Report to	Cabinet	**Item**
	13 February 2019	
Report of	Chief finance officer (Section 151 Officer)	7
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 £264.13 (paragraph 2.19) with the impact of the increase for all bands shown in Appendix 2 (E).

3. The planned use of £0.958m 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 2.41).

Housing Revenue Account

5. The proposed Housing Revenue Account gross expenditure budget of £59.3m and gross income budgets of £67.4m for 2019/20 (paragraph 3.4).

6. Of the estimated surplus of £8.2m, £6m 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 (paragraphs 3.11 to 3.12).

8. A 3.4% increase in garage rents for 2019/20 (paragraph 3.13).

9. The transfer of £1m of underspend 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 3.33).

Capital Strategy

11. Changes to the 2018/19 approved capital budget as set out in paragraphs 4.28 to 4.30.

12. The proposed general fund capital programme 2019/20 to 2022/23 and its method of funding as set out in table 4.7, table 4.8 and Appendix 4 (B).

13. The proposed HRA capital programme 2019/20 to 2022/23 and its method of funding as set out in table 4.7, table 4.9 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 5.15 to 5.18.

17. Continuing to invest in commercial property outside of the city's boundaries in order to obtain the best opportunities available, diversif12y the portfolio, and thereby mitigate the risk of holding these investments (paragraph 1.38).

18. 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 5.19 to 5.21.

19. The council's policy and process for lending to Norwich Regeneration Limited as set out in paragraph 5.28.

20. The proposed loan facility (amount of lending) the council will make available to Norwich as set out in table 5.1, subject to the process set out in 5.28.

21. 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 5.28.

Treasury Management Strategy

22. A change to paragraph 74 of the 2018/19 treasury management strategy to change the rating shown in that paragraph from AAA to AA- (AA minus) in order to rectify an error in the document.

23. The borrowing strategy 2019/20 through to 2021/22 (paragraphs 6.19 to 6.30).

24. The capital and treasury prudential indicators and limits for 2019/20 through to 2021/22 contained within paragraphs 6.13 to 6.18 and tables 6.2 to 6.4, including the Authorised Borrowing Limit for the council.

25. The Minimum Revenue Provision (MRP) policy statement described in paragraphs 6.31 to 6.35 and contained in Appendix 6 (A).

26. The (financial) Investment Strategy 2019/20 (paragraphs 6.36 to 6.69).

Summary of key financial indicators

27. The indicators for 2019/20 through to 2021/22 contained in section 7.

28. Not to establish self-assessed limits for the indicators in this year's budget report as explained in paragraph 7.4.

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

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Background documents

None

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.

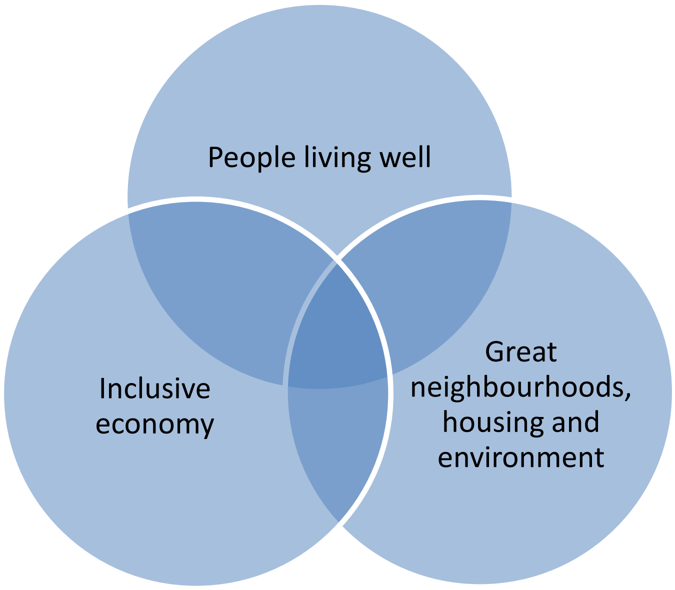
1.3 Additional burdens, such as the cost of extending the HMO licensing scheme in line with government's requirements, are often not fully funded by government and result in increased costs for the council.

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

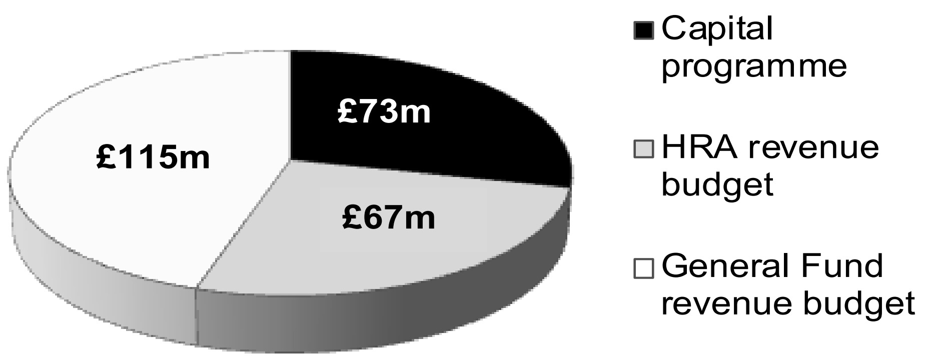


1.7 The council is ambitious and wants to make a real difference to both the physical fabric of the city and to the lives of residents who live and work here. But given the financial constraints the council is unable to fund all of the investment required itself. The council will therefore work with 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.

