

Committee Name: Cabinet

Committee Date: 08/02/2023

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

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Interim Head of finance, audit and risk (Section 151 officer)

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To consider proposals for the council's 2023/24 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 2023/24 budget proposals and the Medium-Term Financial Strategy.
- b) Note the budget consultation process that was followed and consider, as part of finalising the 2023/24 budget proposals for Council, the feedback as outlined in Section 2, Appendix 2 (I).
- c) Note the Section 7 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.
- d) Note that the Council Tax resolution for 2023/24, 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 £19.041m for the financial year 2023/24 including the budget allocations to services shown in Section 2, Appendix 2 (C) and the savings and growth proposals set out in Section 2, appendices 2 (F) and 2 (G).

- 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 £288.59 (Section 2, paragraph 2.17) with the impact of the increase for all bands shown in Section 2, Appendix 2 (E).
- iii. The prudent minimum level of reserves for the council as £5.400m (Section 2, paragraph 2.38).
- iv. Delegation to the chief finance officer (S151 Officer), in consultation with the portfolio holder for resources and the portfolio holder for safe, strong and inclusive neighbourhoods, the award of any new business rates reliefs announced by government using discretionary relief powers.
- v. The following additional Council Tax premiums be determined from 1 April 2024 (Section 2, paragraphs 22-26), or as soon as possible thereafter, subject to the required legislation being in place:
 - 100% premium for second homes;
 - 100% premium for properties which have been empty and unfurnished for a period of between 1 and 5 years.
- vi. Delegation to the chief finance officer (S151 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.
- vii. 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.
- viii. Delegate to the chief finance officer (S151 Officer) the approval of adjustments to the 2023/24 revenue and capital budgets to reflect the inclusion of expenditure in line with the UK Shared Prosperity Fund grant.

Housing Revenue Account

- ix. The proposed Housing Revenue Account gross expenditure budget of £71.540m and gross income budgets of £77.070m for 2023/24 (Section 3, paragraph 3.25).
- x. The use of the estimated surplus of £5.530m along with a further £1.210m of HRA general reserves to make a revenue budget contribution of £6.740m towards funding the 2023/24 HRA capital programme (Section 3, paragraph 3.25).
- xi. A 7.0% increase in dwelling rents for 2023/24, in accordance with the government cap. This will result in an average weekly rent increase of £5.85 for Norwich social housing tenants (Section 3, paragraphs 3.30 to 3.36).
- xii. That garage rents increase by 10.1%, based on CPI in September 2022 (Section 3, paragraph 3.37).
- xiii. 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 (Section 3, paragraph 3.38)

- xiv. The prudent minimum level of Housing Revenue Account reserves as £5.848m (Section 3, paragraph 3.55 and table 3.4).
- xv. The use of £0.500m of the HRA underspend in 2022/23, to increase an existing earmarked reserve formed to fund costs associated with HRA service transformation linked to a programme of review and improvement, with the release of funds being approved in accordance with paragraph 26 of the Council's Financial Regulations.

Capital and Commercial Strategy

- xvi. The proposed general fund capital programme 2023/24 to 2027/28 (2023/24: £28.545m; 5 years: £48.543m) and its method of funding as set out in Section 4, table 4.2, table 4.4 and Appendix 4 (B).
- xvii. The proposed HRA capital programme 2023/24 to 2027/28 (2023/24: £35.606m; 5 years: £182.181m) and its method of funding as set out in Section 4, table 4.2, table 4.5 and Appendix 4 (B).
- xviii. The capital strategy, as required by CIPFA's Prudential Code.
- xix. Delegating to Cabinet, approval to include in the capital programme, additional capital schemes funded wholly by grant where it meets the Council's aims.
- xx. Delegating to the chief finance officer in consultation with the executive director of development and city services and executive director of community services, approval of adjustments to the 2023/24 and future capital programmes to reflect the funding requirements of projects funded from the Towns' Deal and UK Shared Prosperity Fund (UKSPF).

Treasury Management Strategy

- xxi. The borrowing strategy 2023/24 through to 2027/28 (Section 5, paragraphs 5.25 to 5.29).
- xxii. The capital and treasury prudential indicators and limits for 2023/24 through to 2027/28 contained within Section 5, paragraphs 5.29 to 5.59 and table 5.3, including the Authorised Borrowing Limit for the council.
- xxiii. The Minimum Revenue Provision (MRP) policy statement described in paragraphs 5.38 to 5.42 and contained in Appendix 5 (Section 5)
- xxiv. The (financial) Investment Strategy 2023/24 including changes to counterparty limits (Section 5, paragraphs 5.69 to 5.104).

