

This Report will be made public on 2 February 2022



Report Number **A/21/28**

To: Council
Date: 10 February 2022
Director: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: BUDGET STRATEGY 2022/23

SUMMARY:

The Budget Strategy takes account of current and future financial issues, sets out the underlying assumptions and initial budget-setting proposals and provides a timetable for delivering a balanced budget in 2022/23.

This Budget Strategy sets out the guidelines for preparing the 2022/23 Budget. It supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

RECOMMENDATIONS:

1. To adopt the Budget Strategy for 2022/23.

1. INTRODUCTION

- 1.1 The Budget Strategy sets out the initial proposals and a timetable that will be used to inform the setting of the detailed budget for 2022/23. The Budget Strategy is consistent with the direction and objectives of the updated MTFs.
- 1.2 The MTFs and Budget Strategy are aligned with the council's strategic financial objectives, which are:
- To maintain a balanced Budget such that expenditure matches income from Council Tax, fees and charges, and government and other grants and to maintain that position.
 - To maximise the council's income by setting fees and charges, where it has the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs.
 - To ensure a long term sustainable view is taken of any investments and the appropriate risk analysis is provided in considering those.
 - To set a rate for Council Tax which maximises income necessary for the council to deliver its strategic objectives but ensures that government referendum limits are not exceeded. The percentage increase will be reviewed annually.
 - To ensure resources are aligned with the council's strategic vision and corporate priorities.
 - To safeguard public money and ensure financial resilience.
 - To maintain an adequate and prudent level of reserves.
- 1.3 Cabinet considered the Budget Strategy at their meeting in December and agreed the related fees & charges, revenue & capital growth and revenue savings. As the budget and financial position have continued to evolve since that time, this report seeks to outline the budget strategy proposed & supported by Cabinet and reflect updated information where it is available and relevant.

2. CURRENT FINANCIAL POSITION

2020/21 General Fund Budget Outturn

- 2.1 The final contribution to the General Fund Reserve was £3.4m. This included a net transfer to Earmarked Reserves of £2.9m compared to a budgeted use of £3.6m.
- 2.2 Over recent years, Folkestone & Hythe has established a good track record of maintaining a healthy reserves position. This enables the council to have greater stability and resilience for dealing with current and future financial challenges and uncertainties.

2021/22 Forecast General Fund Budget Outturn

- 2.3 When Cabinet considered and recommended the Budget Strategy to Full Council the most recent General Fund revenue budget monitoring position

available was quarter 2 reported on 24 November 2021. At this stage there was a projected favourable variance of £511k for the year against the latest approved budget. The reasons for the variance were detailed in the monitoring report and related primarily to increased interest income and lower interest payable resulting from better than anticipated interest rates and increased parking income following quicker than anticipated recovery from the pandemic.

- 2.4 The quarter 3 General Fund budget monitoring position was reported to Cabinet on 26 January and noted a projected overspend of £1.178 million. Again full details are available in the monitoring report and the main change related to the successful business rates appeal for Dungeness B Power Station resulting in lower income of £1.33 million than anticipated at quarter 2.
- 2.5 Similarly the quarter 2 HRA revenue and capital monitoring for 2021/22 was considered in the Budget Strategy tabled to Cabinet. It anticipated a projected decrease in net expenditure of £1.2m on the HRA and an underspend of £1.6m on the capital programme against the £14.4m latest budget.
- 2.6 The quarter 3 HRA Monitoring report tabled to Cabinet on 26 January anticipates a projected decrease in net expenditure of £3.2m on the HRA and an underspend of £4.5m on the capital programme against the £14.4m latest budget. As outlined in the paper, this movement largely relates to the re-profiling of the Highview scheme to enable new technology, design & construction methods to be brought forward for this net zero carbon in use flagship scheme.
- 2.7 The latest projection for the General Fund capital programme in 2021/22 was also reported to Cabinet at its meeting on 26 January 2022 and it shows a reduction in planned capital expenditure of £29.5m against the latest budget. The main reason for the reduction is the re-profiling of schemes. The updated Medium Term Capital Programme is being considered at the February meeting of Full Council.

