

ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES

Introduction

The council has a legal duty to produce a balanced budget and must take all reasonable factors into account when doing so. Under the Local Government Act 2003 section 25(1) (b), the Chief Finance Officer (CFO) must advise the council about the **robustness of the budget** and **the adequacy of the council's reserves** when it considers its budget and council tax. The Act requires Members to have regard to this report in making their decisions.

As the council's CFO, I confirm that in my opinion the draft budget is robust, and the proposed level of reserves is adequate in respect of the proposed budget for 2024/25. The reasons for this opinion are set out below.

In presenting this report the Chief Finance Officer is mindful of other associated statutory safeguards designed to support the Council:

- Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the Chief Financial Officer has personal responsibility for such administration.
- Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget.
- The Prudential Code introduced as part of the Local Government Act 2003 sets out the framework within which the authority must manage its investments, including adequate planning and budget estimates.
- The external auditor's duty to assess the adequacy of the authority's proper arrangements to secure economy, efficiency, and effectiveness ('value for money').

To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to all the authority's councillors, in consultation with the Monitoring Officer, if there is or is likely to be unlawful expenditure or an unbalanced budget.

Members should note that if they wish to depart from or amend the draft Budget, the comments within this Appendix may require revision.

Background

The financial pressures faced by Local Authorities are widely known and the sector has undergone significant funding changes in recent years with a shift away from central government grant funding.

Local Government is continuing to deliver services to its residents and businesses during a period of prolonged financial uncertainty and significant change. This uncertainty relates to both the overall UK economy as well as the impact of national policy changes to the way in which local government is funded in the medium / long-term. Demand pressures, high inflation, and interest rates on top of 10+ years of cuts to local government funding have put significant pressure on the budgets of local authorities.

It is important that we continue to manage our resources in a prudent and sustainable way, ensuring that we understand and can plan and manage our risks effectively over the medium term which is why a strong link between our service outcomes and financial measures is imperative.

The Provisional Local Government Finance Settlement figures for 2024/25 were issued on 18 December 2023, with the final settlement being announced on 5 February 2024. Despite anticipation again this year that announcements may be made regarding local government funding reform, no confirmation was given through the settlement (either regarding Fair Funding or Business rates retention). The government focused instead on 'stability and certainty' for the coming financial year and policy principles being set for 2024/25.

The Fair Funding review is now not anticipated to be implemented until 2026/27, so Local Government will need to continue to operate in this short term funding environment for the majority of the term of our current Medium Term Financial Strategy (MTFS). Our Business Rates pooling arrangement with Kent authorities has been confirmed to continue for 2024/25 which will operate under the 50% retention scheme for a further year. The settlement also confirmed a Council Tax increase of 2.99% (or £5) for the Council be permissible under the referendum limits. Whilst it is encouraging that this limit has been stable in the context of current inflationary pressures, this % was far exceeded by other cost pressures to maintain baseline services.

More broadly though the settlement itself was welcomed by the sector and represented a good settlement position for Folkestone and Hythe. The settlement included the continuation of a reduced New Homes Bonus (without legacy payments); a 4% Funding level guarantee; reduced Service Grant allocation and the welcome news that the business rate multiplier compensation grant would compensate councils at CPI. These factors combined improved the funding position for 2024/25 by £995k. These gains are not guaranteed for 2025/26 or beyond at this time.

The Council has in recent year's demonstrated strong financial performance, and in many instances it has been able to add to the reserves in place. Reserves however are finite and were utilised to balance the budget in 2023/24 but will not be utilised for 2024/25. It is important that the council addresses its funding gap and moves away from a reliance on reserves.

Local Government continue to face an exceptionally uncertain financial period with the impact of the cost of living and its significant effects on leisure, arts and culture, retail, fees and charges and more commercial activities undertaken by authorities.

