



Agenda

Meeting: **Extraordinary meeting of the Council**
Date: **10 February 2022**
Time: **7.00 pm**
Place: **Council Chamber - Civic Centre Folkestone**

To: **All Members of the Council**

YOU ARE HEREBY SUMMONED to attend an Extraordinary meeting of the Council on the date and at the time shown above.

Anyone who wishes to have information on any matter arising on the Agenda which is not fully covered in these papers is requested to give notice prior to the meeting to the Chairman or appropriate officer.

This meeting will be webcast live to the council's website at <https://folkestone-hythe.public-i.tv/core/portal/home>.

Although social distancing rules have been relaxed, for the safety of the public, elected members and staff, we will continue to seat members of the public approximately one metre apart. This means that there will be 13 seats available for members of the public, which will be reserved for those speaking or participating at the meeting. The remaining available seats will be given on a first come, first served basis.

All attendees at meetings are kindly asked to wear face coverings, unless they are addressing the meeting.

Dr Susan Priest
Chief Executive

Queries about the agenda? Need a different format?

Contact Jemma West – Tel: 01303 853369
Email: committee@folkestone-hythe.gov.uk or download from our
website
www.folkestone-hythe.gov.uk

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 3 - 4)**

Members of the Council should declare any discloseable pecuniary interest or any other significant interests in any item/s on this agenda.

3. **Change in Governance arrangements - Progress of the Governance Working Group (Pages 5 - 18)**

This report summarises the work of the group to date and sets out the various governance models available.

4. **Appointment of external auditor (Pages 19 - 26)**

This report sets out an update on the options available and a recommended course of action regarding the appointment of the External Auditor to the Council, following consideration by the Audit & Governance Committee on 8 December 2021 (AuG/21/19).

5. **Senior management restructure (Pages 27 - 36)**

This report seeks the council's approval to meet the costs of the redundancy (of the post) of the Director of Transformation & Transition.

6. **Budget Strategy 2022/23 (Pages 37 - 60)**

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 2022/23.

This Budget Strategy sets out the guidelines for preparing the 2022/23 Budget. It supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

7. **Update to the General Fund Medium Term Capital Programme (Pages 61 - 78)**

This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2027. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. The report also updates Members on the required capital budget and proposed funding for the Princes Parade scheme following the two stage procurement process for the construction contract and the anticipated residential development capital receipts.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Agenda Item 3

This Report will be made public on 2 February 2022



Report Number **A/21/22**

To: Council
Date: 10 February 2022
Status: Non - executive decision
Responsible Officer: Susan Priest, Chief Executive

SUBJECT: CHANGE IN GOVERNANCE ARRANGEMENTS –
PROGRESS OF THE GOVERNANCE WORKING GROUP

SUMMARY: This report summarises the work of the group to date and sets out the various governance models available.

RECOMMENDATIONS:

1. To receive and note report A/21/22.
2. To note the work of the Governance Working Group.
3. To note the next steps, set out in paragraph 2.1 of the report.

1. INTRODUCTION

1.1 On 25 September 2019, Full Council resolved:

“RESOLVED:

That this Council believes that all Councillors should have the ability to participate fully in decision-making and that a range of governance options are available. This council believes that a cross party working group of all group leaders should be set up to consider the issues of moving to a committee system, or an alternative system, at the earliest opportunity reporting back to council.” Council 25 September 2019 (minute 43.2).

1.2 Following on from the decision, a Governance Working Group was created, and have met four times. As a result, various changes have been made to the council’s governance arrangements.

1.3 At their meeting on 27 February 2020, the Working Group agreed a set of Goals for Change in Governance. The goals were based on a series of conversations with Group Leaders, and discussion points made at the Working Group meetings. The update below sets out the goals agreed by members, and describes progress made against each of them (shown in italics).

1. Inclusiveness – more Councillors should be involved in making decisions. Currently (at the time of writing in January 2020), 7 out of the 30 Councillors make decisions in Cabinet. The aim should be to increase the percentage of Councillors who have a role in making policy and service decisions.

***Progress** – On 1 February 2020, both the Green and Lib Dem Group Leaders joined the Cabinet and the number of Members on the executive increased to 9. The Labour Group Leader was also invited to join at this time, but declined to accept the offer making the Labour group the only party not holding an executive position.*

Since February 2020, the Executive has consisted of 5 Conservative, 1 Lib Dem, 1 Green, 1 Independent group leader and 1 independent member.

Four of nine portfolio holders are not members of the largest political group. The 4 portfolios held are:

- *District Economy – Independent group*
- *Environment – Green group*
- *Revenues, Benefits, Anti-Fraud and Corruption – Lib Dem group*
- *Transport and Digital Transformation – Independent group*

Since the start of this broader more inclusive executive, there have been 20 meetings held (as at 31 January 2022).

In addition, the creation of a number of theme-based Working Groups has also resulted in many more members being included directly in contributing to policy and service decisions at an early stage. To date, a total of 38

Working Group meetings have been held (up to 31 January 2022) involving at least 30 members.

Name of Working Group	Start date / end date	Current Membership	Number of meetings
<i>Corporate Plan</i>	<i>6 November 2019 - 1 July 2020</i>	<i>Councillors Monk (Chair), Mrs Hollingsbee, McConville, Meyers, Prater and Whybrow</i>	<i>3</i>
<i>Otterpool Park</i>	<i>7 October 2019 – 23 July 2020</i>	<i>Councillors Monk (Chair), Fuller, Keutenius, J Martin, Mullard and Wimble.</i>	<i>8</i>
<i>Folkestone Town Centre</i>	<i>30 October 2019 – ongoing</i>	<i>Councillors Brook (Chair), Davison, Monk, Prater, Wade and Wimble.</i>	<i>10</i>
<i>Climate and Ecological Emergency</i>	<i>18 October 2019 – ongoing</i>	<i>Councillors Whybrow (Chair), Fuller, Hills, McConville, Meyers, Wimble</i>	<i>13</i>
<i>Governance working group</i>	<i>5 November 2019 - ongoing</i>	<i>Councillors McConville, Meyers, Monk, Prater, Whybrow and Wimble (Chaired by LGA/CfGS).</i>	<i>4</i>

In addition, since September 2019, members have been invited to attend a total of 14 Member briefings (as at 31 January 22), on various topics of interest to the council including Otterpool Park, the Folkestone Place Plan, the Climate Emergency, and a demo of MyAccount. All councillors are invited to attend these briefings.

- 2. Representation** – currently, some communities in Folkestone and Hythe, represented by the Green, Labour and Liberal Democrat parties, have no representation in the main decision making processes of the Council. Change should ensure that more communities feel represented in the way decisions are made, and ensure effective engagement with the public.

Progress – As per point 1, the executive now has broad representation from various wards, and political groups. In addition, the changes to Overview and Scrutiny have resulted in stronger pre-decision scrutiny through a clear well planned and articulated work plan which helps deliver

greater inclusiveness and representation (also see point 4 below). Furthermore, members of our communities were surveyed as part of the Corporate Plan preparatory work, and many more surveys and consultations have taken place to secure the views of residents and other interested parties in subsequent policy development and decision-making.

- 3. Accountability** – the current system of portfolio holders gives clear accountability and responsibility for the decisions that are made. Any change should ensure that clear accountability remains.

***Progress** – The current executive system with portfolio holders has not changed, but since the changes to broaden cabinet membership there are now 4 portfolio holders who are not Conservative members (see above, representing a 55% 45% split). In addition, the expectation now is that portfolio holders present reports to the Overview and Scrutiny Committee which clearly identify this broader member accountability for reporting, for policy development, for decision-making, and for subsequent service improvements.*

In addition, a published annual forward plan for scrutiny and for decision-making makes this aspect of accountability more transparent.

- 4. Effective Scrutiny** – strong scrutiny is to be encouraged. In particular, there should be more emphasis on pre-decision scrutiny to ensure that proposals are explored in detail before decisions are made. In a Committee system this can be achieved through ensuring that each Committee has a clear role in ensuring effective scrutiny. In a Cabinet system, the Overview and Scrutiny Committee can have a stronger and more influential role in decision making (eg the Kirklees model) and not just scrutinising decisions once they are made. A process for call in will remain necessary.

***Progress** – A lot of work has been undertaken in making the Scrutiny function more effective, with the support of the Centre for Governance and Scrutiny (CfGS). Previously, the OSC would see Cabinet reports the night prior to Cabinet, which gave them little opportunity to have any meaningful considered impact. One of the main changes made was that OSC would have an opportunity to scrutinise topics at an earlier stage in development. On 6 October 2020, the Scrutiny Committee adopted an Overview and Scrutiny and Cabinet Members protocol. In addition, the structure of the work plan was revised to allow an average of two topics per meeting (12 topics in total, 3 of which held as ‘reserves’), enabling the Committee an opportunity for more in-depth exploration and scrutiny on each topic. In addition, on 6 October 2020, the Committee agreed to create a dedicated Finance and Performance Scrutiny Sub-Committee to receive detailed finance and performance quarterly monitoring reports. The Sub-Committee is chaired by the Leader of the Opposition and has met 6 times thus far. These changes are still at a relatively early stage but offer a dedicated opportunity to discuss in detail the performance and budget matters of council.*

- 5. Efficiency** – the current model is reasonably streamlined. Any change should not increase the overall number of meetings that are held in any year and should be mindful of the capacity of Members and officers alike to attend or service meetings. Any change should not lead to any significant increase in the costs of the Council’s decision making.

***Progress** – The changes made to the Scrutiny function have focused the work of the Committee, allowing more time within each meeting to explore in depth the specific topics on the Scrutiny work plan of importance to members. Overall, many more meetings have been held (see above for a review of Working Groups and all member briefings) and in the current resource base there is no capacity to increase this further.*

- 6. Transparency** – the forward programme of decisions and the reasons for decisions, once made, should be communicated clearly to all Councillors and to residents and businesses in the District. The number of meetings held in private or confidential papers should be minimal.

***Progress** – The forward plan of cabinet decisions has been adapted to show forthcoming decisions for a three month rolling period, whereas previously only key decisions were published, as per the statutory duty of the council. This wider forward look has improved transparency in forthcoming decision-making.*

The number of confidential papers has been significantly reduced, and for the municipal year 2020/21, only 4 Cabinet reports out of a total 71 were considered in private, three related to contractual matters regarding the waste contract, and one related to the Otterpool Park Business Plan - financial plan. Where possible, reports now tend to have a ‘confidential annex’, allowing for debate to take place in public based on the available information with restricted information kept to the minimum on ‘pink’ papers. In addition, where appropriate, redaction of sensitive information is used to allow for items to be considered in public wherever possible.

In addition, the Folkestone Parks and Pleasure Grounds Charity Trustee meetings are now a meeting held in public with papers being treated in a similar way to those for council meetings.

Transparency remains a key element of focus in the current Corporate Plan and will continue to be an important issue embraced through the culture of the council.

2. NEXT STEPS

- 2.1 At the meeting of the Governance Working Group, held on 11 October 2021, it was agreed that a report prepared by the Centre for Governance and Scrutiny (CfGS), setting out the work to date and factors for consideration in changing governance models, be considered at Full Council in January/February. The report would be for noting, and a decision would then be put to Full Council at the Annual meeting in May 2022, and subject to that decision, any changes to existing governance arrangements would take effect from May 2023.

2.2 The report prepared by the CfGS is therefore set out at appendix 1 to this report.

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's Comments (AK)

Any legal issues are covered in the main body of the report.

3.2 Finance Officer's Comments (LW)

There are no financial implications arising directly from this report

3.3 Diversities and Equalities Implications (GE)

There are no equality or diversity issues arising as a result of the report.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Jemma West

Phone: 01303 853 369

Email: Jemma.west@folkestone-hythe.gov.uk

APPENDIX 1 – CfGS report

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

Minutes of the Governance Working Group meetings

FOLKESTONE & HYTHE: OPTIONS FOR GOVERNANCE CHANGE

1. This report has been prepared by the Centre for Governance and Scrutiny (CfGS) on the factors for consideration when contemplating governance changes. It has been prepared as an independent report, at the request of the Governance Working Group, following their meeting on 11 October 2021.

2. Background

- 2.1 *“That this Council believes that all Councillors should have the ability to participate fully in decision-making and that a range of governance options are available. This council believes that a cross party working group of all group leaders should be set up to consider the issues of moving to a committee system, or an alternative system, at the earliest opportunity reporting back to council.” Council 25 September 2019 (minute 43.2).*
- 2.3 Council made this resolution in 2019, and since then (subject to delay owing to the pandemic) steps have been taken to establish a working group to consider the topic in more detail, and to review options for change.
- 2.4 This paper sets out the result of this work, which has been led by Andrew Campbell at the LGA and more recently by Ed Hammond at the Centre for Governance and Scrutiny.

