

This Report will be made public on 1 December 2020



Report Number **C/20/59**

**To:** Cabinet  
**Date:** 9 December 2020  
**Status:** Key Decision  
**Head of Service:** Charlotte Spendley, Director of Corporate Services  
**Cabinet Member:** Councillor David Monk, Leader of the Council

**SUBJECT: BUDGET STRATEGY 2021/22**

**SUMMARY:**

This Budget Strategy sets out the guidelines for preparing the 2021/22 Budget. It supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

The Budget Strategy takes account of current and future financial issues, sets out the underlying assumptions and initial budget-setting proposals and provides a timetable for delivering a balanced budget in 2021/22.

**REASONS FOR RECOMMENDATIONS:**

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

- (i) The Budget Strategy provides the framework for compiling the detailed 2021/22 budgets;
- (ii) The Budget Strategy will support the delivery of the MTFS; and
- (iii) The council's constitution requires approval of such a Strategy at least two months in advance of final budget approval.

**RECOMMENDATIONS:**

1. To receive and note report C/20/59.
2. To approve the Budget Strategy for 2021/22 set out in this report.
3. To approve the General Fund revenue growth & savings proposals for 2021/22 (Appendix 2).
4. To approve the General Fund capital growth proposals for 2021/22 (Appendix 3).
5. To agree the proposed timetable for preparing 2021/22 budgets (Appendix 4).

## **1. INTRODUCTION**

- 1.1 The Constitution requires that ‘no less than two months before any plan, strategy or budget that forms part of the Budget and Policy Framework needs to be adopted, the Cabinet will publish initial proposals and a timetable to council’.
- 1.2 This Budget Strategy covers those requirements, setting out the initial proposals and a timetable that will be used to inform the setting of the detailed budget for 2021/22. The Budget Strategy is consistent with the direction and objectives of the updated MTFS.
- 1.3 The MTFS and Budget Strategy are aligned with the council’s strategic financial objectives, which are:
- To maintain a balanced Budget such that expenditure matches income from Council Tax, fees and charges, and government and other grants and to maintain that position.
  - To maximise the council’s income by setting fees and charges, where it has the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs.
  - To ensure a long term sustainable view is taken of any investments and the appropriate risk analysis is provided in considering those.
  - To set a rate for Council Tax which maximises income necessary for the council to deliver its strategic objectives but ensures that government referendum limits are not exceeded. The percentage increase will be reviewed annually.
  - To ensure resources are aligned with the council’s strategic vision and corporate priorities.
  - To consider and take advantage of commercial opportunities as they arise to achieve a commercial return.
  - To maintain an adequate and prudent level of reserves.

## **2. CURRENT FINANCIAL POSITION**

### 2019/20 General Fund Budget Outturn

- 2.1 The final contribution to the General Fund Reserve was £4.3m. This included a net transfer to Earmarked Reserves of £4.5m 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.

### 2020/21 Forecast General Fund Budget Outturn

- 2.3 An update to the General Fund Revenue Budget for 2020/21 was reported to Cabinet at its meeting on 11 November 2020. There is a projected adverse

variance of £712k for the year against the latest approved budget which is primarily due to the impact of the Covid-19 pandemic on the Council's ability to collect income and additional spending pressures due to national lockdown restrictions imposed by the government. The report provides detail on proposed operational service budget reductions to address the deficit which has reduced the anticipated year end gap to £162k.

- 2.4 The Quarter 2 HRA Monitoring was reported to Cabinet at its meeting on 21 October 2020 and sets out the projected outturn for HRA revenue and capital expenditure for 2020/21. The projections, based on actual expenditure and income to 31 August 2020, show there is a projected decrease in net expenditure of £3.0m on the HRA and an underspend of £3.3m on the capital programme against the £13.8m latest budget.
- 2.5 The latest projection for the General Fund capital programme in 2020/21 was also reported to Cabinet at its meeting on 21 October 2020 and it shows a reduction in planned capital expenditure of £22.9m against the latest budget. The main reason for the reduction is the delay of the next phase of the Otterpool Park project, Oportunitas phase 2 capital funding, Greatstone Holiday Lets scheme, Princes Parade Leisure Centre and Biggins Wood Commercial Development until 2021/22.

