



NORWICH City Council

Committee Name: Cabinet

Committee Date: 13/12/2023

Report Title: The council's provisional 2024/25 budget and medium-term financial strategy

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Interim Section 151 Officer

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To consider draft proposals for the council's 2024/25 budget (general fund, HRA and capital programme) and updated medium-term financial position, including the principles for consultation.

Final budget proposals, alongside the outcome of the budget consultation and budget scrutiny work, will be brought back to Cabinet in February 2024 with a recommendation to consider and approve those proposals before it goes to the February budget setting council for agreement alongside the council tax setting decision.

Recommendation:

- 1) note the latest financial information and the budget strategy incorporated into the report, which enable the Council to set a balanced budget for 2024/25 and Medium-Term Financial Strategy for the period to 2028/29; and
- 2) note the budget principles used for consultation and agree that budget consultation with businesses, residents and other interested stakeholders commences to inform the Council's budget setting decisions in February 2024.

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.

Detailed work is also being undertaken alongside the work on the council's budget and Medium-Term Financial Strategy to update the Council's Corporate Plan and this work will complement that process.

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 its costs. The wider economic situation, following the pandemic and subsequent shocks from the 2022 mini budget, 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. The severity of the situation facing local authorities cannot be underestimated with several councils being forced to issue S114 notices highlighting their inability to balance their budgets, both in 2023/24 and over the medium term. It is also now acknowledged that many councils finding themselves in this situation are facing factors which are universally applicable and have led to an unsustainable financial position; for example, the impact of inflation and demand pressures on high needs low taxbase authorities.
3. It is within this context and financial uncertainty that the council has developed its budget options for 2024/25 and an approach to ensuring a sustainable medium term financial strategy. This work is taking place alongside the development of a new Corporate Plan.
4. The council's ambition for Norwich is undiminished. Work has been taking place with partners and other stakeholders to review the Corporate Plan priorities. The Corporate Plan sets out the vision for the city and for the council over the medium term. It is also shaped by the Norwich 2040 City Vision. The corporate plan provides the framework for the decisions taken - how we prioritise and how we allocate the resources we have available to achieve these priorities and the new plan will also focus on outcome-based measures.
5. A fundamental outcome 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 set out in the Corporate Plan whilst ensuring the authority remains financially sustainable over the medium and longer term. As part of delivering this outcome, 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 five years and beyond.
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 the people 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 2024/25 budget proposals across the General Fund, the Housing Revenue Account, and the capital programme along with medium term expenditure and financing plans. It updates the report considered by cabinet in July 2023 which highlighted for Members the budget gap which had started to emerge because of continuing inflationary pressure.
9. This report outlines the principles which form the basis for public consultation on the general fund revenue and capital budgets for 2024/25. The views of residents and local businesses will be sought, via a public budget consultation exercise; the results of that consultation will be made available before the budget is discussed by Cabinet on 7 February 2023 and finally approved by Council on 21 February 2023. As in previous years' consultation will also take place with tenants on the proposals for the Housing Revenue Account and its capital investment plans.
10. This report provides an update on the implications from the recent Autumn Statement and any other related announcements for local authority finances. Some information was made available at the time of the 2023/24 settlement and although the autumn statement itself gives details of the broad shape of public finances, the impact on Norwich City Council will not be known in detail until the provisional local government finance settlement for 2024/25 is published in December 2023. The exact date of the provisional settlement has not been made available as yet, although recent press coverage has indicated that, as in previous years, it is likely to be close to the Christmas break. Although best endeavours have been used to give as much certainty to the budget information in this suite of reports, it is certain that changes will need to be accommodated before the final budget, MTFS and council tax setting reports are completed.

General Fund

11. The Autumn Statement didn't contain a lot of information directly related to local government; however it did confirm that unprotected government spending budgets, i.e. excluding health and defence services, will increase by less than forecast inflation rates, as a consequence the Office for Budget Responsibility has warned that, from 2025/26, spending on public services will have to fall by 2.3% per year in real terms (*Source: Office for Budget Responsibility Economic and fiscal outlook – November 2023*).
12. The current assumption is that the referendum level for Council tax increases will remain at 'up to 3%' as set out in the 2023 settlement information. However, given the pressures from inflation the budget consultation will also include provision to raise the Council tax up to an increased referendum level should it change as part of the provisional settlement information. A return, in future years' of the MTFS, to a level of 'up to 2%' reflects the governments long term view of target inflation levels.
13. The pressure of the current inflationary levels is having a huge impact on council budgets, with funding not keeping pace with the rises in expenditure, meaning that the council will not receive adequate resources to cover its costs over the medium term.