Summary

1.8 This report sets out 2019/20 budget proposals that total £255m 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 subject to viable Business Cases

General Fund

1.9 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.

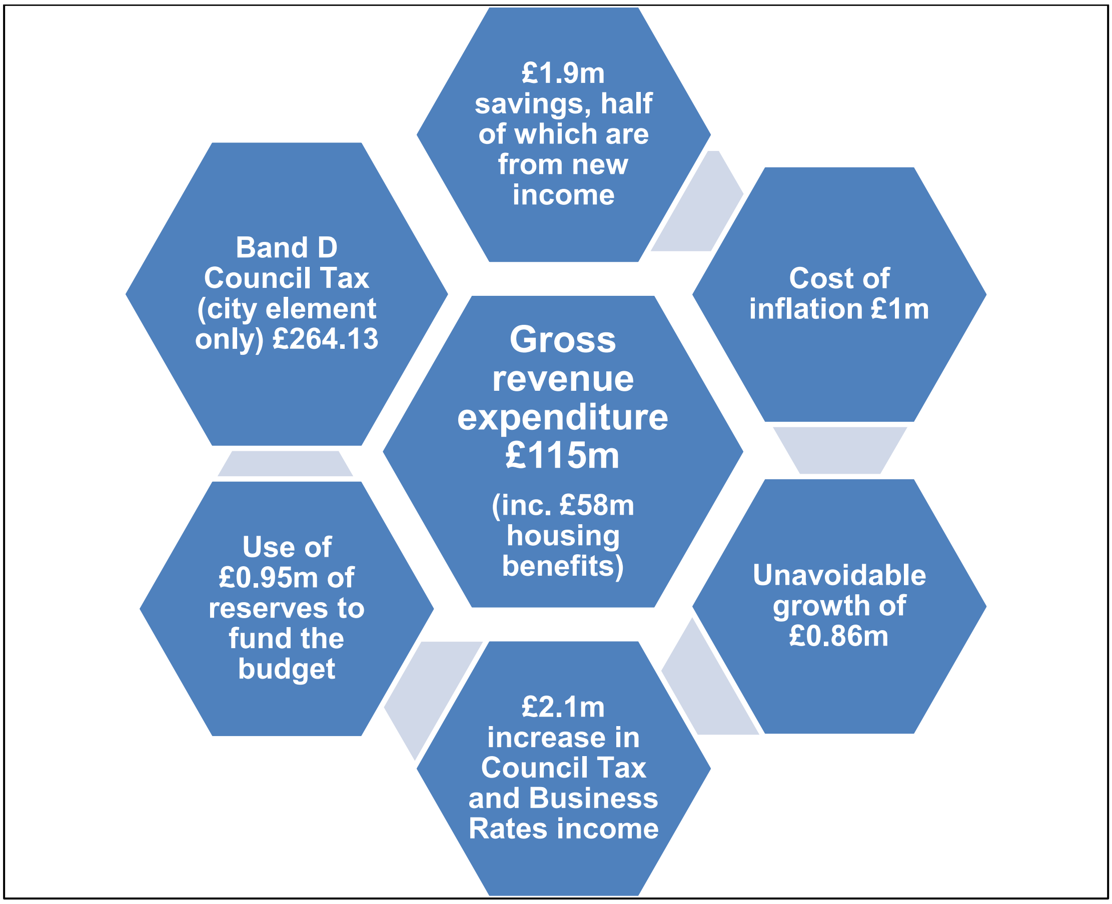
1.10 2019/20 is also the last year of the four year financial settlement given by central government in 2016 and the last year of the current local government funding regime (see section 1).

1.11 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.

1.12 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.

1.13 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 18% 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**



1.14 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.

