

# MEDIUM TERM FINANCIAL STRATEGY

## 2019/20 TO 2022/23

(Version produced in September 2018)



# **MEDIUM TERM FINANCIAL STRATEGY**

## **Introduction**

This document sets out the key challenges and approach of the Council in relation to Folkestone and Hythe District Council's Medium Term Financial Strategy ('MTFS') for the next four years. The MTFS provides an integrated view of the whole of the council's finances and it also maps out the objectives to be secured, policies to be applied and risks to be managed over the period.

Since the introduction of austerity in 2010, local government has taken a disproportionately large share of the reductions in public expenditure as part of efforts to balance the nation's finances. The financial year 2019/210 will be the first year where the Council no longer receives any Revenue Support Grant. The current national political uncertainty surrounding the shape of Brexit and its continuing priority in the government's agenda suggests it is reasonable to assume the approach adopted by local authorities since 2010 will need to continue for the foreseeable future.

In response to this financial challenge, local government has innovated, streamlined services and increased productivity. The Government's plans to devolve more responsibilities to local government through the localisation of business rates are now intended to take effect from April 2020 although detail as to whether there will be additional responsibilities are not yet clear. The devolution of business rates is intended to be fiscally neutral but the details of how this will work are currently being developed alongside the Fair Funding Review. This will bring both risks and opportunities for the council and will be implemented for the 2020/21 financial year.

The MTFS is the a critical document in setting out the council's approach to establishing a strong financial base to enable the council's policies and priorities to be delivered whilst ensuring the council's finances are sustainable. Within the document are some key issues which will need to be tackled. The annual budget setting process will set out the detailed actions required to meet these but will in all cases be consistent with the direction and objectives of the MTFS.

## **Folkestone and Hythe Council - the Current Position**

Folkestone and Hythe Council covers an area of 140 square miles and has a population of just over 100,000 people with approximately 48,200 dwellings in the district. The council has responsibility for a wide range of services including waste collection, planning, environmental enforcement, housing and homelessness, parking and grounds maintenance. In 2018/19 it planned to spend approximately £17.1 million per annum net revenue expenditure on services.

## **The Council's Aspirations**

The vision and strategic objectives of the council are laid out in the Corporate Plan 2017 to 2020 and are shown below:

### **The vision for Folkestone and Hythe:**

## **Investing for the next generation – delivering more of what matters**

As a council, to help achieve the vision for the district, our strategic objectives are:

- More Homes – Provide and enable the right amount, type and range of housing
- More Jobs – Work with businesses to provide jobs in a vibrant local economy
- Appearance Matters – Provide an attractive and clean environment
- Health Matters – Keep our communities healthy and safe
- Achieving stability – Achieve financial stability through a commercial and collaborative approach
- Delivering Excellence – Deliver excellent customer service through the commitment of staff and members

The council will have a particular emphasis on supporting the growth and sustainability of the economy to increase prosperity, to increase the number of houses in a sustainable manner over the longer term and on improving our effectiveness and efficiency through service design and digital delivery. By focusing on these key priorities, the council will be able to direct resources to achieving its key strategic objectives and to ensure sustainability in its activities.

As part of further strengthening the council's corporate position going forward, in June 2018, the Local Government Association (LGA) Peer Review Team undertook a review of the council's organisational leadership and governance; financial plans; capacity to deliver; and, focus on commercialisation, highlighting both areas of strength and areas for development in the years ahead.

The Council will continue to deliver a range of major projects and initiatives focusing on putting the community and our customers first, whilst ensuring our financial stability, including a Council-wide transformation programme alongside realising development projects at sites including Biggins Wood, Princes Parade and ultimately, Otterpool Park – a garden town for the future.

## **Strategic Financial Objectives**

The MTFS covers all areas of the council spending and is underpinned by the strategic financial objectives as set out below:

- To maintain a balanced Budget such that expenditure matches income from Council Tax, fees and charges, and government and other grants and to maintain that position.
- To maximise the council's income by setting fees and charges, where it has the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs.
- To ensure a long term sustainable view is taken of any investments and the appropriate risk analysis is provided in considering those.
- To set a rate for Council Tax which maximises income necessary for the council to deliver its strategic objectives but ensures that government referendum limits are not exceeded. The percentage increase will be reviewed annually.
- To ensure resources are aligned with the council's strategic vision and corporate priorities.
- To consider and take advantage of commercial opportunities as they arise to achieve a commercial return
- To maintain an adequate and prudent level of reserves.

