

MEDIUM TERM FINANCIAL STRATEGY

2023/24 TO 2026/27

(Version produced in November 2022)



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Introduction

The Medium Term Financial Strategy (MTFS) is one of the key strategies of Folkestone & Hythe District Council and is a four year strategy that sets out in financial terms the Council's commitment to provide services which meet the needs of the people locally and that represent good value for money.

This document sets out the key challenges and approach of the Council in relation to the Council's MTFS and it 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. It links the Council's vision and priorities with its financial budgets and details how the Council's finances will be structured and managed to ensure that this fits with, and supports, the priorities of the Council and its partners.

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 and the previously integral part of Local Government funding that was Revenue Support Grant is now completely phased out for this District as well as most other Councils.

In terms of a backward look, the local and national financial picture in 2020/21 and 2021/22 was heavily influenced by the COVID-19 pandemic. Whilst the Council received a substantial amount of government funding for COVID-19 in 2020/21 and some funding in 2021/22 this strategy assumes there will be no specific additional expenditure and/or grant funding relating to COVID-19 and the MTFS reflects this in the multi-year plan. There are at present, no commitments regarding any further longer term COVID funding for local authorities.

Local and National funding – the current year

During the current financial year 2022/23 a number of new and significant pressures have arisen for both Central and Local Government, these being:-

- The war in Ukraine and its impact on the world economy and financial climate
- Unprecedented increases in the price of utility costs such as electricity and gas
- Huge fluctuations in the price of crude oil and supply side pressures
- Significant increases in consumer price inflation (CPI) now at 10.1% in the U.K.
- Rapidly increasing Bank of England base rates, now at 3% (as of 03/11/2022) with further increases possible to combat inflation
- Increases in the cost of borrowing due to higher interest rates
- Turbulent political times recently at national Westminster level
- Volatility in the bond and currency markets affecting the financial climate

All of the events above have led to an environment of increasing financial pressure, and great uncertainty over the future financial support that is available to local government for 2023/24 and onwards.

The Chancellor of the Exchequer, the Right Honourable Jeremy Hunt MP, made a statement on 17 October 2022 bringing forward a range of fiscal measures in advance of the Government's new Medium-Term Fiscal Plan, which was due to be announced on 31 October 2022. This has now been put back to 17 November 2022 - as announced by the Government on 26 October 2022.

The Chancellor also signalled in his statement that further savings may be required as the Government may have to bridge a funding gap of £28bn if it is going to meet its fiscal target of falling debt by the medium term. In light of this, the Chancellor advised that government departments will be asked to find efficiency savings within their budgets.

Alongside potential savings to bridge the gap, the Government may possibly consider some increases in taxation, the possibility of a VAT increase to 2.5% (which would raise an estimated £15-16bn). The Treasury is also reviewing a Council Tax rise above the current referendum limit for Councils. A 1% increase in the "core" Council Tax (excluding the Adult Social Care precept) nationally would raise an additional £312m for this sector as a whole.

In the short term, Local Government will also need to know whether the Spending Review 2021 (SR21) allocations will be honoured, as this covered a three year period to 2024/25. The new Chancellor has not made a commitment yet, and so it is possible that cuts will be seen in this review. Indications are that capital projects are a more likely target than revenue savings in the short term, and that any efficiency savings would have to be re-cycled within departments.

Folkestone and Hythe District Council like others, is unlikely to receive any clarity about future funding until 17 November 2022 when the Medium Term Fiscal Plan details are released. It is hoped that the details in the plan, likely to be at the macro level, will give Local Government an early indication of what may be contained in the settlement for 2023/24.

It is anticipated at this stage, that the Provisional Local Government Settlement will still be announced in December as usual and not delayed. This settlement announcement advises all Councils of their key Spending Funding Assessment (SFA) numbers for the next financial year. A final Local Government Settlement is published in late January to confirm final numbers.

Further details of the possible funding assumptions for this Council are detailed below in the detailed sections of this strategy report.

Medium Term Financial Plan update and rationale

Medium Term financial planning is critical in ensuring that the Council has a clear understanding of the level of available resources, the costs of delivering services and plans for new projects and services. This financial planning facilitates strategic choices around service delivery, efficiency and service reductions. The MTFPS informs the annual budget process and the Council has a legal requirement to set a balanced budget each year.

