

This report will be made public 15 January 2024.

Report number **C/23/83**

To: Finance & Performance Sub-Committee
Date: 23 January 2024
Status: Key Decision
Head of Service: Lydia Morrison – Interim Director of Corporate Services and Governance
Cabinet Member: Councillor Tim Prater, Portfolio Holder for Finance

SUBJECT: DRAFT GENERAL FUND BUDGET 2024/25

Finance & Performance Sub-Committee are asked to review and note the Cabinet report below that will be presented to the Cabinet on 31st December 2024.

SUMMARY: This report sets out the Council's Draft General Fund budget for 2024/25 and the updated MTFS.

REASONS FOR RECOMMENDATIONS:

The Committee is asked to note the recommendations set out below because they form part of the budget-setting process which will culminate in Full Council approving the budget and council tax for 2024/25 on 28 February 2024, in accordance with the Local Government Finance Act 1992.

RECOMMENDATIONS:

1. To receive and note report C/23/83.
2. To note the budget estimates, as detailed in the report, as the basis for preparing the final 2024/25 budget and council tax recommendations for approval by Full Council in February 2024
3. To note the updated Medium Term Financial Strategy (MTFS) covering between 2024/25 and 2027/28.

1. INTRODUCTION AND BACKGROUND

1.1 Council approved the Medium Term Financial Strategy 2024/25 to 2027/28 (MTFS) on 24 January 2024 and Cabinet agreed the Budget Strategy for 2024/25 on 13 December 2023. These reports considered the council's forecast budget position for 2024/25 from a strategic perspective. This report now sets out the detail for the draft General Fund budget, prior to Full Council approving the final budget proposals and the level of council tax at its meeting on 28 February 2024.

1.2 The budget proposals in this report have been prepared with the assumptions of a 2.99% council tax increase in 2024/25 in line with the latest referendum regulations provided in the Government's Provisional Local Government Settlement that was received by the Council on 18 December 2024. The final decision will not be confirmed until Full Council on 28 February 2024. The Council has a statutory requirement to set a balanced budget and Council Tax annually under the Local Government Finance Act 1992 and Council Tax (Administration and Enforcement) Regulations 1992.

1.3 In addition, to the final level of Council Tax to be set, the following elements of the Budget must also be completed:

- the forecast for Council Tax and net business rates income (NNDR1)
- the final council tax base position as approved by S151 Officer
- the final Local Government Finance Settlement from Government.

These items will be confirmed in the final budget report to Full Council on 28 February 2024.

1.4 The MTFS initially identified a General Fund budget shortfall of £4.501m for the council regarding 2024/25, before making a change to the budget setting approach for 2024/25 to resolve the deficit identified. The Council replaced the incremental budget setting approval with the Priority Based Budgeting (PBB) regarding the 2024/25 budget, having carried out a self-assessment of the Council current budget setting processes. The new approach to budget setting ensures that the Council has a service priority based approach that allocates scarce budget resources to the areas of service that are of highest priorities and delivers the outcomes the Council want to achieve for local people under the new administration.

1.5 The model seeks to ensure that budgets are set and that service areas are resourced to deliver on their priority areas, with any budget savings being made in areas that are considered lower priority.

1.6 The Corporate Leadership Team, Assistant Director and Chief Officers have reviewed current budget allocations and savings proposals. Based on the work undertaken to date and the factors outlined above, the forecast deficit is set out below. The draft budget detailed in this report reflects the changes made as a result of these reviews.

The table below summarises the initial Budget position for 2024/25

	£'000
Forecast deficit – November 2022 MTFS	4,501
Add: Budget growth proposals	679
Add: Inflationary pressures, i.e., waste, pay award, etc.	1,631
Less: Priority Based Budget Savings and efficiencies	(3,657)
Less: 2024/25 Budget - net adjustments	(1,816)
Less: Post 2023/24 Base Budget - net adjustments	(700)
Revised Forecast Budget Gap / Deficit 2024/25	638

2. BUDGET CONTEXT

- 2.1 The budget context and financial climate have previously been set out in the MTFS and Budget Strategy reports. There remain considerable uncertainties in the economy. High inflation and interest rates continue to place significant pressures on Council finances and restrict the ability to forecast and plan, with confidence, for the future.
- 2.2 Although UK inflation and wage growth remain elevated, the forecasts are that Bank Rate has peaked at 5.25%. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September, November and then again in December. The latest update from the Office for National Statistics (ONS) puts the Consumer Prices Index (CPI) measure of inflation at 3.9% in the year to November 2023, significantly less than the 4.6% recorded a month earlier and now at a two-year low. While this figure is much smaller than the 11.1% recorded in the year to October 2022 – a 41-year high – the figure still sits above the government’s long-term target.
- 2.3 The reason inflation continues to remain higher than target is down to a long-lasting legacy of damaging economic conditions. These include a knock-on from elevated energy and food prices – triggered in large part by the ongoing war in Ukraine and Middle East – combined with high interest rates, a tight labour market featuring accelerating wage rises, plus ongoing global supply chain bottlenecks and public sector funding pressures over the near, medium and longer term.

