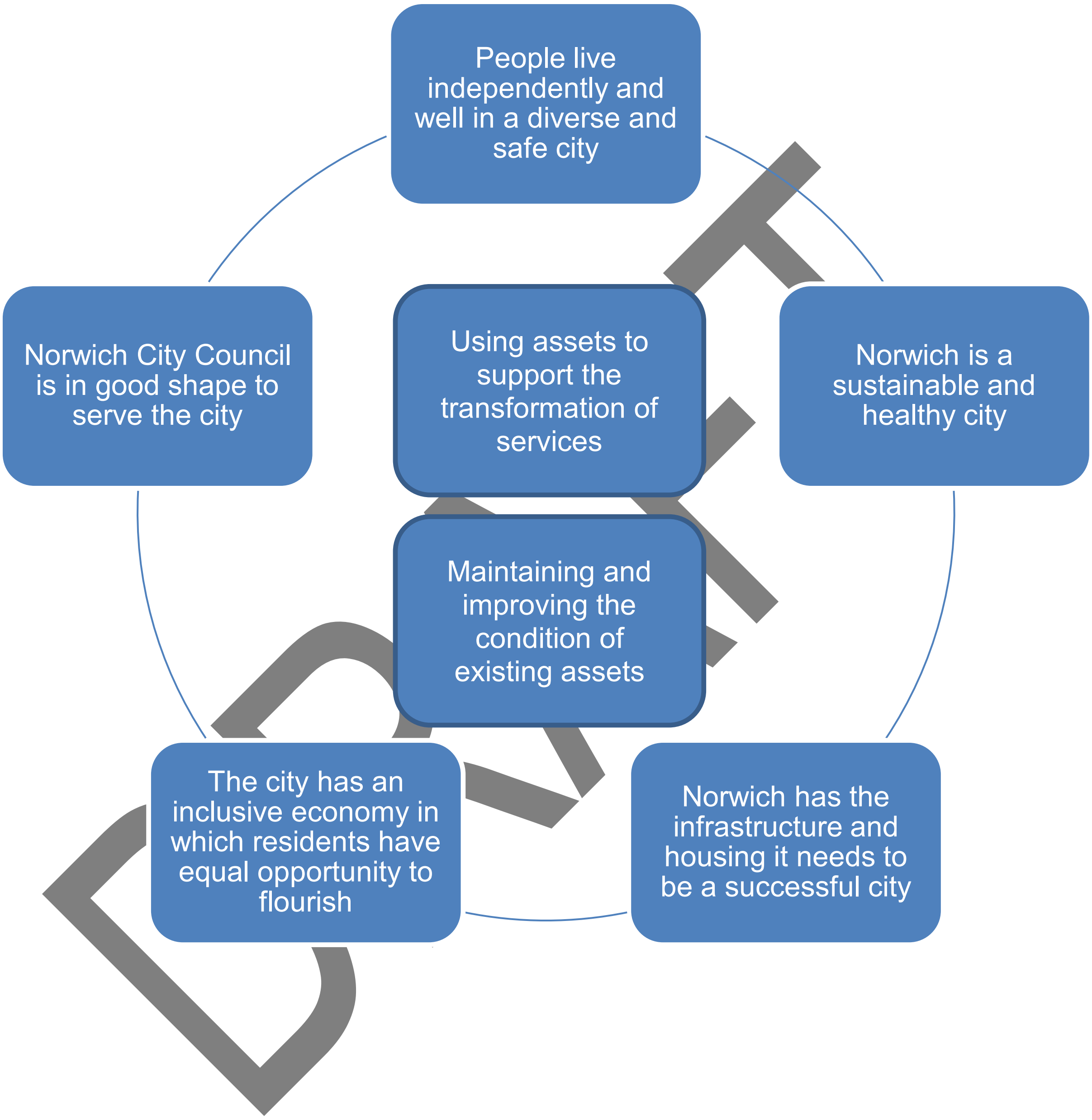


Table 4.1: The council's proposed capital investment objectives

People live independently and well in a diverse/ safe city	Norwich is a sustainable and healthy city	Norwich has the infrastructure and housing to be a successful city	The city has an inclusive economy which residents have equal opportunity to flourish	Norwich City Council is in good shape to serve the city
Capital expenditure plans can contribute to this corporate aim by: • Supporting people to feel safe and welcomed • Providing means for people to lead connected, fulfilling lives • Ensuring there is a range of cultural, leisure and social opportunities and activities for all • Comply with health & safety and other regulatory requirements	Capital expenditure plans can contribute to this corporate aim by: • Providing means for people to lead healthy, connected, fulfilling lives • Continuing with the sensitive regeneration of the city that retains its unique character and meets local needs • Keeping streets clean • Undertaking environmental improvements.	Capital expenditure plans can contribute to this corporate aim by: • Building and maintaining a range of social and private housing • Tackling homelessness and rough sleeping	Capital expenditure plans can contribute to this corporate aim by: • Supporting investment that promotes a growing, diverse, innovative and resilient economy	The Council aims to be financially self-sufficient, to ensure the long-term sustainability of service delivery to residents and businesses. Capital expenditure plans can contribute to this aim by: • Investing in projects that generate or protect income streams, or which can deliver efficiencies in the revenue budget. • Maintain or improve the physical condition of assets owned by the City
The capital strategy includes: • Riverside walk and castle gardens projects • Disabled Facilities Grants • Make Space at the Norwich Halls project • Suicide prevention works in car parks	The capital strategy includes: • Retrofitting works to 200 properties of all tenure for cavity and loft insulation works and solar panels. • Public realm improvements at St Giles and Hay Hill • Rolling programme of major repairs to the city wall and closed churchyards	The capital strategy includes: • New social housing developments at Mile Cross, Three Score, Argyle Street, • Significant council house upgrade programme	The capital strategy includes: • Establishment of a Compulsory Purchase Order revolving fund • Establishment of the Advanced Construction and Engineering Centre • Establishment of a digi-tech factory • Establishment of a digital hub	The capital strategy includes: • Replacement HR and Finance systems and associated process efficiencies. • Maintenance of investment property portfolio • Investment in City Hall

Asset management planning

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

4.29. The council holds a significant and diverse asset portfolio in comparison to similar district councils within the CIPFA comparator group. The total value of the council's land and property assets as at the end of 2020/21 was £1.082 billion.

General Fund asset management planning

4.30. The council is working on an up-to-date Asset Management Plan for its assets. Some 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.

4.31. The focus therefore has been largely on using the council's limited capital resources on responsive rather than planned improvements. This can be seen in the pattern of investment made in each asset class over recent years with capital expenditure continuing to be being undertaken for health and safety reasons rather than being for planned and sustained strategic investment.

4.32. 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. There has also 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.

4.33. 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

4.34. Condition surveys exist for HRA assets, although these are being reviewed as part of the work to understand fully the backlog repairs and compliance work. They do give the council an initial understanding of the investment needs of the existing stock of HRA dwellings which are typically built with a 60–80-year life span in mind.

4.35. However, a shift in approach is currently moving from planned long term maintenance of 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.

4.36. A council housing strategy was adopted by Cabinet in November 2019 covering a five-year period and identifies the following four primary goals:

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

4.37. The proposed HRA capital programme seeks to contribute towards achieving these goals. Further detail is included within section 3 of this report – HRA business plan and 2022/23 budget.

Capital expenditure plans

4.38. The expenditure plans consist of two kinds:

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

- These are the projects and programmes that are being proposed to council as part of the 2022/23 to 2026/27 capital programme for delivery within that period.

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

- There is typically a long lead in time from identifying investment need or opportunities to implementation. Additional future projects that may arise will require a full business case for cabinet and council approval before they can be incorporated into the capital programme and implemented.

Forecast 2021/22 outturn

4.39. The latest forecast position as at period 9 shows the general fund capital programme is forecast to underspend by £31.959m and the Housing Revenue Account (HRA) capital programme is forecast to underspend by £29.099m. However, it is anticipated that an element of this will form a carry-forward request to enable some of the unspent budgets to be utilised in 2022/23.

2022/23 to 2026/27 capital programme

4.40. Within a shorter timeframe the focus of the capital strategy is towards the delivery of schemes within an approved budget. The focus traditionally has been an annual investment plan for the next financial year, and this continues for 2022/23, although many of the projects proposed for that year will continue into later years. 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.

4.41. Table 4.3 below summarises the proposed 2022/23 overall capital budget along with indicative spending plans from 2023 to 2027. Details setting out the proposed projects and programmes within the general fund and HRA are found in Appendix 4 (B).