#### Government Funding

- 2.6 In February 2020, the Secretary of State for the Ministry of Housing, Communities and Local Government announced the final local government finance settlement 2020/21. This announcement followed on from consultation on the provisional settlement.
- 2.7 The main points of note from the settlement relevant for this council are as follows:

	<b>2019/20</b>	<b>2020/21</b>	<b>Change</b>
	£'000	£'000	£'000
<b>Settlement Funding</b>			
Revenue support grant	0	0	0
Baseline funding	3,673	3,733	60
<b>Settlement funding assessment</b>	<b>3,673</b>	<b>3,733</b>	<b>60</b>
<b>Reduction in funding compared to 2019/20</b>	n/a	60	1.6%

#### New Homes Bonus

- 2.8 The Government committed to retain the top-slice of Revenue Support Grant to fund New Homes Bonus in 2020/21. In addition to funding legacy payments associated with previous allocations, the Government announced a new round of in-year allocations for 2020/21 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.
- 2.9 The council currently receives £1.4m in NHB payments with all of this funding being used to support services. The remaining balance of previous

allocations are set aside within a reserve to fund the additional cost of services.

#### 2021/22 Local Government Finance Settlement

- 2.10 The government had intended to hold a Spending Review in 2020, covering the period 2021/22 to 2023/24, delayed from 2019 due to political focus on the Transition from the EU. However, with the unprecedented uncertainty of Covid-19 and to prioritise the response to the pandemic, it was announced that a one-year Spending Review would be conducted covering the financial year 2021/22; and that plans for the Spending Review would be kept under review.
- 2.11 The one-year Spending Review was announced on 25 November 2020 and builds on the support put in place for businesses, families and the economy throughout the current crisis and focuses on three areas:
- providing departments with the certainty they need to tackle Covid-19 and deliver our Plan for Jobs to support employment
  - giving our vital public services enhanced support to continue to fight against the virus alongside delivering first class frontline services
  - investing in infrastructure to deliver our ambitious plans to unite and level up the country, drive our economic recovery and Build Back Better
- 2.12 Local Government's Core Spending Power will increase by £2.1bn (4.5%) in 2021/22 which includes:
- A core Council Tax referendum principle of up to 2% (maintained from 2020/21) with further flexibility for the Adult Social Care precept which will be announced as part of the Local Government Finance Settlement
  - £300m additional grant for adult and children's social care (with confirmation that the £1bn social care grant in 2020/21 will be rolled forward)
  - £200m for indexation which has two elements: inflation for Revenue Support Grant and the effect of cap compensation on business rates income and baselines. These calculations have not been confirmed and remain provisional for now.
  - New Homes Bonus will continue for a further year with no new legacy payments. It is not clear from the Spending Review whether this allows for a further one-off payment in 2021/22 or continuation of previous year legacy payments. Confirmation will be provided in the Local Government Finance Settlement.
  - Small Business Rates multiplier will be frozen in 2021/22 (instead of increasing by CPI) but local authorities will be fully compensated through a section 31 grant.
  - A fundamental review of the Business Rates Retention System will report in Spring 2021.
  - There will be no business rates baseline reset in 2021/22.
- 2.13 Other funding streams announced which relate to local government include:

- Additional £3bn funding for Covid in 2021/22, of which: £1.55bn is for additional spending pressures, £670m is to fund council tax support and £672m to fund 75% of irrecoverable loss of council tax and business rates revenues in 2020/21.
- The Sales, Fees and Charges compensation scheme will be extended into the first 3 months of 2021/22.
- Further £254m funding to tackle homelessness and rough sleeping (£103m of this was announced earlier this year for accommodation and substance misuse support).

2.14 The Provisional Local Government Finance Settlement is anticipated to follow the Spending Review announcement in mid-late December. Any financial impacts arising from the announcement will be built into the draft detailed budget papers being presented to Cabinet in January 2021.

### 3.0 2020/21 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/20/51).

3.2 The current MTFS forecasts a cumulative funding gap of £13.7m 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.

	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
<b>Forecast Deficit</b>	<b>3,456</b>	<b>7,071</b>	<b>10,494</b>	<b>13,691</b>

3.3 The current MTFS forecasts a deficit of £3.5m in 2021/22. 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 2020 amounted to £24.0m, of which £3.3m was held within the General Reserve. The table below shows projected reserves at 31 March 2021 before any application towards new budget growth or initiatives.

