Norwich City Council

SCRUTINY COMMITTEE

ITEM 7

REPORT for meeting to be held on 7 February 2019

Pre – scrutiny of the proposed budget for 2019/20

Summary:

The scrutiny committee meeting of 7 February 2019 will carry out pre-scrutiny of the council's proposed budgets for 2019/20.

The purpose of the meeting is to comment on the proposed 2019/20 Budget, Medium Term Financial Strategy (MTFS) and HRA Business Plan; and make recommendations to cabinet regarding the proposed budgets' ability to deliver the council's overarching policy framework (the corporate plan 2015-2020).

Council will be meeting to set the budgets for the financial year 2019/20 at its meeting on 26 February 2019.

Conclusions: The principles of budget scrutiny are provided in this report. Committee members are reminded of the link between the corporate plan 2015-2020 and the need to set a budget capable of delivering this.

Recommendation: To determine any recommendations to cabinet on the proposed budgets for 2019/20

Contact Officer

Karen Watling, Chief Finance Officer	01603 212440
Hannah Simpson, Strategic Finance Business Partner	01603 212561
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1. The legal framework for financial scrutiny

1.1 Local Government Act 2000 – “it is the responsibility of the full council, on the recommendations of the executive (cabinet), to approve the budget and council tax demand. The role of scrutiny in the financial process is to hold the executive (cabinet) to account and to ensure that decisions are in the best interests of the community. Some scrutiny of budget setting and other financial planning processes is therefore essential”.

1.2 All members of the council need to have an understanding of how council spending matches against the priorities of the organisation set out in the corporate plan. As elected councillors, members need to ensure that budget will enable the council to deliver them effectively.

1.3 The budget is drawn up in line with the council’s corporate plan, which is the overarching policy framework for the council.

1.4 A draft of a new corporate plan covering the period 2019-2022 was presented to scrutiny committee on 13 December 2018 along with an outline of the new performance framework. This has been developed in the light of the wider city vision work, which has been undertaken under the ‘Norwich 2040’ banner. This draft corporate plan will be presented along with comments from the scrutiny committee members to cabinet on 13 February ahead of budget council on 26 February .

2. The role of budget pre-scrutiny

2.1 The scrutiny committee should seek to test, check, and evaluate the proposed budget through challenge. This may, if necessary, lead to advice and recommendations to the cabinet. The cabinet can use this as part of the testing of their proposed budget.

3. Key question

3.1 Will the budget as presented deliver the council’s corporate plan 2019-2022? By the process of overview, the scrutiny committee will need to check that the budget plans are robust and realistic.

3.2 Over the course of the year scrutiny committee members monitor certain aspects of service delivery and performance against funding and at times review certain specific services. All corporate performance data are represented in the online Citizen’s Portal, which is publically accessible through the council’s website. Members of the scrutiny committee should review this quarterly and identify any issues that require further scrutiny.

4. Effective pre budget scrutiny

4.1 Effective pre-budget scrutiny involves:

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

4.2 The relevant draft cabinet papers are appended to this report. A supplementary agenda will be published ahead of the meeting on 7 February with the full budget papers attached.

Report to	**Cabinet**	**Item**
	06 February 2019	
Report of	Chief finance officer (Section 151 Officer)	
Subject	The council's 2019/20 budget and medium term financial strategy	

Purpose

This report and its various sections and appendices set out proposals for the 2019/20 budget (general fund, HRA and capital programme) along with medium term expenditure and financing plans across the whole of the city council's activities. It also contains the council's proposed non-financial investments (commercial) strategy and the Treasury Management Strategy.

Recommendations:

Cabinet is asked to note:

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

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

c) That the Council Tax resolution for 2019/20, prepared in accordance with Sections 32-36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011, will be calculated and presented to Council for approval once Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk have agreed the precepts for the next financial year.

Cabinet is asked to recommend to Council to approve:

General Fund

1. The council's net revenue budget requirement as £16.772m for the financial year 2019/20 including the budget allocations to services shown in appendix 2 (C) and the growth and savings proposals set out in appendices 2 (F) and 2 (G).

2. An increase to Norwich City Council's element of the council tax of 2.99%, meaning that that the Band D council tax will be set at £264.46 (paragraph 2.19) with the impact of the increase for all bands shown in Appendix 2 (E).

3. The planned use of £0.952m of General Fund reserves to finance the budget requirement in 2019/20 (shown in table 2.4).

4. The prudent minimum level of reserves for the council as £4.3m (paragraph 2.40).

Housing Revenue Account

5. The proposed Housing Revenue Account gross expenditure budget of £59m and gross income budgets of £67.4m for 2019/20 (paragraph 3.4).

6. The estimated surplus of £8.4m is used to make a revenue budget contribution towards funding of the 2019/20 HRA capital programme (paragraph 3.4).

7. The implementation of the minimum 1% rent reduction in accordance with legislation set down in the Welfare Reform and Work Act 2016 (paragraph 3.11).

8. A 3.4% increase in garage rents for 2019/20 (paragraph 3.12).

9. The transfer of £1m of underspend that is forecast to be achieved in 2018/19 to the HRA's spend-to-save earmarked reserve (paragraph 3.3).

10. The prudent minimum level of housing reserves as £5.837m (paragraph 3.31).

Capital Strategy

11. Changes to the current year's approved capital budget as set out in paragraphs 4.28 and 4.29.

12. The proposed housing capital programme 2018/19 to 2022/23 and its method of funding as set out in table 4.6, table 4.8 and appendix 4 (B).

13. The proposed general fund capital programme 2018/19 to 2022/23 and its method of funding as set out in table 4.6, table 4.7 and Appendix 4 (B).

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

15. The recommendation to undertake a comprehensive review of the entire general fund's land and property assets with a view to identifying those assets that need further investment and those which could be surplus to requirements. (paragraph 4.20)

Non-financial Investments (Commercial) Strategy

16. The placing of security and yield above liquidity when considering commercial property investments as explained in paragraphs 5.11 to 5.14.

17. The setting aside of 20% of the net new income achieved from commercial property investment into the commercial property earmarked reserve as set out in paragraphs 5.14 to 5.17.

18. The council's policy and process for lending to Norwich Regeneration Limited as set out in paragraphs 5.22 to 5.24.

19. The proposed loan facility (amount of lending) the council will make available to Norwich Regeneration Limited as set out in table 5.1, subject to the process set out in 5.22 to 5.24.

20. The proposed equity investment the council will make in Norwich Regeneration Limited as set out in table 5.2, subject to the process set out in 5.22 to 5.24.

Treasury Management Strategy

21. The capital prudential indicators and limits for 2019/20 through to 2021/22 contained within para x and appendices x.

22. The borrowing strategy 2019/20 through to 2021/22 (paragraphs x).

23. The Treasury Prudential indicators (paragraphs x to x) including the Authorised Borrowing Limit for the council.

24. The Minimum Revenue Provision (MRP) policy statement described in paragraphs x to x and contained in appendix x.

25. The (financial) Investment Strategy 2019/20 (paragraphs x to x).

Summary of key financial indicators

26. The indicators for 2019/20 through to 2021/22 contained within paragraphs 5.45 to 5.53.

27. Not to establish self-assessed limit's for the indicators in this year's budget report as explained in paragraph 5.42.

Corporate and service priorities

The report helps to meet all the corporate priorities.

Financial implications

This report presents the council's proposed 2019/20 budgets across all of its activities along with its medium term financial strategy. The financial implications of these proposals are given throughout the report.

Ward/s: All Wards

Cabinet member: Councillor Kendrick - Resources

Contact officers

Karen Watling, Chief Finance Officer	01603 212440
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Partner

Shaun Flaxman, Senior Finance Business Partner	01603 212805
Miriam Adams, Senior Technical Accountant (Interim)	01603 212562

Background documents

None

1. Background

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

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

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

1.4 Alongside austerity, the council has to manage ongoing and unprecedented risk and uncertainty including significant changes in future local government funding from 2020/21 onwards and the possible impacts of Brexit.

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

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

Chart 1: The Council's Key Priorities

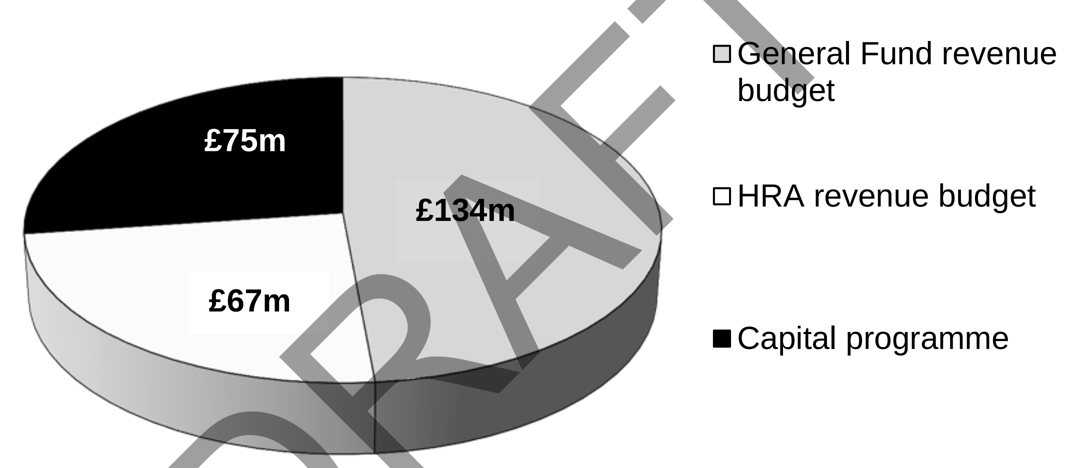
1.7 The council is ambitious and wants to make a real difference to both the physical fabric of the city and to the lives of residents who live and work here.

But given the financial constraints the council is unable to fund all of the investment required itself. The council will therefore work with others to secure investment in the city's future, act an "enabler" or "catalyst" for change, and ensure that its own resources, particularly its capital investment, are flexed as far as possible to deliver the key outcomes set out in the Corporate Plan.

2. Summary

1.8 This report sets out 2019/20 budget proposals that total £276m across the General Fund, the Housing Revenue Account, and the capital programme along with expenditure and financing plans for the following four years.

Chart 2: proposed gross expenditure budgets for 2019/20



£120m of the capital ambition plan could also be approved in 2019/20 as an addition into the approved capital programme

General Fund

1.7 The financial year 2019/20 is the ninth year of austerity and government-imposed funding cuts. The city council has already made efficiency savings, including the generation of new income streams, of some £35.5m over these nine years and further gross savings/increased income of £1.9m is proposed in 2019/20.

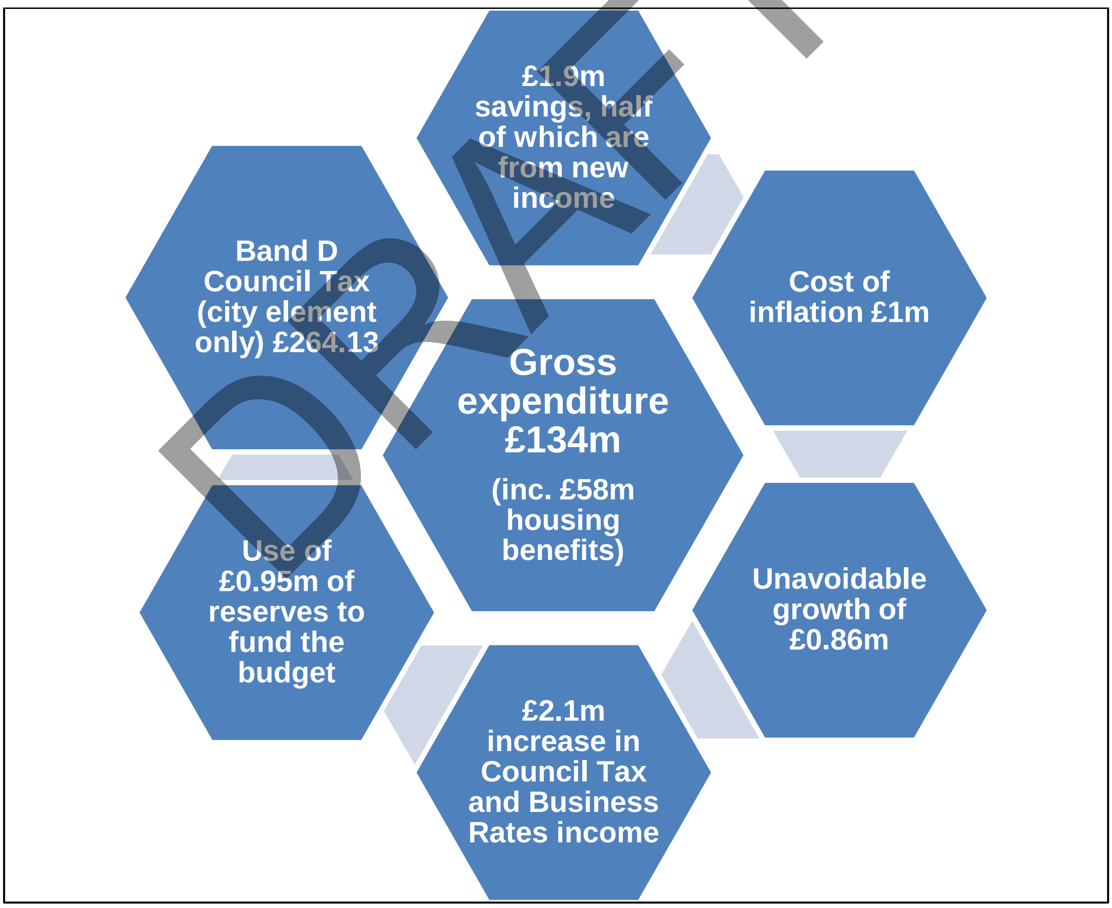
1.8 2019/20 is also the last year of the four year financial settlement given by central government in 2016 and the last year of the current local government funding regime (see section 1).

1.9 With further business rates retention, the results of the Comprehensive Spending Review, and the outcome of the Fair Funding Review all being implemented from April 2020, local authorities have no reliable basis on which to appropriately plan their budgets as it is unclear how much funding there will be from April 2020, how it will be distributed, and the means of delivery.

1.10 Consequentially, the forecasts for 2020/21 onwards in the MTFS are not to be taken as robust figures and they are largely based on the current *status quo* continuing, particularly with regards to how much business rates income the government allows the city council to retain in the future.

1.11 Current forecasts, given the caveats highlighted above, show that a further £10.3m of gross savings will need to be found over the four year period from 2020/21. This quantum of savings represents 13% of the 2019/20 proposed gross expenditure budget (excluding the housing benefits budget which is fully funded via central government housing subsidy).

Chart 3: Key figures in 2019/**20 proposed general fund revenue budget**



1.12 The council will plan to implement these savings in a controlled manner and by taking a strategic and medium-term rather than a short-term approach. It can do this because it has built-up significant general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. These will be used to partially fund the budget in a planned way over the next four financial years until the reserves are forecast to reach the minimum prudential level as recommended by the chief finance officer.

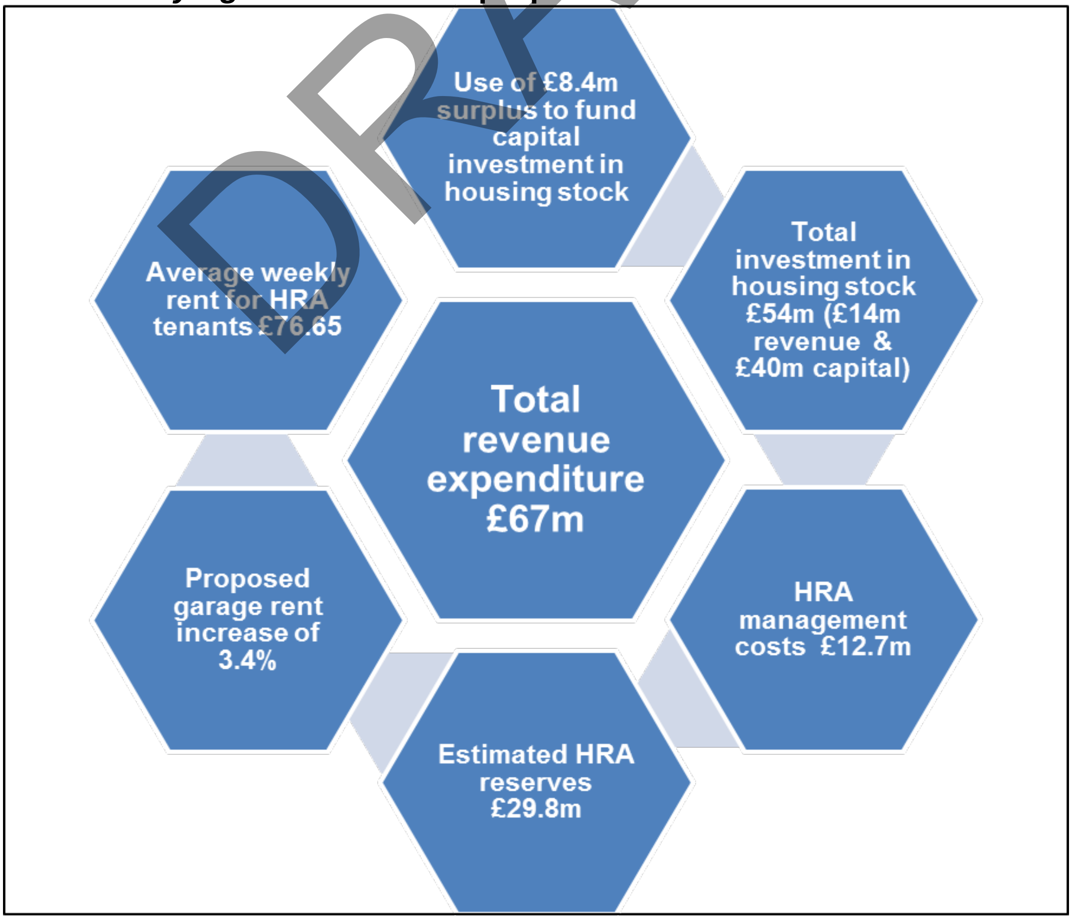
1.13 A key element of the council's proposals is to generate additional new net income from commercial activities, particularly through investing in commercial property. This council, along with many other local authorities, invests in property in order to protect key front line services, using the net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

1.14 Current savings and income generation plans, including the fit for the future programme, are thought at this initial stage, to be able to cover 30% to 40% of the medium term "budget gap". It is almost inevitable therefore, given current forecasts, that this council will need to cut or reduce general fund services from 2020/21 onwards and move towards the provision of core statutory services only.

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

Housing Revenue Account (HRA)

Chart 4: Key figures in 2019/20 proposed HRA Business Plan



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

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

1.18 The HRA is forecast to make a surplus of income over expenditure of £8.4m in 2019/20 and this surplus is proposed to be used to fund capital investment in the housing stock.

1.19 2019/20 is the last year of the enforced rent reduction and average HRA rents will reduce to £76.65 per week.

Capital strategy

Text to do

Summary of key financial indicators and treasury management strategy

Text to do

The council's approach to financial planning

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

- A prudent rather than optimistic assessment of future resources and unfunded cost pressures.
- A prudent and planned use of general reserves to fund expenditure and an annual risk-based assessment of the minimum amount of reserves the council should hold (minimum prudent level).
- The setting aside of some of the new net income arising from commercial property investment and lending to Norwich Regeneration Limited into earmarked reserves to mitigate against the risks inherent in undertaking these commercial activities.
- A prudent approach to the amount of reserves held in the Collection Fund given the inherently volatile nature of business rate collection.

- A cautious approach in estimating future income from business rates and council tax, and the growth in the tax bases, given that changes to the local government funding regime could impact on the former, and both taxes may be affected by the current uncertainties surrounding Brexit and its potential impact on the national and local economy.

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

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

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

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

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

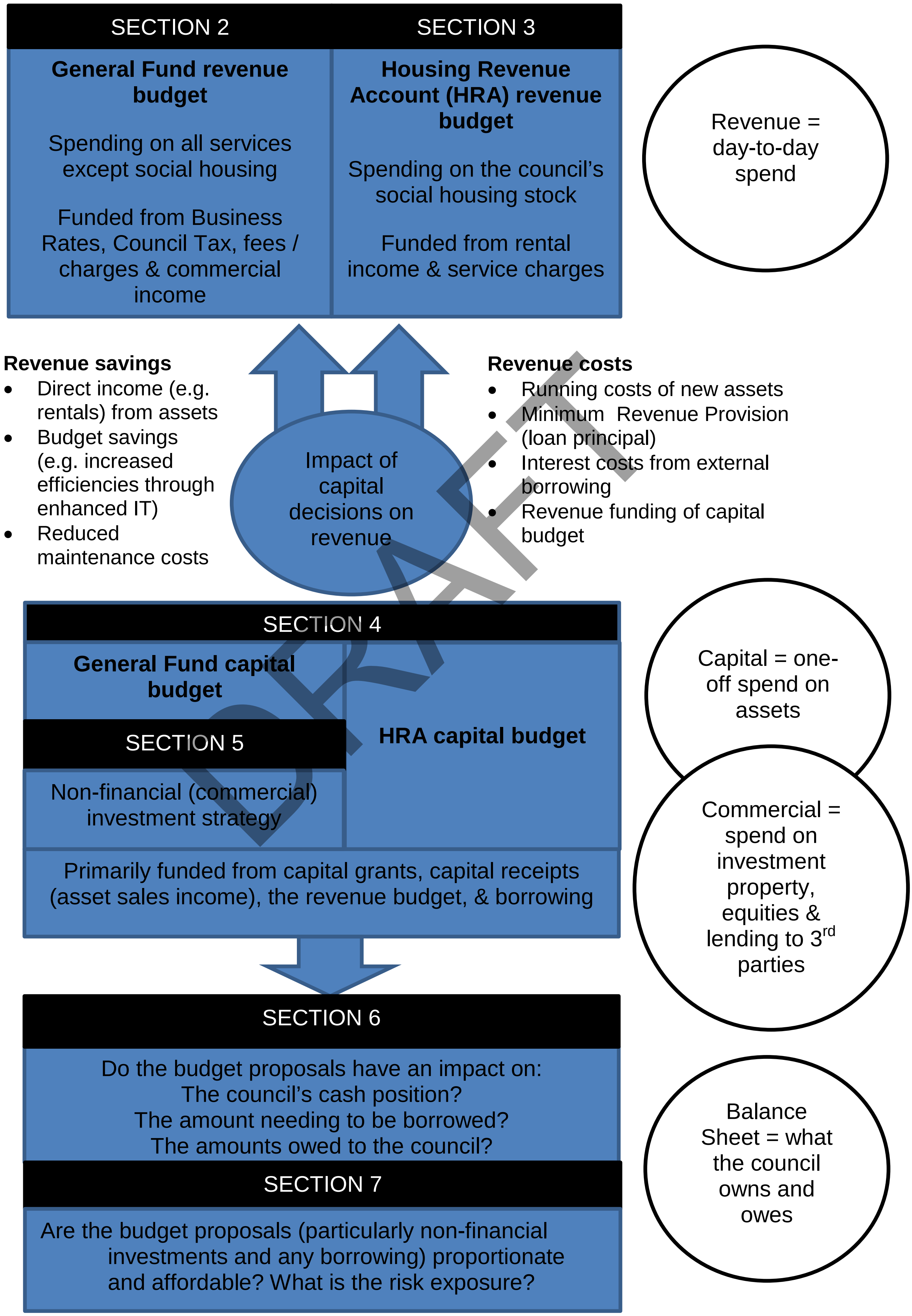
Contents of this budget report

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

1.x In addition, changes to regulatory codes of practice (described in section 1) require new sections in the budget report. Members will need to form views on the council’s proposed commercial property investment, it’s lending to third parties including its wholly owned subsidiary company, and its equity investments whilst understanding new financial indicators showing the risks, proportionality and affordability of the commercial activities being proposed.