It was felt that some stability returned, albeit that the lack of clarity in terms of long-term funding streams for Councils remained. 2023/24 saw the return of most income streams to pre-pandemic levels, however the war in Ukraine/Israel, cost of living crisis, energy price increases, and most significantly inflation and borrowing rates multiplying have led to an extremely challenging financial period.

Budget managers have once again identified (during the growth and savings exercise) internal savings, through the priority based budgeting process, efficiencies and protected front line services. For 2024/25 the savings identified were exceeded by the essential growth needed, meaning the internal financial landscape for setting the 2024/25 budget was challenging until the implementation of the Council's restructure across all services. The Council's past strong financial performance and robust position means it has reserves to rely upon, but they are a finite resource and cannot be the basis of a long term plan to balance future budget. The Council will need to take further decisions over the next financial year to ensure a sustainable financial position is achievable over the medium term.

Due to the significant economic volatility in the UK during 2023/24 the Council has had to reevaluate a number of key projects due to rising construction and borrowing costs. These decisions have been necessary to ensure the Council remains on a sound financial footing, and due to a combination of the findings of the stock condition survey and the economic pressures faced the Housing Revenue Account is facing some significant challenges over its medium term. Members has received an update to the HRA Business Plan in 2024 and will need to prioritise the calls upon available funding.

The Council must remain prudent in its financial approach in particular until there is certainty about the long term funding of the sector and the Medium Term Financial Strategy gap is addressed.

Robustness of the Estimates

In assessing the robustness of the estimates this statement looks at the key factors and risk areas associated with the proposed 2024/25 budget and how they have been and can be managed.

The MTFS

In considering the budget calculations for 2024/25, regard should be had to the medium term financial position of the council and the future of local government funding. It was anticipated that clarity would have been available regarding the future of Business Rates retention and wider funding by this time but that is not the case. Indications are that the Fair Funding Review will be modelled on 2025/26 and implemented in 2026/27, but proposed dates for consultation and implementation have been set and missed several times in recent years, and therefore no certainty can be given as to when the long-term future of Local Government funding will be addressed. Once firm information is available it will be evaluated and incorporated into an updated MTFS, however this is not anticipated to be in the immediate future. The Council therefore needs to make steps itself to address its funding gap over the term of the current MTFS.

The current MTFs was considered by Cabinet and Full Council in January 2024 (A/23/23) and identified a balanced budget for 2024/25 and over its term (2024/25 2027/28) of £2.783million. In the context of the gross budget, funding sources and reserves availability this is a significant gap to address over the next few years.

The council has various strategies in place to address the medium term funding gap. The multi-pronged approach to achieving a balanced position is set out in the MTFs and Budget Strategy. Specific initiatives include:

- In-year savings from 2023/24
- Re-focusing of Priorities
- Strategic Investments
- Review of Reserves & prudent deployment
- Maximising Opportunities
- 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.

Furthermore, in respect of addressing the budget gap in the coming financial year the following areas form the focus of work for management.

- **Review of Corporate Action Plan**
- **Review of Strategic Projects** - Prioritise and explore rephasing to recognise the financial & capacity challenges faced
- **Review of Ringfenced & Earmarked Reserves**
- **Identification of potential asset disposals** - Assess underutilised assets for potential sale (future funds to be deployed into capital schemes or through flexible capital receipts scheme)
- **Re-evaluation future service demands**
- **Identification of alternative opportunities**

Development of Budgets

For the 2024/25 budget, the Council utilised a budgeting approach known as **Priority Based Budgeting (PBB)**. Having carried out a self-assessment of the Council current budget setting processes, the Council identified a new approach to budget setting that would ensure that the Council have a Priority Based Budgeting (PBB) approach, which 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.

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. The PBB approach allows the Budget Manager, Chief

Officers, Directors, and Elected Members through various budget meetings including the Star Chamber to have the opportunity to provide an input and be involved in setting the priorities, strategy, and direction at the outset of the budget setting process.

