

This Report will be made public on
28 November 2022

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Report Number **C/22/67**

To: Cabinet
Date: 14 December 2022
Status: Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: BUDGET STRATEGY 2023/24

SUMMARY:

This Budget Strategy sets out the guidelines for preparing the 2023/24 Budget. It supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

In terms of financial planning, the Budget Strategy takes account of current and future financial and economic conditions including the outcome of the Government's recent Autumn Statement announced on 17 November 2022.

The Budget Strategy also sets out the underlying assumptions and initial budget-setting proposals and provides a timetable for delivering a balanced budget for approval and final Council Tax setting by Full Council on 22 February 2023.

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 2023/24 budgets;
- (ii) The Budget Strategy will support the delivery of the MTFS; and
- (iii) The Budget Strategy enables the publication of initial proposals, timescales and provides details of the arrangements for consultation as required by the constitution

RECOMMENDATIONS:

1. **To receive and note report C/22/67.**
2. **To agree the Budget Strategy for 2023/24 set out in this report.**
3. **To approve the General Fund revenue growth & savings proposals for 2023/24 (Appendix 2).**

4. To approve the General Fund capital growth proposals for 2023/24 (Appendix 3).
5. To agree the proposed timetable for preparing 2023/24 budgets (Appendix 4).
6. To agree the proposed arrangements for consultation
7. To agree the Fees and Charges proposals 2023/24 (Appendices 5 – 7)

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1. INTRODUCTION

- 1.1 The Cabinet are required to publish initial budget proposals and a timetable, as well as provide details on the arrangements for consultation ahead of the budget framework itself being considered and finalised. The Council has a statutory requirement to set a balanced budget and Council Tax annually under the Local Government Finance Act 1992 and Council Tax (Administration and Enforcement) Regulations 1992.
- 1.2 This report covers those requirements, setting out the initial proposals and a timetable that will be used to inform the setting of the budget for 2023/24. The Budget Strategy is consistent with the direction and objectives of the updated MTFS which was approved by Cabinet at its meeting on 23 November 2022. This report also outlines the current economic and financial difficulties facing the Council which have to be considered in setting its Budget for 2023/24.
- 1.3 The MTFS and Budget Strategy are aligned with the council's strategic financial objectives, which are as follows:

- 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.

2. CONTEXT FOR THE BUDGET STRATEGY 2023/24

- 2.1 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 utilised and accounted for and no further grant funding is expected.

- 2.2 For the Budget Strategy for financial year 2023/24, a range of entirely different economic and financial factors have had to be considered for the MTFs. This is in light of the war in Ukraine, the rapid rise in Consumer Price Inflation (CPI), the increases in utility costs and the resulting cost of living crisis that residents of this District now face. The United Kingdom is also forecast to enter a period of recession which could last for a considerable period of time as advised by the Bank of England. Coupled to this has been turbulence at the political level in Westminster and volatility in the financial markets which has had a marked impact on the cost of borrowing for Local Government with rates increasing due to the above factors.
- 2.3 Many of the factors outlined above, had not previously been expected by Councils and so Medium-Term Financial plans have had to be re-cast to allow for these changes, and many of these factors are still variable due to the uncertainty of the economic and financial environment. District Council's find themselves in a position where they have to remain flexible and adaptable to constant changes with limited new, financial resources likely on the horizon.
- 2.4 As many leading economic commentators have stated, Councils face a future of "known-unknowns" and this makes for a period of great uncertainty in terms of cohesive financial planning. As such, this Budget Strategy (and the MTFs) are based on a continuation of service levels with reasoned assumptions in relation to pay and price inflation, borrowing costs, technical factors and other cost and income pressures known at this point in time.
- 2.5 The financial forecasts used in this Budget Strategy report are based on a mid-range scenario (as part of extensive MTFs stress-testing exercise by Finance Officers) and will be updated in line with government announcements and as new information comes to light. The recent Autumn Statement introduced new budget implications for the Council and these are outlined below in section 3 of this report. The Council is also due to receive its Provisional Local Government Settlement on 21 December 2022 which may change some of the funding numbers (either positively or negatively) as a result of the settlement package.
- 2.6 The position is thus fluid and the Council's Section 151 Officer and the Finance Team will keep Members fully apprised of these budget changes as and when, they arise. The timetable for the budget reporting process through to Full Council and final budget setting is shown at Appendix 4 of this report and it is anticipated that this will remain on track despite the fluidity of these Government decisions.
- 2.7 The forthcoming financial year and the Council's medium term financial position remains highly pressured and is likely to require challenging decisions to be taken by Members and Corporate Leadership Team (CLT) to achieve a balanced budget position for both the Council's General Fund and Housing Revenue Account Budget.