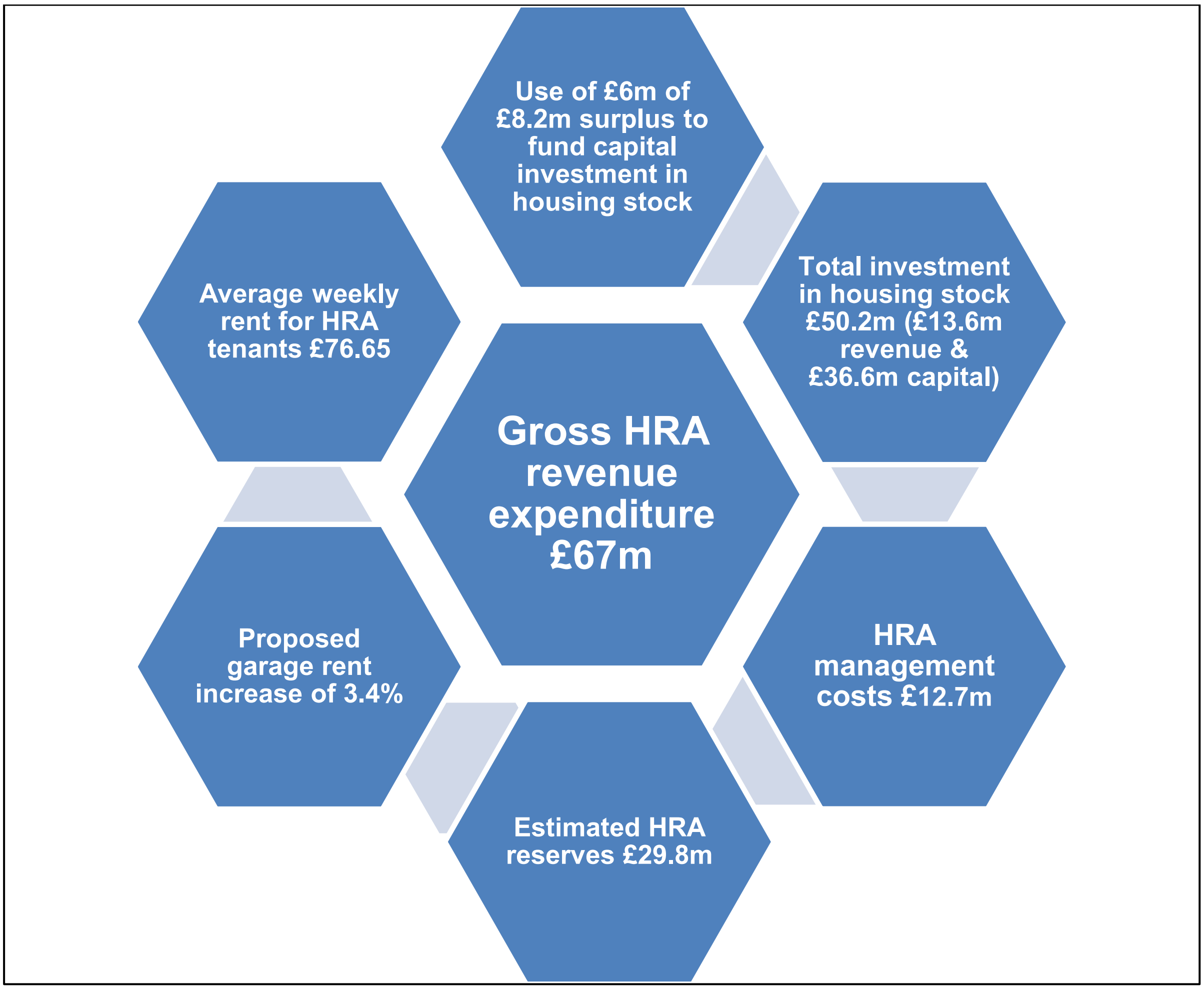
1.15 A key element of the council's proposals is to generate additional new net income from commercial activities, particularly through investing in commercial property. This council, along with many other local authorities, invests in property in order to protect key front line services, using the net 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).

1.16 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.

1.17 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**



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

1.19 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.

1.20 The HRA is forecast to make a surplus of income over expenditure of £8.2m in 2019/20 and it is proposed to use £6m of this surplus to fund capital investment in the housing stock.

1.21 2019/20 is the last year of the enforced rent reduction and average HRA rents will reduce to £76.65 per week.

Capital strategy

1.22 The council's proposed capital programme for 2019/20 is £72.5m. An illustration of some of the key projects and programmes are given in charts 5 and 6 and the detail can be found in Appendix 4 (B).