The draft budget package prepared by officers considered savings from both corporate reviews as well as departmental proposals, but all should reflect the agreed priorities and focus on the use of resources. This also ensure that members have an opportunity to review the draft budget package and make changes before it is formally submitted to Council. Members would still make the final decisions on budgets as is the case now but with a focus on delivery of priorities and outcomes rather than the detail of every individual proposal.

Following consideration of the MTFS in 2023 and the 2024/25 Budget Strategy together with the proposed Fees and Charges 2024/25 were approved by Cabinet in December 2023.

In January 2024, the 2024/25 General Fund Draft Budget was examined in detail by the Finance & Performance Sub-Committee. The Medium Term Capital Programme and the HRA Revenue and Capital budgets were also presented for scrutiny in January 2024.

This statement accompanies the General Fund Budget and council tax requirement to be considered for approval by Full Council following a final update report to Cabinet on the same day.

This report is the culmination of the budget process; detailed work has taken place behind the scenes with finance officers, budget holders, Chief Officers, Assistant Director and CLT to ensure the budget estimates are robust. In addition to this there have been informal updates to Cabinet and relevant Portfolio Holders.

The budget-setting process commenced with detailed budget guidelines covering the General Fund, HRA and Capital Programme that were issued in August 2023. This aided a consistent approach to preparing the budget estimates. During August, September and October the Finance staff worked with budget holders to review all controllable costs using the priority based budgeting, agree the salary budgets, and build the base budget. Staff establishment salary budgets were prepared based on the approved structure for each cost centre on a post by post basis. Assistant Directors and Chief Officers were asked to work with their budget holders and Finance Officer to assess the need for growth in their areas and identify efficiency proposals. These proposals alongside the proposed fees and charges schedules (developed in accordance with the policy framework) were scrutinised by the Corporate Governance Board, Corporate Leadership Team (CLT) before the incorporation of them in the December round of Cabinet papers.

The budget estimates included assumptions around a number of key factors. The process for determining the 2024/25 budget has again required the majority of budgets to be cash limited with very limited growth being considered. The only budgets that have been adjusted for inflation are salaries and existing inflationary commitments in relation to contracts. A provision for pay awards has been made, as has allowance for the increase in pension contributions. During the growth & savings exercise all

managers were asked to identify potential savings within their service areas and around £3.657m was removed from the base budget as a result of the PBB and restructure exercise.

Estimates have also taken account of the financial implications of the council's Capital Programme and the level of financing required to meet the expenditure demanded. The capital programme is fully funded as presented to Members. This is based on the use of reserves and the investment of future income streams.

The main General Fund capital projects with expenditure planned for 2024/25 include Folkestone – A Brighter Future project (£16.5m) largely met from the Council's successful Levelling Up Funding Bid, Private Sector Housing Improvement initiatives (£1.4m), Rural England Prosperity Fund capital grants scheme (£0.4m) and UK Shared Prosperity Fund capital grants scheme (£0.35m).

The proposed medium term capital programme to 2027/28 includes £10m (profiled over 2025/26 and 2026/27) for the second phase of Folkestone – A Brighter Future project (FOLCA 2) and £26m (profiled from 2025/26) for the provision of a new leisure centre in the district, both of which are key future priorities for the Council.

The main capital investment projects for 2024/25 include further expenditure on the Otterpool Park Garden Town Development (£7.5m) and the completion of the Coastal Drive Seafront Development scheme at Littlestone (£0.7m). The authority's plans to create the Otterpool Park Garden Town Development are now at an advanced stage. Otterpool Park (OP) will provide up to 10,000 much needed new homes over a 30-year period, creating significant economic benefits to the district. The authority, as principal land owner, also expects to gain a financial return from its investment in the Otterpool Park development for the purpose of supporting the delivery of future council services to residents across the district, in addition to the significant placemaking activities at OP itself.