Description of Reserve	Balance 1/4/20 £000	Forecast Balance 31/3/21 £000
<b>General Reserve</b>	<b>3,309</b>	<b>3,147</b>
<b>Earmarked Reserves:</b>		
Business rates	5,699	1,399
Invest to save	366	-
Carry forwards	681	523
IFRS	31	8
Vehicles, equipment and technology	257	207
New Homes Bonus initiatives	2,360	2,342
Corporate initiatives	998	246
Maintenance of Graves	12	12
Leisure	497	546
Otterpool Park	1,570	-
Economic Development	4,384	1,376
Community Led Housing	417	365
Lydd Airport	9	9
Homelessness Prevention	401	401
High Street Regeneration	3,000	2,066
Climate Change	-	4,960
<b>Total Earmarked Reserves</b>	<b>20,682</b>	<b>14,460</b>
<b>Total General Fund Reserves</b>	<b>23,991</b>	<b>17,607</b>

#### 4.0 BUDGET ASSUMPTIONS

4.1 Appendix 1 explains the changes between the 2020/21 approved budget and 2021/22 budget forecast that have been taken into account in the MTFs. These changes comprise:

	£'000
<b>2020/21 Net Approved Budget (balanced budget)</b>	<b>0</b>
Inflationary Pressures 2021/22 (net)	268
Corporate Funding Changes 2021/22 (net)	877
Service Changes 2021/22 (net)	1,582
Net Movement in Contributions To/(From) Reserves	729
<b>MTFS Forecast 2021/22 Budget Deficit - Before Growth and Savings Proposals</b>	<b>3,456</b>

#### MTFS Funding Assumptions 2021/22

- 4.2 Income from Business Rates is based on last year's estimates, pending a full review. The MTFS shows a 7.2% decrease compared to 2020/21, largely reflecting the assumption not to budget for a pool benefit in 2021/22 given the uncertainties around business rates growth following the impact of Covid-19. An increase in the small business rates multiplier of 0.5% in 2021/22 has been assumed. 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 2021. Further detail in the Spending Review and the Local Government Finance Settlement is awaited to confirm the maximum increase for 2021/22 without requiring a referendum. A council tax base increase of 0.5% and a balanced Collection Fund have been assumed for 2021/22.
- 4.4 Continuation of current New Homes Bonus receipts but no new monies from 2021/22 due to uncertainties around the formula funding review and awaited Spending Review.

#### MTFS Expenditure and Income Assumptions 2021/22

- 4.5 Additional unallocated net employee costs amount to £158k in 2021/22, covering the estimated costs of a salary award at 3%, salary increments, Transformation savings and the impacts of the local government pension fund valuation.
- 4.6 Contract inflation of £100k 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 an increase of £412k compared to the 2020/21 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 2021/22 report to this meeting of Cabinet.

### **5.0 2021/22 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 2021/22

- 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 £0.296m and are detailed at Appendix 2.

#### Budget Savings and Efficiencies 2021/22

- 5.3 Service heads and budget managers were also asked to identify any savings items and a rigorous review of the 2020/21 base budget and previous years' outturns has been undertaken by departments in liaison with CLT. This review identified net potential savings and efficiencies of £1.048m.

#### Fees and Charges 2021/22

- 5.4 A review of fees and charges has been undertaken and the outcome has been included in a separate Fees & Charges report to this meeting. The proposed changes to fees and charges are anticipated to increase net income receipts by £65k.

The increase comprises:

<b>Increased income</b>	£
Hythe Pool	2,400
Recycling & Waste	14,800
Building Control	2,400
Planning Application Fees	11,200
Lifeline Charges	7,200
Vehicle Licensing	13,300
Licensing	4,100
Various	9,900
<b>Total</b>	<b>65,300</b>

#### Forecast Budget Deficit 2021/22

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

	£'000
Forecast deficit – November 2020 MTFS	3,456
Add: budget growth proposals	296
Less: further savings and efficiencies	(1,048)
Less: increase in income generated	(65)
<b>Revised Forecast Deficit 2021/22</b>	<b>2,639</b>

- 5.7 Options for addressing the forecast deficit for 2021/22 are now being considered in preparation for the detailed budget report to Cabinet on 20 January and will take into consideration:
- Any new factors affecting local government funding arising from the Government funding settlement announcements in late December



- Collection Fund surplus/deficit assumptions, with reference to the latest in-year collection performance
- The outcome of ongoing work to review the revenue budget savings and growth proposals at Appendix 2, and
- The action that is being taken to address the residual budget gap.

## **6.0 HOUSING REVENUE ACCOUNT (HRA)**

- 6.1 This Budget Strategy does not explore the Housing Revenue Account further as the council approved on 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 Autumn 2021 once this work is complete.
- 6.3 The detailed 2021/22 HRA revenue and capital budgets that will be submitted to Cabinet in January 2020 will be based on the latest review of the revenue and capital position taking into account known impacts of Covid-19.