Summary of key financial indicators

- xxv. Additional indicators for 2023/24 through to 2027/28 as contained in section 6.

Policy Framework

The Council has five corporate aims, which are:

- Aim 1 - People live independently and well in a diverse and safe city.
- Aim 2 – Norwich is a sustainable and healthy city.
- Aim 3 – Norwich has the infrastructure and housing it needs to be a successful city.

- Aim 4 – The city has an inclusive economy in which residents have equal opportunity to flourish.
- Aim 5 – Norwich City Council is in good shape to serve the city.

This report is relevant for all five corporate aims.

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

Report Details

Background

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

Summary

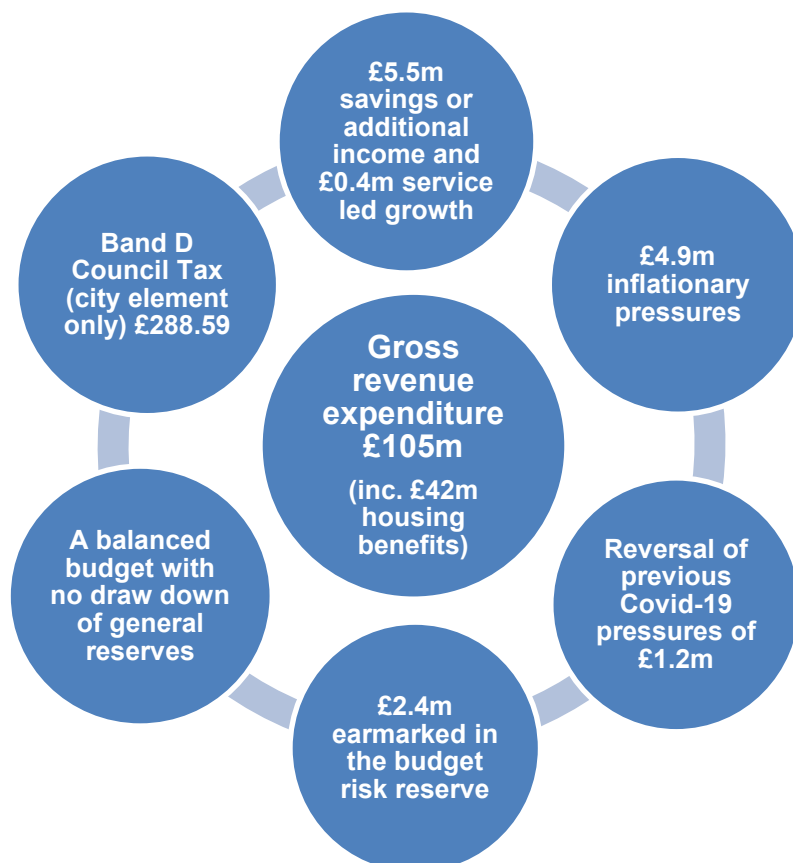
7. This report sets out 2023/24 budget proposals across the General Fund, the Housing Revenue Account and the capital programme along with medium term expenditure and financing plans. It updates the report considered by cabinet in December 2022 which formed the basis for developing options to address the budget gap identified at that time.
8. This report also provides an update on the implications from the recent Provisional Local Government Financial Settlement and the results of the

public consultation on the general fund revenue and capital budgets for 2023/24.