The last Government Spending Review 2021 (SR21) was announced on 27 October 2021 alongside and set out the Government's spending priorities, resource and capital budgets and devolved administrations' block grants for the three years from 2022/23 to 2024/25. Key measures announced in the Spending Review for local government included:

- Council tax thresholds will remain at similar levels to recent years, with the threshold for "core" Council tax increases remaining at 1.99% (and the adult social care precept by a further 1%). Confirmation of the thresholds will be in the provisional settlement.
- Local government in England will receive an additional £4.8bn increase in grant funding over the next 3 years (£1.6bn in each year).
- There was also smaller allocations within the core funding announcement, including £200m for the "cross-government Supporting Families programme", £37.8m for cyber security, and £34.5m to "strengthen local delivery and transparency".

It is important to note that the Local Government grant increase (above) of £4.8bn was £1.6bn per year. This means that after adding £1.6bn to base budgets in year one (2022/23), the following years of 2023-24 and 2024-25 are flat cash with no further growth for inflation pressures or pay award.

Furthermore, there were no announcements in the review about local government funding reforms (Fair Funding Review or business rates changes) and so it is anticipated that they have been pushed back to at least 2025/26 if not later. Latest updates (at October 2022) suggest that the Fair Funding Review is being modelled for 2025/26 with a view to implementation in 2026/27. Therefore the longer term funding picture continues to remain unknown and uncertain, which makes financial planning in the long term more challenging.

In response to the financial challenges experienced over the past ten years, local government has innovated, streamlined services and increased productivity over recent years. The Government's plans to devolve more responsibilities to local government through the localisation and retention of business rates have been delayed again. This work is currently being considered alongside the Fair Funding Review.

The Government is currently considering how to help local businesses in the challenging economic climate, due to increases in energy costs and interest rates. As a result this could lead to a freeze or cap in the small business rates multiplier for 2023/24. In short, this could mean that Councils will not be able to benefit from

increasing business rates yields at the rate of CPI, unless Central Government compensates Local Government as part of the 2023/24 settlement package. Again, further news is awaited in the Chancellor's Fiscal Plan due on 17 November 2022. In the meantime the Council remains part of a business rates pool with a number of other Council's in the County to maximise yields wherever possible and share benefits.

In terms of Council Tax, the current referendum limit for District Councils for the core element is 1.99% or £5 whichever is the greater. It is possible that the Fiscal Plan may vary this to give Councils an opportunity to raise Council Tax above this level. The outcome of that review at HM Treasury is still awaited.

In summary, the MTFS is 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 and in-line with latest policy from Central Government. Within the document are some key issues which will need to be tackled due to the financial pressures outlined in the introductory sections of this strategy report. The Council's annual budget setting and strategy 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 is a coastal district in south eastern England and home to a diverse collection of towns, villages and environments. It covers an area of 140 square miles and has a population of over 100,000 people with approximately 48,122 dwellings in the district. The majority of the residents live in urban areas (67%) with the remaining 37% to be found living in rural areas. The Council has responsibility for a wide range of services including waste collection, planning, environmental enforcement, housing and homelessness, parking and grounds maintenance. In 2022/23 the Council planned to spend approximately £18.3 million per annum net revenue (after income) on expenditure for services.

Continuing challenges for the Council to consider when establishing its priorities and financial strategy include, but are not limited to: considerable deprivation relative to the national average but with significant inequality within the District; rural areas have poorer access to services and facilities; the district suffers from high levels of disability/long term illness, reflecting, in part, the relatively high proportion of older people living in the District and bringing associated demands on local services; an increasing demand for housing is outstripping supply and there are rising house costs particularly in the private rental market as well as high demand for affordable housing and increasing levels of homelessness.

To add to this list in 2022/23 are increasing mortgage interest rates for home owners, unprecedented increases in the cost of living due to increases in gas and electricity costs, pay rises not linked to CPI rates and the growing use of food banks and potential homelessness.

