



NORWICH City Council

Committee Name: Cabinet

Committee Date: 05/02/2025

Report Title: The council's 2025-2026 budget and medium-term financial strategy

Portfolio: Councillor Kendrick, Cabinet member for an open and modern council

Report from: Interim chief finance officer (S151)

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To consider proposals for the council's 2025-2026 budget (general fund, HRA and capital programme) and updated medium-term financial position including the outcomes of the budget consultation and any recommendations from the Scrutiny Committee. Final budget proposals will be submitted to Full Council on 12 February 2025.

Recommendation:

Cabinet is asked to:

- a) Note the latest financial information, the budget strategy incorporated into the report and the budget proposals, which enable the Council to set a balanced budget for 2025 - 2026 and Medium-Term Financial Strategy for the period to 2029 – 2030.
- b) Note the Section 25 report of the chief finance officer on the robustness of the budget estimates, the adequacy of reserves, and the key financial risks to the council.
- c) Note that the Council Tax resolution for 2024/25, 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 on 25 February 2025, once Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk have agreed the precepts for 2025 - 2026.

Recommend to Council to approve:

General Fund

- i. The council's net revenue budget requirement as £20.850 million for the financial year 2025 - 2026 including the budget allocations to services shown in and the growth proposals set out in Section 2.

- ii. An increase to Norwich City Council's element of the council tax of 2.99%, meaning that the Band D council tax will be set at £306.11 (Section 2, paragraph 2.11) with the impact of the increase for all bands shown in Section 2, Appendix 2 (D).
- iii. The prudent minimum level of reserves for the council as £5.5 million (Section 2, paragraph 2.22).
- iv. Delegation to the chief finance officer (S151 Officer) in consultation with the portfolio holder for an open and modern council inclusion of any minor changes consequent on the final local government settlement or additional grant allocations.
- v. Delegate to the chief finance officer (S151 Officer) the approval of technical virements for general fund, housing revenue account and capital budgets, to make budget transfers where there is no underlying change in the budget intention.

Housing Revenue Account

- i. The proposed Housing Revenue Account gross expenditure budget of £80.252m and gross income budgets of £83.191m for 2025-2026 (Section 3, paragraph 12).
- ii. A 2.7% increase in dwelling rents for 2025-2026, in accordance with the government's Rent Standard. This will result in an average weekly rent increase of £2.62 for Norwich social housing tenants (Section 3, paragraphs 13 to 20).
- iii. That garage rents increase by 2.7%, based on CPI in September 2024 plus 1% (Section 3, paragraph 18).
- iv. That the setting of tenants' service charges is delegated to the Executive Director of Communities and Housing in consultation with the portfolio holder for Housing after engagement with tenant representatives (Section 3, paragraph 19)
- v. The prudent minimum level of Housing Revenue Account reserves as £5.848m (Section 3, paragraph 36 and table 3.4).

Capital and Commercial Strategy

- xviii. The proposed general fund capital programme 2025-2026 to 2029-2030 (2025-2026: £29.933m; 5 years: £46.947m) and its method of funding as set out in Section 4, table 4.2, table 4.4 and Appendix 4 (B).
- xix. The proposed HRA capital programme 2025-2026 to 2029-2030 (2025-2026: £37.520m; 5 years: £231.044m) and its method of funding as set out in Section 4, table 4.2, table 4.5 and Appendix 4 (B).
- xx. The capital strategy, as required by CIPFA's Prudential Code.
- xxi. Delegating to Cabinet, approval to include in the capital programme, additional capital schemes funded wholly by grant where it meets the Council's aims.

Treasury Management Strategy

- xxiii. The borrowing strategy 2024/25 through to 2028/29 (Section 5, paragraphs 5.25 to 5.33).
- xxiv. The capital and treasury prudential indicators and limits for 2024/25 through to 2028/29 contained within Section 5 including the Authorised Borrowing Limit for the council.
- xxv. The Minimum Revenue Provision (MRP) policy statement contained in Appendix 5 (Section 5)

- xxvi. The (financial) Investment Strategy 2024/25 including changes to counterparty limits.

