Public Document Pack

Folkestone & Hythe District Council

Agenda

Meeting: **Council**
Date: **25 November 2020**
Time: **7.00 pm**
Place: **Zoom - remote meeting**

To: **All Members of the Council**

YOU ARE HEREBY SUMMONED to attend a remote meeting of the Council on the date and at the time shown above. The meeting will be open to the press and public, who can watch the meeting live at: bit.ly/YouTubeMeetings

Anyone who wishes to have information on any matter arising on the Agenda which is not fully covered in these papers is requested to give notice prior to the meeting to the Chairman or appropriate officer.

Dr Susan Priest
Chief Executive

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 7 - 8)**

   Members of the Council should declare any discloseable pecuniary interest or any other significant interests in any item/s on this agenda.

3. **Chairman's Communications**

4. **Petitions**

Queries about the agenda? Need a different format?

Contact Jemma West – Tel: 01303 853369
Email: committee@folkestone-hythe.gov.uk or download from our website
www.folkestone-hythe.gov.uk

Date of Publication: Tuesday, 17 November 2020

There are no petitions to be presented.

5. **Announcements of the Leader of the Council**

To receive a report from the Leader of the Council on the business of the cabinet and on matters that the leader considers should be drawn to the council's attention. The leader shall have 10 minutes to make his announcements.

The opposition group will have an opportunity to reply to the leader's remarks. The opposition group leader shall have 5 minutes to respond after which the Leader of the Council will have a right of reply. Any right of reply will be for a maximum duration of 5 minutes.

6. **Opposition Business**

The Labour Group has raised the following matter,

This council notes:

- 1 in 4 people will experience a mental health problem in any given year.
- The World Health Organisation predicts that depression will be the second most common health condition worldwide by 2020.
- Mental ill health costs some £105 billion each year in England alone.
- People with a severe mental illness die up to 20 years younger than their peers in the UK.
- That the Corona Virus pandemic has exacerbated the issues surrounding mental health and could potentially leave long lasting effects and challenges for many years to come.

This council believes:

- As a local authority we have a crucial role to play in improving the mental health of everyone in our community and tackling some of the widest and most entrenched inequalities in health.
- Mental health should be a priority across all the local authority's areas of responsibility, including housing, community safety and planning.
- All councillors, whether members of the Executive or Scrutiny and in our community and casework roles, can play a positive role in championing mental health on an individual and strategic basis.
- That our residents, now more than ever, will look to our council and councillors to project positive messaging with regards to mental health and support our local partners as they deliver vital health and wellbeing services.

This council resolves:

- To sign the Local Authorities' Mental Health Challenge run by Centre for Mental Health, Mental Health Foundation, AMHP, Mind, Rethink Mental Illness, Royal College of Psychiatrists and YoungMinds.
- We commit to appoint an elected member as 'mental health champion' across the council.

- We will seek to identify a member of staff within the council to act as 'lead officer' for mental health.

Debates on opposition business shall be limited to 30 minutes. If the time limit is reached or the debate concludes earlier, the leader of the group raising the item shall have a right of reply.

The Council shall:

a) Note the issue raised and take no further action;
b) Refer the issue to the cabinet or relevant overview and scrutiny committee, as the case may be for their observations before deciding whether to make a decision on the issue;
c) Agree to examine the matter as part of a future scrutiny programme;
d) Adopt the issue raised by opposition business provided that the decision so made is within the policy framework and budget.

7. **Motions on Notice**

The following motions have been placed on the agenda in the order received; up to 60 minutes shall be allowed for debates on motions on notice:

1. **From Councillor Miss Susan Carey, Conservative Group**

This Council welcomes the progress made locally in many areas on environmental issues –
- the ambitions for Otterpool Park to be a sustainable development with 20% Biodiversity net gain.
- the many years of pollinator friendly planting in the council's parks.
- the increase in tree planting.
- the commitment to review its present carbon intensive office accommodation.
- the commitment to an accelerated Net Zero target of 2030.
- the 47% recycling of waste from kerbside collections.

We ask that the Carbon Action Plan include commitments to adopt the following policies:
- the Kent & Medway Energy & Low Emissions Strategy.
- the Kent Biodiversity Strategy.
- Kent's Plan Bee; and
- an improved recycling target to benefit from the incentives in the new waste contract.
- More opportunity for those in flats and houses in multiple occupation to recycle.