## **7.0 CAPITAL PROGRAMME**

- 7.1 As part of the Budget Strategy, Cabinet is asked to consider the proposals for new capital schemes to be included in the council's General Fund Capital Programme for 2021/22. 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 £2.1m for 2021/22 are shown in Appendix 3 to this report. Additionally the council's General Fund Medium Term Capital Programme (MTCP) will need to be updated to include recurring schemes planned to continue over the 5 year period to 2025/26.
- 7.2 The capital scheme proposals include a £1.2m capital investment for East Cliff landfill protection works which falls under the Folkestone Parks and Pleasure Grounds Charity. The scheme will need to be approved by the Board of Trustees of the Folkestone Parks and Pleasure Grounds Charity and if approved the Trustees will request capital investment from the Council to proceed. All proposed changes to the council's General Fund MTCP are required to be approved by Full Council as part of the budget setting process.
- 7.3 Capital Receipts – the existing MTFs states that a minimum of £500k in capital receipts must be retained as a contingency to meet urgent or

unforeseen capital expenditure. The council's general policy is that only capital receipts received should be earmarked to fund capital projects. The only departure from this is ring-fencing the use of future repaid decent homes loans and home safe loans receipts to be reinvested in further private sector housing improvement loans. The latest position regarding the council's available capital receipts to fund capital expenditure, based on the initial capital budget monitoring for 2020/21, is shown in the following table:

<b>Capital Receipts Position Statement</b>	<b>£'000</b>
Receipts in hand at 31 August 2020	(8,835)
Less:	
Committed towards General Fund capital expenditure	1,948
Committed towards HRA capital expenditure	5,662
Ring-fenced for specific purposes	78
Contingency for urgent or unforeseen capital expenditure	500
<b>Balance available to support new capital expenditure</b>	<b>(647)</b>

- 7.4 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. This also currently excludes any potential future capital receipts that may be generated through the council's current 'invest to save' initiatives.
- 7.5 Other Capital Funding Sources - in addition to the available capital receipts, the council can choose to use its revenue resources (earmarked revenue reserves and balances) or consider prudential borrowing to fund its General Fund capital expenditure plans. Prudential borrowing will incur a revenue cost to the General Fund in terms of interest and a minimum revenue provision charge (MRP). Therefore, prudential borrowing is best suited to capital 'invest to save' projects, such as Otterpool Park, Connect 38 Offices, Oportunitas Ltd and the Biggins Wood Commercial development, that will provide a net long term financial return to the council allowing for these costs. The current approved MTCP requires about £99.6m of prudential borrowing to support it, some of which will be off set in time by external funding.
- 7.6 Any capital scheme included in the approved capital programme requiring external grant funding to support it will only be allowed to commence once a formal funding agreement has been established between the council and the relevant funding body.

## **8.0 THE BUDGET TIMETABLE**

- 8.1 By early March each year the council is required by law to approve its budget (revenue, capital and HRA) and council tax levels for the forthcoming year. The Full Council meets in February to do this. Advance notice is given in the publication of key decisions to be made.

8.2 Detailed guidance on the annual budget preparation process was circulated to officers in September 2020. This guidance covered roles and responsibilities; the links between finance and service planning; expected standards and approach; and the timetable for preparing the 2021/22 Budget.

8.3 The 2021/22 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 2021/22 budget proposals are to:

- Engage with key stakeholder groups and local residents;
- Seek feedback on specific budget proposals for 2021/22; and
- Seek feedback on general spending and income generation priorities.

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

## 10.0 RISK MANAGEMENT ISSUES

10.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process.
Assumptions may be inaccurate.	High	Medium	Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed.
Budget strategy not achieved.	High	Low	The budget making process is controlled closely with regular reconciliations against projections.
Incorrect assessment of Local Government Finance Settlement impact.	High	Low	The Spending Review and Local Government Finance Settlement will inform latest forecasts.

<b>Perceived risk</b>	<b>Seriousness</b>	<b>Likelihood</b>	<b>Preventative action</b>
Failure to take action to address forecast medium term financial pressures as well as focusing on the 2021/22 budget position.	High	Medium	Ensure that MTFS forecasts are monitored and timely interventions identified and implemented to address future deficits.

## **11.0 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **11.1 Legal Officer's Comments (NE)**

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

### **11.2 Finance Officer's Comments (CI)**

The Budget for 2021/22 will be submitted to council in February 2021. This Budget Strategy is the first stage in the detailed budget process and will be used to inform the preparation of budget estimates.

### **11.3 Diversities and Equalities Implications (CS)**

The budget report to Full Council in February 2021 will include an Equality Impact Assessment of the budget recommendations for 2021/22.

## **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

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

Fees & Charges Report 2021/22

**Appendices:**

Appendix 1 – Movement from 2020/21 Approved Budget to 2021/22 Base

Appendix 2 – General Fund Revenue Growth & Savings Proposals

Appendix 3 – Capital Programme Growth Proposals

Appendix 4 – Budget Timetable