The council faces a number of difficult decisions if it is to achieve its corporate priorities. Effective prioritisation and management of resources therefore continues to remain significant for the coming years.

### **The Efficiency Plan**

The government offered local authorities a minimum grant envelope for 4 years starting from 2016/17 through to 2019/20. This has provided a degree of stability in funding for the Council. 2019/20 is the final year of this "offer" and in order to secure this, the Council must produce an efficiency strategy. There are a number of programmes to support this efficiency plan including:

- The Corporate Plan 2017 - 20 the key objectives of which are set out above
- The Economic Development Strategy 2015 - 2020
- The Council's digital delivery programme
- The flexible use of capital receipts (see later in this document)
- The Medium Term Financial Strategy
- The HRA Business Plan
- The investment in longer term strategic developments to secure the financial future of the council
- The development of the garden town at Otterpool Park with a long term financial benefit for the council and establishing sustainable communities for the future
- A sustainable and prudent reserves policy to underpin the financial resilience of the council

- The implementation of the Transformation programme, together with the Council's transformation partners, lease, to develop new operating model and deliver efficiencies whilst improving the customer experience

The range of documents and approaches provides the overall strategy of the council in delivering its future agenda and as a combination they are owned by the council as a whole. This MTFs brings together the financial strands of that approach in the context of the current financial climate.

## **Budget Process**

The MTFs represents an overarching view of the finances of the organisation. It is the document that takes a longer medium term look at the financial environment the Council is operating in and looks to anticipate future demands and pressures so the Council can take longer term decisions over its financial sustainability. In addition to this, there are a number of key documents which contribute to the overall financial health of the organisation. These are:

- The budget strategy. This is produced on an annual basis and sets out the strategy for setting and managing the budget for the following financial year. It is here the detailed decisions on expenditure are taken.
- The detailed revenue estimates. These are the operational detail for the following years budget and form the basis of the following years budget monitoring and management.
- The capital programme. Which sets out the Council's capital expenditure plans over the medium term. This also informs the revenue budget of the costs and implications of any proposed developments.
- The Housing Revenue Account. This sets out the annual capital and revenue budget for the Council's housing stock and links to the 30 year business plan.
- The treasury management and investment strategy. This sets out the approach to managing the cash available to the Council and how to maximise its value to the Council. It also sets out the Council's investments and plans to achieve future returns over the longer term.
- Fees and Charges. This sets out a corporate view of the fees and charges which are levied by the Council for consideration each year.

Together these reports lead to the final council tax setting report and the agreement of the budget for the following year.

## **Financial Pressures and Projections**

The Council is part of the local government sector which has been one of the areas hardest hit by central government's deficit reduction plan. The spending review 2015 confirmed a transition away from direct central government grant and for Folkestone and Hythe the grant has consistently reduced from £4.901 million in 2013/14 to nil in 2019/20. This is in line with the government's intention to see more money raised locally to provide local services.

The government is currently undertaking a major review of the funding of local authorities known as the Fair Funding Review. This is anticipated to take effect from 2020/21 and includes local business rates retention at 75%, a revised allocation of resources and new arrangements to replace the New Homes Bonus to reward those Councils which support home building. The detail behind much of this review, and therefore the impact upon Folkestone and Hythe, is unclear and does mean that the forecasts from 2020/21 onwards have a level of uncertainty which will need to be monitored as those details become available.

Acknowledging the future uncertainty, the forecasts set out below have recognised the current service levels plus any known and agreed variations. They are based on a continuation of those service levels and reasonable assumptions in relation to pay and price inflation and other known pressures. The forecast is based on a mid range scenario and will need to be updated in line with government announcements and as new information becomes available. The current forecast is set out at Table 1 below:

Table 1 – Medium Term Financial Forecast

| Financial Forecast | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--------------------|---------|---------|---------|---------|
|                    | £000    | £000    | £000    | £000    |
| Cumulative Deficit | 721     | 1,723   | 3,043   | 4,362   |
| Annual (y-o-y)     | 721     | 1,002   | 1,320   | 1,319   |

The table identifies the ongoing pressure the Council is facing. A more detailed presentation is attached at Appendix 1. Some of the underlying assumptions drivers are set out in the paragraphs below:

### **Council Tax**

The Council Tax is one of the key funding streams for the council and accounts for approximately two thirds of the Council's income. Although this is a significant funding source, it is subject to restrictions by central government. The Localism Act included a requirement to hold a local referendum if any Council Tax increase is deemed 'excessive' and this level is currently set at 3% by central government.