3. Goals for Change

- 3.1 A key element of this work was the early agreement of a set of “goals for change”, which set out design principles that need to be satisfied in the design of any new system. The approach of agreeing principles to govern the process is recommended in the CfGS publication “Rethinking governance”.
- 3.2 Members of the Working Group agreed the following “goals for change” in February 2020:
 1. **Inclusiveness** – more Councillors should be involved in making decisions. Currently, 7 out of the 30 Councillors make decisions in Cabinet. The aim should be to increase the percentage of Councillors who have a role in making policy and service decisions.
 2. **Representation** – currently, some communities in Folkestone and Hythe, represented by the Green, Labour and Liberal Democrat parties, have no representation in the main decision making processes of the Council. Change should ensure that more communities feel represented in the way decisions are made, and ensure effective engagement with the public.

3. **Accountability** – the current system of portfolio holders gives clear accountability and responsibility for the decisions that are made. Any change should ensure that clear accountability remains.
4. **Effective Scrutiny** – strong scrutiny is to be encouraged. In particular, there should be more emphasis on pre-decision scrutiny to ensure that proposals are explored in detail before decisions are made. In a Committee system this can be achieved through ensuring that each Committee has a clear role in ensuring effective scrutiny. In a Cabinet system, the Overview and Scrutiny Committee can have a stronger and more influential role in decision making (e.g. the Kirklees model) and not just scrutinising decisions once they are made. A process for call in will remain necessary.
5. **Efficiency** – the current model is reasonably streamlined. Any change should not increase the overall number of meetings that are held in any year and should be mindful of the capacity of Members and officers alike to attend or service meetings. Any change should not lead to any significant increase in the costs of the Council's decision making.
6. **Transparency** – the forward programme of decisions and the reasons for decisions, once made, should be communicated clearly to all Councillors and to residents and businesses in the District. The number of meetings held in private or confidential papers should be minimal.

4. Progress

4.1 Since the agreement of these goals, a number of tangible steps have been taken to improve current practice. Some of these include:

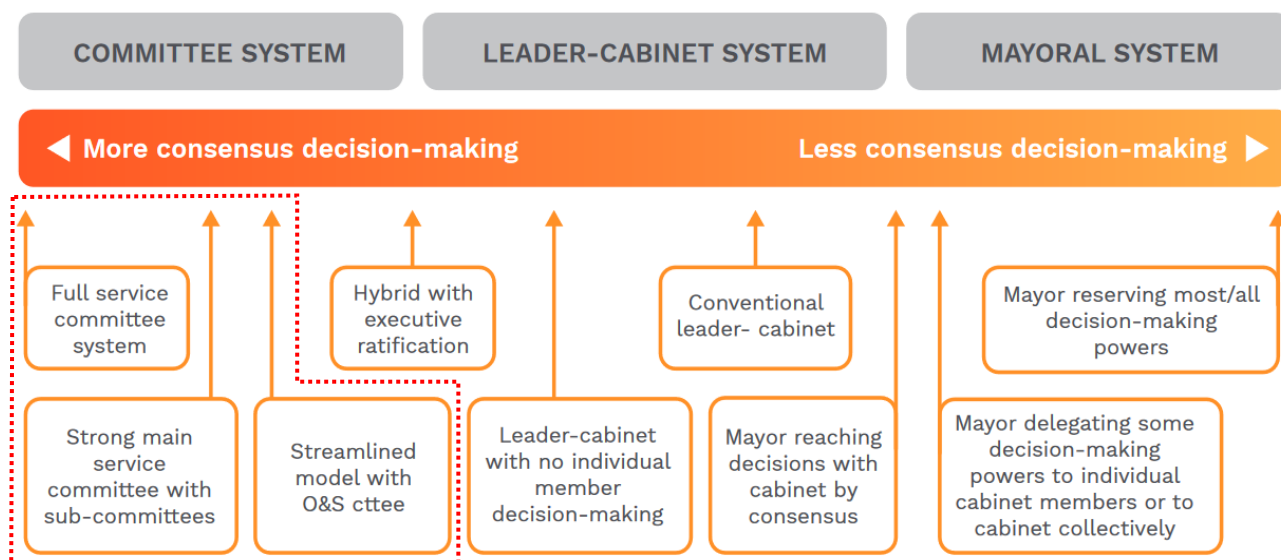
- Improvements to the scrutiny function, in particular the practice of pre-decision scrutiny and the regular review of performance and finance monitoring information. Members of the Working Group note that these arrangements are still relatively new;
- The introduction of a wide range of working groups and all-member briefings, drawing more councillors into decision-making and ensuring that they are all better informed. Members of the Governance Working Group note that attendance by members at some other working groups is fairly low;
- A reduction in the use of confidential papers to support decision-making, which Governance Working Group members have welcomed.
- Appointments to Cabinet have been made on a cross-party basis. An offer has been made to the Labour Group to take up places on Cabinet, but this is not an offer that they have been able to accept. It remains the case that a politically-balanced Cabinet cannot be formally specified in the constitution, and its continuation depends on the majority party.

5. The spectrum of opportunities

5.1 It is worth noting that there are no clear “pros and cons” between different models – the most important thing is culture - the behaviours, values and attitudes of those operating within the system. While structural change can help to embed changes to culture, it will not bring it about automatically. For example, while it is the case that under the leader-cabinet system a majority party holds all legal decision-making power, this is in a practical sense also the case on the committee system, where a

majority party would have most seats on any committee, and hence would be able to win any votes. Ultimately, this reflects the decision of electors.

- 5.2 Governance can most usefully be thought of as being a spectrum, with a range of models being available between those offering most consensus decision-making, to those offering least consensus decision-making – as shown in the diagram below.



6. Options overall

1. Continue with the current pace of evolution of the current arrangements;
2. Accelerate that change by adopting more obviously “hybrid” governance systems;
3. Formally change governance option by adopting the committee system (outlined in the red dotted line in the diagram above).

6.1 We recommend that members contemplate these options further.

6.2 Option 1: The current pace of evolution

A range of positive changes to governance have been made since the “goals for change” were agreed. While these may not have gone far enough for some members, and while some members may be uncertain about the prospect that evolution of the current system at the same pace will deliver their “goals for change”, we think that there may well be opportunities here that could well go some distance to meet expectations without requiring a significant shift to new governance arrangements which would inevitably come with a degree upheaval and disruption.

6.2.1 These might include:

Inclusiveness: more, and more effective, pre-decision scrutiny on matters that are complicated or contentious. Unlike under a hybrid or committee system this would focus member discussion on the matters of greatest importance – but this would require ways to agree on what those matters would be;

- 6.2.2 **Representation.** Cabinet would still be the primary decision-maker under this system. Additional opportunities to feed in would be informal, rather than being provided as a matter of right.
- 6.2.3 **Accountability.** Individual and collective accountability are clear in the Cabinet system, being provided for through both officer delegation and decision-making delegation to individual Cabinet members.
- 6.2.4 **Effective Scrutiny.** A key component of the Cabinet system is strong and effective scrutiny, and options also exist here for improvement. More, and more effective, pre-decision scrutiny along the lines discussed above is an obvious option. We also think that the opportunity is present to strengthen the way that councillors review and oversee performance information, and other management data about how services are delivered. In combination with member-led audit functions, there is also an opportunity to more generally strengthen financial scrutiny.
- 6.2.5 **Efficiency.** The leader/cabinet system is generally regarded as “efficient” inasmuch as it makes it easier to make decisions quickly and flexibly, and without convening significant numbers of meetings. However, it should be noted that taking action to enhance inclusivity, accountability and so on may negatively impact on “efficiency” in its narrowest sense.
- 6.2.6 **Transparency.** There are a variety of ways under leader/cabinet to enhance transparency. The council could publish process maps and flow diagrams demonstrating more clearly how different decisions are made. This could inform the Forward Plan. Consistent publication of background papers and systems for dealing with member enquiries (including overhauling relevant systems) have also been adopted elsewhere to enhance transparency. There are obviously resource implications for officers here.
- 6.3 **Option 2: Adopting “hybrid” governance systems**
- 6.3.1 Hybrid systems are generally (legally) leader-cabinet systems with committee system characteristics. This involves the introduction of more radical, structural changes to the way that the council does business.
- 6.3.2 A number of councils have chosen to adopt hybrid arrangements. This generally involves the creation of new formal member structures to provide spaces for member decision. This can for example involve:
- The conversion of scrutiny committees into policy development, or “pre-decision”, committees, where all matters due to be dealt with on the Cabinet agenda are brought before decision. These committees become a place for debate, and then a relevant recommendation is made to Cabinet, which effectively “rubber-stamps” those recommendations to convert them into a formal decision;
 - A similar system to that described above, but where the committees in question are committees of Cabinet, rather than scrutiny committees. Under this model, the chairs of these committees might be Cabinet members, who are empowered to make decisions based on the committee’s recommendations immediately. This can be seen as offering clarity over where accountability and oversight arrangements lie. However, we are aware that involvement in those committees may prove challenging for one minority party on the Council, which is not permitted by its national rules to be involved formally in decision-making systems.

- 6.3.3 Some councils operating hybrid systems will also establish a business committee for Council (often styled as a General Purposes Committee) to provide cross-party ownership for the Council's overall policy agenda.
- 6.3.4 These systems have been adopted in a number of councils and appear to work well. However, they raise some challenges (outlined below) which are pertinent to the "goals for change" and F&H's needs.
- 6.3.5 Assessing against the goals for change
- 6.3.6 **Inclusiveness.** A hybrid form of governance would increase the number of councillors involved in decision-making. However, legal decisions would still only be made by Cabinet, and where delegated to individual Cabinet members and officers, as under the current system. Legally, any new committees could only recommend the adoption of certain decisions, much like the various Working Groups can do now under the current system.
- 6.3.7 **Representation.** Under a hybrid system decision-making would still be the role and responsibility of Cabinet, even though arrangements would look and feel more pluralistic.
- 6.3.8 **Accountability.** Hybrid systems can "fudge" the issue of where a legal decision is made. Legally, Cabinet makes the decision although a political commitment is usually made that the decision will reflect the recommendation of a committee. However, that political commitment can be withdrawn, and this lack of stability and absolute certainty can cause problems in a council with complex political balance arrangements and/or where an issue under consideration is especially controversial.
- 6.3.9 **Effective Scrutiny.** Hybrid systems do not necessarily strengthen scrutiny. Where scrutiny committees are used as the vehicle for policy development discussions, there is the risk that wider challenge over the organisation's strategic direction can be lost, because these committees become de facto "decision-making" bodies rather than ones holding a decision-maker to account.
- 6.3.10 **Efficiency.** The risk is that councils operating hybrid arrangements end up establishing new committees and similar structures to provide more space for member discussion, and that these end up sitting in addition to Cabinet. For example, establishing cabinet committees and/or a separate General Purposes Committee, as set out above, would present significant risks here and demand additional resources.
- 6.3.11 **Transparency.** A hybrid system would not necessarily be automatically more transparent. It would be necessary to take additional steps – including those set out in the section above on "The current pace of evolution" – to achieve these measures.
- 6.3.12 We think that members should not take forward further discussion on the adoption of "hybrid" models, which involve significant structural changes. While these work for many councils, we do not consider that these align with members expectations as set out and agreed in the "goals for change".
- 6.4 **Option 3: A formal change of governance**
- 6.4.1 Councillors may alternatively consider that the best way to meet the goals for change would be to make a formal change to the council's governance system. Currently the council operates under the leader-cabinet system. Two alternative governance options are available – the committee system and the Mayoral system.

6.4.2 The three most common structural approaches for councils operating the committee system are:

- **A full-service committee system:** in which individual service committees have the freedom to make decisions in their remit, and cross-cutting decisions go to multiple committees for signoff. All the committees would be responsible for implementation in their relevant service area, working within the overall policy and budget framework as determined by full Council. Committees will also consider and develop policy for recommendation to Council for approval. The Working Group has established that this is not a model that would work for Folkestone and Hythe, not least because it would not meet the goal on “Efficiency”.
- **Strong main service committee with service committees:** in which a co-ordinating committee (which in most models usually has a name like “Policy and Resources” or “Strategy and Resources”) has an overarching role in setting corporate policy. This committee usually deals with major cross-cutting issues itself and may have the chairs of other committees sitting on it, and it may also set the agendas for those other committees.
- **Streamlined approach:** in which councils operate what was termed a “streamlined” model – with only a couple of service committees, a strategy and resources committee and (usually but not always) a separate scrutiny committee. The Working Group felt that, if it was concluded that a change in formal governance option was justified, this would be the preferred model.