Government Funding

- 2.8 In February 2021, the Secretary of State for the Ministry of Housing, Communities and Local Government announced the final local government finance settlement 2021/22. This announcement followed on from consultation on the provisional settlement.
- 2.9 The main points of note from the settlement relevant for this council are as follows:

	2020/21	2021/22	Change
	£'000	£'000	£'000
Settlement Funding			
Revenue support grant	0	0	0
Baseline funding	3,733	3,733	0
Settlement funding assessment	3,733	3,733	0

Reduction in funding compared to 2020/21 n/a 0% 0%

New Homes Bonus

2.10 The settlement announcement included no changes to the New Homes Bonus scheme methodology or distribution. In addition to funding legacy payments associated with previous allocations, the Government announced that allocations for 2021/22 would follow the approach taken in 2020/21 with a new round of in-year allocations for 2021/22 which will not result in legacy payments being made in subsequent years. The NHB baseline was maintained at 0.4% and only growth above this level will attract NHB payments.

2.11 The Provisional Local Government Finance Settlement was announced on 16 December and confirmed that the allocation for NHB in 2022/23 will be the historic legacy payment plus an in year only allocation for the year of £251k.

Spending Review and Autumn Budget 2021

2.12 For the past two years the government has only held single-year Spending Reviews, with 2019 being a single year due to the political turbulence around Brexit, and 2020 being a single year given the COVID-19 pandemic. However, in September the government announced its intention to complete a multi-year Spending Review (SR2021), setting revenue and capital budgets for 2022/23 to 2024/25.

2.13 SR2021 was announced on 27 October 2021 and represents the first return to multi-year statements since 2015. It focuses on the following key themes:

- Investing in growth
- Supporting people and businesses
- Building back greener
- Levelling up
- Advancing Global Britain
- Seizing opportunities of Brexit

2.14 Local Government's Core Spending Power will increase by £3.3bn (3.4%) in 2022/23 which includes:

- New grant funding for local government of £1.6bn in 2022/23 (worth £4.8bn over the next three years). Details of how this funding will be distributed and which services it will be allocated to will be confirmed in the provisional settlement.
- A core Council Tax referendum principle of up to 2% (maintained from 2021/22) with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept.
- Small Business Rates multiplier will be frozen again in 2022/23 (instead of increasing by CPI) but local authorities will be fully compensated through a section 31 grant.
- Retail, Hospitality and Leisure business rates relief will be extended at 50% for 2022/23, subject to a £110,000 cash cap. These reliefs will continue to be fully funded by government.

- The conclusion of the business rates review which, from 2023, will include 3-yearly revaluations and new investment reliefs to encourage green investment and premises improvements with any increase in rates payable delayed for 12 months.
- £3.6bn additional funding will be made available over 3 years for social care reform to implement the cap on personal care costs and the changes to the means test.
- Investment in affordable housing, with £1.8bn added with a view to delivering £10bn of investment during the Parliament, and 1m new homes in the SR2021 period. Of this, £300m will be distributed to local authorities (and mayoral combined authorities) to support the development of smaller brownfield sites.
- Adjustments to the regime for Right to Buy receipts with authorities now allowed to spend these over a longer timeframe (increasing to five years from three years), to pay up to 40% of the cost of a new home (up from 30%), and to allow them to be used for shared ownership and First Homes.
- The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. The minimum wage will be increased to £9.50 per hour, accepting the Low Pay Commission's recommendation.
- £560m announced for youth services and £850m over the SR2021 period for cultural and heritage infrastructure.
- Other funding announced included £38m to be made available to support authorities with cyber security and £35m to strengthen local delivery and transparency, though some of this will be required to set up the new Audit Reporting and Governance Authority as a new system leader for local audit.
- The Spending Review also confirmed allocations for the first round of bids from the Levelling-Up Fund (£1.7bn out of the £4.8bn total).

3.0 FINANCIAL FORECAST

Medium Term Financial Strategy (MTFS)

- 3.1 The MTFS is the council's key financial planning document. It links the council's strategic priorities with the financial resources required to deliver them. The MTFS covers a four year period, providing the context and framework within which the Budget Strategy is prepared, and considers the implications of the council's approved priorities. It also takes in to account the uncertainty surrounding the financial climate that the council is working within. The MTFS is updated each year, most recently in November (Cabinet report C/21/52).
- 3.2 The current MTFS forecasts a cumulative funding gap of £5.8m over the lifetime of this MTFS. This is based on a 2% annual council tax increase for the period of the MTFS. These will be subject to political decisions at the appropriate time. The table below shows the cumulative deficit over the period of the MTFS.

