MEDIUM TERM FINANCIAL STRATEGY

2024/25 TO 2027/28

(Version produced in November 2023)

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Introduction

The Medium Term Financial Strategy (MTFS) is one of the key strategies of Folkestone & Hythe District Council and is a four year strategy that sets out in financial terms the Council's commitment to provide services which meet the needs of the people locally and that represent good value for money.

This document sets out the key challenges and approach of the Council in relation to the Council's MTFS and it 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. It links the Council's vision and priorities with its financial budgets and details how the Council's finances will be structured and managed to ensure that this fits with, and supports, the priorities of the Council and its partners.

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 completely phased out for this District as well as most other Councils.

Local and National funding – the current year

During the current financial year 2023/24, a number of new and significant pressures have arisen for both Central and Local Government, these being: -

- The ongoing war in Ukraine and its impact on the world economy and financial climate
- Maintenance of the high price of utilities such as electricity and gas
- Huge fluctuations in the price of crude oil and supply side pressures
- High inflation e.g., consumer price inflation (CPI) now at 6.3% in the U.K.
- Bank of England base rates, now at 5.25% (as of 27/10/2023) with further increases possible to combat inflation.
- Increases in the cost of borrowing due to higher interest rates.
- Volatility in the bond and currency markets affecting the financial climate.

All the events above have led to an environment of increasing financial pressure, and great uncertainty over the future financial support that is available to local government for 2024/25 and onwards.

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.

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.

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.

Key Headlines

- There was no new funding for adult or children’s social care or any general local government funding for 2024-25, beyond what was announced last year.
- Resource Departmental Expenditure Limit (DEL) budgets will increase by 1.0% in real terms over the medium term to 2028-29, which actually implies real terms cuts for ‘unprotected departments’ like the Local Government DEL.
- Local Housing Allowance rates will be raised to a level covering 30% of local market rents.
- Local Authority Housing Fund to be extended with a third round worth £450m to deliver new housing units and temporary accommodation for Afghan refugees.
- Local planning authorities to receive £32m to tackle planning backlogs.
- There are plans to allow local authorities to be able to fully recover the cost of planning fees for major planning applications if decisions are made within certain timelines.
- Additional UK-wide funding of £120m for homelessness prevention in 2024-25.
- The standard business rate multiplier will be increased by September CPI (6.7%) and the small business rate multiplier will be frozen for a fourth consecutive year.
- The 75% Retail, Hospitality and Leisure (RHL) business rates relief scheme will be extended to 2024-25.
- Local authorities will be fully compensated for the loss of income because of these two measures and will receive new burdens funding for administrative and IT costs.
- Reforms to the Local Government Pension Scheme (LGPS), including confirmation of guidance that will implement a 10% allocation ambition for investments in private equity, and establish a March 2025 deadline for the accelerated consolidation of LGPS assets into pools.

Based on initial analysis of the statement, FHDC will still need to make over £658,000 of savings in 2024-25, as part of an estimated £4.67 million funding gap over the next four years. FHDC has worked hard to protect its budgets, but there is no painless way to make savings on the scale required. Any low hanging fruit and general efficiencies are gone through the Priority Based Budgeting. Various Councils plan to use their reserves to balance budgets over the next four years. This is not sustainable.

Regarding local taxes, FHDC continues to argue that neither council tax (still reliant on property values from 1991) nor business rates (an increasingly burdensome tax for bricks and mortar business) are fit for purpose.

It is anticipated at this stage, that the Provisional Local Government Settlement will still be announced in December as usual and not delayed. This settlement announcement advises all Councils of their key Spending Funding Assessment (SFA) numbers for the next financial year. A final Local Government Settlement is published in late January to confirm final numbers.

Further details of the possible funding assumptions for this Council are detailed below in the detailed sections of this strategy report.

Medium Term Financial Plan update and rationale

Medium Term financial planning is critical in ensuring that the Council has a clear understanding of the level of available resources, the costs of delivering services and plans for new projects and services. This financial planning facilitates strategic choices around service delivery, efficiency, and service reductions. The MTFS informs the annual budget process, and the Council has a legal requirement to set a balanced budget each year.

The last Government Spending Review 2021 (SR21) was announced on 27 October 2021 alongside and set out the Government's spending priorities, resource and capital budgets and devolved administrations' block grants for the three years from 2022/23 to 2024/25. Key measures announced in the Spending Review for local government included:

- Local government in England will receive an additional £4.8bn increase in grant funding over the next 3 years (£1.6bn in each year).
- There were also smaller allocations within the core funding announcement, including £200m for the "cross-government Supporting Families programme", £37.8m for cyber security, and £34.5m to "strengthen local delivery and transparency".

Since the SR21, the Local Government Settlement policy statement for 2023/24 made a change to the referendum limits for Council tax. Council tax thresholds for "core" Council tax increased to 2.99% (and the adult social care precept by a further 2%) for the years 2023/24 and 2024/25 at least.

It is important to note that the Local Government grant increase (above) of £4.8bn was £1.6bn per year. This means that after adding £1.6bn to base budgets in year one (2022/23), the following years of 2023-24 and 2024-25 are flat cash with no further growth for inflation pressures or pay award.