1.x This report comprises a series of interlinked and comprehensive papers setting out proposals for the 2019/20 budget along with medium term expenditure and financing plans across the whole of the city council’s activities. Members may wish to consider each section in turn. A brief explanation of the contents follow along with a “road map” attempting to show the basic terminology, interrelationships, and content of the report.

Chart x: Budget Report "road map"



1: Local Government Finance – economic and statutory context

This gives a brief summary of the current key national economic indicators and the state of public sector finances. It summarises the changes that are intended to be made by government to the local government finance regime in 2020/21 onwards and describes all of the regulatory changes that have recently been introduced that affect the preparation of the budget report.

2: General Fund 2019/20 budget and MTFS

Sets out the proposed general fund revenue budget and its financing for 2019/20, including the proposed Council Tax for 2019/20, along with a forecast of the medium term position.

3: Housing Revenue Account 2019/20 Budget and Business Plan

Contains expenditure and income proposals that relate to the ownership and management of the council's social housing stock, including 2019/20 rental charges for HRA tenants.

4: Capital Strategy

This is a new requirement arising from changes made to CIPFA's Prudential Code. The Strategy sets out the council's budget and preliminary ambition plan for capital expenditure over the next five years along with how the investment will be financed and delivered.

5: Non-financial (Commercial) Investment Strategy

This is also a new requirement arising from changes made to MHCLG's Investment Code. The Strategy covers the council's investments in commercial property and its lending and equity investments in third party organisations, but particularly with Norwich Regeneration Limited.

6: Treasury Management Strategy

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

7: Summary of key financial indicators

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

8: Chief Finance Officer's Statement

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

9: Financial glossary

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

# Integrated impact assessment	NORWICH City Council

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

Report author to complete	
Committee:	Cabinet
Committee date:	06 February 2019
Director / Head of service	Karen Watling
Report subject:	The council's 2019/20 budget and medium term financial strategy
Date assessed:	20 January 2019
Description:	This integrated impact assessment covers proposals for the General Fund revenue budget, the HRA Business Plan, the Council's capital investment strategy and the treasury management strategy

	Impact			
Economic **(please add an 'x' as appropriate)**	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The budget proposals will secure continuing value for money in the provision of services to council tax payers and other residents of the city, as well as the provision of works and services to council tenants.
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social **(please add an 'x' as appropriate)**	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	X			
Eliminating discrimination & harassment	X			
Advancing equality of opportunity	X			The emerging budget and savings within this paper covers a wide range of council activity and spend. As a result it is not possible to provide a detailed assessment of, for example, the impact on residents and others with protected characteristics under The Equality Act at this level. Existing council processes for equality impact assessments should continue to be carried out at an appropriate time for the individual projects, activities and policies that constitute this budget and transformation programme.

Environmental (please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	X			
Natural and built environment		X		The proposed capital investment strategy will provide for improvements to the council’s assets and the surrounding environment. .

	Impact			
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☐	☐	☒	The risk profile of the Council has increased as the budget contains proposals to generate additional income from commercial activity and such income can be volatile and dependent on the health of the national and local economy.

Recommendations from impact assessment
Positive
None
Negative

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

1. LOCAL GOVERNMENT FINANCE – ECONOMIC AND STATUTORY CONTEXT

Key Economic Indicators and State of Public Finance

1.1 A summary of the key economic indicators, as at the time of writing this report (January 2019), is given below.

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

Bank Interest Rate: In August 2018, the Bank Of England's Monetary Policy Committee (MPC) raised Bank Rate to 0.75%. The MPC voted unanimously to maintain the Bank Rate at its October meeting. The Bank of England reports that stronger-than-expected activity and inflation outturns, as well as increases in short-term interest rates internationally, have pushed up the market-implied path for Bank Rate. It is now expected to reach around 1.4% in three years' time, up from 1.1% in August. The MPC continues to recognise that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal. The implications for the monetary policy will depend on the balance of the effects on demand, supply, and the exchange rate. *Source: Bank of England 'Inflation Report – November 2018'*
Inflation: Consumer Prices Index (CPI) inflation stood at 2.4% in September. The OBR forecasts CPI inflation to be 2.6% in 2018 and it is then expected to be around 2.0% for the rest of the forecast period. The ONS's headline measure of inflation, the Consumer Prices Index including owner occupiers' housing costs (CPIH) inflation, was 2.2% in September, a slight decrease from 2.4% in August. The government's objective is that CPIH will become its headline measure over time and work is ongoing to understand its properties compared to CPI and RPI. *Source: Autumn Budget 2018*
GDP Growth: The OBR forecasts annual GDP growth of 1.3% in 2018 and 1.6% in 2019. GDP growth dips slightly to 1.4% in 2020 and 2021, and then increases to 1.6% by 2023. The OBR has not attempted to predict the precise outcome of negotiations with the EU. Instead, it has made broad-brush assumptions, which have not changed since Autumn Statement 2016. However, the OBR has included a transition period in its forecast of exports and imports for the first time. This postpones the point at which EU exit affects imports and exports to 2021. *Source: Autumn Budget 2018 and Office for Budget Responsibility*

Unemployment Rate and Average Earnings:

The employment level has continued to increase in 2018, while the unemployment rate has fallen further and now stands at 4.0% - the lowest rate since 1975.

The OBR forecasts average earnings to grow by 2.6% in 2018 and 2.5% in 2019, before rising to 2.8% in 2020.

Source: Autumn Budget 2018

Public Sector Finances:

Medium term forecasts now suggest that public sector net borrowing will level-out at about £20bn in 2022-23 and 2023-24. This is an improvement on the forecasts in the last two fiscal announcements; with much of the improvement has been the result of better-than-expected taxation receipts.

The Budget sets out the path of day-to-day spending by departments in aggregate for years beyond the current Spending Review period. From 2019-20 to 2023-24, Government spending, including the NHS settlement, is forecast to grow at an average of 1.2% per year in real terms. This was in contrast to the average cut in real -term funding in the 2015 Spending Review (-1.3%).

Figures are not yet provided for individual departments, only for the whole public sector. It is unlikely however that local government as a whole will receive increases in future funding from government given funding promises already made to other areas such as the NHS. There also remains uncertainty over the split in local government funding between county and district councils; the expectation being a shift towards Counties in light of the challenges over adult social care and children’s services.

Source: Office for Budget Responsibility and CIPFA

Final Local Government Finance Settlement

1.2 The final Local Government Finance Settlement 2019-20 was published on 29 January 2019. The key announcements with relevance to Norwich City Council are summarised below:

1.3 **Business Rates Pilots:** 15 new 75% business rates pilots were announced. The Norfolk Business Rates Pool was successful in its application for the 2019/20 pilot. The Pool includes Norfolk County Council and the seven District Councils. Participation in the business rates pilot is forecast to deliver tangible benefits to the county as a whole, and will support the Government as it develops the new Business Rate Retention system for implementation in 2020-21.

1.4 The overall gain to Norfolk from piloting is estimated to be almost £8m, representing the additional 25% share of growth that will now be retained locally and shared between the Districts and County Council. This gain will provide additional funding for each council's revenue budget, helping to support and maintain vital local service provision. A proportion of retained rates will continue to be used to support vital economic development across the region through a Joint Investment Fund, with its use agreed by Leaders of all the Norfolk local authorities.

1.5 The pilot agreement will see the districts and county receive half of the additional local share each. The additional district growth will be further split 30% based on growth in the individual district and 70% shared across all seven districts. The additional one-off income for the Council (currently estimated at some £0.5m) will not be payable until 2020/21. This will be set aside to fund one-off expenditure projects and not incorporated into the MTFS.

1.6 **Business Rates:** There was a £180m surplus on the national levy account in 2017-18 (for the first time) and this will be redistributed by to local authorities based on need. Norwich is expected to receive £90k surplus distribution.

1.7 **Council Tax:** The core council tax referendum limit remains at 3% and there are no further increases in the adult social care precept (6% threshold over 3 years, with maximum 3% increase in any one year). The threshold for the Police and Crime Commissioners' precepts will increase to £24 (from the current £12).

1.8 **New Homes Bonus:** The national growth baseline will stay at 0.4%. The Government has decided to provide an additional £20m in 2019-20 so that the baseline can remain at 0.4%.

1.9 **Innovation Fund:** A package of support to help councils become more efficient was announced. It will support continuous performance improvement and the use of smarter technology. There will be a £7.5m innovation fund, with the first allocations already announced.

Local Government Finance Post 2020

Fairer Funding Review

1.10 Alongside the provisional local government finance settlement, the Government has launched a consultation "*A review of local authorities' relative needs and resources*". The aim of the consultation is to inform the development of a more robust and up-to-date approach to distributing funding across all councils.

1.11 The review will be used to set new baseline funding allocations for 2020/21 whilst considering transitional arrangements to ensure funding changes are introduced in a manageable way.

1.12 It will be important that Norwich City Council engages with the consultation as being an under-bounded city district it has spending needs and cost drivers that may not be typical of the majority of district councils who are largely rural in nature. The consultation will close on 21 February 2019.

1.13 The aim of the MCHLG is to move to a simpler formula for distributing the funding with fewer indicators, a reduction in the number of service-specific formulae, and funding more elements on a per capita basis.

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

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

1.16 The council will need to continue to be mindful of any shift in service demand due to budget and service reductions undertaken elsewhere in the public sector such as happened with the changes to supporting people funded services.

1.17 The council also has a number of new burdens. This includes the responsibilities arising from the homelessness reduction act 2017 and the extension of the HMO licensing scheme (houses of multiple occupation) both of which were implemented during 2018-19.

1.18 Homelessness caseloads for officers have doubled with many more clients requiring advice. Three years Government grant has been provided but early indications are that this will be insufficient to meet the increased demand on the council.

1.19 The implementation of the new HMO licensing scheme requirements is meant to be recovered through licensing fees. However, this change will lead to an estimated increase in other enforcement costs of £80,000 per annum for which there is no additional Government grant.

Business Rates Retention

1.20 The Government has stated its intention that local government should retain 75% of taxes raised locally from 2019/20 onwards. It launches its latest consultation "*Business Rates Retention Reform*" alongside the provisional local government finance settlement. The consultation is seeking views on options for the reform of the business rates retention system from 2020-21 onwards. The consultation will close on 21 February 2019.

1.21 The consultation is seeking views on a number of areas, including:

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

1.22 There is also a proposal to simplify the business rates system whilst also addressing the volatility caused by appeals and valuation loss. In principle a clearer and less volatile system is welcome, however there remains a significant amount of technical work around the mechanisms to be finalised before implementation from April 2020.

1.23 Within the consultation, Government confirmed their intention to include a full business rates baseline reset in 2020/21. This means that all business rates growth local authorities have generated since 2013-14 will be included within their business rates baseline and the growth element redistributed within the system. Norwich has retained around £200-£250k of growth in recent years and this is therefore at risk from a full baseline reset. An allowance has been made for this within the MTFS.

Regulatory Changes

1.24 The last financial year in particular has seen increased national debate and commentary on the future financial sustainability of local government. The National Audit Office report on financial sustainability in local authorities, published in March 2018, following the s151 notices issued by Northamptonshire County Council, indicates that there is a heightened risk of more councils over the next four years falling into special measures as a result of not reconciling the pressures on budgets. (https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/#)

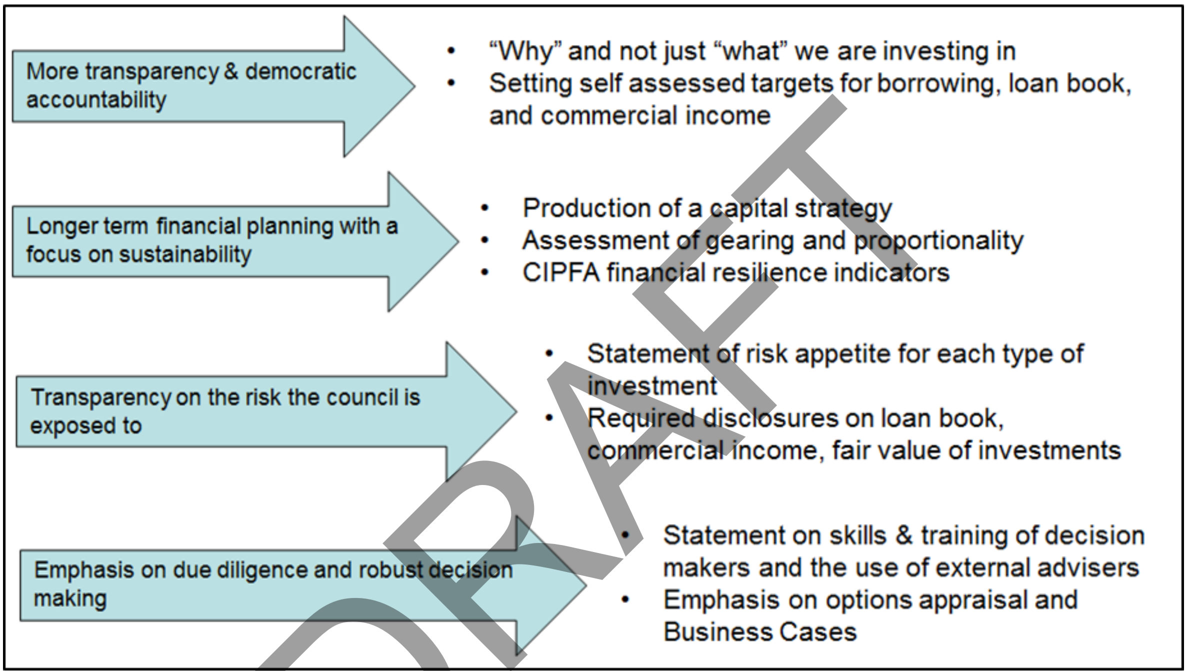
1.25 Coincidentally in July 2018, the Public Accounts Committee called on the government to work with the local authorities and key stakeholder bodies over the next 12 months to agree and publish a shared definition of local authority financial sustainability and a methodology for assessing the extent to which local authorities are at risk.

1.26 In parallel with this, there has been considerable discussion of local authorities' commercial activities, in particular the increased purchasing of commercial property in order to obtain new net income streams to offset the loss of funding from central government.

1.27 As a consequence of the above, a number of revisions have been made to various codes of practice (Prudential Code, Treasury Management Code, and Investment Code) that under statute councils must “have regard to” when making their budget decisions. In addition CIPFA have produced a financial resilience index for each English council and aims to publish a Financial Management Code of practice in this calendar year to take affect for 2020/21.

1.28 The following paragraphs contain a brief explanation of these changes whilst chart 1.1 summarises the overall “direction of travel” implicit in these regulatory changes.

Chart 1.1: Direction of travel arising from recent regulatory changes



Prudential Code and Treasury Management Code

1.29 CIPFA issued a revised Prudential Code (which governs local authority capital expenditure) and a revised Treasury Management Code (which governs local authority borrowings, investment, cash flows and risk decisions). Both of the revised codes are in response to developments arising from the Localism Act 2011, namely the fact that councils are using the general power of competence to engage in increased commercial activity. These updated codes became effective from 1 April 2018.

1.30 A key change is the requirement for councils to produce a capital strategy. The strategy needs to include:

- How the capital expenditure plans are aligned to corporate, service plans and, where relevant, the Local Plan
- An overview of asset management planning including maintenance/investment needs, planned disposals, & ongoing costs associated with existing assets

- A long term view of capital expenditure plans
- A summary of the governance process for approving & monitoring the capital budget including prioritisation, business case requirements, project management, and adherence to procurement policy
- A long term forecast of external debt, internal borrowing, capital receipts, the use of cash backed reserves, and impact on revenue budgets
- A summary of the knowledge and skills available to the authority.

1.31 The capital strategy must be approved by full Council as part of the integrated revenue, capital and treasury management planning process. In addition the chief finance officer needs to report explicitly on the deliverability, affordability, & the risks associated with the strategy

Investment Code

1.32 MHCLG issued revised investment guidance in February 2018 to local government. The guidance includes a new requirement for councils to prepare an investment strategy at least once a year with "non-financial investments" now being required to be considered in the strategy.

1.33 Non-financial investments include the purchasing of commercial property and lending to third parties, such as wholly-owned companies. They are different from financial investments such as deposits in banks and building societies which are normally reported in the annual Treasury Management Strategy.

1.34 Councils will be required to disclose the contribution that non-financial investments make "towards the service delivery objectives and / or place making role of the local authority". In addition the Code requires the publication of various indices and self-assessed limits on the amount the council will borrow for non-financial investments, the amount it will lend to third parties, and the proportion of the budget that will be funded from commercial income. The aim is that councils ensure that their investment decisions are consistent with the requirements of fiscal sustainability, prudence and affordability and that council is held accountable for the financial decisions it takes.

1.35 Under the guidance councils may not "borrow in advance of need" to profit from the investment of the sums borrowed. This concept is not new but will now apply to non-financial investments. The guidance would seem suggest that borrowing cannot be undertaken to fund investments in commercial property outside of a council's boundary as it is likely that the only policy objective for undertaking such an investment is to make a commercial return.

1.36 However, the Local Government Act 2003 (section 16) gives a definition of capital expenditure which explicitly includes the acquisition of property. The same act gives councils a statutory ability to borrow to fund capital expenditure. Consequently the guidance contained within the revised Investment Code is not at all clear and councils have continued to purchase commercial property outside of their administrative areas (as has this council).

1.37 This has prompted the president of CIPFA to issue a statement to local government (18 October 2018) stating that CIPFA:

- Considers that, where the scale of commercial investments including property is not proportionate to the resources of the authority, this is unlikely to be consistent with the requirements of the Prudential Code.

- Shares the concerns raised in relation to the recent continuation and (in a small number of cases) acceleration of the practice of borrowing to invest in commercial property

1.38 CIPFA consequentially has stated that it intends to issue more guidance in the near future on this issue, and have said that they might include defining what borrowing in advance of need is, what proportionality looks like, and what the appropriate ratios are for commercial income compared to the financial size of the council. To-date this further guidance has not been published.

1.39 Where a council chooses to disregard the Investment Code, its investment strategy should set out why this is the case and what the council's relevant policies are.

Statutory guidance on Minimum Revenue Provision

1.40 Minimum Revenue Provision (MRP) is the calculated annual charge to the general fund revenue budget to repay debt incurred in respect of capital expenditure financed by borrowing or other long term credit arrangements.

1.41 In February 2018 MHCLG issued revised MRP Guidance, setting out that no MRP will be charged in respect of loans to other bodies for capital expenditure purpose. The Council's MRP policy ensures that the capital receipts generated by the annual repayments on these loans will be put aside to repay debt and MRP will be charged if there is an expectation that any loan is not fully recoverable.

1.42 Councils will no longer be able to change their MRP policy in order to calculate that an overpayment was made in previous years.

1.43 The Guidance also requires a local authority to fully provide for debt taken on to acquire an asset classified as an investment property.

1.44 The chief finance officer can confirm that this council complies fully with this statutory guidance.

CIPFA's Financial Resilience Index and Financial Management Code

1.45 CIPFA has recently provided a tool with a group of indicators that it believes is able to "illustrate the trajectory of an authority's financial position within the context of each Authority's own comparator tier or nearest neighbours group".

1.46 The Financial Resilience Indicators tool has been provided, in year one, directly to individual authorities and their auditors via the chief finance officer. In subsequent years it will be made publically available.

1.47 The Institute also intends to publish a Financial Management Code of Practice later in the year and to make it a requirement within the code for the chief finance officer to reference the indicators in the section 25 statement included in the budget report.

1.48 The financial resilience indicators for Norwich City Council are shown and explained in section 7 of this budget report.

HRA Borrowing Cap

1.49 On 29th October 2018, the government abolished the HRA borrowing cap, with HRA borrowing to be controlled by the existing Prudential Code.

1.50 At this point in time, it is uncertain what this may mean for the accounting treatment for the HRA's Major Repairs Reserve and uncertainty as to whether the HRA, like the General Fund, will need to make provision for MRP (Minimum Revenue Provision) costs (see the glossary for definitions of these).

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2. GENERAL FUND 2019/20 BUDGET AND MTFS

Forecast 2018/19 Outturn

2.1 The latest position on the General Fund, as at period 9, shows a forecast underspend of £1.6m.

2.2 A significant element (£822k) of the forecast underspend relates to additional net income from commercial property purchased in year. In line with the Council decision in February 2018 any surplus, above the MTFS net income target, will be credited to the commercial property earmarked reserve, providing future funding for any void and rent free periods as well as any landlord repairs/upgrades. This is designed to safeguard the future value of the investment, thereby minimising the risk of holding these assets and any fluctuations in the income return.

2.3 A further element of the forecast underspend (£237k) relates to the council's lending to Norwich Regeneration Limited (NRL). Whilst the council budgets to borrow the money it lends to NRL is has, to-date not needed to and has temporarily used its cash holdings to fund the loans. This means that in 2018/19 there will be underspending in the financing costs budget as the council is not currently borrowing externally.

2.4 Any remaining underspend not arising from the two sources discussed above will be transferred to the earmarked invest-to-save reserve. This reserve will be used to support the delivery of savings and efficiencies through the fit for the future programme.

Proposed 2019/20 Revenue Budget

2.5 The proposed 2019/20 budget has been established following discussions between LGSS Finance and budget managers to determine realistic service budgets. All savings and growth items have been reviewed by the Corporate Quality Assurance Group led by the Chief Finance Officer and subsequently by the Corporate Leadership Team.

2.6 In line with the approach used in previous years, Cabinet agreed to consult the public on the proposed approach to meeting the savings target for 2019/20. It was also agreed to consult the public on the potential for a council tax rise. The consultation closed on 6 January 2019. An analysis of the results is given in Appendix 2 (I).

2.7 Appendix 2 (A) summaries the key movements in the base budget (i.e. 2018/19 approved budget) to arrive at the proposed 2019/20 budget. Appendix 2 (B) shows a subjective breakdown of the gross income and expenditure proposed.

