

This Report will be made
public on 5 November
2019



Report Number **C/19/40**

To: Cabinet
Date: 13 November 2019
Status: Key Decision
Head of Service: Charlotte Spendley, Assistant Director- Finance,
Customer & Support Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: BUDGET STRATEGY 2020/21

SUMMARY:

This Budget Strategy sets out the guidelines for preparing the 2020/21 Budget. It supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

The Budget Strategy takes account of current and future financial issues, sets out the underlying assumptions and initial budget-setting proposals and provides a timetable for delivering a balanced budget in 2020/21.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:

- (i) The Budget Strategy provides the framework for compiling the detailed 2020/21 budgets;
- (ii) The Budget Strategy will support the delivery of the MTFS; and
- (iii) The council's constitution requires approval of such a Strategy at least two months in advance of final budget approval.

RECOMMENDATIONS:

1. To receive and note report C/19/40.
2. To approve the Budget Strategy for 2020/21 set out in this report.
3. To approve the General Fund revenue growth & savings proposals for 2020/21 (Appendix 2).
4. To approve the General Fund capital growth proposals for 2020/21 (Appendix 3).
5. To agree the proposed timetable for preparing 2020/21 budgets (Appendix 4).

1. INTRODUCTION

- 1.1 The Constitution requires that 'no less than two months before any plan, strategy or budget that forms part of the Budget and Policy Framework needs to be adopted, the Cabinet will publish initial proposals and a timetable to council'.
- 1.2 This Budget Strategy covers those requirements, setting out the initial proposals and a timetable that will be used to inform the setting of the detailed budget for 2020/21. The Budget Strategy is consistent with the direction and objectives of the updated MTFS.
- 1.3 The MTFS and Budget Strategy are aligned with the council's strategic financial objectives, which are:
- To maintain a balanced Budget such that expenditure matches income from Council Tax, fees and charges, and government and other grants and to maintain that position.
 - To maximise the council's income by setting fees and charges, where it has the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs.
 - To ensure a long term sustainable view is taken of any investments and the appropriate risk analysis is provided in considering those.
 - To set a rate for Council Tax which maximises income necessary for the council to deliver its strategic objectives but ensures that government referendum limits are not exceeded. The percentage increase will be reviewed annually.
 - To ensure resources are aligned with the council's strategic vision and corporate priorities.
 - To consider and take advantage of commercial opportunities as they arise to achieve a commercial return.
 - To maintain an adequate and prudent level of reserves.

2. CURRENT FINANCIAL POSITION

2018/19 General Fund Budget Outturn

- 2.1 The final contribution to the General Fund Reserve was £3.8m. This included a net transfer to Earmarked Reserves of £3.2m compared to a budgeted use of £0.9m.
- 2.2 Over recent years, Folkestone & Hythe has established a good track record of maintaining a healthy reserves position. This enables the council to have greater stability and resilience for dealing with current and future financial challenges and uncertainties.

2019/20 Forecast General Fund Budget Outturn

- 2.3 The General Fund Revenue Budget monitoring for the second quarter of 2019/20 is reported to Cabinet as part of this meeting on 13 November 2019.

Based on information to 31 August 2019 there is a projected favourable variance of £514k for the year against the latest approved budget. The reasons for the variance are detailed in the monitoring report and relate primarily to the reduction of rent allowance payments and additional grants received from KCC relating to the Council Tax Reduction Scheme.

- 2.4 The Quarter 2 HRA Monitoring is reported to Cabinet as part of this meeting on 13 November 2019 and sets out the projected outturn for HRA revenue and capital expenditure for 2019/20. The projections, based on actual expenditure and income to 31 August 2019, show there is a projected increase in net expenditure of £241k on the HRA and an overspend of £10k on the capital programme against the £15.6m latest budget.
- 2.5 The latest projection for the General Fund capital programme in 2019/20 is also reported to Cabinet at this meeting on 13 November 2019 and it shows a reduction in planned capital expenditure of £6.2m against the latest budget. The main reason for the reduction is the delay of the next phase of the Coronation Parade coastal defence scheme, Oportunitas phase 2 capital funding and Greatstone Holiday Lets scheme until 2020/21.

