Appendix 10

SUBJECT: BUDGET STRATEGY 2024/25

1. INTRODUCTION

1.1 The Cabinet are required to publish initial budget proposals and a timetable, as well as provide details on the arrangements for consultation ahead of the budget framework itself being considered and finalised. The Council has a statutory requirement to set a balanced budget and Council Tax annually under the Local Government Finance Act 1992 and Council Tax (Administration and Enforcement) Regulations 1992.

1.2 This report covers those requirements, setting out the initial proposals and a timetable that will be used to inform the setting of the budget for 2024/25. The Budget Strategy is consistent with the direction and objectives of the updated MTFS which will be approved by Cabinet at its meeting on 13 December 2023. This report also outlines the current economic and financial difficulties facing the Council which have to be considered in setting its Budget for 2024/25.

1.3 The MTFS and Budget Strategy are aligned with the Council's strategic financial objectives, which are as follows:

- 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.

2. CONTEXT FOR THE BUDGET STRATEGY 2024/25

2.1 The Council's financial recovery and 2023 calendar year has been strong with income and collection rates recovering at a steady rate and this has continued into the current financial year 2023/24. The grants received from Central Government to provide essential support to businesses have also been fully utilised and accounted for and no further grant funding is expected.

2.2 For the Budget Strategy for financial year 2024/25, a range of entirely different economic and financial factors have had to be considered for the MTFS. This is in light of the ongoing war in Ukraine, the rise in Consumer Price Inflation (CPI), the increases in utility costs, the potential impacts of the current turmoil in the Middle-East and the resulting cost of living crisis that residents of this District now face.

2.3 Many of the factors outlined above had not previously been expected by Councils and so Medium-Term Financial plans have had to be re-cast to allow for these changes; many of these factors are still variable due to the uncertainty of the economic and financial environment. District Councils find themselves in a position where they have to remain flexible and adaptable to constant changes with limited new financial resources likely on the horizon.

2.4 As many leading economic commentators have stated, Councils face a future of "known–unknowns" and this makes for a period of great uncertainty in terms of cohesive financial planning. As such, this Budget Strategy (and the MTFS) are based on a continuation of service levels with reasoned assumptions in relation to pay and price inflation, borrowing costs, technical factors, plus income pressures known at this time.

2.5 The financial forecasts used in this Budget Strategy report are based on a mid-range scenario (as part of extensive MTFS stress-testing exercises by

Finance Officers) and will be updated in line with Government announcements as and when, latest information comes to light.

2.6 The Council is expected to receive its Provisional Local Government Settlement in December 2023, which may change some of the funding numbers (either positively or negatively) as a result of the settlement.

2.7 The position is thus fluid and the Council's Section 151 Officer, and the Finance Team will keep Members fully appraised of these budget changes as and when they arise. The timetable for the budget reporting process through to Full Council in February 2024, and final budget setting, is shown at Appendix 4 of this report. It is anticipated that this timetable will remain on track despite the fluidity of the Government decisions.

2.8 The forthcoming financial year and the Council's medium term financial position remains highly pressured and is likely to require challenging decisions to be taken by Members and Corporate Leadership Team (CLT) to achieve a balanced budget position for both the Council's General Fund and Housing Revenue Account Budget.

3. CURRENT FINANCIAL POSITION - UPDATE

2.1 This section of the report provides a summary update of how the Council is spending against budget in the current financial year (2023/24) and highlights the final outturn position for the last full financial year of 2022/23. It should be noted that any General Fund revenue underspends that can be generated in financial year 2023/24 could be transferred to reserves to assist with the budget pressures forecast for the 2024/25 financial year. Section 6 of this report below, highlights the current budget gap for 2024/25.

2022/23 General Fund Budget Outturn (last full financial year)

2.2 Whilst the Council's Statement of Accounts for 2022/23 final audit is yet to commence, the final General Fund position is unlikely to change and delivered an underspend of £1.03m for the financial year. A significant element of this underspend related to the receipt of additional grant and/or income received in the final quarter of the year. Typically, some elements of grants / income always arrive in the latter part of the financial year and whilst this funding is welcomed, it can make budget monitoring difficult to predict between Q3 and Q4.