The authority has created the Otterpool Park Limited Liability Partnership (LLP) as a wholly owned subsidiary to deliver the project. The Council has previously agreed making an investment of up to £119m (Land Acquisition £44m and Working Capital £75m) in the LLP through a combination of approximately 10% equity, through a capital contribution, and 90% loan funding, although these proportions may fluctuate at different stages of the project.

On 18 October 2023, Cabinet considered a report providing an update on Otterpool Park detailing the outcomes of the governance, finance, and management reviews to ensure the successful continuation of the key project of the Council. Cabinet resolved that the Council explores third-party investment (public and/or private sector) on a joint venture basis, reporting the outcome to Cabinet for further consideration and decision. The broad principles on which this should be based are proposed as:

- A Joint Venture (JV) between the Council and third party on a strategic, site-wide basis.
- The JV partner to demonstrate a track record of facilitating development at scale, and a commitment to delivering the vision for Otterpool Park.

- The JV partner to share the role, risk, and responsibility as Master Developer for the whole site.
- The Council retaining a significant stake - preferably 51% control.
- The JV partner makes a financial contribution to costs already incurred by the Council.
- The JV agreement to release an early capital repayment to the Council.
- Future profit / returns to be on a shared 'risk and reward' basis; and
- Delivery and financial risk to the Council mitigated to an acceptable level of tolerance.

In October 2023 Cabinet agreed to delegate authority to the S151 officer, in consultation with the Leader to agree a Transition Budget for the OP LLP for inclusion in the Council's 2024/25 budget.

The Budget Strategy process identified –

| | <u>£000</u> |
|---|-------------|
| Budget growth proposals | 679 |
| Inflationary pressures | 1,631 |
| Priority Based Budget Savings and efficiencies | (3,657) |

The Budget includes an assumption of Council Tax increases (including the special expense) of 2.99%. This is within the referendum limit and is an important element in determining a balanced budget both for the coming financial year but also one sustainable for the future. The Government base Council's funding on the assumption that Council Tax has been set at the referendum limits and therefore there is a long-term implication to the available resources of an authority not to do so.

The Council also draws income from the Business Rates scheme. Business rates funding is dependent on the council's ability to retain and grow its business rates base. As a result, estimates have had to be made for the level of income taking into account various assumptions about the number of businesses, appeals against rateable values and levels of collection. Business Rates remains a particularly challenging to estimate during this uncertain economic period, however, I am satisfied with the estimates made and feel they reflect a fair and balanced approach based on the information available at this time.

Mitigating Risks

To assist with mitigating the risks associated with budget preparation there is a CLT contingency within the budget to allow for unforeseen events and to assist with ensuring corporate priorities are delivered. In addition, an earmarked reserves for the delivery of Corporate Priorities and Transformation remains available for use at the direction of the Chief Executive and Leader.

Stringent budget monitoring will continue to be undertaken, with particular emphasis being placed on monitoring income targets, salary costs, high-risk expenditure items and volatile funding sources. Prompt responses to in-year projected variances will be demanded by Cabinet Members and Senior Officers. The financial monitoring system covers both revenue and capital expenditure, and work is being undertaken to bring forward and continually improve the budget preparation process.

The Council has a depth of experienced budget managers across its service areas and a strong finance team. We will continue to provide updates to budget managers and will support finance staff with relevant training and professional development to maintain this position. The experience and knowledge of our budget managers has been demonstrated through the Priority Based Budget Savings/efficiencies savings identified over the last seven months (£3.657m).

Additionally, to strengthen the council's overall approach to risk management this year we have established a Corporate Governance Board, which all Chief Officers & Assistant Director attend. This group of officers have also received further training in this area.

Furthermore, Contract Management/Standing Order training was delivered to all budget managers in the Council in February 2024, with Fraud awareness training being delivered also in February 2024.