14. To balance the provisional general fund budget for 2024/25, £3.726m of savings and additional income proposals have been identified, the full detail of which is provided in Section 2 of the report, subject to consultation where appropriate.
15. It is worth noting that the current General Fund surplus is largely driven by one off Treasury returns and there being no need to replenish reserves for £2.8m of Section 31 Grants. In short, the council's 2023/24 financial performance is driven by one-off factors which cannot be relied upon on an on-going basis.
16. The council is awaiting the provisional local government financial settlement, but the indications are broadly for a roll-forward settlement approach. There is no indication that longer-term reforms to local government finance are even being developed and most commentators have taken the later years' financial information (post 2024/25) as highly speculative given that they fall after the next general election.
17. Given the lack of clarity on future local government funding, in particular from April 2025, local authorities have no reliable basis on which to develop their medium-term financial strategy as it is unclear how much funding there will be, how it will be distributed and the means of delivery, such as the extent to which some will be conditional or subject to bidding processes. This makes financial planning over the medium term very difficult.
18. Consequentially, the forecasts for 2025/26 onwards in 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.
19. Current forecasts, given the caveats highlighted above, show that the general fund is broadly balanced over the period from 2025/26 through to 2028/29 without the need for reserves to be used. However, it should be noted that this relies on the successful delivery of £8m of savings over that period.
20. 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 ensure that adequate resources are allocated to priority services. The revision of the Corporate Plan priorities in 2023 and an emphasis on outcomes is likely to lead to a change in focus and activity which supports that change. 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 member priorities, increased demand or other pressures such as inflation.

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

21. As the council takes decisions about how to achieve the required savings and change its focus towards the new Corporate Plan priorities, 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.

22. Using an outcome-based approach, the medium-term plan is driven by the Council's Corporate Plan. The plan will determine how areas of service expenditure are prioritised and de-prioritised with future savings becoming a natural consequence of this prioritisation. This explains why the Corporate Plan consultation is being undertaken so thoroughly and widely across the Norwich community.
23. There also needs to be a complementary understanding about how investment, particularly capital investment, can also support the council's ambitions; more detail on this is included in the section on the capital strategy.
24. In preparation for 2023/24, there was a base budget review of all service areas with the clear goal of producing a strong Medium Term Financial Strategy. This was accompanied by a rigorous budget validation process. For 2024/25, the focus is on delivering those savings, increasing the planning horizon to five years and continuing the journey to be an efficient, modern council.
25. During the production of the Medium-Term Financial Strategy, five themes were identified to shape the approach to balancing the short-term budget and provide space to support the developing Corporate Plan priorities:
 1. Delivery of the existing savings programme.
 2. Income optimisation and automation.
 3. Ensuring non-statutory fees and charges fully cover cost.
 4. Review of asset management (including commercial rental Income)
 5. Corporate Items: Capital Financing and Treasury Management.

Delivering the existing savings strategy:

26. It is imperative that existing saving plans are delivered, as they form the backbone of the budget. Non-delivery would pose significant problems for the long-term sustainability of the council. In 2023/24, £5.276m out of £5.666m or 93% of savings have been or are on track for delivery. Unless savings are agreed as undeliverable or impracticable, there is no expectation that they will be written out of the budget, although some have been re-profiled into future years. Where savings are at risk, alternatives will be sought including for those in future years' that related to an overall reduction in headcount that is now considered unlikely. In that context robust business cases and implementation plans are critical elements of the effective governance of the Medium-Term Financial Strategy, which is reflected within the Future Shape Norwich programme.
27. The Council reviews regularly the status of its savings and produces detailed reports to the Future Shape Norwich Board and to the Executive Leadership Team (ELT). Alongside information produced in the quarterly assurance and monthly internal monitoring reports, these mechanisms provide timely and reliable monitoring of the delivery of savings and desired outcomes.

Income Optimisation and Automation

28. The council has £45m of debt outstanding as of September 2023 and the impact of not collecting that debt increases annually by £1.2m. The Council has focussed resources to tackle the level of arrears, and this is a necessary action to prevent budget pressures before considering additional savings.
29. The Council will modernise its debt collection processes, through use of systems automation, training, and self-service. This will take place alongside the council's approach to looking after those in difficulty whilst improving the effectiveness and efficiency of income collection, thereby maximising the resources available and minimising outstanding debt. While the council supports those facing genuine difficulties in paying, the general policy is that those who can pay, must pay.
30. However, the majority of long-term savings in this area will be generated via automation; making full use of the Enterprise Resource and Planning system (ERP) and other similar technologies will free up resources across the organisation. There are already a wide range of existing savings that relate to the digitisation of existing processes and these will be captured through a single new workstream that is part of the work to modernise the council.
31. Modern data tools can also help in identifying trends and preventing debts growing. Payable processes can be streamlined, and systems and data sources can be linked.

Fees and Charges

32. Fees and charges are an integral part of the resourcing of council services, whether the fees are set by statute, such as in Planning, or on a market basis. The Council has conducted a comprehensive review of charging to ensure that they are set to recover all relevant costs, including expected inflationary impacts and benchmarked where appropriate to ensure competitiveness in the market.
33. Fees and charges will be consulted on as part of the budgetary process and in accordance with any specific statutory or regulatory requirements. In addition, the review has provided an opportunity to consider whether there are further opportunities to raise income to support service delivery, such as advertising and sponsorship, which will be progressed in 2024.