The Council's Aspirations

Following a period of public consultation, the Council has outlined its vision and strategic objectives in the new Corporate Plan 2021/2030 – Creating Tomorrow Together:

The plan is focused on four service ambitions, positive community leadership, a thriving environment, a vibrant economy and quality homes and infrastructure and by 2030 will have achieved the following:

Creating Tomorrow Together

- **Positive community leadership** – local leadership in community services will be recognised for the vital contribution in creating a sense of place, health and wellbeing. This will be a shared ambition with partners across our communities. Local leadership will address many of the inequalities that exist between our communities and we will have improved access to services in our most deprived neighbourhoods. A strong and distinctive sense of place will prevail.
- **A thriving environment** - we will be recognised as an outstanding place and known as a green exemplar Council. Across the district, we will ensure excellent accessible open spaces for all. We will have invested in green infrastructure to enhance our superb natural environment and the Council itself will generate net zero carbon emissions.
- **A vibrant economy** - Folkestone & Hythe will have a thriving, distinctive and dynamic economy. It will have capitalised on major investment, will have responded positively to the structural challenges facing high streets, and will enjoy a diverse range of economic opportunities in its towns and rural areas. Building on its excellent connectivity it will attract more, higher-value employment, driving aspiration and demand for skills.
- **Quality homes and infrastructure** - Residents in Folkestone & Hythe will have better access to a wider choice of homes. New development will embrace high standards of sustainability and the district will be delivering planned, high quality housing with the necessary infrastructure to meet identified need, anchored by an ambitious new Garden Town at Otterpool Park.

At the heart of everything the Council does, it wants to build sustainable, resilient and prosperous communities and has set out six guiding principles to run through all activities, they are:

- **Locally Distinctive**
- **Sustainable Recovery**
- **Greener Folkestone & Hythe**
- **Transparent, Stable, Accountable & Accessible**
- **Working effectively with partners**
- **Continuous Improvement**

The Council has also developed a detailed action plan which provides focus for the first three years and outlines the outcomes anticipated to be delivered over that period relating to the Corporate Plan service ambitions.

The Council will continue to deliver a range of major projects as outlined in the plans and initiatives focusing on putting the community and our customers first, whilst ensuring financial stability, and continuing on the journey of service improvement alongside realising development projects at sites including Mountfield Industrial Estate, Biggins Wood and ultimately, Otterpool Park – a garden town for the future and the creation of new homes in-line with the Council's Local Plan.

Strategic Financial Objectives

The MTFs covers all areas of 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 safeguard public money and ensure financial resilience.
- To maintain an adequate and prudent level of reserves.

The Council faces a number of difficult financial decisions if it is to achieve its corporate priorities in the current economic and financial climate which remains challenging. Effective prioritisation and management of resources therefore continues to remain significant for the coming years. It is prudent to assume a limited level of support from Central Government in the next years and if the U.K. enters a challenging period despite its ambition to grow the economy and boost investment within the sector.

Supporting the production of the delivery of sound financial planning for the Council are several Council wide documents and programmes including:

- The Corporate Plan 2021 – 2030 ‘Creating Tomorrow Together’
- Council Constitution, Part 10 – Financial Procedure Rules, Contract Standing Orders and Auditing the Council
- Economic Development Strategy
- The Medium Term Financial Strategy
- The HRA Business Plan
- Housing Delivery Action Plan
- The Council’s Capital Strategy and Investment Strategy (Treasury Management)
- CIPFA Financial Management Code self-assessment and action 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
- Otterpool Park LLP Business Plan
- The Folkestone Place Plan
- A sustainable and prudent reserves policy to underpin the financial resilience of the Council

An MTFS stress testing exercise is now executed annually alongside a self-assessment against the CIPFA Financial Management (which had to be introduced in 2022/23) standards and review of CIPFA’s financial resilience index. The MTFS stress test ensures that the Council can constantly monitor a series of best and worst case scenarios to ensure that its financial plans are robust and based on varied assumptions.

The range of strategy 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 and essentially provides a golden thread that runs through all the Council’s plans to ensure sound financial planning, management and stewardship.

Budget Process

The MTFS represents an overarching view of the finances of the organisation. It is the document that takes a medium term view of the financial environment the Council is operating in, and looks to anticipate future demands and pressures so the Council can make 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 new financial year. It is here the detailed decisions on expenditure are taken including determining

key growth and savings and fees and charges for the year ahead. MTFS assumptions are also refined for further details where these are available. For 2023/24, the Budget Strategy will also include the implications and impact for the Council that are contained in the Medium Term Fiscal Plan that is due to be announced by the Chancellor of the Exchequer on 17 November 2022 (where feasible given the time restraints).