General Fund

9. The Chancellor's Autumn Statement confirmed the scale of the financial challenges in the coming years, with significant tightening of departmental spending especially in the latter years of the spending review period. Much of this will be through not uprating funding allocations in line with inflation for all departments and the prioritisation of areas such as defence spending and the NHS, giving rise to real terms spending reductions for other areas of public services. The details of the provisional local government finance settlement are outlined in Section 1.
10. The pressures of the current inflationary levels are having a huge impact on council budgets, with funding not keeping pace with the rises in expenditure budgets, meaning that the council will not receive adequate resources to cover its costs over the medium term.
11. To balance the provisional general fund budget for 2023/24, £5.527m of savings and income proposals have been identified, the full detail of which is provided in Section 2 of the report, subject to consultation where appropriate.
12. Given the lack of clarity on future local government funding, particularly from April 2025, local authorities have no reliable basis on which to appropriately plan their medium-term budgets as it is unclear how much funding there will be, how it will be distributed, and the means of delivery particularly the extent to which some will be conditional or subject to bidding processes. This makes financial planning over the medium term very difficult.
13. Consequentially, the forecasts for 2025/26 onwards in the MTFs are not to be taken as robust figures and they are largely based on the current status quo continuing, particularly concerning government grants and 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.
14. Current forecasts, given the caveats highlighted above, show that a further £5.593m of gross savings will need to be found from the general fund over the three-year period from 2024/25. This level of savings represents a further 9% of the 2023/24 provisional gross expenditure budget (excluding the housing benefits budget).
15. It is important to note that the council's approach to business planning and setting its budget annually – and its approach over the medium term – seeks to take a holistic approach to ensure that adequate resources are allocated to priority services. As well as identifying opportunities for efficiencies through service change and income generation, our approach to business planning also seeks to identify service areas which require increased funding to respond to increased demand or other pressures such as inflation.
16. Through this approach, the council identifies areas which might require increased resources because they are a particular priority or because current resources are insufficient to deliver the quality of service required. The increasing cost of housing benefit to the council, above the level of government subsidy, is an example of this which has been highlighted through the council's budget monitoring processes in 2022.

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



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

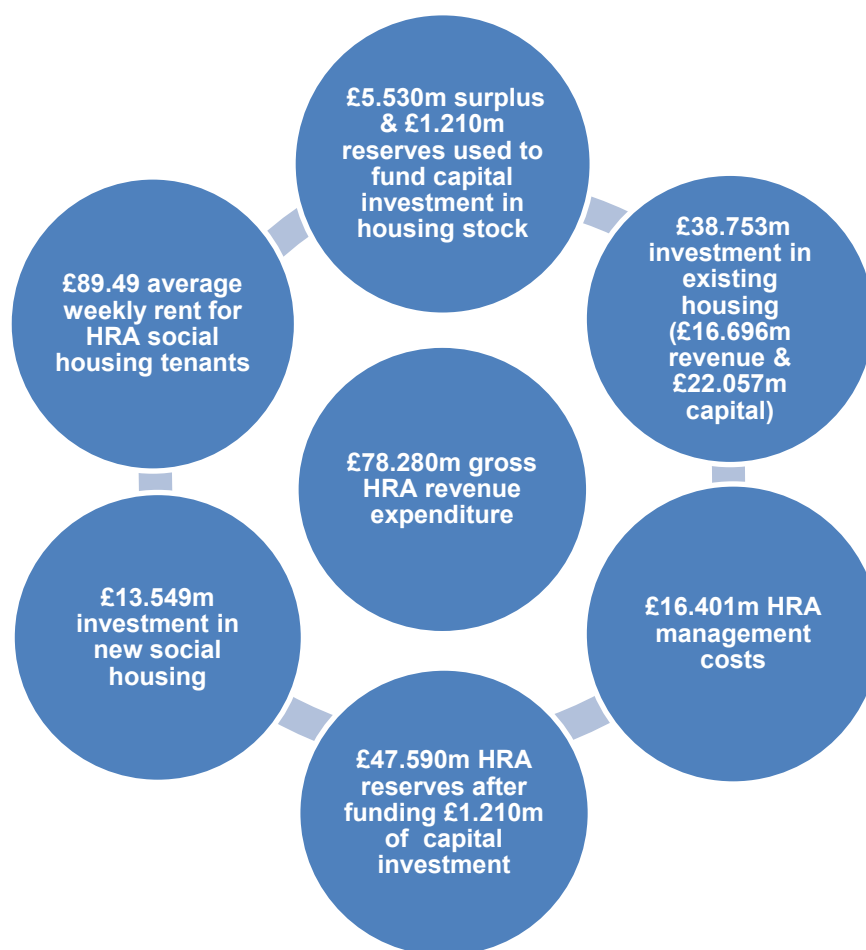
17. As the council takes decisions about how to achieve the required savings it will need to consider the balance not only between how savings are made – for instance, savings to workforce, suppliers and assets – but also the relative balance between spending reductions and increased income.
18. As part of the Future Shape Norwich programme, focus areas have been identified which have the potential to improve service delivery, operational efficiency and/or support the financial sustainability of the council. These themes cover:
 - Contract reform
 - Commercialisation
 - Driving value from our assets
 - Growth and regeneration
 - Service redesign
 - Workforce, culture and organisational development
19. Workstreams have been set up to support these key themes with business cases being developed for options spanning the period of the medium-term financial plan. The aim of the reviews is to improve the overall efficiency and effectiveness of service delivery to avoid a reliance on service cuts to balance the budget. However, given the scale of the challenge, reductions to some services cannot be ruled out.