Chart 2.1: 2019/20 gross expenditure budget analysed by type of spend

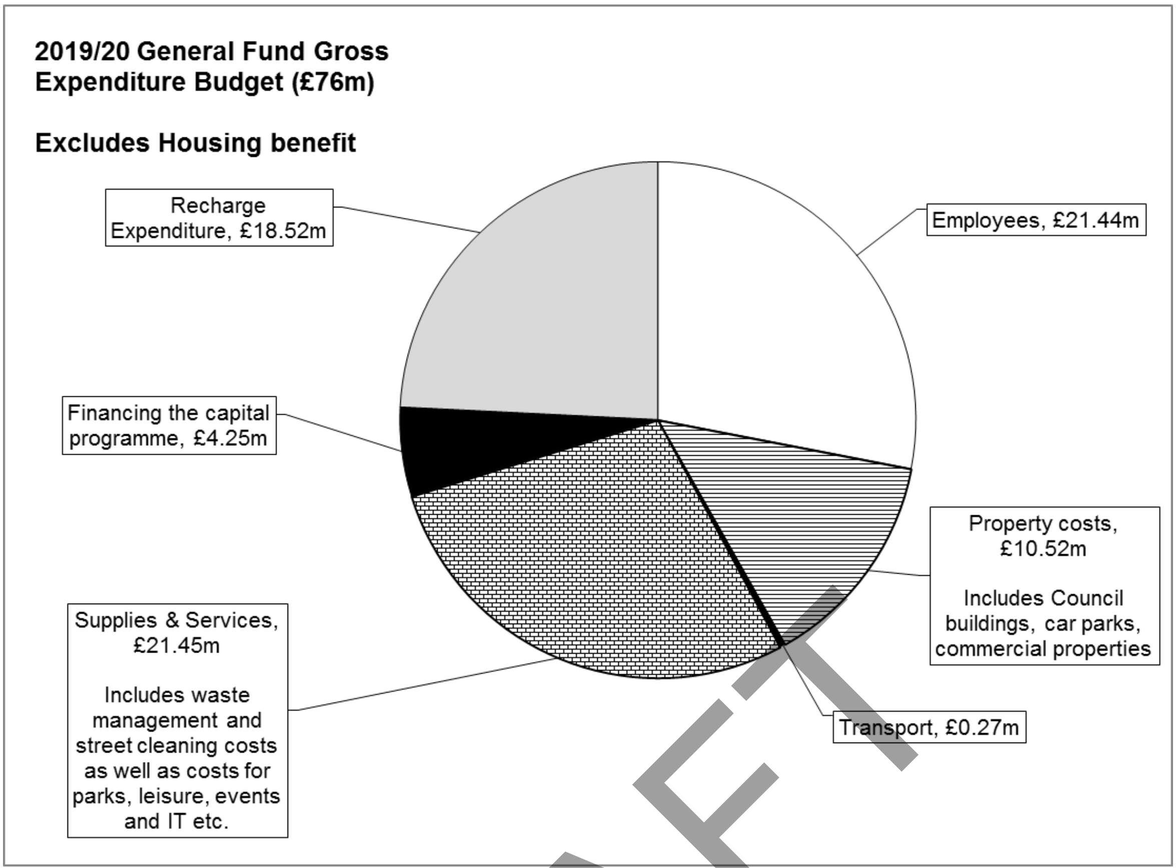
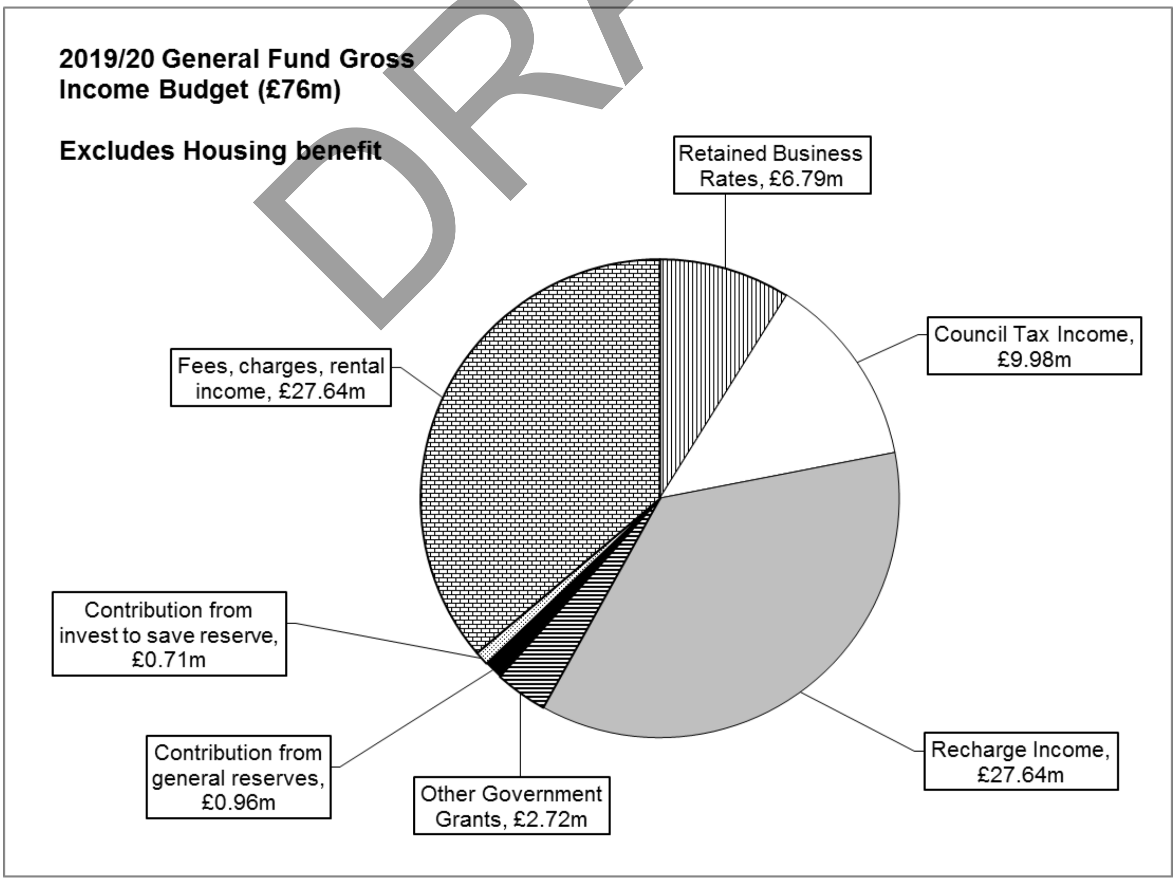


Chart 2.2: 2019/20 gross income budget analysed by type of income



2.8 There have been a number of changes from the emerging budget position considered by Cabinet in December 2018; these are set out in table 2.1. The movements have the impact of reducing the required use of general fund reserves to balance the budget.

Table 2.1: Movements from the Budget Update position (December 2018)

Changes to the budget requirement	**£000s**
Additional New Homes Bonus allocation	(156)
Other minor movements	(21)
Changes to Council Tax income	
Increase in 18/19 surplus distribution	(73)
Increase in tax base estimate	(112)
Changes to Business Rates income & Revenue Support Grant	
Further reduction in RSG (rolled into business rates income)	213
Increase in Business Rates income forecast	(462)
TOTAL MOVEMENT	**(611)**

2.9 The MTFS approved by Council in February 2018 set out a net savings target for 2018/19, based on a 5-year smoothing savings strategy, of £1.760m (gross savings of £2.5m per annum).

2.10 The proposed budget includes net savings of £1.046m. A detailed summary of the proposed budget savings and growth is shown in Appendices 2 (F) and 2 (G), with items categorised as either revenue generation or service efficiencies.

2.11 There have been favourable movements in income from business rates and council tax. This means that despite the shortfall in the savings target, when considered in line with other budget estimates the required use of reverses is £982k lower than expected in last year's budget report.

2.12 It should be noted that some of the beneficial movements in assumptions only have a one year impact and therefore the future annual net savings requirement has increased to £1.815m in future years (further detail in paragraph 2.16).

2.13 The budget proposals include £0.86m of budget growth (i.e. increases to the budget not arising from inflationary factors). The growth includes reductions in property rental income arising from the approved investment property disposal programme, as well as additional costs to support IT transformation.

2.14 In addition to the ongoing general fund base budget, significant one-off funds have been allocated to support the Fit-for-the–Future programme. The total planned expenditure is £858k of which £711k is to be funded from the General Fund Invest-to-Save earmarked reserve and £147k from the HRA Invest-to-Save reserve. Spend includes investment in IT mobile-working technology, and interim project management and HR resources. Further detail shown in Appendix 2 (H).

Medium Term Financial Strategy (MTFS)

2.15 Table 2.2 below shows the medium term financial projections for the 5 years to 2023/24. The full MTFS by subjective group is shown in Appendix 2 (D).

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

	2020/21	2021/22	2022/23	2023/24
Budget Requirement (no savings)	20,831	23,155	25,467	27,568
Budget Resources	(15,714)	(16,183)	(16,665)	(17,163)
Budget Gap	**5,117**	**6,972**	**8,802**	**10,405**
Funding the budget gap:				
Cumulative gross savings needed	(2,565)	(5,130)	(7,695)	(10,260)
Planned use of reserves	(2,552)	(1,842)	(1,107)	(145)

2.16 The MTFS shows a need to make further gross savings of £10.3m over the next four years, assuming demand-led growth of £0.75m per annum. Following the existing "smoothed" approach this equates to gross savings of £2.6m each year to 2023/24.

Table 2.3: Smoothed net savings required 2020/21 to 2023/24 - Figures are in £'000s

	2020/21	2021/22	2022/23	2023/24
Assumed annual service growth	750	750	750	750
Gross saving requirement	(2,565)	(2,565)	(2,565)	(2,565)
Net annual saving requirement	**1,815**	**1,815**	**1,815**	**1,815**

2.17 As noted in the introduction to this report, the estimates for 2020/21 onwards are not to be taken as robust figures given the changes that will be introduced to the local government finance regime from 2020/21 onwards (and as described in section 1 of this report).

Key figures & assumptions in the 2019/20 budget and MTFS

Council Tax

2.18 Any increase in the level of council tax is limited by referendum principles, which for a district council have been set at a maximum of 3% or £5 each year for 2019/20.

2.19 A 2.99% increase to the Band D rate is proposed in the 2019/20 budget figures (£280k additional income). The proposed 2019/20 Band D rate is therefore £264.13 compared to the current year rate of £256.46 – an increase of £7.67. This is for the Norwich City Council share of total council tax only and does not include the amounts required from preceptors - Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk. Appendix 2 (E) shows the proposed increases by each Council Tax band.

2.20 The Council Tax base has been set at 36,325 which combined with the Band D rate gives a budgeted income of £9.59m in 2019/20. In addition a collection fund surplus receipt from the prior year of £389k is proposed to be distributed in 2019/20. The full calculation shown in Appendix 2 (E).

2.21 The figures shown will be reduced, for qualifying council tax payers, by the council's discount scheme (Council Tax Reduction Scheme). Currently the total cost of the CTR scheme is £13.7m, of which the Norwich share is £2.0m.

2.22 For future years of the MTFS, the same referendum principles have been assumed with the maximum increase allowed being taken each year. An increase in the council tax base of 0.5% per annum is also assumed for estimated growth in the number of dwellings in the Council's area along with a £75k prior year surplus distribution per annum.

Business rates

2.23 Norfolk County Council and the seven district councils were selected to participate in the 2019/20 75% Retention Business Rate Pilot Scheme. This means an additional 25% share of business rates growth will be retained locally and shared between the Districts and County Council.

2.24 Under the agreed terms of the application, the billing authorities will initially retain 42.5% of the business rates collected in their area (32.5% retained by Norfolk County Council), with a tariff or top up applied to redistribute business rates more evenly across authorities at a national level.

2.25 As was the case in previous years a proportion of retained growth will continue to be used to support vital economic development across the region through a Joint Investment Fund, with use agreed by Leaders of all the Norfolk local authorities.

2.26 A baseline funding level is set by central government and a 'safety net' system operates to ensure that no authority's income drops by more than a set percentage below their baseline funding level. For the 2019/20 Pilot authorities the safety net will operate at 5% below the baseline funding level.

2.27 The retained business rates forecasts are based on actual amounts collectable at December 2018 which are then adjusted for local knowledge (i.e. appeals, charitable relief) and the uplifted by an inflationary increase to allow for the increase in the business rates multiplier.

2.28 The 2019-20 retained business rates have been budgeted at £6.541m along with a forecast surplus distribution from 2018/19 of £0.248m. The additional one-off income for the Council (currently estimated at some £0.5m) from being in the pilot will not be payable until 2020/21 and has therefore not been included in the budget. A breakdown of the business rates calculation is shown in Appendix 2 (E).

2.29 The forecasts for retained Business Rates income from 2020/21 assume current (non-pilot) baseline amounts and do not take into account, as they are currently unknown, the potentially significant changes in funding arising from 75% Business Rates Retention and the Fairer Funding Review. The MTFS also assumes an annual inflationary rise in NNDR plus an allowance of £300k per annum for any deficits arising on the Collection Fund each year.

2.30 There remains a significant financial risk on business rates income from the impact of valuation appeals, in particular over the 2017 valuation list. There remains limited information available regarding the level or impact of potential appeals.

Payroll

2.31 The MTFS shows growth in the Council's payroll cost (assuming current levels and numbers of staff employed). Payroll-related inflation has been estimated at 2.5% in 2020 and beyond to allow for an annual pay settlement, payroll drift, and the impact of the Living Wage. Additional estimates have been included for expected increases to pension deficit contributions; although these will be subject to the outcome of future triennial valuations of the pension scheme (the next one will take effect in 2020/21).

Revenue contribution to capital

2.32 In line with the 2018/19 MTFS, an additional £250k has been included in the budgeted revenue contribution to capital in 2019/20. The updated MTFS continues to increase this budget over the life of the MTFS, by £250k per annum, so that by 2022/23 £1.5m is provided as a funding source to the capital programme along with a £300k contribution to cover the costs of the Homes Improvements Agency team.

Inflation

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

Government Grants

2.34 The 2019/20 budgets reflect the final year of the 4-year funding settlement deal. No Revenue Support Grant, or equivalent, is assumed in future years as this will cease from 2020. In addition, no future allocations of New Homes Bonus have been included in the MTFS in light of uncertainty over the future of the grant. If the current New Homes Bonus allocations are honoured by Government in 2020/21 the General Fund will benefit from an additional £276k.

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

2.36 The cost of extending the HMO licensing scheme in line with the Government's requirements will be recovered through licensing fees. However, this change could lead to an estimated increase in other enforcement costs of £80,000 per annum. There is no Government funding to cover those extra costs.

Capital financing budget

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

Interest income from lending to Norwich Regeneration Limited

2.38 The MTFS assumes a steady state net income budget of £327k per annum. Included within this is an allowance of £245k for the council's own financing costs (assuming external borrowing).

2.39 The budget reflects the position arising from the existing loan made to the company. It is anticipated that as loans are advanced to and repaid by the company the gross interest income received by the council remains at a stable level. In the event that this is not the case the funds contained within the NRL earmarked reserve can be used to "smooth" any fluctuations. (See paragraphs 5.18 to 5.32 for background context about the council's lending to the company.

General Fund Reserves Position

The General Fund reserve

2.40 The prudent minimum level for the general fund reserve has been set at £4.3m. The smoothed MTFS brings the forecast reserves down to around Prudent Minimum Balance plus 15% by the end of 2023/24.

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

	2019/20	2020/21	2021/22	2022/23	2023/24
Balance B/Fwd.	**(11,652)**	**(10,700)**	**(8,149)**	**(6,303)**	**(5,187)**
Use of reserves	952	2,551	1,846	1,116	158
Balance C/Fwd.	**(10,700)**	**(8,149)**	**(6,303)**	**(5,187)**	**(5,029)**

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

2.42 In addition the General Fund holds a number of earmarked reserves. The key reserves are summarised in the table below.

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

	Actuals at 31 March 2018	Forecast 31 March 2019
Invest to Save Reserve To support the delivery of savings and efficiencies through the Fit for the Future Programme over the next 2-3 years.	**2,648**	**2,418**
Commercial Property Reserve Established to reduce the risks associated with holding commercial property by providing funding for any future void and rent free periods as well as repairs and upgrades to the investment portfolio.	**123**	**945**
Insurance Reserve This is to cover the excesses carried in respect of claims under various insurance policies and is subject to annual review.	**681**	**773**
Norwich Regeneration Ltd Reserve Established to smooth any fluctuations in net income received by the Council from lending to NRL.	**50**	**287**

	Actuals at 31 March 2018	Forecast 31 March 2019
S31 Grant Reserve Unutilised balance of S31 Grant monies received in prior years from Central Government to fund Business Rates reliefs. These monies will be transferred to the General Fund Reserves as and when required to offset any future business rates deficits.	**2,165**	**1,833**
Revenue Grants Unapplied Holds grants and contributions received which have yet to be applied to meet expenditure. The use of the balance is restricted and can only be used to fund the specific service area awarded the grant income. The majority of the balance is made up of S.106 contributions which are released each year to support the maintenance costs on specific assets e.g. play areas.	**2,072**	**1,929**

Appendix 2 (A): 2019/20 movements from the approved 2018/19 base budget

	£'000
2018/19 Budget Requirement	**15,696**
Budget movements:	
Inflation	1,027
Additional income (Appendix 2 (F))	(1,078)
Savings (Appendix 2 (F))	(825)
Service growth (Appendix 2 (G)	858
Service growth linked to specific new grants (cost neutral)	424
Rough sleeper Initiative grant funding (offsetting costs)	(340)
Increase in flexible homelessness support grant (offsetting costs)	(91)
Increase in revenue contribution to capital funding	250
Increase in pension deficit contributions	265
Increase in Minimum Revenue Provision	65
Reduction in housing benefit overpayment income following improved processing performance	297
Reduced in pension costs from end of the Airport PPP agreement	(148)
Reduction in New Homes Bonus grant	161
Loss of Second Homes grant income	36
Movements in other grants	78
Decrease in contribution from general reserves	546
Movement in recharge income relating to corporate costs and services provided directly to the Housing Revenue Account	(449)
2019/20 Budget Requirement	**16,772**

2018/19 Budget Resources	**(15,696)**
Budget movements:	
Reduction in revenue support grant	982
Increase in retained business rates	(1,491
Increase in council tax income	(567)
2019/20 Budget Resources	**(16,772)**

Appendix 2 (B): 2019/20 proposed budget by subjective group

Subjective group	Budget 2018/19 £000s	Budget 2019/20 £000s	Change £000s
Employees	20,557	21,438	881
Premises	10,398	10,517	119
Transport	283	266	(17)
Supplies & services	16,091	16,958	867
Third party payments (shared services)	4,434	4,494	60
Housing benefit payments	56,580	57,906	1,326
Capital financing	2,573	4,254	1,681
Recharge expenditure	17,489	18,515	1,026
Gross expenditure	**128,405**	**134,348**	**5,943**
Government grants	(59,517)	(60,623)	(1,106)
Fees, charges & rental income	(25,596)	(27,640)	(2,044)
Recharge income	(26,092)	(27,644)	(1,552)
Gross income	**(111,205)**	**(115,907)**	**(4,702)**
Contribution from General Reserves	(1,504)	(958)	552
Contribution from Invest-to-Save Reserve		(711)	(711)
Total Budgetary Requirement	**15,696**	**16,772**	**1,076**

Appendix 2 (C): 2019/20 proposed General Fund budget by service

	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Business Services	10,145	(5,217)	4,928
Democratic Services	1,546	(1,086)	461
Housing Benefit	57,906	(57,906)	0
Human Resources	1,172	(1,172)	0
Procurement & Service Improvement	4,609	(4,609)	0
Subtotal Business Relationship	**75,378**	**(69,990)**	**5,387**
Chief Executive	277	(277)	0
Strategy & Programme Management	1,213	(845)	368
Subtotal Chief Executive	**1,490**	**(1,122)**	**368**
Communications & Culture	3,369	(1,573)	1,796
Customer Contact	2,759	(2,915)	(156)
Subtotal Customers, Comms & Culture	**6,128**	**(4,488)**	**1,640**
Citywide Services	15,053	(5,456)	9,597
Neighbourhood Housing	5,637	(4,138)	1,499
Neighbourhood Services	1,061	(391)	670
Subtotal Neighbourhoods	**21,751**	**(9,985)**	**11,766**
City Development	19,734	(23,874)	(4,140)
Environmental Strategy	193	(193)	0
Director of Regeneration & Development	153	(153)	0
Planning	2,829	(1,398)	1,431
Property Services	2,509	(1,355)	1,153
Subtotal Regeneration & Growth	**25,418**	**(26,973)**	**(1,555)**
Corporate Financing	4,182	(3,347)	835
Contribution from General Reserves		(958)	(958)
Contribution from Invest-to-Save Reserve		(711)	(711)
Budget Requirement	**134,341**	**(117,569)**	**16,772**
Revenue Support Grant		0	0
Business Rates Retained Income		(6,789)	(6,789)
Council Tax		(9,983)	(9,983)
Budget Resources	**0**	**(16,772)**	**(16,772)**

Note: Corporate financing includes interest costs, minimum revenue provision, New Homes Bonus, Council Tax Support Admin Subsidy Grants and contingency.

Appendix 2 (D): Breakdown of MTFS by subjective group

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Employees	20,825	21,779	22,698	23,594	24,518
Premises	10,517	10,749	10,985	11,227	11,474
Transport	266	272	278	284	290
Supplies & Services	16,858	17,161	17,538	17,924	18,319
Capital Charges	3,004	3,033	3,063	3,094	3,126
Housing Benefit Payments	57,906	57,906	57,906	57,906	57,906
Benefit Subsidy	(57,906)	(57,905)	(57,905)	(57,905)	(57,905)
Third Party Payments	4,494	4,592	4,693	4,797	4,902
Net recharge income	(8,981)	(8,981)	(8,981)	(8,981)	(8,981)
Contribution to Capital	1,050	1,300	1,550	1,800	1,800
Fee, charges, rental income	(27,585)	(27,963)	(28,348)	(28,739)	(29,161)
New Homes Bonus	(676)	0	0	0	0
Benefit/CTS Admin grant	(879)	(836)	(796)	(758)	(694)
Other Grants	(1,163)	(1,026)	(1,026)	(1,026)	(1,026)
Assumed non-inflationary growth cumulative		750	1,500	2,250	3,000
Subtotal budgets (no savings)	**17,730**	**20,831**	**23,155**	**25,467**	**27,568**
Business Rates	(6,789)	(5,708)	(5,829)	(5,951)	(6,076)
Formula Funding (RSG)	0	0	0	0	0
Council Tax	(9,983)	(10,006)	(10,354)	(10,714)	(11,087)
Total funding	**(16,772)**	**(15,714)**	**(16,183)**	**(16,665)**	**(17,163)**
Budget Gap	**958**	**5,117**	**6,972**	**8,802**	**10,405**
Gross savings needed (cumulative)	0	(2,565)	(5,130	(7,695)	(10,260)
Planned use of reserves	(958)	(2,552)	(1,842)	(1,107)	(145)
Funding the budget gap	**(958)**	**(5,117)**	**(6,972)**	**(8,802)**	**(10,405)**

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

A. Business Rates Retained Income

	£000s
Retained Income (including S31 grants for reliefs)	6,625
Plus: Budgeted Section 31 grant for indexation switch	192
Less: Levy to the Norfolk Pool for economic development & pooled growth	(276)
Plus: Norwich Business Rates 2018/19 surplus distribution	248
Total Business Rates Income 2019/20	**6,789**

B. Council Tax Calculation 2019/20

	No.	£
Budgetary requirement		**16,771,827**
- Revenue Support Grant		0
- Business Rates Distribution		(6,788,704)
= Council tax requirement		**9,983,123**
- Surplus on collection fund		(388,601)
=Total Council tax income		**9,594,522**
Band D Equivalent properties	36,325	
Council tax (Band D)		**264.13**

C. Council tax increases 2018/19 to 2019/20, Bands A to H

Band	A	B	C	D	E	F	G	H
2018/19	£170.97	£199.47	£227.96	£256.46	£313.45	£370.44	£427.43	£512.92
Increase	£5.12	£5.96	£6.82	£7.67	£9.38	£11.08	£12.79	£15.34
2019/20	**£176.09**	**£205.43**	**£234.78**	**£264.13**	**£322.83**	**£381.52**	**£440.22**	**£528.26**