- The detailed revenue estimates. These represent the operational detail for the following year's budget and form the basis of the following years budget monitoring and management.
- The Medium Term Capital Programme. This 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. For 2023/24 this is highly critical due to the increased costs of capital financing as a result of increased interest rates and long term borrowing rates.
- 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. For 2023/24 the impact of CPI inflation on costs, borrowing and rent increases or a cap on increases will be a key consideration.
- The Treasury Management, Capital and Investment strategies. These documents set out the approach to managing the cash available to the Council and how to maximise its value to the Council. They also consider all of the Council's investments and plans to achieve future returns over the longer term. Again, the strategy for 2023/24 will be crucial to the impact of interest rate increases on both investments and borrowing costs for the Council.
- 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 that will be presented to Full Council in February 2023 and the agreement of the Budget for the new financial year.

Financial Pressures and Projections

The last seven years have seen significant shifts in funding for the local government sector. The spending review in 2015 confirmed a transition away from direct central government Revenue Support Grant (RSG) and for Folkestone and Hythe this grant was consistently reduced from £4.901 million in 2013/14 to nil. This is in line with the Government's intention to see more money raised locally for its core spending base from local taxation (Council Tax and Business Rates) to provide local services. The Government's intention was to introduce a new funding regime for Local Government based on a Fair Funding formula coupled with a major review of the Business Rates system to help Councils keep more of their business rates growth.

Since April 2020, there have been constant delays and set-backs to the introduction of the Fair Funding Review. The review was anticipated to make major changes in the structure of local government finance including local business rates retention, a revised allocation of resources and new arrangements to replace the New Homes Bonus to reward those Councils which support home building. A spending (SR21) was finally announced on 27 October 2021 alongside an Autumn Budget and this set

out the government's spending priorities and funding plans for 2022/23 through to 2024/25. However, whilst this provided a steer of the financial impact for the Council over this period, the Council like others is still be dependent upon a local government settlement that is announced annually in December. This is known as the Provisional Local Government Finance Settlement.

The degree of uncertainty to the projections made within the MTFS remains on-going and funding announcements will have to be factored into the MTFS as they are announced. The Government's new Medium Term Fiscal Plan is due to be delivered on the 17 November 2022 and this plan is expected to lay out how the current £28bn funding gap will be addressed. There is also likely to be an Autumn Statement or Budget in late November to support this.

The Council's financial recovery from the COVID-19 pandemic in 2021 and 2022 has been strong with income and collection rates recovering at a steady rate and this continued into the current financial year 2022/23. The grants received from Central Government to provide essential support to businesses have also been fully received and accounted for and no further grant funding is expected during this phase of the recovery.

For 2023/24, a range of different economic factors have had to be considered in the MTFS, in light of the rapid rise in CPI inflation and increases in utility costs and the cost of living crisis. There has been turbulence in the financial markets and the costs of borrowing for Local Government has increased markedly due to the above factors. Many of these factors have not been previously expected by Councils and so most Medium Term Financial plans have had to be re-cast to allow for these changes, some of which are still considered variable due to the uncertainty in the economic and financial environment that U.K. faces.

As many economic commentators have reported, Councils currently faces a future of "known-unknowns" and this makes for a period of great uncertainty in terms of effective financial planning. As such, the forecasts set out below for the MTFS recognise 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 as detailed in the introductory sections of this strategy report.

The current MTFS forecast, set out at Table 1 below, and identifies the ongoing pressure the Council is facing and it is clear to see that the Council faces marked increases in cost and price pressures in years 2023/24 onwards. It should be noted that at this stage, the MTFS excludes any service growth, savings and fees and charge increases for 2023/24 as these are to be considered as part of the Council's Budget Strategy which will be submitted to Cabinet in November 2022.

Table 1 – Medium Term Financial Forecast

Financial Forecast	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Deficit / (Surplus)	4,286	4,501	4,961	4,751
Cumulative Deficit	4,286	8,787	13,478	18,499

A more detailed presentation for the MTFS is attached at Appendix 2. Some of the key underlying assumptions and drivers are set out in the paragraphs below:

Council Tax

Council Tax is one of the key core 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 2% by central government, or £5 for a district Council. Further details will be announced in November or December on the Governments plans for the referendum limits for 2023/24. It is possible that changes to these limits may be introduced by the Government as highlighted in the introductory sections of this strategy report.

The MTFS as presented here, assumes an ongoing Council Tax increase of 2% per annum however this will be subject to a member decision on an annual basis dependent on circumstances at the time. A 2% increase in Council tax, based on the revised Council tax base and other adjustments, will raise approximately £208k for the Council in 2023/24, which is approximately 1.2% of net revenue spend (excluding Town and Parish precept costs).