We also ask that the plan considers:
- a district version of the Climate Change Risk Assessment using the Climate Change Committee's methodology.
- an Adaptation Plan to address the identified risks.

- a 20% Biodiversity Net Gain policy for all new development in the district.
- a 25% Biodiversity Net Gain policy for Otterpool Park.
- Options for where the district can improve natural capital such as wildlife corridors, tiny forests, pocket parks etc.
- Options for investment in renewable energy within the district.
- Switching the council's vehicles to Low Emission Vehicles.
- Increased enforcement against flytipping with more Op Assist interventions with Kent Police.

Bearing in mind the District Councils specific responsibilities in the key areas of housing, development control and environmental health we also ask that the council's action plan for Net Zero pays particular attention to how best to retrofit existing housing stock, that new housing is bult to standards that do not require retrofitting to be carbon neutral and that ways are examined to improve air quality including an examination of the effects of bonfires and how these can be minimised.

2. **From Councillor Miss Susan Carey, Conservative Group**

We propose that this Council reviews its current policies regarding the naming of new streets to allow more input from the local community and more discretion to be applied to the use of street, lane, way etc.

This review is needed in the light of recent experience in Stelling Minnis where the developer, the parish council, the district councillors and County Councillor all support the new road being called Rose Lane as it is next to both the Rose and Crown public house and Crown Lane. Folkestone & Hythe's policy will not allow a no through road to be called a Lane (although the existing Crown Lane is a no through road).

It is also timely to review the policy in advance of major developments such as Otterpool Park where many names will be needed.

8. **Update to the General Fund Medium Term Capital Programme (Pages 9 - 16)**

This report updates the General Fund Medium Term Capital Programme for decisions which have occurred since the Council approved the budget on 19 February 2020. It also considers a proposal to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited for the provision of the new fleet and equipment required for the new Waste, Recycling and Street Cleansing Contract. Changes to the Capital Programme are required to be submitted to full Council for consideration and approval. The Finance and Performance Scrutiny Sub-Committee considered this report on 3 November 2020 and Cabinet agreed the report to be submitted to full Council for approval on 11 November 2020.

9. **Medium Term Financial Strategy 2021/22 to 2024/25 (Pages 17 - 42)**

The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It puts the financial perspective on the council's Corporate Plan priorities, expressing the aims and objectives of various plans and strategies in financial terms over the four year period ending 31st March 2025. It covers both revenue and capital for the General Fund. Also included are the Council's reserves policies. The MTFS is a key element of sound corporate governance and financial management.

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Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:
Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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This Report will be made public on 17 November 2020

Folkestone & Hythe District Council

Report Number **A/20/03**

To:	**Council**
Date:	**25 November 2020**
Status:	**Key Decision**
Head of Service:	**Charlotte Spendley – Director of Corporate Services**
Cabinet Member:	**Councillor David Monk, Leader and Portfolio Holder for Finance**

SUBJECT: **UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME**

SUMMARY: This report updates the General Fund Medium Term Capital Programme for decisions which have occurred since the Council approved the budget on 19 February 2020. It also considers a proposal to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited for the provision of the new fleet and equipment required for the new Waste, Recycling and Street Cleansing Contract. Changes to the Capital Programme are required to be submitted to full Council for consideration and approval. The Finance and Performance Scrutiny Sub-Committee considered this report on 3 November 2020 and Cabinet agreed the report to be submitted to full Council for approval on 11 November 2020.

REASONS FOR RECOMMENDATIONS:

Full Council is asked to agree the recommendations set out below because:

a) It needs to be kept informed of the General Fund Capital Programme position and take appropriate action to deal with any variance from the approved budget.

b) Proposed changes to the General Fund Capital Programme need to be submitted to full Council for approval.

RECOMMENDATIONS:

1. **To receive and note report A/20/03.**
2. **To approve to update the General Fund Medium Term Capital Programme for the changes outlined in section 2 of the report.**
3. **To approve a budget of £4,052,000 in the General Fund Medium Term Capital Programme to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited for the provision of the fleet and equipment required for the new Waste, Recycling and Street Cleansing Contract.**

1. INTRODUCTION AND BACKGROUND

1.1 Full Council approved the current General Fund Medium Term Capital Programme (MTCP) for the five year period to 31 March 2025 on 19 February 2020 (minute 101 refers). Since then there have been several decisions taken regarding General Fund capital schemes which have a budget impact and require being submitted to full Council for consideration and approval to update the MTCP. This report summarises the changes to the individual capital schemes arising from these decisions including the impact to the capital budgets and financing resources for them.