Appendix 2 (F): 2019/20 list of proposed budget savings/increased income

	Project name	Description	Current budget	£'000
Additional income generation				
1	Commercial property acquisition	Additional net income from the acquisition of new commercial property in line with the Council's strategy to generate income and maximise returns from assets, as agreed in the four year financial sustainability plan. Currently approximately £285k of the net income has been secured or in the process of completion. The net income includes an allowance for external borrowing interest costs and minimum revenue provision expense. The net internal rate of return on the investment assumed in the MTFS is 2% The Council will continue to set aside a proportion of the new net income generated into an ear-marked reserve. This will be used to provide funding for any future void and rent free periods as well as any repairs/upgrades required to the property to help safeguard the future value of the investment and the rental income stream, thereby minimising the risk of holding these assets and of fluctuations in the income return.	Existing gross rental from commercial property of £3.3m	(500)
2	Commercial property rental income	Additional income already achieved from a commercial property purchased at the start of the 2018/19 financial year along with additional income from rent reviews of the existing property portfolio.	Existing gross rental from commercial property of £2.9m	(212)

3	Citywide Services Income	Increase to the budgeted income from integrated waste management services based on current performance levels: • Garden waste income (£33k) • Replacement bin income (£29k) • Recycling credits (£45k) • Contract discount (£75k) • Bulky waste income (£6k) Additional income is partially offset by increased citywide contract costs.	Existing income budgets: • Garden waste (£450k) • Replacement bin (£16k) • Recycling credits (£1,055k) • Contract discount (£300k) • Bulky waste (£48k)	(188)
4	Car park additional income from approved tariff increase	Growth in income associated with tariff reviews and increased usage of Rose Lane car park. Based on current performance.	Existing off-street and multi-storey car park gross income of £5.8m	(130)
5	Office rental	Additional income from the letting of office space above the Rose Lane car park.		(24)
6	Legal profit share	Net increase in income from a higher profit share from Nplaw (legal services) shared service offset against higher legal costs from increased usage.		(13)
7	Planning consultancy income	Increase in budgeted income; planning pre-application consultancy income in line with current performance.	Current income budget of £100k.	(10)
8	Other income	Budget income increases (individually below £5k).		(1)
Total Additional income generation				**(1,078)**

	Project name	Description	Current budget	£'000
Service reviews and efficiencies				
9	Mile Cross Depot Demolition	The Council successfully bid for £980k from the Land Release Fund to clear and decontaminate the Mile Cross site. The grant condition requires this to be used so as to make the site "released" for housing redevelopment by 2020. In September 2018 Council approved the decision to proceed with the demolition of the depot and the decontamination of the site given the lead in time required to procure and undertake the necessary works and the need to have the site cleared and decontaminated by the deadline of 2020. Revenue savings will be made through the exemption from business rates once the site is cleared and also reduced site security.		(122)
10	Vacancy factor	In recent years a significant element of the year-end underspends against budget has been due to staff salary underspends. These often arise due to the time lag in recruiting into vacant posts. The vacancy allowance is recognition of this expected underspend at the corporate level. It does not translate into service area targets for holding any vacancies, teams are budgeted for at their full establishment enabling them to recruit to all vacant posts during the year. The increase to the vacancy allowance this year reflects the recent levels of underspend. Within the MTFS the allowance is then slowly reduced over the next three years as the Fit for the Future structures are agreed and implemented.	Increase to the current allowance of £150k.	(250)

11	Re-basing of expenditure budgets in line with actual spend	Budget reductions based on expenditure areas with historic levels of underspend. Budgets have been rebased to the current levels of spend. The reductions cover budgets relating to advertising, apprentice levy contribution, City Hall, Lakenham area office, printing, promotions & publicity, staff advertising and taxis.		(140)
12	Training costs	Reduction in training budgets in line with past year spend and overall reductions in staff numbers. One-off training needs related specifically to the Fit For the Future work can be funded from the Invest-to-Save earmarked reserve.	Existing general fund budget of £229k. Separate existing HRA budget of £65k.	(56)
13	Reduction in contingency	Reduction in the General Fund contingency budget to reflect past years requirements. General reserves also provide additional contingency for any significant unexpected costs.	Existing General Fund contingency budget of £500k.	(100)
14	Economic Development	Reduction in the project budget in the economic development team. The budget has tended to be used for one-off pieces of work and been underspent in recent years. Proposed that any specific projects that cannot be funded within the current budget would be subject to a request to the contingency fund.	Reduction in budget from £170k to £114k.	(56)
15	CCTV maintenance	Reduction in CCTV maintenance costs following capital investment in equipment.	Existing budget of £65k.	(34)
16	Snow clearing	Reduction in snow clearing budgets in line with actual spend in recent years. Any additional costs arising from a severe winter would need to be met from the contingency budget.	Existing budget of £39k.	(29)

17	LGSS overhead	Reduction in LGSS overhead cost arising from a change in arrangements for processing external audit costs.	Existing budget of £268k.	(8)
18	Other savings	Budget savings (individually below £5k).		(31)
Total Service reviews and efficiencies				**(826)**

GROSS SAVINGS	**(1,904)**

Appendix 2 (G): 2019/20 list of proposed budget growth

	Growth Item	Description	£’000
1	Property rental	Loss of property rental due to planned disposals of lower income -generating property and vacant properties. This is in line with the approved disposal programme and review of the property portfolio.	198
2	IT transformation costs	Additional costs to support digital solution investment in IT infrastructure. This will support service redesign and digitalisation (benefits to be identified via customer journey mapping). In the longer term this is designed to enable a full line of business review including the replace / removal of legacy systems.	95
3	IT business-as-usual costs	Additional costs associated with Microsoft licences (£50k), the roll out of corporate WIFI across City Hall and The Halls (£23k) and additional annual support costs for a new CCT management systems after the current solution goes end-of-life in 2019 (£15k).	88
4	Living wage	The council is committed to paying the living wage as set by the living wage foundation. This is announced in November. The provisional draft budget has assumed a 30p per hour rise.	93
5	NEWS costs	Additional costs associated with the NEWS joint venture as a result of the exceptional volatility of the recycling markets.	85
6	Finance	Commercial Finance Business Partner to be provided via the LGSS contract. The post holder will be expected to play a key role in the Council’s commercialisation agenda by providing commercial financial advice to senior officers and project teams and by developing robust Business Cases for possible new income streams.	83
7	Interest	Loss of interest income from a deferred capital receipt on the livestock market as a result of the deferred payment being received.	49

8	Working hours changes	Adjustments to salary budgets to match establishment.	42
9	Contaminated waste income	Reduction in contaminated waste shared income.	25
10	Community Safety Initiative	General Fund contribution to Community Safety Initiative.	20
11	Events storage	Events Team requires storage for a variety of bulky equipment which is essential to the service. Following the clearing of the Mile Cross Site, alternative storage premises are required.	18
12	Income from shared post	Removal of contribution from Breckland Council for a support officer in the Citywide team. The post is not currently filled, and the work has gone to Breckland council, therefore no more contribution.	15
13	HMO licensing team	Required staffing growth to enable the council to meet its statutory duty to deliver the recently extended statutory HMO licensing scheme. Majority of the costs of these posts are recoverable through the licence fee. The increase is sufficient to cover 2 additional posts. The second post will not be recruited until there is more clarity over the number of licensable HMOs and associated work load in Summer 2019.	10
14	Subscriptions	Increased subscription to PS Tax providing advice on a range of tax issues including VAT, stamp duty and corporation tax. Without appropriate tax knowledge there is risk that the council's commercial and redevelopment activities will not be managed for maximum effectiveness and value in regards to tax or incorrect decisions being taken. Additional CIPFA network subscriptions to support the increasing commercialisation strand of the Fit for the Future work stream.	10

15	City Hall hire fee income	Reduction in budget for City Hall hire fee income. The £11k target has not been achieved for some years and income is diminishing each year. There is little demand from external parties who are prepared to pay hire fees.	10
16	Mousehold Heath Conservators	Increased precept for repairs required to the Mousehold Pavilion.	6
17	Syrian refugees	In September 2018 Cabinet agreed to support an extension of the existing Syrian vulnerable person's resettlement scheme. As part of this proposed extension, the county council approached the city council about housing a further one hundred refugees over a further two year period through LetNCC. As a result of the extension the maximum contribution of Norwich City Council to the cover any rent shortfall as a result of the benefit cap has increased by £4,300.	4
18		Other minor growth (less than £5k individually)	7
Total Growth			**858**

Appendix 2 (H): Invest to Save Spend Allocations 2019/20

	Description	General Fund	HRA	Total 19/20
		£'000	**£'000**	**£'000**
1	Project Management resource for Fit for the Future	119	47	166
2	Corporate services support for Fit for the Future	141	64	204
3	IT Transformation programme management	42	14	56
4	Review of IT licenses to ensure best value	78	23	100
5	Contribution to capital for mobile kit to support IT transformation	200	0	200
6	Revenues & Benefit overpayment and revenue collections resource	75	0	75
7	Project Management resource for asset development projects	57	0	57
		712	**147**	**859**

Further detail on the key Fit for the Future work streams can be found in the Norwich City Council Fit for the Future Update presented at the December 2018 Cabinet meeting.

At this stage the figures are estimates of the required funding. These are likely to change during the year and updates to the use of the Invest-to-Fund will be made through the budget monitoring reports taken to Cabinet throughout 2019/20.

Appendix 2 (I): Update on consultation responses on the vision and proposed budget for 2019-20

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

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

Across the public survey a total of 306 responses were received. The data in this report represents the results from those 306 responses. No data has been weighted.

Residents were also given an opportunity to submit comments. These will be analysed further and used to inform the future development of income and savings options.

1. Do you agree with the new draft priorities?

- Yes 70%
- No 15%
- Don't know 15%

2. Do you think we've identified the right ways to meet these priorities?

- Yes 53%
- No 23%
- Don't know 25%

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

- Yes 79%
- No 21%

4. To what extent do you support the council raising its share of council tax by 2.99 per cent in 2019-20 and using that money to protect key services in the future?

- Strongly agree 26%
- Agree 24%
- Neither agree nor disagree 9%
- Disagree 13%
- Strongly disagree 26%
- Don't know 2%

3. HOUSING REVENUE ACCOUNT (HRA) 2019/20 BUDGET AND BUSINESS PLAN

Background

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

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

Forecast 2018/19 Outturn

3.3 The latest position on the Housing Revenue Account (HRA), as at period 9, shows a forecast underspend of £2.39m. It is proposed to set aside £1m of this underspend into the HRA invest to save earmarked reserve to support the delivery of savings and efficiencies through the Fit for the Future programme

Proposed 2019/20 Revenue Budget

3.4 The budget proposes gross expenditure of £59.2m and gross income of £67.4m, generating a surplus of £8.2m (Appendix 3 (A)). It is proposed that £6m of this surplus is used to make a revenue contribution towards the funding of the 2019/20 HRA capital programme.

3.5 The key changes to the budget position reported in the Emerging Budget Paper considered at Cabinet in December 2018, are as set out below:

Table 3.1: Key movements from December emerging budget position

Key movements from December Position:	£'000
Reduced income from service charges	223
Inclusion of tenancy management improvement budget	250
Updated water charges forecast (offset by change in Service Charge income)	(153)
Community Safety Initiative contribution	30
Reduction in decoration allowances costs based on current uptake	(20)
Additional budget for relocatable CCTV cameras	19
Reduction in revenue contribution to capital	(2,524)
Contribution to HRA Balances	2,175
TOTAL NET MOVEMENT	**0**

Chart 3.1: 2019/20 HRA revenue expenditure budget analysed by type

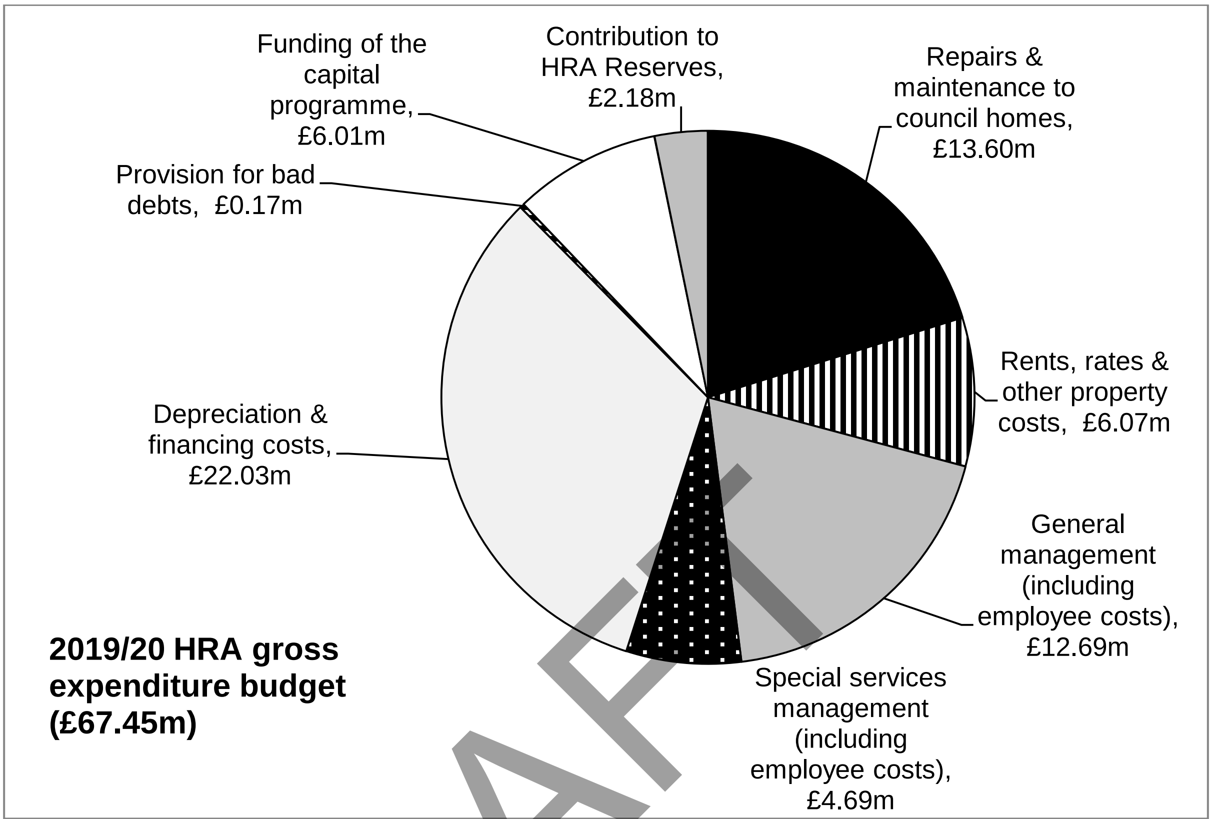
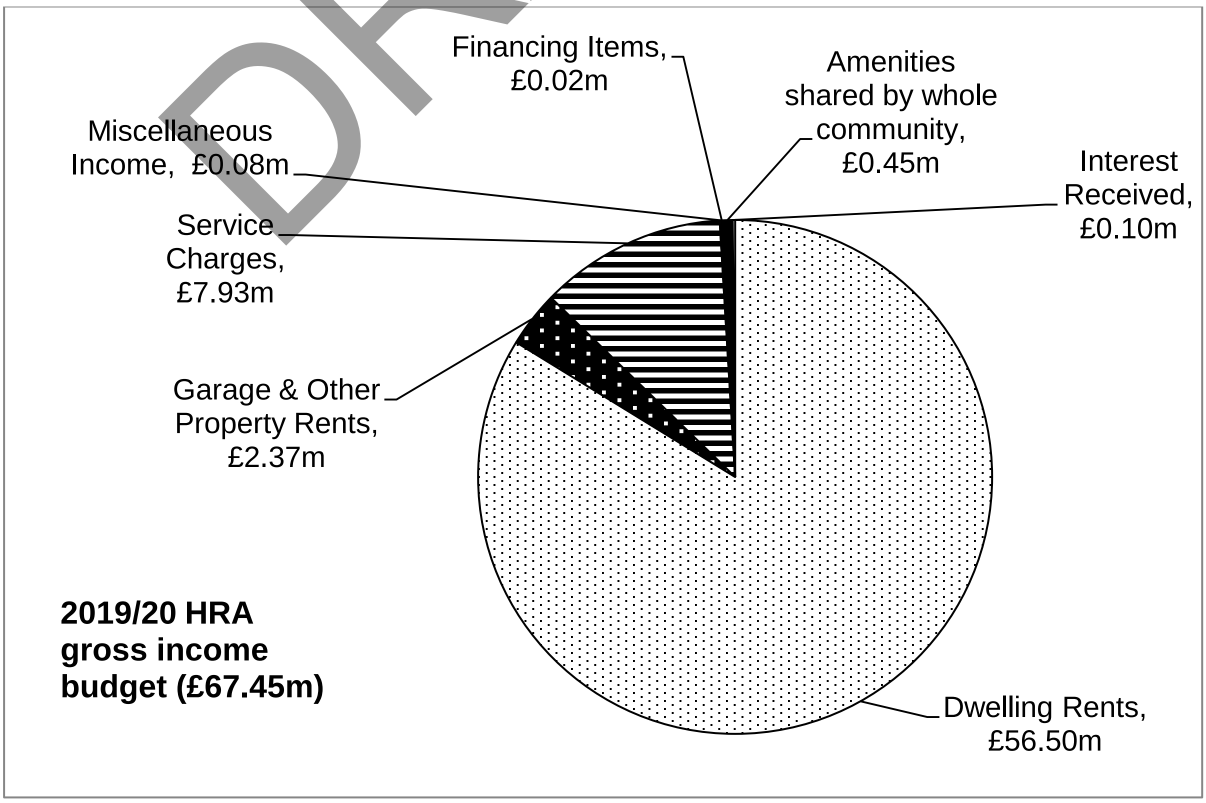


Chart 3.2: 2019/20 HRA revenue income budget analysed by type



3.6 The key movements in the base budget (i.e. 2018/19 approved budget) to arrive at the proposed 2019/20 budget are summarised in Appendix 3 (B).

HRA Business Plan

3.7 Longer term financial strategy for the HRA is based upon a 60 year business plan, which models the revenue costs of intended capital investment alongside other forecasts of revenue expenditure and income to determine the resultant surplus or deficit over the life of the plan.

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

3.9 The business plan relies upon a combination of known and assumed economic factors and government announcements to generate a financial forecast. The key assumptions within the business plan are summarised in the paragraphs that follow.

3.10 Since the 2018/19 HRA budget report, there have been three key government announcements that improve the council's ability to deliver on its ambitions to increase and improve social housing in the borough. These are:

- Reversion to an index-linked setting policy from 1 April 2020.
- Not implement the enforced sale of higher value council houses.
- Removal of the HRA borrowing restriction.

Council housing rents, garage rents, and service charges

3.11 Historically, the level at which council housing rents were set was decided by the Council in line with guidance set out by the government and information provided by the HRA Business Plan. However, in 2016/17 the government's rent policy was replaced by an enforced minimum 1% reduction in rent for a four year period until March 2020, as set out in the Welfare Reform and Work Act 2016. The impact of this over a 30 year period is a loss of approximately £200m in rental income. This equates to a reduction of income to the HRA in excess of £6.5m per year.

3.12 The enforced 1% rent reduction continues for the final year in 2019/20, which means that for HRA tenants, the average weekly rent will be £76.65 equating to an average reduction of £0.77.

3.13 It is proposed that garage rents are increased by 3.4%. This is in line with the government formula for dwelling rents prior to the implementation of the mandatory rent reduction, based on CPI as at the preceding September (2.4%) plus 1%.

3.14 In accordance with the constitution, levels of tenants' service charges will be determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

3.15 The government has issued a consultation confirming its intention to introduce a new rent policy, ending the four year mandatory rent reduction and enabling social housing rents to increase by CPI plus 1% from 2020/21. This has been included within the HRA business plan with CPI being modelled at 2.4% for 2019/20 then averaging 2% throughout the planning period.

3.16 The roll out of Universal Credit is expected to impact on rent collection and associated bad debt. This has been reflected in the business plan with an increase being made for bad debt provision of £0.56m for 2019/20 with a further £0.58m in 2020/21. In addition, a provision of £2m is included within prudent minimum balance to mitigate against further pressures.

3.17 The void turnaround (period during which a property is unoccupied) has significantly reduced over recent years to 15 days. The current budget provision is calculated on a void rate of 0.36%, which equates to rental income loss for void periods of £0.2m for 2019/20.

Right-To-Buy

3.18 The Housing and Planning Act 2016 made provision for a determination to be imposed on Housing Revenue Accounts in order to compensate Registered Providers for financial losses incurred as a result of extended Right-To-Buy legislation. However, the government has now confirmed that this will no longer proceed.

3.19 During the year 2018/19 the number of Right-to-Buy purchases of HRA dwellings has reduced slightly from previous years. Based on this and other economic factors, the business plan assumes that this trend will continue with a loss of 130 homes in 2019/20 and 110 in 2020/21, reducing to 100 homes each year for the following 5 years.

Capital expenditure plans

3.20 The HRA business plan includes expenditure arising from the proposed HRA capital budget as set out in part 4 of this report (capital strategy and 2019/20 capital budget).

3.21 Other major projects contained within the council's capital ambition plan will need to be included in the HRA business plan once robust business cases have been approved. An assessment however has been undertaken of the affordability of those projects listed in 4.39 which are likely to submit Business Cases during the next three years for council approval. The assessment can be found in 4.40 of this report (capital strategy and 2019/20 capital budget).

3.22 The proposed HRA capital programme is based on the following neighbourhood housing primary goals, more detail of which is set out in Appendix 3 (C):

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

Capital financing plans

3.23 On 29th October 2018, the government abolished the HRA borrowing cap. This means that the council can determine itself how much it will borrow to fund capital expenditure, as long as it can demonstrate that the borrowing is affordable, prudent and sustainable as required by CIPFA’s Prudential Code. The council does this for general fund capital expenditure by agreeing and monitoring a number of prudential indicators. These indicators now need to include the HRA and can be found in part 6 of this report (Treasury Management Strategy 2019/20).

3.24 The decision to remove the borrowing cap does give the council more ability to invest in the existing housing stock and to increase is holdings. A housing strategy is currently being produced which will guide this investment. In addition many of the projects within the council’s ambition plan include the HRA purchasing new affordable housing from the council’s wholly owned company, Norwich Regeneration Limited (see section 4).