Furthermore, the Fair Funding Review and business rates changes have been pushed back to at least 2025/26, if not later, as announced by the Government as part of the finance policy statement in December 2022. Latest updates suggest that the Fair Funding Review is being modelled for 2025/26 with a view to implementation in 2026/27. Therefore, the longer term funding picture continues to remain unknown and uncertain, which makes financial planning in the long term more challenging.

In response to the financial challenges experienced over the past ten years, 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 and retention of business rates have been delayed again. This work is currently being considered alongside the Fair Funding Review.

In terms of Council Tax, the current referendum limit for District Councils for the core element is 2.99% or £5, whichever is the greater. It is possible that the Autumn Statement or Local Government Settlement may vary this to give Councils an opportunity to raise Council Tax above this level. The outcome of that review at HM Treasury is still awaited.

In summary, 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 and in-line with latest policy from Central Government. Within the document are some key issues which will need to be tackled due to the financial pressures outlined in the introductory sections of this strategy report. The Council's annual budget setting and strategy 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 is a coastal district in south eastern England and home to a diverse collection of towns, villages, and environments. It covers an area of 140 square miles and has a population of over 100,000 people with approximately 51,000 dwellings in the district. The majority of the residents live in urban areas (67%) with the remaining 37% to be found living in rural areas. The Council has responsibility for a wide range of services including waste collection, planning, environmental enforcement, housing and homelessness, parking, and grounds maintenance. In 2023/24 the Council planned to spend approximately £19.8 million per annum net revenue (after income) on expenditure for services.

Continuing challenges for the Council to consider when establishing its priorities and financial strategy include, but are not limited to: considerable deprivation relative to the national average but with significant inequality within the District; rural areas have poorer access to services and facilities; the district suffers from high levels of disability/long term illness, reflecting, in part, the relatively high proportion of older people living in the District and bringing associated demands on local services; an increasing demand for housing is outstripping supply and there are rising house costs particularly in the private rental market as well as high demand for affordable housing and increasing levels of homelessness.

To add to this list in 2023/24, are increased mortgage interest rates for homeowners, unprecedented increases in the cost of living due to increases in energy costs, pay rises not linked to CPI rates and the growing use of food banks and potential homelessness.

The Council’s Aspirations

Following a period of public consultation, the Council has outlined its vision and strategic objectives in the new Corporate Plan 2021/2030 – Creating Tomorrow Together:

The plan is focused on four service ambitions, positive community leadership, a thriving environment, a vibrant economy and quality homes and infrastructure and by 2030 will have achieved the following:

Creating Tomorrow Together

- **Positive community leadership** – local leadership in community services will be recognised for the vital contribution in creating a sense of place, health, and wellbeing. This will be a shared ambition with partners across our communities. Local leadership will address many of the inequalities that exist between our communities, and we will have improved access to services in our most deprived neighbourhoods. A strong and distinctive sense of place will prevail.
- **A thriving environment** - we will be recognised as an outstanding place and known as a green exemplar Council. Across the district, we will ensure excellent accessible open spaces for all. We will have invested in green infrastructure to enhance our superb natural environment and the Council itself will generate net zero carbon emissions.
- **A vibrant economy** - Folkestone & Hythe will have a thriving, distinctive and dynamic economy. It will have capitalised on major investment, will have responded positively to the structural challenges facing high streets, and will enjoy a diverse range of economic opportunities in its towns and rural areas. Building on its excellent connectivity it will attract more, higher-value employment, driving aspiration and demand for skills.
- **Quality homes and infrastructure** - Residents in Folkestone & Hythe will have better access to a wider choice of homes. New development will embrace high standards of sustainability and the district will be delivering planned, high quality housing with the necessary infrastructure to meet identified need, anchored by an ambitious new Garden Town at Otterpool Park.

At the heart of everything the Council does, it wants to build sustainable, resilient, and prosperous communities and has set out six guiding principles to run through all activities, they are:

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

The Council has also developed a detailed action plan which provides focus for the first three years and outlines the outcomes anticipated to be delivered over that period relating to the Corporate Plan service ambitions.

The Council will continue to deliver a range of major projects as outlined in the plans and initiatives focusing on putting the community and our customers first, whilst ensuring financial stability, and continuing the journey of service improvement alongside realising development projects at sites including Mountfield Industrial Estate, Biggins Wood and ultimately, Otterpool Park – a garden town for the future and the creation of new homes in-line with the Council's Local Plan.

Strategic Financial Objectives

The MTFS covers all areas of 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 safeguard public money and ensure financial resilience.
- To maintain an adequate and prudent level of reserves.
- To estimate the expenditure requirements over the life of the Strategy to ensure value for money is achieved and resources are utilised where outcomes are measurable and have real impact.
- To continue to improve value for money – managing people and money more efficiently and effectively to continue to improve value for money, standardise, streamline, and share best practice, getting better value from commissioning and procurement, whilst seeking to minimise the impact of budget savings on priority services.
- To bring together the key issues affecting the Revenue Budget, the Housing Revenue Account, Treasury Management, and the Capital Programme.