2.3 Furthermore, the final position for actual income and expenditure is often affected by seasonal variations or different uptake levels which are only quantified once the final quarter period is closed. Finally, the year-end position always has to be adjusted for any accruals, prepayments, receipts in advance and transfer payments (such as council tax, housing benefit and rent allowances) and naturally these can impact upon the final position.

2.4 Many of the smaller underspends have also arisen due to planned management action to reduce spending in the year. As previously reported to Cabinet, the Chief Executive and the Corporate Leadership Team Directors asked all Budget Managers in December 2022 to rationalise spending where-ever possible for the remainder of the 2022/23 financial year and be prudent in the use of resources on discretionary items, but without compromising front line services to residents.

2.5 The key to this exercise was to adopt a “marginal gains approach”, i.e., small savings identified by every Manager (say for example on a supplies and service budget such as printing and stationery, holding a vacancy or suspending a subscription) will add up to a larger saving if all budget managers work together to achieve the same aim. Other areas such as income have also been reviewed and there has been a sharper focus on rationalising technical budgets that cover grants income, business rates income and capital financing costs.

2.6 Whilst the overall underspend reported is considered significant, it should be noted that this underspend represents just 5.6% of the overall total service department budget for the council in 2022/23 of £24.7m. In this context, the underspend can be viewed as reasonable (prudent) and not excessive and has not directly affected the quality of service provision to residents.

2.7 Over recent years, Folkestone & Hythe has established a good track record of maintaining a healthy reserves position. This enables the Council to have greater stability and resilience for dealing with current and future financial challenges and uncertainties.

2.8 A full breakdown of revenue reserves currently available to the Council in financial year 2023/24 (as at Quarter 2) is shown in Section 7 of this report for information.

<u>2023/24 Forecast General Fund Budget Outturn (for the current year to Q2)</u>

2.9 The Quarter 2 (Q2) General Fund Revenue Budget monitoring for 2023/24 was reported to Cabinet at its meeting on 18 October 2023. There is a projected favourable variance of £512k for the year against the latest approved budget. One of the main reasons for the variance is due to various service vacancies across the Council, and Budget Managers being asked to reduce non-essential spending for the remainder of the financial year (given the Budget pressures anticipated for 2024/25), it is anticipated that the position at Q3 through to Q4 may improve further and could result in higher level of underspend than anticipated at Q2.

2.10 The Quarter 2 HRA Monitoring for 2023/24 was also reported to Cabinet at its meeting on 18 October 2023 and sets out the projected outturn for HRA revenue and capital expenditure for 2023/24. The projections, based on actual expenditure and income to 31 August 2023, show there is a projected decrease in net expenditure of £1.067m on the HRA and an underspend of £1.317m on the capital programme against the £14.5m latest budget.

2.11 In terms of the General Fund capital programme for 2023/24, the latest projection was also reported to Cabinet at its meeting on 18 October 2023 and it shows a spend-to-date/expenditure of £5.5m against the latest budget of £48m. The main reason for the reduction is the re-profiling of the Otterpool Park projects, East Cliff Land fill works, Biggins Wood Remediation, Oportunitas Phase 2, etc. Work on the Coast Drive Seafront Development, Hawkinge Depot upgrade. The Stade Rental Huts, Public Toilet Enhancement, Public Toilets (Changing Places) has yet to commence.4

4. GOVERNMENT SPENDING PLANS – UPDATES

4.1 Government Spending Reviews – SR21

The last Government Spending Review 2021 (known as SR21) was announced on 27 October 2021. It was a three-year spending review for the financial years 2022/23 through to 2024/25.

4.2 The review 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:

- Council tax thresholds will remain at similar levels to recent years, with the threshold for "core" council tax increases remaining at 2.99%. Confirmation of the thresholds will be in the provisional settlement.
- 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".

4.3 Whilst the three-year review was welcomed, it should be noted that the Local Government grant increase of £4.8bn was £1.6bn per year. This means that after adding £1.6bn to the base budget in year one, the following years of 2023/24 and 2024/25 are effectively flat cash with no further growth funding for inflation pressures or pay award.

4.4 Furthermore, there were no announcements in the review about Local Government funding reforms (Fair Funding Review or Business Rates Retention changes) and it is anticipated that these have now been pushed back to at least 2025/26, if not later. Latest updates (as at November 2023) 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 for Local Government continues to remain unknown and is uncertain. Again, this makes financial planning in the long term more of a challenge.