Use of Reserves

The Council has a level of reserves which includes a General Fund Reserves Balance and a level of Earmarked Reserves. These reserves provide the Council with some protection against the difficult economic times and short term gaps in funding. 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 regeneration of High Streets and sums to support the Council's carbon net zero ambitions amongst other key priorities. Whilst the Council will seek to continue to add to earmarked reserves and seek to deploy them for their intended purpose, in

the current financial climate it may be necessary to deploy reserves for other important needs.

The Council had to use a level of reserves to balance its 2022/23 Budget and this may also have to be considered for the 2023/24 Budget due to the likely cost pressures outlined in the earlier sections of this strategy report.

Appendix 3 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 (a company wholly owned by Folkestone & Hythe District Council to provide more homes for local people and to promote new employment and housing opportunities across Folkestone and Hythe) contributions towards Mountfield Road Industrial Estate and the acquisition of Folca. Table 2 below shows the levels of reserves currently available as reported to Cabinet at Quarter 2 in 2022/23.

(See next page for table)

Table 2 – Reserves available at Q2 – 2022/23 as reported to Cabinet in October 2022

Reserve	Balance at 1/4/2022 £'000	Latest Budget £'000	Projection £'000	Change £'000	Balance at 31/3/2023 £'000
Earmarked					
Business Rates	2,662	(803)	(1,021)	(218)	1,641
Leisure Reserve	447	50	50	0	497
Carry Forwards	1,356	(144)	(144)	0	1,212
VET Reserve	287	(217)	(214)	3	73
Maintenance of Graves	12	0	0	0	12
New Homes Bonus (NHB)	1,997	(1,589)	(1,589)	0	408
Corporate Initiatives	960	(18)	26	44	986
IFRS Reserve	5	0	0	0	5
Economic Development	1,985	(1,546)	(915)	631	1,070
Community Led Housing	310	(55)	(55)	0	255
Lydd Airport	9	0	0	0	9
Homelessness Prevention	958	(21)	(21)	0	937
High Street Regeneration	1,575	(543)	(418)	125	1,157
Climate Change	4,880	(854)	(880)	(26)	4,000
Covid Recovery	3,526	0	(874)	(874)	2,652
Total Earmarked Reserves	20,969	(5,740)	(6,055)	(315)	14,914
Total General Fund Reserve	3,112	2,911	6,058	3,147	6,058

New Homes Bonus Funding (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.

In recent years, the government set out its intention to end New Homes Bonus, however with the delays to the Fair Funding Review its future for 2022/23 and beyond remains unclear. The intention is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail of this continues to be unknown at this time and the MTFs for 2023/24 assumes no further awards in this respect.

Currently, the Council has a residual reserve of unused New Homes Bonus of £408k (see Table 2 above) and this is available for use if approved as part of the Budget

Strategy. It should be noted that the Council utilised £1.3m of its then New Homes Bonus balance in 2022/23 to balance its Budget. This reserve is likely to be fully depleted in 2023/24 unless the Government provide a compensating alternative.

Business Rates (Non Domestic Rates)

The Governments long standing Business Rate Scheme 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, the commencement of this proposal has been delayed alongside the Fair Funding Review.

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 that 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 role of business rates in the funding of the Council will be affected by the Fair Funding Review. The full impact of this will only become clear as proposals are developed with likely implementation from 2025/26. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

It should also be noted that there is a Business Rate re-valuation due for 1 April 2023 and Councils are currently awaiting the result of the exercise from the Valuation Office Agency (VOA).

Climate Emergency

The Council formally recognised, in 2019, that there is a climate & ecological emergency and has agreed to commit to a number of activities which will reduce its carbon footprint and which will move towards a carbon neutral district. A Working Group has been established to consider the options and implications and an Action Plan for our own estate has been adopted and a district wide strategy is anticipated to be created during 2022. The Council has allocated funds to an earmarked reserve to manage the financial implications of the actions required and facilitate progress on the agenda. The Council has a Climate Change reserve and this reserve currently holds £4.0 million.

Future Strategies

The current negative forecast means that there will need to be significant work undertaken to address the forecast deficit over the term of the MTFS. Set out below are some of the key areas to be developed through the 2023/24 budget strategy and beyond to address those financial challenges.