- To review emerging issues and other influences affecting the Council's financial strategy, the forecast impact of these changes on both the demand for services and likely funding due to:
    - Global, national, and local economic factors
    - Demographic changes
    - Technological advances
    - Climate change
    - New legislation
    - Policy initiatives by both the Government and the Council.

The Council faces a number of difficult financial decisions if it is to achieve its corporate priorities in the current economic and financial climate which remains challenging. Effective prioritisation and management of resources therefore continues to remain significant for the coming years. It is prudent to assume a limited level of support from Central Government in the next years and if the U.K. enters a challenging period despite its ambition to grow the economy and boost investment within the sector.

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

- The Corporate Plan 2021 – 2030 'Creating Tomorrow Together'
- Council Constitution, Part 10 – Financial Procedure Rules, Contract Standing Orders and Auditing the Council
- Economic Development Strategy
- The Medium Term Financial Strategy
- The HRA Business Plan
- Housing Delivery Action Plan
- The Council's Capital Strategy and Investment Strategy (Treasury Management)
- CIPFA Financial Management Code self-assessment and action plan
- 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
- Otterpool Park LLP Business Plan
- The Folkestone Place Plan
- A sustainable and prudent reserves policy to underpin the financial resilience of the Council.

An MTFS stress testing exercise is now executed annually alongside a self-assessment against the CIPFA Financial Management standards and review of CIPFA's financial resilience index. The MTFS stress test ensures that the Council can constantly monitor a series of best and worst case scenarios to ensure that its financial plans are robust and based on varied assumptions.

The range of strategy 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 and essentially provides a golden thread that runs through all the Council's plans to ensure sound financial planning, management, and stewardship.

Budget Process

The MTFS represents an overarching view of the finances of the organisation. It is the document that takes a medium term view of the financial environment the Council is operating in and looks to anticipate future demands and pressures so the Council can make 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 new financial year. It is here the detailed decisions on expenditure are taken including determining key growth and savings and fees and charges for the year ahead. MTFS assumptions are also refined for further details where these are available. For 2024/25, the Budget Strategy will also include the implications and impact for the Council that are contained in the Medium Term Fiscal Plan that is due to be announced by the Chancellor of the Exchequer on 22 November 2023 (where feasible given the time restraints).
- The detailed revenue estimates. These represent 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. For 2024/25 this is highly critical due to the increased costs of capital financing because of higher interest rates and long term borrowing rates.
- 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. For 2024/25 the impact of CPI inflation on costs, borrowing and rent increases or a cap on increases will be a key consideration.
- 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 the Council's investments and plans to achieve future returns over the longer term. Again, the strategy for 2024/25 will be crucial to the impact of interest rate increases on both investments and borrowing costs for the Council.
- 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 that will be presented to Full Council in February 2024 and the agreement of the Budget for the new financial year.

Priority Based Budgeting

For the 2024/25 budget, the Council utilised a 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.

The model seeks to ensure that budgets are set and that service areas are resourced to deliver on 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.
- Question spending
- Budget within the Council means.
- Understand commitments, controllable cost/non-controllable, contract, etc.
- Be transparent about community priorities.
- Be transparent about financial implications.
- Responsible budget holder accountability.
- Discretionary or Statutory service review.

The PBB approach allows the Budget Manager, Chief Officers, Directors, and Elected Members through various budget meetings including the Star Chamber to have the opportunity to provide an input and be involved in setting the priorities, strategy, and direction at the outset of the budget setting process.

The draft budget package prepared by officers consider savings from both corporate reviews as well as departmental proposals, but all should reflect the agreed priorities and focus on the use of resources. This also ensure that members have an opportunity to review the draft budget package and make changes before it is formally submitted to Council. Members would still make the final decisions on budgets as is the case now but with a focus on delivery of priorities and outcomes rather than the detail of every individual proposal.

Financial Pressures and Projections

The last eight 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 Revenue Support Grant (RSG) and for Folkestone and Hythe this 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 for its core spending base from local taxation (Council Tax and Business Rates) to provide local services. The Government's intention was to introduce a new funding regime for Local Government based on a Fair Funding formula coupled with a major review of the Business Rates system to help Council's keep more of their business rates growth.

Since April 2020, there have been constant delays and setbacks to the introduction of the Fair Funding Review. The review was anticipated to make major changes in the structure of local government finance including local business rates retention, a revised allocation of resources and new arrangements to replace the New Homes Bonus to reward those Councils which support home building. A spending (SR21) was finally announced on 27 October 2021 alongside an Autumn Budget, and this set out the government's spending priorities and funding plans for 2022/23 through to 2024/25. However, whilst this provided a steer of the financial impact for the Council over this period, the Council like others is still dependent upon a local government settlement that is announced annually in December. This is known as the Provisional Local Government Finance Settlement.

The degree of uncertainty to the projections made within the MTFS remains on-going and funding announcements will have to be factored into the MTFS as they are announced. The Chancellor's Autumn Statement was delivered on the 22 November 2023 and the statement is still being analysed to determine how the Council projected deficit of £4.6 million will be addressed.

