



Committee Name: Cabinet

Committee Date: 08/12/2021

Report Title: Emerging Budget 2022/23 and Budget Consultation

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of corporate and commercial services

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

To consider an update on the latest budget position, including the principles for consultation. Final budget proposals will be brought back to Cabinet in February 2022 with a recommendation to consider and approve those proposals before it goes to February Budget Council for decision.

Recommendation:

- 1) note the latest financial information and the financial strategy principles incorporated into the report, which enable the Council to set a balanced budget for 2022/23; and
- 2) note the budget principles used for consultation and agree that budget consultation with businesses, residents and other interested stakeholders commences to inform the Council's budget setting decisions in February 2022.

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets the Healthy Organisation corporate priority

Report Details

Introduction

1. This report outlines the budget principles which form the basis for public consultation on the general fund revenue and capital budgets for 2022/23. The views of Residents and local businesses will be sought, via a public budget consultation exercise; the results of that consultation will be made available before the budget is discussed and approved by Cabinet on 9 February 2022 and finally by Council on 22 February 2022.
2. This report also provides an update on the recent Government Spending Review and the implications for local authority finances. Although the Spending Review gave details of the broad shape of public finances for the next 3 years, the impact on Norwich City Council will not be known in detail until the provisional local government finance settlement is published. The exact date of the settlement announcement is not known but in the past it has generally been made in the two week period leading up to the Christmas break.

Local Government Finance – Economic & Statutory Context

Spending Review (SR21)

3. On 27 October 2021 the Chancellor announced the 2021 Spending Review (SR21) covering the government's finances for the period 2022/23 to 2024/25. This will be followed by the provisional local government settlement which is currently expected to be announced in mid-December. It is hoped that, having announced a three year settlement for the government's finances, the provisional settlement will set out the same for local government although this is far from certain at this point. The key announcements impacting on local authorities are set out in more detail below.

Spending Power

4. Overall the national measure of available resources - Core Spending Power (CSP) will increase by £8.5bn, which is an average annual increase of 5.6% in cash terms or 3.4% annually in real terms. However, to get a like-for-like estimate of the increase in funding the additional funding for social care reform would need to be excluded; on that basis, the increase in local government funding is only £4.9bn, or around 1.0% annually in real terms.

Council Tax

5. The referendum threshold for increases in council tax is expected to remain at up to two per cent in 2022/23, or £5 whichever is the higher. For authorities with social care responsibilities, there will also be the ability to levy a further one per cent adult social care precept.
6. Police and Crime Commissioners (PCCs) in England will have the flexibility to increase funding in 2022/23 by £10 or 2% (whichever higher) from council tax on a Band D property, without the need for a referendum.

Business Rates

7. The Government has decided to freeze the business rates multiplier in 2022/23, saving businesses in England an estimated £900 million each year over the next five years. Local authorities will be fully compensated for this decision through an additional grant.

8. There will be a 50% discount for retail, hospitality, and leisure sectors (up to a maximum of £110,000) in 2022-23. Again, local authorities will be fully funded for the additional costs of the discount.
9. Other reforms to business rates were announced or confirmed by the Chancellor, including more frequent, three yearly, revaluations (from 2023), and investment reliefs to encourage green investment and premises improvements with any increase in rates payable delayed for 12 months.
10. Subsequent to the Spending Review announcement, on the 8th of November 2021, the Secretary of State for Levelling Up, Housing and Communities, Michael Gove, announced that the proposals for moving to a nationwide 75% scheme for business rates retention was being stopped. This announcement would seem to throw into doubt the mechanisms for local government funding distributions and consequently the implied time scale for changes from Fair Funding including whether a three-year settlement for local government starting in 2022 is now likely.
11. There is now uncertainty on the following matters:
 - whether, and if so when, the planned business rate reset will happen (whereby the overall growth in business rates above the original 2013/14 baseline is rebased)
 - whether a rebased 50% rate retention scheme will continue; or
 - whether there will be a move back towards business rates being pooled centrally as a source of funding for a broader grant based local government funding arrangement.
12. The comments made by the Secretary of State suggest that in very broad terms the levelling up agenda will seek to redistribute resources, including business rates growth away from the Southeast of the country.

New Homes Bonus

13. There is a final legacy payment of the New Homes Bonus due in 2022/23 and no further indication at this point about the future of the scheme or any alternative scheme that Ministers may want to use to incentivise housing growth.