Chart 5: Illustration of proposals within the general fund capital programme

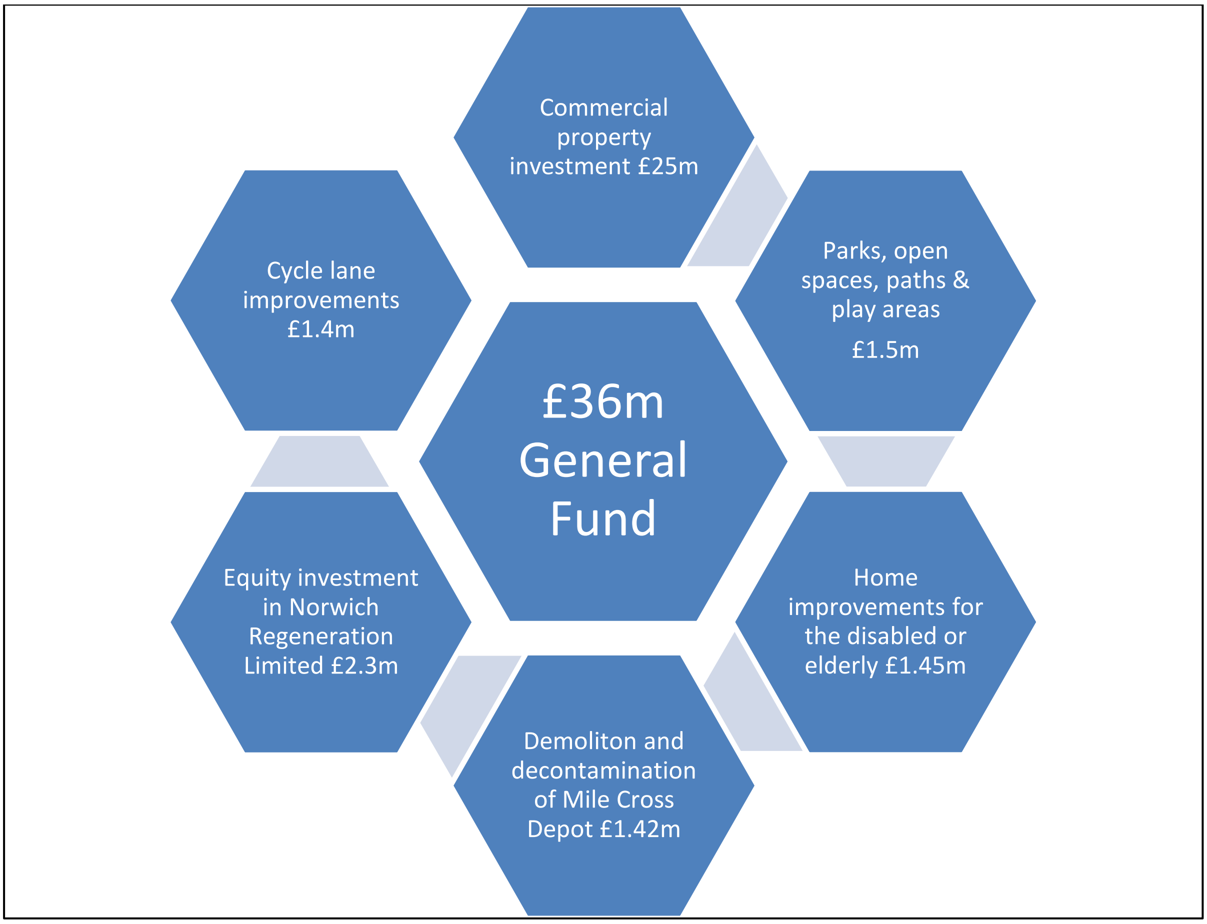
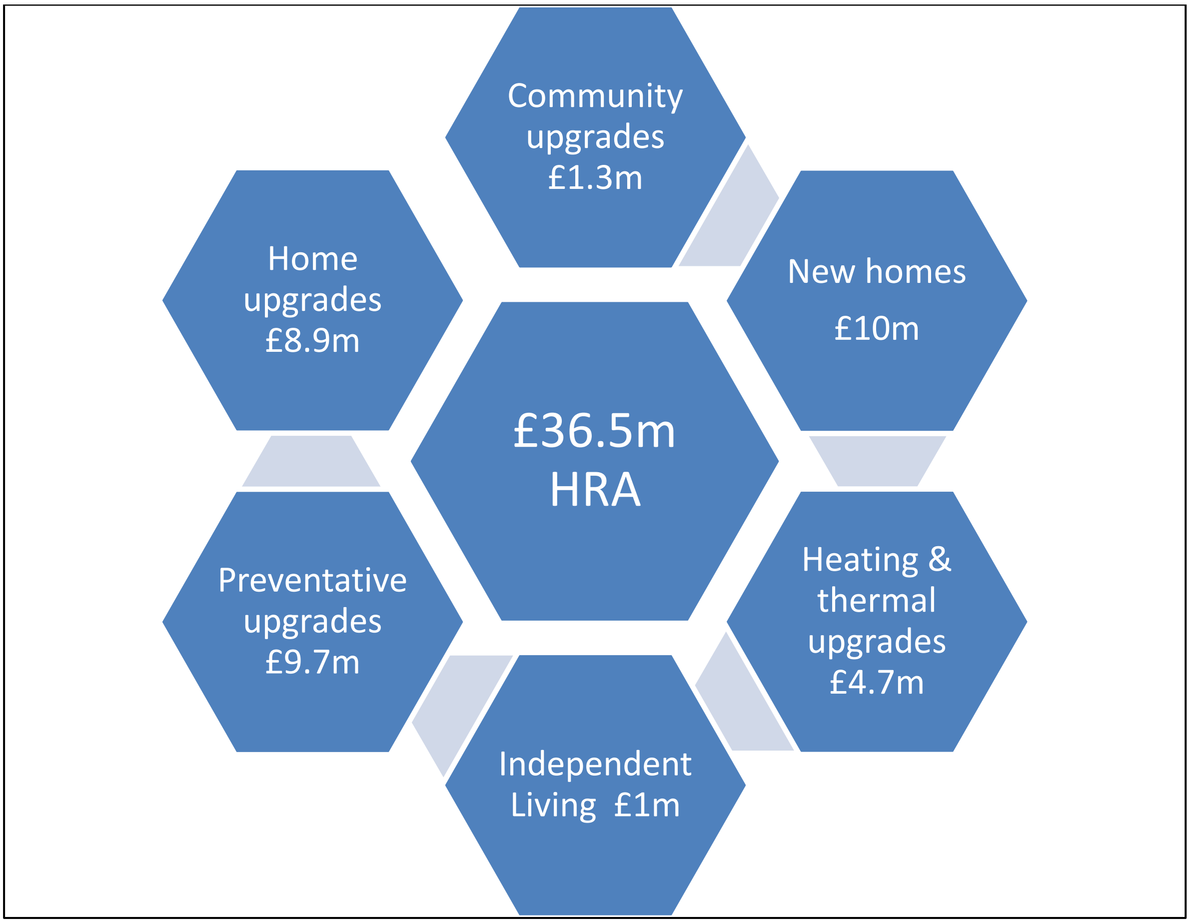


Chart 6: Illustration of proposals within the HRA capital programme



- New homes: £8m for HRA homes and £2m grant to other registered providers
- Heating & thermal upgrades – boilers, insulation, solar and PV panels
- Independent Living – disabled adaptations and sheltered alarms
- Preventative upgrades – structural improvements, roofing, lifts
- Home upgrades – kitchens, bathrooms, windows, doors, electrical works
- Community upgrades – door access control, CCTV, estate aesthetics & improvements, HRA estate shops

1.23 In addition to the proposals seeking approval by council to be included in the capital programme now, a further £148m of capital ambition projects may seek approval from council later in the year, subject to viable Business Cases. These schemes are described in paragraph 4.39.

1.24 Many of the capital ambition projects involve the council's wholly owned company building new homes for private sale and rental as well as affordable homes for sale to the council using the HRA account. These will deliver 587 new homes (of which 180 would be affordable homes).