Summary of key financial indicators

- xxvii. Indicators for 2025-2026 through to 2029-2030 as contained in section 5.

Policy Framework

The council has five corporate priorities, which are:

- An open and modern council
- A prosperous Norwich.
- A fairer Norwich.
- A climate responsive Norwich.
- A future-proof Norwich

Report Details

Background

1. Like all local authorities, Norwich City Council continues to face substantial financial challenges, including but not limited to the need for funding reform, increasing service demand, inflation continuing to run at relatively high levels and the uncertainty of broader economic factors arising from global events and the uncertainty created as a consequence.
2. The impact of these factors on local government are now very evident, with an unprecedented number of local authorities making S114 statements, in effect declaring that they are unable to balance their budgets, and an unprecedented number of local authorities also seeking conversations with the Government about their financial outlook and the possibility of seeking exceptional financial support.
3. The Autumn Budget announced by the Government in October 2024 provided welcome news that funding for local government is to increase in 2025-2026 and in particular that, from 2026-2027, multi-year financial settlements will be reintroduced, which will provide greater certainty and thus support better medium-term financial planning. However it was confirmed that there would be another single year financial settlement for 2025 – 2026, with the Provisional Local Government Financial Settlement, published on 18th December 2024, confirming that Norwich City Council's funding would remain broadly neutral. It is within this context and financial uncertainty that the council has developed its budget options for 2025 - 2026 and an approach to ensuring a sustainable medium term financial strategy.
4. The planned review of local government funding announced by the Government, alongside the re-introduction of multi-year financial settlements from 2026 – 2027 onwards provides some optimism that financial planning will be more stable in future, but until the details and specifically the impact upon Norwich City Council become available uncertainty remains. The 2025 – 2026 proposed budget and Medium-Term Financial Strategy (MTFS) reflect a balanced approach to continuing to take advantage of opportunities to improve services and opportunities for Norwich and the uncertainty about future funding and local government policy implemented nationally.

Summary

5. This report sets out 2025 - 2026 budget proposals across the General Fund, the Housing Revenue Account, and the Capital Programme along with medium term expenditure and financing plans.
6. This report provides an update on the implications from the provisional local government financial settlement and any other related announcements for local authority finances.