1.2 This report also outlines a proposal, in conjunction with Dover District Council (DDC), to provide loan funding met from prudential borrowing to Veolia Environmental Services Limited (VES) for the provision of the new fleet and equipment required for the new Waste, Recycling and Street Cleansing contract which will generate an annual saving to the Council over its eight year term.

2. CAPITAL PROGRAMME CHANGES

2.1 The capital schemes where decisions have occurred since the current MTCP was approved are summarised in the table below:

Scheme	Decision	Budget Increase	Funding Change
1. Purchase of former Debenhams Building, Folkestone	11/03/2020 - Urgent decision under Council's scheme of delegation. Purchase completed 01/05/2020.	£2,346,000	Met from the Economic Development and High Street Regeneration Reserves
2. Mountfield Road Industrial Estate Phase 2 – To provide infrastructure and services to a 5 hectare site enabling its use to provide much needed employment space creating up to 450 new jobs	August 2020 - Approval in principle by South East Local Enterprise Partnership of a £3.5m grant from its 'Getting Building Fund' to fully fund the site infrastructure costs.	£3,500,000	Met entirely from the SELEP Getting Building Fund grant
3. Biggins Wood Development – Land remediation	September 2020 - Approval in principle by Homes England	£1,150,000	£1,016,000 from the Homes England Grant

and infrastructure works to enable the Commercial and Housing developments to proceed.	of a grant of £1.016m towards the estimated cost of £1.7m. The Council has already provided £0.55m towards this cost in the existing MTCP budget		£134,000 from the Economic Development Reserve
4.Electric Vehicle Charging Points	Scheme approved by Cabinet on 21 October 2020 (Report no. C/20/37 refers)	£40,000	Met from the Climate Change Reserve
Total Budget Increase		**£7,036,000**	

2.2 Both the SELEP Getting Building Fund grant and the Homes England grant have been agreed in principle. No work to be funded from these grants will commence until the final funding agreements are in place. The use of the revenue reserves outlined above has been factored into the Council's medium term financial planning.

3. WASTE, RECYCLING AND STREET CLEANSING CONTRACT – FUNDING OF FLEET REQUIREMENTS

3.1 Background

3.1.1 Cabinet on 22 July 2020 agreed the award of the new joint Waste, Recycling and Street Cleansing Contract to VES. Included within the overall contract cost of the new agreement was the provision of new fleet vehicles and other equipment to service the contract for the waste collection and street cleansing operations.

3.1.2 During the procurement dialogue stages the option was discussed with bidders for the councils (FHDC and DDC) to fund the capital purchase of the new vehicle fleet and other equipment. This option was included in the final tender document and bidders were asked to provide a revised contract cost with the councils providing the funding of the new fleet.

3.1.3 The intention was to consider this option post award as the financial benefits would need to be assessed based on current borrowing rates. For the procurement award the contract price evaluation was completed on the basis that the contractor will fund and purchase the new fleet.

3.1.4 The councils have not committed to fund the purchase of the new vehicle fleet and all decisions to award the contract have been made on the default position that the contractor will fund. The decision to be considered is whether it would be financial advantageous to borrow to fund the vehicles in return for a reduced annual contract cost.

3.2 **Financial Assessment**

3.2.1 As this it is a joint contract with DDC the following figures are the combined cost for both authorities. The new fleet requirements are similar for both councils and operationally vehicles are used across the districts. The proposal is for both councils to provide loan funding to VES to enable them to purchase the fleet and equipment required for the contract. VES would retain ownership of the fleet and equipment and they would repay the loan and provide a rebate to the annual contract cost to reflect the saving on the interest cost to the councils.

3.2.2 In summary, the annual cost of the Waste, Recycling and Street Cleansing Contact is £10.023m. VES have estimated over the 8-year contract term of the total capital expenditure for new fleet and equipment to be £8,119,440. The majority of this funding (£7,757,777) is required in Year 1 with further funding (£361,663) in Year 5. If the councils took on the vehicle funding then the annual contract cost would reduce to £8.754m. This Council's share of the capital cost will be £4,052,000.

3.2.3 This type of funding arrangement for the purchasing of new fleet has been adopted by other councils on their waste contracts but would be new to FHDC and DDC. External financial advice was obtained from the treasury management specialists Arlingclose Ltd.