1.25 The council is currently developing its Housing Strategy which will help guide future investment decisions. The lifting of the HRA debt gap combined with the council's long term business planning approach and recent experience of house building (either itself or through its company) mean that the council, through its HRA account, will seek to build more affordable homes in the city in the future. It has significant reserves that could be used for this purpose (see paragraph 3.34) and the HRA Business Plan demonstrates significant “headroom” for the HRA to borrow for this purpose whilst still ensuring the borrowing is prudent and affordable.

1.26 Unlike the HRA, the general fund has insufficient capital resources to meet investment needs for the future. The council owns many different general fund assets and there is some evidence to show that it may hold more land and property assets than similar councils (table 4.2).

1.27 The existing maintenance backlog on the council’s existing general fund assets is estimated at some £21m. Borrowing money to tackle this backlog is not an option for most of the properties requiring the expenditure, as the borrowing incurs financing costs that put extra costs onto the revenue budget whilst many of the improvements needed will not generate any new income streams, or sufficient budget savings, to cover these costs. Capital grants are not often readily available for the work needing to be undertaken and capital receipts (income from asset assets), which have traditionally been used in the past to fund this type of expenditure, are reducing.

1.28 The council is proposing to undertake a comprehensive review of all of its non-HRA land and property assets to prioritise those that need investment, are not financially performing, or are surplus to service needs.

The council’s overall financial position

1.29 The council has a strong balance sheet and owns some £1 billion of long term assets (mostly land and property – see table 7.1). In addition, it has significant reserves both for the general fund and HRA (see paragraphs 2.41 to 2.43 and 3.32 to 3.34).

1.30 CIPFA has produced financial stress indicators for the council which show that it is not currently “at risk” (see chart 8.1).

1.31 The council’s general fund services are under the most financial pressure, both for revenue and capital expenditure. The huge uncertainties surrounding the changes in the local government finance regime from 2020/21 hinder robust forward financial planning for the general fund.

1.32 Like many others, this council undertakes commercial activities which both contribute to its corporate priorities as well as generate new income streams to help fund front line services. These activities are classified as non-financial investments.

1.33 The investments proposed to be made are significant and are set out in section 5. In total just under £40m of expenditure is proposed in 2019/20 on commercial property investment, lending to third parties, and equity investments (the latter two primarily with Norwich Regeneration Limited).

1.34 9% of the general fund’s gross expenditure budget for 2019/20 will be funded from commercial income (table 7.6), although a significant amount of the anticipated new income is prudently not taken into the MTFS budget until it is realised and some is set aside in earmarked reserves to mitigate against the risks associated with these commercial activities.

1.35 The funding of non-financial investments along with the proposed capital programme and capital ambition projects will significantly increase the council's capital funding requirement (its indebtedness or underlying need to borrow). If projects and programmes proceed to plan, then the capital financing requirement will increase by £129m from 2017/18 to 2021/22, a 49% increase (table 7.2). The indebtedness compared to the value of the council's assets (gearing ratio) increases from 2% in 2018/19 to 11% in 2022/23 (table 7.5).

1.36 The council currently has £59m of cash holdings and will therefore need to borrow externally at some point to fund the capital financing requirement. The strategy for switching from internal to external borrowing is set out in Appendix 4 (C). Sufficient provision has been made in the proposed authorised limit for external borrowing to do this.

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

1.38 The overall proposed direction of travel means more focus is being given to enhanced options appraisal, Business Case preparation, financial modelling, and commercial awareness so that robust decisions can be made. Recent appointments have significantly increased the council's skills and capacity in this regard (in the transformation and strategy team, in LGSS Finance, and in the Norwich Regeneration Limited). The council regularly appoints external specialists to assist in many of its commercial activities (particularly independent experts in property, tax, treasury management and financial modelling) and it plans to enhance its capacity to deliver the capital ambition plan through the restructuring of its property functions as part of the fit for the future programme.

The council's approach to financial planning

1.39 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.

- The inclusion of the costs of external borrowing to fund capital projects (interest and MRP costs) into the revenue budget even if in practice the expenditure is temporarily funded from internal borrowing (use of the council's cash holdings).

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

Contents of this budget report

1.40 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.

1.41 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.

1.42 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" (chart 7) attempting to show the basic terminology, interrelationships, and content of the report.

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.