Provisional Local Government Finance Settlement and adjustments to the Budget

- 2.4 The Provisional Local Government Finance Settlement was announced by the Department for Levelling Up, Housing & Communities (DLUHC) on 18 December 2023. The broad approach is based on a uniform roll-over of the core elements of the 2023/24 settlement funding assessment (SFA) however, new additional resources have been made available for one further year consisting of a reduced New Homes Bonus; a 3% Funding guarantee grant and a reduced service grant – plus a CPI multiplier cap compensation for Business Rates. These new resources are in the form of one-year grants and have been welcomed by all councils.

- 2.5 The 2024-25 settlement is effectively the second year of a two-year settlement. Almost everything in the settlement has already been announced, either in the Autumn Statement (22 November 2023), the Policy Statement (5 December 2023), or the response to the technical business rates consultation (14 December 2023).
- 2.6 The settlement continues the series of real terms increases in Core Spending Power that started in 2020-21. Funding increases might not feel very generous to authorities who are wrestling with very significant spending pressures – but they have been higher than the headline rate of inflation and will be again in 2024-25. However, CSP increases are likely to be lower from 2025-26 onwards, and reliant on council tax rises rather than grant increases.
- 2.7 In summary, it has been proven to be a good provisional settlement for Folkestone and Hythe District Council. In particular, the Council benefits from the receipt of additional new grants (one year only) for a reduced New Homes Bonus; a 3% Funding level guarantee and a reduced Service Grant allocation.
- 2.8 The table below summarises the funding gains for the Council as a result of the settlement – it should be noted that these results are subject to final settlement confirmation by the Government which is expected to be received before Full Council meets on 28 February 2024 to approve the final budget and set the statutory level of Council Tax for 2024/25.

<u>Provisional Local Government Settlement (subject to Final settlement)</u>	
Description	£000
SFA (excluding rolled in grants) = Business Rate Baseline	(150,946)
Other Grant (RSG)	(14,064)
New Homes Bonus / Extra 1 year confirmed	(135,703)
3% Funding level guarantee payment	(505,607)
Service Grant Allocation – reduction	127,207
Compensation for under-indexing the business rates multiplier	(141,791)
Net additional funding received from the Government	(820,904)

- 2.9 The Council can increase Council Tax to 2.99% without the need for a referendum. The MTFs had originally factored in a 1.99% increase and the Council has now prepared its detailed Council Tax base for 2024/25 (also subject to approval) and this has resulted in an additional 571 properties being added to the base. The net impact of these adjustments is an additional Council Tax band D equivalent potential yield of £488k, subject to Full Council agreement. It should also be noted that no referendum limits apply for town and parish councils, as was the case last year for 2023/24.

- 2.9 The revised and reduced budget gap for the Council after allowing for the Provisional Local Government settlement and the technical adjustments is shown in the table below:

MTFS Gap - Cabinet 13 December 2023

Description	£000
2024/25 Budget Gap (Cabinet 13 Dec. 2023)	638,000
Provisional Local Government Settlement	(820,904)
Recharges to non-GF accounts revision	(176,795)
Business Rate Income movement	88,978
Additional Growth-Waste Service	47,000
Corporate Initiative & Projects Provision	223,721
(Surplus)/deficit to General Reserve	0

- 2.10 As detailed in the recent Budget Strategy report that was agreed by Cabinet on 13 December 2023, the council's Corporate Leadership Team continues to review and determine a range of approaches to address the future budget gap in the short and medium term. The final Budget report for Full Council will outline the final budget recommendations to ensure a balanced budget is recommended to the Full Council for Council Tax setting purposes on 28 February 2024.
- 2.11 It should also be noted that the Council is still awaiting the final settlement of the pay award for staff, however provision already exists with the MTFS for the payment of this award.

3. DETAILED DRAFT GENERAL FUND BUDGET 2024/25

- 3.1 The draft budget for 2024/25 (including the factors outlined above) is presented in detail at Appendix 1 compared to the original budget for 2023/24. It includes the draft position for the Council's contribution to the Folkestone Parks and Pleasure Grounds Charity, the cost of which determines the special expense falling on Folkestone and Sandgate taxpayers.
- 3.2 The budget estimates are presented on a 'controllable' basis only; all internal service area recharges, capital charges and certain other technical accounting adjustments are excluded. Focus can therefore be on real changes in expenditure and income within a service area.
- 3.3 Table 1 below sets out a summary of the budget. Appendix 1 provides a more detailed breakdown of the budget across service areas.