	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Forecast Deficit	1,596	4,155	5,088	5,752

- 3.3 The current MTFS forecasts a deficit of £1.6m in 2022/23. This Budget Strategy explains the assumptions underlying this forecast (section 4 below) and proposals for addressing next year's funding gap (section 5 below).

Reserves

- 3.4 Total General Fund reserves at 1 April 2021 amounted to £27.4m, of which £3.8m was held within the General Reserve. The table below shows projected reserves at 31 March 2022 before any application towards new budget growth or initiatives.

Description of Reserve	Balance 1/4/21 £000	Forecast Balance 31/3/22 £000
General Reserve	3,822	4,333
Earmarked Reserves:		
Business rates	2,723	1,902
Carry forwards	691	567
IFRS	8	5
Vehicles, equipment and technology	283	317
New Homes Bonus initiatives	2,341	1,997
Corporate initiatives	598	69
Maintenance of Graves	12	12
Leisure	547	447
Otterpool Park	-	-
Economic Development	1,991	1,799
Community Led Housing	365	310
Lydd Airport	9	9
Homelessness Prevention	488	586
High Street Regeneration	2,070	1,054
Climate Change	4,946	4,600
Covid Recovery	6,501	300
Total Earmarked Reserves	23,573	13,974
Total General Fund Reserves	27,395	18,307

- 3.5 The following further allocations of Earmarked Reserves are now also anticipated, £70k from the Climate Change Reserve; £95k from the Carry Forward Reserve and £45k from the Economic Development Reserve, taking the forecast balance of reserves to £18.1 million by 31 March 2022.

4.0 BUDGET ASSUMPTIONS

- 4.1 Appendix 1 explains the changes between the 2021/22 approved budget and 2022/23 budget forecast that have been taken into account in the MTFS. These changes comprise:

	£'000
2021/22 Net Approved Budget (balanced budget)	0
Inflationary Pressures 2022/23 (net)	663
Corporate Funding Changes 2022/23 (net)	441
Service Changes 2022/23 (net)	(536)
Net Movement in Contributions To/(From) Reserves	1,028
MTFS Forecast 2022/23 Budget Deficit - Before Growth and Savings Proposals	1,596

MTFS Funding Assumptions 2022/23

- 4.2 Income from Business Rates is based on last year's estimates, pending a full review. The MTFS shows a 1% increase compared to 2021/22, largely reflecting the assumption not to budget for significant growth in 2022/23 given the uncertainties that remain following the impact of COVID-19. This area remains volatile with an uncertain position on growth and outstanding appeals.
- 4.3 A council tax increase of 2% has been assumed pending the final decision by Full Council in February 2022. The MTFS awaited further detail in the Spending Review and the Local Government Finance Settlement to confirm the maximum increase for 2022/23 without requiring a referendum. A council tax base increase of 0.5% and a balanced Collection Fund have been assumed for 2022/23.
- 4.4 Continuation of current New Homes Bonus receipts was anticipated but no new monies from 2022/23 were projected awaiting the outcome of the provisional settlement.

MTFS Expenditure and Income Assumptions 2022/23

- 4.5 Additional unallocated net employee costs amount to £469k in 2022/23, covering the estimated costs of an assumed salary award at 1.5%, salary increments and the impacts of the local government pension fund valuation.
- 4.6 Contract inflation of £184k has been included in the non-pay budget forecast based on prevailing inflation rates within existing contracts.

- 4.7 An increase of 2% has been assumed in relation to the Internal Drainage Board levy.
- 4.8 Net Interest forecasts a decrease of £614k compared to the 2021/22 estimate.
- 4.9 Fees and charges income assumptions are based on current budgets and existing policies, adjusted for proposed changes as detailed in the Fees & Charges 2022/23 report to the December meeting of Cabinet.