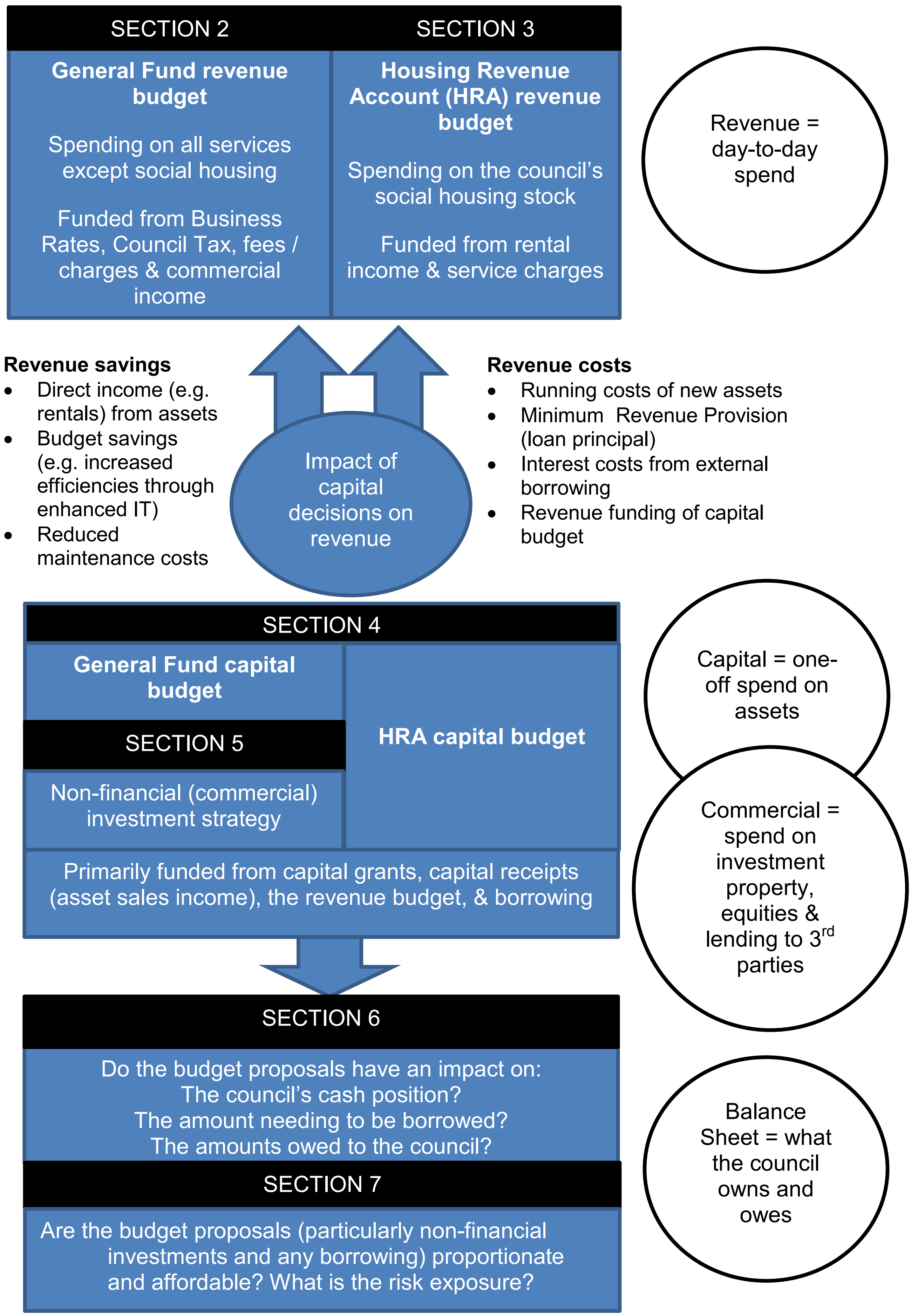
8: Chief Finance Officer’s Statement

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.

Chart 7: Budget Report "road map"



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 proposed budget within this paper covers a wide range of council activity and spend. As a result it is not possible to provide a detailed assessment of, for example, the impact on residents and others with protected characteristics under The Equality Act at this level. Existing council processes for equality impact assessments 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			

	Impact			
Natural and built environment	☐	☒	☐	The proposed capital investment strategy will provide for improvements to the council's assets and the surrounding environment. .
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/#)

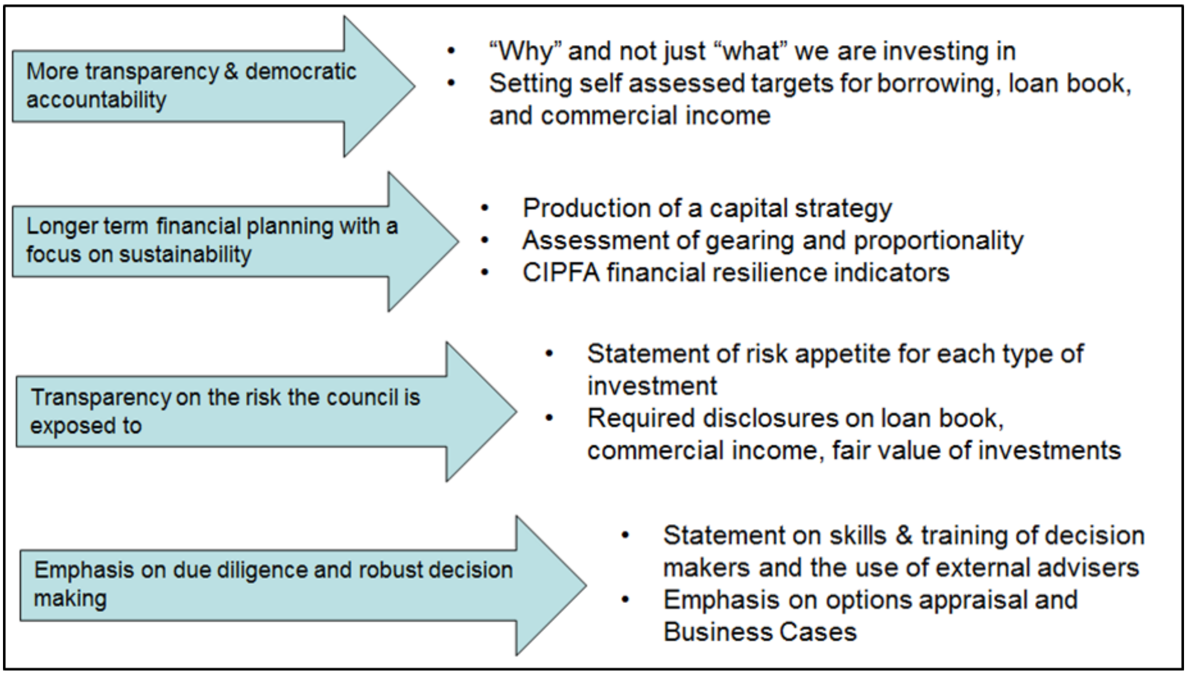
1.25 Coincidentally in July 2018, the Public Accounts Committee called on the government to work with the local authorities and key stakeholder bodies over the next 12 months to agree and publish a shared definition of local authority financial sustainability and a methodology for assessing the extent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

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).