Table 4.3 Capital Programme 2022 - 2027

	2022/23	2023/24	2024/25	2025/26	2026/27	5 yr. Total
Summary programme (Approved)	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Community Services	5,374	1,680	1,515	1,515	0	**10,084**
Development and City Services	10,641	4,962	1,465	2,103	1,758	**20,929**
Total General Fund Approved Programme	**16,015**	**6,642**	**2,980**	**3,618**	**1,758**	**31,013**
Summary Programme (Proposed)						
Community Services	3,635	138	33	56	0	**3,862**
Development and City Services	3,121	51	13	6	3	**3,194**
Corporate and Commercial Services	576	121	0	0	0	**697**
Capital Loans	6,000	1,000	0	0	0	**7,000**
General Fund - Proposed Programme	**13,332**	**1,310**	**46**	**62**	**3**	**14,753**
Total General Fund Programme	**29,347**	**7,952**	**3,026**	**3,680**	**1,761**	**45,766**
HRA - Community Services	25,929	25,932	22,879	22,850	23,013	**120,603**
HRA - Development and City Services	12,931	18,094	14,381	4,000	1,570	**50,976**
Total HRA Programme	**38,860**	**44,026**	**37,260**	**26,850**	**24,583**	**171,579**
Total Capital Programme	**68,208**	**51,978**	**40,286**	**30,530**	**26,344**	**217,345**

4.42. In 2022/23 the capital programme aims to deliver the following key outcomes:

General Fund:

- £11.4m of investment in infrastructure, skills and economic development through projects funded by the £25m Towns' Fund grant, with the remaining grant to be utilised in future years.
- £1.8m 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 220 council homes over next 5 years
- Repair and maintenance of existing housing stock- £18.4m including 254 new kitchens, 342 new bathrooms plus 119 adapted bathrooms, 784 upgraded doors, 1,165 electrical upgrades or rewires and 33 communal sites receiving new windows.
- Improving the use and management of the existing housing stock - including improvements to communal areas, 824 new heating systems and 5 communal boiler upgrades,110 solar/photovoltaic panel installations plus disabled adaptation and stair-lift installation programme.
- Improving neighbourhoods - including 34 door entry system upgrades and a £0.15m estate aesthetics programme.

Towns' Deal Funding

4.43. The most significant non-housing capital expenditure next year will be associated with the Towns' Deal. Whilst the Towns' Deal projects will be delivered in accordance with the council's normal governance procedures additional Towns' Deal specific governance has been put in place.

4.44. The Towns' Deal is intended to help drive forward long term, inclusive economic and productivity growth in Norwich. With this in mind an overall Towns' Deal programme board has been set up to oversee delivery which includes not only council members and officers but also the local MPs, the chair of the Norwich 2040 Vision and a variety of business and education organisations.

Future capital programme

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

4.46. 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.

4.47. The future capital programme will also continue to develop and reflect the priorities identified within the Council Housing Strategy which was approved by Cabinet in November 2019. Work continues to produce an updated general fund and HRA asset management strategy, which will influence future capital programmes.

<u>People Live Well</u>

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

<u>Inclusive economy</u>

- The council continues to explore the potential to develop under-used land and brown-field sites held by the council to help regenerate the city economically, as well as socially, and in terms of its environment. This may be through the HRA with the development of new social housing or through other delivery mechanisms.

<u>Meeting housing need and delivering new homes:</u>

- 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, following the Future Housing Commissioning report approved by Cabinet and Council in July 2020 which identifies the capacity within the HRA to develop further sites in future years.

<u>Maintaining and improving the condition of existing HRA housing:</u>

- The council is the largest provider of social housing in the city and ensuring that its housing stock is safe and well-maintained is the biggest contribution the council can make to addressing housing need in the city. This is also covered in the Council Housing Strategy 2020-26 which identifies the requirement to establish longer-term plans for the maintenance and regeneration of HRA housing and estates.

<u>Improving the quality and safety of private sector housing:</u>

- As a private landlord, the council's wholly owned 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 and managed in a way that reflects best practice.

4.48. The financial consequences of capital projects identified within the 2019 Future Housing Commissioning report have been considered in the council's financial plans in the following manner:

- The HRA Business Plan does not include all potential projects identified within the Future Housing Commissioning report. However, a financial viability assessment of their impact on the HRA Business Plan demonstrates that their inclusion within the HRA capital programme would continue to allow the HRA to remain sustainable over the 60 years planning period.
- The borrowing that the council may need to undertake to finance the projects has been included in the capital financing requirement, operational boundary for external debt, and authorised limit for external debt calculations, as set out in the Treasury Management Strategy (section 5).

Funding the capital strategy

4.49. 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 leveraging in other sources of external funding where this is possible.

4.50. 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 many 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

4.51. 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 revenue funding, can be accommodated within the revenue budget.

4.52. In the past, capital receipts have been the main funding source for the general fund capital programme. However, until the asset management review concludes the level of predicted receipts and intended sales is unclear and, except for the sale of the airport industrial estate, no further receipts are currently identified. Table 4.4 below sets out the expected availability of capital receipts over the MTFS planning period to 2027.

Table 4.4: **Projected Capital Receipts 2021 - 2027**

	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Capital receipts reserve b/fwd. from previous year	(4,807)	(3,373)	(7,711)	(5,977)	(4,477)	(2,977)
Anticipated capital receipts	0	(6,960)	0	0	0	0
Return on invested equity	(450)	0	0	0	0	0
Total capital receipts	**(5,257)**	**(10,333)**	**(7,711)**	**(5,977)**	**(4,477)**	**(2,977)**
Funding requirement (incl. c/fwd. from previous year)	1,885	2,622	1,734	171	187	3
Estimated additional funding requirement	0	0	0	1,329	1,313	1,497
Estimated funding requirement	**1,885**	**2,622**	**1,734**	**1,500**	**1,500**	**1,500**
Balance at end of year	**(3,373)**	**(7,711)**	**(5,977)**	**(4,477)**	**(2,977)**	**(1,477)**

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

4.54. The impact of a reducing level of capital receipts is that the size of the capital programme will reduce; 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 most capital expenditure required is unlikely to generate new income streams that could cover the resultant increase in financing costs.

Table 4.5: Proposed funding of the General Fund capital programme

Funding	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**5 yr. Total**
General Fund	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Capital Receipts	2,622	1,734	171	187	3	**4,717**
Capital Receipts (Ringfenced)	715	0	0	0	0	**715**
Grants & Contributions	16,420	4,364	1,440	1,440	0	**23,664**
Contribution from earmarked reserves	1,090	0	0	0	0	**1,090**
Borrowing	6,000	0	0	0	0	**6,000**
GNGB	502	1	8	0	0	**511**
CIL	1,810	1,853	1,407	2,053	1,758	**8,881**
Section 106	188	0	0	0	0	**188**
Total GF Capital Programme Funding	**29,347**	**7,952**	**3,026**	**3,680**	**1,761**	**45,766**

Proposed funding of the HRA capital programme

4.55. The funding of the HRA capital programme follows the funding strategy set out in Appendix 4 (C). In addition, the £5.039m surplus income estimated for 2021/22 plus £10.640m of existing HRA general reserves are proposed to be used to fund 2022/23 capital expenditure.

4.56. The remaining HRA general reserves (forecast at £27.485m at the end of 2022/23) 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

Funding	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**5 yr. Total**
HRA	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Capital Receipts	7,121	10,914	7,907	1,461	2,580	**29,983**
Retained One for One Receipts	5,754	7,838	6,352	2,200	1,228	**23,372**
Major Repairs Reserve	18,454	14,768	14,722	14,676	14,572	**77,192**
Grants & Contributions	400	250	250	250	250	**1,400**
Revenue contribution	6,342	10,256	8,029	8,263	5,953	**38,843**
Borrowing	0	0	0	0	0	**0**
Section 106	789	0	0	0	0	**789**
Total HRA Capital Programme Funding	**38,860**	**44,026**	**37,260**	**26,850**	**24,583**	**171,579**

Enabling our future vision

4.57. The capital programme captures the council's vision and desire for projects and investment at a point in time. However, as the vision continues to grow, new projects and investments will continue to be developed throughout the year, which will require business cases and financing plans to be formulated prior to approval by cabinet and council. If the project requires funding from external borrowing, it will need to generate new income to cover at least the financing costs of the borrowing or will be funded off the council's balance sheet through alternative delivery routes.

Alternative delivery routes

4.58. The Council will review the best delivery routes for implementing new capital projects as part of the options appraisal undertaken in the business case. These delivery routes largely fall into the following categories:

- Self-develop this involves the council undertaking the project independently and therefore provides the greatest level of potential return and control but also the greatest cost and exposure to risk.
- 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 projects, with an acceptable balance of risk and return for all involved. This approach would be a new area for the council and would need considerable further work to progress.
- Developer led: this usually involves selling the opportunity to a developer, perhaps with an outline planning consent and Development Agreement in

place. As an example, the council takes a developer led approach with housing associations.

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

Delivering the capital strategy

Governance

4.59. 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 the 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 the Cabinet.
- Additionally, to support the committee structure and Corporate Leadership Team with future governance, including delivery of projects, a new governance board structure will be established.

4.60. 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.

4.61. A recommendation has been included that will allow officers in future to seek approval from Cabinet to approve the inclusion of schemes where they are fully funded from additional grant that can only be expended on the proposed scheme and where it meets the Council's aims. This will permit such schemes to progress at pace where alternative application of the funding is not permitted and where there is no need for additional Council resources to be used.