20. The council will plan to implement these savings in a controlled manner and by taking a strategic approach and doing whatever it can to avoid a short-term approach. It has prudently built-up general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. These can be used to partially fund the budget in a planned way over the next four financial years or to support the costs of making the changes required, until the reserves are forecast to reduce gradually towards the minimum prudential level as recommended by the chief finance officer.

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 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 roll out of Universal Credit and the Right-to-Buy legislation.
24. The HRA is forecast to make a surplus of income over expenditure of £5.530m in 2023/24 and it is proposed to use this surplus along with £1.210m of 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%. In September 2022, CPI increased to 10.1% which would have resulted in a rent increase of 11.1%, however as part of the Autumn Statement, the government capped social housing rent increases for 2023/24 at 7% which would result in the average HRA rent increasing to £89.49. The increase in rents is necessary to fund the council's future ambitions to continue to build new council homes in response to demand and the increasing need to invest in existing homes.

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



Capital Programme

26. The council's proposed capital investment programme for 2023/24 is £64.151m, with £230.724m to be invested in housing and infrastructure over the five years of the programme. An illustration of some of the key projects and programmes are given in charts 3 and 4 and the detail can be found in Appendix 4 (B).

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

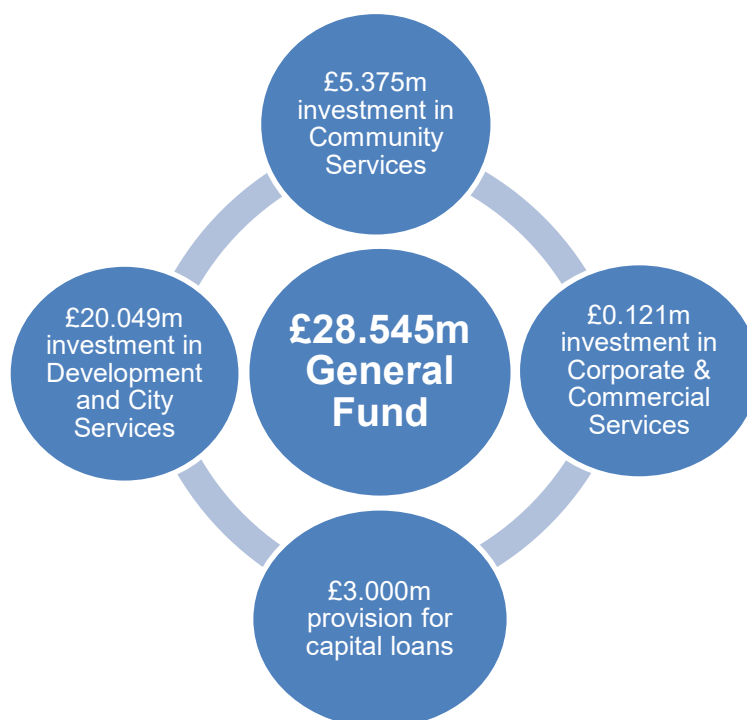
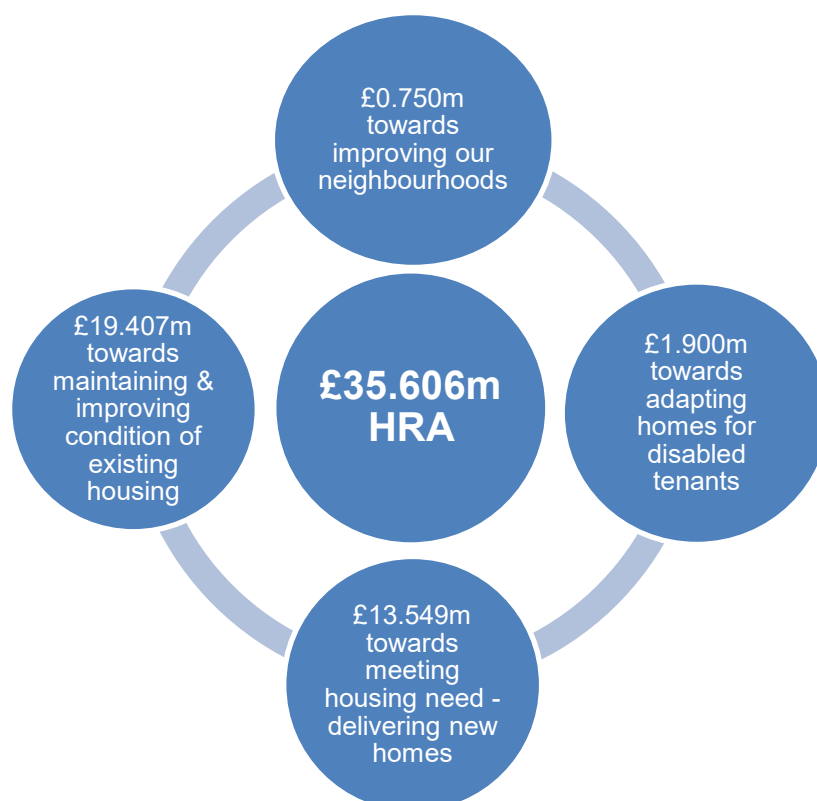