1.36 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

1.37 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.

1.38 Where a council chooses to disregard the Investment Code, it should set out why this is the case and what the council's relevant policies are. The commercial property investment strategy, approved by cabinet in December 2018, includes further acquisition of property outside of the city's boundaries, up to 40% by value of the total portfolio, in order to diversity the investment portfolio (in terms of location and tenancy type) and thereby reduce overall risk.

Statutory guidance on Minimum Revenue Provision

1.39 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.

1.40 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.

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

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

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

CIPFA's Financial Resilience Index and Financial Management Code

1.44 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".

1.45 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.

1.46 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.

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

HRA Borrowing Cap

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

1.49 At this point in time, there is 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

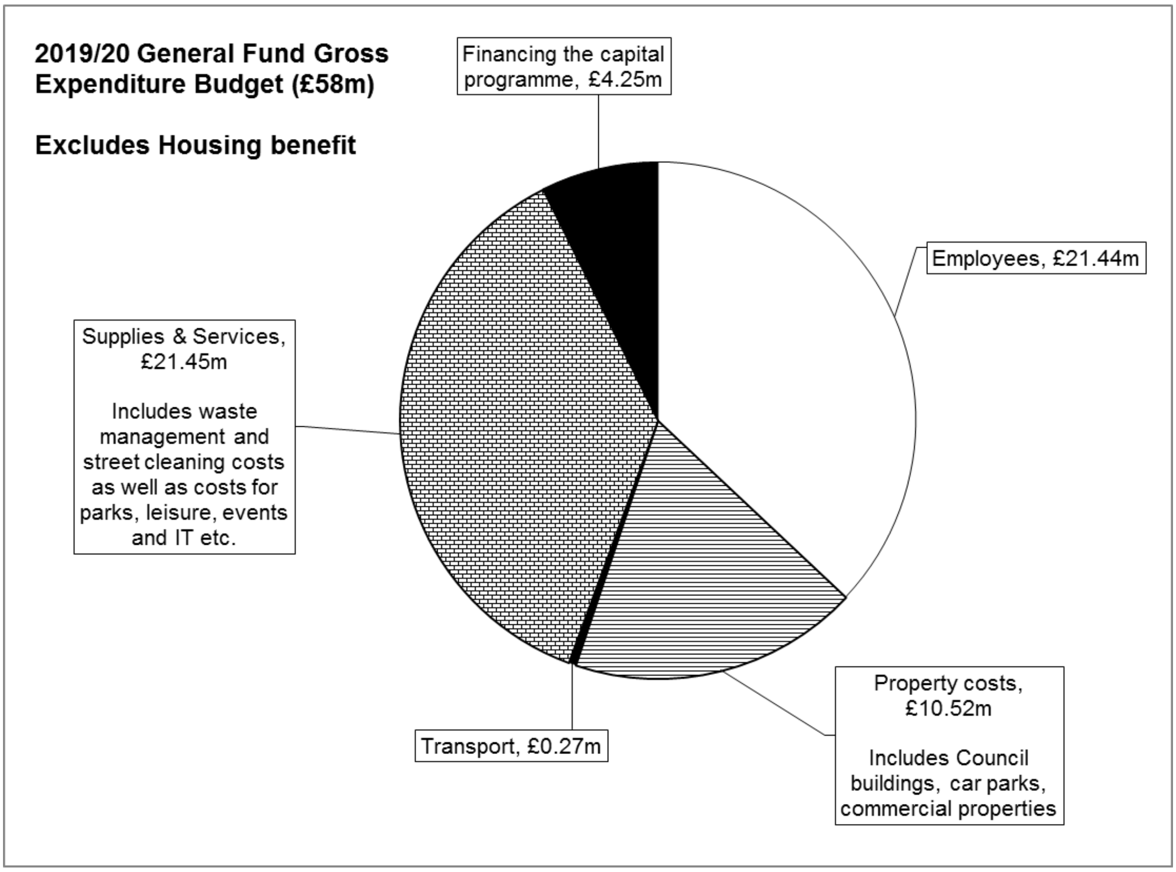
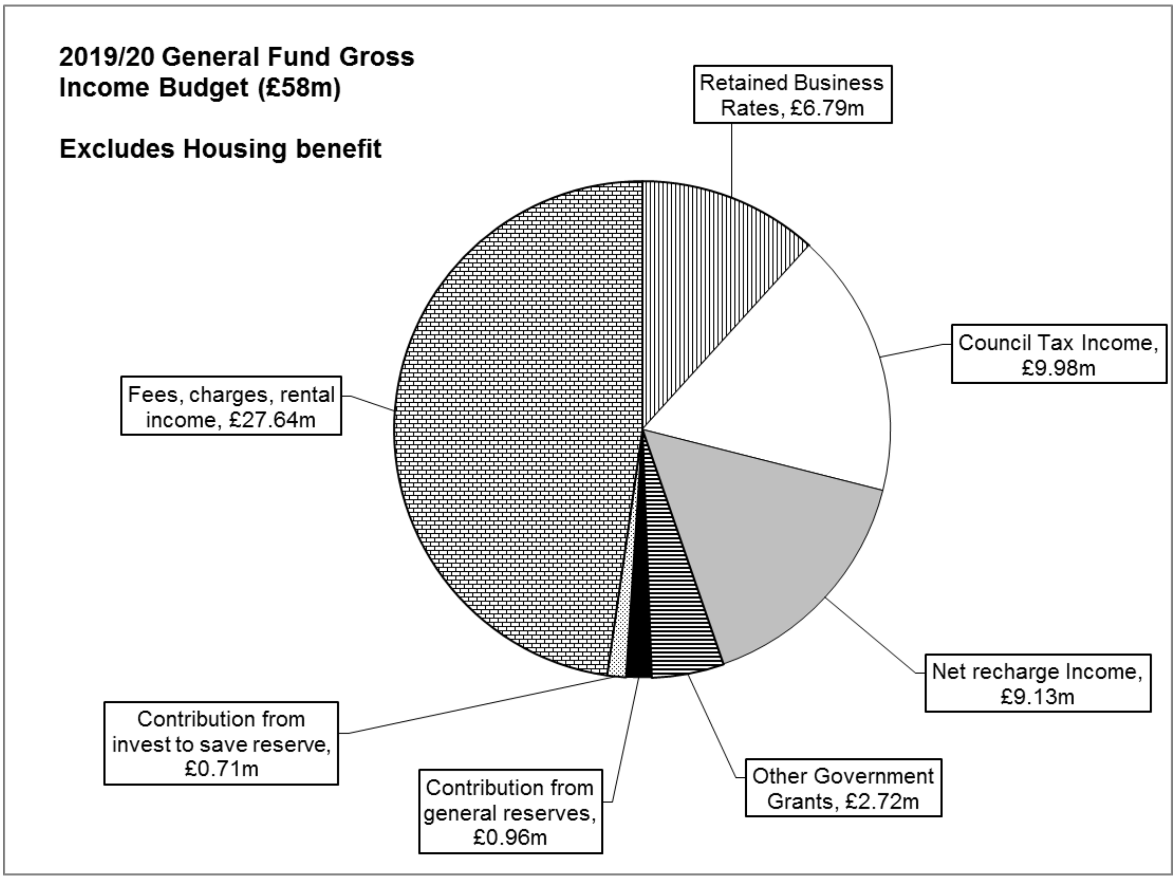


