

# MEDIUM TERM FINANCIAL STRATEGY

## 2021/22 TO 2024/25

(Version produced in October 2020)



# **MEDIUM TERM FINANCIAL STRATEGY**

## **Introduction**

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

Since the introduction of austerity in 2010, local government has taken a disproportionately large share of the reductions in public expenditure as part of efforts to balance the nation's finances and the previously integral part of Local Government funding that was Revenue Support Grant is now a thing of the past for the District. The current national picture is heavily influenced by COVID-19, and whilst the Council has received a substantial amount of government funding in 2020/21 there are currently no commitments regarding longer term funding for local authorities.

The long term funding picture is unknown and the previously planned 3 year Comprehensive Spending Review (CSR) and Fair Funding Review have been delayed and a one year Spending Review is now anticipated to inform the 2021/22 budget. The result has been to a large extent that a continuation of the funding status quo has been anticipated through the modelling including no further New Homes Bonus allocations and the limit needed for a council tax referendum.

In response to this financial challenge, 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 of business rates have been delayed. The devolution of business rates is intended to be fiscally neutral but the details of how this will work are currently being developed alongside the Fair Funding Review. This will bring both risks and opportunities for the council.

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. Within the document are some key issues which will need to be tackled. The annual budget setting process will set out the detailed actions required to meet these but will in all cases be consistent with the direction and objectives of the MTFS.

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

Folkestone and Hythe Council covers an area of 140 square miles and has a population of just over 100,000 people with approximately 48,200 dwellings in the district. The council has responsibility for a wide range of services including waste collection, planning, environmental enforcement, housing and homelessness, parking and grounds maintenance. In 2020/21 it planned to spend approximately £18.3 million per annum net revenue expenditure on services.

## The Council's Aspirations

The Council is in a transitional period between Corporate Plans which outline the vision and strategic objectives of the council, the existing plan which concludes in 2020 had a focus on:

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

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

- More Homes
- More Jobs
- Appearance Matters
- Health Matters
- Achieving stability
- Delivering Excellence

The council is currently consulting on a new long term Corporate Plan which also encapsulates the Recovery Plan in respect of the pandemic. It is anticipated that the Recovery Plan will be the short to medium term focus of activities, and the wider strategic aims to focus through to 2030. The key elements of the plan are anticipated to be (subject to consultation):

### **Creating Tomorrow Together**

- **Support a thriving economy**, reinvigorating our high streets and town centres, backing a vibrant and diverse business community and helping people to access jobs, opportunities and skills

- **Build homes and infrastructure for the future**, delivering new, high-quality affordable housing and a safe, accountable housing service, improving our support for homeless people and delivering a sustainable new development at Otterpool Park. We will also actively support the delivery of faster broadband connectivity
- **Deliver excellent community services**, putting safer communities at the heart of everything we do, ensuring greater community resilience and improving health and wellbeing
- **Ensuring a quality environment**, making sure that we get the basics right in providing a clean, attractive and safe environment, increasing our resilience to climate change and reducing waste

In addition the plan is built on five key principles that will be considered in all we do. They are:

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

The Corporate Plan is currently being consulted on and is anticipated to be adopted by the Council in January 2020. The development of a strategic action plan is also underway which will provide the golden thread between the Corporate Plan and teams service plans.

The Council established a number of dedicated working groups with cross party representation to consider emerging and significant projects within the Council. These included work on High Street Regeneration, Corporate Governance, the development of the plan itself and the development of a Climate Change & Ecological Action Plan.

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

### **Strategic Financial Objectives**

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

- To maintain a balanced Budget such that expenditure matches income from Council Tax, fees and charges, and government and other grants and to maintain that position.