For 2024/25, a range of different economic factors have had to be considered in the MTFS, in light of the higher CPI inflation and increases in utility costs and the cost of living crisis. There has been turbulence in the financial markets and the costs of borrowing for Local Government has increased markedly due to the above factors. Many of these factors have not been previously expected by councils and so most Medium Term Financial plans have had to be re-cast to allow for these changes, some of which are still considered variable due to the uncertainty in the economic and financial environment that U.K. faces.

Key Financial Assumptions

The preparation of a four-year MTFS is based on a number of working assumptions. These inevitably become more difficult to predict as the period covered lengthens. Potential medium-term implications are considered as part of the risk assessment section of the report. The key financial assumptions, based on known and expected changes, in the revised MTFP 2024/25 to 2027/28 are detailed below and are summarised as follows:

- Business rates income – pending the result of the 2023 revaluation, the overall Business Rates income is unchanged from the previous MTFS.
- Securing a level of external funding through capital schemes.
- Council Tax Base (dwellings) – an increase of 1.00% in 2024/25 and growth of 1.0% p.a. thereafter.
- Council Tax model increases of the higher of 2.99% at Band D equivalent for 2024/25 or £5.00 (whichever is the higher) per annum.
- An assumed pay award of 3.0% p.a. for 2024/25, 3.0% for subsequent years and 1% for salary increments and maintaining the adoption of the Real Living Wage.
- Selective prices inflation at an average of 5.5% to reflect contractual commitments and price risk areas.
- Interest rates receivable budget in 2024/25 of 5.5% in line with advice provided by our treasury advisers.

As many economic commentators have reported, Councils currently faces a future of "known–unknowns" and this makes for a period of great uncertainty in terms of effective financial planning. As such, the forecasts set out below for the MTFS recognise 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 as detailed in the introductory sections of this strategy report.

The current MTFS forecast, set out at Table 1 below, and identifies the ongoing pressure the Council is facing, and it is clear to see that the Council faces marked increases in cost and price pressures in years 2024/25 onwards. It should be noted that at this stage, the MTFS excludes fees and charge increases for 2024/25 as these are to be considered as part of the Council's Budget Strategy which will be submitted alongside this MTFS to Cabinet.

Medium Term Financial Forecast

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**

A more detailed presentation for the MTFS is attached at Appendix 2. Some of the key underlying assumptions and drivers are set out in the paragraphs below:

Council Tax

Council Tax is one of the key core 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 2.99% by central government, or £5 for a district Council (whichever is the higher). It is possible that changes to these limits may be introduced by the Government as highlighted in the introductory sections of this strategy report.

The MTFS as presented here, assumes an ongoing Council Tax increase of 2.99% per annum however this will be subject to a member decision on an annual basis dependent on circumstances at the time. A 1% increase in Council tax, based on the revised Council tax base and other adjustments, will raise approximately £110k for the

Council in 2024/25, which is approximately 0.7% of net revenue spend (excluding Town and Parish precept costs).

Use of Reserves

The Council has a level of reserves which includes a General Fund Reserves Balance and a level of Earmarked Reserves. These reserves provide the Council with some protection against the difficult economic times and short term gaps in funding. 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 for other important needs.

The Council had to use a level of reserves to balance its 2023/24 Budget, and this may also have to be considered for the 2024/25 Budget due to the likely cost pressures outlined in the earlier sections of this strategy report.

Appendix 3 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 (a company wholly owned by Folkestone & Hythe District Council to provide more homes for local people and to promote new employment and housing opportunities across Folkestone and Hythe) contributions towards Mountfield Road Industrial Estate and the acquisition of Folca. Table 2 below shows the levels of reserves currently available at Quarter 2 in 2023/24.

Table 2 – Reserves available at Q2 – 2023/24 as at October 2023

Reserves	**Balance at**	**2022/23 Changes**	**Balance at**	**2023/24 Movements**		**Projected Balance at**
	01-Apr-22		**31-Mar-23**	**In**	**Out**	**31-Mar-24**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Earmarked Reserves						
Business Rates	(2,662)	1,005	(1,657)	-	-	**(1,657)**
Leisure Reserve	(447)	(50)	(497)	(50)	-	**(547)**
Carry Forwards	(1,356)	(942)	(2,298)	-	-	**(2,298)**
Vehicles, Equipment and Technology	(287)	10	(277)	(147)	95	**(329)**
Maintenance of Graves	(12)	-	(12)	-	-	**(12)**
New Homes Bonus	(1,997)	1,588	(409)	-	-	**(409)**
Corporate Initiatives	(960)	273	(687)	-	688	**1**
IFRS Reserve	(5)	-	(5)	-	-	**(5)**
Economic Development	(1,985)	62	(1,923)	-	536	**(1,387)**