Public Sector Pay

14. The Spending Review announcement said that there will be a “return to a normal pay setting process” for public sector workers, with the government seeking “recommendations from Pay Review Bodies where applicable”. Given that any pay increases will need to be funded from within the overall increase in local government funding, this will put more pressure on local government budgets.
15. There also remains uncertainty about how the increase in National Insurance Contributions will be funded. In making the proposals, the Treasury confirmed that authorities will receive compensation for the additional contributions in respect of their direct employees; what remains unclear is whether this will need to be funded from the overall increase in funding or whether there will be separate compensation for this. There may be further local complications for Norwich given that some of its functions are undertaken through alternative company structures that might not meet the criteria of ‘direct employees’.
16. The National Living Wage (NLW) is being increased to £9.50 per hour from April 2022, a 6.6% increase. This is a real-terms increase in pay, which the government claims “is consistent with the government’s long-term ambition

for the NLW to reach two-thirds of median earnings applicable to workers aged 21 and over by 2024, provided economic conditions allow". Again the funding for this is potentially included within the overall local government funding envelope.

Other funding streams:

17. There are various smaller allocations within the core funding announcement, including £200m for the cross-government Supporting Families programme, £37.8m for cyber security, and £34.5m to strengthen local delivery and transparency.
18. In 2021/22 the Lower Tier Services Grant was introduced; the primary purpose of this grant was to ensure that no authority had a reduction in its Core Spending Power (CSP). Norwich benefitted from a £0.255m allocation of this grant. Although originally being deemed a one-off grant for 2021/22, some councils may still require support especially if their reduction in New Homes Bonus is sufficiently large. However, given the overall improvement in the Settlement Funding Assessment (SFA), the expectation is any support would be at a lower level.
19. £5.7bn will be allocated over 5 years for 8 English city regions "to transform local transport networks through London-style integrated settlement". These will be called City Region Sustainable Transport Settlements; unfortunately, Norwich is not included in any of the allocations.
20. £639m will be made available to reduce homelessness, although we will need to await further details to understand whether these are additional resources or is merely previously announced grant amounts.
21. A multi-year housing settlement has also been announced, including £300m grant funding for mayoral combined authorities and local authorities to unlock brownfield sites and £1.5bn "to regenerate unused land".
22. £2.6bn will be available through the UK Shared Prosperity Fund and £4.8bn through the Levelling-Up Fund. Allocations for the first round of bids from Levelling-Up Fund have been announced (£1.7bn out of the £4.8bn total). 105 bids have been awarded funding.
23. Fair Funding Review: The implementation of the fair funding review continues to be uncertain; no announcement was made in the Spending Review and the subsequent comments regarding the future of the business rate retention scheme suggests a further period of reflection on the fundamental structure of local government finances may be required.

Implications for Norwich

24. The implications for Norwich continue to be assessed and further clarification and announcements are expected as we move towards the provisional local government finance settlement; the hope is that this will be in mid-December although in previous years the announcements have often been made in the run up to Christmas.
25. Our initial assessment of the implications for Norwich are detailed below:
 - The announcement of an overall increase in resources for local government is better than many expected although with the pressures and priority being attached to Social Care it is unclear the extent to which those resources will be distributed through targeted grants rather than more general distributions.
 - The up to 2% council tax referendum limit for shire districts is in line with the Medium-Term Financial Strategy (MTFS) assumptions. Applying a

1.99% increase to council tax will generate approximately £0.2m for the council. This would result in a Band D increase of £5.47 (11p per week) to a total of £280.21. As such, the council is proposing to consult on proposals to increase council tax by the full permissible amount which, subject to confirmation, is expected to be 1.99% in 2022/23.

- The MTFs had assumed no new allocation of New Homes Bonus so any resources will provide additional grant income; the resources freed up nationally from the phasing out of the scheme could be available.
- The council will be compensated by the government for business rates income lost through the decision to freeze the multiplier for 2022/23 rather than apply CPI. Additional business rates reliefs announced for the retail, hospitality and leisure sectors should also be fully funded from central government through grant to the council.
- The continuing delays to the Fair Funding Review and Business Rates reset provides an additional year of stability over the level of retained income for the council. However, the potential for another one-year finance settlement, means there may continue to be significant uncertainty over future funding levels.
- The council's budget and MTFs assumes a 1.75% pay award for 2021/22 and 2% in 2022/23; the employers current offer for 2021/22 remains un-agreed and a possible risk to the Council's base budgets. As the decisions around annual local government pay increases are developed for 2022/23 by pay bodies in negotiations with the trade unions, it is proposed to leave the current overall budget allowance of 2%. This will need to be kept under review as issues such as funding for National Insurance rises and the increase in the level of the minimum wage also feed through.