4.62. Some projects have been included in the proposed capital programme, as their strategic importance to one or more of the council's objectives has been recognised. However, the detailed business case has not been sufficiently developed to identify the expected costs and benefits of these proposals now. For these projects, highlighted in Turquoise within the detailed capital programme, the broad financing has been included but these projects cannot commence until approval of the business case has been made by the corporate leadership team; any funding variances will also need to follow the council's financial regulations in relation to capital virements.

4.63. In addition, new projects not included within the existing or proposed capital programme, require a full Business Case to be submitted to council for approval as and when the information and analysis is available to make a robust decision.

4.64. All capital expenditure must be carried out in accordance with the council's constitution, financial regulations, and contract procedures. Internal audit undertake regular audits of compliance. The monitoring of expenditure against the approved budget, and the forecasting of the year-end outturn, is coordinated by Finance and reported to Cabinet every quarter as part of the overall corporate budget monitoring process.

Corporate Planning Process

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

Commissioning, appraisal, and programme/project management

4.66. 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.

4.67. To support the council's approach to capital investment:

- An asset management strategy to inform and support the capital programme is being actively developed.
- An evaluation and scoring mechanism to assist the prioritisation of projects submitted for inclusion within the capital programme has been developed.
- A requirement has been established that all capital projects will be subject to comprehensive but proportionate appraisal (as part of a broader gateway approval system).

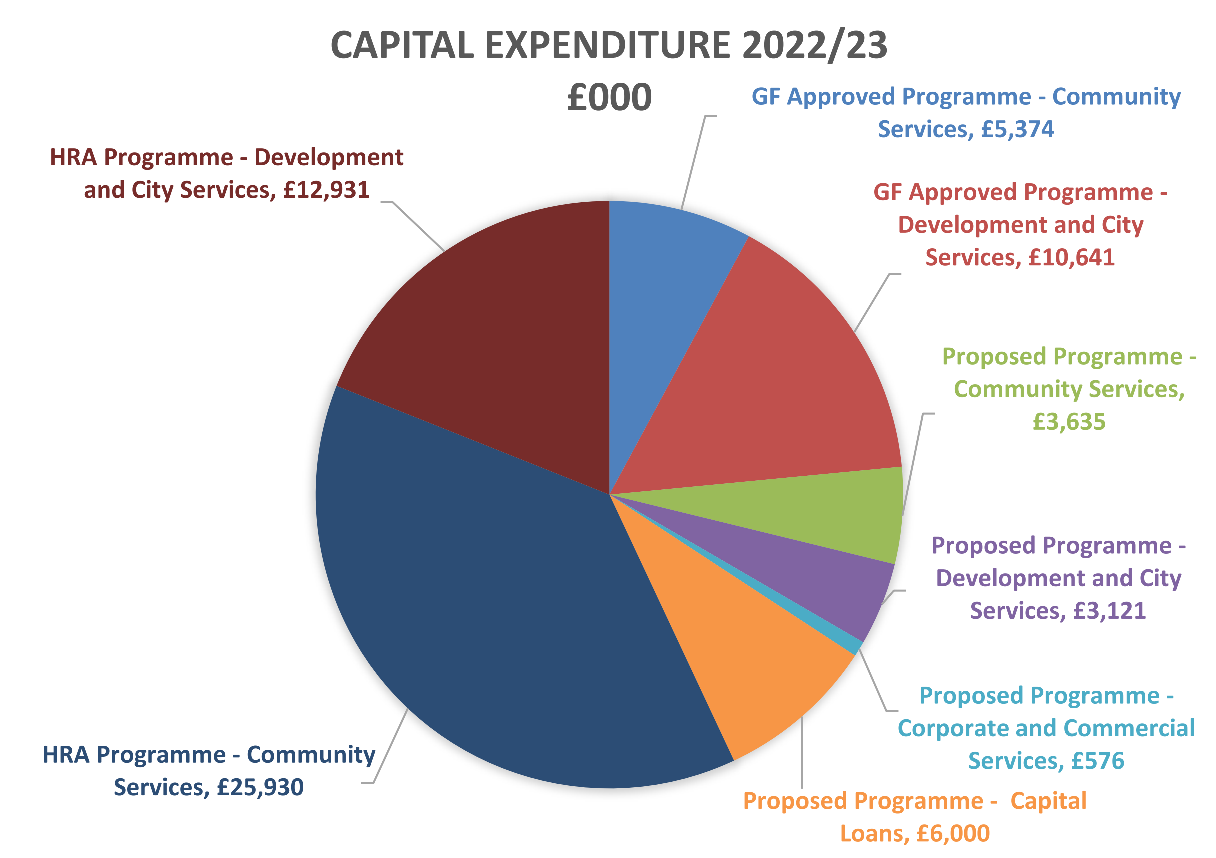
Knowledge and skills

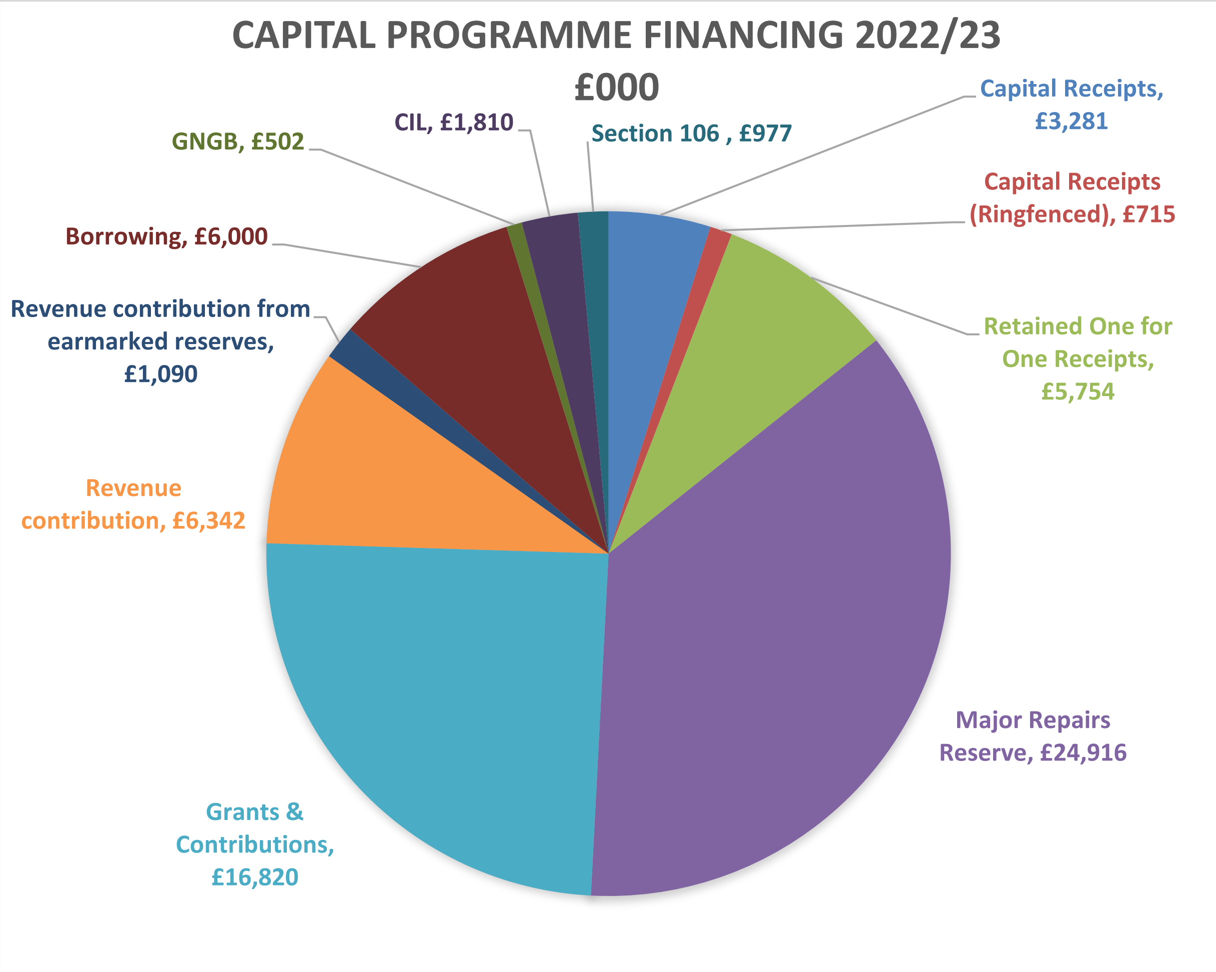
4.68. The council has professionally qualified staff, or access to such staff across a range of disciplines including finance, legal, planning and property that allow for capital investment decisions to be robustly considered. These individuals follow continuous professional development (CPD) and attend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

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

4.70. 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 capital programme and financing 2022/23