3.25 How an individual capital scheme is funded will depend on the prevailing financial circumstances and the nature of the scheme (e.g. new build or enhancement of an existing asset). In practice there are six key funding sources which the council uses in the following priority order (more information is given on capital financing strategy in appendix 4 (C):

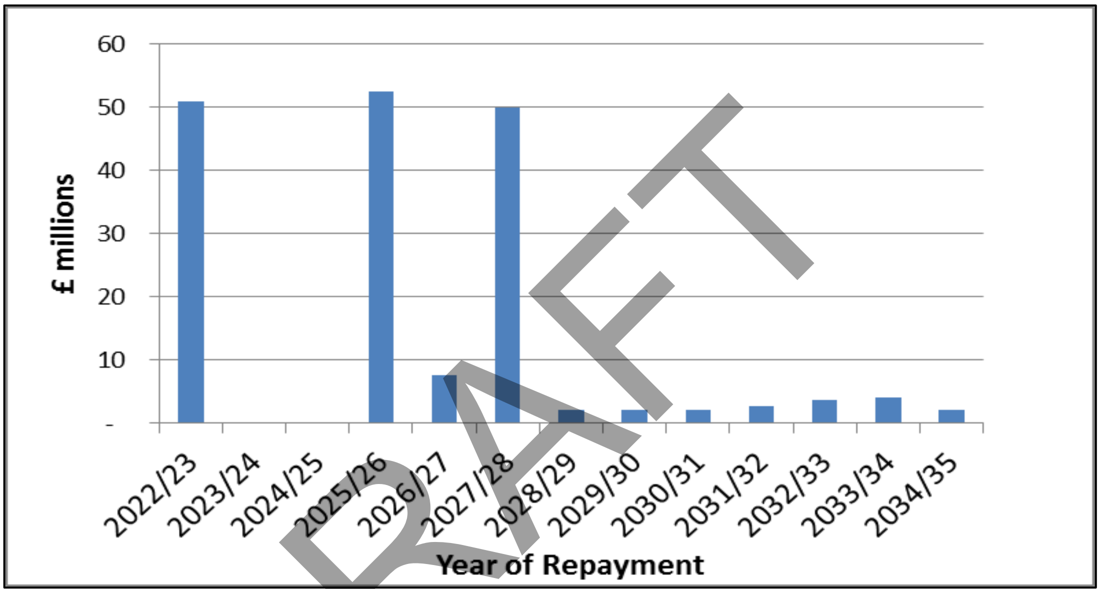
1. Right-to-Buy Retained ‘One for One’ capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. Revenue budget contributions
5. General HRA capital receipts
6. General Reserves
7. Borrowing

3.26 The current HRA Capital Financing Requirement (the need to borrow) is £205.7m, which includes the most recent HRA external borrowing of £149m undertaken as part of the HRA self-financing settlement in 2012 when the HRA subsidy system was abolished. This meant that the council no longer had to make payments of approximately £9m per annum into the subsidy system and was able to retain all future rental income in return for taking on a calculated share of the national housing debt. The remaining borrowing consists of £38m of historic external borrowing, the most recent being taken over 21 years ago, along with £19m of internal borrowing.

3.27 HRA assets are currently valued at £797.9m (31 March 2018), which against a borrowing requirement of £205.7m equates to a loan-to-value gearing of 25.78%.

3.28 Chart 3.3 sets out the redemption dates and values of current HRA external borrowing. The most recent borrowing for the HRA self-financing settlement in 2012 is represented by the three loans of approximately £50m each, whilst all other loans shown constitute historic borrowing which will be repaid within 15 years.

Chart 3.3: Existing HRA External Borrowing

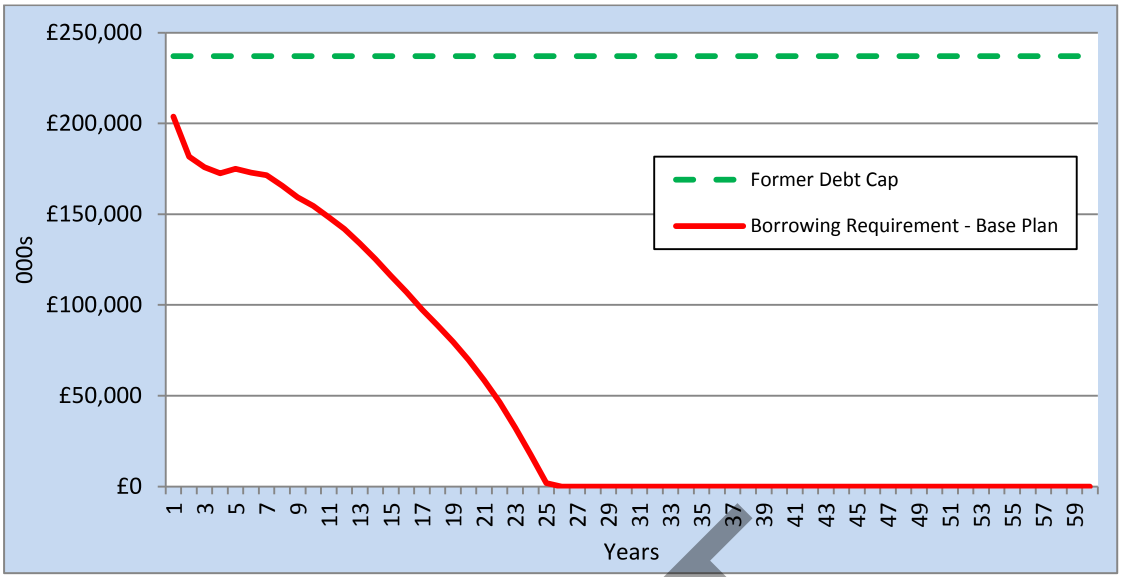


3.29 The HRA Business Plan assumes that the three significant loans of £50m will be refinanced by external borrowing upon reaching their redemption date, whilst the repayment of lower value loans will be financed through internal borrowing. LGSS Finance will review this policy to assess whether it may be more prudent to borrow for the loan repayments before 2022/23 whilst interest rates are at a relatively low level.

3.30 The HRA capital budget proposed in this report in section 4 does not require any new borrowing; however additional borrowing may be necessary in order to finance all of the HRA projects and programmes set out in the council's capital ambition plan.

3.31 The chart below shows that all borrowing assumed in the HRA Business Plan can be repaid within 25 years. This shows that the Business Plan is sustainable over the 60 years planning period.

Chart 3.4: Ability to repay HRA borrowing



HRA Reserves Position

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

Table 3.2: Estimated HRA Reserves Position

Item	£'000
Brought Forward from 2017/18	(30,988)
Forecast use of balances 2018/19	2,550
Forecast HRA underspend 2018/19	(2,398)
Invest to save earmarked reserve	1,000
Carried Forward to 2019/20	**(29,836)**
Forecast contribution to balances in 2019/20	(2,175)
Carried Forward to 2020/21	**(32,011)**

3.33 The prudent minimum level set for the HRA reserve has been adjusted slightly to £5.837m (previously £5.844m). This removes the provision for risks posed by the now abolished proposal to introduce a determination to compensate Registered Providers for financial losses incurred as a result of extended Right-To-Buy legislation, but increases provision for the risk of additional costs arising from the introduction of Welfare Reform and unforeseen events.

3.34 The estimated general reserves to carry forward into 2020/21 are substantial which not only provides a flexible funding resource for the HRA but also ensures the financial resilience of the account. Given the council's ambition to start to significantly invest capital resources into new and replacement housing stock over the medium term, this level of estimated reserves (over £32m) will give the council options, not only in terms of service delivery but in how in how the council will fund future capital expenditure whilst manging overall debt.

Appendix 3 (A): 2019/20 proposed HRA budget by service

Division of Service	Budget 2018/19 £'000	Budget 2019/20 £'000	Change £'000
Repairs & Maintenance	13,487	13,603	116
Rents, Rates, & Other Property Costs	6,339	6,074	(266)
General Management	11,965	12,694	728
Special Services	4,819	4,692	(127)
Depreciation & Impairment	21,805	22,027	222
Provision for Bad Debts	190	170	(20)
Adjustments & Financing Items	1,052	-	(1,052)
Gross HRA Expenditure	**59,658**	**59,259**	**(398)**
Dwelling Rents	(56,968)	(56,504)	464
Garage & Other Property Rents	(2,228)	(2,369)	(141)
Service Charges – General	(8,414)	(7,927)	487
Miscellaneous Income	(115)	(82)	33
Amenities shared by whole community	(427)	(446)	(19)
Interest Received	(100)	(100)	0
Adjustments & Financing Items	-	(19)	(19)
Gross HRA Income	**(68,252)**	**(67,447)**	**805**
Total Housing Revenue Account	**(8,594)**	**(8,188)**	**406**
Revenue contribution to capital	11,144	6,013	(5,131)
Contribution to/(from) HRA reserve	(2,550)	2,175	4,725
Total	**0**	**0**	**0**

Appendix 3 (B): 2019/20 movements from the approved 2018/19 base budget

Adjustment to Base	£'000
HRA Revenue Contribution to Capital	(5,131)
HRA contribution to/(from) reserves	4,725
Total Adjustment to Base	**(406)**

Inflation	£'000
Staff salary inflation and increments	125
Pension added years and pension deficit inflationary adjustments	72
Electricity	52
Parking costs charged by Norfolk County Council	16
Other (individually under £10k)	37
Total Growth and Inflation	**303**

Growth	£'000
Significant increase in stock valuation, meaning higher depreciation charge on the structural element of the properties	504
Inclusion of a tenancy management improvement budget	250
Income collection solution	107
Rechargeable repairs write-offs	67
Staff to cover administration involved with tower decants	56
Insurance relating to leasehold properties	44
Maintenance costs of new CCTV equipment	38
Community safety initiative	30
HRA Income Assistant post	25
Total Growth	**1,120**

Income Reduction	£'000
Reduction in rents (mandatory 1% reduction)	567
Reduction in recharge to the general fund in respect of area office use	11
Other income reduction (individually under £10k)	4
Total Income Reduction	**581**

Savings	£'000
Repairs - reduction in costs	(881)
Reduction in contingency fund	(300)
Reduction in interest payable on loans	(282)
Restructure of sheltered housing service	(76)
Removal of grant expenditure budget - budget was required for 2018/19 only to support community alarm service transition	(67)
Rent write-offs reduction	(51)
Reduction in cost of rates on empty properties	(35)
Reduction in district heating oil costs	(26)

Bad debt provision reduction - housing rents	(20)
Reduction in void redecoration costs	(20)
Reduction in tree maintenance costs	(14)
Income from GF for a shared post	(12)
Other savings (individually under £10k)	(31)
Total Savings	**(1,815)**

Income Increase	**£'000**
Increase in income and reduction in void rent loss from garages	(150)
Increased income from leasehold charges	(47)
Reduction in void rent loss from dwellings	(38)
Joint venture pension rebate	(25)
Additional income (individually under £10k)	(7)
Total Increased income	**(267)**

Recharges	**£'000**
Central departmental support	386
Movement in recharge expenditure and income relating to corporate costs and services provided directly to or from the General Fund	170
Net use of HRA Invest to save reserve	(63)
Additional changes (individually under £10k)	(7)
Total Recharges	**487**

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

Neighbourhood Housing Goals	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Meeting housing need - delivering new homes					
New Social Housing	8,067	50	-	-	-
Site Development	50	50	50	50	50
Grants to Registered Housing Providers	2,000	2,000	2,000	2,000	2,000
Maintaining and improving condition of existing housing					
Preventative Upgrades	9,710	12,929	11,431	11,310	10,099
Home Upgrades	6,310	6,300	5,650	4,700	5,384
Window & Door Upgrades	2,652	2,900	2,450	3,450	720
Improving the use and management of our existing housing stock					
Independent Living Upgrades	990	700	650	550	350
Sheltered Housing Regeneration	-	100	100	100	-
Heating Upgrades	3,795	4,900	3,000	3,000	3,000
Thermal Upgrades	934	1,000	1,000	800	500
Improving our neighbourhoods					
New CCTV system	10	-	-	-	-
Community Upgrades	1,340	1,000	1,000	1,000	550
Fees	710	710	710	710	710
Total Proposed HRA Capital Programme	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**

4. CAPITAL STRATEGY 2019/20 ONWARDS

The wider context and capital investment objectives

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

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

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

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

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

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

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

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

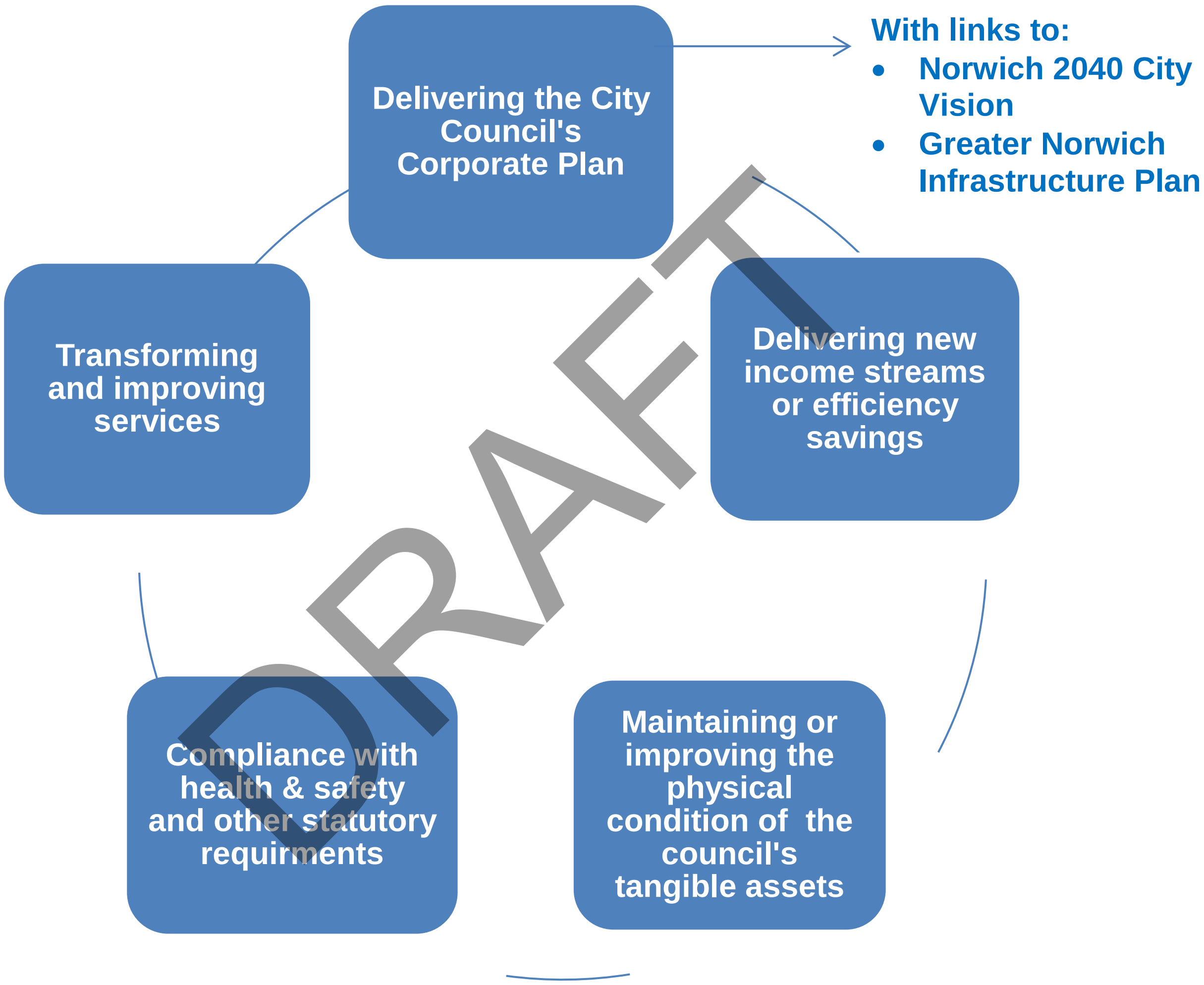
- The need to maintain or improve the physical condition of existing assets as they deteriorate, are less "fit-for-purpose", or fail to comply with regulatory requirements. These considerations are part of asset management planning.

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

4.7 Apart from the HRA, the council does not have significant experience to-date of preparing longer term capital plans and its knowledge on the state of its land and property needs to be enhanced by undertaking condition surveys on many of its general fund assets.

4.8 This strategy therefore is not “set in stone” and will evolve, and the time period it covers lengthened, as it is reviewed on an annual basis. Officers will also keep under review good practice amongst other local authorities once other capital strategies start to be published in February 2019.

Chart 4.1: The key drivers for capital investment



Definition of capital expenditure

4.9 Capital expenditure is strictly defined as expenditure on the creation or enhancement of assets. The glossary in section 8 defines these terms.

4.10 Unless expenditure qualifies as capital it will normally be charged to the revenue budget in the period that the expenditure is incurred. If the expenditure meets the definition of capital, there may be opportunities available to finance the outlay from capital receipts or by spreading the cost over future years' revenue budgets by borrowing.

Table 4.1: The council's capital investment objectives

People live well	Great neighbourhoods, housing & environment	Inclusive economy	Managing the Council's assets	Transforming services and delivering new income/savings
Capital expenditure plans can contribute to this corporate priority by: • Supporting people in to feel safe and welcomed • Providing means for people to lead healthy, connected, fulfilling lives • Ensuring there is a range of cultural, leisure and social opportunities and activities for all	Capital expenditure plans can contribute to this corporate priority by: • Building and maintaining a range of affordable, social, and private housing • Tackling homelessness and rough sleeping • Continuing with the sensitive regeneration of the city that retains its unique character and meets local needs	Capital expenditure plans can contribute to this corporate priority by: • Mobilising investment that promotes a growing, diverse, innovative and resilient economy	The council takes decisions based on a full understanding of the evidence and risks. Capital expenditure plans need to include spending on existing assets in order to: • Maintain or improve the physical condition of assets owned by the City • Comply with health & safety and other regulatory requirements • Ensure assets are "fit-for-purpose" • Protect the capital value of the assets and to avoid incurring significant future costs	The Council aims to be financially self-sufficient, to ensure the long-term sustainability of service delivery. The council will also adopt commercial approaches where appropriate. Capital expenditure plans can contribute to the council's mission by investing capital in assets that provide new net income streams and/or generate savings in the revenue budget.
The capital strategy includes: • A new CCTV system • Expansion of tennis in parks • New cycle / path ways • Disabled Facilities Grants • Improvements to parks, open spaces, play areas and football pitches • The ambition to provide new leisure & community facilities at Mile Cross • The ambition to significantly enhance the ability of the Halls to deliver cultural events • The ambition to deliver options for temporary accommodation for the homeless	The capital strategy includes: • New social housing at Goldsmith Street • The purchase of new social housing at Northumberland Street and at Rayne Park • Norwich Regeneration Ltd building homes for sale and for private rent at Rayne Park • The ambition for NRL to build new homes on other brownfield sites owned by the City Council	The capital strategy includes: • The commercial property investment fund (this fund can be used to contribute to this priority when investment is within the City Council's boundaries). The ambition to: • regenerate the Airport Industrial Estate • develop the rear of City Hall to possibly include a new hotel or offices	The capital strategy includes the replacement of: • Grounds maintenance equipment • Earlham cemetery railings • Eaton Park pathways • Heating systems, plant & equipment at Riverside Leisure Centre The capital strategy also includes upgrades to: • HRA homes • City Hall • Community Centres	The capital strategy includes: • Investment in the Fit for the Future transformation programme – ICT, digitalisation and telephony • The commercial property investment fund

Asset management planning

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

4.12 The council holds a significant and very diverse asset portfolio comprising some 896 assets held by the General Fund and 15,206 held by the HRA. Table 5.2 shows that Norwich a very high number of general fund and HRA assets compared to similar district councils within the CIPFA comparator group, both in terms of actual numbers and in relative terms given the size of this council (as measured by the general fund net revenue expenditure for 2017/18).

Table 4.2: Comparative data including 2017/18 expenditure (figures in £000s)

Comparison of Norwich City Council property assets with similar district councils								
District	**Norwich**	**Exeter**	**Oxford**	**Ipswich**	**Guildford**	**Colchester**	**Newark & Sherwood**	**Basildon**
Population	**140,400**	128,900	154,600	138,500	147,800	190,100	121,000	184,500
GF net revenue expenditure	**14,829**	11,068	23,578	19,790	11,713	18,464	14,175	24,140
GF Cap Exp	**19,222**	8,385	18,811	69,157	13,944	9,500	11,300	9,801
No of GF Property Assets	**896**	478	704	tbc	623	280	321	419
No of HRA Dwellings	**14,807**	4,906	7,715	7,919	5,214	5,945	5,420	10,810
HRA Cap Exp	**28,636**	4,601	18,899	10,587	9,264	7,500	15,428	14,427
HRA Cap Exp per dwelling	**2**	1	2	1	2	1	3	1

4.13 In overall terms the council's land and property holdings cost the council some £26m per annum and bring in a yearly income of £79m. This is the direct expenditure involved and does not include the client side or service management costs involved in holding and managing the property. The value of the council's land and property assets as at the end of 2017/18 was £978m.

4.14 The key asset classes are shown in table 4.4, along with the approximate number of assets held, the impact of holding these assets on the revenue budget in 2017/18, and the capital expenditure costs incurred over the three year period 2015/16 to 2017/18.

Table 4.3: The direct costs and income of holding the council's assets

	General Fund £000	HRA £000
Repairs and maintenance	1,185	10,505
Grounds maintenance	2,097	570
Other running costs (utilities, insurance, Business Rates)	3,519	5,751
NPSN management costs	1,142	1,378
Gross holding costs	**7,943**	**18,204**
Rental and other income	-11,575	-67,979
Net income generated in 2017/18	**-3,632**	**-49,775**
Average capital cost per annum	3,672	28,173

Chart 4.2: the asset values of the council's land and property as at 31/03/18

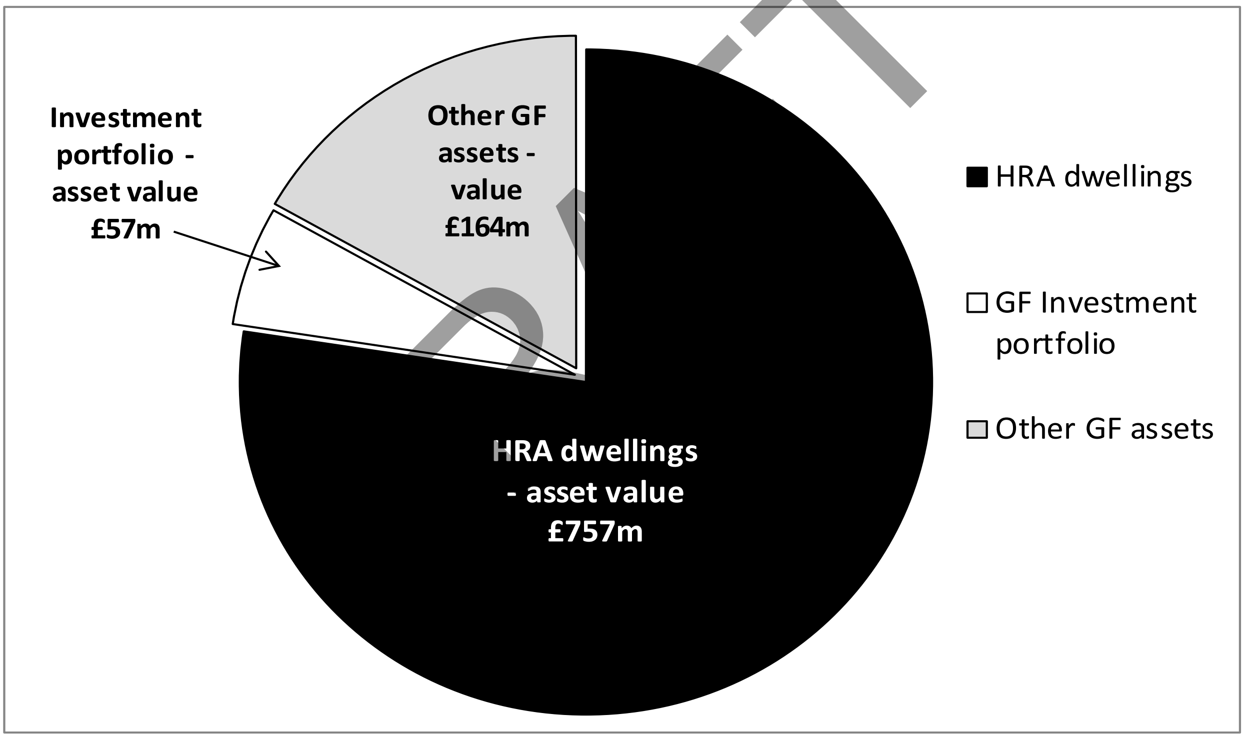


Table 4.4: the council's key asset classes

Asset class	No of assets	Revenue costs / income 2017/18	Capital costs
HRA property	15,026	Gross cost £18.2m, gross income £68.0, **net income £49.8m**	£36.8m 15/16, £24.4m 16/17, & £20.3m in 17/18
Investment property	430	Gross cost £1.2m, gross income £3.4m, **net income £2.2m**	£0.3m 15/16, £0.03m 16/17, & £0.004m in 17/18
Car Parks	18	Gross cost £2.8m, gross income £5.9m, **net income £3.1m**	£0.3m 15/16, £0.03m 16/17, & £0.004m in 17/18
The Market	1 (190 stalls)	Gross cost £0.57m, gross income £0.74m, **net income £0.17m**	No capital expenditure undertaken
Operational Assets	7 inc City Hall	Gross cost £1.5m, gross income £0.09m, **net expenditure £1.4m**	£0.004m 15/16, £0.1m 16/17, & £0.6m in 17/18
Community Centres	15	Gross cost £0.2m, gross income £0m, **net expenditure £0.2m**	£0.07m 15/16, £0.06m 16/17, & £0.03m in 17/18
Leisure	2	Gross cost £0.5m, gross income £0.3m, **net expenditure £0.2m**	£0.09m 15/16, £0m 16/17, & £0.03m in 17/18
The Halls	1	Gross cost £0.4m, gross income £0.2m, **net expenditure £0.2m**	£0.005m 15/16, £0.13m 16/17, & £0.001m in 17/18
Heritage assets	100	Gross cost £0.3m, gross income £0.03m, **net expenditure £0.27m**	£0.09m 15/16, no expenditure in 16/17 or 17/18
Cemeteries	2	Gross cost £0.36m, gross income £0.33m, **net expenditure £0.03m**	No capital expenditure undertaken
Parks & open spaces	290	Gross cost £3m, gross income £0.5m, **net expenditure £2.5m**	£0.3m 15/16, £0.2m 16/17, & £0.3m in 17/18
IT infrastructure & software	N/A	Gross cost £0.4m, gross income £0m, **net expenditure £0.4m**	£0.2m 15/16, £0.5m 16/17, & £0.5m in 17/18

NB – The investment property 2017/18 gross rental income does not include the new commercial property acquisitions made in 2018. The gross rental income budget for investment property in 2019/20 is £5.7m.