3. CURRENT FINANCIAL POSITION - UPDATE

- 3.1 This section of the report provides a summary update of how the Council is spending against budget in the current financial year (2022/23) and also highlights the final outturn position was for the last full financial year of 2021/22. It should be noted that any general fund revenue underspends that can be generated in year 2022/23 could be transferred to reserves to assist with the budget pressures forecast for the 2023/24 financial year which are significant. Paragraph 3.3 below of this report highlights the current budget gap for 2023/24.

2021/22 General Fund Budget Outturn (last full financial year)

- 3.2 Whilst the Council's Statement of Accounts for 2021/22 are still in the final stages of external audit, the final General Fund position is unlikely to change and delivered an underspend of £1.6m for the year. A significant element of this underspend related to grant funding received (for Covid 19 pressures) and lower than expected borrowing costs. As at the 31 March 2022, the Council's General Fund Balance stood at £3.112m with Earmarked set-aside reserves available at £21.25m. It should be noted that a significant proportion of these reserves are "set-aside" for specific ear-marked commitments as outlined in the Statement of Accounts for 2021/22.
- 3.3 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.
- 3.4 A full breakdown of revenue reserves currently available to the Council in financial year 2022/23 (as at Quarter 2) is shown in section 3 of this report for information. It should be noted that the reserves totals in this table will differ from the reserves balance in paragraph 2.2 above, as some reserves will have been utilised (or added to) in 2022/23 as approved and reported in latest Budget Monitoring reports to Cabinet.

2022/23 Forecast General Fund Budget Outturn (for this current year to Q2)

- 3.5 The Quarter 2 (Q2) General Fund Revenue Budget monitoring for 2022/23 was reported to Cabinet at its meeting on 20 October 2022. There is a projected favourable variance of £19k for the year against the latest approved budget. One of the main reasons for the variance business rate reliefs awarded and grant paid from Government. Due to Budget Managers being asked to reduce non-essential spending for the remainder of the financial year (given the Budget pressures anticipated for 2023/24), it is anticipated that the position at Q3 through to Q4 will improve further and could result in higher level of underspend than currently anticipated.
- 3.6 The Quarter 2 HRA Monitoring for 2022/23 was also reported to Cabinet at its meeting on 2 October 2022 and sets out the projected outturn for HRA revenue and capital expenditure for 2021/22. The projections, based on

actual expenditure and income to 31 August 2022, show there is a projected decrease in net expenditure of £1.405m on the HRA and an underspend of £1.989m on the capital programme against the £14.7m latest budget.

- 3.7 In terms of the General Fund capital programme for 2022/23, the latest projection was also reported to Cabinet at its meeting on 20 October 2022 and it shows a reduction in planned capital expenditure of £14.06m against the latest budget. The main reason for the reduction is the re-profiling of Princes Parade Leisure Centre, Otterpool Park and Biggins Wood Development until 2023/24 and capital budgets will be slipped between years where appropriate.

4. GOVERNMENT SPENDING PLANS – UPDATES

4.1 Government Spending Reviews – SR21

The last Government Spending Review 2021 (known as SR21) was announced on 27 October 2021. It was a three year spending review for the years from 2022/23 through to 2024/25.

- 4.2 The review 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".

- 4.3 Whilst the three year review was welcomed, it should be noted that the Local Government grant increase of £4.8bn was £1.6bn per year. This means that after adding £1.6bn to the base budget in year one 2022/23, the following years of 2023/24 and 2024/25 are effectively flat cash with no further growth funding for inflation pressures or pay award.