Reserves	Balance at	2022/23 Changes	Balance at	2023/24 Movements		Projected Balance at
	01-Apr-22		31-Mar-23	In	Out	31-Mar-24
	£000s	£000s	£000s	£000s	£000s	£000s
Community Led Housing	(310)	57	(253)	-	55	**(198)**
Lydd Airport	(9)	-	(9)	-	-	**(9)**
Homelessness Prevention	(958)	33	(925)	-	-	**(925)**
High Street Regeneration	(1,575)	342	(1,233)	-	-	**(1,233)**
Climate Change	(4,880)	224	(4,656)	-	701	**(3,955)**
Transformation Fund	-	-	-	-1500	-	**(1,500)**
COVID	(3,526)	3,496	(30)	-	-	**(30)**
Total Earmarked Reserves	**(20,969)**	**6,098**	**(14,871)**	**(1,697)**	**2,075**	**(14,493)**
Total General Fund Res.	**(6,008)**	(1,030)	**(7,038)**			**(7,038)**

The Council holds a range of Reserves for a variety of reasons. The actual number and value fluctuate over the year as monies are spent on projects, new money is received from funders (most often from Government but not exclusively) and new reserves are created to respond to changing financial pressures. The Reserves are held as funding for specific projects, against known or potential expenditure or to meet future costs or allow for service developments and to allow value for money improvements.

A review of the Council reserve will be taking place in 2024/25 to consider the forecast use of reserves and to ensure that the Council retains a prudent level of reserves over the medium term. The review would cover a number of stages:

- To understand the spending plans regarding the current reserves over the next few years.
- Consider what level of general balances that FHDC should hold, based on a risk assessment.
- Identifying those reserves that are ringfenced as they have specific grant objectives to deliver.
- Considering what strategic earmarked reserves FHDC should hold.

Cost of Living

The Council's economic and fiscal position is clearly impacted by the wider national and international economic context. The United Kingdom's cost of living crisis started in 2021, when prices for many essential goods increased faster than household incomes, resulting in a fall in real income. Global and local factors have contributed to this. Global factors include (but are not limited to): cost of living crisis, the energy crisis and rising energy process, a supply chain crisis and Russia's invasion of Ukraine in 2022. Local factors, some unique to the UK, include high inflation, labour shortages (in part caused by the exit from the EU), and rises in Council Tax. Household incomes have not kept pace with rising prices.

New Homes Bonus Funding (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.

In recent years, the government set out its intention to end New Homes Bonus, however with the delays to the Fair Funding Review its future for 2024/25 and beyond remains unclear. The intention is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail of this continues to be unknown at this time and the MTFS for 2024/25 assumes no further awards in this respect.

Currently, the Council has a residual reserve of unused New Homes Bonus of £409k (see Table 2 above) and this is available for use if approved as part of the Budget Strategy. It should be noted that the Council utilised £2.18m of its earmarked reserve in 2023/24 to balance its Budget. This reserve is likely to continue to be depleted in 2024/25 unless the Government provide a compensating alternative.

Homelessness, Asylum, & Refugees

The 2023 Autumn Statement on 22nd November 2023, include the following: -

- Local authorities will receive £120m to invest in homelessness prevention. DLUHC subsequently confirmed this is new money for 2024-25, but the share for England is yet to be confirmed.
- A third round of funding of £450m from the Local Authority Housing Fund to deliver 2,400 new housing units and temporary accommodation for Afghan refugees.
- 'Thank you' payments for 'Homes for Ukraine' sponsors will be extended another year (and continue at £500).

Business Rates (Non Domestic Rates)

The Governments long standing Business Rate 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 alongside the Fair Funding Review.

Regarding 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 as proposals are developed with likely implementation from 2025/26. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

The 2023 Autumn Statement on 22nd November 2023 made the following reference to business rates -

- The small business rate multiplier will be frozen for another year at 49.9p whilst the standard rate multiplier will be uprated with September CPI (6.7%) to 54.6p.
- The 75% Retail, Hospitality and Leisure (RHL) business rates relief scheme will be extended to 2024-25 with a £110,000 cash cap per business.
- For both the rate freeze and RHL relief measures, local authorities will be compensated for the loss of income and for new burdens related to administrative and IT costs.

Office for Budget Responsibility forecasts

Previous analysis of data provided by the Office for Budget Responsibility (OBR) showed that the economy was being adversely affected by the cost-of-living crisis and the impacts of the war in the Ukraine. A summary of the economic data and forecasts published as part of today's Autumn Statement are as follow -

GDP Growth - Table A1 shows the GDP growth forecasts against those published in previous announcements. The table shows that the forecast for UK wide economic growth for 2023/24 is now 0.4% higher than in the Spring Budget 2023. However, it is then shown lower for the subsequent two years by 1.2% in 2024/25 and 0.9% in 2025/26, before being broadly the same in the final two years of the forecast.

Table A1 GDP Growth Forecasts

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Autumn Statement 2023	1.7%	0.6%	0.9%	1.5%	2.0%	1.9%
Spring Budget 2023	1.4%	0.2%	2.1%	2.4%	2.1%	1.8%
Autumn Statement 2022	1.3%	-1.2%	2.0%	2.6%	2.6%	2.1%
Spring Statement 2022	2.2%	1.9%	2.1%	1.7%	1.7%	

Inflation – CPI - Table A2 shows the CPI inflation forecasts against those published in previous announcements. The most significant message the table shows is that after reaching a peak at 10% in 2022/23 there will then be a decline in the level of CPI in 2023/24 to 6.1% followed by further reductions to 3.0% in 2024/25 and an average of 1.6% per annum in the following three years.