5.0 2022/23 BUDGET PROPOSALS

- 5.1 The council will continue to use a range of approaches to address the deficit in the short and medium term, including:
- Reviewing the level of council tax
 - An annual review of fees and charges
 - Pursuing alternative income streams
 - Continuing the use of digital technologies to transform services
 - Exploring appropriate commercial opportunities
 - Growing the local economy
 - Reviewing all services to generate efficiencies
 - Containing new budget pressures within allocated resources, and
 - Considering the use of reserves to help manage year on year variations in income and expenditure.

Budget Growth 2022/23

- 5.2 Service heads and budget managers were asked to identify any unavoidable budget growth items that were necessary to ensure future service sustainability and address unavoidable budget pressures. These total £444k and are detailed at Appendix 2. Further to the proposed £444k is a further £444k for IT developments, this will in part be able to be met from utilising flexible capital receipts. The current growth proposals are draft, and further work is underway in respect of the use of capital receipts to support the proposed IT developments required and further consideration of the resource requirements for Otterpool Park.

Budget Savings and Efficiencies 2022/23

- 5.3 Service heads and budget managers were also asked to identify any savings items and a rigorous review of the 2021/22 base budget and previous years' outturns has been undertaken by departments in liaison with CLT. This review identified net potential savings and efficiencies of £808k.

Fees and Charges 2022/23

- 5.4 A review of fees and charges has been undertaken and the outcome has been included in a separate Fees & Charges report considered and agreed by Cabinet in December. The proposed changes to fees and charges are anticipated to increase net income receipts by £240k.

The increase comprises:

Increased income	£
Street Naming & Numbering	3,180

Parking (Off-Street)	170,470
Parking (On-Street)	53,970
Licensing	6,080
Caravan Licensing	1,400
Housing (HMO Fees)	5,000
Other	100
Total	240,200

Forecast Budget Deficit 2022/23

5.5 Based on the work undertaken up to the stage Cabinet considered the Budget Strategy, the forecast deficit is set out below.

	£'000
Forecast deficit – November 2021 MTFS	1,596
Add: budget growth proposals	444
Less: further savings and efficiencies	(808)
Less: increase in income generated	(240)
Revised Forecast Deficit 2022/23	992

5.6 As noted above there is further growth of £444k related to ICT developments, some of which will be met from the use of flexible capital receipts. The detailed budget has been drafted alongside the growth and savings exercise and Cabinet received a report in January updating the above position, noting a projected gap of £1.115m, slightly above the position noted above. Options for addressing the forecast deficit for 2022/23 are now being considered in preparation for the final budget report to Cabinet & Council in February and will take into consideration:

- Any new factors affecting local government funding arising from the final Government funding settlement announcements
- 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
- Use of reserves.

6.0 HOUSING REVENUE ACCOUNT (HRA)

6.1 This Budget Strategy does not explore the Housing Revenue Account further as the council approved on 19 February 2020 a revised HRA business plan for the period 2020 to 2050. This included the impact of the new rent guidance announced in February 2019 allowing rents to increase by CPI + 1% for 5 years from 2020/21 as well as the continuation of the new build capital programme which was updated to deliver a further 1,000 homes over the ten year period from 2025/26 to 2034/35 and a capital investment of £10m into existing housing stock.

6.2 Since the HRA Business Plan was approved the COVID-19 pandemic hit in March 2020 which will have an unforeseen impact on the delivery of the new build programme. In addition the Housing Service was brought back in-

house in October 2020. A thorough stock condition survey is being carried out on existing HRA housing stock to inform the Asset Management Strategy and capital programme. It is anticipated that the HRA Business Plan will be updated in early 2022 once this work is complete.

- 6.3 The detailed 2022/23 HRA revenue and capital budgets were considered by Cabinet in January 2021 and are incorporated with current income trends and outcomes from the stock condition surveys.