3.2.4 Arlingclose consider the financial risk of providing the funding to VES for the purchase of the new fleet and the potential savings that could be achieved. The report conclusions were:-

i) VES is a credit worth company due to the size, spread and diversification of its financials and business operations.
ii) VES is credit rated by the three main credit rating agencies all who have assigned a stable outlook to the company and indicated resilience of its three main revenue sources.
iii) The credit rating assigned to VES would typically indicate a low default rate on loans made to the company.
iv) Significant savings ranging between about £1.42m and £1.97m over the life of the contract, or £178k to £246k, can be made by FHDC and DDC by meeting the purchase cost of the new fleet from prudential borrowing depending on the type of loans used, based on current interest rates.
v) The credit risk inherent in the contract of purchasing and funding the new fleet is matched by the value of the savings to be achieved by the Councils.

3.2.5 For FHDC the annual saving from using prudential borrowing to fund its share of the fleet cost will be in the range of £89k to £123k. Given the range in borrowing costs used by Arlingclose, it would be reasonable to assume the annual saving to FHDC will be approximately £100k over the 8 year life of the contract.

3.2.6 There is no provision within the existing approved Medium Term Capital Programme for the financing of the new fleet. The Council's Constitution requires full Council to approve the capital budget of £4,052,000 for the loan to VES and also the use of prudential borrowing to finance this cost.

3.2.7 The increase in the prudential borrowing can be comfortably contained within the Council's existing authorised borrowing limit for 2020/21 of £180.1m. The increase in the Council's Capital Financing Requirement arising the prudential borrowing will be offset by the loan repayments from VES over the 8 year life of the contract.

3.2.8 Womble Bond Dickinson (UK) LLP, the legal consultants employed by the councils for the Waste Project have reviewed the proposal in terms of state aid implications. They are satisfied that there are no implications as all bidders at tender were offered the same opportunity to provide bids with the vehicle acquisition funded by the council.

3.2.9 Although VES represent a low credit risk for the loan being proposed, in finalising the arrangement consideration will be given to various options in order to protect the council's position.

4. CONCLUSIONS

4.1 The total value of the General Fund MTCP and the financial resources to support it from 2020/21 to 2024/25 incorporating the changes outlined in sections 2 and 3 of this report are summarised in the table below:

MTCP	**Existing Budget £'000**	**Changes £'000**	**Updated Budget £'000**
Total Cost	**133,172**	**11,088**	**144,260**
Capital Funding			
Capital Grants	(8,315)	(4,516)	(12,831)
External Contributions	(3,776)	-	(3,776)
Capital Receipts	(23,157)	-	(23,157)
Revenue	(2,374)	(2,520)	(4,894)
Borrowing	(95,550)	(4,052)	(99,602)
Total Funding	**(133,172)**	**(11,088)**	**(144,260)**

4.2 Full Council approval is required for the changes to the Capital Programme outlined above.

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital resources not available to meet the cost of the new projects.	High	Low	Schemes supported by grant funding will only commence once fully approved and committed by the relevant body. Revenue resources required to fund capital expenditure are covered by Earmarked Reserves and have been factored into the Council's medium term financial planning
Cost of new projects may exceed the estimate.	High	Medium	Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively.
Veolia Environmental Services Ltd defaulting on loan obligations	High	Low	Independent financial appraisal undertaken confirming strong credit rating of company

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 **Legal Officer's Comments** (NM)

The legal implications of providing borrowing to Veolia Environmental Services Limited are set out in the report.

6.2 **Finance Officer's Comments** (LW)

This report has been prepared by Financial Services. There are no further comments to add.

6.3 **Diversities and Equalities Implications**

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Lee Walker, Capital and Treasury Senior Specialist
Tel: 01303 853593. e-mail: lee.walker@folkestone-hythe.gov.uk

Andrew Rush, Regulatory Services & Corporate Contract Lead Specialist
Tel: 01303 853271 email: andrew.rush@folkestone-hythe.gov.uk

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

1) Arlingclose Ltd – FHDC & DDC Waste Capital Financing Report

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This Report will be made public on 17 November 2020

Report Number: **A/20/04**

To:	**Council**
Date:	**25 November 2020**
Status:	**Key Decision**
Corporate Director:	**Charlotte Spendley, Director of Corporate Services**
Cabinet Member:	**Councillor David Monk, Leader of the Council**

SUBJECT: **Medium Term Financial Strategy 2021/22 to 2024/25**

SUMMARY: The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It puts the financial perspective on the council's Corporate Plan priorities, expressing the aims and objectives of various plans and strategies in financial terms over the four year period ending 31st March 2025. It covers both revenue and capital for the General Fund. Also included are the Council's reserves policies. The MTFS is a key element of sound corporate governance and financial management.