Table 1: General Fund Summary – with all the updated Budget Pages following

GENERAL FUND SUMMARY	2023/24 Original Budget	2024/25 Original Budget
SUMMARY OF NET EXPENDITURE	£	£
Service Heads		
Finance, Strategy & Corporate Services	8,445,560	7,751,330
Human Resources	683,190	733,260
Governance & Law	2,976,100	3,248,940
Leadership Support	740,960	590,900
Place	6,712,940	6,957,130
Economic Development	413,180	435,800
Planning	165,400	206,080
Operations	2,483,630	2,301,180
Housing	3,048,610	2,971,090
Recharges	(5,919,556)	(6,440,405)
Vacancy Target & Savings Target not included in service heads	33,040	(424,000)
TOTAL HEAD OF SERVICE NET EXPENDITURE	19,783,054	18,331,305
Internal Drainage Board Levies	541,430	585,610
Interest Payable and Similar Charges	2,502,000	2,381,000
Interest and Investment Income	(2,521,000)	(3,043,000)
New Homes Bonus Grant	(365,568)	(135,700)
Other non-service related Government Grants	(4,616,551)	(5,584,550)
Town and Parish Council Precepts	2,801,300	2,801,300
TOTAL GENERAL FUND OPERATING NET EXP	18,124,665	15,335,965
Net Transfers to/(from) Earmarked Reserves	(2,180,000)	57,720
Minimum Revenue Provision	1,625,000	2,325,000
Capital Expenditure funded from Revenue	2,487,000	1,055,000
TOTAL TO BE MET FROM LOCAL TAXPAYERS	20,056,665	18,773,685
Transfer to/(from) the Collection Fund	(59,451)	-
Business Rates Income	(3,921,454)	(4,023,175)
TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND & GENERAL RESERVE	16,075,760	14,750,510
Council Tax-Demand on Collection Fund	(14,289,513)	(14,750,510)
(SURPLUS)/DEFICIT FOR YEAR	1,786,247	-
GENERAL RESERVE – PLANNED USAGE		
Balance at Beginning of Year	-	-
(Surplus)/Deficit for Year	1,786,247	-
BALANCE AT END OF YEAR	1,786,247	-

Service Budget Changes 2023/24 to 2024/25

3.4

	Budget £
Original 2023/24 General Fund Budget	19,783,054
Original 2024/25 General Fund Budget	18,331,305
Change (Reduction)	1,451,749

4.0 MEDIUM TERM FINANCIAL STRATEGY (MTFS) – LATEST POSITION

Medium Term Financial Strategy (MTFS)

- 4.1 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 (as required by best practice - from the Chartered Institute of Public Finance), 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 it was updated and approved by the Cabinet 13 December 2023.
- 4.2 Following the Provisional Local Government Finance Settlement announced by the Department for Levelling Up, Housing & Communities (DLUHC) on 18 December 2023, the MTFS has been updated to include all the recently announced government financial settlement, economic pressures, latest CPI increases, additional borrowing costs, energy costs, service pressures and changes to funding as best known. A Council Tax rise of 2.99% has been assumed so far following the limit outlined in the publication of the local government finance policy statement in December 2023, applicable to 2024/25 budget.
- 4.3 Due to the projected financial resources (including the government provisional settlement) and economic pressures outlined above, the current MTFS forecast shows a cumulative funding gap of £2.78m over the lifetime of this MTFS. The table below shows the cumulative deficit over the period of the MTFS.

Medium Term Financial Strategy Forecast (2024/25 to 2027/28)

Financial Forecast	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000
Deficit / (Surplus)	-	85	717	1,982
Cumulative Deficit	-	85	802	2,783

- 4.4 The MTFS forecasts a balanced budget for the forthcoming financial year 2024/25, following new approach to budget setting, transformation programme, recently announced positive Government Provisional Settlement, etc.

5. RESERVES

5.1 The forecast balance on the General Reserve was reported in the Budget Strategy on 13 December 2023 and the updated balances will be reported to Cabinet on 31 January 2024 as part of General Fund Budget Monitoring. It has been updated to reflect planned use and 2023/24 outturn predictions (budget carry forwards or reserve additions) for inclusion in the final budget reports to Cabinet and Council on 28 February 2024.