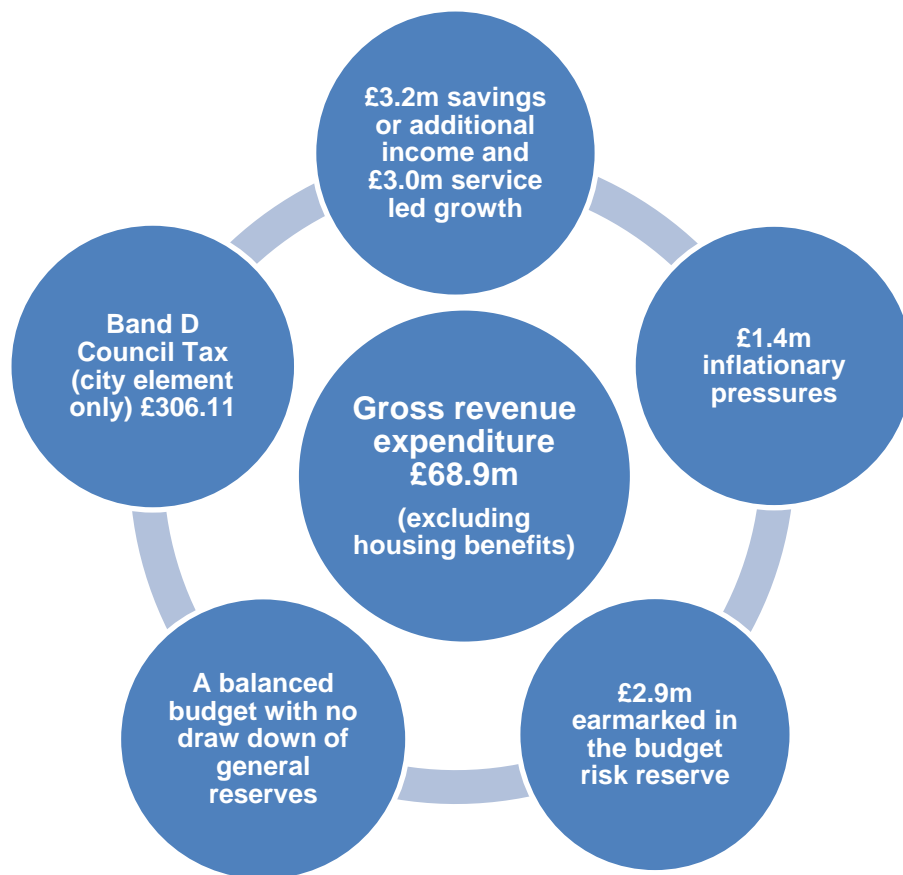
General Fund

7. The [Autumn Budget](#), the [English Devolution White Paper](#), the [Local government finance policy statement 2025 to 2026](#) and the [Provisional local government finance settlement](#) that there is significant change on the horizon for local government and Norwich City Council, however in terms of 2025 – 2026 it confirmed that there would be a further one year settlement with the

major change being in relation to grant funding and the methodology of their distribution.

8. The changes to the grant funding were broadly neutral for Norwich City Council. The Funding Guarantee and the Services Grant were abolished and replaced by the Recovery Grant. In addition a further round of the New Homes Bonus was confirmed and the Revenue Support Grant was uplifted. The net change for Norwich City Council represents an increase of funding by approximately £27k. This represents a positive outcome for Norwich City Council, recognising that there were significant changes in the distribution of funding overall at a national level, whereby funding was prioritised away from rural areas and instead focused upon areas of deprivation, meaning that there were local authorities who saw significant changes in their funding levels, to which they had to respond at relatively short notice.
9. The Provisional Local Government Finance Settlement confirmed the previous assumption that the referendum level for Council tax increases will remain at 'up to 3%. Inflation remains a challenge, having increased in October 2024 following a reduction in September. Forecasts continue to anticipate a reduction over the medium term. Bank base rates are also anticipated to fall in the medium term, but recently have been maintained at 4.75%, which impacts upon both the rate of return on investments as well as the cost of borrowing.
10. The pressure of the current inflationary levels is continuing to have an impact on council budgets, recognising that the headline Consumer Price Index and Retail Price Index rates represent a basket of items, which don't always reflect the specific market pressures impacting the delivery of local authority services. The possibility that global events and broader economic factors could impact local costs remains a risk that needs to be kept under review.
11. To balance the provisional general fund budget for 2024-2025, £3.2 million of savings and additional income proposals have been identified, the full detail of which is provided in Section 2 of the report.
12. Due to the uncertainty about the impact of the changes proposed for local government finances from 2026 - 2027, the forecasts for 2026 - 2027 onwards within the MTFs should not be taken as robust figures, recognising that they are largely based on the status quo continuing, particularly concerning how much business rates and Council Tax income the city council is able to raise and retain. These forecasts will be monitored and adjusted at least annually, in line with any further Government announcements. However, with the announcement that multi-year settlements will return from 2026 - 2027 it should be possible to make more meaningful future financial plans as part of next year's budget setting.

Chart 1 - Key figures in 2025/26 proposed general fund revenue budget



Growth

13. Growth has been focused upon pressures that support the delivery of statutory duties and contractual commitments whilst establishing a sustainable basis for service delivery and improvement. In total these represent an increase of £3 million, with an additional investment of £1.4 million addressing inflation driven budget pressures. This has been achieved without the need to draw down general reserves, maintaining a strong level of General Fund reserves whilst providing earmarked reserves to support the future review of opportunities for service development and/or offsetting strategic risks. Further details of the specific growth items are included within Section 2

Savings

14. Savings or additional income totalling £3.2 million have been identified as a consequence of a rigorous review of existing budgets to identify cashable efficiency savings that don't impact upon service delivery and that both deliverable and sustainable. These proposals have been developed in conjunction with services to ensure that they are fully understood and deliverable, recognising the critical importance of maintaining effective financial control and working collaboratively to ensure that the budget remains the financial reflection of service delivery. Further details of the proposals can be found in Section 2.