- 4.4 Furthermore, there were no announcements in the review about local government funding reforms (Fair Funding Review or Business Rates Retention changes) and it is anticipated that these have now been pushed back to at least 2025/26 if not later. Latest updates (as at November 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 is uncertain. Again, this makes financial planning in the long term more of a challenge.

- 4.5 The points made above are important, as Council's have been waiting for these funding reforms since 2016 to urgently reset the governments formula (which is now around 10 year old) and deliver a new set of formulae to assess the relative spending needs of each Council and provide a fairer level of settlement funding.
- 4.6 It was anticipated that the Fair Funding Review would address these needs, especially as most Council have not received any direct Revenue Support Grant (RSG) since 2016/17 and are now entirely reliant on just their own core funding sources ; that being Council Tax funding and Business Rate income, plus any one off grants such as New Homes Bonus or Lower Tier Services Grants which are still relatively small amounts.
- 4.7 In terms of changes to the current Business Rates Retention scheme, there is (again) no news on when this review will take place. Many Council's would welcome an increase in the level of business rates they can retain – as this would be a fairer reflection of the Business Rates generated (grown) in their own area or District.
- 4.8 Under current Business Rate rules, this Council collects approximately £22m of Business Rates per year. It then gives 50% back to Central Government, 19% to Kent County Council and 1% to Kent Fire Authority. This finally leaves 40% for this Council (approximately £9m). However, the Council then has to pay a further tariff to Government of £6m (under current rules) leaving a retained amount of Business Rate income for the Council of just over £3m. This tariff charge is announced annually as part of the Provisional Local Government Settlement which is received in late December (it is due on the 21/12/22 this year) with other key financial settlement data. Some Council's pay a tariff and some Councils receive a top-up, depending on the Government's determination of need across the UK.
- 4.9 In summary the factors outlined above put even more pressure on this Council's finances at a time when world-wide economic pressures are putting even more pressure on costs including borrowing costs are and the rise in energy prices, not helped by rising inflation levels.

5. The Autumn Statement – impact on the Council's financial position

- 5.1 On 17 November 2022, the Autumn Statement was delivered by the Chancellor of the Exchequer, the Rt Hon Jeremy Hunt MP. The Office for Budget Responsibility's ('OBR') Economic and Fiscal Outlook forecasts were also delivered alongside the Statement.
- 5.2 The Autumn Statement delivered public finance measures related to tax and spending worth £55 billion by 2027/28 (of which £30 billion is related to spending policy decisions and £24 billion through tax policy decisions). The purpose of the Autumn Statement was also to bridge a significant government funding gap identified after the previous Mini-Budget was announced by in September.

5.3 A separate briefing has already been provided to all Council Members outlining the full content of the Autumn Statement, however for the purposes of this Budget Strategy report, the following paragraphs summarise the key implications that are relevant to this Council's Budget Strategy for 2023/24.

5.4 Local Government impact – from the Autumn Statement

The Autumn Statement advised that there will be no cuts to the funding allocations announced in the SR21 spending review for Local Government. However, as part of the SR21 review, government departments were provided with funding to cover employer costs of the Health and Social Care Levy (NI increase 1.25%). As the Levy is no longer being introduced as a separate tax from April 2023 and departments will not face these additional costs, budgets will be adjusted to remove this compensation. This reduction could mean less funding for our settlement for 2023/24. The Council will only know the final number when the Provisional Local Government settlement is announced on 21 Dec 2022.

5.5 It was also announced that after the SR21 Spending Review period, departmental resource spending will grow at just 1% a year in real terms. Departmental capital spending will continue at the same level in cash terms. The Government announced it is also launching an Efficiency and Savings Review for all government departments. The review will target increased efficiency, reprioritise spending away from lower-value programmes and review the effectiveness of public bodies. Savings will be reinvested in public services, and the government will report on progress in the spring. This Council awaits news of the outcome of that review.

5.6 Cost of living crisis, pensions and benefits – implications for residents of this District – from the Autumn Statement

From April 2023, the government will adjust the Energy Price Guarantee (EPG), which places a limit on the price households pay per unit of gas and electricity. This means that a typical household in Great Britain will pay £3,000 per annum (up from the current £2,500 per annum) from April 2023 to April 2024.