6.4.3 Any new approach, which meets the “goals for change”, would need to take account of:

- Committees’ work programmes. Service committees can focus on policy development, but in order to influence forthcoming decisions members could reasonably expect to consider issues before a formal decision is developed. This satisfies members’ need for inclusivity but raises challenges on the weight of agendas – and the number of times that members might expect the same matter to be brought to a member forum before a decision is made. For more complex decisions, it might be better to run workshops for members or even to establish working groups – but this also raises serious challenges for workload. Councils operating the committee system take different approaches – in some, members’ involvement in decision-making is limited to discussing the matter in committee and then taking a vote, but this is not in line with the agreed goals for change;
- The frequency of committees. Not all committees have to meet with the same frequency, but meetings will need to be regular in order to ensure that decisions can be made promptly and effectively;
- The role of chairs. In some committee system councils, chairs are effectively “lead members”, taking responsibility for liaison with service departments and informal conversations with senior officers in the same manner as a cabinet member. The main difference is that the chair has to consider the interests of the wider committee, and presumably needs to act subject to the committee’s wishes. The constitution would need to be clear as to the roles and responsibilities of chairs – and the assignment of additional lead members for particular subjects if this is thought necessary to satisfy the “accountability” goal for change;
- The role of officers. Arrangements for the delegation of decisions may need to be different under the committee system. Councils operating the committee system often take the opportunity to consider powers of delegation in favour of members, sometimes by slightly reducing financial thresholds. Sometimes changes are

made, but more informally – for example by introducing an expectation that a committee will be consulted on the development of certain decisions.

6.4.4 Assessing against the goals for change

6.4.5 **Inclusiveness:** a wider range of members are directly involved in the legal act of decision-making. However, members will need to consider how, within the committee system, they expect also to be involved in policy development, and the conversations leading up to formal decision-making.

6.4.6 **Representation.** All parties have a stake in decision-making under the committee system, through taking votes in committee and at Council.

6.4.7 **Accountability.** Accountability for decision-making is held by all councillors in the committee system – however many councils have found it useful to identify “lead members” for specific issues to ensure that policies can be discussed and taken forward between meetings. These people would have no legal powers to make decisions but could be appointed by service committees to ensure that committee business is taken forward promptly and effectively by officers.

6.4.8 **Effective Scrutiny.** It is not a requirement of the committee system that councils appoint a scrutiny committee, and many have chosen not to. Councils who have chosen to appoint a scrutiny committee have tended to focus the work of that committee on matters external to the council (and in particular the role of partners). Scrutiny committees under the committee system can also provide assistance to service committees on monitoring performance, which is something that service committees can find themselves with limited time to do effectively.

6.4.9 **Efficiency.** While the committee system has in the past been criticised as “inefficient”, councils have managed to successfully design ways of working to ensure that decisions can be made quickly, flexibly and effectively. This requires terms of references of committees to be clear and, in particular, for there to be clear rules for managing decision-making where more than one committee’s interests are effective. It also requires that decisions not be subject to further review or onward reference to bodies such as Council.

6.4.10 **Transparency.** Councils operating the committee system usually find it necessary to overhaul systems to share information with councillors, as more councillors are involved in the decision-making process. The early sharing of reports in draft and the systematising of the way that management information is addressed seems to be an essential part of committee system operations. As noted above, there are resource implications on this for officers.

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This Report will be made public on 2 February 2022



Report Number **A/21/26**

To: Council
Date: 10 February 2022
Responsible Member: Cllr David Monk, Leader of the Council
Cllr Philip Martin, Chair of Audit & Governance Committee
Responsible Officer: Charlotte Spendley, Director of Corporate Services

SUBJECT: APPOINTMENT OF EXTERNAL AUDITOR

SUMMARY: This report sets out an update on the options available and a recommended course of action regarding the appointment of the External Auditor to the Council, following consideration by the Audit & Governance Committee on 8 December 2021 (AuG/21/19).

RECOMMENDATIONS:

1. To receive and note report A/21/26.
2. To accept the recommendation of the Audit & Governance Committee to enter into the procurement exercise led by the Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors (option 3) for a period of five financial years from 1st April 2023.

1. BACKGROUND

- 1.1 The Public Sector Audit Appointments Limited (PSAA) is a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014. Since 2018/19 the PSAA has been regulated to make audit appointments for local authorities.
- 1.2 Under the Local Government Audit & Accountability Act 2014 (“the Act”), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council now has three options:
 - undertake an individual auditor procurement and appointment exercise.
 - undertake a joint audit procurement and appointing exercise with other bodies (e.g. other Kent Councils)
 - Join PSAA’s national scheme (known as ‘opt in’)
- 1.3 Full Council at its meeting on 22 February 2017 approved the ‘opt in’ arrangements for the appointment of external auditors for five years covering the accounts for 2018/19 to 2022/23.
- 1.4 Grant Thornton have been the appointed auditor since 2018/19 accounts.
- 1.5 PSAA published its scheme prospectus on 22 September 2021, alongside formally issuing invitations to all eligible bodies to opt into the national scheme for local auditor appointments for the next appointing period. This will span the audits of accounts for the five financial years 2023/2024 to 2027/2028.
- 1.6 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the Council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 1.7 The auditor must act independently of the Council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 1.8 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms and Key Audit Partners.
- 1.9 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 1.10 The council has very limited influence over the nature of the audit services it is procuring, the nature and quality of which are determined or overseen by third parties.

- 1.11 The Audit & Governance Committee considered the options available to the Council at its meeting on 8 December 2021 (Report AuG/21/19 refers). They resolved to
“To recommend to Full Council the option (3) to enter into the procurement exercise led by the Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors for a period of five financial years from 1 April 2023.” All committee members voted in favour of this recommendation.

2. PSAA INVITATION

- 2.1 PSAA is now inviting the Council to opt in for the second appointing period, for 2023-24 to 2027-28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council’s auditor.
- 2.2 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
 - continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
 - continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members.
- 2.3 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/LASAAC1) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA’s national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

Context: changes in the audit market

- 2.4 The audit market was relatively stable when the Local Audit and Accountability Act received Royal Assent in 2014 and in 2017 PSAA benefitted from that continuing stability. Their initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, they were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies.
- 2.5 2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to

questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

2.6 In total the four reviews set out more than 170 recommendations which are at various stages of consideration by Government with the clear implication that a series of significant reforms could follow.

3. OPTIONS

3.1 Option1 – Stand Alone Appointment

The Council may elect to appoint its own external auditor under the Act, which would require the Council to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
- Manage the contract for its duration, overseen by the Auditor Panel.

3.2 Option 2 – Joint Auditor Panel

The Act enables the Council to join with other authorities to establish a joint auditor panel. This will need to be constituted of wholly or a majority of independent appointees. Legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

The Kent Section 151 Officers have met and discussed the potential of a joint Kent wide audit panel. The discussion found that there is no local appetite to set up a Joint Auditor Panel/local joint procurement arrangements. The primary concerns being the lack of active auditors within the market and the risk of being unable to appoint an auditor. At the time of writing it is understood that all Kent authorities are likely to recommend the sector led body option.

3.3 Option 3 – Sector Led Body (PSAA) (Recommended Option)

3.3.1 PSAA is specified as the ‘appointing person’ for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015.

3.3.2 PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

3.3.3 This is the recommended option as it is considered to have the following advantages over the other options:

- The procurement process is managed to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt in authorities.
- Consultation with the Council on auditor appointments, giving the Council the opportunity to influence which auditor is appointed.
- Appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
- Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
- Suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
- Minimising the scheme management costs and returning any surpluses to scheme members.
- Consultation with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk.
- Ongoing contract and performance management of the contracts once these have been let.

It should be noted however that with the sector led option individual elected Members will have less opportunity for direct involvement in the appointment process other than through the Local Government Association and/or stakeholder representative groups. Additionally the PSAA will need Councils to indicate their intention to opt in before final contract prices are known, to enable them to be viable and to be placed in the strongest possible negotiating position.

3.4 The Audit and Governance Committee considered the advantages and disadvantages of the three options available and recommend to Full Council the appointment through the Sector Lead body PSAA.

4. **SUMMARY**

4.1 A standalone appointment (Option 1) is felt to present financial risks as the Council may suffer higher audit fees as it would not benefit from the bulk purchasing discounts offered by Option 3. Option 1 would require significant investment in the recruitment, training, servicing and allowances to maintain

an Auditor Panel, additionally given the current market conditions non-appointment is possible. Option 2 is viable as there is no appetite within Kent to proceed on this basis and it also presents many of the same risks as option 1.

4.2 Therefore the recommend route is that the Council's interests would be best served by opting in to a Sector Led Body, as set out in Option 3. Full Council are therefore asked to agree, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, to accept Public Sector Audit Appointments' invitation to become an opted in authority for the purposes of the appointment of external auditors for five financial years commencing 1 April 2023.

4.3 Full Council have until December 2022 to make an appointment. In order to opt into the national scheme as set out in Option 3, the PSAA must receive formal acceptance of the invitation to join by Friday 11 March 2022.

5. RISK MANAGEMENT ISSUES

5.1 The Council is in a good position to manage the risks stated below.

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to appoint external auditor.	External audit is a statutory requirement for local authorities and the Secretary of State must appoint an auditor if the Council fails to make arrangements, risking higher cost and reputational damage.	The process to appoint an external auditor has begun well in advance of the end of the current contract to reduce the likelihood.	Act upon the recommendation in the report.
Increased costs of the external audit contract	The Council will have to accommodate any increased costs within its budget.	With increases in the scope and complexity of public sector audit and public scrutiny through the Redmond Review, it is highly likely that the next contract will	Collective procurement as recommended at Option 3, would enable the Council to benefit from economies of scale and avoid the costs associated with a single or joint procurement exercise. Prepare for a budget increase when

Perceived risk	Seriousness	Likelihood	Preventative action
		be at higher cost, regardless of which option is chosen.	setting the budget for 2023/24.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (AK)

The legal implications have been set out in the report. The Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. The Act also outlines the procedure for appointment including auditor panels and selection and appointment of a local auditor. The Act makes provision for the failure to appoint a local auditor and the action that must be taken in those circumstances.

Section 19 of the Local Audit (Appointing Person) Regulations 2015 specifies that the decision to accept an invitation to become an opted in authority is a matter for Full Council.

5.2 Finance Officer's Comments

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement.

5.3 Diversities and Equalities Implications

5.3.1 There are no equality and diversity implications associated with the decision in respect of this matter.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Charlotte Spendley

Email: Charlotte.Spendley@folkestone-hythe.gov.uk

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This Report will be made public on 2 February 2022



Report Number **A/21/25**

To: Council
Date: 10th February 2022
Status: Non Executive Decision
Head of Paid Service: Dr Susan Priest
Cabinet Member: Councillor David Monk, Council Leader

SUBJECT: SENIOR MANAGEMENT RESTRUCTURE

SUMMARY:

This report seeks the council's approval to meet the costs of the redundancy (of the post) of the Director of Transformation & Transition.

REASON FOR RECOMMENDATIONS:

The Director of Transformation and Transition post will be deleted from the structure with effect from 30th April 2022. Personnel committee has satisfied itself that the costs relate purely to the contractual obligations of the council when making a post redundant, and recommends that council agree the costs, as without council approval the redundancy cannot be actioned.

RECOMMENDATIONS

- 1. To receive and note Report A/21/25.**
- 2. To approve the redundancy of the Director of Transformation and Transition with the associated costs to be funded through the use of flexible capital receipts and added to the Medium Term Capital Programme.**

1. BACKGROUND

- 1.1 Personnel Committee considered the report (P/21/05) from the Head of Paid Service detailing that the fixed term post of Director of Transformation and Transition is due to be deleted and the post holder made redundant on 30th April 2022 in accordance with council procedures and the individual's contract of employment.

Report P/21/05 is attached as **Appendix 1**.

- 1.2 The committee sought reassurances relating to the proposals and detailed costs of taking the actions, and was satisfied that it is in line with previous decisions made, and in the council's interests to agree to the redundancy of this post.
- 1.3 Questions were asked about workload, the skills within the relevant teams who will be delivering the projects, contractual details relating to the proposals, plus the associated costs.

2. COSTS ASSOCIATED WITH THE REDUNDANCY

- 2.1 The redundancy payment is £23,568.78 and the estimate of the payment to be made to the Local Government Pension Scheme is £81,264.64. Therefore the total cost to the council is £104,833.42.

Guidance on the calculation of redundancy payments and the Local Government Pension Regulations are attached as **Appendix 2** to provide assurance to members that the amount stated above is not subject to any enhancements.

All accrued annual leave up to and including 30th April 2022 will be taken prior to the post holder being made redundant.

- 2.2 The key projects under the remit of this fixed term position have included:
- the Transformation Programme which has now concluded and moved into its Continuous Improvement stage following successful implementation across the council;
 - the transition from East Kent Housing to launching our internal Housing Management Service in October 2020 which is now out of regulation;
 - Mountfield Road Phase 1 with council, partner and other grant funding investment to deliver flexible high quality business space which is now fully open with tenants, while opening up Phase 2 of the Mountfield site using government grant funding to allow the council to bring forward the employment land, or to secure other council investment;
 - Princes Parade overall senior level project direction to progress decisions of the council; and
 - Civic Centre relocation to Otterpool Park which, following in principle decisions made by members, needs to move to more detailed surveying and estates input.