4.5 The points made above are important, as Councils have been waiting for these funding reforms since 2016 to urgently reset the Government's formula (which is now around 10-years-old) and deliver a new set of formulae to assess the relative spending needs of each Council and provide a fairer level of settlement funding assessment (SFA).

4.6 It was anticipated that the Fair Funding Review would address these needs, especially as most Councils have not received any direct Revenue Support Grant (RSG) and are thus entirely reliant on their own core funding sources, namely Council Tax funding and Business Rate income, plus any one-off grants such as New Homes Bonus or Lower Tier Services Grants which are relatively small amounts.

4.7 In terms of changes to the current Business Rates Retention scheme, there is (again) no news on when this review will take place. Many Councils would welcome an increase in the level of business rates they can retain – as this would be a fairer reflection of the Business Rates generated (grown) in their own area or District.

4.8 Under current Business Rate rules, this Council collects approximately £27m of Business Rates per year. It then gives 50% back to Central Government, 9% to Kent County Council and 1% to Kent Fire Authority. This finally leaves 40% for this Council (approximately £10m). However, the Council then has to pay a further tariff to Government of £6m (under current rules) leaving a retained amount of Business Rate income for the Council of around £4m. This tariff charge is announced annually as part of the Provisional Local Government Settlement which is received in late December (it is due in December this year) with other key financial settlement data. Some Councils pay a tariff, and some Councils receive a top-up, depending on the Government's determination of need across the UK.

4.9 In summary, the factors outlined above put an added layer of difficulty on this Council's finances at a time when world-wide economic pressures are putting even more pressure on costs, specifically borrowing costs and the rise in energy prices, costs exacerbated by rising inflation levels.

5. <u>The Autumn Statement – impact on the Council's financial position</u>

5.1 The Autumn Statement delivered public finance measures related to tax and spending and the purpose of the Autumn Statement was also to bridge a significant Government funding gap identified after the previous statement on economy and fiscal outlook.

5.2 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.

5.3 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.

5.4 However, these announcements do not fully 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.

5.5 Key 2023 Autumn Statement 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.

5.6 Based on initial analysis of the statement, FHDC will still need to make over £638,000 of savings in 2024-25, as part of an estimated £4.61 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.

5.7 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.

5.8 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.

5.9 The 2023 Autumn Statement announcements did not address, and other key funding release decisions remain unclear, as summarised below: -

- It is unclear if the New Homes Bonus will continue for a further year.
- No details provided on Lower Tier Services grant for 2024/25.
- No further updates on the fair funding review
- A business rates reset can technically be implemented without a fair funding review but the government's position on any possible reset remains unclear.

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

6.0 2024/25 FINANCIAL FORECAST – LATEST POSITION

Medium Term Financial Strategy (MTFS)

3.1 The MTFS is the Council's key financial planning document. It links the council's strategic priorities with the financial resources required to deliver them. The MTFS covers a four-year period (as required by best practice - from the Chartered Institute of Public Finance), providing the context and framework within which the Budget Strategy is prepared, and considers the implications of the Council's approved priorities. It also takes in to account the uncertainty surrounding the financial climate that the Council is working within. The MTFS is updated each year, most recently it was updated and approved by Council on 22 November 2022 (report A/22/22).

3.2 The MTFS has been updated to include all the financial and economic pressures outlined in this report so far including, latest CPI increases, additional borrowing costs, energy costs, service pressures and changes to funding as best known. There are some changes that cannot be fully factored into the MTFS as the Provisional Local Government Settlement in December 2023 is awaited. A Council Tax rise of 2.99% has been assumed so far following a change to the limit outlined in the publication of the local government finance policy statement in December 2022, applicable for 2023/24 and 2024/25.

3.3 Due to all of the financial and economic pressures outlined above, the current MTFS forecast shows a cumulative funding gap of £4.61m over the lifetime of this MTFS. The table below shows the cumulative deficit over the period of the MTFS.

Medium Term Financial Strategy Forecast (2024/25 to 2027/28)

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**

3.4 The MTFS forecasts a deficit of £638k for the forthcoming financial year 2024/25. The following section of this Budget Strategy report explains the assumptions underlying this forecast and also provides an update on the latest reserves position for the Council. Proposals for addressing next year's funding gap are then detailed in Section 8.