5.7 The government will provide households on means-tested benefits with an additional £900 Cost of Living payment in 2023/24. Pensioner households will receive an additional £300 Cost of Living payment, and individuals on disability benefits will receive an additional £150 Disability Cost of Living payment in 2023/24. These payments will be made on a UK-wide basis.

5.8 The government is increasing benefits in line with inflation, measured by September CPI, which is 10.1% this year. This includes increasing the State Pension by inflation, in line with the commitment to the Triple Lock. The standard minimum income guarantee in Pension Credit will also increase in line with inflation from April 2023 (rather than in line with average earnings growth).

5.9 The benefit cap will be raised by 10.1%, in line with September CPI, so that more households will see their payments increase as a result of uprating from April 2023.

Implications for Folkestone & Hythe – the Council will passport on the support benefits outlined above - the impact on the general fund budget is likely to be neutral as grant funding will be received to cover costs.

5.10 Council Tax implications for this District – Autumn Statement

The government will provide local authorities in England with additional flexibility in setting council tax, by increasing the referendum limit for increases in council tax to 3% per year from April 2023 (above the current 1.99% maximum). In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year. The previous policy, set at the 2021 Spending Review, was for a general limit of 2%, with an extra 1% for adult social care.

Implication for Folkestone & Hythe MTFS – a 1% extra increase in Council Tax (above the current 1.99% in the MTFS) will generate an additional £104,000 of income.

5.11 Business Rates – revaluation of property values from the Autumn Statement

From 1 April 2023, business rates bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of transitional relief support worth £13.6 billion over the next five years is intended to support businesses as they transition to their new bills. It is stated that local authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs.

Implication for Folkestone & Hythe MTFS – the transitional relief package will be cost neutral as additional funding simply covers the cost of reliefs paid – new burdens funding will be welcomed to pay for systems and internal administrative costs.

5.12 Business Rates – multiplier rates from the Autumn Statement

The government has determined that business rates multipliers for calculation of business rates will be frozen in 2023-24 at 49.9p and 51.2p, preventing them from increasing to 52.9p and 54.2p. This is now the third year in a row that the multiplier has been frozen.

Implications for Folkestone & Hythe MTFS – this represents a significant loss of business rate yield, however the Government will compensate Councils for the loss of income as a result of this freeze. It is still unclear if the compensation will be payable based on RPI or CPI. This could however be worth over £320,000 of additional support to the Council but we await the Provisional Local Government settlement for further details.

5.13 Social Housing – rent increases from the Autumn Statement

The government is limiting the increase in social housing rents for Housing Revenue Accounts (HRA). Under current rules, rents could have risen by up to 11.1% – but now they will only be able to rise by a maximum of 7% in 2023/24.

The government has not committed to funding councils' losses due to the changes in social housing rent policy. The costings show a saving to the public purse (presumably through lower housing benefit costs) – for this to be the case, councils will have to absorb the impact on their HRAs.

Implications for Folkestone & Hythe HRA Budget – the Council will NOT be fully compensated for the loss of rental income up to full CPI level. This may put additional pressure on the HRA revenue budget for 2023/24 in terms of affordability and spending plans if ringfenced expenditure is to rise at CPI levels. However, the 7% rise is welcomed subject to Member and tenant consultation.

5.14 Whilst the key Autumn Statement announcements are described above, other key funding release decisions were not announced in the Autumn Statement and remain unclear and these are summarised below :-

- It remains unclear if the New Homes Bonus will continue for a further year.
- No details provided on Lower Tier Services grant for 2023/24.
- No further updates on the fair funding review
- A business rates reset can technically be implemented without a fair funding review but the government's position on any possible reset remains unclear.

In summary, the main beneficiary from the Autumn Statement was Adult Social Care with over £7bn of funding likely over the next two financial years which will help larger Councils with social care responsibilities. The Business Rate support (outlined above) was welcomed by District Councils and clarification of the Social Housing rent cap. Benefit and pension support plus continuation of the energy price guarantee will help residents of the District who face hardship. Council referendum changes give Councils some flexibility subject to Member decision, other key settlement adjustment details will be awaited in the Provisional Local Government Settlement due on 21 December 2022.