Income – Fees and Charges

15. The review of income arising from fees and charges has addressed the issues emerging within the budget management process, as previously

reported to Cabinet. These issues were primarily focused upon car park income resulting from incorrect assumptions about the volume of car parking and consequently the levels of fees being collected. The estimates underpinning these budgeted income streams have been reviewed and updated to reflect expected activity levels which allows for greater levels of modelling around the sensitivity of changes in variable factors. This adjustment has represented a budget pressure in the setting of the 2025 – 2026 budget, however it is also anticipated that other fees and charges income streams will be able to deliver additional funding to support the budget. Further details are available within Section 2.

Asset Management (incl. Commercial Rental Income)

16. The Council has used its asset base to generate around £5m per annum in investment returns. Through carefully managing its existing estate it is anticipated to maintain similar income streams over the next five years.
17. The Council will continue to actively manage and review its asset portfolio to ensure that benefits are maximised and that appropriate and strategic decisions are made about future investments and/or disposals. Capital receipts support the Council to minimise its borrowing, since they provide a potential source of funding for capital programme schemes, which in turn reduces the potential level of debt financing required to be funded from the General Fund.

Corporate Items: Capital Financing

18. The council continues to actively manage its Treasury arrangements. Due to higher cash balances in the near term and high interest rates, it has managed to achieve over £4.5m in investment returns. Now that it is increasingly clear that interest rates will stay high for an extended period, we have been able to reflect those benefits in the Medium-Term Financial Strategy. The medium-term economic forecasts from both the Bank of England and the Office for Budget Responsibility indicate that interest rates are likely to remain around their current level and then fall in the medium term, consequently the council has worked with its treasury advisors to reflect the anticipated impacts for the council across the MTFS timeframe. This position will be kept under regular review to ensure that any changes in circumstances are reflected within both performance monitoring and any updates to the MTFS.
19. The council reviewed its approach to the minimum revenue provision (MRP) during 2023 - 2024; MRP is used to secure resources to repay debt. The MRP is not only prudent, but an important part of the effective governance and risk management associated with the council's finances. After reviewing the MRP Policy again for 2025 - 2026, with advice from the council's treasury advisors (Link), the policy wording has been amended and this approach has been approved by the Treasury Management Committee and Cabinet (January 2025) in light of the recent changes to MRP regulations. The policy will continue to be reviewed in line with regulation and the council will also look to make additional voluntary revenue provision charges to ensure that the charge will always remain affordable and sustainable in budgetary terms.