Appendix 4 (B): Proposed capital projects 2022/23 to 2026/27

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	5 yr. Total £000
Approved Programme						
Community Services						
Towns' Fund Programme - Make space at the Norwich Halls	3,328					3,328
St Andrew's Hall – electrical works	17					17
St Andrew's Hall – St George's kitchen electrical upgrade	6					6
Norman Centre – replacement boilers		165				165
Homes Improvement Agency - BCF/ DFG	1,782	1,440	1,440	1,440		6,102
Football pitch improvements	75					75
IT upgrades	75	75	75	75		300
Empty Homes Grant	69					69
Riverside Leisure Centre - Plant	22					22
Approved Programme - Community Services	**5,374**	**1,680**	**1,515**	**1,515**	**0**	**10,084**
Development & City Services						
Park toilet refurbishment - Wensum, Heigham and Eaton	66	134				200
Ketts Heights - access improvements & creation of biodiversity habitat	203					203
20 Acre Wood - community access improvements	1	1	8			10
City Walls - rolling programme of repairs	40	40	40	40		160
Closed churchyards - rolling repairs	10	10	10	10		40
Community Infrastructure Levy - contribution to strategic pool	1,718	1,853	1,407	2,053	1,758	8,789
Towns' Fund - Compulsory Purchase Order revolving fund	2,000	2,924				4,924
Towns' Fund - advanced construction and engineering centre	0					0
Towns' Fund - East Norwich	86					86
Towns' Fund - public realm improvements at St Giles and Hay Hill	3,750					3,750
Towns' Fund - programme management	47					47
Towns' Fund - digital hub	2,215					2,215
Cemetery Railings - replacement of damaged railing panels	134					134
Eaton Park path replacement - continuation of programme	45					45

Marriott's Way/ Hellesdon Station Green - infrastructure improvements	86					86
Earlham Cemetery railing refurbishment	28					28
CIL GNGB Riverside Walk	112					112
CIL GNGB Castle Gardens	100					100
Approved Programme - Development and City Services	**10,641**	**4,962**	**1,465**	**2,103**	**1,758**	**20,929**
Total General Fund Approved Programme	**16,015**	**6,642**	**2,980**	**3,618**	**1,758**	**31,013**
Proposed Capital Schemes for approval February 2022						
Community Services						
* Investment in asset portfolio	147	138	33	56		374
* Civica System Upgrade	296					296
Electric vehicle charging provision – CIL Neighbourhood	92					92
* Retrofitting	3,100					3,100
Proposed Programme - Community Services	**3,635**	**138**	**33**	**56**	**0**	**3,862**
Development & City Services						
* Investment in asset portfolio	110	51	13	6	3	183
* City Hall investment	290					290
* Suicide prevention works – St Andrews car park	300					300
* Replacement of equipment (for use by NCSL)	330					330
Churchman House Cupola repairs	130					130
* Gypsy and Traveller Site Re-modelling	315					315
* Old Carrow House internals	565					565
* Energy efficiency works – investment properties	400					400
* Site formation & demolition	400					400
* Wensum play park (S.106)	113					113
* Investment property roof upgrade works	125					125
* Cycle Wayfinding	43					43
Proposed Programme - Development and City Services	**3,121**	**51**	**13**	**6**	**3**	**3,194**

Corporate & Commercial Services						
* HR & finance system	576	121				697
Proposed Programme - Corporate and Commercial Services	**576**	**121**	**0**	**0**	**0**	**697**
Capital Loans						
Norwich Regeneration Limited	6,000					6,000
* Norwich Preservation Trust		1,000				1,000
Proposed Programme - Capital Loans	**6,000**	**1,000**	**0**	**0**	**0**	**7,000**
Total General Fund - Proposed Additional Programme	**13,332**	**1,310**	**46**	**62**	**3**	**14,753**
Total General Fund Programme	**29,347**	**7,952**	**3,026**	**3,680**	**1,761**	**45,766**

* Those projects marked with * and highlighted turquoise require further CLT approval of business case or gateway approval.

HRA						
Community Services						
Community centre assets - HRA impact	25	25	25	25	25	**125**
HRA Upgrades - Door Access/CCTV	544	656	592	576	496	**2,864**
HRA Upgrades - Windows	1,150	2,500	2,500	2,500	2,500	**11,150**
HRA Upgrades - Composite Doors	1,222	400	400	400	235	**2,657**
HRA Upgrades - Re-roofing	500	1,000	1,000	1,500	1,500	**5,500**
HRA Upgrades - Structural	1,400	1,600	1,600	1,600	1,600	**7,800**
HRA Upgrades - Thermal comfort (EWI)	350	200	200	200	200	**1,150**
HRA Upgrades - Bathrooms	1,712	1,650	1,500	1,450	1,350	**7,662**
HRA Upgrades - Kitchens	1,375	1,250	1,375	1,790	2,500	**8,290**
HRA Upgrades - Communal boilers	2,230	1,900	1,900	1,900	1,900	**9,830**
HRA Upgrades - Domestic boilers	3,115	2,000	1,800	1,500	1,500	**9,915**
HRA Upgrades - Solar thermal & photovoltaic	550	500	500	500	500	**2,550**
HRA Upgrades - Electrical	2,831	2,750	2,500	2,350	2,250	**12,681**
HRA Upgrades - Estate aesthetics	750	500	250	200	200	**1,900**
HRA Upgrades - Disabled adaptations & stairlifts	1,400	1,400	1,400	1,400	1,400	**7,000**

HRA Upgrades - Whole house improvements	3,750	1,500	1,200	1,000	1,000	**8,450**
HRA Upgrades - Sheltered communal facilities	138	75	30	30	30	**303**
HRA Upgrades - Tower block regeneration	0	2,500	2,500	2,500	2,500	**10,000**
HRA Upgrades - Lift upgrades	50	75	75	50	75	**325**
HRA Upgrades - Sheltered alarms	200	150	150	150	100	**750**
HRA Upgrades - HRA shops	100	150	150	150	150	**700**
HRA Upgrades - Compliance	1,000	1,000	0	0	0	**2,000**
HRA Upgrades - Water hygiene	612	1,225	306	153	76	**2,372**
NCSL fees	926	926	926	926	926	**4,630**
Approved Programme - Community Services	**25,930**	**25,932**	**22,879**	**22,850**	**23,013**	**120,604**
Development & City Services						
Site formation and demolition	560	70	70	70	70	**840**
Alfred Nichols Court district lighting upgrade	45	0	0	0	0	**45**
New Build - Argyle Street development	2,112	1,098	56	0	0	**3,266**
New Build - Mile Cross development	1,500	11,740	12,545	2,430	0	**28,215**
New Build - Three Score phase 3 development	6,500	3,670	210	0	0	**10,380**
New Build - Kings Arms development	564	16	0	0	0	**580**
New Build - Hethersett site	150	0	0	0	0	**150**
Opportunities fund	500	500	500	500	500	**2,500**
Grants to registered providers	1,000	1,000	1,000	1,000	1,000	**5,000**
Proposed Programme - Development and City Services	**12,931**	**18,094**	**14,381**	**4,000**	**1,570**	**50,976**
Total HRA Programme	**38,861**	**44,026**	**37,260**	**26,850**	**24,583**	**171,580**
Total Overall Programme	**68,208**	**51,978**	**40,286**	**30,530**	**26,344**	**217,346**

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 directly fund capital expenditure (also known as a Revenue Contribution to Capital Outlay (RCCO)). **General Fund strategy**: The revenue budget can be used to fund capital projects where there is no financial return from the investment to cover the costs of borrowing. **HRA strategy:** The HRA 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, the Major Repairs Reserve (MRR), and retained one for one Right to Buy capital receipts.
Capital receipts	**Description:** Income receipt arising from the sale of assets or repayment of capital loans. Can only be used to fund capital expenditure or repay capital debt. **General Fund strategy**: Capital receipts are held centrally and 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. Some increased capital expenditure has been proposed for 2022/23 on the premise that this will be replaced once the sale of the Airport assets are disposed of. Where proceeds from the disposal of commercial properties, which were originally funded by borrowing, are received those sums will be applied to reduce debt. **HRA strategy**: Non-Right-to-Buy HRA capital receipts arise from the disposal of HRA property and land other than dwellings and may be utilised to fund any 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 the MRR have been applied, but prior to the use of general reserves and borrowing. **Use of capitalisation flexibilities**: Regulations around the flexible use of capital receipts allow the council to use new capital receipts to fund the revenue costs of council service reviews that will generate savings in future years. This is subject to the council approving a policy on the flexible use of capital receipts. The council currently has sufficient funds in its earmarked spend-to-save reserves and therefore has no proposal to make use of these flexibilities.