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

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

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

- The Corporate Plan 2017 - 20 the key objectives of which are set out above
- The draft Corporate Plan 2021 – 2030 'Creating Tomorrow Together'
- Economic Development Strategy
- The Medium Term Financial Strategy
- The HRA Business Plan
- The Council's Capital Strategy and Investment Strategy
- The investment in longer term strategic developments to secure the financial future of the council
- The development of the garden town at Otterpool Park with a long term financial benefit for the council and establishing sustainable communities for the future
- A sustainable and prudent reserves policy to underpin the financial resilience of the council
- The conclusion of the Transformation programme, and a shift towards continual improvement seeking to embed the new operating model and deliver efficiencies whilst improving the customer experience & enhance our digital technologies.

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

## **Budget Process**

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

- The Budget Strategy. This is produced on an annual basis and sets out the strategy for setting and managing the budget for the following financial year. It is here the detailed decisions on expenditure are taken including determining key growth and savings for the year ahead. MTFS assumptions are also refined for further details where available.
- The detailed revenue estimates. These are 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.
- The Housing Revenue Account. This sets out the annual capital and revenue budget for the Council's housing stock and links to the 30 year business plan.
- The Treasury Management, 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.
- Fees and Charges. This sets out a corporate view of the fees and charges which are levied by the Council for consideration each year.

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

## **Financial Pressures and Projections**

Recent 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 grant and for Folkestone and Hythe the 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 to provide local services.

Further delays were announced in April 2020 to the government's major review of the funding of local authorities known as the Fair Funding Review. The review was anticipated to make major changes in the structure of local government finance including local business rates retention at 75%, a revised allocation of resources and new arrangements to replace the New Homes Bonus to reward those Councils which support home building. A one year spending review (CSR) has now been confirmed and the details of which will be made available in November 2020.

Both the current year review and the wider Fair Funding Review create a degree of uncertainty to the projections made within the MTFS. Funding will need to be carefully monitored as announcements are made and factored in to plans, once available.

The pandemic and its fundamental impact upon the council’s financial position and wider economic environment have added further to the complexity to the assumptions within this version of the MTFS. 2020/21 has been significantly influenced by the pandemic with significant reductions in fees and charges income, collection fund income and additional cost pressures within a number of service areas. These pressures have been mitigated by controlling spend in year, and a significant sum (currently in excess of £2m) of government grants being awarded. There may be a need to utilise reserves in-year. The MTFS has sought to consider the trends both of the initial impact of COVID-19 and also the early stages of recovery to map out the potential impact during the term of the MTFS. The ‘most-likely’ scenario mapping has assumed a 2 year economic recovery period for factors affecting the Councils own financial position.

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

Table 1 – Medium Term Financial Forecast

Financial Forecast	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
Deficit	3,456	3,615	3,423	3,197
Cumulative Deficit	3,456	7,071	10,494	13,691

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

### **Council Tax**

Council Tax is one of the key funding streams for the council and accounts for approximately two thirds of the Council’s income. Although this is a significant funding source, it is subject to restrictions by central government. The Localism Act included a requirement to hold a local referendum if any Council Tax increase is deemed ‘excessive’ and this level is currently set at 2% by central government. Final details will be confirmed when the Local Government Finance Settlement is announced later this year of the referendum limit for 2021/22.