The MTFs has assumed an ongoing Council Tax increase of 2% per annum however this will be subject to a Political decision on an annual basis dependant on circumstances in that time.

### **Use of Reserves**

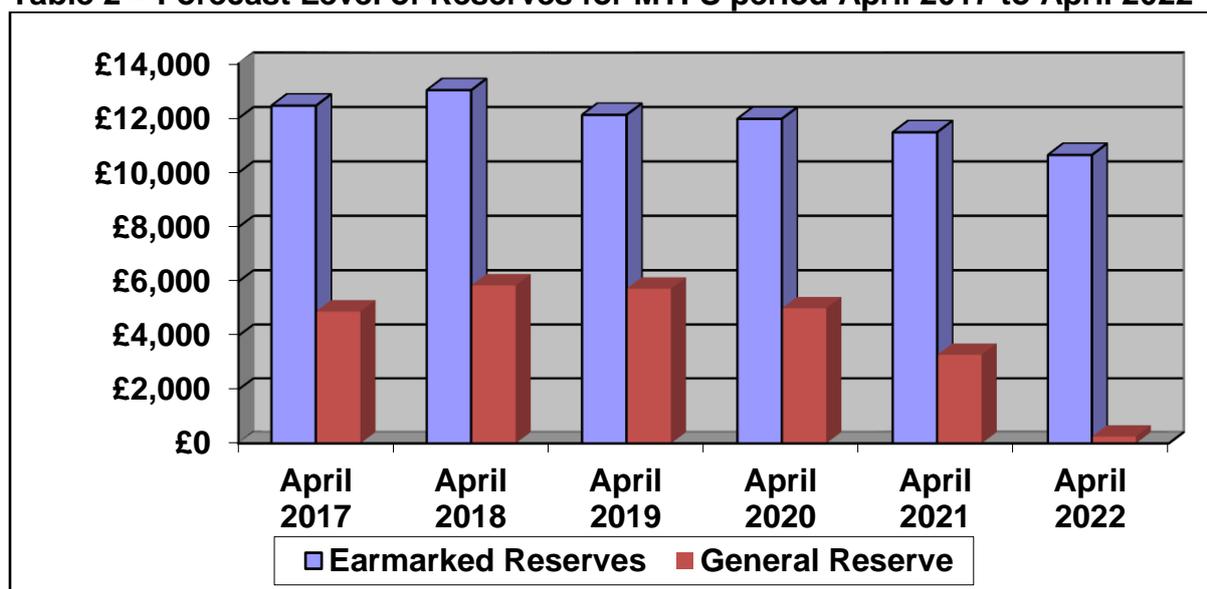
The council has a level of reserves which provides it with some protection against the difficult economic times. The level of reserves currently held by Folkestone and Hythe gives it a secure financial base however it is important to have an appropriate balance between supporting the financial position of the Council and planning the

delivery of services. The Council has identified specific uses for much of the reserves including setting aside sums to support the planning process for Otterpool Park and the use of reserves will be focussed on specific priorities.

**Appendix 2** to this report sets out the council’s overall reserves policy and the context in which decisions are made as to the appropriate level of reserves.

The council’s prudent approach to reserves means that a number of investments have been made using reserves to support initiatives such as Oportunitas and the Empty Homes programme. Table 2 below shows the forecast level of reserves for the period of this strategy.

**Table 2 – Forecast Level of Reserves for MTF period April 2017 to April 2022**



### **New Homes Bonus (NHB)**

The New Homes Bonus was introduced in 2011/12 and has become an important funding source for councils. It is designed by Central Government to incentivise new house building. Local authorities are rewarded with a financial bonus, equal to the national average Council Tax on each additional property built and paid for the following six years after the occupation as a non ring fenced grant. This bonus is currently split in two tier areas 80% to the District Council and 20% to the County Council and includes where properties which have been empty for more than six months are brought back into use. There is also an enhancement for affordable homes.