REASONS FOR RECOMMENDATION:

Council is asked to agree the recommendations set out below because:-

(a) The MTFS is the council's key financial planning document.
(b) The strategy defines the financial resources needed to deliver the council's corporate objectives and priorities and covers the financial implications of other key strategies.
(c) The council needs to be able to carry out an early assessment of the financial implications of its approved policies and strategies and also external financial pressures facing the authority to ensure that it has robust budgeting and remains financially viable.

RECOMMENDATIONS:

Council is asked to:

1. **To receive and note Report A/20/04.**
2. **To adopt the Medium Term Financial Strategy, as appended to this report.**

1. THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

1.1 The MTFS is the council's key financial planning tool and underpins the strategic approach to financial planning. It is a live document which needs to be periodically reviewed to reflect changing priorities and objectives. As the MTFS outlines the financial resources necessary to deliver strategic priorities, it should not be viewed in isolation but as part of the wider corporate process.

1.2 The council last reviewed the MTFS at its meeting of 16 October 2019. The attached MTFS has updated the document agreed at that point based on the work completed to date through the 2020/21 budget setting process, the preparation of the 2021/22 budget and the in year pressures created by the pandemic. The detailed budget strategy, which sets out the detailed preparation for the 2021/22 budget, will be presented to Cabinet at its meeting in December. The MTFS provides the medium term view of the financial position of the Council.

1.3 The attached document reflects a summarised version of the key financial elements facing the Council. It covers key areas of the council's finances and in particular updates the financial projections which are of importance at this stage of the process and considers emerging issues including legislative requirements and the emerging corporate plan. Whilst every effort has been taken to incorporate the impact of the pandemic both on the Councils finances and the wider economic impact it may be necessary to review the assumptions in this document before the normal annual review next autumn, any changes will be reported to Cabinet and Council in due course if required.

1.4 As in recent years, local authority financial management is set against a background of uncertainty and the MTFS is subject to influence outside the authority's control. The Chancellor announced a one-year Spending Review in October 2020, in order to "prioritise the response to Covid-19, and our focus on supporting jobs". The Provisional Settlement is anticipated to follow the Spending Review announcements in late November.

1.5 The current strategy has been developed in the context of this period of uncertainty. As such, assumptions have had to be made with regard to future income streams and assessments of future government grant and permissible increases to Council Tax. Although these are very much best estimates, they are taken in the context of the current economic climate and the uncertainties identified above. As such, a difficult but realistic forecast of income trends has been incorporated into this MTFS model.

1.6 There is a long term pressure upon the finances of the Council. The pressures are a combination of continued downward projections of central government support for local authorities, cost pressures and the impact of COVID-19 on a variety of aspects of the Councils financial position.

1.7 The current MTFS forecasts a cumulative funding gap of £13.7 million over the lifetime of this MTFS. Much of this pressure is faced year on year and therefore if addressed through the base budget in the early part of the MTFS would significantly reduce this cumulative picture. The table below also shows the deficit over the period of the MTFS.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Deficit	3,456	3,615	3,423	3,197

1.8 The position set out above is in advance of the budget strategy which will be presented to Cabinet at its meeting in December. That will seek to address the detailed measures to consider the deficit for 2021/22 in terms of identifying savings but also any known cost pressures. In light of the increasing pressures facing the council, all budget considerations will also look at the impact in future years and the sustainability of any options.

1.9 The MTFS covers the key aspects of the Council's future plans to address the projected deficit and also to place the Council on a sustainable and secure footing for the future. This is an overarching view and detail will be found in subsequent reports to Cabinet and Council.

1.10 The MTFS is included at Annex A to this report and sets out the financial forecast for the Council.

1.11 The proposed Reserves Policy for the council is appended to the MTFS. This document outlines the approach to use of reserves and also sets minimum levels for the council to seek to operate within.

1.12 The proposed MTFS has been discussed at the Finance & Performance sub-committee during its meeting on 3 November and has been recommended to Full Council, following consideration at Cabinet on 11 November.