Government Funding

- 2.6 In February 2019, the Secretary of State for the Ministry of Housing, Communities and Local Government announced the final local government finance settlement 2019/20. This announcement followed on from consultation on the provisional settlement.
- 2.7 The main points of note from the settlement relevant for this council are as follows:

	2018/19	2019/20	Change
	£'000	£'000	£'000
Settlement Funding			
Revenue support grant	0	0	0
Baseline funding	3,896	3,673	(223)
Settlement funding assessment	3,896	3,673	(223)
Reduction in funding compared to 2018/19	n/a	(223)	(5.7%)

New Homes Bonus

- 2.8 The Government recognises the need for continuity and certainty on New Homes Bonus (NHB) and there were no new changes to the way NHB works in 2019/20. The NHB baseline was maintained at 0.4% and only growth above this level will attract NHB payments.
- 2.9 The council currently receives £1.5m in NHB payments; 79% of this funding is used to support services with the remaining amount set aside within a reserve to fund the additional cost of services.

2020/21 Local Government Finance Settlement

- 2.10 The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, with the current political turbulence around Brexit, it was announced that a one-year

Spending Round would be provided, covering the financial year 2020/21; and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.

2.11 In September 2019 the Government announced Spending Round 19 which delivered an increase in year to year spending across public services of £13.8bn which included:

- additional Social Care funding of up to £1.5bn, partly funded by grant and partly funded by an additional year of the Adult Social Care Precept
- an additional £54m to help reduce homelessness and rough sleeping

2.12 In October 2019 the Government published a technical consultation paper for the 2020/21 Local Government Finance Settlement. The consultation confirms the Government's decision to delay major reform until 2021/22 and its intention to implement a 'roll-forward' of the Local Government Finance Settlement 2019/20, which will provide stability for the majority of funding sources for local government, ahead of a more substantial Spending Review exercise in time for 2021/22. The Government's proposed approach to the 2020/21 settlement includes the following measures that relate to district councils:

- Up-rating the 2019/20 Settlement Funding Assessment in line with the change in the small business non-domestic rating multiplier. Given the planned delay in implementing increased business rates retention the Government proposes not to alter the existing mechanism for determining the tariff and top-up payments in 2020/21.
- A core Council Tax referendum principle of up to 2% (a reduction from 3% in 2018/19) or £5, whichever is greater. The package of referendum principles also include:
 - an Adult Social Care precept of 2% on top of the core principle;
 - and no referendum principles for town and parish councils.
- Committing to retain the top-slice of Revenue Support Grant to fund New Homes Bonus in 2020/21. In addition to funding legacy payments associated with previous allocations, the Government is also proposing to make a new round of allocations in 2020/21 but this will be a one-year only allocation and will not result in legacy payments being made in subsequent years.
- Continuation of elimination of negative Revenue Support Grant (RSG) via foregone business rates receipts. Folkestone & Hythe is not affected by Negative RSG and so this part of the consultation does not directly impact on the Council.

2019/20 FINANCIAL FORECAST

Medium Term Financial Strategy (MTFS)

3.1 The MTFS is the council's key financial planning document. It links the council's strategic priorities with the financial resources required to deliver them. The MTFS covers a four year period, providing the context and framework within which the Budget Strategy is prepared, and considers the implications of the council's approved priorities. It also takes in to account

the uncertainty surrounding the financial climate that the council is working within. The MTFS is updated each year, most recently in October (Cabinet report C/19/26).

- 3.2 The current MTFS forecasts a cumulative funding gap of £4.m over the lifetime of this MTFS. This is based on a 2% annual council tax increase for the period of the MTFS. These will be subject to political decisions at the appropriate time. The table below shows the cumulative deficit over the period of the MTFS.

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Forecast Deficit	358	1,556	2,299	4,007

- 3.3 The current MTFS forecasts a deficit of £358k in 2020/21. This Budget Strategy explains the assumptions underlying this forecast (section 4 below) and proposals for addressing next year's funding gap (section 5 below).

Reserves

- 3.4 Total General Fund reserves at 1 April 2019 amounted to £22.7m, of which £6.5m was held within the General Reserve. The table below shows projected reserves at 31 March 2020 before any application towards new budget growth or initiatives.