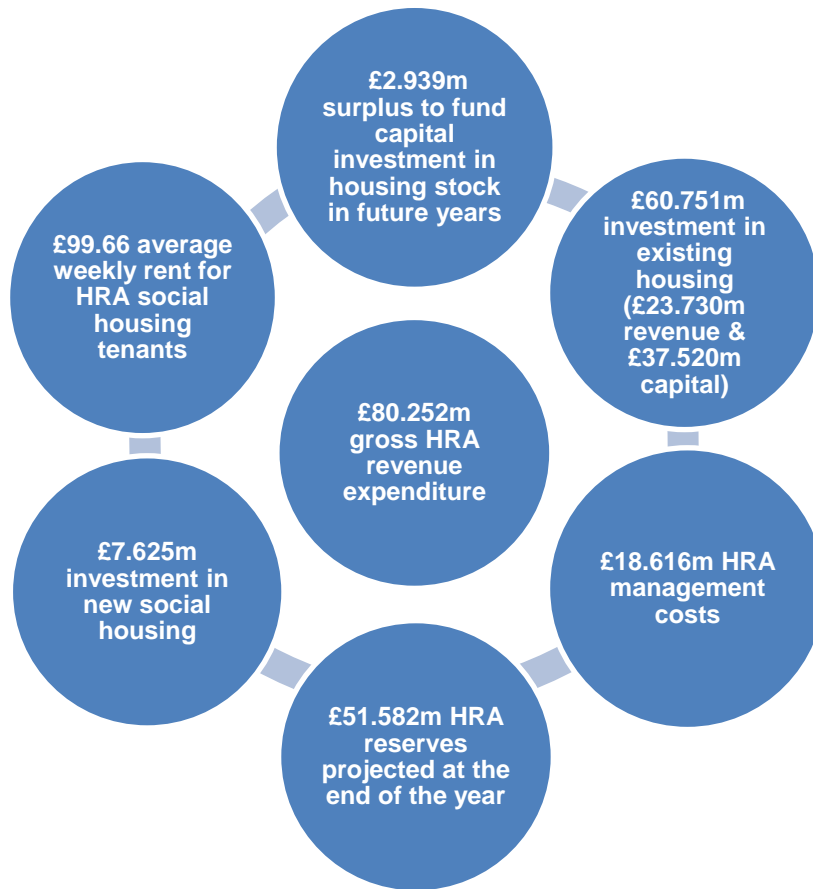
Overall approach to balancing the General Fund

20. The council has undertaken a comprehensive review of existing budgets, reflective of service commitments, the requirement to reflect the impact of external factors, such as pay awards, inflation, statutory responsibilities and the need to maintain a sustainable service delivery and governance structure. To this end, there was a clear focus upon developing proposals that had been challenged internally, both to ensure that estimates for budgets are robust and support the Council's ambitions for both the next financial year and in the context of the changing outlook for local government finances.

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 for the budget linked to the council's ambitions around continuing to develop high quality new council housing and maintaining and renewing existing homes. The HRA has also lost significant income from the government's enforced four-year rent reduction enacted in the Welfare Reform and Work Act 2016 and historic lower than average rent levels.
23. The HRA is forecast to make a surplus of income over expenditure of £2.939m in 2025-2026 and it is proposed to retain this within HRA reserves to support the provision of new homes in future years.
24. The government's Rent Standard enables authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%. In September 2024, CPI increased by 1.7% which results in a proposed rent increase of 2.7%. An increase of 2.7% will result in the average HRA rent increasing by £2.62. The increase in rents is necessary to fund the council's future ambitions to continue to build new council homes in response to demand and the increasing need to invest in and decarbonise existing homes.

Chart 2: Key figures in 2025-2026 proposed HRA budget



Capital Programme

25. Across the General Fund and the HRA the council's proposed capital investment programme for 2025-2026 is £67.453m, with £277.990m to be invested over the five years of the programme. An illustration of some of the key projects and programmes can be found in Appendix 4 (B).
26. The proposed financing of the capital programme is also summarised in (Section 4) Tables 4.4 and 4.5 for the General Fund and HRA respectively.