7.0 BUDGET ASSUMPTIONS

7.1 Appendix 1 explains the detailed changes between the 2023/24 approved base budget and 2024/25 budget forecast in the MTFS. However, these changes have been summarised as follows for ease of explanation: -

	£'000
Forecast deficit – November 2022 MTFS	**4,501**
Add: budget growth proposals	679
Add: Inflationary pressures, i.e., waste, pay award, etc.	1,631
Less: Priority Based Budget Savings and efficiencies	(3,657)
Less: 2024/25 Budget - net adjustments	(1,816)
Less: Post 2023/24 Base Budget - net adjustments	(700)
Revised Forecast Budget Gap / Deficit 2024/25	**638**

<u>MTFS Inflation and Funding Assumptions 2024/25</u>

7.2 The MTFS has provided inflation of 5.5% in its pricing assumptions. Some Council contracts have embedded inflation and will require the full 5.5% rate to be added. Beyond 2024/25, there is a marked decline in inflation assumptions, which falls in line with the government's aim to halve inflation by the end of calendar year 2023 and previous forecasts from the OBR regarding the trajectory of the inflation rate. A new OBR forecast will be presented along with the Autumn Statement. In terms of pay inflation, this is the subject of on-going pay negotiations at the Council under local pay agreements. An approximate estimate has been added to the MTFS to cover the increase.

7.3 Income from Business Rates is based on last year's business rates baseline number as there will be no update on this until the Council receives the Provisional Local Government Settlement in December 2023. The Business Rates rateable value (RV) numbers have been adjusted for any changes in business numbers in the District or movements between bands that attract reliefs.

7.4 A Council Tax increase of 2.99% has been assumed pending the final decision by Full Council in February 2024. The outcome of the Provisional (and Final) Local Government Finance Settlement is awaited to confirm the maximum increase for 2024/25 without requiring a referendum. A council tax base increase of circa 1% is anticipated and a balanced Collection Fund (for Council Tax) has been assumed for 2024/25 after adjustments as set out below.

7.5 Collection Fund adjustments have been made, which covers not only the Council Tax increase (2.99%) as outlined above, but also any surplus balance brought forward on the Collection Fund last year.

7.6 Continuation of any New Homes Bonus payments remains uncertain, and the Council awaits the Provisional Local Government Settlement in December 2023. The MTFS assumes no new payments are likely in the forecast.

MTFS Expenditure and Income Assumptions 2024/25

7.7 Specific service budgets have been uplifted for inflation and this has added to costs for 2024/25. This includes the estimated costs of an assumed salary pay award and any salary increments plus the impacts of the local government pension fund valuation. Service expenditure has also been updated for any known or one-off changes to services, i.e., income budget realignment.

7.8 The budgets for energy costs for the Council have risen by £211k for since the budget setting process for 2023/24 began compared to the previous year. Whilst energy costs have stabilised over the course of calendar year 2023, the MTFS has been uplifted for this baseline increase.

7.9 An increase of 4% has been assumed in relation to the Internal Drainage Board levy.

7.10 Net Interest forecasts an increase of £386k compared to the 2023/24 estimate due to increases in interest rates (note this is a net figure after allowing for interest earned on cashflow and treasury investments).

7.11 Fees and charges income assumptions are based on current budgets and existing policies, adjusted for proposed changes as detailed in the Fees & Charges 2024/25 report also being considered at this Cabinet meeting.

Reserves update

3.5 Total General Fund reserves at 1 April 2023 amounted to £21.91m, of which £7.03m was held within the General Reserve. The table below shows projected reserves at 31 March 2024 before any application towards new budget growth or spending initiatives. The projection is forecast to be £21.53m as at 31/3/2024.

3.6 It should be noted that reserves do offer an option to finance a MTFS deficit, however, use of reserves is only a one-off (one year option) as it only reduces the shortfall for the year it is applied. The only way to introduce a permanent reduction in the financial gap (over the life of the MTFS) is to reduce the baseline budget itself, i.e., reduce expenditure or introduce a source income source that provides a permanent, year on year level of funding.

3.7 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.

3.8 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.

8.0 2024/25 BUDGET PROPOSALS TO REDUCE THE GAP

8.1 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.

8.2 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.

8.3 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.

8.4 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.