Chart 2.2: 2019/20 gross income budget analysed by type of income



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.

Income from investing in Norwich Regeneration Limited (NRL)

2.38 The MTFS assumes a steady state net income budget of £327k per annum arising from lending to NRL. 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 5.22 to 5.38 for background context about the council's lending to the company.

2.40 The budget and MTFS forecasts do not include any possible dividend (profit share) income from the company.

General Fund Reserves Position

The General Fund reserve

2.41 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)**	**(10,694)**	**(8,142)**	**(6,300)**	**(5,193)**
Use of reserves	958	2,552	1,842	1,107	145
Balance C/Fwd.	**(10,694)**	**(8,142)**	**(6,300)**	**(5,193)**	**(5,048)**

2.42 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.

2.43 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	20,525	21,452	927
Housing benefit payments	56,580	57,906	1,326
Capital financing	2,573	4,254	1,681
Gross expenditure	**110,916**	**115,833**	**4,917**
Government grants	(59,517)	(60,623)	(1,106)
Fees, charges & rental income	(25,596)	(27,640)	(2,044)
Net recharge income	(8,603)	(9,129)	(526)
Gross income	**(93,716)**	**(97,392)**	**(3,676)**
Contribution from General Reserves	(1,504)	(958)	546
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	5,752	(824)	4,928
Democratic Services	1,336	(876)	461
Housing Benefit	57,906	(57,906)	0
Human Resources	1,065	(1,065)	0
Procurement & Service Improvement	4,371	(4,371)	0
Subtotal Business Relationship	**70,430**	**(65,042)**	**5,388**
Chief Executive	259	(259)	0
Strategy & Programme Management	1,130	(762)	368
Subtotal Chief Executive	**1,389**	**(1,021)**	**368**
Communications & Culture	2,811	(1,015)	1,796
Customer Contact	2,206	(2,363)	(156)
Subtotal Customers, Comms & Culture	**5,017**	**(3,378)**	**1,639**
Citywide Services	13,415	(3,818)	9,597
Neighbourhood Housing	4,323	(2,825)	1,498
Neighbourhood Services	783	(113)	669
Subtotal Neighbourhoods	**18,521**	**(6,756)**	**11,765**
City Development	11,736	(15,877)	(4,140)
Environmental Strategy	174	(174)	0
Director of Regeneration & Development	135	(135)	0
Planning	2,137	(706)	1,431
Property Services	2,111	(957)	1,153
Subtotal Regeneration & Growth	**16,293**	**(17,849)**	**(1,556)**
Corporate Financing	4,183	(3,346)	837
Contribution from General Reserves		(958)	(958)
Contribution from Invest-to-Save Reserve		(711)	(711)
Budget Requirement	**115,833**	**(99,061)**	**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)**

MTFS excludes one-off costs that are funded from the Invest-to-Save reserve to support the Fit for the Future Programme.

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%