Chart 4: Illustration of proposals within the HRA capital programme



Equality Impact of budget proposals

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 5. Equality Impact Assessments for specific proposals will be developed as proposals are being finalised. This ensures that the impact is understood and mitigating actions that minimise disadvantage and tackle inequality are identified where possible. There may be some proposals that have implications for council employees for which details of consultation or Equalities Impact Assessments cannot be published owing to data protection or employment legislation.
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 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 tables 2.3, 2.4 and 3.3).
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 hinder robust forward financial planning for the general fund.
32. Total commercial income will equate to 14% of the general fund's net revenue stream for 2023/24 (table 6.3). 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 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

34. 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 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 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).

Contents of this budget report

35. 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.
36. 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.
37. This report comprises a series of interlinked and comprehensive papers setting out proposals for the 2023/24 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 2023/24 budget and MTFS

This sets out the proposed general fund revenue budget and its financing for 2023/24, including the proposed Council Tax for 2023/24, along with a forecast of the medium-term position.

3: Housing Revenue Account 2023/24 Budget and Business Plan

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2023/24 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.

9: 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.

Consultation

38. 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 2023/24 and the proposed council tax level.
39. The council carried out an online budget consultation survey which closed on 20 January 2023.

40. Appendix 2 (I) provides further detail on the results of the online budget consultation responses.
41. Tenant Involvement Panel representatives were consulted on the proposed rent increase at a meeting on 18th January 2023. The impact was discussed with concerns raised regarding the effect of an increase on those struggling financially in the current climate, particularly considering the rising cost of living. 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.
42. In accordance with the recommendations in this report, levels of tenants' service charges are usually determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

Implications

Financial and Resources

43. 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.
44. This report presents the council's proposed 2023/24 budgets across all its activities along with its medium-term financial strategy. The financial implications of these proposals are given throughout the report.

Legal

45. 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.
46. The Council has a legal duty to set a balanced budget before the statutory deadline. The Council's legal service has had opportunity to review all proposed budgetary savings and, as appropriate, outline specific legal requirements that will require consideration as savings proposals are implemented.
47. The Council's Chief Finance 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

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

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Equality Impact Assessments are required for any specific budget proposals and the impact of the totality of all measures. The overarching assessment is included in Section 7.
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.

Risk Management

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

Reasons for the decision/recommendation

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

Background papers: None

Appendices:

- Section 1: Local Government Finance Settlement
- Section 2: General Fund – MTFS and 2023/24 Budget
- Section 3: HRA 2023/24 Budget
- Section 4: Capital and Commercial strategy (Incl. Capital Programme)
- Section 5: Treasury Management Strategy
- Section 6: Summary of Key Financial Indicators
- Section 7: Chief Finance Officers Statement
- Section 8: Financial Glossary
- Section 9: Equality Impact Assessment

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