

This Report will be made public on 5 December 2023

Report Number: **C/23/64**

To: Cabinet
Date: 13 December 2023
Status: Key Decision
Corporate Director: Lydia Morrison – Interim Director Governance and Finance
Cabinet Member: Councillor Tim Prater, Deputy Leader, and Cabinet Member for Finance

SUBJECT: Medium Term Financial Strategy 2024/25 to 2027/28

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 the various plans and strategies in financial terms over the four year period ending 31st March 2028. It covers both revenue and revenue implications for capital spend 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:

Cabinet is asked to recommend the recommendations set out below to full Council 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:

Cabinet is asked to recommend to Council:

1. To receive and note Report C/23/64.
2. To recommend that the Medium Term Financial Strategy, as appended to this report, is adopted by Full Council
3. To adopt the Reserves Policy outlined in appendix 3.

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 managing the Council's finances. 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 23 November 2022. The attached MTFS has updated the document agreed at that point based on the work completed to date through the budget setting process, and in the preparation of the 2024/25 budget. The detailed budget strategy, which sets out the detailed preparation for the 2024/25 budget, will be presented to Cabinet alongside this report. 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 new corporate plan. Every effort has been taken to incorporate the impact of the wider economic as well as other key uncontrollable factors such as inflation and the impact of Otterpool over the medium term. However, the MTFS is a high level planning document, and it is accepted that there will be a need to continue to monitor and review our assumptions on these projections and be agile.
- 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 Council's control. A previously government announced spending review (SR21) provided high level indications for the direction of the Provisional Local Government Finance Settlement, which will be announced in December.
- 1.5 Cabinet will also be aware that the Chancellor of the Exchequer, the Right Honourable Jeremy Hunt MP, delivered the 2023 Autumn Statement on 22nd November 2023. As well as the usual updates on the state of public finances and the performance of the economy, the Chancellor organised his policies into five key areas: reducing debt; cutting tax and rewarding hard work; backing British business; building domestic and sustainable energy; and delivering world-class education.
- 1.6 There were a few positives to take from the Autumn Statement with new planning reforms and the unfreezing of the local housing allowance both announced. There was also the further geographic rollout of existing policy with four new devolution deals and the extension of the Investment Zones in both time and money. This was coupled with some additional regeneration funding in the form of Levelling Up monies and £50 million for regeneration projects.

- 1.7 However, these announcements do not address the deep-set financial and operational challenges facing local government. Therefore, the Local Government Finance Settlement will send far greater reverberations across the sector.
- 1.8 The details contained in this fiscal plan are likely to impact upon Local Government and its funding settlement for 2024/25 onwards. The Provisional Local Government settlement will be reported to Cabinet alongside the detailed budget position for 2024/25 in January 2024.
- 1.9 The current strategy has been developed in the context of the current period of uncertainty, with the war in Ukraine ongoing, the effects of the current economic climate including energy price rises and cost of living crisis. Also, with inflation still running at high levels with the interest rates and the cost of borrowing pressures. 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.
- 1.10 There is a long-term pressure upon the finances of the Council as the MTFS shows. The pressures are a combination of continued downward projections of central government support for local authorities, inflationary cost pressures, capital financing costs including increased borrowing costs, and demand for services.
- 1.11 There are a number of risks to the assumptions in the MTFS and these include pay and price inflation which in turn has resulted in both a cost of living crisis and higher costs to the services that the Council provides.
- 1.12 Provision of 3% for pay awards (and 1% for increments) has been made in each of the years covered by this Medium Term Financial Strategy. If future pay awards are greater than this assumption, including acceptance of the National Employer's offer in 2023/24, then this will add a significant additional pressure to this Strategy and the requirement to identify additional income or savings in order to balance the budget in each of these years.
- 1.13 Recognising the challenge of bridging the estimated budget gaps for the period of the Strategy, whilst at the same time seeking to ensure that the Council's budget is robust, resilient, and sustainable, another savings programme through the priority based budgeting has been established.
- 1.14 **Priority Based Budgeting (a new approach)** - For the 2024/25 budget, the Council utilised a new budgeting approach known as Priority Based Budgeting (PBB). Having carried out a self-assessment of the Council current budget setting processes, the Council identified a new approach to budget setting that would ensure that the Council have a Priority Based Budgeting (PBB) approach, which allocates scarce budget resources to the areas of service that are of highest priorities and delivers the outcomes the Council want to achieve for local people under the new administration.