6.0 **2023/24 FINANCIAL FORECAST – LATEST POSITION**

Medium Term Financial Strategy (MTFS)

6.1 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 it was updated and approved by Council on 3 November 202 (report A/22/22).

- 6.2 The MTFS has been updated to include all the financial and economic pressures outlined in this report so far including, latest CPI increases, additional borrowing costs, energy costs, service pressures and changes to funding as best known. There are some changes that cannot be fully factored into the MTFS as the Provisional Local Government Settlement on 21 December 2022 is still awaited. A Council Tax rise of 2% has been assumed so far as the referendum limit change will be confirmed in December Settlement.
- 6.3 Due to all of the financial and economic pressures outlined above, the current MTFS forecast shows a cumulative funding gap of £18.5m over the lifetime of this MTFS. The table below shows the cumulative deficit over the period of the MTFS.

Medium Term Financial Strategy Forecast (2023/24 to 2026/27)

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

- 6.4 The MTFS forecasts a deficit of £4.286m for the forthcoming financial year 2023/4. This following section of this Budget Strategy report explains the assumptions underlying this forecast and also provides an update on the latest reserves position for the Council. Proposals for addressing next year's funding gap are then detailed in Section 5.

7.0 BUDGET ASSUMPTIONS

- 7.1 Appendix 1 explains the detailed changes between the 2022/23 approved base budget and 2023/24 budget forecast in the MTFS. However, these changes can be summarised as follows for ease of explanation :-

	£'000
Inflationary pressures	1,601
Net interest payable	386
Collection fund adjustments	(1,599)
Energy cost increases	211
Revenue contribution to capital	(1,622)
Other service / technical changes	385
Net Movement in Reserves used last year (removal from base budget)	4,924
MTFS Budget Deficit Before Growth and Savings Proposals	4,286

MTFS Inflation and Funding Assumptions 2023/24

- 7.2 The MTFS has provided inflation of between 10.1% and 7% in its pricing assumptions. Some Council contracts have embedded inflation and will require the full 10.1% rate to be added. In terms of the Council's price inflation assumption, this does fall into line with latest projections from the OBR who forecast price inflation to be 9.1% by the end of 2022 and 7.4% for 2023. In terms of pay inflation, this is the subject of on-going pay negotiations at the Council under local pay agreements. An approximate estimate has been added to the MTFS to cover the increase.
- 7.3 Income from Business Rates is based on last year's business rates baseline number as there will be no update on this until the Council receives the Provisional Local Government Settlement on 21 December 2021. There is a business rates revaluation in progress which will be effective from 1 April 2023, however the Government will be providing transitional relief and so in effect, any adjustment to the baseline figure is likely to be minimal. The Business Rates rateable value (RV) numbers have been adjusted for any changes in business numbers in the District or movements between bands that attract reliefs.
- 7.4 A Council Tax increase of 2% has been assumed pending the final decision by Full Council in February 2022. The outcome of the Provisional (and Final) Local Government Finance Settlement is awaited to confirm the maximum increase for 2023/24 without requiring a referendum. A council tax base increase of circa 0.5% is anticipated and a balanced Collection Fund (for Council Tax) has been assumed for 2022/23 after adjustments as set out below.
- 7.5 Collection Fund adjustments have been made totalling £1.599m of income, this covers not only the Council Tax increase (2%) as outlined above, but also any surplus balance brought forward on the Collection Fund last year. Adjustments for Business Rates are also as detailed in paragraph 4.2 above.
- 7.6 Continuation of any New Homes Bonus payments remains uncertain and the Council awaits the provisional settlement on 21 December 2022. The MTFS assumes no new payments are likely in its forecast.

MTFS Expenditure and Income Assumptions 2022/23

- 7.7 Service budgets have been uplifted for inflation and this has added £1.601m to costs for 2023/24. This includes the estimated costs of an assumed salary pay award and any salary increments plus the impacts of the local government pension fund valuation. Service expenditure has also been updated for any known or one-off changes to services, i.e. the local election costs next year which will be removed from the base for 2024/25.
- 7.8 The budgets for energy costs for the Council are forecast to rise by £211k for 2023/24 compared to the previous year and the MTFS has been uplifted

for this. A HM Treasury-led review of the Energy Bill Relief Scheme will determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023. The government has published terms of reference for the review, with the findings to be published by 31 December 2022. The government states that whilst it recognises that some businesses may continue to require support beyond March 2023, the overall scale of support the government can offer will be significantly lower and targeted at those most affected. The Council can assume limited support from this scheme and MTFS has been updated to assume a worst case scenario.