As a result it is proposed that the role of Director of Transformation and Transition be deleted with effect from 30th April 2022. The costs of the redundancy can be recovered within 12 months.

- 2.3 Under the annually approved Pay Policy Statement there is a requirement to offer full council the opportunity to vote on severance packages which are greater than £100,000. In this particular instance the severance comprises redundancy (to be paid to the employee) and pensions costs (to be paid to the Local Government Pension Scheme).

3. LEGAL / FINANCIAL AND OTHER CONTROLS / POLICY MATTERS

3.1 Legal Officer's Comments (AK)

The legal position is set out within the main body of this report.

3.2 Finance Officer's Comments (CS)

The financial costs associated with this report will be met from available Flexible Capital Receipts as the post has been deleted as a result of the Council's transformation programme. These funds will be made available in 2022/23 through the budget setting process.

3.3 Diversities and Equalities Implications (ASm)

There are no specific diversities and equalities implications arising from this report.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Dr Susan Priest, Head of Paid Service
Tel: 01303 853203
Email: susan.priest@folkestone-hythe.gov.uk

Andrina Smith, Head of Human Resources
Tel: 01303 853405
Email: andrina.smith@folkestone-hythe.gov.uk

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

None

Appendices:

Appendix 1: Personnel Committee Report dated 20th January 2022 (P/21/05)
Appendix 2: Guidance Notes: calculating redundancy payments and the Local Government Pension Scheme regulations

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This Report will be made public on

Report Number **P/21/05**

To: Personnel Committee
Date: 20th January 2022
Status: Non-executive Decision
Chief Executive: Dr Susan Priest

SUBJECT: SENIOR MANAGEMENT RESTRUCTURE UPDATE

SUMMARY: This report provides an update on the senior management restructure that took place at the end of 2019 (P/19/09) and provides information on the redundancy and pension costs for the Director of Transformation and Transition which will require approval from council.

REASONS FOR RECOMMENDATIONS:

The Director of Transformation and Transition post will be deleted from the structure with effect from 30th April 2022. The committee needs to be satisfied that the costs relate purely to the contractual obligations of the council when making a senior post redundant, and recommend as such to council for a final decision.

RECOMMENDATIONS:

1. To receive and note Report P/21/02
2. To recommend to council that the redundancy of the Director of Transformation and Transition be agreed with the associated costs to be paid from the transformation project, as set out in principle in the council report of 28th February 2018 (A/17/24).

1. INTRODUCTION

- 1.1 In 2019 report P/19/09 was approved by Personnel Committee agreeing to the implementation of a new senior management structure comprising the Chief Executive and 3 Directors.
- 1.2 Section 3.1 of report P/19/09 detailed the proposal to realign the existing Corporate Directors at that time into Director-level roles completely funded by project and income budgets.
- 1.3 The role that is the subject of this report is the time-limited role of Director for Transformation and Transition which became responsible for leading key projects until the end of April 2022 at which point the role would cease and the post holder would be made redundant.
- 1.4 The key projects under the remit of this fixed term position have included:
- the Transformation Programme which has now moved into its Continuous Improvement stage following successful implementation across the council;
 - the transition from East Kent Housing to launching our internal Housing service in October 2020 which is now out of Regulation;
 - Mountfield Road Phase 1 with council, partner and other grant funding investment to deliver flexible high quality business space which is open for tenants, while opening up Phase 2 of the Mountfield site using government grant funding to allow the council to dispose of the employment land, or secure other council investment;
 - Princes Parade overall senior level project direction to progress decisions of council
 - Civic Centre Relocation to Otterpool Park which, following in principle decisions made by members, needs to move to more detailed surveying and estates input.
- 1.5 In June 2021, this committee received the annual report from the Head of Paid Service (P/21/04) where it was highlighted that in order to continue delivering the council's priorities at pace, the Corporate Leadership Team were exploring ways of deploying existing resources and report A/21/16 sought agreement for additional resources to continue delivering the key place-making projects from the Corporate Plan (A/20/10) as it is essential that officers with the right skills and experience are in post to successfully deliver our ambitious programme.

2. COSTS ASSOCIATED WITH REDUNDANCY

- 2.1 The costs associated with making the role of Director of Transformation and Transition redundant are high, however we have come to a point with the existing projects where either projects have come to a natural conclusion, or a different skill set is required to continue driving the continuing projects forward.

- 2.2 Recruitment has progressed well since the approval of report A/21/16 with a new Chief Officer – Place & Growth and Chief Officer – Development due to start in early 2022.
- 2.3 As a result it is proposed that the fixed term contract for the Director of Transformation and Transition should come to an end with the post being deleted on 30th April 2022 as agreed in report P/19/09.
- 2.4 The redundancy payment is £23,568.78 and the current estimate of the payment to be made to the Local Government Pension Scheme is £81,264.64. Therefore the total cost to the council is £104,833.42.
- 2.5 Under the annually approved Pay Policy Statement there is a requirement to advise the Council of all payments to be made to an employee (which includes pension costs) when the total of those costs exceed £100,000.

3. LEGAL / FINANCIAL AND OTHER CONTROLS / POLICY MATTERS

3.1 Legal Officer's Comments (AK)

The legal position is set out within the main body of the report.

3.2 Finance Officer's Comments (CS)

It is proposed to meet the cost from available Flexible Capital Receipts as the post has been deleted as a result of the Council's transformation programme. These funds will be made available in 2022/23 through the budget setting process.

3.3 Diversities and Equalities Implications (ASm)

There are no specific Diversities and Equalities Implications arising from this report.

5. CONTACT OFFICER AND BACKGROUND DOCUMENTS

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

Andrina Smith, Chief HR Officer
Tel: 01303 853405
Email: Andrina.smith@folkestone-hythe.gov.uk

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

None

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Senior Management Update

Appendix 2 – Guidance on Redundancy Calculations and Local Government Pension Scheme Regulations

1. Calculating Redundancy Payments
 - 1.1 Redundancy is calculated based on the relevant post holder's age, length of continuous service (in full years) and weekly salary.
 - 1.2 Statutory redundancy pay is capped at £544 per week in England from April 2021 (and likely to increase in April 2022), however under the Council's Managing Organisational Change Policy and Procedures any redundancy payments are based on an employee's actual weekly pay and not subject to the statutory limits. Therefore the calculation referred to in the main body of the report has been based on the post holder's actual weekly salary.
2. Local Government Pension Scheme Regulations
 - 2.1 The LGPS Pension is payable in full from an individuals' 'normal retirement age' which is linked to their 'state pension age' (but with a minimum of age 65).
 - 2.2 If an individual chooses to take their pension before their 'normal retirement age' it will normally be reduced as it is being paid earlier and will potentially be paid for longer. How much it is reduced by depends on how early the individual is accessing their pension.
 - 2.3 If an individual is obliged to retire because of redundancy, business efficiency or permanent ill health, the LGPS regulations provide for an immediate retirement pension. Provided the individual is aged 55 or over their main benefits are payable immediately without any early retirement reductions. These costs are met by the employer.
 - 2.4 Pension regulations (current and past) have an impact on how the cost calculations are made – 85 year rule provides some protection against reductions to qualifying members, regulations up to April 2008, between 2008 & 2014, between 2014 & 2021, and since 2022 all come into consideration.
 - 2.5 In order to calculate a reduction, numerous factors set by the Government's Actuary Department (GAD) are applied including age, length of time in the scheme, previously transferred pensions and the relevant regulations in force throughout the individuals pension contribution period. Therefore every calculation can be different and neither the LGPS nor the employer have any control over the calculation of costs.
 - 2.6 The funding of the LGPS is based on all members retiring at their 'normal retirement age' and receiving their benefits for a certain number of years. If

benefits are paid before they are expected to be, the pension fund suffers a detriment resulting in a 'strain' on the pension fund.

2.7 Example illustration:

Assuming the LGPS uses a 'normal retirement age' of 67 for an individual with an expected age at which a member will die being 90, the scheme is therefore expecting to pay the pension out for 23 years.

If the member retires at 60 by way of redundancy then the assumption is that the pension is going to have to be paid for 30 years, 7 years longer than planned and therefore there will be a shortfall of monies in the fund.

As the employer is making the employee redundant by deleting their post, additional money needs to be paid into the pension fund by the employer to allow the pension to be paid for that longer period and to make up the shortfall.

2.8 Up until 2021, there was an option to pay the shortfall over 3 or 4 years (depending on the sum involved) however interest would be added to the costs, resulting in an increase of approximately 20%. Therefore, a lump sum of £80,000 could ultimately end up costing the employer £100,000 if paid in instalments.

However, from 2022 any shortfall now has to be paid by the employer in one lump sum to the pension fund.

This Report will be made public on 2 February 2022



Report Number **A/21/28**

To: Council
Date: 10 February 2022
Director: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: BUDGET STRATEGY 2022/23

SUMMARY:

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 2022/23.

This Budget Strategy sets out the guidelines for preparing the 2022/23 Budget. It supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

RECOMMENDATIONS:

1. To adopt the Budget Strategy for 2022/23.

1. INTRODUCTION

- 1.1 The Budget Strategy sets out the initial proposals and a timetable that will be used to inform the setting of the detailed budget for 2022/23. The Budget Strategy is consistent with the direction and objectives of the updated MTFs.
- 1.2 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 safeguard public money and ensure financial resilience.
 - To maintain an adequate and prudent level of reserves.
- 1.3 Cabinet considered the Budget Strategy at their meeting in December and agreed the related fees & charges, revenue & capital growth and revenue savings. As the budget and financial position have continued to evolve since that time, this report seeks to outline the budget strategy proposed & supported by Cabinet and reflect updated information where it is available and relevant.

2. CURRENT FINANCIAL POSITION

2020/21 General Fund Budget Outturn

- 2.1 The final contribution to the General Fund Reserve was £3.4m. This included a net transfer to Earmarked Reserves of £2.9m compared to a budgeted use of £3.6m.
- 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.

2021/22 Forecast General Fund Budget Outturn

- 2.3 When Cabinet considered and recommended the Budget Strategy to Full Council the most recent General Fund revenue budget monitoring position

available was quarter 2 reported on 24 November 2021. At this stage there was a projected favourable variance of £511k for the year against the latest approved budget. The reasons for the variance were detailed in the monitoring report and related primarily to increased interest income and lower interest payable resulting from better than anticipated interest rates and increased parking income following quicker than anticipated recovery from the pandemic.

- 2.4 The quarter 3 General Fund budget monitoring position was reported to Cabinet on 26 January and noted a projected overspend of £1.178 million. Again full details are available in the monitoring report and the main change related to the successful business rates appeal for Dungeness B Power Station resulting in lower income of £1.33 million than anticipated at quarter 2.
- 2.5 Similarly the quarter 2 HRA revenue and capital monitoring for 2021/22 was considered in the Budget Strategy tabled to Cabinet. It anticipated a projected decrease in net expenditure of £1.2m on the HRA and an underspend of £1.6m on the capital programme against the £14.4m latest budget.
- 2.6 The quarter 3 HRA Monitoring report tabled to Cabinet on 26 January anticipates a projected decrease in net expenditure of £3.2m on the HRA and an underspend of £4.5m on the capital programme against the £14.4m latest budget. As outlined in the paper, this movement largely relates to the re-profiling of the Highview scheme to enable new technology, design & construction methods to be brought forward for this net zero carbon in use flagship scheme.
- 2.7 The latest projection for the General Fund capital programme in 2021/22 was also reported to Cabinet at its meeting on 26 January 2022 and it shows a reduction in planned capital expenditure of £29.5m against the latest budget. The main reason for the reduction is the re-profiling of schemes. The updated Medium Term Capital Programme is being considered at the February meeting of Full Council.

Government Funding

- 2.8 In February 2021, the Secretary of State for the Ministry of Housing, Communities and Local Government announced the final local government finance settlement 2021/22. This announcement followed on from consultation on the provisional settlement.
- 2.9 The main points of note from the settlement relevant for this council are as follows:

	2020/21	2021/22	Change
	£'000	£'000	£'000
Settlement Funding			
Revenue support grant	0	0	0
Baseline funding	3,733	3,733	0
Settlement funding assessment	3,733	3,733	0

Reduction in funding compared to 2020/21 n/a 0% 0%

New Homes Bonus

2.10 The settlement announcement included no changes to the New Homes Bonus scheme methodology or distribution. In addition to funding legacy payments associated with previous allocations, the Government announced that allocations for 2021/22 would follow the approach taken in 2020/21 with a new round of in-year allocations for 2021/22 which will not result in legacy payments being made in subsequent years. The NHB baseline was maintained at 0.4% and only growth above this level will attract NHB payments.

2.11 The Provisional Local Government Finance Settlement was announced on 16 December and confirmed that the allocation for NHB in 2022/23 will be the historic legacy payment plus an in year only allocation for the year of £251k.