Funding source	Description and proposed strategy for its use
Leasing	**Description:** A lease is a contractual arrangement between the lessee (user) to pay the lessor (owner) for use of an asset. Property, equipment 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 assets used by the Council are financed by a lease arrangement; for example, vehicles. There may be instances where leasing can offer value for money, and it will remain a consideration when options are being appraised. However, given the current relatively low cost of borrowing through PWLB compared to the implicit interest rates within any leased asset arrangement, it is likely to be better value for money if the council funds the asset itself via borrowing. Leasing cannot be undertaken without the specific approval of the S151 Officer to ensure that new accounting arrangements have been considered fully.

Funding source	Description and proposed strategy for its use
Right-to-buy capital receipts	**Description:** Income arising from Right-to-Buy sales of Council dwellings comprise three elements, the Treasury Share, which is passed to the government, the local authority share and the retained 'one for one' receipts. These funding sources are only available to the HRA. **Local Authority Share:** An element of capital receipts arising from the sale of an HRA dwelling under Right-to-Buy that may be retained indefinitely by the council and utilised to fund any HRA capital expenditure. **Strategy for its use**: As with other HRA capital receipts, these may be utilised to fund any 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 the 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 40% of the overall cost of new social housing and must be utilised within 5 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, and monitoring will be 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. Providing grant to Registered Providers to develop additional social rented housing, or when unable to do so. 2. Providing grant to Registered Providers to develop additional affordable rented housing.
General Reserves	**Description:** General (un-earmarked) reserves can be used to fund either revenue or capital expenditure. **General Fund strategy**: The general fund 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 as the first source of funding for the HRA capital upgrade programme.

Funding source	Description and proposed strategy for its use
Capital grants	**Description**: Grants 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 other contributions as well as other innovative solutions for 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.
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 must be used in accordance with any obligations imposed by each legal agreement, such as time limits, area restrictions or service restrictions. 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 an 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 to secure grant funding from central government or the local enterprise partnership.

Funding source	Description and proposed strategy for its use
Borrowing	**Description: Internal borrowing** is the *temporary* use of the council's cash holdings to fund capital expenditure. **External borrowing** is the process of taking debt finance from an external institution. 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. All executive decisions on borrowing, investment or financing, within the limits and principles agreed by Council in the annual Treasury Management Strategy, are delegated to the Section 151 officer (chief finance officer), under the council's constitution, who is required to act in accordance with CIPFA's Treasury Management Code of practice. The Section 151 officer will decide whether to use internal instead of external borrowing as a temporary source of financing if at the time: (a) The council's overall cash holdings are above the minimum amount of cash deemed necessary for working capital purposes– (see the Treasury Management Strategy in part 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 better value for money for the council to borrow to fund any existing indebtedness as measured by the capital financing requirement (the council's underlying need to borrow). External advice will be sought by the Section 151 officer from the council's treasury advisers, Link Asset Services, if necessary.

5. TREASURY MANAGEMENT STRATEGY

Background

5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

5.4 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."

5.5 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 DLUHC (Department for Levelling Up, Housing and Communities).

5.6 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 DLUHC's Investment Code).

- A Minimum Revenue Provision (MRP) policy (as required by DLUHC's MRP guidance).

5.7 The council's investment in commercial property, equity shares, and lending to third parties is considered in the capital strategy in Section 4.

5.8 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 4.4 and 4.5.
- The implications for the council's capital financing requirement and borrowing position arising from the non-financial investments proposed in section 4 of this report.

Treasury management reporting requirements

5.9 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

5.10 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

5.11 Norwich City Council has adopted the CIPFA Treasury Management Code. The recently published update to the Code (December 2021) has included a requirement under TMP1 that ‘the organisation’s credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations’. The Code acknowledges that this is a developing area, and it is not implied that the organisation’s ESG policy will currently include ESG scoring or other real-time ESG criteria at the individual investment level. The council will continue to review and build on the emerging guidance in this area of treasury management as well as seek updates on good practice from its Treasury Management advisors.

Training

5.12 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

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

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

Treasury Management Strategy

Current Treasury Portfolio Position

Table 5.1: The Council's current investment and borrowing position

	31/03/2021 Actuals £000	%	31/12/2021 Actuals £000	%
Investments				
Banks	38,750	51.8	82,120	46.9
Building Societies	0	0.0	30,000	17.1
Local Authority	15,000	20.0	27,000	15.4
UK Government	0	0.0	11,000	6.3
Money Market Funds	21,070	28.2	25,000	14.3
TOTAL	**74,820**	**100.0**	**175,120**	**100.0**
Borrowing				
PWLB	214,107	97.4	259,107	97.9
Banks	5,000	2.3	5,000	1.9
Others	745	0.3	693	0.3
TOTAL	**219,852**	**100.0**	**264,800**	**100.0**

5.15 On the 31st of December 2021, the council held £264.800m of external borrowing and £175.120m of treasury investments.

5.16 During 2021/22 the council has taken £45m of new long-term borrowing from the Public Works Loan Board, which is reflected in the increased level of debt in Table 5.1. Although the council does not maintain separate balance sheets for the general fund and housing revenue account, it has historically allocated borrowing between the two funds. The borrowing in year has included £15m in relation to the general fund and £30m relating to the Housing Revenue Account. The latter has enabled the Housing Revenue Account to secure new borrowing at historically low levels ahead of a scheduled repayment of self-financing debt in March 2023.

5.17 The additional borrowing, combined grant receipts front loaded in the year, has meant that investment balances have increased since the start of 2021/22. These are expected to decrease towards the year end following a scheduled repayment of business rates grant to the government.

The Prudential and Treasury Indicators 2022/23 – 2026/27

5.18 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 5.2.

5.19 The Capital Financing Requirement (CFR) calculation is shown in table 5.3. This is the total historic outstanding capital expenditure yet to be financed from revenue or capital resources and a future projection of CFR based on capital expenditure plans. It is a measure of the council's indebtedness, and therefore its underlying borrowing need. The CFR also includes other long term liabilities such as finance leases.

5.20 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 de-minimis value. An example for Norwich are the vehicles procured through an operating lease.

5.21 This is a requirement of closing the accounts for 2022/23 and officers continue to undertake the required data gathering exercise, which will clarify the full impact on the CFR for the Council. 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 2022/23 financial year.

5.22 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.

5.23 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.

5.24 Table 6.5 sets out the required affordable borrowing limit, namely:

a. The operational boundary - the limit beyond which external debt is not normally expected to exceed.
b. The authorised limit for gross external debt - a statutory limit determined under section 3 (1) of the Local Government Act 2003. It represents the legal limit on the maximum level of borrowing beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It is also the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
c. The estimated capital financing requirement for the HRA as at 1 April 2022 is £207.517m 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 5.1: Forecast of CFR and borrowing limits