In conclusion I am satisfied that officers have undertaken a robust and thorough approach to the setting of the budget for 2024/25. I am satisfied with the estimates in place that determine the setting of the budget and council tax for the coming financial year. The council will continue to assess the position in year, ensure it remains within the budget set and react promptly to address any changes identified. In addition, we will continue to give consideration to closing future budget gaps, acting proactively during the year, and assessing funding updates when they become available.

Adequacy of Reserves

The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). The level of working balances and reserves held by a council is not prescribed. The minimum prudent level of reserves that the council should maintain is a matter of judgment.

The current approach of the council reflects the guidance issued within LAAP Bulletin 99. This sets out that reserves should be held for three main purposes:

- a **working balance** to help cushion the impact of uneven cash flows and avoid the need for temporary borrowing;
- a **contingency** to cushion the impact of unexpected events or emergencies;
- **earmarked reserves** to meet known or predicted requirements.

The Council held £14.871m in Ringfenced/Earmarked Reserves and £7.038m in the General Reserve on 1 April 2023, and through this budget setting process anticipates holding £12.176m in Ringfenced/Earmarked Reserves and £5.710m in the General Reserve by 31 March 2024. Whilst there are movements anticipated both contributing to and withdrawing from, the council is managing its reserves position prudently, and

will need to continue to do so over the coming year. Caution does need to be noted however, reserves can only be applied once and whilst the Council has a prudent record of building reserves over a number of financial years, it has drawn on them in the last three years.

The Council must address over the coming years its longer term funding issues to remain in a robust position. The Council also has ambitious plans to deliver upon, so must take steps to ensure it remains in a strong financial position, and able to deliver on its ambitious agenda.

This position is also reflected in the CIPFA Financial Resilience Index which identified the council as towards the higher end of the risk profile when compared to 'nearest neighbours' in considering indicators of financial stress in respect of our reserve's positions. It should be noted the reserves sustainability measure (which considers current levels of reserves and average changes in levels of reserves) remains at average risk.

There are serious consequences of not keeping a minimum prudent level of reserves as the council would be unable to manage unexpected events and need to make decisions which could have a detrimental impact on the communities it serves.

The council reviews annually the adequacy of the reserve levels taking into account the council's exposure to risk, the systems of internal control, the robustness of the estimates, adequacy of financial management arrangements, our track record on budget monitoring, the strength of financial reporting, capacity to manage in year budget pressures and cash flow requirements to determine appropriate levels for the reserves. The monitoring and control systems in place are robust and identify at an early stage any significant variations within the council's activities.

The council also needs to consider unexpected draws on reserves due to the challenging economic climate and decisions that need to be taken to maintain the financial viability of the Council. Members considered a paper in June 2023 on the Princes Parade project, which determined that the Council would pause the construction of the new leisure centre on this site. Hoardings are being removed to be used elsewhere and there will be a significant draw required from reserves for the project not being progressed and the current capital expenditure amount will need to be written off to revenue.

The Medium Term Financial Strategy outlines the proposed required minimum level of reserves (General Fund £1.5m; HRA £2.0m) and also how we would assess the adequacy of our reserves levels.

Conclusions

Having considered the current level of reserves held, the anticipated levels of reserves through to end of 2024/25, the proposed budget, and the financial controls & reporting in place I am satisfied that the required minimum level of reserves remain appropriate, and the level of reserves held are appropriate, robust, and sustainable at this time.

Statements of the Section s151 Officer

Section 151 Officer - Statement on the Robustness of the Budget.

“The District Council is recommended to note that, in my opinion, the estimates used in the production of the budget proposal for 2024-25 are adequately robust”.

Section 151 Officer - Statement on the Adequacy of Reserves

“Based on the assessment of the reserves and contingencies, the key financial risks identified, and the thorough process used for developing the Medium-Term Financial Plan, I have determined that the level of reserves and balances for 2024-25 is adequate.”

Lydia Morrison,
Interim Director Governance and Finance Services (S151 Officer)
12 February 2024.