7.0 CAPITAL PROGRAMME

- 7.1 As part of the Budget Strategy, Cabinet was asked to consider the proposals for new capital schemes to be included in the council's General Fund Capital Programme for 2022/23. 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 £300k for 2022/23 are shown in Appendix 3 to this report and were agreed by Cabinet. Additionally, the council's General Fund Medium Term Capital Programme (MTCP) needs to be updated to include recurring schemes planned to continue over the 5 year period to 2026/27. Since Cabinet considered the growth items in December the following schemes have been proposed or agreed:

- £192k use of flexible capital receipts to fund the additional IT improvements
- £60k for parking services payment options
- £250k for the Green Business Grants initiative
- £105k for the Transformation Senior Management Restructure

- 7.2 Capital Receipts – the existing MTFSS 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 (updated based on proposed MTCP in February 2022), is shown in the following table:

Capital Receipts Position Statement	£'000
Receipts in hand at 30 November 2021	(10,145)
Less:	
Committed towards General Fund capital expenditure	3,424
Committed towards HRA capital expenditure	5,669
Ring-fenced for specific purposes	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	(474)

- 7.3 Over the term of the MTFSS 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.

- 7.4 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, Connect 38 Offices, Oportunitas Ltd and the Biggins Wood Commercial development, that will provide a net long term financial return to the council allowing for these costs. The current approved MTCP requires about £88.2m of prudential borrowing to support it, some of which will be off set in time by external funding.
- 7.5 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.
- 7.6 The proposed growth for the Capital programme does not at this stage include provision for the Council's Levelling Up Fund bid. The district has been identified as a priority area and the Council is currently developing its bid proposals, in line with previous decisions taken. The bid is anticipated to be submitted in summer 2022, and will be subject to a separate decision at that time. The Capital Programme is a fluid 5 year rolling budget and therefore it is proposed to consider growth to the programme in respect of the Levelling Up Fund bid once it has been further developed.

8.0 THE BUDGET TIMETABLE

- 8.1 By early March each year the council is required by law to approve its budget (revenue, capital and HRA) and council tax levels for the forthcoming year. The Full Council meet on 23 February to do this. Advance notice is given in the publication of key decisions to be made.
- 8.2 Detailed guidance on the annual budget preparation process was circulated to officers in September 2021. This guidance covered roles and responsibilities; the links between finance and service planning; expected standards and approach; and the timetable for preparing the 2022/23 Budget.
- 8.3 The 2022/23 Budget timetable is attached at Appendix 4.

9.0 BUDGET CONSULTATION

- 9.1 There is a duty under section 65 of the Local Government Finance Act 1992 to consult ratepayers (or bodies appearing to represent ratepayers) about proposed expenditure, including capital expenditure, prior to calculating the council tax requirement under S31a (England) of the Act.

- 9.2 The objectives for consultation on the 2022/23 budget proposals are to:
- Engage with key stakeholder groups and local residents;
 - Seek feedback on specific budget proposals for 2022/23; and
 - Seek feedback on general spending and income generation priorities.
- 9.3 This will be achieved through making budget information available to the public, inviting feedback and meeting with representatives from the business community.
- 9.4 Following the November meeting of the Overview and Scrutiny Committee 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 would 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 has also developed a short video to further explain Council Tax and the services provided that it supports. Furthermore, we have ensured all Councillors have the relevant information to directly engage with their constituents and provide a route for feedback to be provided.

10.0 RISK MANAGEMENT ISSUES

- 10.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process and was most recently refreshed in November 21.
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 Spending Review and Local Government Finance Settlement will inform latest forecasts.
Failure to take action to address	High	Medium	Ensure that MTFS forecasts are

Perceived risk	Seriousness	Likelihood	Preventative action
forecast medium term financial pressures as well as focusing on the 2022/23 budget position.			monitored and timely interventions identified and implemented to address future deficits.

11.0 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

11.1 Legal Officer's Comments (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.

11.2 Finance Officer's Comments (CI)

This report has been prepared by the finance team and the financial implications have been built into the body of the paper.

11.3 Diversities and Equalities Implications (GE)

The final budget report to Full Council on 23 February 2022 will include an Equality Impact Assessment of the budget recommendations for 2022/23.

12.0 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

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

Fees & Charges Report 2022/23
 Medium Term Financial Strategy 2022/23 – 2025/26

Appendices:

Appendix 1 – Movement from 2021/22 Approved Budget to 2022/23 Base

Appendix 2 – General Fund Revenue Growth & Savings Proposals
Appendix 3 – Capital Programme Growth Proposals
Appendix 4 – Budget Timetable