These latest forecasts for CPI inflation are however higher in every year of the forecast from 2023/24 onwards by on average 1.4% per annum than at Spring Budget 2023.

Table A2 CPI Inflation Forecasts

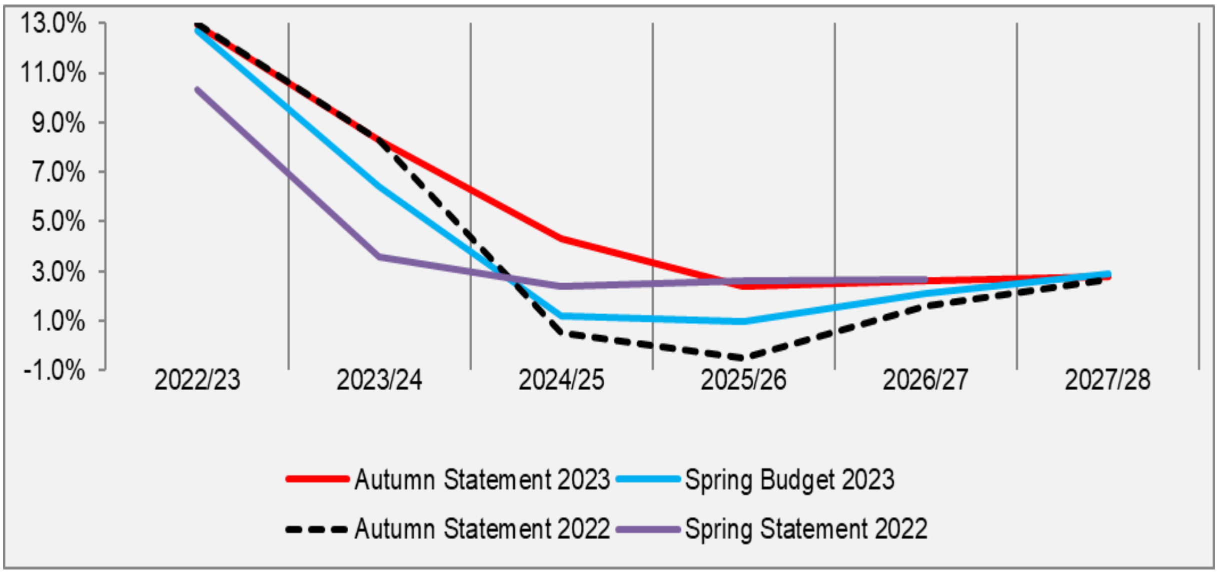
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Autumn Statement 2023	10.0%	6.1%	3.0%	1.6%	1.5%	1.8%
Spring Budget 2023	9.9%	4.1%	0.6%	0.0%	0.8%	1.7%
Autumn Statement 2022	10.1%	5.5%	0.0%	-1.0%	0.8%	1.8%
Spring Statement 2022	8.0%	2.4%	1.7%	2.0%	2.0%	

Inflation – RPI - Table A3 shows the RPI inflation forecasts against those published in previous announcements. The most significant message the table shows is that after reaching a peak of 12.9% in 2022/23, the forecast is for reductions to RPI in 2023/24 and beyond. However, RPI is shown higher at the Autumn Statement 2023 compared to the Spring Budget for the next four years by on average 1.7% per annum up to 2026/27.

Table A3 RPI Inflation Forecasts

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Autumn Statement 2023	12.9%	8.3%	4.3%	2.4%	2.6%	2.8%
Spring Budget 2023	12.7%	6.4%	1.2%	1.0%	2.1%	2.9%
Autumn Statement 2022	13.0%	8.3%	0.5%	-0.5%	1.6%	2.7%
Spring Statement 2022	10.3%	3.6%	2.4%	2.6%	2.7%	

Figure A3 RPI Inflation Forecasts



Climate Emergency

The Council formally recognised, in 2019, that there is a climate & ecological emergency and has agreed to commit to several 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 for our own estate has been adopted and a district wide strategy is anticipated to be created during 2022. The Council has allocated funds to an earmarked reserve to manage the financial implications of the actions required and facilitate progress on the agenda. The Council has a Climate Change reserve, and this reserve currently holds £3.9 million.

Future Strategies

The current negative forecast means that there will need to be significant work undertaken to address the forecast deficit over the term of the MTFS. Set out below are some of the key areas to be developed through the 2024/25 budget strategy and beyond to address those financial challenges.

Re-focusing of Priorities: The Council needs to prioritise and rephase the work it is undertaking to recognise the financial challenges it faces. We will continue to undertake and re-focusing work throughout the term of the medium term financial strategy but with a focus upon the early years of the plan, with the intention of delivery base budget recurring savings. This work will include a review of services performed, identification of opportunities to improve the efficiency, improve service delivery and resilience through improved ways of working.

Strategic Investments: The Council is looking to take advantage of its position with a number of developments to produce financial returns whilst at the same time supporting the delivery of housing and regenerating parts of the district.

Bigginswood was acquired with the objectives of boosting the local economy, increase job opportunities and providing more homes (including affordable homes) and is anticipated to deliver 77 residential units, 660m2 of commercial office units and 5,142m2 of light industrial units. The Council has undertaken remediation and infrastructure works to the site to enable it to be sold for the planned redevelopment; it is currently in the process of being sold.