General Fund Revenue Budget

Background

26. Following over a decade of austerity, indications that local government would not receive any growth in funding and that spending pressures in the sector would have to be funded from above-inflation increases in council tax meant that expectations from the Spending Review announcement were low.
27. However, the announcement on 27 October shows that the balance has shifted towards additional grant funding and away from above inflation council tax increases although the government continues to assume in its calculation of Core Spending Power that authorities will implement the maximum allowable council tax rise. The increase in funding is very much front-loaded, with growth in grant funding of £1.5bn in 2022/23, and no further general increases in funding in either 2023/24 or 2024/25. It is understood that the rationale for this is to give local authorities the funding they need for some of the pressures that they are dealing with now. Although we would have preferred growth in funding in 2023/24 and 2024/25 as well, it is better to receive the additional funding sooner rather than later.
28. Despite the funding announcements, like all local authorities, Norwich City Council continues to face substantial financial challenges. The sustained period of austerity – coupled with increasing demand for local services - has decreased the council's own budgets, putting huge financial pressures not just on council resources, but those of partners, local businesses, and residents, particularly the most vulnerable.

29. The council also continues to manage the ongoing risk and uncertainty over future funding as well as the budgetary impacts from Covid-19. Despite this the council has consistently approached the financial challenges in a sensible and planned way and has always sought to manage the council's finances responsibly. The city council has already made significant savings over the last eleven years; has taken steps to try to manage demand; and has been innovative in its approach to the generation of new income streams. Like all councils, Government funding remains uncertain therefore Norwich City Council will need to continue to look at alternative ways of generating income to pay for local services.
30. The council's intention 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. However, difficult decisions remain, and it is inevitable that this council will need to review the nature and level of the services provided over the medium-term. The outcomes of the central government Fair Funding review will be critical in understanding the longer-term funding levels for the Council.

Scale of the challenge & Thematic Approach

31. A report to Cabinet in October 2021 provided an update to the council's budget position for next year and its medium-term financial projections as well as our proposed approach to addressing the financial challenges. Our financial modelling shows a need to make permanent gross savings of **£6.5m** in 2022/23 and **£10.6m** over the next four years, after assuming demand-led growth of £0.75m per annum.
32. In addition, the council must continue to manage the financial impacts of Covid-19. Impacts on council income are expected to last throughout 2022/23 and will need to be managed through the identification and delivery of compensating short term savings.
33. As the council takes decisions about how to achieve the required savings it will need to consider the balance not only between how savings are made – for instance, savings to workforce, suppliers and assets – but also the relative balance between spending reductions and increased income.
34. The council has developed several provisional themes that underpin the approach to addressing the medium-term financial challenges as listed below. Further detail on these can be found in the October 2021 Cabinet paper *Medium Term Financial Strategy Corporate Overview*.
 - Driving value from our assets
 - Driving value from our contracts
 - Inward investment and growth
 - Service transformation
 - Commercialisation including fees and charges
 - Stopping things
35. The work to develop a full range of options under each of the themes is underway and will form part of the ongoing service review programme. The priority is establishing sustainable service delivery options for the future which incorporate the learning from Covid-19 and how the council interacts with its residents, customers, and businesses. These options will require time to develop and be implemented and are therefore expected to address the

financial challenges in the latter years of the MTFs. Already in 2021/22 we have used some of our reserves to kick start changes to the way we deliver some of our services where we can demonstrate longer term benefits through a robust business case evaluation process.

36. To provide the space for that sustainable change programme, the 2022/23 budget will need to be supported by a range of short term measures to provide a balanced budget. Already in 2021/22 the Cabinet has agreed to set aside £0.591m gained from actively managing our investments to support the 2022/23 budget.
37. The Council is committed to maintaining all its services to residents for as long as possible and any proposals affecting service users would be subject to separate consultation exercises; it is however important to understand, through our thematic approach to consultation, residents and businesses views on where future proposals could be made.
38. It is also important to note whilst one-year measures assist in setting a balanced budget, they do not address the structural financial gap over the medium term. This is where the outcomes from the thematic work and service reviews will need to deliver a sustainable financial position. Whilst this work will look at how services can be delivered differently and more efficiency, it is likely – given the scale of the challenge – that they will lead to a reduction in service capacity in some areas.

Fees and Charges

39. Fees and Charges is an area where the Council can generate income from services where it makes a charge. It is important that these charges are reviewed annually, and the expectation is that they will rise each year in line with inflation to ensure that they continue to recover the full costs of delivering those services.
40. Some fees are set by statute, but others can be varied to take account of costs. Some fees have not been increased for several years and have failed to keep up with increasing costs of wage rises or accommodation costs. We are proposing to review all our fees and charges to make sure that they recover the full cost of providing the services; we feel it is only fair that those using these services are not subsidised by those that do not although alongside this review we will also consider our policy on granting concessionary rates to certain groups.