8.5 The Council will continue to use a range of approaches to address the deficit in the short and medium term, including:

- Reviewing the level of council tax
- An annual review of fees and charges
- Pursuing alternative income streams
- Continuing the use of digital technologies to transform services
- Exploring appropriate commercial opportunities
- Growing the local economy
- Reviewing all services to generate efficiencies
- Containing new budget pressures within allocated resources, and
- Considering the use of reserves to help manage year on year variations in income and expenditure.

8.6 The MTFS outlined the Council's strategy in reducing the MTFS gap as being:

In-year savings:

- 2023/24 savings to be identified to ease pressures in future financial years.

Re-focusing of Priorities:

- The Council needs to continue to prioritise and rephase the work it is undertaking to recognise the financial & capacity challenges it faces.
- A holistic review of services will be performed to identify opportunities to improve the efficiency and effectiveness of service delivery and improve 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, regeneration, and sustainable growth across the district.

Reserves:

- Using reserves in a sustainable and prudent manner to support the Council's strategies and priorities. These are informed by the reserve's strategies approved annually by the Council.

Maximise Opportunities:

- Review of available underutilised assets to deploy funds for investment in capital schemes and through flexible capital receipts policy for efficiency improvements.
- 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.

8.7 Furthermore, in respect of the plans to address the budget gap in the coming financial year it is proposed that the following areas form the focus of work for management.

Review of Corporate Action Plan
- Identification of items that could be paused, slipped, or stopped.

Review of 'Lessons Learnt' from Transformation

Review of Strategic Projects
- Prioritise and explore rephasing to recognise the financial & capacity challenges faced.

Review of Earmarked Reserves

Identification of potential asset disposals
- Assess underutilised assets for potential sale (future funds to be deployed into capital schemes or through flexible capital receipts scheme)

Re-evaluation of service demands and structures

Identification of alternative opportunities

Revenue Budget Growth required for 2024/25

8.8 Service heads and budget managers have been asked to identify any unavoidable budget growth items and income budget realignments that were necessary to ensure future service sustainability and address unavoidable budget pressures. These total £724k and are detailed at Appendix 2 with appropriate descriptions outlined for Members information.

Budget Savings and Efficiencies 2024/25

8.9 Service heads and budget managers have also been asked through the Priority Based Budgeting to identify a minimum of 12% savings and a rigorous review of the 2023/24 base budget and previous years' outturns were undertaken by departments in liaison with Corporate Leadership Team (CLT). This review process also identified net potential savings and efficiencies of £2.99m for 2024/25. These 2024/25 savings are detailed in Appendix 1 of this report for Members information.

Fees and Charges 2024/25

8.9 A review of fees and charges has been undertaken and the outcome has been included in a separate Fees & Charges report to this Cabinet meeting. The proposed changes to fees and charges are anticipated to increase net income receipts by £67,000.

Forecast Budget Deficit 2024/25 – updated for growth/PBB savings/income

8.10 Based on the work undertaken to date and the factors outlined above, the latest forecast deficit is set out below. Members should note that this position may change as more detail becomes available, especially as a result of the Provisional Local Government Settlement in December 2023.

	£'000
Forecast deficit – November 2022 MTFS	**4,501**
Add: Budget growth proposals	679
Add: Inflationary pressures, i.e., waste, pay award, etc.	1,631
Less: Priority Based Budget Savings and efficiencies	(3,657)
Less: 2024/25 Budget - net adjustments	(1,816)
Less: Post 2023/24 Base Budget - net adjustments	(700)
Revised Forecast Budget Gap / Deficit 2024/25	**638**

8.11 As outlined above, options for addressing the forecast deficit for 2024/25 are now being considered in preparation for the detailed budget report to Cabinet in January and will take into consideration:

- Any new factors affecting local government funding arising from the Government funding settlement announcement in late December,
- Collection Fund surplus/deficit assumptions, with reference to the latest in-year collection performance,
- The outcome of ongoing discussion re potential savings raised at the Star Chamber for members' consideration,
- Further review of the revenue budget savings and growth proposals,
- Exploration of alternative funding options, and
- The action that is being taken to address the residual budget gap as detailed above.

9 HOUSING REVENUE ACCOUNT (HRA)

6.1 This Budget Strategy does not explore the Housing Revenue Account further as the Council is due to present a revised HRA business plan for the period 2023 to 2053 to Cabinet this December. Further, the HRA remains a ring-fenced account within the General Fund and is primarily a landlord account containing the income and expenditure arising from the Council's landlord functions. Notwithstanding, the original HRA Business Plan (2016) was updated in 2020 and at the time included a four-year development ambition of 140 new affordable homes.