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 Limited Liability Partnership (LLP) to manage the delivery of the project. The LLP’s first Strategic Business Plan was approved by the Council in January 2021 and the first review of this was approved by Cabinet in January 2022.

The draw-down of funds from the Council will be linked to key milestones contained in separate detailed funding agreements which will be the subject of expert advice to be commissioned by the Director of Corporate Services (the S151 Officer of the Council) to regulate the milestones for draw down, the terms for repayment, security, and all other provisions which it would be prudent to include. The MTFS incorporates income from Otterpool Park, which is represented as interest on the loans the Council will make to the LLP to facilitate infrastructure and land acquisition. As outlined within the risks, this is a volatile area with many dependencies affecting the financial position, the sums do have an impact upon the MTFS itself, so will be monitored closely.

The Council's Cabinet on Wednesday, 18th October 2023 considered a paper on Otterpool Park LLP. The report presents an update on Otterpool Park and details outcomes of the governance, finance, and management reviews to ensure the successful continuation of this important significant project.

Recommendations cover the strategic direction, funding, and future delivery of the project. The report, which also includes details on delivery and financial risks for the Council is available through the link below……….
https://folkestone-hythe.moderngov.co.uk/mgCalendarMonthView.aspx?M=11&CID=0&OT=&C=-1&MR=0&DL=0&D=1&ACT=Earlier&DD=2023

The Cabinet resolved that the Council explores third-party investment (public and/or private sector) on a joint venture basis, reporting the outcome to Cabinet for further consideration and decision. The broad principles on which this should be based are proposed as:

- A Joint Venture (JV) between the Council and third party on a strategic, site-wide basis.
- The JV partner to demonstrate a track record of facilitating development at scale, and a commitment to delivering the vision for Otterpool Park.
- The JV partner to share the role, risk and responsibility as Master Developer for the whole site.
- The Council retaining a significant stake - preferably 51% control.
- The JV partner makes a financial contribution to costs already incurred by the Council.
- The JV agreement to release an early capital repayment to the Council.
- Future profit / returns to be on a shared 'risk and reward' basis; and
- Delivery and financial risk to the Council mitigated to an acceptable level of tolerance.

Folkestone Town Centre Levelling Up Funding Application

The Council was successful re the Levelling Up Funding (LUF) bid of £19.8m from the Government to support its plans for the regeneration of Folkestone town centre. The bid builds upon the Council's Place Plan for the centre of Folkestone and seeks funds for three key strands of work which aim to improve the appearance and use of the town centre including key links to it. A provision has been made in the existing approved Medium Term Capital Programme for this scheme.

A **financial review** of previous years' outturn 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 reserve's 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. It is highly likely that the Council's reserve balances will be further depleted if the Government's financial support to Local Government for 2024/25 is below inflationary levels.

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 has utilised 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 ring-fenced account, the Housing Revenue Account (HRA) which supports local authority housing throughout the district. The HRA is 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 is being brought to Cabinet alongside this MTFS.

The Chancellor of the Exchequer, the Right Honourable Jeremy Hunt MP, delivered the 2023 Autumn Statement on 22nd November 2023, which include the following-

- From April 2024, the government will raise Local Housing Allowance (LHA) rates to the 30th percentile of local market rates. This is intended to relieve housing cost pressures for those on low incomes and living in the private rented sector.
- Housing supply measures were announced for specific local areas, including London, which, subject to business case approval, is to receive £23m in bus network funding to support housing in the Docklands 2.0 scheme.
- Additional planning funds were also announced, including £5m for DLUHC's Planning Skills Delivery Fund for local planning authorities to improve capacity, and £110m for a Local Nutrient Mitigation Fund to deliver schemes to offset nutrient pollution.
- There are plans to guarantee accelerated delivery decisions for major developments in exchange for a fee paid to local authorities. If accelerated timelines are not met, developers will receive a refund of these fees.

- There will be a new consultation early in 2024 on a new permitted development right to convert one house into two flats without changing the façade.

Medium Term Capital Programme

The Medium Term Capital Programme (MTCP) 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. A full update to the MTCP will be made to Cabinet in January 2024 before being submitted to full Council for approval in February 2024 as part of the annual budget setting cycle.

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 therefore not be seen as a static document but rather one that is constantly evolving as the environment around it changes.

In terms of financial planning for 2024/25, the projection in the MTFS is likely to see many changes before the budget reaches Cabinet and Full Council in February 2024 for decision and approval.

It is a requirement of the CIPFA Financial Management Code that the Council considers different scenario's when developing its MTFS, and while it is accepted that the MTFS cannot be based on full knowledge of the future, there will be "events" which cannot be predicted or the impact of which cannot be quantified.

It is important to consider the Council's ability to withstand significant external 'shocks' and how it could potentially manage these. This testing is about the ability to cope should the "what if?" happen and not the likelihood of it happening which is dealt with through the risk management strategy and the review of the robustness of estimates and reserves.