Description of Reserve	Balance 1/4/19 £000	Forecast Balance 31/3/20 £000
General Reserve	6,514	3,029
Earmarked Reserves:		
Business rates	5,496	5,863
Invest to save	366	366
Carry forwards	723	379
IFRS	38	31
Vehicles, equipment and technology	637	500
New Homes Bonus initiatives	2,524	2,359
Corporate plan initiatives	404	664
Maintenance of Graves	12	12
Leisure	197	247
Otterpool Park	2,129	561
Economic Development	2,901	4,021
Community Led Housing	437	437
Lydd Airport	9	9
Homelessness Prevention	319	319
High Street Regeneration	0	3,000
Total Earmarked Reserves	16,192	18,768
Total General Fund Reserves	22,706	21,797

4.0 BUDGET ASSUMPTIONS

- 4.1 Appendix 1 explains the changes between the 2019/20 approved budget and 2020/21 budget forecast that have been taken into account in the MTFS. These changes comprise:

	£'000
2019/20 Net Approved Budget (balanced budget)	0
Inflationary Pressures 2020/21	886
Corporate Funding Changes 2020/21 (net)	914
Previously Approved Service Changes 2020/21 (net)	(1,442)
MTFS Forecast 2020/21 Budget Deficit - Before Growth and Savings Proposals	358

MTFS Funding Assumptions 2020/21

- 4.2 Income from Business Rates is based on last year's estimates, pending a full review. The MTFS shows a 2.3% increase compared to 2019/20, largely reflecting an assumed increase in the small business rates multiplier of 2% in 2020/21. This area remains volatile with an uncertain position on outstanding appeals.
- 4.3 A council tax increase of 2% has been assumed pending the final decision by Full Council in February 2020. Based on the latest Local Government Finance Settlement consultation, the maximum increase for 2020/21 without requiring a referendum will be 2%. A council tax base increase of 1.5% per annum and a balanced Collection Fund have been assumed.
- 4.4 Continuation of current New Homes Bonus receipts but no new monies from 2020/21 due to uncertainties around the formula funding review.

MTFS Expenditure and Income Assumptions 2020/21

- 4.5 Additional unallocated net employee costs amount to £731k, covering the estimated costs of a salary award, salary increments, additional savings from Transformation and the impacts of the local government pension fund valuation. An estimated annual increase of 3.0% per annum plus an allowance for increments and estimated pension revaluation in 2020/21.
- 4.6 Contract inflation of £146k has been included in the non-pay budget forecast based on prevailing inflation rates within existing contracts.
- 4.7 An increase of 2% has been assumed in relation to the Internal Drainage Board levy.
- 4.8 Net Interest forecasts a decrease of £72k income compared to the 2019/20 projection.

- 4.9 Fees and charges income assumptions are based on current budgets and existing policies, adjusted for proposed changes as detailed in the Fees & Charges 2020/21 report to this meeting of Cabinet.

5.0 2020/21 BUDGET PROPOSALS

- 5.1 The council will continue to use a range of approaches to address the deficit in the short and medium term, including:
- Reviewing the level of council tax
 - An annual review of fees and charges
 - Pursuing alternative income streams
 - Continuing the use of digital technologies to transform services
 - Exploring appropriate commercial opportunities
 - Growing the local economy
 - Reviewing all services to generate efficiencies
 - Containing new budget pressures within allocated resources, and
 - Considering the use of reserves to help manage year on year variations in income and expenditure.

Budget Growth 2020/21

- 5.2 Service heads and budget holders were also asked to identify any unavoidable budget growth items that were necessary to ensure future service sustainability and address unavoidable budget pressures. These total £1.27m (including ICT growth see 5.5) and are detailed at Appendix 2.

Budget Savings and Efficiencies 2020/21

- 5.3 A rigorous review of the 2019/20 base budget and previous years' outturns has been undertaken by departments in liaison with CLT. This review identified net potential savings and efficiencies of £1m.

Fees and Charges 2020/21

- 5.4 A review of fees and charges has been undertaken and the outcome has been included in a separate Fees & Charges report to this meeting. The proposed changes to fees and charges are anticipated to increase net income receipts by approximately £149k.