6.2 Since the 2020 HRA Business Plan was approved, the COVID-19 pandemic hit in March 2020 which had an unforeseen impact on the delivery of the new build programme. In addition, the Housing Service was brought back in-house in October 2020. A thorough stock condition survey was conducted in 2021 for existing HRA housing stock to inform the Asset Management Strategy and capital programme. Whilst projects such as Highview and Biggins Wood were in progress to deliver on this ambition, in February 2023 due to market conditions, interest and borrowing rates, as well as the cost of the HRA capital investment programme, the HRA new build development plan was paused. The 2023 HRA Business Plan will set out a new funding plan for the Council.

6.3 The detailed 2024/25 HRA revenue and capital budgets that will be submitted to Cabinet in January 2024 will be based on the latest review of the revenue and capital position taking into account known factors from the stock condition surveys and subsequent assessments from the Housing management teams.

6.4 In 2023/24, the government limited the increase in social housing rents for Housing Revenue Accounts (HRA). Under current rules, rents could have risen by up to 11.1% in 2023/24 but were capped at a maximum of 7%. For 2024/25, the rules permit a 7.7% maximum increase (September CPI + 1%) but the Government may again choose to impose a cap.

6.5 The Government has not committed to funding Councils' losses due to the changes in social housing rent policy. For 2023/24, the costings showed a saving to the public purse (presumably through lower housing benefit costs) – for this to be the case, councils had to absorb the impact on their HRAs. A further cap for 2024/25 would add to the existing pressures on HRA revenue funding if costs rise at full CPI levels and rents only increase at a capped rate.

10 CAPITAL PROGRAMME

10.1 As part of the Budget Strategy, Cabinet is asked to consider the proposals for new capital schemes to be included in the council's General Fund Capital Programme. The council's General Fund Medium Term Capital Programme (MTCP) has been updated to include recurring schemes planned to continue over the 5 year period to 2028/29.

10.2 The latest General Fund Programme, shown in Appendix 3, amounts to around £108.6m of investment over five years. The current Capital Investment Strategy was reported to Cabinet in February 2022, and it sets out a framework for funding and investment decisions in respect of capital assets, in the context of the Council vision and priorities and available financial resources. The Capital Investment Strategy demonstrates that the Council take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability, and affordability.

10.3 The Council forecasts its Capital Programme over a 5-year period and the latest position is set out below.

Service Area and Scheme	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Operations	8,018	808	109	109	89	
Governance, & Law	27	-	-	-	-	-
Otterpool Park Garden Town	10,287	7,500	13,000	13,000	13,000	9,750
Place	2,875	17,498	8,668	5,500	500	12,500
Housing	1,630	1,400	1,400	1,400	1,400	0
Corporate Services	1,449	365	365	115	115	55
Total Capital Programme	**24,286**	**27,571**	**23,542**	**20,124**	**15,104**	**22,305**
Capital Funding						
Government Grant	(5,946)	(18,195)	(3,256)	(1,519)	(1,519)	(1,000)
Other External Contributions	(406)	(297)	-	-	-	-
Capital Receipts	(2,823)	(1,129)	(1,231)	(400)	(400)	0
Revenue Contributions	(2,223)	(205)	(1,055)	(205)	(185)	(55)
Borrowing	(12,888)	(7,745)	(18,000)	(18,000)	(13,000)	(21,250)
Total Funding	**(24,286)**	**(27,571)**	**(23,542)**	**(20,124)**	**(15,104)**	**(22,305)**

10.4 Any new capital scheme to be included in the programme will need to contribute to the objectives set out in section 1.3 of this report. New General Fund capital scheme proposals of £37.0m covering between 2024/25 – 2028/29 are shown in Appendix 3 to this report. In summary, £37.0m proposed capital growth will be funded from government grant, capital receipts and prudential borrowing. The new capital projects include the following-

- Ride on Mowers
- Tractor mounted Hedge Flail
- Excavator
- FOLCA 2
- Leisure centre development
- IT/Financial Management System.