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

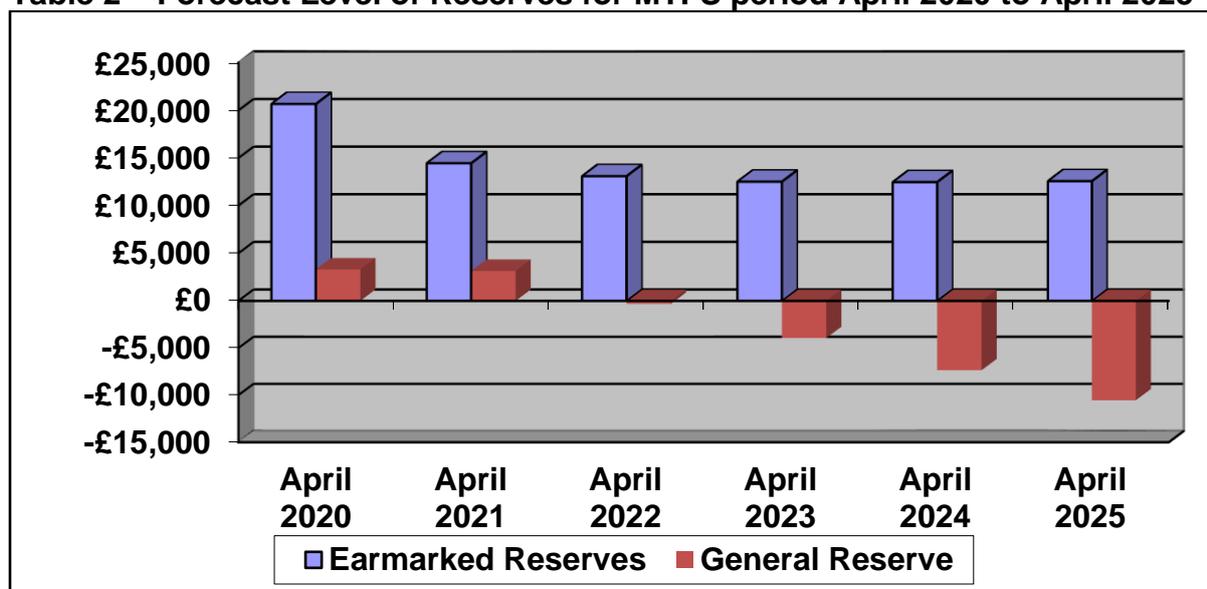
### Use of Reserves

The council has a level of reserves which provides it with some protection against the difficult economic times such as the current volatility due to COVID-19. 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.

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

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

**Table 2 – Forecast Level of Reserves for MTFFS period April 2020 to April 2025**



### New Homes Bonus (NHB)

The New Homes Bonus was introduced in 2011/12 and has become an important funding source for councils. It is designed by Central Government to incentivise new house building. Local authorities are rewarded with a financial bonus, equal to the national average Council Tax on each additional property built and paid for the

following six years after the occupation as a non-ring fenced grant. This bonus is currently split in two tier areas 80% to the District Council and 20% to the County Council and includes where properties which have been empty for more than six months are brought back into use. There is also an enhancement for affordable homes.

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

The government set out its intention to end New Homes Bonus, however with the delays to the Fair Funding Review its future for 2021/22 remains unclear. The intention is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail of this is unknown at this time so the MTFS does not assume any further awards in this respect. At present, Folkestone and Hythe has a reserve of previous New Homes Bonus awards (only a proportion was utilised in year to support services with the remaining amounts being set aside within a reserve to fund the additional cost of services over future years). This reserve will deplete by 2022/23 if the current arrangements come to an end with no compensating alternative.

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

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

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 during 2021 as proposals are developed. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

## Climate Emergency

At its meeting of 24 July 2019, the Council approved a motion recognising that there is a climate emergency. The full motion can be found here:

<http://www.folkestone-hythe.gov.uk/moderngov/documents/g4581/Public%20minutes%2024th-Jul-2019%2019.00%20Council.pdf?T=11>

As a result of this, the Council 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 is anticipated to be considered in early 2021. The financial implications of the Action Plan will be considered once it is available and built into future versions of the MTFs. As the budget cycle progresses, it is to be expected the financial impact of this will become clearer and can be incorporated into the financial plans of the council. The Council reallocated a number of reserves to the Climate Change reserve during 2020/21 and this reserve currently holds £4.96 million.

## Future Strategies

The current forecast means that there will need to be significant work undertaken to address the forecast deficit. Set out below are some of the key areas to be developed through the 2021/22 budget strategy and beyond to address those financial challenges.

**Transformation:** The Council has undertaken a major review of its operations and is working to radically change how the Council operates and its relationship with its customers. This is based on a complete review of its operation and involves a significant investment in technology. The programme was approved at Council on the 28th February 2018 and will produce ongoing savings for the Council. To date around £1,000,000 per annum has been identified. There are 2 more phases of the programme remaining however the aim is to implement continuous service improvement philosophy to maintain the development of the Council.