The increase comprises:

	£
Increased income	
Hythe Pool	6,000
Household Waste Collection	3,000
Hackney Carriage Licenses	1,500
Recycling & Waste	14,500
Planning Application Fees	13,000
Off-Street Parking	95,000
On-Street Parking	5,000
Street Naming & Numbering	1,800
Cemeteries	7,300
Memorial Benches	2,000
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Total	149,100

Transformation

- 5.5 The Council is currently undergoing a transformation programme which seeks to improve the service to customers, efficiency, resilience and deliver financial savings to support the medium term financial position. In order to improve the ICT systems to underpin the transformation project, investment of £454k has been identified as being required in 2020/21. Further efficiencies and savings are anticipated to be delivered through this programme.

Forecast Budget Deficit 2020/21

- 5.6 Based on the work undertaken to date, the latest forecast deficit is set out below. Members should note that this position will change as more detail becomes available.

	£'000
Forecast deficit – October 2019 MTFS	358
Add: budget growth proposals	816
Add: Transformation ICT costs	454
Less: further savings and efficiencies	(1,003)
Less: increase in income generated	(149)
Less: Use of reserves for one off growth	(230)
Revised Forecast Deficit 2020/21	246

- 5.7 Options for addressing the forecast deficit for 2020/21 are now being considered in preparation for the detailed budget report to Cabinet on 11 December and will take into consideration:
- Any new factors affecting local government funding arising from the Government funding settlement announcements in early December
 - Collection Fund surplus/deficit assumptions, with reference to the latest in-year collection performance
 - The outcome of ongoing work to review the revenue budget savings and growth proposals at Appendix 2, and
 - The action that is being taken to address the residual budget gap.

6.0 HOUSING REVENUE ACCOUNT (HRA)

- 6.1 This Budget Strategy does not explore the Housing Revenue Account further as the council approved on 13 March 2019 a revised HRA business plan for the period 2019 to 2049. This includes the impact of the new rent guidance announced in February 2019 allowing rents to increase by CPI + 1% for 5 years from 2020/21 as well as the continuation of the new build capital programme.
- 6.2 The detailed 2020/21 HRA revenue and capital budgets that will be submitted to Cabinet in December 2019 will be consistent with the agreed business plan.

7.0 CAPITAL PROGRAMME

- 7.1 As part of the Budget Strategy, Cabinet is asked to consider the proposals for new capital schemes to be included in the council's General Fund Capital Programme for 2020/21. Any new capital scheme to be included in the programme will need to contribute to the objectives set out in section 1.3 of this report. New General Fund capital scheme proposals of £385k for 2020/21 are shown in Appendix 3 to this report. Additionally the council's General Fund Medium Term Capital Programme (MTCP) will need to be updated to include recurring schemes planned to continue over the 5 year period to 2024/25. Members are due to receive an update on the Otterpool Park Garden Town scheme later in a report to Cabinet on 20 November 2019. The capital programme implications of both Otterpool and Folkestone Town Centre Regeneration programme which will be considered in due course will be included in budget reports following their approval.
- 7.2 Cabinet is due to consider a separate report as part of this agenda for a £500k capital investment in the Folkestone Beach Chalets scheme being requested by the Trustees of the Folkestone Parks and Pleasure Grounds Charity. All proposed changes to the council's General Fund MTCP are required to be approved by Full Council as part of the budget setting process.
- 7.3 Capital Receipts – the existing MTFS states that a minimum of £500k in capital receipts must be retained as a contingency to meet urgent or unforeseen capital expenditure. The council's general policy is that only capital receipts received should be earmarked to fund capital projects. The only departure from this is ring-fencing the use of future repaid decent homes loans and home safe loans receipts to be reinvested in further private sector housing improvement loans. The latest position regarding the council's available capital receipts to fund capital expenditure, based on the initial capital budget monitoring for 2019/20, is shown in the following table:

Capital Receipts Position Statement	£'000
Receipts in hand at 31 August 2019	(9,819)
Less:	
Committed towards General Fund capital expenditure	1,992
Committed towards HRA capital expenditure	5,336
Ring-fenced for specific purposes	1,262
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(729)

- 7.4 Over the term of the MTFS the council expects to receive approximately £3.6m in capital receipts which it could choose to use to fund its future General Fund capital expenditure plans or retain for investment purposes. This excludes 'Right to Buy' disposals of council dwellings where the retained element of capital receipts are required to be reinvested directly in local social housing initiatives. This also currently excludes any potential future capital receipts that may be generated through the council's current 'invest to save' initiatives. The council has previously adopted the government's Statutory Guidance for the Flexible Use of Capital Receipts. This allows the council to use capital receipts received from General Fund asset disposals

from 1 April 2016 to 31 March 2022 on revenue expenditure that is planned to generate ongoing efficiencies and savings. It is likely that the first call on the forecast £2.6m of capital receipts from asset disposals will be to support the major transformation project the council is undertaking.