Managing Risk

41. The Covid-19 pandemic resulted in unprecedented uncertainty for council finances, both in terms of pressure on key services and income streams, at a time when demand for local services is increased. This uncertainty continues into the 2022/23 financial year and forecasting service demand as well as income is understandably challenging in the current economic environment.
42. There is also risk associated with the deliverability and timing of the budget savings as delays in implementation may reduce the level of financial savings.
43. As a result of the increased financial risk, is it considered prudent to continue to set aside a specific risk reserve to help manage those financial impacts. It is intended that this reserve is maintained from any revenue underspends as well as any additional benefits confirmed as part of the provisional finance settlement.

Equality Impact of budget proposals

44. To ensure that we discharge our public sector equality duty and ensure we have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations we will undertake an initial screening of all budget proposals to ascertain where there is a possible impact. This will identify those proposals that require a full Equality Impact Assessment or further consultation.
45. Equality Impact Assessments for specific proposals are developed as proposals are being finalised. This ensures that the impact is understood and mitigating actions that minimise disadvantage and tackle inequality are identified where possible. These assessments will be provided alongside the budget papers through scrutiny committee, cabinet and council to ensure transparency and so that members can make informed decisions. There may be some proposals that have implications for council employees for which details of consultation or Equalities Impact Assessments cannot be published owing to data protection or employment legislation.
46. Information on the residents of the city as well as council customers and employees can be found in the annual Equality Information Report published on the council's website.

Public Consultation and next steps

47. In line with the approach used in previous years, residents, partners and local businesses will be consulted on the proposed approach to meeting the savings target for 2022/23 including the proposed council tax level. Separate tenant consultations will seek views on the proposed increase in council rents and service charges. The budget consultation questionnaire is attached as Appendix A and will be made available online in the days following Cabinet consideration of this report. The budget consultation will be available to access online through our website by using the following link www.norwich.gov.uk/Consultations.
48. The next steps for the budget and MTFS proposals are set out below:

Scrutiny to consider the proposed General Fund revenue budget and MTFS, HRA Business Plan, capital strategy, investment strategy and capital programme	3 February 2022
Cabinet to recommend the General Fund revenue budget and MTFS, HRA Business Plan and capital programme	9 February 2022
Council to approve the General Fund revenue budget and MTFS, HRA Business Plan and capital programme	22 February 2022

Consultation

49. Full public consultation will take place through the online survey and the Council is actively considering ways to increase participation levels and ensure that it reflects the demographic composition of the city. A seven-week consultation is proposed and activity to encourage participation through the Council's citizen magazine, text messaging and other routes shown to be effective elsewhere will be used.

Implications

Financial and Resources

50. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget.
51. The estimated financial impact of the budget and Spending Review on the Council's finances is considered in this report; for 2022/23 an estimated budget gap of £6.5m is identified which must be addressed to produce a balanced budget. The provisional local government finance settlement will provide further information to revise the level of the budget gap before the final budget requirement is set in February 2023

Legal

52. There is a statutory duty to consult on the Council's budget with business ratepayers (S65 Local Government Finance Act 1992). It is also considered best practice to seek broader views through meaningful consultation with service users, residents, and partners.
53. Further duties to consult on specific proposals impacting users, including staff and unions also exist prior to implementation.
54. The Council has a legal duty to set a balanced budget before the statutory deadline.
55. The Council's Chief Financial Officer (S151) has a duty to report to Council on the adequacy of its reserves and the robustness of its budget estimates before the final decisions are taken on the budget and setting of the council tax.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Equality Impact Assessments are required for any specific budget proposals and also the impact of the totality of all measures
Health, Social and Economic Impact	Budget savings and investment proposals including capital investments are likely to have economic impacts on the area.
Crime and Disorder	No specific crime and disorder impacts are envisaged from the budget setting processes
Children and Adults Safeguarding	No specific safeguarding issues are considered to arise from the Council's budget setting processes.
Environmental Impact	No environmental issues are considered to arise from the budget setting process itself and the environmental impact of specific proposals will be considered as part of the individual proposals agreed in approving the final budget

Risk Management

Risk	Consequence	Controls Required
There is a risk that the Council does not identify actions to deliver a balanced budget	A failure to set a balanced budget would risk government intervention and potentially individual liabilities.	The Chief Financial Officer has a statutory role in advising members on actions to deliver a balanced budget, robust budget estimates and sufficient reserves.

Other Options Considered

56. The Council will consider a range of options for delivering a balanced budget including proposals for savings and investment, the use of reserves and the setting of the Council tax level.

Reasons for the decision/recommendation

57. The Council has a statutory duty to set a balanced budget and to consult on its budget. The report sets out the current position in estimating the extent of the budget gap and a range of principles that are being followed to identify proposals to eliminate that gap. The Council must also determine Council tax for the forthcoming year.

Background papers: [List those papers referred to in compiling the report and provide links where possible (only those that do not contain exempt information).]

Appendices:

Appendix A – Consultation Questionnaire

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