Re-focusing of Priorities: The Council needs to prioritise and rephrase the work it is undertaking to recognise the financial challenges it faces. We will undertake this re-focusing work throughout the term of the medium term financial strategy but with a focus upon the early years of the plan, with the intention of delivery base budget recurring savings. This work will include a holistic review of services performed, identification of opportunities to improve the efficiency, improve service delivery and resilience through improved ways of working. This will be a major review of our operations and will need to be aligned to updates to the Customer Access Strategy and ICT & Digital Strategy.

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.

Bigginwood was acquired with the objectives of boosting the local economy, increase job opportunities and providing more homes (including affordable homes) and is anticipated to deliver 77 residential units, 660m² of commercial office units and 5,142m² of light industrial units. The Council is undertaking remediation and infrastructure works to the site to enable it to be sold for the planned redevelopment.

The Council delivered a very successful beach huts project in Folkestone and Sandgate, and now moved forward with a further scheme in Coast Drive, Greatstone planned to be completed in 2023/24.

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. A full financial model was completed in 2019 to consider the long term potential returns from the development. During 2020 the Council acquired its partner's stake in the site and now has full control of the project. Also during 2020 the Council established a Limited Liability Partnership (LLP) to manage the delivery of the project. The LLP's first Strategic Business Plan was approved by the Council in January 2021 and the first review of this was approved by Cabinet in January 2022. The next annual revision of the Business Plan is planned to be reported to Cabinet in January 2023. The draw-down of funds from the Council will be linked to key milestones contained in separate detailed funding agreements which will be the subject of expert advice to be commissioned by the Director of Corporate Services (the S151 Officer of the Council) to regulate the milestones for draw down, the terms for repayment, security, and all other provisions which it would be prudent to include. The MTFS incorporates income from Otterpool Park, which is represented as interest on the loans the Council will make to the LLP to facilitate infrastructure and land acquisition. As outlined within the risks, this is a volatile area with many dependencies affecting the financial position, as the sums are significant they do have a significant impact upon

the MTFS itself so will be monitored closely. The Council is currently in negotiations with Homes England to enter into a collaboration agreement which could significantly reduce its financial exposure to deliver the project. The financial implications of any agreement will be separately reported to Council in due course.

Folkestone Town Centre Levelling Up Funding Application

The Council has submitted a Levelling Up Funding (LUF) bid of £19.8m to the Government to support its plans for the regeneration of Folkestone town centre. The bid builds upon the Council's Place Plan for the centre of Folkestone and seeks funds for three key strands of work which aim to improve the appearance and use of the town centre including key links to it. At this stage, the outcome of the bid is not known and no provision has been made in the proposed MTFS or within the existing approved Medium Term Capital Programme for the this scheme.

A **financial review** of previous years' outturn 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. The current financial climate means the Council may need to utilise reserves in the short term to protect front line services whilst its longer term plans are brought to a conclusion. It is highly likely that the Council's reserve balances will be further depleted if the Government's financial support to Local Government for 2023/24 is below inflationary levels.

Using opportunities as they arise including government initiatives or incentives. In particular, the Council will seek to participate in the Business Rates Pooling scheme to maximise the financial benefit from this area. It has utilised 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 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 financial plan was reviewed and updated by Council at its meeting of 22 February 2021. This report marked a significant shift in the Councils new build and acquisitions programme for the HRA over the coming 10 years.

The Council returned the Housing service in-house following service failures and a review of options in 2019. The service returned in house on 1 October 2020. Stock Condition Survey outcomes are shaping stock investment and determining the Asset Management Strategy for the service. The HRA Business Plan is being revised each year to plan for this and as always, the underlying factor for investment in the Council's housing stock is the affordability of the investment programme. With increases in capital financing costs and CPI inflation, the Council also awaiting the outcome of consultation of possible rent increase caps which could be set by the Government for 2023/24.

Medium Term Capital Programme

The Medium Term Capital Programme (MTCP) 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 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 Council's 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. A full update to the MTCP will be made to Cabinet in January 2023 before being submitted to full Council for approval in February 2023 as part of the annual budget setting cycle.

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 therefore not be seen as a static document but rather one that is constantly evolving as the environment around it changes.

In terms of financial planning for 2023/24 the MTFs is likely to see many changes before it reaches Cabinet and Full Council in February 2023 for decision and approval of a Council Budget.

It is a requirement of the CIPFA Financial Management Code that the Council considers different scenarios when developing its MTFs, and while it is accepted that the MTFs cannot be based on full knowledge of the future, there will be “events” which cannot be predicted or the impact of which cannot be quantified. It is important to consider the Council’s ability to withstand significant external ‘shocks’ and how it could potentially manage these. This testing is about the ability to cope should the “what if?” happen and not the likelihood of it happening which is dealt with through the risk management strategy and the review of the robustness of estimates and reserves.