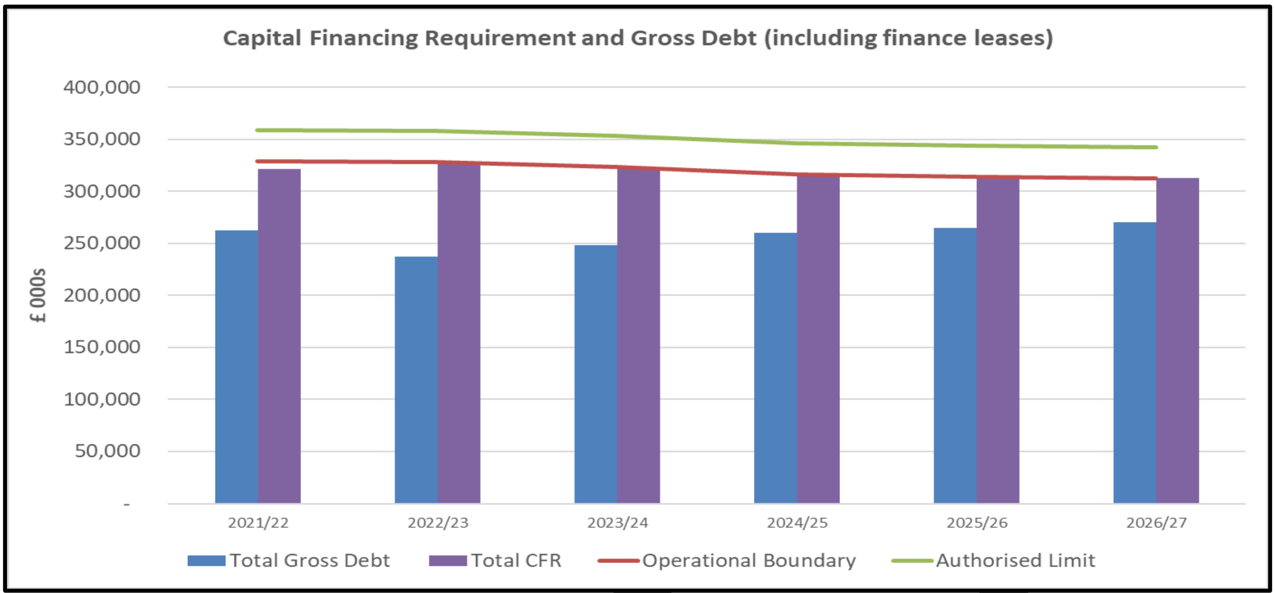


Table 5.2: The council's capital expenditure and financing plans

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital expenditure						
General Fund	13,412	23,347	7,952	3,026	3,680	1,761
Equity investment	0	0	0	0	0	0
Capital Loans	0	6,000	0	0	0	0
Total General Fund Expenditure	**13,412**	**29,347**	**7,952**	**3,026**	**3,680**	**1,761**
Housing Revenue Account	**32,069**	**38,861**	**44,026**	**37,260**	**26,850**	**24,583**
TOTAL CAPITAL EXPENDITURE	**45,481**	**68,208**	**51,978**	**40,286**	**30,530**	**26,344**
Financing						
Capital receipts	1,940	9,743	12,648	8,078	1,648	2,583
Capital receipts (ringfenced)	0	715	0	0	0	0
Retained "one for one" RTB receipts	5,266	5,754	7,838	6,352	2,200	1,228
Major repairs reserve	21,514	18,454	14,768	14,722	14,676	14,572
Contributions and grants	8,936	16,820	4,614	1,690	1,690	250
Revenue contribution	5,063	6,342	10,256	8,029	8,263	5,953
Revenue contribution (earmarked reserves)	175	1,090	0	0	0	0
Greater Norwich growth partnership	120	502	1	8	0	0
Community infrastructure levy	1,562	1,810	1,853	1,407	2,053	1,758
S106	33	977	0	0	0	0
Total	44,609	62,208	51,978	40,286	30,530	26,344
Borrowing need for the year	**872**	**6,000**	**0**	**0**	**0**	**0**
TOTAL FINANCING	**45,481**	**68,208**	**51,978**	**40,286**	**30,530**	**26,344**

5.25 The 2021/22 estimated capital outturn in Table 5.2 does not include possible carry forwards of budgets into the next financial year. No potential carry forward will be funded from borrowing and therefore there is no impact on the capital financing requirement or borrowing assumptions.

Table 5.3: Prudential and treasury Indicators

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital financing requirement at end of year						
General Fund	114,306	120,074	114,948	107,767	106,031	104,397
Housing Revenue Account	207,517	208,174	208,174	208,174	208,174	208,174
TOTAL	**321,823**	**328,248**	**323,122**	**315,941**	**314,205**	**312,571**
Annual change in capital financing requirement						
General fund	(6,874)	5,769	(5,127)	(7,181)	(1,736)	(1,634)
Housing Revenue Account	-	657	-	-	-	-
TOTAL	**- 6,874**	**6,426**	**- 5,127**	**- 7,181**	**- 1,736**	**- 1,634**
Gross Debt						
Borrowing	262,287	237,466	248,338	260,086	264,619	270,099
Operational boundary for external debt						
Operational boundary	328,818	328,248	323,122	315,941	314,205	312,571
Authorised limit for external debt						
Authorised limit	358,818	358,248	353,122	345,941	344,205	342,571
Actual external debt						
Borrowing	261,607	236,907	247,907	259,790	264,467	270,099
Debt maturity profile as at end of year - all borrowing %						
Less than one year	19%	2%	1%	20%	3%	19%
Between one and two years	2%	1%	21%	3%	20%	1%
Between 2 and 5 years	24%	48%	25%	22%	2%	3%
Between 5 and 10 years	23%	5%	6%	6%	5%	5%
Between 10 and 15 years	5%	3%	2%	1%	1%	0%
Between 15 and 20 years	0%	0%	0%	0%	0%	0%
Over 20 years	27%	41%	45%	48%	69%	73%
Upper limit for fixed interest rates	100%	100%	100%	100%	100%	100%
Upper limit for variable interest rates	20%	20%	20%	20%	20%	20%
Upper limit for investments > 365 days	£30m	£30m	£30m	£30m	£30m	£30m
Current treasury investments as at 31/12/2021 in excess of 1 year maturing in each year	-	-	-	-	-	-

Maturity Structure of borrowing Strategy

5.26 These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 5.4: Maturity structure of borrowing

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

Borrowing Strategy

5.27 The capital expenditure plans set out in tables 5.2 above, provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, ensuring that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

The table below summarises the council's forward projections for borrowing based on the assumptions given in tables 5.2 above.

Table 5.5: Estimated forward projections for borrowing

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
External Debt						
Debt as at 1 April	219,107	261,607	236,907	247,907	259,790	264,467
Expected change in debt	42,500	(24,700)	11,000	11,883	4,677	5,632
Other long-term liabilities	680	559	432	296	152	-
Actual gross debt as at 31 March	**262,287**	**237,466**	**248,338**	**260,086**	**264,619**	**270,099**
Capital Financing Requirement	321,823	328,248	323,122	315,941	314,205	312,571
Under/(Over) borrowing	**59,535**	**90,782**	**74,783**	**55,855**	**49,586**	**42,472**

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.

5.28 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.

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

- If it is felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from sudden increase in inflation risks or impact of Covid 19 on the UK economy, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Policy on borrowing in advance of need

5.30 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.

5.31 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).

5.32 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

5.33 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).

5.34 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).

5.35 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)

5.36 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

5.37 The proposed MRP Policy Statement is set out in Appendix 5.

5.38 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.

5.39 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 36 years.

5.40 It should be noted that it is not the council's policy to charge minimum revenue provision (MRP) on loans to third parties so long as there is no indication that the loan will not be repaid in full. All third-party loans will be reviewed annually with an assessment made of any MRP payments required.

5.41 Currently there is no requirement for the HRA to make MRP provisions, although a voluntary revenue provision will be considered as part of the full HRA business plan refresh planned for early 2022/23. This will provide a mechanism for the prudential repayment of debt over the life of the business plan. In the absence of a repayment mechanism debt could continue to be refinanced. However, continued right-to-buy sales will lead to a decrease in the number of properties available to generate the income necessary to continue to make interest repayments. Therefore, given the cumulative impact of increasing interest charges it is considered sensible to put in place a means of extinguishing both the capital and interest element of debt.

Investment Strategy

Investment and borrowing rates

5.42 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 and the subsequent narrative has been provided by the council's advisors.

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

Table 5.6: Interest rate forecast as at December 2021

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Source: *Link Asset Services – 20/12/21*

5.44 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

5.45 As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

5.46 It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons:

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.
- Uncertainty over the impact if the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland.

5.47 In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

5.48 It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

5.49 Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

5.50 While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant upward risk exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

5.51 There are also possible downside risks from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Treasury investment policy

5.52 The council's treasury management investment policy has regard to DLUHC'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.

5.53 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

5.54 Management of risk is placed in high priority in accordance with the DLUHC 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.

5.55 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.

5.56 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.

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

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

5.59 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.

5.60 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.

5.61 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.

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

5.63 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 5.7.

5.64 Lending and transaction limits for each counterparty will be set in the Treasury Management Principles (TMPs) through applying the matrix table 5.6 below.

Table 5.6: specified and non-specified investment approved instruments and limits

Counterparty/Financial instrument	Minimum Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£30m	n/a	n/a
UK Government gilts	UK Sovereign rating	12 months	£15m	3 years	£5m
UK Government Treasury bills	UK Sovereign rating	6 months	£10m	n/a	n/a
Money Market Funds - CNAV	AAA	Liquid	£10m per fund £25m overall limit	n/a	n/a
Money MARKET Funds - LVNAV	AAA			n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£13m 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	£20m	2 years	£10m
Banks (Term deposits, CD, Call & Notice accounts)	AA+ AA	12 months	£17m	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

5.65 Table 5.6 incorporates several increases to the specified investment counterparty limits compared to the 2021/22 Treasury Management Strategy. This decision has been taken in light of the increased cash balances being held by the authority as a result of way Covid-19 grants and reliefs are being funded. The increases have been applied to the lowest credit risk investments and will ensure the council has sufficient capacity to manage its current investments in a secure way. The following increases have been applied:

- Increase in specified investments with AAA rated banks (Term Deposits, CD, Call & Notice accounts) from £15m to £20m (maximum duration 12 months);
- Increase in specified investments with AA+ and AA rated banks (Term Deposits, CD, Call & Notice accounts) from £15m to £17m (maximum duration 12 months);

- Increase in specified investments with UK Local Authority term deposits from £10m to £13m (maximum duration 12 months).

5.66 The identification and rationale supporting the selection of these investments, the maximum limits and monetary limits to be applied are set out in table 5.7 below.

5.67 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

Sovereign limits

5.68 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.

5.69 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.

5.70 Due to COVID, it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA-. However if credit rating agencies downgrade the UK below AA- (the minimum Sovereign rating for 2022/23), the council will immediately seek advice from its treasury adviser and report to cabinet at the earliest possible reporting date.

Table 5.7: Sovereign rating for 2022/23

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

Bank of England iteration UK bank stress tests

5.71 In addition to the use of credit ratings provided by the three main rating agencies the other factors identified in paragraphs 5.55 and 5.56 will be taken into consideration when selecting UK banks.

Money Market Funds (MMFs)

5.72 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

5.73 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

5.74 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

5.75 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

5.76 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.