Spending Review and Autumn Budget 2021

2.12 For the past two years the government has only held single-year Spending Reviews, with 2019 being a single year due to the political turbulence around Brexit, and 2020 being a single year given the COVID-19 pandemic. However, in September the government announced its intention to complete a multi-year Spending Review (SR2021), setting revenue and capital budgets for 2022/23 to 2024/25.

2.13 SR2021 was announced on 27 October 2021 and represents the first return to multi-year statements since 2015. It focuses on the following key themes:

- Investing in growth
- Supporting people and businesses
- Building back greener
- Levelling up
- Advancing Global Britain
- Seizing opportunities of Brexit

2.14 Local Government's Core Spending Power will increase by £3.3bn (3.4%) in 2022/23 which includes:

- New grant funding for local government of £1.6bn in 2022/23 (worth £4.8bn over the next three years). Details of how this funding will be distributed and which services it will be allocated to will be confirmed in the provisional settlement.
- A core Council Tax referendum principle of up to 2% (maintained from 2021/22) with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept.
- Small Business Rates multiplier will be frozen again in 2022/23 (instead of increasing by CPI) but local authorities will be fully compensated through a section 31 grant.
- Retail, Hospitality and Leisure business rates relief will be extended at 50% for 2022/23, subject to a £110,000 cash cap. These reliefs will continue to be fully funded by government.

- The conclusion of the business rates review which, from 2023, will include 3-yearly revaluations and new investment reliefs to encourage green investment and premises improvements with any increase in rates payable delayed for 12 months.
- £3.6bn additional funding will be made available over 3 years for social care reform to implement the cap on personal care costs and the changes to the means test.
- Investment in affordable housing, with £1.8bn added with a view to delivering £10bn of investment during the Parliament, and 1m new homes in the SR2021 period. Of this, £300m will be distributed to local authorities (and mayoral combined authorities) to support the development of smaller brownfield sites.
- Adjustments to the regime for Right to Buy receipts with authorities now allowed to spend these over a longer timeframe (increasing to five years from three years), to pay up to 40% of the cost of a new home (up from 30%), and to allow them to be used for shared ownership and First Homes.
- The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. The minimum wage will be increased to £9.50 per hour, accepting the Low Pay Commission's recommendation.
- £560m announced for youth services and £850m over the SR2021 period for cultural and heritage infrastructure.
- Other funding announced included £38m to be made available to support authorities with cyber security and £35m to strengthen local delivery and transparency, though some of this will be required to set up the new Audit Reporting and Governance Authority as a new system leader for local audit.
- The Spending Review also confirmed allocations for the first round of bids from the Levelling-Up Fund (£1.7bn out of the £4.8bn total).

3.0 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 November (Cabinet report C/21/52).
- 3.2 The current MTFS forecasts a cumulative funding gap of £5.8m 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.

	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Forecast Deficit	1,596	4,155	5,088	5,752

- 3.3 The current MTFS forecasts a deficit of £1.6m in 2022/23. 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 2021 amounted to £27.4m, of which £3.8m was held within the General Reserve. The table below shows projected reserves at 31 March 2022 before any application towards new budget growth or initiatives.

Description of Reserve	Balance 1/4/21 £000	Forecast Balance 31/3/22 £000
General Reserve	3,822	4,333
Earmarked Reserves:		
Business rates	2,723	1,902
Carry forwards	691	567
IFRS	8	5
Vehicles, equipment and technology	283	317
New Homes Bonus initiatives	2,341	1,997
Corporate initiatives	598	69
Maintenance of Graves	12	12
Leisure	547	447
Otterpool Park	-	-
Economic Development	1,991	1,799
Community Led Housing	365	310
Lydd Airport	9	9
Homelessness Prevention	488	586
High Street Regeneration	2,070	1,054
Climate Change	4,946	4,600
Covid Recovery	6,501	300
Total Earmarked Reserves	23,573	13,974
Total General Fund Reserves	27,395	18,307

- 3.5 The following further allocations of Earmarked Reserves are now also anticipated, £70k from the Climate Change Reserve; £95k from the Carry Forward Reserve and £45k from the Economic Development Reserve, taking the forecast balance of reserves to £18.1 million by 31 March 2022.

4.0 BUDGET ASSUMPTIONS

- 4.1 Appendix 1 explains the changes between the 2021/22 approved budget and 2022/23 budget forecast that have been taken into account in the MTFS. These changes comprise:

	£'000
2021/22 Net Approved Budget (balanced budget)	0
Inflationary Pressures 2022/23 (net)	663
Corporate Funding Changes 2022/23 (net)	441
Service Changes 2022/23 (net)	(536)
Net Movement in Contributions To/(From) Reserves	1,028
MTFS Forecast 2022/23 Budget Deficit - Before Growth and Savings Proposals	1,596

MTFS Funding Assumptions 2022/23

- 4.2 Income from Business Rates is based on last year's estimates, pending a full review. The MTFS shows a 1% increase compared to 2021/22, largely reflecting the assumption not to budget for significant growth in 2022/23 given the uncertainties that remain following the impact of COVID-19. This area remains volatile with an uncertain position on growth and outstanding appeals.
- 4.3 A council tax increase of 2% has been assumed pending the final decision by Full Council in February 2022. The MTFS awaited further detail in the Spending Review and the Local Government Finance Settlement to confirm the maximum increase for 2022/23 without requiring a referendum. A council tax base increase of 0.5% and a balanced Collection Fund have been assumed for 2022/23.
- 4.4 Continuation of current New Homes Bonus receipts was anticipated but no new monies from 2022/23 were projected awaiting the outcome of the provisional settlement.

MTFS Expenditure and Income Assumptions 2022/23

- 4.5 Additional unallocated net employee costs amount to £469k in 2022/23, covering the estimated costs of an assumed salary award at 1.5%, salary increments and the impacts of the local government pension fund valuation.
- 4.6 Contract inflation of £184k 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 £614k compared to the 2021/22 estimate.
- 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 2022/23 report to the December meeting of Cabinet.

5.0 2022/23 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 2022/23

- 5.2 Service heads and budget managers were asked to identify any unavoidable budget growth items that were necessary to ensure future service sustainability and address unavoidable budget pressures. These total £444k and are detailed at Appendix 2. Further to the proposed £444k is a further £444k for IT developments, this will in part be able to be met from utilising flexible capital receipts. The current growth proposals are draft, and further work is underway in respect of the use of capital receipts to support the proposed IT developments required and further consideration of the resource requirements for Otterpool Park.

Budget Savings and Efficiencies 2022/23

- 5.3 Service heads and budget managers were also asked to identify any savings items and a rigorous review of the 2021/22 base budget and previous years' outturns has been undertaken by departments in liaison with CLT. This review identified net potential savings and efficiencies of £808k.

Fees and Charges 2022/23

- 5.4 A review of fees and charges has been undertaken and the outcome has been included in a separate Fees & Charges report considered and agreed by Cabinet in December. The proposed changes to fees and charges are anticipated to increase net income receipts by £240k.

The increase comprises:

Increased income	£
Street Naming & Numbering	3,180

Parking (Off-Street)	170,470
Parking (On-Street)	53,970
Licensing	6,080
Caravan Licensing	1,400
Housing (HMO Fees)	5,000
Other	100
Total	240,200

Forecast Budget Deficit 2022/23

5.5 Based on the work undertaken up to the stage Cabinet considered the Budget Strategy, the forecast deficit is set out below.

	£'000
Forecast deficit – November 2021 MTFS	1,596
Add: budget growth proposals	444
Less: further savings and efficiencies	(808)
Less: increase in income generated	(240)
Revised Forecast Deficit 2022/23	992

5.6 As noted above there is further growth of £444k related to ICT developments, some of which will be met from the use of flexible capital receipts. The detailed budget has been drafted alongside the growth and savings exercise and Cabinet received a report in January updating the above position, noting a projected gap of £1.115m, slightly above the position noted above. Options for addressing the forecast deficit for 2022/23 are now being considered in preparation for the final budget report to Cabinet & Council in February and will take into consideration:

- Any new factors affecting local government funding arising from the final Government funding settlement announcements
- 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
- Exploration of alternative funding options
- Use of reserves.

6.0 HOUSING REVENUE ACCOUNT (HRA)

6.1 This Budget Strategy does not explore the Housing Revenue Account further as the council approved on 19 February 2020 a revised HRA business plan for the period 2020 to 2050. This included 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 which was updated to deliver a further 1,000 homes over the ten year period from 2025/26 to 2034/35 and a capital investment of £10m into existing housing stock.

6.2 Since the HRA Business Plan was approved the COVID-19 pandemic hit in March 2020 which will have an unforeseen impact on the delivery of the new build programme. In addition the Housing Service was brought back in-

house in October 2020. A thorough stock condition survey is being carried out on existing HRA housing stock to inform the Asset Management Strategy and capital programme. It is anticipated that the HRA Business Plan will be updated in early 2022 once this work is complete.

- 6.3 The detailed 2022/23 HRA revenue and capital budgets were considered by Cabinet in January 2021 and are incorporated with current income trends and outcomes from the stock condition surveys.

7.0 CAPITAL PROGRAMME

- 7.1 As part of the Budget Strategy, Cabinet was asked to consider the proposals for new capital schemes to be included in the council's General Fund Capital Programme for 2022/23. 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 £300k for 2022/23 are shown in Appendix 3 to this report and were agreed by Cabinet. Additionally, the council's General Fund Medium Term Capital Programme (MTCP) needs to be updated to include recurring schemes planned to continue over the 5 year period to 2026/27. Since Cabinet considered the growth items in December the following schemes have been proposed or agreed:

- £192k use of flexible capital receipts to fund the additional IT improvements
- £60k for parking services payment options
- £250k for the Green Business Grants initiative
- £105k for the Transformation Senior Management Restructure

- 7.2 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 (updated based on proposed MTCP in February 2022), is shown in the following table:

Capital Receipts Position Statement	£'000
Receipts in hand at 30 November 2021	(10,145)
Less:	
Committed towards General Fund capital expenditure	3,424
Committed towards HRA capital expenditure	5,669
Ring-fenced for specific purposes	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(474)

- 7.3 Over the term of the MTFs the council expects to receive further 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.

- 7.4 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 £88.2m of prudential borrowing to support it, some of which will be off set in time by external funding.
- 7.5 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.
- 7.6 The proposed growth for the Capital programme does not at this stage include provision for the Council's Levelling Up Fund bid. The district has been identified as a priority area and the Council is currently developing its bid proposals, in line with previous decisions taken. The bid is anticipated to be submitted in summer 2022, and will be subject to a separate decision at that time. The Capital Programme is a fluid 5 year rolling budget and therefore it is proposed to consider growth to the programme in respect of the Levelling Up Fund bid once it has been further developed.

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 meet on 23 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 September 2021. This guidance covered roles and responsibilities; the links between finance and service planning; expected standards and approach; and the timetable for preparing the 2022/23 Budget.
- 8.3 The 2022/23 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 2022/23 budget proposals are to:
- Engage with key stakeholder groups and local residents;
 - Seek feedback on specific budget proposals for 2022/23; and
 - Seek feedback on general spending and income generation priorities.
- 9.3 This will be achieved through making budget information available to the public, inviting feedback and meeting with representatives from the business community.
- 9.4 Following the November meeting of the Overview and Scrutiny Committee in addition to the publication of a survey to seek stakeholder views which will be available on the website, promoted through social media channels, that we would also seek to promote the survey through noticeboards in libraries and community hubs to engage those who do not have access to social media. The Council has also developed a short video to further explain Council Tax and the services provided that it supports. Furthermore, we have ensured all Councillors have the relevant information to directly engage with their constituents and provide a route for feedback to be provided.

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 and was most recently refreshed in November 21.
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 and updates made.
Incorrect assessment of Local Government Finance Settlement impact.	High	Low	The Spending Review and Local Government Finance Settlement will inform latest forecasts.
Failure to take action to address	High	Medium	Ensure that MTFS forecasts are

Perceived risk	Seriousness	Likelihood	Preventative action
forecast medium term financial pressures as well as focusing on the 2022/23 budget position.			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 (NM)

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)

This report has been prepared by the finance team and the financial implications have been built into the body of the paper.

11.3 Diversities and Equalities Implications (GE)

The final budget report to Full Council on 23 February 2022 will include an Equality Impact Assessment of the budget recommendations for 2022/23.