The future of the New Homes Bonus was reviewed for the 2017/18 financial year with the length of time it is paid reduced from 6 years to 5 years (for the 2017/18 award) and to 4 years from 2018/19 onwards. A “baseline” of 0.4% growth was also established before any bonus was paid. These funds were used to support those authorities with adult social care responsibilities.

The government has set out its intention to end New Homes Bonus from the Fair Funding Review in 2020. The intention is to replace this mechanism with a different

means of incentivising and rewarding housing growth. The detail of this is unclear and poses a risk to the future funding of the Council. At present, Folkestone and Hythe utilises a proportion of its existing New Homes Bonus to support services with the remaining amounts being set aside within a reserve to fund the additional cost of services over future years. This reserve will deplete by 2022/23 if the current arrangements come to an end with no compensating alternative.

### **Business Rates (Non Domestic Rates)**

From 2013, the government introduced a scheme through which local authorities would be able to retain a proportion of any business rates growth above a set baseline. The purpose was to give local authorities a financial incentive to encourage and foster economic growth within their area and to work collaboratively with other authorities and business organisations to achieve that growth. Whilst this scheme has been broadly welcomed by local authorities, there are concerns over the potential volatility of this income stream with the level of appeals and that even a small variation in the overall revenue generated can carry a significant financial impact. The government is currently undertaking a review of how business rates operate and has stated its intentions to achieve 75% localisation of business rates from 2020.

With regard to the MTFs, the Council has welcomed the emphasis on economic growth but has been cautious about building this into the base budget. Part of this is due to the impact of appeals and the volatility of the income which makes it more complex to forecast. Where possible, any surpluses have been placed within a reserve until there is a degree of certainty before they can be used which may well not be until the following financial year. This is prudent management to manage the natural fluctuations of the business cycle.

The Council is also part of the successful Kent and Medway Business Rates Pilot which is able to retain 100% of business rates for 2018/19 only. This is a 1 year pilot although further bids are welcome for 2019/20. This is of significant financial benefit to the Council but the Council has set this benefit aside in reserves for future use pending future clarification as to future arrangements.

The role of business rates in the funding of the Council will be affected by the Fair Funding Review which will be introduced from April 2020. The full impact of this will only become clear during 2019/20 as proposals are developed. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

### **Future Strategies**

The current forecast means that there will need to be significant work undertaken to address the forecast deficit. Set out below are some of the key areas to be developed through the 2019/20 budget strategy and beyond to address those financial challenges.

**Transformation:** The Council has undertaken a major review of its operations and is working with IESE as its transformation partner to radically change how the Council operates and its relationship with its customers. This is based on a complete review

of its operation and involves a significant investment in technology. The programme was approved at Council on the 28th February 2018 and is expected to be implemented within a 2 year programme. It is anticipated that this will produce ongoing savings for the Council.

**Strategic Investments:** The Council is looking to take advantage of its position with a number of developments to produce financial returns whilst at the same time supporting the delivery of housing and regenerating parts of the district. The largest development is that of the proposed new town at Otterpool Park and options are being explored to generate future revenue and capital streams. Other areas include the developments at Varne, the Bigginswood site and further expansion of Oportunitas, the Council's Housing and Regeneration company. The proposed development at Princes Parade will, if approved, also generate a revenue benefit due to the replacement of the current ageing leisure facility.

**Commercial Opportunities:** The Council will seek to take advantage of commercial opportunities wherever possible to cover costs and to review our fees and charges in order to maximise benefit in line with corporate objectives.

A **financial review** of previous years' out turn and our base budget to ensure maximum value is obtained from those resources already allocated – effectively to ensure financial discipline and good housekeeping are maintained. This is a fundamental annual review of our current operations in order to maximise the use of our current resources.

Using **reserves** in a sustainable and prudent manner to support the council's strategies and priorities. These are informed by the reserves strategies at Appendix 2 and it is recognised that these can only be used on a "one off" basis. However, they can play an important part in supporting initiatives or investments which can produce benefits in the future.

Using opportunities as they arise including government initiatives or incentives. In particular, the Council will seek to participate in the **Business Rates Pilot** scheme to maximise the financial benefit from this area. It also will seek to utilise **Flexible Capital Receipts** where possible to fund the transformation programme and to take pressure off the revenue account. All these are managed on an ongoing basis.