2. RISK MANAGEMENT ISSUES

2.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The Council does not remain up to date up to date with changes in legislation and other developments.	High	Low	Financial Services are keeping abreast of finance changes. Assistant Directors and Chief Officers to keep up to date with / communicate changes to their areas of work.
Assumptions may be inaccurate	High	Medium	Budget monitoring process is up to date and a close

			eye is being kept on financial developments nationally. Assumptions are constantly reviewed and amended in light of information received. The MTFS was completely refreshed with service input from all areas during Autumn 2020.
Local Government Finance Settlement is worse than anticipated.	High	Medium	Realistic assumptions have already been included and any new information is being assessed as to its likely impact. This is subject to ongoing review especially given the changes in future funding arrangements.
MTFS becomes out of date	High	Low	This is reviewed annually through the budget process.
Significant financial shocks worsen the current position of the council	High	Medium	There is ongoing monitoring of the overall financial position and climate and by adopting the MTFS a longer term time horizon is maintained to anticipate and respond to uncertain events. A prudent approach to the impact of COVID on assumptions have been made.

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 **Legal Officer's Comments** (AK)

There are no legal implications arising out of this report.

3.2 **Finance Officer's Comments** (CS)

There are no direct financial consequences arising from this report. However the strategy will influence the management of the council's resources ensuring that the focus is on the objectives and targets outlined in the corporate plan.

3.3 **Diversity and Equalities Implications** (CS)

There are no diversity and equality implications arising from this document. When the budget for 2021/22 is prepared, an Equalities Impact Assessment will be completed.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councilors 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:

No background documents have been used.

Appendices:

Medium Term Financial Strategy 2021/22 – 2024/25

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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 MTFS 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.

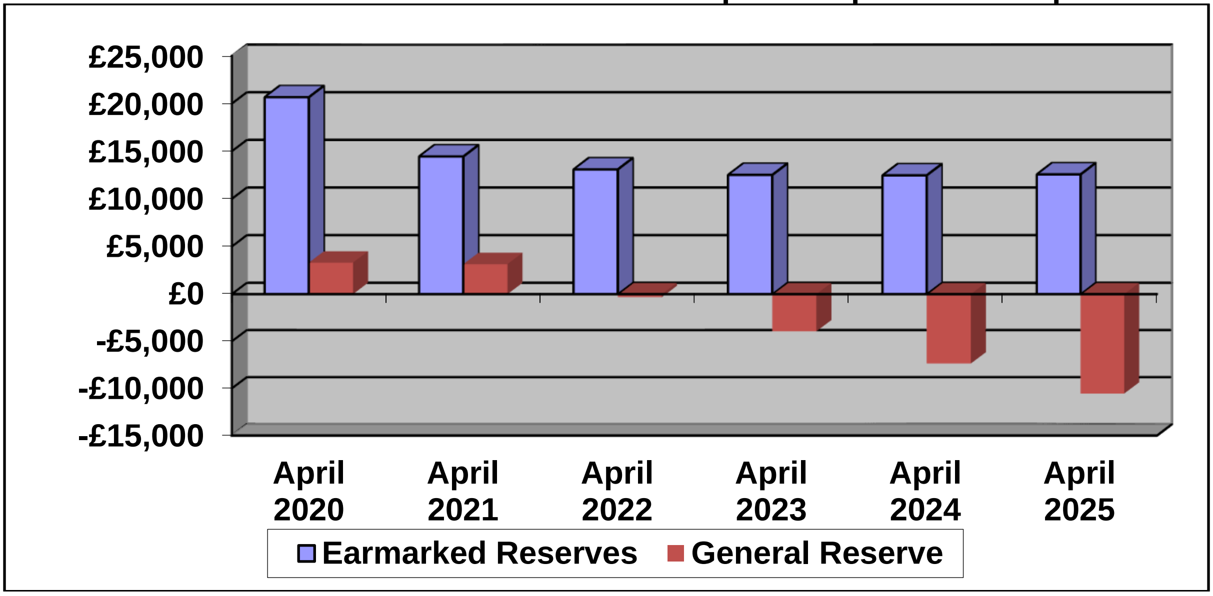
Use of Reserves

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 MTFS 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 is it 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 Councils 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.