- 7.9 An increase of 2% has been assumed in relation to the Internal Drainage Board levy.
- 7.10 Net Interest forecasts an increase of £386k compared to the 2022/23 estimate due to increases in interest rates (note this is a net figure after allowing for interest earned on cashflow and treasury investments).
- 7.11 Fees and charges income assumptions are based on current budgets and existing policies, adjusted for proposed changes as detailed in the Fees & Charges 2022/23 report also being considered at this Cabinet meeting.

Reserves update – latest information for Members

- 7.12 Total General Fund reserves at 1 April 2022 amounted to £24.08m, of which £3.112m was held within the General Reserve. The table below shows projected reserves at 31 March 2023 before any application towards new budget growth or initiatives are forecast to be £20.97m
- 7.13 It should be noted that reserves do offer an option to finance a MTFS deficit, however, use of reserves is only a one-off (one year option) as it only reduces the shortfall for the year it is applied. The only way to introduce a permanent reduction in the financial gap (over the life of the MTFS) is to reduce the baseline budget itself, i.e. reduce expenditure or introduce a source income source that provided a permanent, year on year level of funding.

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

8.0 2023/24 BUDGET PROPOSALS TO REDUCE THE GAP

8.1 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.

8.2 The MTFS outlined the Council's strategy in reducing the MTFS gap as being:

- **In-year savings:**
 - 2022/23 savings to be identified to ease pressures in future financial years.
- **Re-focusing of Priorities:**
 - The Council needs to prioritise and rephrase the work it is undertaking to recognise the financial & capacity challenges it faces.
 - A holistic review of services will be performed to identify opportunities to improve the efficiency and effectiveness of service delivery and improve ways of working.
- **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, regeneration and sustainable growth across the district.
- **Reserves:**
 - Using reserves in a sustainable and prudent manner to support the Council's strategies and priorities. These are informed by the reserves strategies approved annually by the Council.
- **Maximise Opportunities:**
 - Review of available underutilised assets to deploy funds for investment in capital schemes and through flexible capital receipts policy for efficiency improvements.
 - 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.

8.3 Furthermore, in respect of the plans to address the budget gap in the coming financial year it is proposed that the following areas form the focus of work for management.

Review of Corporate Action Plan

- Identification of items that could be paused, slipped or stopped

Review of 'Lessons Learnt' from Transformation

Review of Strategic Projects

- Prioritise and explore rephrasing to recognise the financial & capacity challenges faced

Review of Earmarked Reserves

Identification of potential asset disposals

- Assess underutilised assets for potential sale (future funds to be deployed into capital schemes or through flexible capital receipts scheme)

Re-evaluation of service demands and structures

Identification of alternative opportunities

Revenue Budget Growth required for 2023/24

- 8.4 Service heads and budget managers have been asked to identify any unavoidable budget growth items that were necessary to ensure future service sustainability and address unavoidable budget pressures. These total £807k and are detailed at Appendix 2 with appropriate descriptions outlined for Members information.

Budget Savings and Efficiencies 2023/24

- 8.5 Service heads and budget managers have also been asked to identify any savings items and a rigorous review of the 2022/23 base budget and previous years' outturns has been undertaken by departments in liaison with Corporate Leadership Team (CLT). This review identified net potential savings and efficiencies of £599k. These savings are detailed in Appendix 2 of this report for Members information.