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

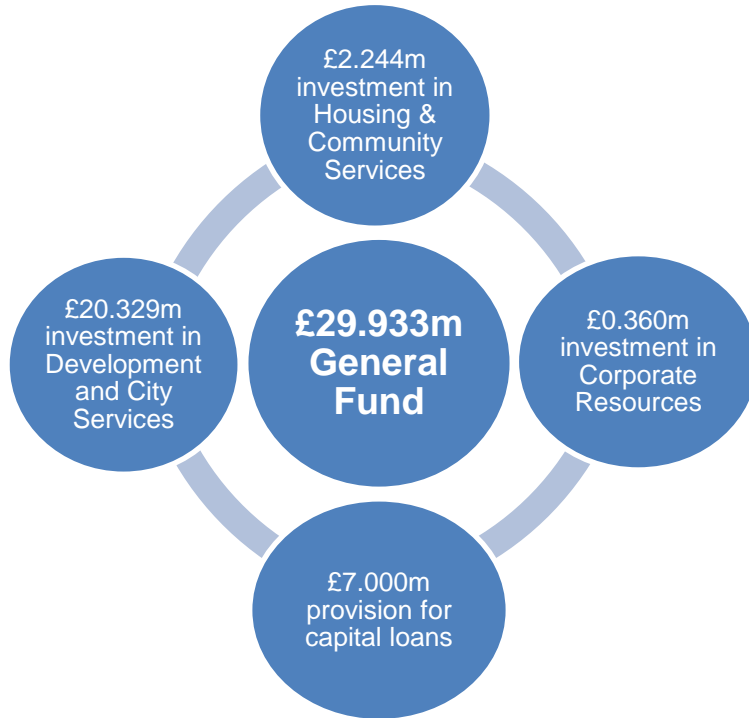
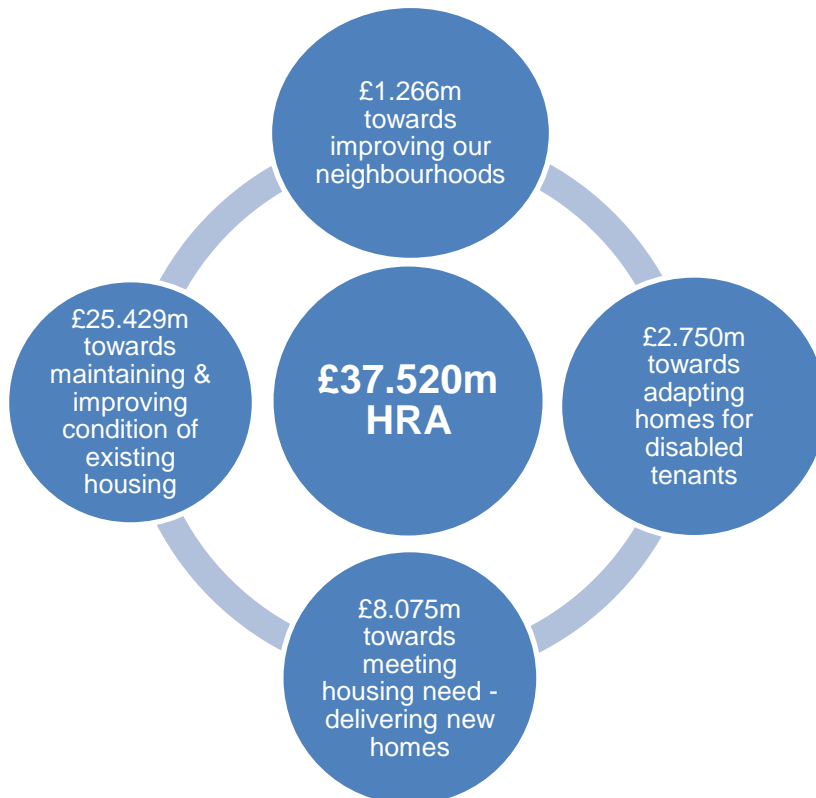


Chart 4: Illustration of proposals within the HRA capital programme



Equality Impact of budget proposals

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

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

28. An overall Equality Impact Assessment is contained in Section 8. Equality Impact Assessments for specific proposals will be developed as proposals are being finalised. This ensures that the impact is understood and mitigating actions that minimise disadvantage and tackle inequality are identified where possible. There may be some proposals that have implications for council employees for which details of consultation or Equalities Impact Assessments cannot be published owing to data protection or employment legislation.
29. 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.

The council's approach to financial planning

30. 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 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 uncertainties surrounding the country's macro-economic position and its potential impact on the 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 Minimum Revenue Provision costs) into the revenue budget, even if in practice the expenditure is temporarily funded from internal borrowing (use of the council's cash holdings).

Contents of this budget report

31. 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.
32. In addition, regulatory codes of practice require Members to form views on the council's proposed approach to commercial investments, its lending to third parties including its wholly owned subsidiary companies, and its equity investments whilst understanding financial indicators showing the risks, proportionality and affordability of the commercial activities being proposed.
33. This report comprises a series of interlinked and comprehensive papers setting out proposals for the 2025-2026 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 Settlement

This gives a summary of the provisional local government finance settlement.