General Fund asset management planning

4.15 The council currently does not have an up-to-date Asset Management Plan, although work has started to draw one together. In addition many of the general fund assets have not had a condition survey undertaken in the recent past. It has therefore been very difficult to assess and quantify in this strategy the need for capital investment arising from the council's current general fund land and property holdings.

4.16 The focus therefore, unlike the HRA, has been largely on using the council's limited capital resources on reactive rather than planned improvements. This can be seen in the "spiky" investment made in each asset class over the last three years with capital expenditure often increasingly being undertaken for emergency health and safety reasons rather than being planned and sustained investment.

4.17 Higher capital costs are generally incurred when the focus is on reactive instead of planned improvements. This also has an adverse impact on the council's revenue repairs and maintenance budget.

4.18 A very initial view, without having the benefit of up-to-date condition surveys for all assets held, is that approximately some £21m of backlog maintenance is required on the council's assets over the medium term. Due to constrained finances it is considered that this level of investment is unaffordable.

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

4.20 Therefore a comprehensive review of the entire general fund's land and property assets needs to be undertaken with a view to optimise the contribution property makes to the council's strategic and service objectives by identifying assets that require investment, are not financial performing, or are surplus to service needs.

Housing Revenue Account asset management planning

4.21 Unlike the general fund, recent condition surveys exist for HRA assets and the council has a good understanding of the future investment needs of the existing stock of HRA dwellings.

4.22 The council has invested £94m in the last six financial years in the HRA dwelling stock to bring key elements of the homes up to the Norwich Standard. These planned improvements have had the additional benefit of reducing the reactive repairs and maintenance revenue budget by £3m or 20%.

4.23 Housing assets are typically built with a 60 – 80 year life span in mind.

- 8.4 % of the housing portfolio is over 90 years old.
- 26% of the stock is between 70 and 90 years old.

- 5,024 properties are over 70 years old and have reached or nearing their typical maintainable lifespan.

4.24 A shift in approach is currently being considered from planned long term maintenance in the existing dwelling stock towards a strategy of remodelling existing provision, replacing existing provision, and growth in the stock held by building/purchasing new homes.

4.25 A housing strategy is currently being written which will set out the key objectives for future capital investment for the HRA.

Capital expenditure plans

4.26 The expenditure plans are of two kinds:

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

  These are the projects and programmes that are being proposed to council as part of the 2019/20 capital budget for delivery in that year (with many projects phased to be undertaken in 2020/21 as well in order to successfully complete).

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

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

Forecast 2018/19 outturn and proposed budget virement and additions

4.27 The latest forecast position as at period 9 shows the general fund capital programme likely to underspend by £45.40m and the Housing Revenue Account (HRA) capital programme by £18.56m.

4.28 In order to ensure that the council, as shareholder, holds an appropriate level of equity in Norwich Regeneration Ltd for the ongoing development of Rayne Park Section 1, a capital investment of £0.52m is proposed in this financial year (see paragraphs 5.18 to 5.32 for further information).

4.29 As the general fund Asset Investment Programme is forecast to underspend by £42.23m in this financial year it is proposed to undertake the following virement.

Table 4.5: Proposed general fund capital budget virement

Project	Current Budget £'000	Proposed Virement £'000	Proposed Budget £'000
GF Asset Investment Programme	47,228	(524)	46,704
Equity Investment - NRL	0	524	524
Total	**47,228**	**0**	**47,228**

4.30 A recent survey of the two boilers at Riverside Leisure Centre identified that they were nearing the end of their operational life; therefore initial budget plans included provision for their replacement over a five year programme. One of the boilers has subsequently failed and there is a risk of the other also failing. Given the risk to business continuity, it is proposed that the 2018/19 General Fund capital programme is increased by £156,000 to enable both boilers to be replaced in March 2019.

Project	Current Budget £'000	Proposed Increase £'000	Proposed Budget £'000
5197 Riverside Leisure Centre – Plant & Equipment	12	156	168
Total	**12**	**156**	**168**

2019/20 to 2023/24 capital programme

4.31 Within a shorter timeframe the focus of the capital strategy is towards the delivery of particular schemes within an approved budget. The focus traditionally has been an annual investment plan for the next financial year and this continues for 2019/20 although many of the projects and programmes proposed for 2019/20 will continue into 2020/21. In future years the council aims to have a five year rolling capital programme, which will provide greater certainty for delivery as well as for financial and resource planning

4.32 The table below summarises the proposed 2019/20 overall capital budget along with indicative spending plans from 2020/21 to 2023/24. Details setting out the proposed projects and programmes within the general fund and HRA are found in appendix 4 (B).

Table 4.6: General Fund and HRA capital programme

Capital Investment Objectives	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
People live well	5,749	3,221	3,243	3,528	3,445
Great neighbourhoods, housing & environment	11,542	2,100	2,050	2,050	2,050
Managing the Council's assets	27,609	31,500	26,643	25,848	21,542
Transforming services and delivering new income/savings	27,477	28,536	2,856	1,082	2,138
Capital Contingency	150	150	150	150	150
Total Capital Programme	**72,528**	**65,507**	**34,942**	**32,658**	**29,325**
General Fund Total	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**
HRA Total	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**

4.33 In 2019/20 the capital programme will deliver the following key outcomes:

General Fund:

- £25m of additional investment in commercial property, generating at least £500k of new net rental income to help finance general fund services
- Over £1.5m on improvements for cyclists and other access improvements
- £1.45m to improve private homes for older or disabled residents to enable them to continue living in their own home
- £1.42m to demolish and decontaminate the Mile Cross former depot site

Housing Revenue Account:

- Meeting housing need - delivering new homes - 31 new homes at Rayne Park and 6 new homes at Bullard Road
- Maintaining and improving condition of existing housing – £23.4m *NPS to provide detail/quantity*
- Improving the use and management of the existing housing stock - £1m *NPS to provide detail/quantity*
- Improving neighbourhoods - £1.3m *NPS to provide detail/quantity*

Capital ambition plan

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

4.35 These schemes will all need to follow the principles as set out in this Capital Strategy and full business cases will need to be submitted and approved before the schemes are recommended for inclusion in the capital budget.

4.36 The ambition plan is under development, although certain projects are at a more advanced stage of commissioning than others (see 4.38). The further development of the ambition plan will depend on the production and agreement of:

- A general fund asset management strategy,
- A Housing Strategy, which is currently being developed, as many of the council's ambitions for capital investment include the remodelling, replacing and growth of HRA social housing stock.

4.37 The future intention will be to articulate the capital ambition plan over a ten year period in terms of achievement of priorities, intended outcomes for stakeholders, and intended timescales. The council will also ensure that there is clarity on the level of affordability and proportionality, as the ambition plan will require significant future borrowing by the council.

4.38 Whilst the ambition plan is not shared in this year's budget report because of the further work needed to it, (in terms of it being a phased, costed, and financed long-term plan), the projects and programmes being assessed for inclusion in the plan primarily address the following key priorities:

<u>People Live Well:</u>

- As well as supporting people's physical health, physical activity of all sorts also contributes to wider wellbeing. The council, with potential partners at Sports England, the CCG (Clinical Commissioning Group), the NHS and Norfolk County Council, is currently working on the production of a full business case analysing the feasibility of providing new leisure and community facilities at the former Mile Cross depot site. This capital ambition project will also support wider social aims, such as community cohesion, employability and combatting social isolation.

- Early work is being undertaken on the possible options available for improving the provision of temporary accommodation for the homeless.

<u>Inclusive economy:</u>

- The council intends to develop under-used land and brown-field sites held by the council to help regenerate the city economically, as well as socially, and in terms of its environment. As an example, officers are currently developing potential options for the development of land at the rear of city hall, at Norwich Airport Industrial Estate, and for enhancing the facilities provided to the Livestock Market.

Meeting housing need and delivering new homes:

- There is a shortage of housing in the city and the council intends to invest in the development of new housing. Whilst the strategy for the HRA to build new affordable housing is at its preliminary conceptual stage, options for developing new homes via the council's wholly owned subsidiary company, Norwich Regeneration Limited, are more advanced. The council's ambition plan and the company's Business Plan include housing development proposals, on either company or council owned land, at Rayne Park (sections 2 to 4), threescore phase 3, the Mile Cross depot site, and in Ber Street and Argyll Street. These schemes will deliver some 587 new homes (of which 180 would be affordable homes).

Maintaining and improving the condition of existing HRA housing:

- The council is the largest provider of social housing in the city and ensuring that the housing stock is safe and well-maintained is the biggest contribution the council can make to addressing housing need in the city. As stated elsewhere in this budget report, the council is currently developing a housing strategy which will include a longer-term plan for the maintenance and regeneration of HRA housing and estates.

Improving the quality and safety of private sector housing:

- As a private landlord, the council's company, Norwich Regeneration Limited, aims to be an exemplar of good private landlord practice, by ensuring that properties built for private sector rental are of good quality. As well as benefitting those tenants directly, it is hoped that by so doing, this will influence other private landlords to follow this example in order to compete effectively. The company is developing a Business Case for council approval as shareholder to buy as well as build homes for private sector rental.

4.39 Some projects in the capital ambition plan are more advanced than others in terms of their commissioning. It is likely that the following schemes will seek council approval for inclusion into the capital programme during the course of this financial year, subject to viable business cases. The total costs at this stage are still very preliminary:

- Mile Cross depot redevelopment for housing and a new leisure / community facility (£72m).
- Rayne Park (sections 2 to 4) housing development (£19m).
- Threescore phase 3 housing development (£18m).
- Ber Street and Argyle Street housing development (£7m).
- Residential conversion and purchase of homes to let (£2.5m).
- The ambition to deliver options for temporary accommodation for the homeless (£2m).
- Enhancement of facilities provided at the Livestock Market (£1m).

4.40 The financial consequences arising if these capital projects are approved have been taken into account in the council's financial plans in the following manner:

- The HRA Business Plan does not include these projects, as explained in paragraph 3.21. However a financial viability assessment of their impact on the HRA Business Plan demonstrates that their inclusion within the HRA capital programme would extend the period in which the HRA borrowing could be repaid, from 25 years to 27 years. This shows that the Business Plan would remain sustainable over the 60 years planning period.

- The cost of schemes that are likely to be undertaken by the council's company, Norwich Regeneration Limited, and which require the company to seek a loan and an equity share from the council, have been taken into account in (a) the proposed loan facility to be made available to NRL (table 5.1) and (b) the proposed equity investment into NRL (table 5.2).

- The borrowing that the council may need to undertake to finance the projects has been included in the capital financing requirement, operational boundary for external debt, and authorised limit for external debt calculations, as set out in the Treasury Management Strategy (section 6).

- No additional financing costs (interest or MRP costs) have been included in the general fund revenue budget as in order to be financial viable and receive council approval these schemes must <u>at least</u> be cost neutral to the revenue budget, in other words, each scheme must generate new income that will at the very least cover the financing costs of the project.

- Many of the projects could generate additional revenue income for the council, particularly those that will be undertaken by Norwich Regeneration Limited. However the general fund revenue budget has prudently not anticipated any additional income at this stage (see paragraphs 2.38 and 2.39).

Funding the capital strategy

4.41 The availability of funding plays a key part in the size and content of the capital programme. The impact of national cuts in grant funding has significantly reduced the level of government support for capital investment since 2010 and the council must now rely more on its own funding, and levering in other sources of external funding where this is possible.

4.42 The sources of funding available for capital investment by both the general fund and HRA and the proposed strategy for their use is found in appendix 4 (C). It needs to be emphasised that the majority of these funding sources can <u>only</u> be used to fund capital expenditure and <u>not</u> the day-to-day costs of providing services.

Proposed funding of the general fund capital programme

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

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

4.44 In the past, capital receipts have been the main funding source for the general fund capital programme. However, known receipts and intended sales are reducing over time, and at the time of writing this report, no further receipts are anticipated after 2019/20.

4.45 Graph 4.7 shows all known capital receipts and revenue budget contributions anticipated over the next 5 years along with the current known expenditure requirements (including setting aside some £2.2m for known potential future capital liabilities). Although this indicates a remaining capital receipt balance of £3.9m in 2023/24, capital receipts rely upon the completion of asset sales and the rate at which cash equity may be returned from NRL is dependent upon the sales of new homes, neither of which can be guaranteed. Furthermore, additional expenditure requirements may arise that generate no income and must therefore be funded from capital receipts or revenue budget contributions.

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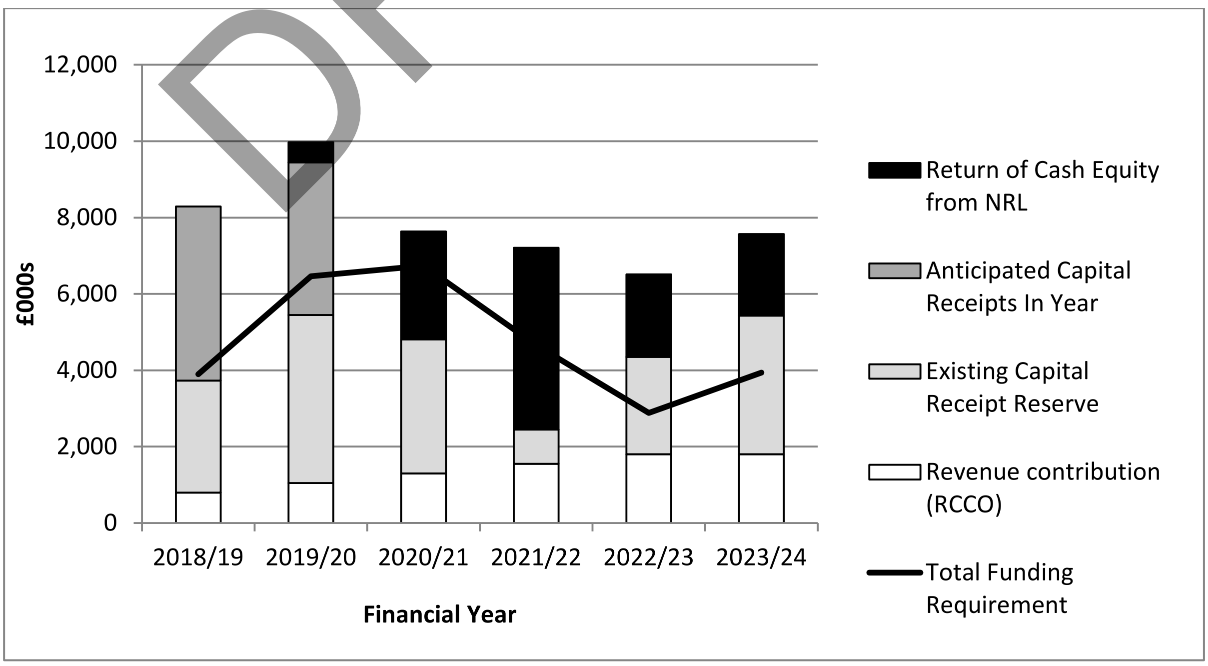
Graph 4.7: General Fund Capital Receipts, Revenue Contributions and Funding Requirements



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

4.47 The consequential impact of a reducing level of capital receipts is that a “cap” or “budget envelope” has been set on the size of the capital budget that is funded from capital receipts and the general fund revenue budget. This cap is an average of £1.8m per annum over the next five years representing the amount that can be funded from known capital receipts and the planning assumptions contained with the MTFS revenue budget.

4.48 The implication of this restriction in general fund capital investment is that many maintenance needs on the council’s existing property assets cannot be currently met. Borrowing to fund this expenditure is unlikely to be an option in most cases as the majority of capital expenditure required is unlikely to generate new income streams that could cover the resultant increase in financing costs.

4.49 The continuing constraints on the availability of capital resources in the medium to long term and the direct impact on the revenue budget leaves little room for manoeuvre. As mentioned earlier in this section of the report, the council will need to critically review its asset base over the coming years with a view to retaining a sustainable level of assets to support service delivery.

4.50 Capital expenditure above the budget envelope is however being proposed for 2019/20 and future years. The majority of this expenditure is for proposed investment in the council’s company, Norwich Regeneration Limited. This is a temporary use of capital receipts as the council anticipates that its equity investment will be returned when each NRL project completes and has sold the private sector homes on the open market (see paragraphs 5.33 to 5.39).

4.51 The restrictions on investing in the council’s existing assets do not necessarily apply to its investment property portfolio. The commercial property investment strategy agreed by Cabinet in December 2018 now allows for the commercial property investment fund to be used as a funding source for capital improvements to existing stock, as well as for new acquisitions, if the investment meets the required internal net rate of return.

Table 4.8: Proposed funding of the General Fund capital programme

General Fund Capital Programme	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Capital receipts	3,963	3,712	2,474	6	1,017
Revenue budget contribution	1,050	1,300	1,550	1,800	1,800
Grant funded	3,506	1,382	1,150	1,150	1,150
Section 106	560	100	-	-	-
Greater Norwich Growth Partnership	395	206	150	-	-
Community Infrastructure Levy	1,285	1,169	1,578	2,033	1,995
Borrowing	25,000	25,000	-	-	-
Spend to save earmarked reserve	200	-	-	-	-
Total	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**

Proposed funding of the HRA capital programme

4.52 The funding of the HRA capital programme follows the funding strategy set out in Appendix 4 (C) and paragraph 3.22. In addition, £6m of the £8.4m surplus income estimated for 2019/20 is proposed to be used to fund 2019/20 capital expenditure (paragraph 3.4).

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

4.54 The general reserves currently held within the HRA (forecast at £32m for 2019/20) will be held to provide a versatile resource to support priorities identified by the forthcoming HRA Strategy, including the regeneration of existing assets and provision of new social housing.

Table 4.9: Proposed funding of the HRA capital programme

HRA capital programme funding	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Major Repairs Reserve	25,067	14,726	14,726	14,726	14,726
Capital Receipts	-	9,618	3,691	3,247	-
Retained "one for one" RTB receipts	4,420	2,015	2,000	2,000	2,000
Contributions/Grants	1,067	250	250	250	250
Revenue budget contribution	6,013	6,030	7,372	7,446	6,387
Total	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**

Proposed funding of the capital ambition plan

4.55 As stated above the capital ambition plan is at a preliminary stage of development and financing plans for each project will need to be formulated as part of the Business Case for approval by cabinet and council. However that said, the underlying assumption, certainly for the general fund projects, is that the majority of them will require external borrowing, and therefore must generate new income to cover at least the financing costs of the borrowing, or will be funded off the council's balance sheet through alternative delivery routes.

Alternative delivery routes

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

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

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

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

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

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

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Delivering the capital strategy

Governance

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

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

4.58 The capital programme is approved by full council as part of its annual budget report which sets out the funding of the capital programme, the schemes being proposed and how they contribute to the achievement of the Council's priorities, any consequential revenue budget implications, and information on the affordability, proportionality, and risk of the proposals.

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

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

4.61 The monitoring of expenditure against the approved budget, and the forecasting of the year-end outturn, is coordinated by LGSS Finance and reported to Cabinet every two months as part of the overall corporate budget monitoring process. In 2019/20 it is intended to report additional management information, alongside the financial figures, to show the progress being achieved on key and/or large capital projects.

Business Planning Process

Table 4.10: The council's business planning process

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

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

4.63 Recommendations are made from this group to corporate leadership team and the draft proposals are then set out in the emerging budget report considered by Cabinet annually in December and approved by full Council in February.

Commissioning, appraisal, and programme/project management

4.64 The increased scale of capital investment proposed in the ambition plan coupled with the financial restrictions on capital expenditure in the general fund require a step change in the quality of commissioning and project management and delivery.

4.65 As part of Norwich City Council's new approach to capital investment, officers are developing an approach to include:

- An evaluation and scoring mechanism to assist the prioritisation of projects submitted for inclusion within the capital programme.

- A requirement that all capital programmes and projects will be subject to comprehensive but proportionate appraisal (as part of a broader gateway approval system).

- Clear separation between those who prepare Business Cases within the council and those who quality assurance them.

- The use of the government's 5 case business model, based on HM Treasury Green Book Guidance on Better Business Cases, for large, crosscutting, or complex projects. As a rule of thumb these will generally be projects where investment is needed of £1m or over. This approach will enable the council to make sound investment decisions based on a consideration of the following five tests:

    - Is it needed? (Strategic Case)
    - Is it value for money? (Economic Case)
    - Is it viable? (Commercial Case)
    - Is it affordable? (Financial Case)
    - Is it achievable? (Management Case)

- The need for large complex investments to obtain corporate approval via Business Cases at key commitment points (gateways) to include:
    - Strategic Outline Case – to establish initial viability based on a defined Scope
    - Outline Business Case – to establish viability based on high level plans and delivery assumptions
    - Full Business Case – to establish viability based on detailed plans and delivery decisions
    - Business Case Reviews – to ensure at key delivery stages that the case remains valid throughout.