Fees and Charges 2023/24

- 8.6 The Fees and Charges Policy sets out the Council's charging framework. The Policy is outlined within Appendix X in full. It is felt that the policy remains relevant and no changes to the policy are proposed at this time.
- 8.7 The proposal for 2023/24 is to apply the June 2022 CPI rate at (9.4%) as the benchmark for price increases. There are exceptions to this principle where an inflationary increase is anticipated to have an adverse impact on demand or where it would place the charge out of line with comparable services in neighbouring councils.
- 8.8 The proposed discretionary fees and charges for 2023/24 are detailed at Appendices 5 to 7 and includes the car parking charges.
- 8.9 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 £158k

The increase comprises:

	Increased Income
Parking (Off-Street)	£88,662
Parking (On-Street)	£47,616
Garden Waste collection	£11,000
Bulky waste collection	£10,518
Small commercial event	£300
Exercise classes	£100
Total	£158,196

Forecast Budget Deficit 2023/24 – updated for growth/savings/income

8.10 Based on the work undertaken to date and the factors outlined above, the latest forecast deficit is set out below. Members should note that this position may change as more detail becomes available, especially as a result of the Provisional Local Government Settlement on 21 December 2022.

	£'000
Forecast deficit – November 2022 MTFS (Cabinet 23/11/22)	4,286
Add: budget growth proposals	807
Less: further savings and efficiencies	(599)
Less: increase in income generated	(158)
	<u>4,336</u>

Revised Forecast Budget Gap / Deficit 2023/24 **4,336**

8.11 As outlined above, options for addressing the forecast deficit for 2023/24 are now being considered in preparation for the detailed budget report to Cabinet in 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
- Exploration of alternative funding options, and
- The action that is being taken to address the residual budget gap as detailed above.

9.0 HOUSING REVENUE ACCOUNT (HRA)

9.1 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 new homes over the ten year period from 2025/26 to 2034/35 and a capital investment of £10m into existing housing stock.

- 9.2 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 has been programmed for existing HRA housing stock to inform the Asset Management Strategy and capital programme. The HRA Business Plan is currently being updated to provide the appropriate funding plan.
- 9.3 The detailed 2023/24 HRA revenue and capital budgets that will be submitted to Cabinet in January 2023 will be based on the latest review of the revenue and capital position taking into account known factors from the stock condition surveys.
- 9.4 The government is limiting the increase in social housing rents for Housing Revenue Accounts (HRA). Under current rules, rents could have risen by up to 11.1% – but now they will only be able to rise by a maximum of 7% in 2023/24. The government has not committed to funding councils' losses due to the changes in social housing rent policy. The costings show a saving to the public purse (presumably through lower housing benefit costs) – for this to be the case, councils will have to absorb the impact on their HRAs. This will add to the existing pressures on HRA revenue funding if costs rise at full CPI levels and rents only increase at 7%.

10.0 CAPITAL PROGRAMME

- 10.1 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 2023/24. 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 £1,716k for 2023/24 are shown in Appendix 3 to this report. In summary, £1,071k of the proposed capital growth is funded from government grant meaning £645k is required to be met from other resources. 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 2027/28.
- 10.2 Capital Receipts – the existing MTFS states that a minimum of £500k in capital receipts must be retained as a contingency to meet urgent or unforeseen capital expenditure. The council's general policy is that only capital receipts received should be earmarked to fund capital projects. The only departure from this is ring-fencing the use of future repaid decent homes loans and home safe loans receipts to be reinvested in further private sector housing improvement loans. The latest position regarding the council's available capital receipts to fund capital expenditure is shown in the following table:

Capital Receipts Position Statement	£'000
Receipts in hand at 30 September 2022	(10,078)
Less:	
Committed towards General Fund capital expenditure	2,927
Committed towards HRA capital expenditure	5,617
Ring-fenced for specific purposes	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(956)