- 7.5 Other Capital Funding Sources - in addition to the available capital receipts, the council can choose to use its revenue resources (earmarked revenue reserves and balances) or consider prudential borrowing to fund its General Fund capital expenditure plans. Prudential borrowing will incur a revenue cost to the General Fund in terms of interest and a minimum revenue provision charge (MRP). Therefore, prudential borrowing is best suited to capital 'invest to save' projects, such as Otterpool Park, Connect 38 Offices, Oportunitas Ltd and the Biggins Wood Commercial development, that will provide a net long term financial return to the council allowing for these costs. The current approved MTCP requires about £48.5m of prudential borrowing to support it, some of which will be off set in time by external funding.
- 7.6 Any capital scheme included in the approved capital programme requiring external grant funding to support it will only be allowed to commence once a formal funding agreement has been established between the council and the relevant funding body.

8.0 THE BUDGET TIMETABLE

- 8.1 By early March each year the council is required by law to approve its budget (revenue, capital and HRA) and council tax levels for the forthcoming year. The Full Council meets in February to do this. Advance notice is given in the publication of key decisions to be made.
- 8.2 Detailed guidance on the annual budget preparation process was circulated to officers in August 2019. This guidance covered roles and responsibilities; the links between finance and service planning; expected standards and approach; and the timetable for preparing the 2020/21 Budget.
- 8.3 The 2020/21 Budget timetable is attached at Appendix 4.

9.0 BUDGET CONSULTATION

- 9.1 There is a duty under section 65 of the Local Government Finance Act 1992 to consult ratepayers (or bodies appearing to represent ratepayers) about proposed expenditure, including capital expenditure, prior to calculating the council tax requirement under S31a (England) of the Act.
- 9.2 The objectives for consultation on the 2020/21 budget proposals are to:
- Engage with key stakeholder groups and local residents;
 - Seek feedback on specific budget proposals for 2020/21; and
 - Seek feedback on general spending and income generation priorities.

This will be achieved through making budget information available to the public, inviting feedback and meeting with representatives from the business community.

10.0 RISK MANAGEMENT ISSUES

10.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process.
Assumptions may be inaccurate.	High	Medium	Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed.
Budget strategy not achieved.	High	Low	The budget making process is controlled closely with regular reconciliations against projections.
Incorrect assessment of Local Government Finance Settlement impact.	High	Low	Figures & updates provided by Central Government have been used. The Autumn Budget will inform latest forecasts.
Failure to take action to address forecast medium term financial pressures as well as focusing on the 2020/21 budget position.	High	Medium	Ensure that MTFS forecasts are monitored and timely interventions identified and implemented to address future deficits.

11.0 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

11.1 Legal Officer's Comments (NE)

There are no legal implications arising directly out of this report, subject to the Council ensuring its general fiduciary duties are met, including those of consulting with rate payers and ensuring best value. The Council is required to follow a professional code of practice published by CIPFA and regulations set out by the government, including the Local Government Finance Act 1992.

11.2 Finance Officer's Comments (CI)

The Budget for 2020/21 will be submitted to council in February 2020. This Budget Strategy is the first stage in the detailed budget process and will be used to inform the preparation of budget estimates.

11.3 Diversities and Equalities Implications (CS)

The budget report to Full Council in February 2020 will include an Equality Impact Assessment of the budget recommendations for 2020/21.

12.0 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Cheryl Ireland, Chief Accountant

Tel: 07834 150176

E-mail: cheryl.ireland@folkestone-hythe.gov.uk

Charlotte Spendley, Assistant Director of Finance, Customer & Support Services

Tel: 07935 517986

E-mail: charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Fees & Charges Report 2020/21

Appendices:

Appendix 1 – Movement from 2019/20 Approved Budget to 2020/21 Base

Appendix 2 – General Fund Revenue Growth & Savings Proposals

Appendix 3 – Capital Programme Growth Proposals

Appendix 4 – Budget Timetable