5.77 **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 0.04%. This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

5.78 **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.

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

- Investments – internal returns above the 7-day SONIA (Sterling Overnight Index Average) rate.

Ethical investment

5.80 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.

5.81 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)

5.82 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).

5.83 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

5.84 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.

Regulatory Changes

5.85 CIPFA has recently issued revised versions of the Treasury Management Code and its associated guidance, which in themselves interact closely with an updated Prudential Code for capital finance, governing local authority capital investment and borrowing activities.

5.86 CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

5.87 The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarity on what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This includes the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- a requirement to consider annually its commercial property investments, if it intends to have a borrowing need, and to consider the

risks and benefits of continuing to hols such investments against the option to divest and realise capital receipts to pay down debt or reduce future borrowing needs;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

5.88 Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

APPENDIX 5: 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.

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

6. SUMMARY OF KEY FINANCIAL INDICATORS

Background

6.1 Local government finance is subject to a high level of regulation. There are various codes of practice which the council, under legislation, has a duty to have regard to when taking its budget decisions.

6.2 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, as well as its commercial income streams.

6.3 DLUHC 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

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

6.5 The indices chosen as being the most appropriate for the council's circumstances at present take as their starting point figures from the 2020/21 draft statement of accounts and project these forwards for this financial year and the three following years.

6.6 The DLUHC do not specify any indices for the HRA – they are given in the tables that follow where appropriate to do so.

Balance Sheet position - strong

6.7 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 £1.1bn, most of which are land and property assets including the council's HRA housing.

6.8 As at 31 March 2021, the council had external borrowing of £220m (£217m long-term, £2.5m short-term) which is 20% of the value of the council's assets. In addition, the council had borrowed £110m 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 £329m (this figure is known as the capital financing requirement (CFR)).

Table 6.1 relevant extracts of the council's balance sheet (as at 31/03/21)

	31-Mar-21 £000	31-Mar-20 £000
Long term assets	1,105,493	1,077,939
Of which:		
- Investment properties	103,394	105,677
- Long term investments (equity shares in 3rd parties)	6,263	4,852
- Long term debtors (amounts lent to 3rd parties)	14,394	9,521
Long term borrowing	217,579	220,136
Current Assets	113,680	58,398
Current Liabilities	78,318	35,110

6.9 Long term investments (equity shares) as at the 31 March 2021 include a £3.9m shareholding in Norwich Regeneration Limited and £0.370m shareholding in Norwich City Services Ltd.

6.10 In the 2020/21 long term debtors the amounts lent to third parties on commercial terms comprise a £12.650m loan to Norwich Regeneration Limited, £1.140m capital loan to Norwich City Services, a £0.500m working capital loan to Norwich City Services Ltd and a £0.104m 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.

6.11 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 2021 is 1.5:1, meaning the council held nearly 50% more 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

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

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

Table 6.2 estimated values of key aspects of the council's balance sheet

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	£000	£000	£000	£000	£000
Long term assets	1,105,493	1,105,493	1,105,493	1,105,493	1,105,493
Of which:					
- Investment property	103,394	103,394	103,394	103,394	103,394
- Equity shares in 3rd parties	6,263	6,263	6,263	6,263	6,263
- Amounts lent to 3rd parties	14,394	8,080	14,025	9,469	4,913
Capital Financing Requirement	328,697	321,823	328,248	323,122	315,941

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

6.14 The value of investment property is assumed to remain in line with current levels. No further additions to the investment portfolio are included; this is in line with the lending terms of the Public Works Loan Board. For 2020/21, investment assets portfolio made up approximately 10% of the overall value of the council's long-term assets.

6.15 The council's underlying need to borrow is forecast to reduce overall across the period to 2024/25 by £12.8m which is a 4% reduction from 2020/21. The balances are decreasing as there is limited capital expenditure forecast which is to be funded from borrowing, combined with the ongoing minimum revenue provision payments which reduce the capital financing requirement.

Further detail on the council's borrowing plans

6.16 Table 6.3 shows that a forecast increase in the council's underlying need to borrow (capital financing requirement) in 2022/23 arising from loan funding to be provided to Norwich Regeneration Ltd. In future years, the annual minimum revenue provision charges begin to reduce the overall general fund capital financing requirement along with expected loan repayments.

Table 6.3 estimated indebtedness (capital financing requirement (CFR))

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
	£000	£000	£000	£000	£000
General Fund CFR	121,180	114,306	120,074	114,948	107,767
Including:					
CFR for investment property	72,569	71,760	70,931	70,081	69,210
CFR for investment in equities	0	0	0	0	0
CFR for lending to 3rd parties	14,394	8,080	14,025	9,469	4,913
CFR total for HRA	207,517	207,517	208,174	208,174	208,174

NB the purchase of equity shares in Norwich Regeneration Limited has been funded from capital receipts and not by borrowing.

6.17 The capital financing requirement for the HRA is forecast to remain static with no current expectation to fund new capital expenditure from borrowing over the period to 2023/24.

6.18 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 8 – the financial glossary for an explanation of these terms).

6.19 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

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

6.21 Some further explanation is necessary about this indicator:

- DLUHC 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.

6.22 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 homeowner to repay his/her total mortgage suddenly out of annual salary and any savings held instead of over the longer-term mortgage period.

Table 6.4: capital financing requirement (CFR) as a % of service expenditure

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
General Fund (GF):					
Net service expenditure (NSE)	17,012	19,814	18,988	19,014	19,028
Gross service expenditure (GSE)	56,975	62,555	60,918	60,884	60,836
Opening GF CFR as a % of NSE	712%	577%	632%	605%	566%
Opening GF CFR as a percentage of GSE	213%	183%	197%	189%	177%
Opening CFR arising from non-financial investments as a % of GSE	153%	128%	139%	131%	122%
HRA:					
Gross service expenditure (GSE)	63,669	70,335	71,742	73,177	74,640
Opening CFR as a percentage of GSE	326%	295%	290%	284%	279%

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

6.23 For further ease of understanding, the forecast figure of 177% in 2024/25 (table 6.4) 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 1.77 years.

Capital Financing Requirement (CFR) to asset value (Gearing ratio)

6.24 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 6.5: capital financing requirement (CFR) as a % of the value of long-term assets

	2021/22	2022/23	2023/24	2024/25	2025/26
Opening CFR as a % of the value of long-term assets	30%	29%	30%	29%	29%
Opening CFR arising from non-financial investments as a % of the value of long-term assets	8%	7%	8%	7%	7%

The council's non-financial (commercial) investments

Commercial income to service expenditure

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

Table 6.6: commercial income to service expenditure

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Net income from investment property	2,936	3,036	3,161	3,215	3,270
Net income from lending to third parties	249	249	249	249	249
Total net income from non-financial investments	3,185	3,286	3,410	3,465	3,519
Total net income as a % of NSE	19%	17%	18%	18%	18%
Gross income from investment property	6,542	6,493	6,661	6,761	6,863
Gross income from lending to third parties	454	454	454	454	454
Total gross income from non-financial investments	6,996	6,947	7,115	7,215	7,317
Total gross income as a % of GSE	12%	11%	11%	11%	11%

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

6.26 For 2022/23 the net and gross income from investment property shown in tables 6.6 and 6.7 are based on the proposed 2022/23 budget assumptions. For 2022/23 the assumed income from the Norwich Airport Industrial Estate has been reduced from £0.427m to £0.070m based on the decision by Cabinet in July 2021 to dispose of the site and its assumed sales during the financial year. Budgeted income on the council's other commercial properties has increased by around £0.300m reflecting improved assumptions around income following the pandemic.

6.27 Income from the council's car parks is not included in this analysis as the primary reason for owning and managing them is not solely for-profit making purposes. However, the income is significant and of a commercial nature. The net income budgeted to be obtained from car parks in 2022/23 is £2.86m, which if added into the net income from non-financial investments shown in the table above, would mean that commercial income is some 31% of the 2022/23 net service expenditure budget.

Investment cover ratio

6.28 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 6.7: investment cover ratio

	2021/22	2022/23	2023/24	2024/25	2025/26
General Fund	£000	£000	£000	£000	£000
Total gross income from non-financial investments	6,996	6,947	7,115	7,215	7,317
Interest expense	2,102	2,102	2,102	2,102	2,102
- As a % of gross income	30%	30%	30%	29%	29%

7. CHIEF FINANCE OFFICER'S STATEMENT

Statutory requirements

7.1 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.

7.2 In addition, CIPFA's recommended good practice is that chief finance officers refer to the range of financial resilience indicators produced by CIPFA in their section 25 statements; the most recent data provided by CIPFA was published on 27 January 2022 and will be incorporated into the final versions of this report for Cabinet and Full Council in February 2022.

7.3 Another requirement is that under CIPFA's 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

7.4 In fulfilling their statutory responsibilities, the Chief Finance Officer has set out in paragraph 7.11 the key risks associated with the proposed budget, so that council is clear on these risks and the proposed mitigation factors, as set out in the corporate risk register, when making its budget decision.