- 10.3 As the table above shows, the Council has sufficient capital receipts available to meet the cost of the General Fund capital growth proposals not met from government grant. 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. The Government's Flexible Use of Capital Receipts Guidance allows local authorities to use capital receipts from the disposal of surplus non-HRA property assets to be used towards certain one-off revenue costs that will lead to on-going revenue savings or operating efficiencies. Local authorities are required to approve an annual Flexible Use of Capital Receipts Strategy as part of the budget process. The Council's strategy for 2023/24 will be included as part of the 2023/24 General Fund Budget report to Cabinet and Full Council in February 2023.
- 10.4 Other Capital Funding Sources - in addition to the available capital receipts, the council can choose to use its revenue resources (earmarked revenue reserves and balances) or consider prudential borrowing to fund its General Fund capital expenditure plans. Prudential borrowing will incur a revenue cost to the General Fund in terms of interest and a minimum revenue provision charge (MRP). Therefore, prudential borrowing is best suited to capital 'invest to save' projects, such as Otterpool Park, Oportunitas Ltd and Coast Drive Seafront Development at New Romney that will provide a net long term financial return to the council allowing for these costs. The current approved MTCP requires about £84m of prudential borrowing to support it, some of which will be off set in time by external funding.
- 10.5 Any capital scheme included in the approved capital programme requiring external grant funding to support it will only be allowed to commence once a formal funding agreement has been established between the council and the relevant funding body.
- 10.6 The proposed growth for the Capital programme does not at this stage include provision for the Council's Levelling Up Fund bid of £19.8m submitted 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 within the existing Medium Term Capital Programme or the capital growth proposals for this scheme.

11.0 THE BUDGET TIMETABLE

11.1 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.

11.2 Detailed guidance on the annual budget preparation process was circulated to officers in September 2022. This guidance covered roles and responsibilities; the links between finance and service planning; expected standards and approach; and the timetable for preparing the 2023/24 Budget.

11.3 The 2023/24 Budget timetable is attached at Appendix 4.

12.0 BUDGET CONSULTATION

12.1 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.

12.2 The objectives for consultation on the 2023/24 budget proposals are to:

- Engage with key stakeholder groups and local residents;
- Seek feedback on specific budget proposals for 2023/24; and
- Seek feedback on general spending and income generation priorities.

12.3 This will be achieved through making budget information available to the public, inviting feedback, sharing information with representatives from the business community and attending the Joint Parish Council Committee meeting in January.

12.4 Following the November meeting of the Cabinet it is proposed that in addition to the publication of a survey to seek stakeholder views which will be available on the website, promoted through social media channels, that we will also seek to promote the survey through noticeboards in libraries and community hubs to engage those who do not have access to social media. The Council will also re-publicise the short videos developed last year which seek to further explain Council Tax and the services provided that it supports. Furthermore, we will be ensuring all Councillors have the relevant information to directly engage with their constituents and provide a route for feedback to be provided.

13.0 RISK MANAGEMENT ISSUES

13.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process and was most recently refreshed in November 22.
Assumptions may be inaccurate.	High	Medium	Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed.
Budget strategy not achieved.	High	Low	The budget making process is controlled closely with regular reconciliations and updates made.
Incorrect assessment of Local Government Finance Settlement impact.	High	Low	The Local Government Finance Settlement will inform latest forecasts. The finance team have attended briefings on the Autumn Statement.
Failure to take action to address forecast medium term financial pressures as well as focusing on the 2023/24 budget position.	High	Medium	Ensure that MTFS forecasts are monitored and timely interventions identified and implemented to address future deficits.

14.0 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

14.1 Legal Officer's Comments (NM)

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

14.2 Finance Officer's Comments (CS)

The Budget for 2023/24 will be submitted to council in February 2023. This Budget Strategy is the first stage in the detailed budget process and will be used to inform the preparation of budget estimates.

14.3 Diversities and Equalities Implications (GE)

The budget report to Full Council in February 2023 will include an Equality Impact Assessment of the budget recommendations for 2023/24.

14.4 Climate Change Implications (OF)

As this report only sets out the guidelines for preparing the 2023/24 budget, there is no climate change implications arising from this report.

15.0 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Charlotte Spendley, Director of Corporate Services
Tel: 07935 517986
E-mail: charlotte.spendley@folkestone-hythe.gov.uk

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

Fees & Charges Report 2023/23
Medium Term Financial Strategy 2023/24 – 2026/27

Appendices:

Appendix 1 – Movement from 2022/23 Approved Budget to 2023/24 Base
Appendix 2 – General Fund Revenue Growth & Savings Proposals
Appendix 3 – Capital Programme Growth Proposals
Appendix 4 – Budget Timetable
Appendix 5 – Fees and Charges (Discretionary)
Appendix 6 – Fees and Charges (Parking)
Appendix 7 – Fees and Charges (Statutory subject to discretionary fees)
Appendix 8 – HRA Growth and Savings Proposals