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

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

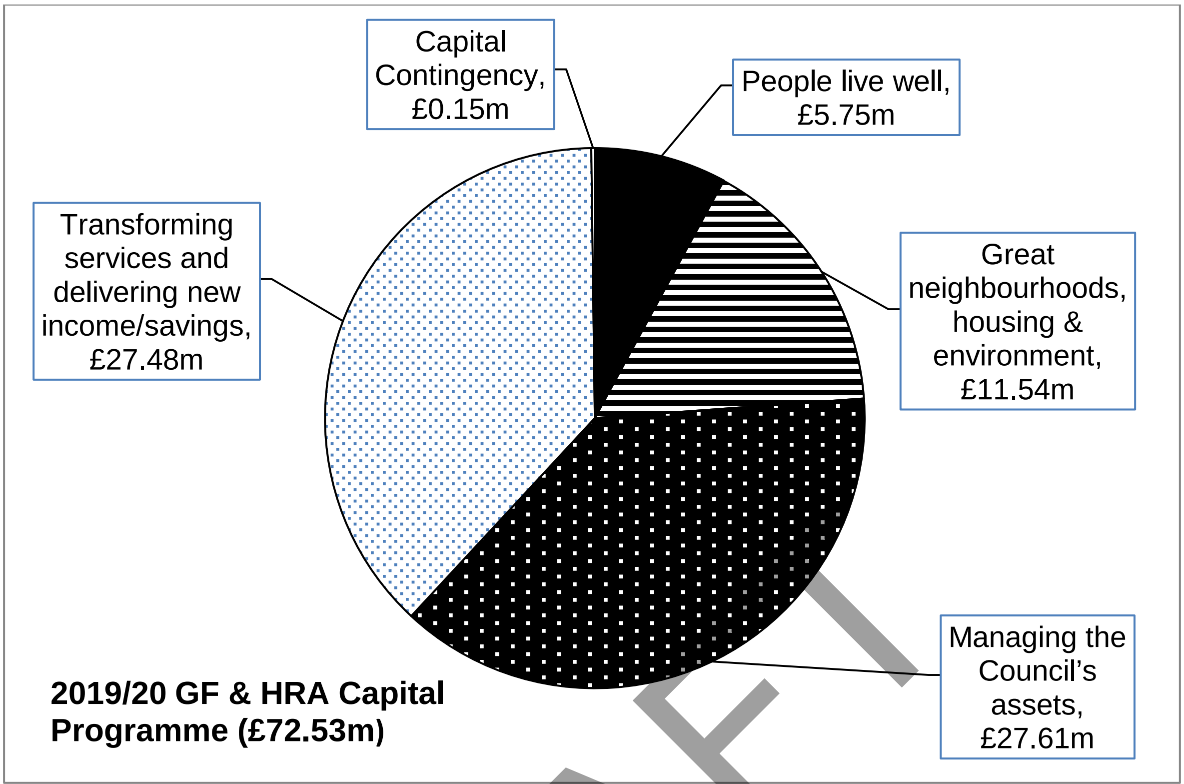
Knowledge and skills

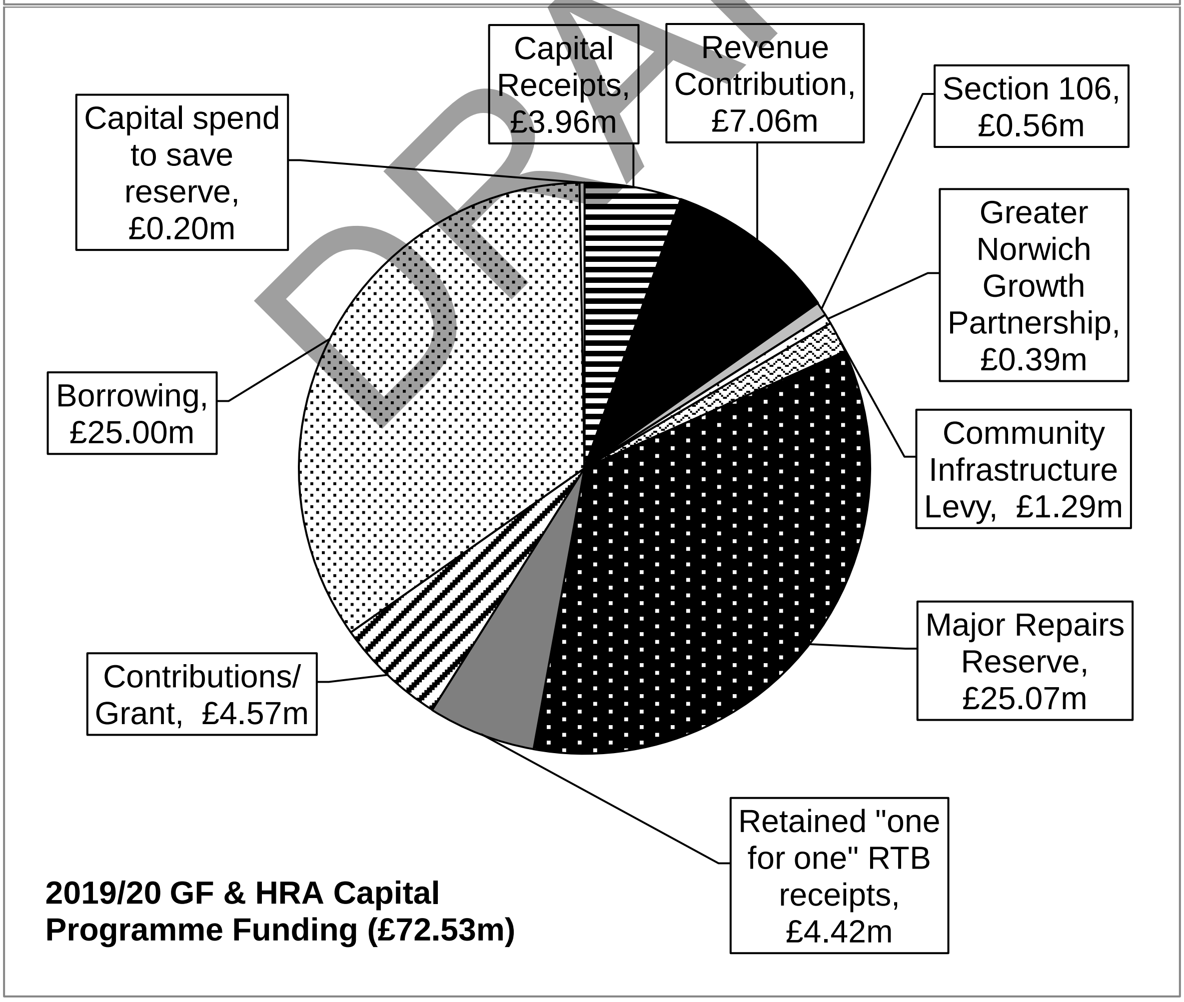
4.66 The council has professionally qualified staff, or access to such staff through its joint venture arrangements, across a range of disciplines including finance, legal, planning and property that allow for capital investment decisions to be robustly considered. These individuals follow continuous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

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

4.68 Internal and external training has and will continue to be offered to members to ensure they have up-to-date knowledge and expertise to understand and challenge capital investment decisions.

Appendix 4 (A): Proposed GF and HRA capital programme 2019/20





Appendix 4 (B): Proposed GF and HRA capital projects 2019/20 to 2023/24

Project	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
People live well					
Castle Gardens - Restoration and improvement works.	212	-	-	-	-
CCTV - New CCTV system for public spaces and tower blocks.	24	0	0	0	0
CIL George Fox Way - Wooded Area. Hedgerow and access improvements	3	0	0	0	0
CIL Mile Cross Pedestrian & Cycle Links - Enhancements Norman Centre / Mile Cross School	20	0	0	0	0
CIL Neighbourhood - Future Programme	0	150	200	200	225
CIL Netherwood Green - Improve access & biodiversity. Reduce ASB.	29	0	0	0	0
CIL Strategic Pool Contribution	1,198	1,019	1,378	1,833	1,770
CIL West Earlham Woods - Community led project to improve management.	5	0	0	0	0
DfT CCAG Safety Schemes - Earlham Road & Fiveways Roundabout.	1,360	0	0	0	0
Earlham Park Toilets - Replacement and provision of disabled facilities.	77	0	0	0	0
Eaton Park Path Replacement - Replace worn & uneven paths.	45	45	45	45	0
GNGP Earlham Millennium Green Phase 3 - Path and other access improvements.	18	0	0	0	0
GNGP Football Pitch Improvements	40	40	35	0	0
GNGP Riverside Walk - Improvements to allow access for all and better wayfinding.	180	0	0	0	0

GNGP Wensum Park Play Area - Redevelopment including new play equipment.	0	0	115	0	0
GNGP Yare - Wensum Green Infrastructure - Improved links for walking, cycling & wildlife.	75	95	0	0	0
Home Improvement Agency Works - Provision of Disabled Facilities Grants etc.	1,450	1,450	1,450	1,450	1,450
Ketts Heights - Restoration of structures. Improved access.	105	0	0	0	0
Norwich Parks Tennis expansion - Grass court replacement. Hard court upgrade.	435	0	0	0	0
Riverside Walk Adj NCFC - Construction of new cycle/pedestrian route.	0	302	0	0	0
S106 Bowthorpe Southern Park - Install new gates and replace fencing.	5	0	0	0	0
S106 Bowthorpe to Clover Hill Access - Improve pedestrian access from Rayne Park	69	0	0	0	0
S106 Bunkers Hill - Entrance & path improvements. Tree works.	59	0	0	0	0
S106 St George's open space and play improvements - Redevelopment.	88	100	0	0	0
S106 St Stephens Towers Public Realm - City Wall and pedestrian route works.	70	0	0	0	0
S106 Wensum Park Play Area - Redevelopment including new play equipment.	62	0	0	0	0
UEA to Eaton boardwalk - Extension of existing boardwalk.	90	0	0	0	0
Wensum Park Stone Wall - Replacement of dry stone walls.	20	20	20	0	0
GF Total - People live well	**5,739**	**3,221**	**3,243**	**3,528**	**3,445**

CCTV - New CCTV system for public spaces and tower blocks.	10	0	0	0	0
HRA Total - People live well	**10**	**0**	**0**	**0**	**0**

Great neighbourhoods, housing & environment					
Mile Cross Depot - Demolition and decontamination.	1,425	0	0	0	0
GF Total - Great neighbourhoods, housing & environment	**1,425**	**0**	**0**	**0**	**0**
Bullard Road	800	0	0	0	0
Capital Grants to Registered Providers	2,000	2,000	2,000	2,000	2,000
Northumberland Street - New Build (HRA)	299	50	0	0	0
Site formation and demolition	50	50	50	50	50
Rayne Park Section 1 - Acquisition from NRL	6,968	0	0	0	0
HRA Total - Great neighbourhoods, housing & environment	**10,117**	**2,100**	**2,050**	**2,050**	**2,050**

Managing the Council's assets					
Cemetery Gates - Refurbishment of damaged ornamental gates.	0	28	0	0	0
City Hall Heating System - Replacement of boiler plant & controls.	92	315	0	0	0
City Hall Kitchens & Toilets - Improve kitchen & toilet facilities for staff.	65	54	11	0	0
Community Centres - Electrical, heating lighting upgrades and external joinery repairs.	102	0	0	0	0
Earlham Cemetery Railings - Replacement of original railings.	0	142	142	0	0
Grounds Maintenance Equipment	170	0	0	0	0
IT BAU - Investment in IT infrastructure & telephony.	525	295	200	200	200

Motor Cycle Park - Works to protect concrete deck above public toilets & shops.	39	0	0	0	0
Non Trafficked Pedestrian Bridges - Major repairs.	33	33	33	0	0
Riverbank Stabilisation Yare & Wensum - including repairs to piling & quay headings.	33	33	33	0	0
Riverside Footpath District Lighting - Installation of replacement LED lighting.	21	21	21	0	0
Riverside Leisure Centre Plant - Replacement of heating system plant & equipment.	62	0	184	0	0
Rosary Cemetery Gate - Refurbishment of ornamental gates and surrounding railings..	0	11	0	0	0
St Andrews MSCP Roadway Lighting - Installation of replacement LED lighting.	0	30	29	29	29
Strangers Hall Stores Roof - Replacement of existing roof.	28	0	0	0	0
GF Total - Managing the Council's assets	**1,169**	**961**	**653**	**229**	**229**
Council Housing Community Upgrades	1,340	1,000	1,000	1,000	550
Council Housing Fees	710	710	710	710	710
Council Housing Heating Upgrades	3,795	4,900	3,000	3,000	3,000
Council Housing Home Upgrades	6,310	6,300	5,650	4,700	5,384
Council Housing Independent Living Upgrades	990	700	650	550	350
Council Housing Preventative Upgrades	9,710	12,929	11,431	11,310	10,099
Council Housing Sheltered Housing Regeneration	0	100	100	100	0
Council Housing Thermal Upgrades	934	1,000	1,000	800	500
Council Housing Window & Door Upgrades	2,652	2,900	2,450	3,450	720
HRA Total - Managing the Council's assets	**26,441**	**30,539**	**25,990**	**25,619**	**21,313**

Transforming services and delivering new income/savings					
Property Acquisition - Commercial property acquisition for income.	25,000	25,000	0	0	0
Equity Investment - Norwich Regeneration Ltd	2,277	3,536	2,856	1,082	2,138
IT Transformation - Digital platform development	200	0	0	0	0
GF Total - Transforming services and delivering new income/savings	**27,477**	**28,536**	**2,856**	**1,082**	**2,138**
GF Capital Contingency	**150**	**150**	**150**	**150**	**150**
Total Proposed GF Capital Programme	**35,959**	**32,869**	**6,902**	**4,989**	**5,962**
Total Proposed HRA Capital Programme	**36,568**	**32,639**	**28,040**	**27,669**	**23,363**
Total Proposed Capital Programme	**72,528**	**65,507**	**34,942**	**32,658**	**29,325**

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

Funding source	Description and proposed strategy for its use
Revenue budget	**Description:** The use of the annual revenue budget to fund capital expenditure. **General Fund strategy**: The revenue budget (along with capital receipt income) is used to fund capital projects where there is no financial return from the investment to cover the costs of borrowing. The current MTFS includes a £0.25m annual increase in this budget but the general pressures on the general fund will limit the extent to which this may be used as a source of capital funding. **HRA strategy:** The HRA revenue contribution towards capital outlay (RCCO) is the next funding source for capital expenditure after first taking into account resources available from grants, contributions, MRR, and retained one for one RTB capital receipts.
Capital receipts	**Description:** Income arising from the sale of assets. Can only be used to fund capital expenditure or offset future debt costs. **General Fund strategy**: Capital receipts are used as a corporate resource. Capital receipts income (along with the revenue budget) is used to fund capital projects where there is no financial return from the investment to cover the costs of borrowing. **HRA strategy**: Non Right-to-buy HRA capital receipts arise from the disposal of HRA property and land and may be utilised to fund all HRA capital expenditure. Due to the lack of restrictions, this resource is only utilised once alternatives funding sources have been exhausted, but prior to the use of general reserves and borrowing. **Use of capitalisation flexibilities**: Regulations around the flexible use of capital receipts allow the council to use new capital receipts to fund the revenue costs of council transformation that will generate savings in future years. This is subject to the council approving a policy on the flexible use of capital receipts. The council currently has sufficient funds in its earmarked spend-to-save reserves and therefore has no proposal to make use of these flexibilities.
Leasing	**Description:** A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset. Property, buildings and vehicles are common assets that are leased. Leasing offers a way of financing the use of assets over a period of time without actually having to buy them outright.

	Strategy for its use: Some of the assets used by the Council are financed by a lease arrangement, for example vehicles. There may be instances where leasing could offer value for money and it will remain a consideration when options are being appraised. However, given the relatively low cost of borrowing through PWLB compared to the implicit interest rates within any leased asset arrangement, it is likely to be better value for moany if the council funds the asset itself via borrowing.
Right-to-buy capital receipts	**Description:** Income arising from Right-To-Buy house sales comprising of two elements, local authority share and retained 'one for one' receipts. This funding source is only available to the HRA. **Local Authority Share:** An element of the capital receipts arising from the sale of HRA dwelling under Right-to-buy that may be retained indefinitely by the council and utilised to fund all HRA capital expenditure. **Strategy for its use**: As with other HRA capital receipts, given its flexibility, this resource is only utilised once alternatives have been exhausted, but prior to the use of general reserves and borrowing. **Retained 'One For One' Receipts:** The use of this share is limited under statute and can only be used to fund up to 30% of the overall cost of new social housing and must be utilised within 3 years of the date of retention or be returned to central government along with a punitive interest charge. **Strategy for its use**: The use of this resource is maximised where possible and rigorous monitoring is undertaken during the year to ensure the council is not at risk of having to pay the receipts to central government. Council has prioritised the funding of its own HRA capital programme in utilising these receipts, but when unable to do so the priorities are: 1. Grant to Registered Providers to develop social rented housing, or when unable to do so: 2. Grant to Registered Providers to develop affordable rented housing.
General Reserves	**Description:** General reserves can be used to fund either revenue or capital expenditure.

	General Fund strategy: The general reserve is planned to be used to help finance the revenue budget over the MTFS until the reserve reaches the prudent minimum level. There are no plans for it to be used to fund capital expenditure. **HRA strategy:** The HRA general reserve is planned to be used as necessary to finance revenue and capital budgets in line with the HRA business plan, until the reserve reaches the prudent minimum balance. Although there are no immediate plans to utilise this resource for capital funding, it may be utilised in the future in order to fund the housing capital ambition plan and to minimise borrowing costs.
Major Repairs Reserve (MRR)	**Description:** The Major Repairs Reserve is created from an annual depreciation charge to HRA revenue budgets. **Strategy for its use**: This is used annually as the first source of funding for the HRA capital upgrade programme.
Capital grants	**Description**: Sums of money given to the council to fund, either in whole or in part, specific capital projects **Strategy for their use**: the council will actively pursue grants and contributions and other innovative solutions to the funding of capital investment schemes. This funding will be utilised in the first instance if the capital projects they fund meet the city's priorities and have no revenue budget or other onerous implications. To be noted: many grant awarding organisations now give a higher funding priority to those schemes that involve working with other public sector partners.
Section 106, GNGB and CIL	**Description:** Contributions paid by developers to mitigate the impact of new development across the city. **Section 106:** Contributions may be utilised to fund capital schemes but it must be in accordance with the obligations imposed by each legal agreement. These are now diminishing as S106s have instead largely been replaced by CIL contributions. **CIL (Community Infrastructure Levy)**: 80% of CIL contributions collected are paid to the Greater Norwich Growth Board (GNGB) to fund the Infrastructure Investment Fund in accordance with the existing memorandum of understanding. Where appropriate the council submits bids which may be utilised to fund capital schemes.

	15% of CIL contributions are retained for local neighbourhood sponsored schemes and allocated to fund minor capital schemes. Contributions may provide matched funding in order to secure grant funding from central government or the local enterprise partnership.
Borrowing	**Description: Internal borrowing** is the *temporary* use of the council's cash holdings to fund capital expenditure. **External borrowing** is the process of going to an external financial institution to obtain money The council will only borrow money (either internally or externally) in cases where there is a clear financial benefit, such as a new income stream or a budget saving, that can, at the very least, fund the costs arising from the borrowing, namely interest charges & any MRP costs. The council's borrowing will be proportionate to the size of the council's balance sheet and revenue budget. Regardless of whether the capital expenditure is funded through internal or external borrowing the revenue budget will assume the latter and will make budget provision for interest charges and MRP costs (the latter for the general fund only). All executive decisions on borrowing, investment or financing, within the limits and principles agreed by Council in the annual Treasury Management Strategy, are delegated to the chief finance officer, under the council's constitution, who is required to act in accordance with CIPFA's Treasury Management Code of practice. The chief finance officer will decide whether to use internal instead of external borrowing as a temporary source of financing if at the time: (a) The council's overall cash holdings are above £17m (the minimum amount of cash deemed necessary for working capital purposes– see the Treasury Management Strategy in section 7). (b) The net return from the new income stream (or budget saving), arising from the capital expenditure, is above that which would be obtained by depositing the cash on a short-term basis in a bank or building society. (c) There is no imminent likelihood of the Bank of England base rate increasing to the extent that it would be value for money for the council to borrow to fund any existing indebtedness as measured by the capital financing requirement (the council's underlying need to borrow). External advice will be sought by the chief finance officer from the council's treasury advisers, Link Asset Services, if necessary.

5. NON FINANCIAL (COMMERCIAL) INVESTMENT STRATEGY

Context

5.1 This is a new report for 2019/20 required by changes in MHCLG's Investment Code and CIPFA's Prudential Code, as discussed in section 1.

5.2 The council invests money for three broad purposes:

1) Because it has surplus cash as a result of day-to-day activities it invests the cash to make a return. These investments are part of treasury management good practice.
2) To support corporate priorities by lending to and/or buying shares in other organisations.
3) To earn income through commercial investment.

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

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

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

Commercial property investment

5.6 Whilst the council has held commercial property for decades, it has recently been purchasing new property investments in line with cabinet approvals in July 2016 and April 2017 and within the council's approved capital expenditure budget for this investment activity.

5.7 To date, £33m of new investments have been made, generating gross initial income of £2.1m and net initial income (after taking into account the financing costs of the acquisition) of £972k (a net initial return of 2.9%).

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

5.9 The council will continue to invest prudently in commercial property and a total of £50m has been proposed in the capital budget for this investment (£25m per annum for 2019/20 and 2020/21) – these amounts are included in the capital strategy discussed in section 4.

5.10 The general fund revenue budget contains a new net income target arising from this investment of £500k per annum (for 2019/20 and 2020/21) representing a prudent 2% internal net rate of return – this amount is included in the budget and MTFS discussed in section 2.

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

Revised commercial property investment strategy

5.12 Cabinet recently approved a revised commercial property investment strategy at its meeting on 12 December 2018. The new strategy was written so that the council's rationale, investment principles, the acquisition process, and the due diligence undertaken is set out in one comprehensive document to provide a full and complete guide for council stakeholders.

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

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

Investment principles

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

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

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

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

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

The set aside of new net rental income into the earmarked reserve

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

5.20 It is estimated that this reserve will contain some £0.9m at the end of the financial year 2018/19. The reserve has been built up by transferring the new net income achieved above the MTFS income target into the reserve rather than into the general fund revenue budget

5.21 It is now proposed that 20% of future new net rental income (net income being gross income less assumed financing costs arising from external borrowing) will be credited annually to the commercial property earmarked reserve. The amount of money in the reserve will be reviewed every year as part of the budget setting process and will take into account the results of the annual portfolio review (as described in the commercial property investment strategy).

Council loan book

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

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

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

5.24 Outside of the treasury management function, where the council lends in order to manage its cash holdings, the council currently has a loan book of just over £11.6m with two borrowing organisations, Norwich Regeneration Limited (£11.5m) and the Norwich Preservation Trust (£134k).

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

Process for lending to Norwich Regeneration Limited (NRL)

5.26 Up to now, any lending to the council's wholly owned subsidiary, NRL, has been enacted on a case-by-case basis with separate reports seeking approval to lend submitted to cabinet and Council when the loan finance is required.

5.27 Given the scale and frequency of loan finance being requested by Norwich Regeneration Limited in its Business Plan (see separate item on this cabinet's agenda) it is proposed to formalise the council's lending policy and process as part of this budget report.

5.28 It is proposed that:

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

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

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

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

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

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

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

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

Future proposed lending to Norwich Regeneration Limited

5.29 The council has already made available £11.5m of loans to the company to part fund the development of 79 new homes at Rayne Park, section 1.

5.30 The council's investment in its subsidiary company contributes to the delivery of one of the key priorities in the corporate plan, namely that of "great neighbourhoods, housing and environment" through:

- Building and maintaining a range of good quality affordable and social housing.
- Developing the council's key brownfield sites.
- Improving the quality and safety of private sector housing.

5.31 The company's 2019/20 Business Plan contains proposals that would require it to seek further loan finance from the council over the next five financial years. One of the company's purposes is to generate profit through residential property development and letting.