**Strategic Investments:** The Council is looking to take advantage of its position with a number of developments to produce financial returns whilst at the same time supporting the delivery of housing and regenerating parts of the district. The largest development is that of the proposed new town at Otterpool Park and options are being explored to generate future revenue and capital streams. 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 LLP to manage the delivery of the project. The LLP's first Business Plan will be considered by the Council in early 2021. Other areas include the developments at Varne and the Biggins Wood site which are expected to produce financial returns for the Council in the long run.

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

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

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

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 will also seek to utilise Flexible Capital Receipts where possible to fund the transformation programme and to take pressure off the revenue account. All these are managed on an ongoing basis.

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

### **Housing Revenue Account**

The council has a separate account, the Housing Revenue Account (HRA) which supports local authority housing throughout the district. The HRA is now required to produce a 30 year business plan which demonstrates the affordability and sustainability of the management and investment in the council's housing stock. This financial plan was reviewed and updated by Council at its meeting of 19 February 2020. This report marked a significant shift in the Council's new build and acquisitions programme for the HRA over the coming 10 years. The report (A/19/30) can be found here:

<http://sdc-intranet/moderngov/documents/g4587/Public%20reports%20pack%2019th-Feb-2020%2019.00%20Council.pdf?T=10>

The Council returned the Housing service back in-house following service failures and a review of options in 2019. The service returned in house on 1 October 2020. Work on a Stock Condition Survey is underway to shape the future investment in the stock and determine the Asset Management Strategy for the service. A revision to the HRA Business Plan is anticipated in the Summer of 2021 once this work is complete.

### **Medium Term Capital Programme**

The Medium Term Capital Programme sets out how capital resources are used to achieve the council's vision and corporate priorities. Funding for capital projects is limited and where possible external funding is used to supplement the programme.

The council has an affordable Capital Programme and this is assessed against business cases taking into account future resources to support projects. A strategy has been adopted which will look to utilise capital receipts to support investments for the council. Demand for financing potential new projects continues to outweigh the funding available and developments such as Otterpool Park will need to be prioritised as part of the programme.

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

- To maintain a five year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits.
- To ensure capital resources are aligned with the council's strategic vision and corporate priorities by ensuring all schemes are prioritised according to the council's prioritisation methodology.
- Prudential Borrowing to be undertaken to support the councils priorities where there is a business case for it to do so and there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding to support council priorities and disposing of surplus assets.
- To use internal resources alongside external resources where appropriate to support the capital programme and minimise any borrowing costs.

The council forecasts its capital programme over a 5 year period and the latest position is set out in the report to Cabinet on 11 November 2020. This paper will also be considered at Full Council on 25 November 2020. This report is an update to the MTCP.

### **Risks and Sensitivities**

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

- Economic conditions. The impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model.
- Impact of COVID-19. The pandemic has had a significant impact on both the Councils finances and the wider economy of the district. This version of the MTFS has been significantly influenced by COVID-19 but the full and medium term impacts are not clearly understood at this time and therefore assumptions will need to continue to be evolved.
- Impact of the Transition Period. The impact of the UK's departure from the EU is one that is unclear and may impact both politically and economically on the country.

- 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 current Fair Funding Review of local government finance which are now anticipated to be introduced in 2022.
- Other Government Legislation. There are a significant number of political initiatives particularly in relation to localisation and the role of local government. These will need to be assessed for their relevance to Folkestone and Hythe and the impact on future finances.
- Buoyancy of income streams. These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored.

## **Conclusion**

The MTFS represents the collation of the key financial documents which looks to forecast the likely financial position the council will be facing over the next 4 years. It is the critical financial planning tool for the council and will provide the overall steer for the ongoing discussions throughout the annual budget cycles in dealing with the current economic climate.