- 1.15** The model seeks to ensure that budgets are set to ensure service areas are resourced to deliver their priority areas, with any budget savings being made in areas that are considered lower priority. The core concepts are to –
- Prioritise services.
 - Eliminate the unnecessary spending.
 - Budget within the Council means.
 - Understand commitments, controllable cost & non-controllable, etc.
 - Be transparent about community priorities.
 - Be transparent about financial implications.
 - Responsible budget holder accountability.
 - Discretionary or Statutory service review.
- 1.16** The PBB approach allows Budget Managers, Chief Officers, Directors, and Elected Members through various budget meetings including the Star Chamber to have the opportunity to be involved in setting the priorities, strategy, and direction at the outset of the budget setting process.
- 1.17 The PBB work has led to a number of additional savings proposals for consideration by the Cabinet during the Autumn of 2023. Those approved for implementation, or consultation as required, will subsequently be built into the 2024/25 Budget and Provisional Budgets for 2025/26 - 2027/28.
- 1.18 The MTFs aims to improve the Council's financial sustainability in order that the Council can withstand economic shocks in the future and deal with the current uncertainty. Whilst the Strategy might consider one-off use of reserves to support the Council in dealing with the pressures outlined in this report, the use of such one-off funding sources such as reserves, to support ongoing budgetary pressures is not financially sustainable. As such, the Strategy provides for the continuation of base budget increase to the General Reserve to improve future financial resilience.
- 1.19 The Strategy reflects the limitations on the ability of local authorities to raise local funding. The Council is currently restricted to a 3% increase on core Council Tax, before the requirement for a referendum. Should referendum limits be increased by Government this might help in meeting the reported budget gap.
- 1.20 The current MTFs forecasts a cumulative funding gap of £4.61 million over its lifetime to 2027/28. Much of this pressure is faced year on year and therefore needs to be addressed through the base budget in the early part of each year. The Council does have reserves to help mitigate the impact of the deficits in the MTFs, but these reserves will diminish over time and might not sufficient (at this point in time) to absorb future long term budget deficit. It should also be noted that the Council has a Reserves Policy (Appendix 3) which sets out the required level of reserves. No changes are proposed to the Reserves Policy which is included as previously agreed and for completeness. Future income from initiatives such as Otterpool Park and efficiency savings will be required to help bridge the MTFs funding gap.

Financial Forecast	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Deficit / (Surplus)	638	634	1,120	2,217
Cumulative Deficit	-	1,271	2,392	4,609

- 1.21 The position set out above is in advance of the budget strategy which will be presented to Cabinet alongside this paper. That will seek to address the detailed measures to address the deficit for 2024/25 in terms of identifying savings but also any known cost pressures. In light of the increasing pressures facing the Council, all budget considerations will look at the impact in future years and the sustainability of any options.
- 1.22 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.
- 1.23 The MTFS is included within the appendices to this report and sets out the financial forecast for the Council.

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. Directors and Chief Officers to keep up to date with / communicate changes to their areas of work. MTFS is prepared in consultation with all directorates to ensure such changes are identified
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

Perceived risk	Seriousness	Likelihood	Preventative action
			are constantly reviewed and amended in light of information received. The MTFS was completely refreshed with service input from all areas during Autumn 2023. There are opportunities to review, and amend, assumptions for the 2024/25 budget up to the point of Cabinet recommendation in February 2024.
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. Should an exceptional event occur then the MTFS could be updated at any time.
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 cost of living and the war in Ukraine with associated impact on financial and energy markets on assumptions have been made. An MTFS stress testing exercise is being

Perceived risk	Seriousness	Likelihood	Preventative action
			undertaken alongside a self-assessment against the CIPFA Financial Management standards and review of CIPFA's financial resilience index.

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's Comments (NM)

There are no specific direct legal implications set out in the report. The legal duty to spend with propriety falls under s151 of the Local Government Act 1972. Under Section 151 Local Government Act, the Council must make arrangements for the proper administration of its financial affairs and the Council's Chief Finance Officer and Director of Corporate Resources have responsibility for the administration of those affairs.

3.2 Finance Officer's Comments (OO)

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. The Council is under a statutory responsibility to set a balanced budget. Under Section 28 of the Local Government Act 2003 the Council is required to periodically conduct a budget monitoring exercise of its expenditure and income against the budget calculations during the financial year. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such remedial action as it considers necessary to deal with any projected overspends. This could include action to reduce spending, income generation or other measures to bring budget pressures under control for the rest of the year. The Council must act reasonably and in accordance with its statutory duties and responsibilities when taking the necessary action to reduce the overspend.

Under Section 3 of the Local Government Act 1999, the Council, as a best value authority, must make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness. This MTFS is one of the ways in which the Council can secure best value within its budget envelope. Under Section 15 of the Act, the Secretary of State has the powers to intervene if satisfied that the Council is failing to meet its best value duty. This includes the power to issue direction that the function of the Authority be exercised by the Secretary of State, or a person nominated by him for a specified period.

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

There are no diversity and equality implications arising from this document. When the budget for 2024/25 is prepared, an Equalities Impact Assessment will be completed.

3.4 **Climate Change Implications (OF)**

The Medium Term Financial Strategy covers the key aspects of the council's future plans to address the projected financial deficit and also to place the council on a sustainable and secure financial footing. It is an overarching document and detail will be found in subsequent reports to Cabinet and Council.

Climate change implications of the various projects referenced in the Medium Term Financial Strategy (Annex A) will be assessed as part of the development and implementation phases of those projects through the appropriate decision-making processes.

3.5 **Communications and Engagement Implications (KA)**

There are no communication implications arising from this report.

4. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

Ola Owolabi, Chief Financial Services Officer
Email: ola.owolabi@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:

1. Medium Term Financial Strategy 2024/25 – 2027/28
2. MTFS workings
3. Reserves Policy
4. MTFS summary of variations
5. MTFS assumptions used (indices)