Some of the key risks and sensitivities which are included in the Council’s corporate risk register and 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. The economy has recovered well following COVID-19 restrictions and the UK’s labour market has proved more resilient than expected, although there are new national issues impacting on the picture due to the war in Ukraine and the cost of living crisis and rising interest rates affecting borrowing costs.

Funding settlements in the next spending review are likely to be very tight indeed. The Office for Budget Responsibility (OBR) forecasts increases in Departmental Expenditure Limits (DEL) of 3.9% and 3.7% in 2025-26 and 2026-27 respectively. These uplifts are likely to be reduced and many services (mostly the NHS and Defence) are likely to take the lion’s share of any increases.

For local government, there is no planned additional increase in grant funding in either 2023-24 or 2024-25. The full increase in funding in SR21 was applied in 2022-23 – with cash-flat funding allocations in the subsequent two years. Even if the allocation in 2022/23 is seen as generous this is clearly insufficient to meet the cost of inflation and cost of living crisis over the 3 years of the spending review. Local Government expects DLUHC to make a bid to the Treasury for additional funding after the appointment of the new prime minister in October. Any additional funding is not likely to be announced until November. The chances of a material increase in funding for local government (outside social care) are considered to be slim.

In the last Spending Review and Budget announcement the Chancellor outlined the continued inflationary pressures within the economy (the OBR is forecasting that inflation will continue at 4% over the next year, before falling back to 2.6% in 2023. This target has slipped significantly and revised projections are

expected to be announced by the new Chancellor in the Medium Term Fiscal Plan expected to be announced on 17 November 2022.

- **Levelling up.** The government is seeking to level up across the whole of the United Kingdom to ensure that no community is left behind, particularly as we recovered from COVID-19. Three new investment programmes have been launched, UK Community Renewal fund, Levelling Up fund and Community Ownership fund. The Council has submitted an application for such funding to support its key priorities and particularly the achievement of the objectives in the Folkestone Place Plan. A decision on the grant funding is anticipated in late 2022 by the Government.
- **Otterpool Park.** Given the scale of the Garden Town project it has a significant bearing on the Council's MTFS. There are several factors which present risk and sensitivity to the plan. The Otterpool Park LLP is fully funded by the Council. It is anticipated that the Council will be the lender of the LLP, and will need to fund the initial infrastructure (through debt and equity in the LLP). Factors which have a financial impact on this plan in this regard include interest rates available to the Council, the interest rate charged to the LLP, split of debt to equity, the timescale for the delivery of the infrastructure, the sequencing of that work, and indeed when the LLP will be in a position to sell serviced plots to housebuilders, and market rates of both constructions and plot prices. The LLP will submit an updated business plan to the Council in the New Year, but the current MTFS assumptions have been drafted with input from the LLP.
- **NHS integration.** Whilst it doesn't significantly impact upon this Council, it is something to be mindful of. The Health & Care Bill was introduced into Parliament on the 6th July 2021. The Bill will ensure each part of England has an Integrated Care Board and an Integrated Care Partnership responsible for bringing together local NHS and local government, such as social care, mental health services and public health advice, to deliver joined up care for its local population. Details around future funding will become clearer later in the financial year and updates will be provided accordingly.
- **Impact of COVID-19.** The pandemic has had a significant impact on both the Council's finances and the wider economy of the district. Whilst recovery has been strong it is likely the COVID-19 will continue to affect communities, residents, business and the wider economy as the UK continues to learn to live with COVID-19.
- **Local Government Finance Settlement.** Whilst the SR21 Spending Review (CSR) has provided some clarity we await the detail that the finance settlement for 2023/24 and the announcements in the Medium Term Fiscal Plan due to be announced by the Government on 17 November 2022. Understanding which grants the Council may receive, particularly the future of NHB and Lower Tier will have a bearing on this financial plan.
- **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 government's Fair Funding Review of local government finance which is now anticipated to take place after 2023/24 in a future year.
- **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. The 2022/23 budget prudently allowed for reductions in income for some facilities, whilst car parking income is returning to normality that is not yet the position with leisure facilities income.

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.

Appendices

2. MTFS workings
3. Reserves Policy
4. MTFS summary of variations
5. MTFS assumptions used (indices)