5.2 Estimates of changes to Earmarked Reserves are shown in the table below.

Earmarked Reserve	Balance at 1/4/2023	2023/24 Movement		Estimated Balance at 31/3/2024	Purpose
		In	Out		
	£000s	£000s	£000s	£000s	
Business Rates	(1,657)	-	26	(1,631)	To support the Rates Retention Scheme.
Leisure	(497)	-	-	(497)	To meet future leisure improvements.
Carry Forward	(2,298)	-	88	(2,210)	For items of expenditure not incurred or grant & income not applied in the previous financial year
Vehicles, Equipment and Technology Reserve	(277)	(200)	-	(477)	To meet vehicle, equipment and technology replacement needs or improvements.
Maintenance of Graves	(12)	-	-	(12)	Amounts held in perpetuity for grave sites.
New Homes Bonus (NHB)	(409)	-	200	(209)	To fund the anticipated additional cost of services
Corporate Initiatives	(687)	-	500	(187)	To support Corporate Plan objectives and goals.
IFRS Reserve	(5)	-	-	(5)	Accounting code changes support
Economic Development	(1,923)	-	1,364	(559)	Towards the regeneration of the district match funding
Community Led Housing	(253)	-	-	(253)	Ringfenced to support community-led housing
Lydd Airport	(9)	-	-	(9)	Support monitoring the conditions at Lydd Airport.
Homelessness Prevention	(925)	-	90	(835)	Flexibly fund ways to reduce the homelessness
High Street Regeneration	(1,233)	-	528	(705)	Regeneration projects within the district's high street areas.
Climate Change	(4,656)	-	1,155	(3,501)	To fund initiatives to help the Council achieve net-zero carbon emissions by 2030.
Transformation Fund	0	(1,500)	414	(1,086)	Set aside to enable investment in initiatives that will deliver future savings.
VAT Backdated Claim	0	(405)	405	0	Backdated claims refunded by the HMRC
Covid Reserve	(30)	(26)	56	0	To support collection fund deficit
Total Earmarked Reserves	(14,871)	(2,131)	4,826	(12,176)	
Total General Fund Reserve	(7,038)	(458)	1,786	(5,710)	

5. BUDGET PREPARATION – NEXT STEPS

- 5.1 The following items remain subject to confirmation:
- Final Local Government Finance Settlement – due January 2024.
 - Council Tax Base position – is now complete.
 - Town and parish precepts received – by end January 2024
 - Business rates income forecast – NNDR1 submitted to Government by 31 January 2024.
- 5.2 These will be covered in the final budget reports to Cabinet and Council on 28 February 2024, along with details of the special expense charged.

6. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 6.1 The Local Government Act 2003 requires the Council’s Chief Finance Officer to formally give an opinion on the robustness of the budget and adequacy of reserves.
- 6.2 The Chief Finance Officer’s statement will be presented to Council when it considers the budget for 2024/25 on 28 February 2024; it will set out the assumptions used to arrive at the final budget recommendations.

7. BUDGET CONSULTATION

- 7.1 The objectives for consultation on the 2024/25 budget proposals will be to:
- (i) Engage with key stakeholder groups and local residents;
 - (ii) Seek feedback on specific budget proposals for 2024/25; and
 - (iii) Seek feedback on general spending and income generation priorities.
- 7.2 The target audience and communication channels will include:

Group	Channel
Residents	<ul style="list-style-type: none">• Council website and social media• Dedicated e-mail address• Option to submit information by post

- 7.3 Consultation feedback responses will be summarised and reported to the Cabinet on 28 February 2024.

8. CONCLUSION

- 8.1 Cabinet is asked to approve the budget estimates, as detailed in this report, as the basis for preparing the final 2024/25 budget and council tax recommendations for approval by Council in February 2024.

9. RISK MANAGEMENT ISSUES

9.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Deteriorating economic climate	Medium	Medium	Setting of a prudential budget and continuing strong financial control in the Council's decision making. Current inflationary impacts have been modelled into base budget.
Budget strategy not achieved.	High	Low-medium	Close control of the budget making process and a prompt and decisive response to addressing budget issues. Stringent budget monitoring and reporting during 2024/25 and future years.
MTFS becomes out of date.	High	Low	The MTFS is fully 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. Detailed budget has been fully reviewed ahead of proposals made.
Incorrect assessment of Local Government Finance Settlement impact.	High	Low	Current position is based on known information. Position will be updated before February report is presented.

10. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

10.1 Legal Officer's Comments (AK)

Subject to Cabinet ensuring best value and having regard to its general fiduciary duties and those relating to equality, transparency and efficiency, there are no legal implications arising directly out of this report.

10.2 Finance Officer's Comments (OO)

The Budget for 2024/25 will be submitted for approval by Cabinet and Full Council in February. This report is the latest stage in the detailed budget process and will be used to inform the preparation of the final budget proposals.

10.3 Diversities and Equalities Implications (CS)

The budget report to Council in February 2024 will include an Equality Impact Assessment of the budget recommendations for 2024/25.

11. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Ola Owolabi, Chief Financial Services Officer
Office: 01303 853728,
Email: ola.owolabi@folkestone-hythe.gov.uk

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

- Medium Term Financial Strategy 2024/25 to 2027/28
- Budget Strategy 2024/25

Appendices:

Appendix 1 – General Fund Budget Estimates (detail)

Appendix 2 – Amended/Latest Medium Term Financial Strategy.