7.5 A key mitigation for the risks outlined 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.

7.6 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.

7.7 The risk analysis shows that a prudent minimum level of reserves for 2022/23 will remained unchanged at £5.100m for the General Fund and £5.848m for the Housing Revenue Account. Further detail of the calculations is available on request. Further comfort is taken from the record council has in managing and delivering to budget in-year and that the budget proposals contain both corporate contingency budgets and specific earmarked reserves for the council's commercial activities.

7.8 As highlighted in Section 2 of the budget report it is clear that the financial risks associated with Covid-19 and the subsequent economic recovery will continue to impact the council in future years, it is therefore vital that the council remains resilient to the future risks.

7.9 The detail of all reserves held for specific purposes is reported Section 2, paragraph 2.55 and Table 2.5.

7.10 Due to capacity constraints of the council's external auditors, at the time of writing, the audit of the 2020/21 financial statements is ongoing. As a result, it should be noted that the opening reserve balances detailed in the report are unaudited. Any amendments resulting from the audit which impact on council's reserves will be reported through to Cabinet as part of the ongoing financial reporting.

Section 25 Statement

7.11 Allowing for the uncertainty and keys risks as set out in the Council's Corporate risk register reviewed by Cabinet in November 2021 (Corporate Risk Register), specifically:

- Risk: 1. Council Funding Medium- Long Term
- Risk: 2. Commercialisation (investment property, NRL, other commercial income sources)
- Risk: 4. Further waves of Covid-19
- Risk: 5. Impact of Brexit
- Risk: 12. Contract Management – Governance
- Risk 13: The Council's approach to waste and recycling becomes financially, environmentally and contractually unsustainable
- Risk 14: Health, Safety and Compliance in council homes and buildings

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.

7.12 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 5).

7.13 There are some projects which have been included in the proposed capital programme, as their strategic importance to one or more of the council's objectives has been recognised. However, the detailed business case has not been sufficiently developed to identify the expected costs and benefits of these proposals now. For these projects, the broad financing has been included but these projects cannot commence until approval of the business case has been made by the corporate leadership team; any funding variances will also need to follow the council's financial regulations in relation to capital virements.

8. GLOSSARY OF TERMS USED IN THE BUDGET REPORT

Assets – Tangible and Intangible	*Tangible asset* – an asset that has a physical form such as machinery, vehicles, information and communications technology, equipment, buildings and land. *Intangible asset* – an asset that is not physical in nature such as goodwill, brands, patents & copyrights and shares.
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, this is the base budget. Inflation, savings, growth and other adjustments are then added.
Baseline Funding Level	Authorities' 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 performance against an externally calculated value; benchmarks can be used to measure service performance, or it can enable a comparison of an investments value against a relevant 'benchmark' index.
Billing Authority	A council such as Norwich City Council which is responsible for collecting the Council Tax and Business Rates in its administrative area. Authorities on whose behalf billing authorities collect money are called precepting authorities.
Bond	A financial 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 (EU). The UK joined the EU in 1973 and left in 2020.

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	An authority which sees its annual business rates income drop below its baseline funding level can receive a safety net payment at the end of the financial year from central government. Different arrangements apply however, if an authority is part of a local rates pool (such as for NCC in 2022/23)
Business Rates Levy	Authorities which experience growth in business rates income pay a levy. As Norwich is a pooled authority any levy is subject to the pool arrangements and 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 Scheme	This was introduced in 2013 and is designed to give local authorities more control over the money raised locally, removing the ring-fencing of grants and promoting and rewarding local economic growth. Local pooling arrangements supersede the national scheme.
Capital Expenditure	Expenditure on the creation or enhancement of assets, for example: • The acquisition, reclamation or enhancement of land • The acquisition, construction, preparation, enhancement or replacement of 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 financed.

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". Can also refer to the process of funding revenue expenditure from capital resources in accordance with regulations– e.g. the relevant element of staffing costs, which are normally revenue expenditure, can be capitalised against a capital project if they are an integral part of delivering the capital project.

Capitalisation Direction	A specific approval, only available from the government, to permit general revenue expenditure to be capitalised and funded from capital resources – used in extreme circumstances where borrowing is necessary to support day to day expenditure needs.

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 specific information and guarantees on their plans for long-term borrowing and capital spending.

Certificate of Deposit (CD)	These are term deposits commonly sold in financial markets (e.g. banks and building societies).

CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the 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 codes 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. The resultant balance is either a surplus or deficit which is be applied to future years' budgets.

Constant Net Asset Value Money Market Funds (CNAV)	This refers to money market funds that aim 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. 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 CIL charging schedule is in place, it largely replaces Section 106 obligations in delivering strategic infrastructure.

Comprehensive Spending Review	A governmental process carried out by HM Treasury to set medium term expenditure limits for each central government department. Usually announced for 3 years.

Council Tax	A tax on domestic property set by local authorities and based on the value of the property within eight bands, A to H. The council tax value of each band is expressed as a proportion of band D (e.g. Band A = 6/9, Band H = 18/9).

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 because of variations in collection rate or to the estimated increase in the number of properties. The variations arise within the Collection Fund and are applied to future years' budgets.

Council Tax Precept	The levy made by the precepting authorities (Norfolk County Council and Police & Crime Commissioner) on Norwich City Council as the billing authority requiring the latter to collect income from council tax payers on their behalf.

Council Tax Reduction Scheme	The Council Tax Reduction scheme (CTRS) helps people on low incomes and/or certain welfare benefits to pay their council tax bill. Locally determined CTRS 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 considering all other funding available.

Counterparties	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 and Moody's.

Credit Risk	Risk of a 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 Housing Revenue Account (HRA).

DLUHC	Department for Levelling Up, Housing and Communities (formerly MHCLG).

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	The Debt Management Agency Deposit Facility, which is offered by central government to local authorities to make fixed term deposits to supplement their investments.

Earmarked Reserve	Reserves earmarked for a specific type of future spend.

Enhancement (of an asset)	Enhancing an asset is capital expenditure which is 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.

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	This is the 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.
Fair Funding Review	A review proposed by central government to consider how to fairly allocate local authority funding to individual councils according to need and resources. Although the government has acknowledged that the data and methodology for distributing funding has not been reviewed for many years, this has been delayed several times because of BREXIT, COVID-19 and other concerns. Now linked to the government's 'Levelling Up' agenda consultation is anticipated in 2022/23.
Finance Lease	Where a lease is classified as a finance lease, then the substance of the transaction is 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.
Financial Instrument	A contract that creates a financial asset for one party and a financial liability for the other.
General Fund	The account to which the cost of providing the services that are paid for from Council Tax and Government Grants are charged. The Housing Revenue Account is a ring-fenced element of the General Fund which must not subsidise or be subsidised by Council taxpayers.
General Reserve	This is a usable reserve which has not been earmarked for a specific future use. Similar to a contingency, to meet unforeseen events or expenditure, it can also be used to smooth variations in the level of savings required over a number of years.
Gilt	A UK Government bond issued by HM Treasury.

Growth	An increase in expenditure generally not due to inflation/price changes but arising from growth in service demand, a change in legislation impacting on the service or a decision to invest more in a service.

Housing Revenue Account (HRA)	The Housing Revenue Account is a statutory ring-fenced 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, a set of accounting rules used for the preparation of financial statements including those of local authorities.

Internal Borrowing	Internal borrowing is the *temporary* use of the council's cash holdings to fund capital expenditure. Whilst this must be repaid it does not represent a formal debt in the same way as external borrowing.

Investment Code	Sets out practices that local authorities are "obliged to have regard to" when making investment decisions. Published by the DLUHC.

London Interbank Offered Rate (LIBOR)	*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. LIBOR and LIBID are being discontinued from December 2021 following recent banking scandals. They will be replaced by SONIA*

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. LIBOR and LIBID are being discontinued from December 2021 following recent banking scandals. They will be replaced by SONIA*

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 (now DLUHC)	The Ministry of Housing, Communities and Local Government (MHCLG), renamed Department for Levelling Up, Housing and Communities (DLUHC) in 2021.

Minimum Revenue Provision (MRP)	A statutory charge to the general fund revenue budget for future debt repayments (external borrowing in the capital programme). The council must 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. Being phased out as part of the review of local authority funding reforms.

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 publishing 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. From 2022/23 onwards these will be treated in the same way as ***finance leases*** unless they are short term or low value.

Operational Boundary	This is an indicator is based on the same estimates as the Authorised Limit for External Borrowing but reflects the most likely prudent (but not worst case scenario), 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 7 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 (currently the Executive Director of Corporate and Commercial Services) 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.

SONIA	Sterling Overnight Index Average. Replaces LIBID and LIBOR as the key measures of interbank lending rates.

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 2021 and covers 2022/23 to 2024/25.

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 a 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 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 and monitor several indicators and Treasury Management Practices – these are found in section 5 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, bought, and sold in units that represent a mixture of the securities underlying the fund.