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 Financial Services Officer
 Tel: 07834 150176
 E-mail: cheryl.ireland@folkestone-hythe.gov.uk

Charlotte Spendley, Director of Corporate 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 2022/23
 Medium Term Financial Strategy 2022/23 – 2025/26

Appendices:

Appendix 1 – Movement from 2021/22 Approved Budget to 2022/23 Base

Appendix 2 – General Fund Revenue Growth & Savings Proposals
Appendix 3 – Capital Programme Growth Proposals
Appendix 4 – Budget Timetable

Budget Strategy - Movement from 2021/22 Approved Budget to 2022/23 Base

	£000
Net Budget - 2021/22	0
Inflationary Pressures	
Net Pay Increase (1.5% plus increments)	419
Pension Scheme Revaluation 2019	50
Contract Inflation (p.a.)	184
Internal Drainage Board (2%)	10
	<hr/> 663
Corporate Funding Changes	
Reduced New Homes Bonus	343
Interest	(614)
Council Tax income	(314)
Business Rates Collection Fund	(105)
MRP	756
Other Non-Service Related Grants	375
	<hr/> 441
Service Changes	
Removal of COVID grant funding	847
Additional Staffing Resources	260
Increased utility costs	53
Waste Contract Renewal (offset by corporate funding changes above)	(481)
Removal of non-recurring growth from 2021/22	(471)
Reduction in expenditure funded from reserves	(395)
Increased projected parking income	(283)
Increased Connect 38 rental income	(212)
Increased income from capital schemes	(159)
Other net changes	305
	<hr/> (536)
Net Movement in Contributions To/(From) Reserves	1,028
Forecast 2021/22 Budget Deficit Before Growth and Savings Proposals	<u>1,596</u>

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Growth Proposals

Portfolio	Description of Proposal	£
Recurring items		
Leader		
1	Finance Specialist	48,000
2	HR additional HMRC costs	15,000
3	Criminal Records Bureau costs	5,000
Communities		
4	External transport hire costs (Area Officers)	11,500
5	Community Safety Officer	34,427
6	Folkestone Air Display contribution	40,000
Housing & Special Projects		
7	Housing Support Officer (Fixed Term 2 years - grant funded)	40,170
Property Management and Grounds Maintenance		
8	Clothing & uniforms costs	5,000
9	Subscription costs	3,500
10	Toilet Cleaner (additional resource)	23,790
11	Decreasing KCC loan for coast protection schemes	8,000
12	Property maintenance costs	10,000
13	Donated seats costs	5,000
14	Decreasing Civic Centre rental income	24,000
Transport & Digital Transformation		
15	Case Officer Place (Parking)	24,300
16	ICT software maintenance costs	20,000
17	Increased parking contract payments	77,510
18	Reduced car park rental income	11,650
19	Car park maintenance costs	16,300
20	Increased debt registrations with court for PCNs	6,300
Total Recurring Revenue Growth Proposals 2021/22		<u>429,447</u>
Non-recurring items		
Enforcement Regulatory Services, Waste and Building Control		
1	Pollution reduction costs (contaminated land)	15,000
Total Revenue Growth Proposals 2021/22		<u>444,447</u>
IT Growth Items (potentially in part to be funded from Flexible Capital Receipts)		
1	ICT improvement costs (externally hosted Revenues & Benefits system)	314,000
2	Website CMS replacement	130,000
		<u>444,000</u>

Portfolio	Description of Proposal	£
Recurring items		
Leader		
1	Decrease in legal fees	(13,000)
2	Decrease in subscription costs	(2,500)
3	Decrease in training expenses	(19,000)
4	Decrease in travel costs	(900)
5	Decrease in overtime costs	(1,000)
6	Decrease in events costs	(825)
7	Decrease in Members' training costs	(2,000)
8	Decrease in Apprenticeship costs	(10,400)
9	Decrease in Customer services costs	(10,000)
10	Decrease in street name plates costs	(3,040)
11	Decrease in footpath lighting costs	(6,300)
12	Decrease in passenger shelter costs	(1,500)
Communities		
13	Decrease in professional fees	(5,000)
14	Increase in Lifeline income	(8,000)
Housing & Special Projects		
15	Decrease in tenant engagement costs	(6,975)
16	Decrease in temporary accommodation running costs	(10,000)
17	Increase in temporary accommodation income	(50,000)
18	Decrease in temporary accommodation costs (self-contained lets)	(20,000)
19	Decrease in removal & storage costs	(1,000)
20	Decrease in mediation costs	(3,000)
21	Decrease in professional advice costs	(2,000)
22	Increase in grant funding (to fund Housing Support Officer for 2 years)	(40,170)
Enforcement Regulatory Services, Waste and Building Control		
23	Increase in bulky waste income	(10,000)
24	Increase in garden waste income	(40,000)
25	Decrease in Land Registry fees	(6,750)
26	Decrease in professional advice costs	(20,000)
27	Increase in burials income	(20,000)
28	Decrease in ICT costs	(5,240)
29	Increase in fixed penalty notice income	(7,500)
30	Decrease in pollution reduction costs	(6,800)
31	Decrease in Planning temporary staff costs	(75,000)
32	Increase in Planning pre-application advice income	(13,100)
Property Management and Grounds Maintenance		
33	Decrease in property maintenance costs	(25,200)
34	Increase in donated seat income	(13,000)
35	Decrease in subscriptions costs	(1,500)
36	Decrease in Civic Centre costs	(5,000)
37	Increase in miscellaneous property rental income	(13,600)
38	Decrease in business rates on public toilets (no longer payable)	(34,420)
39	Increase in Connect 38 income	(125,000)
40	Increase in kiosk rental income	(24,000)
District Economy		
41	Decrease in Folkestone CLLD salary costs	(14,500)
Transport & Digital Transformation		

42	Decrease in ICT software costs	(40,000)
43	Decrease in computer equipment maintenance	(7,840)
44	Removal of self service document scanner	(11,000)
45	Decrease in publicity/advertising costs	(700)
46	Increase in parking fines income	(12,000)
47	Reduction in street & car park lining maintenance costs	(3,000)
48	Increase in residents parking permits income	(24,000)
49	Increase in parking permits income	(4,000)
50	Increase in parking waivers income	(10,000)
51	Increase in visior permits income	(12,000)
Revenues & Benefits, Anti-Fraud & Corruption		
52	Decrease in court costs	(5,000)
Total Recurring Revenue Savings Proposals 2021/22		<u>(806,760)</u>

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2022/23 Capital Programme Growth Proposals

Service Area	Description of Proposal	2022/23 Capital Growth £
Operations		
1	Replacement Asset Management system to support robust Asset Compliance and provide DLO management software capability	60,000
2	Radnor Park footpath resurfacing to mitigate the risk of trip hazards. Delaying the resurfacing is likely to lead to additional maintenance works *	40,000
3	Provision of fishermans style huts for rent on the Stade in a prominent harbourside position. Scheme to include public realm improvements.	100,000
4	Additional toilet cleaner's van - revenue growth bid submitted for additional toilet cleaner's post and van required for this.	20,000
5	Replacement Park Keeper's vehilce - existing vehicle which is used daily is 7 years old and has become increasingly unreliable. Vehicle provides essential waste carrying capacity for the Parks & Open Spaces Team.	40,000
6	Replacement Electoral Management System (Onsite Software Option) - the existing system has become increasingly unreliable and is a risk to the integrity of managing the electoral process.	31,000
Council Capital Growth Proposals		<u>291,000</u>

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2022/23 Budget Timetable

Date	Details
24 November 2021	Full Council <ul style="list-style-type: none"> • Medium Term Financial Strategy 2022/23 to 2025/26
15 December 2021	Cabinet <ul style="list-style-type: none"> • Budget Strategy 2022/23 • Fees and Charges 2022/23. <p>Budget consultation begins</p>
December 2021 (TBC)	Provisional local government finance settlement 2022/23 announced by Department of Levelling Up, Housing and Communities.
18 January 2022	Finance & Performance Sub-Committee <ul style="list-style-type: none"> • General Fund draft Revenue Budget 2022/23 • HRA revenue and draft Capital Budget 2022/23 • General Fund Draft Medium Term Capital Programme 2022/23 to 2026/27
26 January 2022	Cabinet <ul style="list-style-type: none"> • General Fund draft Revenue Budget 2022/23 • HRA revenue and Capital draft Budget 2022/23 • General Fund Draft Medium Term Capital Programme 2022/23 to 2026/27
Early 2022 (TBC)	Final Local Government Finance Settlement confirmed.
20 th January 2022	Budget consultation with Folkestone & Hythe Parish Councils Joint Committee
1 February 2022	Budget consultation ends
23 February 2022	Cabinet: <ul style="list-style-type: none"> • General Fund Budget & Council Tax 2022/23 • HRA Budgets and Rents 2022/23 • Capital and Investment Strategies
23 February 2022	Full Council : <ul style="list-style-type: none"> • General Fund Budget & Council Tax 2022/23 • HRA Budgets and Rents 2022/23 • General Fund Medium Term Capital Programme 2022/23 to 2026/27.

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This Report will be made
public on 2 February
2022

Report Number **A/21/27**

To: Council
Date: 10 February 2022
Status: Key Decision
Head of Service: Charlotte Spendley - Director of Corporate Services
Cabinet Member: Councillor David Monk – Leader and Portfolio Holder for Finance

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2027. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. The report also updates Members on the required capital budget and proposed funding for the Princes Parade scheme following the two stage procurement process for the construction contract and the anticipated residential development capital receipts.

RECOMMENDATIONS:

1. To receive and note report A/21/27.
2. To approve the updated General Fund Medium Term Capital Programme as set out in appendix 1 to this report.

1. INTRODUCTION AND BACKGROUND

- 1.1 In line with the council's approved Budget Strategy for 2022/23, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2027. The report;-
- i) reviews and updates the existing approved Medium Term Capital Programme and incorporates the capital investment proposals agreed by Cabinet during the budget process for 2022/23,
 - ii) introduces proposed new schemes and initiatives identified during the budget process but yet to be considered by Cabinet,
 - iii) provides details of those existing capital schemes proposed to be extended by one year into 2026/27,
 - iv) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it.
- 1.2 The report also updates Members on the required capital budget and proposed funding for the Princes Parade scheme following the two stage procurement process for the construction contract and the anticipated residential development capital receipts considered by Cabinet on 26 January 2022 (minute 75 refers).
- 1.3 The capital expenditure plans for the Housing Revenue Account (HRA) were considered by Cabinet in a separate report on 26 January 2022 as part of the current budget process for 2022/23.
- 1.4 The overall capital expenditure plans for both the General Fund and HRA are required to be submitted to full Council for consideration and approval as part of the budget process.
- 1.5 Additionally, the Council's General Fund and HRA capital investment plans will feature in the Capital Strategy and Investment Strategy both of which are planned to be reported to Cabinet on 23 February 2022 ahead of being submitted to full Council for approval on the same day. This is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities.

2. UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME

- 2.1 The latest projection for the total cost and funding of the General Fund capital programme from 2021/22 to 2026/27 is £149,784,000. Compared to the latest approved budget of £132,586,000 this represents an increase of £17,198,000. Full details are shown in **appendix 1** to this report and the following table summarises the position across the service units and also outlines the impact on the capital resources required to fund the programme:

General Fund Capital Programme	Latest Approved Budget	Latest Projection	Variance
	£'000	£'000	£'000
Service Units			
Operations	12,133	9,976	(2,157)
Corporate Services	3,966	4,503	537
Housing	7,527	8,587	1,060
Transformation & Transition Place	32,255	49,031	16,776
Economic Development	76,705	76,705	-
Governance, Law and Service Delivery	0	951	951
	0	31	31
Total Capital Expenditure	132,586	149,784	17,198
Capital Funding			
Capital Grants	(11,575)	(15,452)	(3,877)
External Contributions	(2,387)	(10,817)	(8,430)
Capital Receipts	(24,867)	(31,632)	(6,765)
Revenue	(3,209)	(3,870)	(661)
Borrowing	(90,548)	(88,013)	2,535
Total Funding	(132,586)	(149,784)	(17,198)

2.2 The changes from the approved budget to the latest projection for the medium term programme are summarised below:

	£'000	£'000
1 Capital investments decisions approved by Cabinet on 15 December 2021 (Budget Strategy 2022/23)		
i) Replacement Asset Management System	60	
ii) Radnor Park Footpath Resurfacing	40	
iii) The Stade, Folkestone Rental Huts - fishermans style huts for rent on the Stade	100	
iv) Additional Toilet Cleaner's Van	20	
v) Replacement Park Keeper's Vehicle	40	
vi) Electoral Management System replacement	31	
vii) ICT improvement costs - externally hosted Revenues & Benefits system	192	
viii) Parking Services – upgrade of payment options	60	
	<hr/>	543
2 Existing annual programmes extended by one year to 2026/27		
i) Coast Protection - Annual monitoring of Coronation Parade, Folkestone met from Environment Agency grant.	4	

ii)	Coast Protection – Greatstone Dunes Management and Study met from Environment Agency grant.	15	
iii)	Royal Military Canal - Footpath improvement scheme.	20	
iv)	Lifeline units for customers.	50	
v)	Empty Properties Initiative (KCC) - Loans to landlords	300	
vi)	Disabled Facilities Grants, subject to Government funding.	1,000	
vii)	Home Safe Loans met from repaid Decent Homes Loans.	100	
viii)	Replacement technology	95	
		<hr/>	1,584
3	Other new schemes to approve		
i)	Folkestone and Hythe Green Business Grant Scheme	250	
ii)	CLLD ERDF 'Folkestone Community Works' Capital Projects met from Government Grant.	951	
iii)	Capitalised Transformation Costs	105	
		<hr/>	1,306
4	Other changes		
i)	Princes Parade Scheme – explained in section 3, below	16,335	
ii)	Removal of Greatstone Varne Holiday Lets Scheme as per separate report to Cabinet on 10 February 2022	(1,847)	
iii)	Coast Protection Beach Management – Budget adjusted to reflect the grant awarded by the Environment Agency for a 5 year programme of works from April 2020 to March 2025	(728)	
iv)	General Fund Property - Health and Safety Enhancements saving in 2021/22	(10)	
v)	Royal Military Canal footpath enhancements saving in 2021/22	(10)	
vi)	Lower Sandgate Road Beach Huts additional cost (loan to FPPG Charity)	27	
vii)	Disabled Facilities Grants - Occupational Therapist Service recommenced their home assessment visits part way through 2021/22.	(400)	
viii)	New Business Hub - Mountfield Road, New Romney budget adjustment for capital grant received in 2020/21	336	
ix)	Additional Home Safe Loans met from DFG grant not required for 2021/22.	60	
x)	Other small changes	2	
		<hr/>	