To maintain the council's financial standing it is important that it continues its proactive approach to financial planning and ensures that the savings plans are deliverable and that any investments are focussed on the financial health of the authority.

### **Housing Revenue Account**

The council has a separate account, the Housing Revenue Account (HRA) which supports local authority housing throughout the district. The HRA is now required to produce a 30 year business plan which demonstrates the affordability and sustainability of the management and investment in the council's housing stock. This full plan was reviewed and agreed by the council's Cabinet at its meeting of 23 March 2016 and can be found at the following link.

<http://www.shepway.gov.uk/moderngov/documents/s18931/rcabt20160323%20appendix%20to%20HRA%20Business%20Plan.pdf>

The main strategic objectives of the HRA business plan are:

- To provide high quality affordable homes that meet fully the Folkestone and Hythe housing standard.
- To provide an efficient and effective housing management service, and invest in service improvements.
- To maximise the recovery of rental income.
- To build new council homes.

The refreshed HRA business plan agreed the following principles:

- The repayment of the council's HRA debt by year 25 of the business plan (by around 2040-41)
- The implementation of a fully funded Folkestone and Hythe Housing Standard Programme throughout the 30 year life of the Business Plan.
- The provision of resources for a new build and housing acquisition programme. Due to the recent policy changes announced by the Government, it has been necessary to reduce our delivery target of up to 300 homes over the next 10 years, to up to 200 homes over the next 10 years.
- A minimum balance of £2million to be retained within the HRA at all times.
- Minimum borrowing headroom of £2million to be retained at all times.
- The plan should provide sufficient resources to fund environmental improvements to the communal parts on the council's estate areas.

## **Medium Term Capital Programme**

The Medium Term Capital Programme sets out how capital resources are used to achieve the council's vision and corporate priorities. Funding for capital projects is limited and where possible external funding is used to supplement the programme. The council has an affordable Capital Programme and this is assessed against business cases taking into account future resources to support projects. A strategy has been adopted which will look to utilise capital receipts to support investments for the council. Demand for financing potential new projects continues to outweigh the funding available and developments such as Princes Parade and Otterpool Park will need to be prioritised as part of the programme.

The main strategic objectives of the Capital Programme, which provide the underlying principles for financial planning, can be summarised as follows:

- To maintain a five year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits.
- To ensure capital resources are aligned with the council's strategic vision and corporate priorities by ensuring all schemes are prioritised according to the council's prioritisation methodology.

- Prudential Borrowing to be undertaken to support the councils priorities where there is a business case for it to do so and there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding to support council priorities and disposing of surplus assets.
- To use internal resources alongside external resources where appropriate to support the capital programme and minimise any borrowing costs.

The council forecasts its capital programme over a 5 year period and the latest position is set out in the report to council on the 22nd February 2017. This can be found at:

<http://intranet.shepway.gov.uk/moderngov/documents/s26411/Council%20Version%20MTCPv1.pdf>

## **Risks and Sensitivities**

In considering the future projections, it is recognised that there are unknowns which could impact upon the existing forecasts. The MTFs should be seen not as a static document but rather one that is constantly evolving as the environment around it changes. Some of the key risks and sensitivities which need to be monitored are mentioned below.

- Economic conditions. The impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model.
- Impact of “Brexit”. Whilst the government has underwritten EU funding agreed prior to the 2016 Autumn Statement, the impact of the UK’s departure from the EU is one that is unclear and may impact both politically and economically.
- Government Finance Legislation. There are key pieces of government legislation which will impact upon the future financial position of the council. In particular the impact of the localisation of business rates and any additional responsibilities will need to be fully evaluated as well as the governments current Fair Funding Review of local government finance which is due to be introduced in 2020.
- Other Government Legislation. There are a significant number of political initiatives particularly in relation to localisation and the role of local government. These will need to be assessed for their relevance to Folkestone and Hythe and the impact on future finances.
- Buoyancy of income streams. These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored.

## **Conclusion**

The MTFs represents the collation of the key financial documents which looks to forecast the likely financial position the council will be facing over the next 4 years. It

is the critical financial planning tool for the council and will provide the overall steer for the ongoing discussions throughout the annual budget cycles in dealing with the current economic climate.