Some of the key risks and sensitivities which are included in the Council's corporate risk register and need to be monitored are mentioned below.

- **Funding.** As previously explained, the future funding arrangements to be established by government pose a potential risk to the council. It is not expected that the new arrangements will come into place until 2025/26, a further delay to the previously extended delay, although final confirmation is awaited of this from the Government. Changes to the funding formula for Local Government have been delayed for several years, with the earliest opportunity for implementation being 2025/26.

  The outcome from the review could increase or reduce funding compared to those values included in the medium-term financial strategy. At this stage no intelligence has been received from supporting professional bodies that would support different assumptions to those being used in the forecast.

  The annual budget statement from the Chancellor of the Exchequer delivered on 22nd November 2023, could influence the medium-term financial strategy funding position. These are usually reflected within the Provisional Settlement that will be published prior to Christmas. This presents a level of risk, as additional grants could be awarded, but offsetting could be higher than anticipated costs, or reduced levels of existing grants that differ to the levels assumed within our current forecast.

  The Autumn Statement updated the overall envelope for public spending to 2028-29. Total departmental spending will grow in real terms at 2.6% per year on average over this period. While the planned departmental resource spending will continue to grow at 1% per year on average in real terms, excluding the funding provided to local authorities in 2024-25 as part of the one-year RHL business rates relief scheme.

- **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. The economy has recovered well following COVID-19 restrictions and the UK's labour market has proved more resilient than expected, although there are new national issues impacting on the picture due to the war in Ukraine and the cost of living crisis and rising interest rates affecting borrowing costs.

Funding settlements in the next spending review are likely to be very tight indeed. The Office for Budget Responsibility (OBR) forecasts increases in Departmental Expenditure Limits (DEL) of 3.9% and 3.7% in 2025-26 and 2026-27 respectively. These uplifts are likely to be reduced and many services (mostly the NHS and Defence) are likely to take the lion's share of any increases.

For local government, there is no planned additional increase in grant funding. Even if the previous year's allocations are seen as generous, this is clearly insufficient to meet the cost of inflation and cost of living crisis over the 3 years of the spending review. Local Government expects DLUHC to make a bid to the Treasury for additional funding. Any additional funding is not likely to be announced until December. The chances of a material increase in funding for local government (outside social care) are considered to be slim.

- The Chancellor set out the Autumn Statement for 2023 with a lookback to three of the Prime Minister's five priorities which were explicitly economic: halving inflation, growing the economy, and reducing debt—his assessment is all three of these promises have been met.
- In halving inflation, CPI fell from its 11% peak in October 2022 to 4.6% in October 2023. This is predicted to reach the government's target of 2% CPI by the second quarter 2025.
- On growing the economy, the Office for Budget Responsibility assumed the UK economy would be 1.1% smaller by summer 2023 than its pre-pandemic level; however, Office for National Statistics figures showed the economy was actually 1.8% larger.
- On reducing debt, the government is predicted to hit its self-imposed fiscal targets across the forecast period, namely for public sector net debt to have fallen in the final year of the forecast (2028-29) and for public sector net borrowing to not exceed 3% of GDP by 2028-29.

- **Levelling up.** The government is seeking to level up across the whole of the United Kingdom to ensure that no community is left behind. Three new investment programmes have been launched, UK Community Renewal fund, Levelling Up fund and Community Ownership fund. The Council has submitted and was successful with its application for funding to support its key priorities and particularly the achievement of the objectives in the Folkestone Place Plan.

- **Otterpool Park.** Given the scale of the Garden Town project, it has a significant bearing on the Council's MTFS. There are several factors which present risk and sensitivity to the plan. The Otterpool Park LLP is fully funded by the Council. It is anticipated that the Council will be the lender of the LLP and will need to fund the initial infrastructure (through debt and equity in the LLP). Factors which have a financial impact on this plan in this regard include interest rates available to the Council, the timescale for the delivery of the infrastructure, the sequencing of that work, and indeed when the LLP will be in a position to sell serviced plots to housebuilders, and market rates of both constructions and plot prices.

The Council's Cabinet met on Wednesday, 18th October 2023, to consider a paper on Otterpool Park LLP – Strategic direction, funding, and delivery. The report covers the review outcome and key issues that the Council must consider concerning the strategic direction, funding, and delivery of Otterpool Park. The Cabinet resolved to explore the potential of a strategic joint venture partner leading to third party funding, skills, and expertise to support continued delivery of Otterpool Park based on broad agreed principles.

- **Local Government Finance Settlement.** Whilst the SR21 Spending Review (CSR) has provided some clarity we await the detail that the finance settlement for 2024/25 and the announcements in the Medium Term Fiscal Plan due to be announced by the Government on 22 November 2023. Understanding which grants the Council may receive, particularly the future of NHB and Lower Tier will have a bearing on this financial plan.

- **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 Fair Funding Review of local government finance which is now anticipated to take place future year.
- **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. The 2023/24 budget prudently allowed for reductions in income for some facilities, whilst car parking income is returning to normality that is not yet the position with leisure facilities income.

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.

Appendices

2. MTFS workings
3. Reserves Policy
4. MTFS summary of variations
5. MTFS assumptions used (indices)