Asset Management (incl. Commercial Rental Income)

34. The Council has used its asset base to generate around £5m per annum in investment returns. Through carefully managing its existing estate it could look to broadly keep similar income streams over the next five years. Current work with JLL, the council's property advisors, has highlighted the rental outlook over the next 5 years to be strong if broadly flat. The Council has also previously highlighted the scale of the capital liabilities associated with some property to be significant, especially when many of its properties are older. Therefore, it is likely that some asset sales will benefit the council from this reduction in liabilities alongside the capital receipts and potential to reinvest those resources.
35. The council has a strong track record of investing locally for regeneration purposes and in generating commercial income to support the revenue

budget in a prudent and considered manner. However, forward projections on the overall commercial real estate market does not suggest that previous years' buoyant and increasing returns will necessarily be reflected in future ones.

36. The reason that a relatively small percentage of savings is to be generated from this workstream reflects a need to strength governance and capacity in this area. The Capital Strategy will be supported by an Investment Strategy, that will set out the framework for investment, including appropriate metrics.

Corporate Items: Capital Financing

37. 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 £4m 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. In the medium-term economic forecasts from both the Bank of England and the Office for Budget Responsibility indicate that interest rates are likely to fall, the council has worked with its treasury advisors and reflected the anticipated impacts for the council across the MTFS timeframe.
38. The council has also reviewed its approach to the minimum revenue provision; used to secure resources to repay debt. This is not only prudent, but an important part of the effective governance and risk management associated with the council's finances. After reviewing the advice from the council's treasury advisors (Link) it is proposed to revise this policy and this approach has been approved by the Treasury Management Committee. The policy will continue to be 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 implementing savings

39. The council will implement these thematic savings in a controlled manner by taking a strategic approach. The council has prudently built-up reserves in recent years. These reserves can be used to support the budget in a planned way or to support the costs of making the changes required, until they reduce towards the minimum prudential level as recommended by the chief finance officer.

Housing Revenue Account (HRA)

40. The council's HRA comprises expenditure and income plans related to the ownership and management of the council's social housing stock.
41. 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.

42. The HRA is forecast to make a surplus of income over expenditure of £8.34m in 2024/25 and it is proposed to use this surplus along with £1.32m of reserves to fund capital investment in new social housing.
43. 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 2023, CPI increased to 6.7% which results in a proposed rent increase of 7.7%, subject to any future announcements as part of the local government finance settlement. An increase of 7.7% will result in the average HRA rent increasing by £6.91. 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.

Capital Programme

44. Across the General Fund and the HRA the council's proposed capital investment programme for 2024/25 is £72.72m, with £225.72m 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).
45. 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.

Equality Impact of budget proposals

46. 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.
47. An overall Equality Impact Assessment is contained in Section 6. 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.
48. Information on the residents of the city as well as council customers and employees can be found in the annual Equality Information Report published on the council's website.

Public Consultation and next steps

49. In line with the approach used in previous years, residents, partners and local businesses will be consulted on the proposed approach to meeting the savings target for 2024/25 including the proposed council tax level. Separate tenant consultations will seek views on the proposed increase in council rents and service charges which will follow in January. The budget consultation questionnaire will be made available online in the days following Cabinet consideration of this report. The budget consultation will be available to access online.

50. The next steps for the budget and MTFS proposals are set out in the table below:

Scrutiny to consider the proposed General Fund revenue budget and MTFS, HRA Business Plan, capital strategy, investment strategy and capital programme	1 February 2024
Cabinet to recommend the General Fund revenue budget and MTFS, HRA Business Plan and capital programme	7 February 2024
Council to approve the General Fund revenue budget and MTFS, HRA Business Plan and capital programme	21 February 2024

Consultation

51. Consultation will take place through the online survey. Tenant Involvement Panel representatives are due to be consulted on the proposed rent increase at a meeting on 14th December 2023. In accordance with the constitution, levels of tenants' service charges are determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

Implications

Financial and Resources

52. 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.
53. This report including the separate report sections, presents the council's proposed 2024/25 budget across all its activities along with its medium-term financial strategy. The financial implications of these proposals are given throughout the report.

Legal

54. 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.
55. 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

56. 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 5.
Health, Social and Economic Impact	Budget savings and investment proposals including capital investments are likely to have economic impacts on the area.
Crime and Disorder	No specific crime and disorder impacts are considered to arise from the Council's budget setting processes.
Children and Adults Safeguarding	No specific safeguarding issues are considered to arise from the Council's budget setting processes.
Environmental Impact	The proposed capital investment strategy will provide for improvements to the council's assets and the surrounding environment.

Risk Management

57. The budget paper clearly outlines several financial risks to the council, some of which have increased, considering changes to the wider economic environment.
58. 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

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

Background papers:

- 2023/24 Budget Report to Council (February 2023)
- MTFS update report to Cabinet (July 2023)
- Government Autumn Statement (November 2023)

Appendices:

- Section 1: Local Government Finance – Economic and Statutory Context
- Section 2: General Fund – MTFS and 2024/25 Budget
- Section 3: HRA 2024/25 Budget
- Section 4: Capital Programme and Capital Strategy
- Section 5: Equality Impact Assessment

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