10.5 Capital Receipts – the existing MTFS states that a minimum of £500k in capital receipts must be retained as a contingency to meet urgent or unforeseen capital expenditure. The council's general policy is that only capital receipts received should be earmarked to fund capital projects. The only departure from this is ring-fencing the use of future repaid decent homes loans and home safe loans receipts to be reinvested in further private sector housing improvement loans. The latest position regarding the council's available capital receipts to fund capital expenditure is shown in the following table:

Capital Receipts Position Statement	**£'000**
Balance at 31/03/2024	(9,549)
Less HRA capital receipts	3,804

Capital Receipts Position Statement	£'000
General Fund capital receipts	(5,745)
Less agreed minimum balance for contingencies	578
Balance to meet the GF MTCP	(5,167)
Planned use of capital receipts 2023/24	2,823
Balance available to support new capital expenditure	**(2,344)**

10.6 As the table above shows, the Council has sufficient capital receipts available to meet the cost of the General Fund capital growth proposals not met from government grant. Over the term of the MTFS the council expects to receive further capital receipts which it could choose to use to fund its future General Fund capital expenditure plans or retain for investment purposes. This excludes 'Right to Buy' disposals of council dwellings where the retained element of capital receipts are required to be reinvested directly in local social housing initiatives. This also currently excludes any potential future capital receipts that may be generated through the council's current 'invest to save' initiatives.

10.7 The Government's Flexible Use of Capital Receipts Guidance allows local authorities to use capital receipts from the disposal of surplus non-HRA property assets to be used towards certain one-off revenue costs that will lead to on-going revenue savings or operating efficiencies. Local authorities are required to approve an annual Flexible Use of Capital Receipts Strategy as part of the budget process. The Council's strategy for 2024/25 will be included as part of the 2024/25 General Fund Budget report to Cabinet and Full Council in February 2024.

10.8 Other Capital Funding Sources - in addition to the available capital receipts, the council can choose to use its revenue resources (earmarked revenue reserves and balances) or consider prudential borrowing to fund its General Fund capital expenditure plans. Prudential borrowing will incur a revenue cost to the General Fund in terms of interest and a minimum revenue provision charge (MRP). Therefore, prudential borrowing is best suited to capital 'invest to save' projects, such as Otterpool Park, Oportunitas Ltd and Coast Drive Seafront Development at New Romney that will provide a net long term financial return to the council allowing for these costs. The current approved MTCP requires about £77.8m of prudential borrowing over the next five years to support it, some of which will be offset in time by external funding.

10.9 Any capital scheme included in the approved capital programme requiring external grant funding to support it will only be allowed to commence once a formal funding agreement has been established between the council and the relevant funding body.

10.10 The Capital programme includes provision for the Council's Levelling Up Fund of £19.8m from the Government to support the Council's plans for the regeneration of Folkestone town centre. The fund builds upon the Council's Place Plan for the centre of Folkestone and for three key strands of work which aim to improve the appearance and use of the town centre including key links to it.

11 THE BUDGET TIMETABLE

11.1 By early March, each year the Council is required by statute to approve its budget (revenue, capital and HRA) and council tax levels for the forthcoming year. The Full Council meets in February to do this. Advance notice is given in the publication of key decisions to be made.

11.2 Detailed guidance on the annual budget preparation process was circulated to Officers in August 2023. This guidance covered roles and responsibilities; the links between finance and service planning; priority based budgeting process; expected standards and approach; and the timetable for preparing the 2024/25 Budget.

11.3 The 2024/25 Budget timetable is attached at Appendix 4.

12 BUDGET CONSULTATION

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

12.2 The objectives for consultation on the 2024/25 budget proposals are to:

- Engage with key stakeholder groups and local residents;
- Seek feedback on specific budget proposals for 2024/25; and
- Seek feedback on general spending and income generation priorities.

12.3 This will be achieved through making budget information available to the public, inviting feedback, sharing information with representatives from the business community and attending the Joint Parish Council Committee meeting in January.

12.4 Following the November meeting of the Cabinet it is proposed that in addition to the publication of a survey to seek stakeholder views which will be available on the website, promoted through social media channels, that we will also seek to promote the survey through noticeboards in libraries and community hubs to engage those who do not have access to social media. The Council will also re-publicise the short videos developed last year which seek to further explain Council Tax and the services provided that it supports. Furthermore, we will be ensuring all Councillors have the relevant information to directly engage with their constituents and provide a route for feedback to be provided.