	13,765
Total net increase	<u>17,198</u>

2.3 **Otterpool Park** – the overall budget to deliver the scheme remains unchanged from the existing approved position. The majority of the budget will be used to support the delivery of the scheme by the Otterpool Park LLP with some provision made for further property acquisitions that may be required. In summary, the remaining budget is planned to be used towards the following elements of the scheme:

	£'000
i) Property acquisition	8,682
ii) Masterplanning	2,263
iii) Delivery – funding of Otterpool Park LLP	63,750
iv) Other consultancy costs	90
Total	<u>74,785</u>

2.4 **Folkestone and Hythe Green Business Grant Scheme** – The Council's Climate and Ecological Emergency Working Group recently agreed to support the allocation of £250,000 from the Climate Change Reserve to set up the Folkestone and Hythe Green Business Grant Scheme. The scheme is to support businesses that are located, or seeking to locate, in the district with implementing carbon reduction measures. Further information about this scheme is available on the Council's website.

2.5 **Community Led Local Development European Regional Development Fund (CCLD ERDF) Capital Grants** – The Council acts as the accountable body for the CLLD ERDF grant being used to support the Folkestone Community Works Programme. It is projected that £951,000 of capital funding will be utilised by the Programme during 2021/22 and it is an accounting requirement for this to be included within the Council's capital programme.

2.6 **Transformation Costs** - A temporary statutory provision allows local authorities incurring revenue expenditure for staff transformation programmes and other similar initiatives generating ongoing savings to be met from capital receipts received from the disposal of surplus assets. These costs are required to be classified as capital expenditure for accounting purposes. The proposed budget of £105k provides for staff redundancy and related pension costs.

2.7 **Inflation** - The construction and engineering sector is expected to see inflation peak around 5% to 6% in 2022 due, in part, to a rise in the cost of materials. The construction related capital schemes in the General Fund capital programme typically have a 5% contingency sum included within their

budgeted cost. For those schemes expected to be completed over the next year inflation is unlikely to have a material impact to the budget. With Princes Parade the detailed work undertaken by the cost consultant has factored in the likely impact of inflation over the contract period. In the case of Otterpool Park it is anticipated the inflation risk from delivering the infrastructure for the proposed scheme can be mitigated by similar increases in land values as plots are sold for development.

- 2.8 The profiling of the capital programme budget is likely to be subject to some change over the medium term. Notably, the timing and profiling of the Otterpool Park Garden Town and Princes Parade schemes may be subject to change as the Council's plans for these develop going forward. Cabinet will be kept informed of any changes to the proposed profiling of expenditure for the capital programme through the budget monitoring process and future updates to the MTCP.
- 2.9 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. The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2022/23 or feature in the Council's approved Medium Term Financial Strategy.

3. PRINCES PARADE DEVELOPMENT

- 3.1 The Leisure centre, housing and open space development at Princes Parade is already included within the council's MTCP. Following significant preparatory work and investigations, an updated position was presented to Cabinet on the 26 January 2022. The respective report (C/21/75) can be found on the council's website at: [Agenda for Cabinet on Wednesday, 26th January, 2022, 5.00 pm - Folkestone & Hythe District Council \(folkestone-hythe.gov.uk\)](https://www.folkestone-hythe.gov.uk/agenda-for-cabinet-on-wednesday-26th-january-2022-5.00-pm-folkestone-hythe-district-council).
- 3.2 The report has provided the latest position on the development following site investigations, greater clarity on the costs of the scheme and also the result of procurement exercises which relate to the funding of the scheme. A number of other matters are considered within the report which were determined by Cabinet and do not directly impact on the MTCP.
- 3.3 The report sets out the increase in the required budget for the scheme, the changes in funding and the reasons for those changes. The overall cost of the scheme has risen to £45,400,579 as shown below. This includes the additional funding for solar panels for the leisure centre.

Table 1 – Costs of Project

Cost Heading	Cost
Construction Costs	£40,518,210
Consultant Fees, license fees, and other Council direct costs	£3,566,823

Contingency (3% of construction costs)	£1,215,546
Additional funding agreed for solar panels to leisure centre	£100,000
Total	£45,400,579

- 3.4 This is an increase in the project budget of £16,335,579 which was agreed in the 2019/20 MTCP. The main reasons for this increase are set out in the table below which compares current costs to the original capital programme budget agreed in 2019.

Table 2 – Cost Differences from January 2019

High Level Cost Differences between Jan 2019 and Jan 2022	Cost	Comment
January 2019 Cost Plan	£29,065,000	
Site remediation and ground works	£5,339,575	Costs now based on more extensive detailed ground investigations. These are the remediation costs required for the planned site.
Utility infrastructure (on and off site)	£1,433,075	Offsite reinforcement works are now required following detailed capacity assessments by utility companies.
Leisure centre cost	£1,057,019	Design detail improvements required to provide a high-quality leisure centre within the detailed planning consent.
Western open space and linear park	£1,529,117	These are now being completed directly by the Council rather than the residential developer to provide certainty to secure better land sales values for the council and complete these works at an earlier date.
Promenade	£916,553	
Seapoint Canoe Centre (SCC) works	£200,000	Enabling works to the Charity's facility which are required to allow the road to be built.
Normal inflation	£1,902,788	Increased inflation due to delay in delivering the project as a

		result of the planning Judicial Review.
Current market conditions	£3,857,452	Extraordinary inflation due to delay in delivering the project as a result of Covid, Brexit, material and labour shortages, energy prices, etc.
Additional funding for solar panels	£100,000	Agreed at Cabinet meeting of 26 January 2022
Total Increase	£16,335,579	
Total Project Cost (Excl VAT)	£45,400,579	

- 3.5 The associated funding has also increased to £38,775,010 and this is also explained below.
- 3.6 The overall funding required for the project has changed significantly since the project was last considered in the 2019 Cabinet report. The delay in the project, together with inflation alongside other factors, has increased the costs as described above. In addition, the delay in the project resulted in the loss of the Homes England Accelerated Construction Programme Grant of £1,977,879 that was awarded in 2019. During the summer of 2021, a new grant was made available for local authorities to bid for through One Public Estate (DLUHC / formally MHCLG). This was the Brownfield Land Release Fund (BLRF) and the Council was successful in applying for a grant of £2 million to support the project and the costs of remediation. This was not a like-for-like replacement however it has helped the overall funding of the project. Further grant funding opportunities will continue to be sought, with approval for submitting and accepting funds being delegated to the Director for Housing and Operations in consultation with the Leader of the Council, and reported to council as part of the normal budget monitoring processes.
- 3.7 The ongoing work has sought to identify all sources of relevant funding to address the current position of the project. In particular, the residential land values have increased and provide a greater level of financial support for the scheme (see above in relation to residential values) and the successful leisure centre operator means the Council will receive an average positive cash flow in addition to removing the heavy liability of the current pool. Set out below are the key funding sources to meet the overall costs of the project:

Table 3 – Funding

Item	£
Nickolls Quarry – Section 106 (with indexation as at the time of writing)	5,309,010
Hythe Imperial Section 106 (Affordable Housing)	1,416,000

CIL Funding	2,500,000
Play area funding (CIL)	650,000
SCC funding (offset expenditure)	200,000
Income from residential sales	26,600,000
BLRF Grant	2,000,000
Funding for solar panels from Climate Change reserve	100,000
Total Funding	38,775,010

- 3.8 The detail above identifies a funding gap of £6,625,569. The award of the new leisure centre contract will generate an average positive cash position estimated at £175,000 per annum over the period of the contract. Also, there will be no requirement to fund the existing Hythe Pool once this closes. This will save a further £165,000 per annum (excluding fixed costs and any exceptional costs, such as emergency / unplanned maintenance which is increasingly found to be necessary due to the age and deteriorating condition of the building). Overall this will provide a revenue turnaround estimated at £340,000 per annum which will be sufficient to cover the costs of funding approximately £10 million of additional borrowing if required. Revenue turnaround has not been included in the tabulated figures above but is part of the overall business case for consideration.
- 3.9 In summary, the above sets out the project requiring an increase in its capital budget and has a funding gap of £6,625,569. It should be noted that the costs include an allowance of £430,000 for interest charged whilst the development is being undertaken. The total budget required for the development is £45,400,579.

4. IMPACT ON CAPITAL RESOURCES

- 4.1 The proposed MTCP requires approximately £88m of prudential borrowing to support it with about £75m of this for the Otterpool Park scheme. Ordinarily the investment in Otterpool Park would put a significant pressure on the General Fund budget for additional interest costs. However, the Council is able to capitalise its borrowing cost for expenditure on the land assembly for the site until the land is ready for its intended use. As the land is sold the Council can then look to repay its borrowing. Additionally, the Council is receiving a net rental income stream from some of the properties it has acquired to date. The borrowing cost to the Council for the planned loan and equity investment in Otterpool Park LLP, the delivery vehicle for the project, will be covered by the accrued interest to be charged on the loan in the first instance.
- 4.2 Prudential borrowing is also planned to be used to fund the following capital schemes where the Council will receive a net revenue benefit after allowing for interest costs:

Scheme	Borrowing
	£'000
Princes Parade Leisure & Housing	6,625
Otterpool Park	74,785
Oportunitas Phase 2 Funding	3,510
Waste Contract Vehicles Funding	1,729
Lower Sandgate Road Beach Huts	47
Temporary Accommodation	274
Coast Drive Seafront Development	893
Coastal Park Toilets & Concession	150
Total	88,013

- 4.3 The borrowing cost to the Council for the Princes Parade scheme during the construction phase will be capitalised and has been factored into the proposed capital budget for the scheme. In the long term the annual capital financing cost for the scheme is expected to be contained within the net revenue savings to the General Fund to be generated from it.
- 4.4 The latest position regarding the Council's available capital receipts to fund capital expenditure is shown in the following table:

General Fund Capital Receipts Position Statement	£'000
Receipts in hand at 30 November 2020	(10,145)
Less, HRA capital receipts	5,669
General Fund capital receipts in hand	(4,476)
Contingency for urgent or unforeseen capital expenditure	500
Ring-fenced for specific purposes:	78
*Applied to capital expenditure in 2021/22 & 2022/23	3,424
Balance available to support new capital expenditure	(474)

*Excludes Princes Parade

- 4.5 The Princes Parade Leisure and Housing scheme relies on the Council receiving about £26.6m in capital receipts from the sales of serviced land for housing development adjacent to the proposed leisure centre and from the disposal of the existing Hythe Pool site. The planned continued capital investment in the 'No Use Empty' joint initiative with Kent County Council and also the Home Safe Loans scheme are to be met from investing repaid loans from previous tranches of these schemes.
- 4.6 Additionally, the council's continuing prudent financial management means it is in a position to use its other internal resources (cash reserves and balances) to fund the MTCP that is not already met from external grants and contributions without resorting to new borrowing. The table below

summarises the council's revenue resources of £3.87m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	702
Economic Development Reserve	1,960
Climate Change Reserve	798
General Reserve	410
Total	3,870

- 4.7 This level of capital investment will be a significant draw upon the Council's available reserves and balances and it is unlikely this could be repeated in the future. For this reason it is important that a thorough and robust assessment is undertaken for the new major capital investment proposals to ensure best use of the Council's limited financial resources.

5. CONCLUSIONS

- 5.1 The MTCP has been reviewed and updated in accordance with the approved budget strategy for 2022/23.
- 5.2 The revenue consequences of the MTCP are reflected in the Council's General Fund budget and Medium Term Financial Strategy.
- 5.3 The proposed General Fund MTCP requires a substantial level of prudential borrowing to fund it. The impact to the General Fund of this will be mitigated through a combination of capitalising interest costs where permissible, charging interest to third parties on capital loans met from borrowing and generating additional net revenue streams from capital investments met from borrowing.
- 5.4 The level of new capital investment in the proposed MTCP will be a significant draw upon on the Council's available reserves and balances and is unlikely to be repeated in the future. Future major capital investment initiatives are likely to require further prudential borrowing to help fund them.
- 5.5 Cabinet is asked to recommend full Council to approve the changes to the MTCP outlined in this report to reflect the latest projected outturn shown in appendix 1 to this report.