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		Most Likely	Most Likely	Most Likely	Most Likely
	Base	***Forecast***	***Forecast***	***Forecast***	***Forecast***
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£	**£**	**£**	**£**	**£**
Heads of Service					
Leadership Support	936,000	955,000	955,000	955,000	955,000
Transition and Transformation	34,000	34,000	34,000	34,000	34,000
Governance and Law	4,962,000	5,792,000	5,832,000	5,932,000	5,792,000
Human Resources	663,000	663,000	663,000	663,000	663,000
Finance, strategy and Corporate Services	6,189,000	6,266,000	6,193,500	6,121,000	6,121,000
Strategic Development	1,267,000	461,000	461,000	461,000	461,000
Economic Development	1,011,000	426,592	426,592	426,592	426,592
Planning	532,000	607,000	607,000	532,000	532,000
Operations	1,266,000	2,040,906	1,746,248	1,071,374	1,074,510
Housing	997,000	3,525,750	3,525,750	3,455,750	3,455,750
Place	2,435,000	2,560,000	2,480,000	2,435,000	2,390,000
Changes not attributed to services	0	100,480	201,965	203,974	204,979
Recharges to non GF accounts	-2,000,500	-4,980,500	-4,991,900	-5,003,517	-5,015,354
Unallocated net employee costs	65,000	222,583	566,232	864,985	1,143,939
Total for Service	18,356,500	18,673,811	18,700,387	18,152,158	18,238,417
Internal drainage board levies	474,089	483,571	493,242	503,107	513,169
Interest payable and similar charges	486,450	859,450	902,450	829,450	810,450
Interest and investment income	-793,200	-754,000	-812,000	-810,000	-808,000
New Homes Bonus grant	-1,422,422	-830,167	-493,272	0	0
Other non-service related grants	-1,791,912	-1,852,673	-1,873,121	-1,910,584	-1,948,795
Town and Parish Council Precepts	2,548,751	2,548,751	2,548,751	2,548,751	2,548,751
Minimum revenue provision adjust.	874,000	886,000	1,189,000	1,176,000	1,164,000
Financing of fixed assets	1,678,710	1,026,000	165,000	165,000	165,000
Net Revenue Expenditure Before Use Of Reserves	20,410,966	21,040,742	20,820,437	20,653,882	20,682,992
Net transfers to/from reserves	-3,613,107	-1,361,503	-576,861	-47,900	100,000
Total To Be Met From Taxpayers & Formula Grant	16,797,859	19,679,239	20,243,576	20,605,982	20,782,992
Net business rates income	-3,753,186	-3,482,966	-3,525,903	-3,596,421	-3,668,350
Council Tax Requirement	-13,044,673	-12,740,350	-13,102,601	-13,586,097	-13,917,402
Surplus/(deficit) to General Reserve	0	3,455,923	3,615,071	3,423,464	3,197,240

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Appendix 2 – Reserves Policy

INTRODUCTION

The establishment, monitoring and review of the levels of reserves and balances are an important element of the council's financial management systems and financial standing.

The Chief Finance Officer (S151 Officer) is required by law to formally report to the Council his/her opinion on the adequacy of the council's reserves. Irrespective of this, a well-managed authority is clear about the reserves it needs now and in the future to support its service aspirations, whilst at the same time delivering value for money within a climate of significant resource pressure and economic/social risk.

This policy does not cover non-distributable reserves required to support financial accounting transactions e.g. the Revaluation Reserve, Capital Adjustment Account and Pension Reserve. (Non-distributable reserves are those that cannot be used for revenue or capital purposes.)

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

Such reserves are generally referred to as earmarked reserves.

WHAT ARE RESERVES?

There is no clear definition of reserves even though reference is made to reserves in legislation. The Chartered Institute of Public Finance and Accountancy (CIPFA) states "amounts set aside for purposes falling outside the definition of provisions should be considered as reserves." Provisions are required for any liabilities of uncertain timing or amount that have been incurred.

Generally there are two types of reserves, those that are available to meet revenue or in some cases capital expenditure (Usable) and those that are not available to finance revenue or capital expenditure (Unusable). Useable reserves result from events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled. They can be spent or earmarked at the discretion of the council.

The council must manage its reserves in accordance with its strategic longer term planning process.

LEVEL OF RESERVES

As mentioned above the council's reserves can be regarded as general and earmarked reserves. In addition, the council maintains a Usable Capital Receipt reserve.

As part of its MTFS, the council also adopts some fundamental principles as to how reserves are used:

- The reserves must primarily be used to fund one off expenditure.
- Any recurring item may only be funded from reserves if plans are in place to replenish the reserve within 36 months.
- Any unplanned revenue income receipt should be put in reserves pending any future decisions as to its use.
- Reserves should be maintained at a sustainable level to ensure an adequate working balance is maintained.
- Reserves may be used as part of a planned process to balance the budget in order to avoid short term responses which may not be in the best interests of the council.