2: General Fund 2025-2026 budget and MTFS

This sets out the proposed general fund revenue budget and its financing for 2025-2026, including the proposed Council Tax for 2025-2026, along with a forecast of the medium-term position.

3: Housing Revenue Account 2025-2026 Budget

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2025-2026 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 Department for Levelling Up, Housing & Communities Investment Code. The Strategy covers the council's 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. This section also provides 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.

6: 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.

7: Financial glossary

The budget papers by their very nature contain technical financial terms and concepts. The glossary seeks to provide a list of terms and definitions to explain these.

8: EQIA

The initial cumulative impact of the budget proposals are considered in this section prior to individual consultations and impact assessments being undertaken where necessary and before implementation.

Public Consultation and next steps

34. A public consultation took place between 12 December 2024 and 12 January 2025. The responses to the consultation are included at Appendix 2(F) of the report. The consultation reflects five pledges that the council has made in relation to the utilisation of the budget to date,
- Pledge 1 – Spending money on the services you care about.
 - Pledge 2 – Making Norwich the best it can be.
 - Pledge 3 – Making a real difference to people's lives.
 - Pledge 4 – Caring for our environment and our people.
 - Pledge 5 – A modern council with services shaped by residents.
35. Tenant Involvement Panel representatives were consulted over the proposed 2.7% increase on 12th December 2024. The impact on both tenants and the long-term viability of the HRA was discussed, but it was recognised that increases are necessary to maintain the level of investment in existing and new homes and delivery of the decarbonisation programme, and the proposed rent increase of 2.7% in line with government guidance was noted.
36. In accordance with the constitution, levels of tenants' service charges are determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

Implications

Financial and Resources

37. 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 and Budget.
38. This report including the separate report sections, presents the council's proposed 2025-2026 budget across all its activities along with its medium-term financial strategy. The financial implications of these proposals are given throughout the report.

Legal

39. 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.
40. 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

41. The proposed budget 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.

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Equality Impact Assessments are required for any specific budget proposals and the impact of the totality of all measures. The overarching assessment is included in Section 8.
Health, Social and Economic Impact	Budget savings and investment proposals including capital investments are likely to have economic impacts on the area.
Crime and Disorder	No specific crime and disorder impacts are considered to arise from the Council's budget setting processes.
Children and Adults Safeguarding	No specific safeguarding issues are considered to arise from the Council's budget setting processes.

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

Risk Management

42. The budget papers clearly outline several financial risks to the council, some of which have increased, considering changes to the wider economic environment.
43. Several measures have been put in place to mitigate the increased risks, including:
 - a) Maintaining earmarked reserves, established to help mitigate risk, including:
 - The budget risk reserve to manage the financial risks associated with the delivery of the 2024/25 budget savings.
 - The business change reserve to fund costs linked to the council's change programme.
 - The commercial property reserve to manage the risks and costs associated with holding commercial property.
 - The companies reserve to mitigate financial risks from lending to the council's wholly owned companies.
 - b) The maintenance of a Prudent Minimum Level of General Fund reserve to cover unforeseen events.
 - c) The requirement to produce robust business cases for large capital projects (many of which will generate returns or savings) before a project commences.

Reasons for the decision/recommendation

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

Background papers:

- [The Council's Provisional 2025-26 Budget & Medium Term Financial Strategy](#)
- [Housing Revenue Account \(HRA\) Business Plan and HRA Budget 2025-2026](#)

Appendices:

- Section 1: Local Government Finance – Economic and Statutory Context
- Section 2: General Fund – MTFs and 2025-2026 Budget
- Section 3: HRA 2025-2026 Budget
- Section 4: Capital Programme and Capital and Commercial Strategy
- Section 5: Treasury Management Strategy & Key Financial Indicators
- Section 6: Chief Finance Officer's statement
- Section 7: Financial Glossary
- Section 8: Equality Impact Assessment

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