5.32 The Company's proposals are to complete the development of Rayne Park (sections 2 to 4) and to proceed with threescore phase 3. These two developments are on land at Bowthorpe already owned by the company. The Business Plan contains further proposals for housing development on council owned land at the Mile Cross depot site, and at Ber Street and Argyll Street. The successful delivery of these developments would result in 587 new affordable homes of which 180 would be affordable and 1 commercial property for rental.

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

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

2) The council to purchase further shares in the company in order to meet State Aid capitalisation requirements. This requires that the company receives a reasonable amount of its funds from shareholders rather than all of the funding being obtained from external borrowing.

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

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

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

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

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

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

5.34 The company is currently experiencing longer build completion times by the contractor and slower house sales at Rayne Park section 1 than were anticipated in the company’s previous Business Plan. The uncertainties existing over Brexit have depressed the housing market and the company therefore currently finds itself in a difficult trading environment. In addition to the market conditions, the recently appointed Managing Director has reviewed the company’s internal operational arrangements to-date and has proposals to enhance the delivery of the company’s objectives for future sections and projects. Further details are given in the company’s 2019/20 Business Plan, which is a separate report on this meeting’s agenda.

5.35 The council will therefore keep future lending to the company under review and, as proposed in 5.24 (5) above, the final decision to lend to the company will be dependent on the production of a full robust Business Case for the proposal.

Table 5.1: proposed loan facility to be made available for lending to NRL

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000	2023/24 £000
Existing loan	11,500					
New lending	981	10,926	16,625	9,790	4,525	1,730
Loan repayments	0	(9,304)	(10,614)	(11,855)	(7,640)	(1,730)
Cumulative amount outstanding	12,481	14,103	20,114	18,049	14,934	14,934

5.36 In terms of budget setting purposes, it is proposed that a total loan facility (new lending) for the company is agreed as per table 5.1 totalling £56m over the next six years. These are the maximum amounts requested by the company and assume that the loan finance is drawn down on a project by project basis rather than by looking at the bottom line cash position of the company.

5.37 The table also shows estimated repayments from the company to give the forecast cumulative total of borrowing remaining to be repaid at the end of each year. These repayments are dependent on the company being able to sell the affordable homes to the HRA and a proportion of the private sector homes on the open market. If the sales occur as planned then the total risk exposure would be the cumulative amount of loan outstanding at the end of each year which would be secured on the assets (private sector rental homes) of the company.

5.38 The financial impact to the council of this proposed loan book is given in:
- Paragraphs 2.39 and 2.39: detailing the net impact on the general fund revenue budget.
- Section 7 setting out financial indices showing the affordability and proportionality of the lending being proposed.

Equity investments (Shareholdings)

5.39 Equity investments should properly be considered under the Treasury Management Strategy as technically they are financial, as opposed to non-financial, investments. The revised Investment Code has however blurred the distinctions somewhat and it seems appropriate to consider the council's equity investments in this section of the budget report.

5.40 Until 2016 the council only owned shares in Norwich Airport Limited and in Legislator Companies 1656 and 1657 that were purchased in March 2004 as part of the Public Private Partnership Agreement for Norwich airport. These shares are still held by the council, although discussions are currently underway with Norwich Airport Limited and Norfolk County Council (which also holds shares in these companies) on the future way forward when the Public Private Partnership Agreement comes to an agreed end on 1 March 2019.

5.41 In October 2016 the council disposed of land at Bowthorpe to its wholly owned subsidiary, Norwich Regeneration Limited, in exchange for 22,000 £100 shares in the company.

5.42 The company's 2019/20 Business Plan contains proposals seeking further equity investment, both in terms of vesting additional council land into the company in exchange for shares and by the council purchasing additional shares.

5.43 The capital strategy in section 4 contains budget proposals for the general fund to purchase further shares in the company totalling £12.4m. For ease of reference, those proposals are shown in table 5.2.

Table 5.2: proposed council equity investment in NRL (excluding land)

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000	2023/24 £000
Equity investment	524	2,277	3,536	2,856	1,082	2,138
Equity returned	0	-524	-2,826	-4,761	-2,164	-2,138
Cumulative amount outstanding	524	2,277	2,987	1,082	0	0

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

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

8. CHIEF FINANCE OFFICER'S STATEMENT

Statutory requirements

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

8.2 In addition, and as discussed in section 1 of this report, CIPFA's recommended good practice is that chief finance officers refer to the range of financial resilience indicators recently produced by CIPFA in their section 25 statements for 2019/20 before this becomes a requirement under the new CIPFA Financial Management Code.

8.3 Another new requirement is that under CIPFA's revised Prudential Code the Chief Finance Officer must report on the deliverability, affordability, & the risks associated with the capital strategy.

Key risks and the prudent minimum balance of general reserves

8.4 In fulfilling the statutory responsibilities the Chief Finance Officer has set out in appendix 7 (A) what she sees as the key risks associated with the proposed budget, so that council is clear on these risks and the proposed mitigation factors when making its budget decision.

8.5 A key mitigation for the risks mentioned in appendix 7 (A) is the Chief Finance Officer's estimate of a prudent level of reserves. The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

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

8.7 The risk analysis shows that a prudent minimum level of reserves for 2019/20 will be of the order of £4.332m for the General Fund and £5.837m for the Housing Revenue Account. Further detail of the calculations is available on request. Further comfort is taken from the record council has in managing and delivering to budget in-year and that the budget proposals contain both corporate contingency budgets and specific earmarked reserves for the council's commercial activities..

Section 25 Statement

8.8 Allowing for the uncertainty and keys risks set out in appendix 7 (A), it is the opinion of the Chief Finance Officer that the budget has been prepared on realistic assumptions and that it represents a robust budget which provides for an adequate level of reserves.

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

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

CIPFA's Financial Resilience Indicators

8.11 The following chart shows the financial resilience indicators as compiled for Norwich City Council by CIPFA. The indicators are based on published general fund outturn figures for 2017/18 and the three prior financial years. The indices compare the council to all English district councils in determining a "score" and whether the council is at higher or lower risk. As these indices will be published by CIPFA, full information on them has been given in this budget report in order to guide council on their meaning.

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

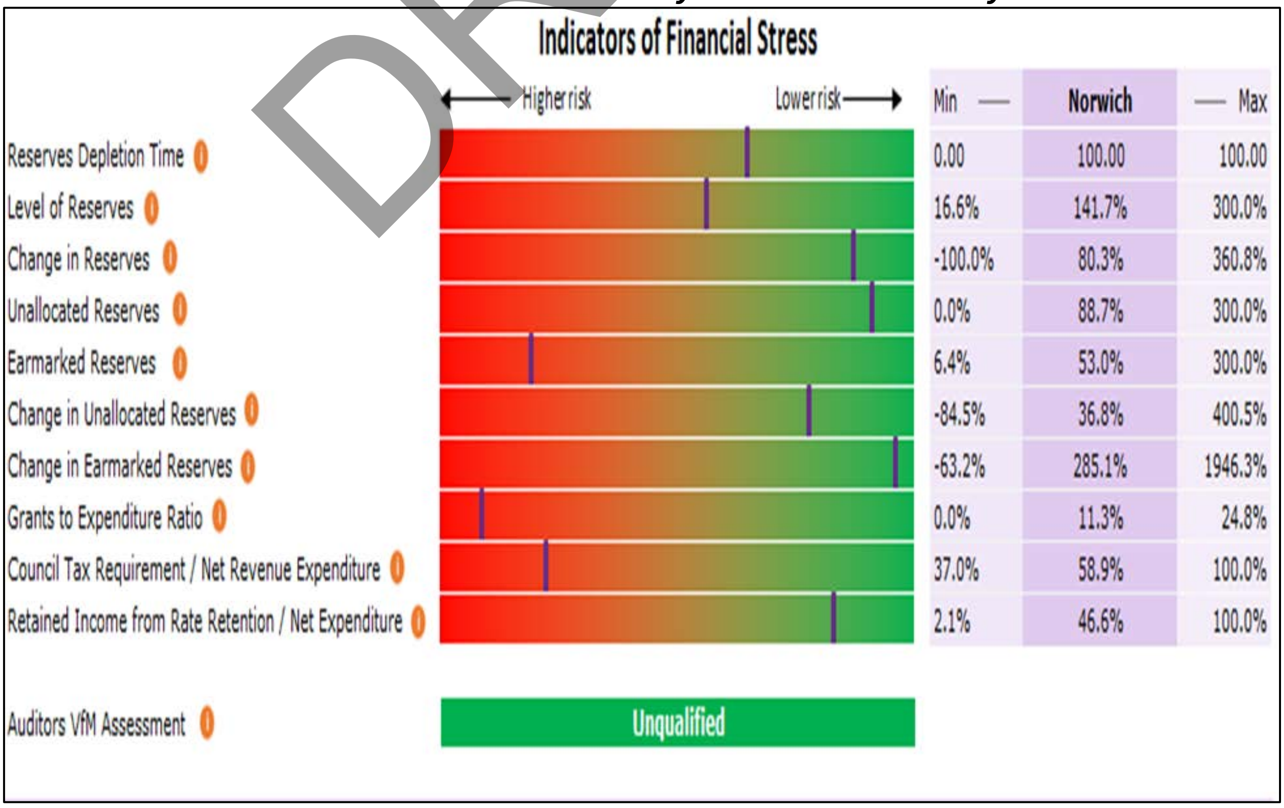


Table 8.1: Description of each index and what it means

Indicator	Description	What it means
1. Reserves depletion	This is the ratio of the current level of reserves and the average change in reserves in each of the last three years	A score of 100% has been given to each council that has increased its overall reserves over the 3 year period i.e. 2014/15 to 2017/8. 83% of English district councils including this council have increased rather than depleted their overall reserves. CIPFA view this as beneficial and a sign of lower financial risk.
2. Level of reserves	The ratio of the council's 2017/18 total useable reserves (i.e. general and earmarked) to the council's net revenue expenditure	Norwich sits in the middle of the comparator group with CIPFA "capping" the score at 300% as some district councils have very large reserves as compared to their net revenue expenditure.
3. Change in reserves	This indicator shows the average percentage change in useable reserves over the 4 year period	CIPFA deem the council as lower risk as up to 2017/18 it has been increasing both unallocated and general reserves. This trend is forecast to continue in 2018/19.
4. Unallocated reserves	This indicator is calculated as the total percentage of unallocated (i.e. general) reserves, in 2017/18, to net revenue expenditure	CIPFA assess the council as low risk. The council does better in this score compared to 2 above because in 2017/18 most of the council's reserves were held as general rather than earmarked reserves
5. Earmarked reserves	This indicator is calculated as the total percentage of earmarked reserves, in 2017/18, to net revenue expenditure	CIPFA view the council as being at high risk as the council has generally held its reserves as unallocated rather than earmarked reserves.
6. Change in unallocated and earmarked reserves	This indicator shows the average percentage change in these reserves over the 4 year period	The council is assessed to be at lower risk on both indices. Over the time period the council both increased its general reserves as well as establishing, at the end of 2017/18, the earmarked spend to save reserve. The practice of earmarking reserves continued in 2017/18 with the establishment of the commercial property and NRL reserves.

7. Revenue Support Grant to expenditure ratio	This indicator shows the proportion of net revenue expenditure funded by RSG	The council has a figure of 11% for this, which is higher risk compared to others. However this council has already built the reduction and loss of RSG into its MTFS.
8. Council tax requirement	Shows the percentage of net revenue expenditure funded by council tax	The figure for the council is 59% , which is high risk compared to other district councils. CIPFA has assumed that due to the comparatively low dependence on council tax there is a high grant dependency. In essence, this repeats the risk shown in the grant to expenditure ratio.
9. Retained income from rate retention	Shows the percentage of net revenue expenditure funded by business rate retention	Norwich shows a figure of 47% for this, which is low risk compared to other district councils. CIPFA have assumed that it is less risky to have a higher rate of funding from business rates due to the ability to generate income from growth in the tax base.

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

- Many of the indicators measure the same things in different ways. For example, there are seven indicators dealing with reserves, many of which require interpretation to understand properly.

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

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

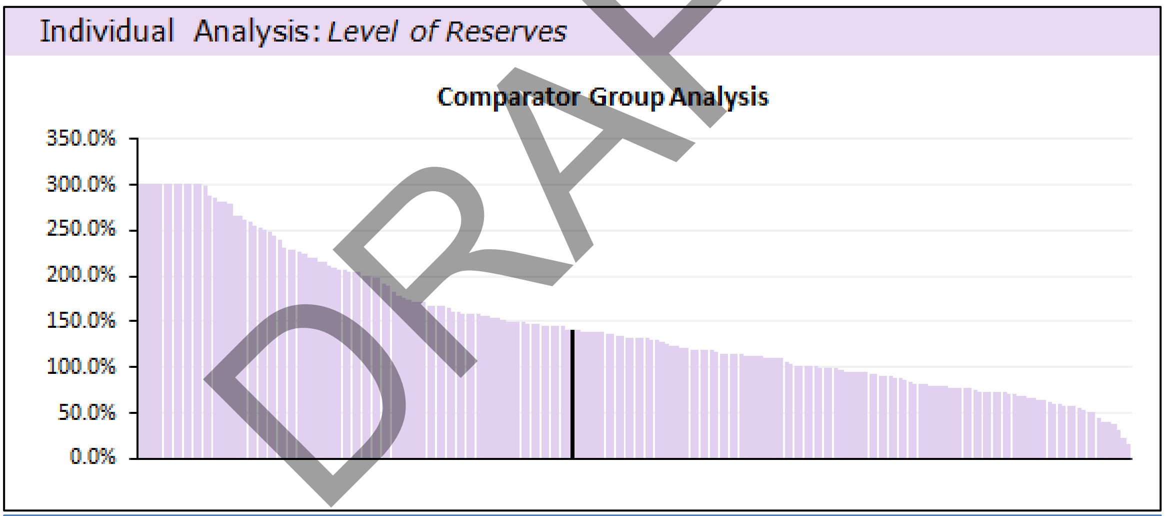
8.13 CIPFA uses "net revenue expenditure" as the basis of the percentage calculation for many of the indices. As mentioned elsewhere in this report, net revenue expenditure comprises the budget amount funded by council tax, retained business rates, and revenue support grant. It is used by CIPFA and MHCLG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

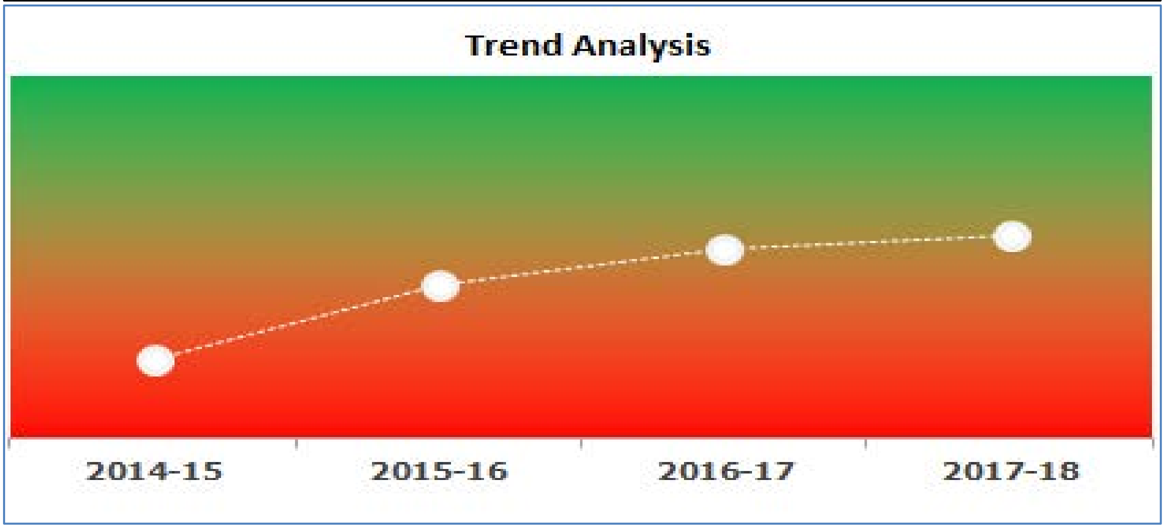
8.14 Whilst net revenue expenditure is a useful figure as it is readily available from the statement of accounts for all council types and sizes, it does distort the analysis undertaken by CIPFA. As an example, in 2017/18 Revenue Support Grant was 11% of net revenue expenditure, in terms of the gross amount of income the general fund received it was 3% - a low percentage of the total resources and therefore not necessarily an indicator showing high risk.

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

8.16 The charts below show the position of Norwich, given as a thick black line, in terms of the total general fund reserves held at the end of 2017/18 as compared to all English district councils and how the reserves grew over the four year period CIPFA have analysed.

Charts 8.2 & 8.3: – level of reserves for Norwich City Council as at end of 2017/18 (from CIPFA's financial resilience model)





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

RISK	DESCRIPTION	MITIGATION PROPOSED
Medium term financial uncertainty	Given the lack of clarity on future local government funding post March 2020, as described in section 1 of this report, it has not been possible to undertake meaningful and robust medium term financial planning for the financial year 2020/21 and onwards.	This uncertainty over the future places greater importance on the need to maintain a prudent minimum balance of reserves, both for the general fund and the HRA, to manage any changes in future public sector funding. The proposals contained within this budget report maintain general reserves above the prudent minimum balance until 2024/25 (for the General Fund) and for the whole medium term planning period for the HRA. Prudent estimates have been taken into account in the MTFS of grant funding which is at risk of being reduced or removed, for example New Homes Bonus, and Housing Benefit / Council Tax Support Admin. Grant.
Scale of general fund budget savings required over the medium term	The proposals show a need, based on current financial planning assumptions, for the council to achieve gross savings totalling £10.3m over the 4 year period 2020/21 to 2023/24. This is the second year where the council has not put forward proposals to deliver, in totality, the savings target contained in the MTFS. Instead it has benefited from increasing income from council tax & business rates and one-off financing sources to balance the budget. Current savings and income generation plans, including the fit for the future programme, are thought at this initial stage, to be able to cover 30% to 40% of the medium term "budget gap".	The council will plan to implement these savings in a controlled manner and by taking a strategic and medium-term rather than a short-term approach. It can do this because it has built-up significant general fund reserves in recent years, both purposefully and through in-year underspending of the approved budget. However difficult decisions will be required and it is almost inevitable that this council will need to cut or reduce services from 2020/21 onwards and move towards the provision of core statutory services only. The CFO takes comfort in the fact that the council has had a successful track record in setting a balanced budget and achieving the required budget savings since public sector austerity commenced in 2011/12. In addition, and through its underspending of the approved budget over the last two financial years, the council has the funding needed in the spend-to-save earmarked reserve to implement the further transformational changes that will be needed to achieve the savings required.

RISK	DESCRIPTION	MITIGATION PROPOSED
Brexit and the potential impact on the economy	At the moment there is uncertainty surrounding the manner in which the UK may leave the European Union. The key risks to this council would arise if Brexit triggers a recession in the national economy. This scenario could have adverse impacts on the council's income budgets ranging from council tax payments, Business Rates, car parking fees, and rental income from commercial property investments. In addition, any long term decrease in private house sales and prices would be financially challenging for the council's wholly owned subsidiary, Norwich Regeneration Limited, and to the financial viability and hence successful delivery of many of the projects contained within the council's capital ambition plan. The other key risk of Brexit is inflation on construction being higher than RPI due to labour shortages and/or the importing of building materials from the EU.	The potential issues surrounding Brexit, and in particular a "no-deal" Brexit, are currently being reviewed, along with other Norfolk councils and public sector partners, as part of business continuity planning. It is difficult, and potentially misleading given the lack of any certainties, to try and quantify these risks at this point in time. Prudent levels of earmarked reserves are being held for the council's commercial activities (see below) and in the Collection Fund, particularly for Business Rates collection. The projects contained within the council's capital ambition plan require separate council approval once a full Business Case is able to be produced on a robust basis. The council intends to enhance the quality of its business cases by using the government's 5 case methodology for large complex projects along with improved financial modelling facilitated by LGSS Finance. The Business Case will therefore need to include any impact that Brexit may have on the particular project and include contingency provisions within the financial viability model before council approves the project's inclusion into the capital budget.
Increase in interest rates	The council is planning to externally borrow £xm over the next five years to fund its capital ambition plan and to replace the internal borrowing so-far undertaken to purchase commercial property from 2018 onwards and to lend to NRL. An interest rate rise could both (a) make a commercial investment financial unviable and (b) could increase the cost of servicing the debt to the revenue budget.	The HRA business plan contains a prudent assumption of future borrowing at 5% - which is well above current PWLB interest rates. Future General Fund borrowing will relate to commercial property acquisition, capital ambition projects and lending to NRL. The modelling for all such projects include prudent borrowing assumptions and appropriate sensitivity analysis over interest rates, mitigating against the risk that a project become unviable due to interest rate increases.

RISK	DESCRIPTION	MITIGATION PROPOSED
Business Rates income	This is a highly volatile source of revenue and various factors, including business closures, successful appeals against rateable values, changes in property usage from office/industrial to residential, and changes to the health of the local and national economy can cause reductions in business rate revenue. Norwich City Council currently collects some £76m of business rates income and retains some £6.7m.	Officers from Revenues & Benefits and LGSS Finance regularly meet to monitor the income being collected during the year and this is reported to cabinet every other month via the corporate budget monitoring report. Prudent levels of earmarked reserves are provided within the overall Collection Fund for bad debts and rateable value decreases. The risk of the Council not achieving the business rates income level it is allowed by government to keep (termed the "baseline" level) is mitigated by there being a "safety net" in place. The maximum risk the council is therefore exposed to in 2019/20 is some £0.55m.
Increasing reliance on commercial income	The council's General Fund revenue budget contains some £4.4m of rental income from investment properties as well as £0.6m generated by lending to Norwich Regeneration Limited. This income currently funds 24% of the General Fund net revenue budget (6% of the gross budget) and this proportion will increase over the medium term. Further information, as required under MHCLG's revised Investment Code, is given in section 5.	The amount of income being generated in-year is subject to formal regular monitoring by Heads of Service and LGSS Finance and reported to cabinet every other month in the budget monitoring report. Council agreed in 2018 to establish two earmarked reserves for its commercial activities: • The commercial property reserve - estimated balance at end of 18/19 of £0.95m • The NRL reserve – estimated balance at end of 18/19 of £0.3m
Legislative changes resulting in a curtailment of local government's ability to undertake commercial investments	CIPFA issued a statement to local government (18 October 2018) stating that it intends to issue more guidance in the near future on commercial property investment. The local government finance settlement in December stated that the MHCLG and HM Treasury were considering "further possible interventions" where councils are deemed to be exposing themselves and taxpayers to too much risk.	To-date CIPFA has not produced any revised guidance. The Local Government minister has subsequently stated that ministers will not curtail most councils' investments and that concerns about overexposure apply only to a "handful" of authorities. (Local Government Chronicle, January 2019). The council will keep its legislative and financial powers under review.

RISK	DESCRIPTION	MITIGATION PROPOSED
Insourcing of Norse joint ventures and reorganisation of the council's property functions	The primary risk relates to the deliverability of the capital strategy which the CFO is now required to comment on, although it should be noted that the budget proposals do not include any potential costs that may arise from insourcing the JVs.. In recent years NPSN and the council's client side has had difficulty in delivering the entire capital programme and significant underspending against the budget has been a yearly occurrence. This is likely to continue in the short-term given the disruption that is inevitable with significant changes to service & organisational design.	In-year progress of delivering the capital programme will be monitored by LGSS Finance every two months as part of the corporate budget monitoring process. In addition to the financial figures, information will also be given, for key projects, on milestone progress and any issues being encountered.