The council has prudently built up its reserves in recent years to be able to provide for its priorities when required. The level of reserves has, in recent years, reduced in line with planned activities such as investments in Oportunitas and Otterpool and their use for other investment or in lieu of borrowing. This strategy means that reserves are currently at an adequate rather than excessive level however it is recognised this use is of a one off nature to secure future income streams for the council.

The use of reserves is a critical part of the council's budget strategy and the level of reserves is kept under ongoing review. Any future calls on the reserves are considered by looking at the whole position and ensuring minimum reserve levels are adhered to. It is vital that the future needs of the authority such as through the VET reserve are continually refreshed and updated and that earmarked reserves are applied appropriately.

ASSESSING THE ADEQUACY OF RESERVES

The Chartered Institute of Public Finance and Accountancy (CIPFA) state that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances'. It does however confirm that authorities should make their own judgment on such matters, taking into account all relevant local circumstances on the advice of their Chief Finance Officer.

The Local Government Act 2003 requires the Chief Finance Officer to formally report on the adequacy of the proposed financial reserves.

To arrive at assessing the adequacy of reserves a number of issues need to be addressed:

- What are the strategic, operational and financial risks facing the authority?
- Does the authority comply with the requirements to ensure that there is an adequate system of internal control?
- Are the key financial assumptions in formulating the council's budget robust and reasonable?
- Does the council have adequate financial management and cash flow arrangements?

In addition there are a number of questions an authority can ask to demonstrate that it is managing its affairs satisfactorily, such as:

- What is the track record of the council in its budgetary and financial management?
- What is the council's record regarding Council Tax collection?
- What is the council's capacity to manage in-year budgetary pressures?
- What is the strength of the council's financial reporting?
- What are the procedures to deal with under and over spends during and at the year end?
- In the case of earmarked reserves, will there be expected calls on the reserves that prompted the setting up of the reserves in the first place?

Finally, there is a need to look at the assumptions made in setting the budget, not just for the coming year but also under the MTFS.

The budgetary assumptions cover:

- Inflation and interest rate projections.
- Estimate and timings of capital receipts.
- Treatment of planned efficiency savings.
- Financial risks involved in major funding arrangements.

The assessment of the adequacy of the reserves and the robustness of the estimates are contained within the Chief Finance Officers report to council as part of the budget setting process based upon Section 25 of the Local Government Act of 2003.

Allocation of Reserves

There are to be no withdrawals from reserves, unless of a one-off nature, or if they are part of a planned usage which will lead to the elimination of any deficit and the setting of a balanced budget. It is not normal practice to withdraw from the General Fund Reserve to balance the annual budget, unless the circumstances are exceptional and plans are in place to provide for an ongoing balanced budget.

Budget Assumptions

These are set out in detail within the Budget Strategy and a sensitivity analysis has been undertaken regarding the financial forecasts for the next five years. The council is responsible for a number of demand led budgets which are difficult to control.

The council has identified its strategic financial risks and has carried out an assessment of that risk. Based on this analysis, the following levels are considered appropriate:

Required Levels of Reserves

	Minimum Level £m
General Fund	1.5
Housing Revenue Account	2.0
Capital Receipts	0.5

The minimum level of the General Reserve balance has been arrived at after assessing the strategic financial risks faced by the council.

The table above shows that a minimum General Reserve balance of £1.5 million should be maintained until the 2024/25 financial year. This level will be monitored and should be addressed as savings proposals are developed and implemented over the term of this plan. The HRA minimum balance has been set at £2.0 million as part of the preparation of the HRA business plan.

OPPORTUNITY COST OF HOLDING RESERVES

Having set minimum levels, the opportunity cost of holding reserves needs to be considered. All balances are used to either reduce temporary borrowing or are invested subject to other cash flows. Therefore in measuring any opportunity cost of holding these reserves, consideration needs to be taken of the interest saving. The opportunity cost of holding the reserves is therefore a judgment whether the 'worth' of expenditure foregone is more than the income generated. Given the current economic climate it is a balanced judgement as to whether to invest / spend reserves or to hold these. As part of the MTFS and budget setting, an assessment of the adequacy of reserves and the associated risks will be made annually.

REPORTING FRAMEWORK

The level of reserves is continually monitored and a full review is undertaken each year.