6. RISK MANAGEMENT ISSUES

- 6.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital resources not available to meet the cost of the new projects.	High	Low	Schemes or elements of those schemes relying on future capital receipts or external grants and contributions will not commence until an agreed disposal plan or funding agreement is in place.
Cost of new projects may exceed the estimate	High	Medium	A review of existing approved capital schemes has been undertaken as part of the update to the MTCP to assess the impact of current inflationary pressures affecting construction and engineering sector. Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively.
Expenditure planned to be met by grant is ineligible under the terms of the funding agreement	High	Low	Prior to commitments being made the project manager to agree in advance grant eligible expenditure with the funding body.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer's Comments (TH)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act

prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

7.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services. There are no further comments to add.

7.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

7.4 Communication Officer's Comments (JW)

There are no communication issues arising directly from this report.

7.5 Climate Change Implications (AT) [*Pilot reporting period*]

There are no climate change implications arising directly from this report. It updates Cabinet on this position following decisions taken at Cabinet and Full Council. Climate change implications of the various projects referenced in the report will be assessed as part of the development and implementation phases of those projects through the appropriate decision-making process.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Lee Walker, Capital and Treasury Senior Specialist
Tel: 01303 853593. e-mail: lee.walker@folkestone-hythe.gov.uk

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

None

Appendix:

- 1) Proposed General Fund MTCP to 2026/27

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General Fund Medium Term Capital Programme to 2026/27											
Item No.	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Latest Projection 2025/26	Latest Projection 2026/27	Total Projection 2021/22 - 2026/27	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Andy Blaszkowicz - Operations											
1	Coast Protection - Coronation Parade, Folkestone	760	30	730	0	0	0	0	760	0	
2	Coast Protection - Coronation Parade annual monitoring	20	4	4	4	4	4	4	24	4	Scheme externally funded by the Environment Agency and extended by one year to 2026/27.
3	Coast Protection - Greatstone Dunes Management & Study	75	15	15	15	15	15	15	90	15	Annual programme funded by Environment Agency extended by one year to 2026/27.
4	Coast Protection - Hythe to Folkestone Beach Management	2,100	343	343	343	343	0	0	1,372	(728)	The Environment Agency has approved funding for a 5 year programme of works from April 2020 to March 2025. Budget adjusted to reflect the grant awarded by the Environment Agency to meet the cost of works to maintain the beach levels between Hythe and Folkestone. A further funding bid to the EA for future years will be required.
5	General Fund Property - Health and Safety Enhancements	13	3	0	0	0	0	0	3	(10)	Saving.
6	Royal Military Canal footpath enhancements	100	10	20	20	20	20	20	110	10	Ongoing 10 year programme of improvements 2016/17-2026/27
7	Lifeline Capitalisation	250	50	50	50	50	50	50	300	50	Annual programme to purchase new/replacement units extended by one year to 2026/27 (£50k)
8	Public Toilet Enhancement Programme	397	200	197	0	0	0	0	397	0	Scheme to refurbish the council's public toilets portfolio.
9	Lower Sandgate Road Beach Huts (FPPG Charity)	20	47	0	0	0	0	0	47	27	The main reason for the variance is the cost to renovate the 27 existing beach huts was more than originally anticipated. Additional loan funding to be met by FPPG Charity.
10	Parking Services	27	13	75	0	0	0	0	88	61	Replacement of 15 on-street pay and display machines in Folkestone. £60k growth provision to upgrade parking payment options.
11	Biggins Wood Site Land Remediation Works	2,760	200	2,560	0	0	0	0	2,760	0	Works to enable commercial and housing developments to proceed funded in part from a Homes England grant of £1.016m agreed in principle
12	Greatstone Varne Holiday Lets	1,847	0	0	0	0	0	0	0	(1,847)	Scheme withdrawn and land planned to be sold.
13	Electric Vehicle Charging Points	40	40	0	0	0	0	0	40	0	To provide 15 on-street charging points, pending approval from KCC to use their lamp columns.
14	District Street Lights	745	0	745	0	0	0	0	745	0	Upgrade all district street lights.
15	Coast Drive Seafront Development	893	0	893	0	0	0	0	893	0	Project includes new beach huts, toilet facilities including a changing places toilet, a concession/café, car parking facilities and public realm improvements.
16	Coastal Park Play Equipment (FPPG Charity)	62	62	0	0	0	0	0	62	0	Replace Pirate Ship and undertake urgent repairs to the main tower structure to prevent the closure of the facilities on health and safety grounds

Item No.	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Latest Projection 2025/26	Latest Projection 2026/27	Total Projection 2021/22 - 2026/27	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
17	Coastal Park Toilet and Concession	150	150	0	0	0	0	0	150	0	Construction of larger purpose built toilet block with adjoining concession to ease demand on existing facility and provide a new sustainable revenue stream
18	East Cliff Landfill Protection (FPPG Charity)	1,200	30	1,170	0	0	0	0	1,200	0	Work to remediate disused landfill site causing an environmental hazard to a high profile SSSI site. Initial surveys undertaken have helped to clarify the extent and context of the landfill site. Further studies are ongoing to quantify risk and appropriate mitigation measures .
19	Hawkinge Depot Upgrade	74	75	0	0	0	0	0	75	1	Enhancements to staff welfare facilities and to provide covered storage to protect equipment from the elements
20	Replacement Asset Management System	0	0	60	0	0	0	0	60	60	Growth - Replace existing defunct 'Badger' software to support robust Asset Compliance and provide DLO management software capability
21	Radnor Park Footpath Resurfacing (FPPG Charity)	0	0	40	0	0	0	0	40	40	Growth - Survey has identified a need to resurface the footpaths around the perimeter of the upper Radnor Park area to mitigate the risk of trip hazards. Delaying the resurfacing is likely to lead to additional maintenance works
22	The Stade, Folkestone Rental Huts	0	0	100	0	0	0	0	100	100	Growth - Provision of fishermans style huts for rent on the Stade in a prominent harbourside position. Scheme to include public realm improvements
23	Additional Toilet Cleaner's Van	0	0	20	0	0	0	0	20	20	Growth - Revenue growth bid submitted for additional toilet cleaner's post and van required for this.
24	Replacement Park Keeper's Vehicle	0	0	40	0	0	0	0	40	40	Growth - Existing vehicle which is used daily is 17 years old and has become increasingly unreliable. Vehicle provides essential waste carrying capacity for the Parks & Open Spaces Team.
25	Units 1-5 Learoyd Road New Romney	200	200	0	0	0	0	0	200	0	Major refurbishment of units to maintain the existing income stream from leasing to local businesses
26	Connect 38 CAT A Works	400	160	240	0	0	0	0	400	0	Necessary Cat A works to the Connect 38 building.
	Total - Operations	12,133	1,632	7,302	432	432	89	89	9,976	(2,157)	
	Amandeep Khroud - Governance, Law and Service Delivery										
27	Electoral Management System	0	0	31	0	0	0	0	31	31	Growth - Replacement Electoral Management System (Onsite Software Option)
	Total - Governance, Law and Service Delivery	0	0	31	0	0	0	0	31	31	
	Katharine Harvey - Head of Economic Development										
28	CLLD ERDF Capital Projects	0	625	286	40	0	0	0	951	951	Folkestone Community Works classified as capital expenditure and met from Government Grant.
	Total - Head of Economic Development	0	625	286	40	0	0	0	951	951	

Item No.	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Latest Projection 2025/26	Latest Projection 2026/27	Total Projection 2021/22 - 2026/27	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Ewan Green - Place										
29	Waste Contract - Acquisition of Vehicles and Equipment	1,729	1,484	0	0	245	0	0	1,729	0	Purchase of vehicles and equipment for the new Waste contract with Veolia partly reprofiled. Purchase will achieve a net annual saving of £100k to the General Fund
30	Otterpool Park	74,785	9,055	9,372	28,750	22,407	5,201	0	74,785	0	Land and property assembly, masterplanning costs and funding of the Otterpool LLP to deliver the infrastructure for the scheme
31	Ship Street Site Folkestone	161	50	111	0	0	0	0	161	0	The redevelopment of site is being progressed from initial feasibility stage to market testing with a the intent to secure a development partner for the Council. This will take place over the period to June 2022.
32	Area Officer Vans	30	30	0	0	0	0	0	30	0	Delayed and now considering electric vehicles which may require an increase to the budget
	Total - Place	76,705	10,619	9,483	28,750	22,652	5,201	0	76,705	0	
	John Holman - Housing										
33	Empty Properties Initiative (KCC) - Loans to landlords	1,500	300	300	300	300	300	300	1,800	300	The £300K budget for 2021/22 and future years to be met from repaid loans from previous years. Scheme extended by one year to 2026/27
34	Temporary Accommodation (invest to save)	527	527	0	0	0	0	0	527	0	Acquisition and refurbishment of properties to provide temporary accommodation for homeless households. Officers are currently seeking further suitable acquisition opportunities to complete during 2021/22.
35	Disabled Facilities Grant	5,000	600	1,000	1,000	1,000	1,000	1,000	5,600	600	Saving anticipated for 2021/22 due to lower than anticipated demand. Scheme met entirely from Government grant and extended by one year to 2026/27.
36	Home Safe Loans	500	160	100	100	100	100	100	660	160	21/22 additional expenditure can be met from DFG grant and scheme extended by one year to 2026/27.
	Total - Housing	7,527	1,587	1,400	1,400	1,400	1,400	1,400	8,587	1,060	
	Charlotte Spendley - Corporate Services										
37	PC Replacement Programme	156	16	35	35	35	35	35	191	35	Scheme extended by one year to 2026/27.
38	Server Replacement Programme	300	60	60	60	60	60	60	360	60	Provision for an annual replacement programme over the medium term. Scheme extended by one year to 2026/27.
39	ICT improvement costs (externally hosted Revenues & Benefits system)	0	0	192	0	0	0	0	192	192	Growth - Migration of Revenues and Benefits to externally hosted service including the replacement of the Civica document management system. Funded from Flexible Use of Capital Receipts
40	Folkestone & Hythe Green Business Grant Scheme	0	0	250	0	0	0	0	250	250	Growth - Support for Local Business met from the Climate Change Reserve
41	Oportunitas Loan and Share Capital Phase 2	3,510	1,340	2,170	0	0	0	0	3,510	0	To invest in the company's expansion of its residential property portfolio primarily for the former Royal Victoria Hospital site development. Phase A completed October 2021. Phase B projected completion Autumn 2022.
	Total - Corporate Services	3,966	1,416	2,707	95	95	95	95	4,503	537	

Item No.	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Latest Projection 2025/26	Latest Projection 2026/27	Total Projection 2021/22 - 2026/27	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Tim Madden - Transformation & Transition										
42	Princes Parade Leisure & Housing development	28,468	2,804	14,699	21,394	5,906	0	0	44,803	16,335	Updated position as reported to Cabinet on 26 January 2022
43	Mountfield Road Industrial Estate Phase 2	3,490	3,490	0	0	0	0	0	3,490	0	Infrastructure and services to 5 hectare site to enable development of employment space for up to 450 jobs. Final SELEP grant award slightly higher than previously anticipated
44	New Business Hub - Mountfield Road Industrial Estate	297	633	0	0	0	0	0	633	336	Joint development with East Kent Spatial Development Company to construct the new facility on the Council's land. Facility completed and now open.
48	FHDC Transformation	0	0	105	0	0	0	0	105	105	Capitalised redundancy and pension strain costs able to be met from the Flexible Use of Capital Receipts Guidance
	Total - Transformation & Transition	32,255	6,927	14,804	21,394	5,906	0	0	49,031	16,776	
	Total General Fund Medium Term Capital Programme	132,586	22,806	36,013	52,111	30,485	6,785	1,584	149,784	17,198	
49	Government Grant	(11,575)	(5,652)	(4,998)	(1,402)	(1,362)	(1,019)	(1,019)	(15,452)	(3,877)	
50	Other External Contributions	(2,387)	(1,188)	(1,170)	(7,309)	(1,150)	0	0	(10,817)	(8,430)	
51	Capital Receipts	(24,867)	(884)	(5,208)	(10,400)	(14,340)	(400)	(400)	(31,632)	(6,765)	
52	Revenue Contributions	(3,209)	(747)	(2,363)	(165)	(265)	(165)	(165)	(3,870)	(661)	
53	Borrowing	(90,548)	(14,335)	(22,274)	(32,835)	(13,368)	(5,201)	0	(88,013)	2,535	
	Total Funding	(132,586)	(22,806)	(36,013)	(52,111)	(30,485)	(6,785)	(1,584)	(149,784)	(17,198)	