

This report will be made public on 20 February 2024

Report number **A/23/24**

To: Council
Date: 28 February 2024
Head of Service: Lydia Morrison – Interim Director Governance and Finance Services
Cabinet Member: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

SUBJECT: Revenue Budget, Capital Strategy, Capital Programme, Reserves and Balances, Treasury and Investment Strategy and Medium Term Financial Strategy and Council Tax for 2024/25.

SUMMARY: Following consideration by Cabinet at their meeting of the 28th February this report concludes the budget setting process for 2024/25 and is submitted to Council with the proposed 2024/25 Revenue Budget, Capital Strategy, Capital Programme, Reserves and Balances, Treasury and Investment Strategy and Medium Term Financial Strategy.

It sets out recommendations for setting the council tax after taking into account the district's council tax requirement (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity), the precepts of Kent County Council, the Kent Police & Crime Commissioner, and the Kent Fire & Rescue Service.

REASONS FOR RECOMMENDATIONS:

Council is asked to agree the recommendations set out below to approve the Budget and set the Council Tax for the year commencing 1 April 2024

RECOMMENDATIONS:

1. To receive and note Report A/23/24.
2. To approve the District Council's Revenue Budget, Capital Strategy and Minimum Revenue Provision Statement, Capital Programme, Investment Strategy, Annual Treasury Management for 2024/25 as presented in Appendices 1,4,5,7, & 8 to this report
3. To set a Council Tax rate of £280.08 at Band D, representing an increase of £8.01 on the current charge.
4. Approves the Council Tax Resolution at Appendix 2.

1. INTRODUCTION

- 1.1 This report concludes the budget setting process for 2024/25.
- 1.2 Cabinet considered the Council's final budget for 2024/25 and the council tax requirement at its earlier meeting on 28 February 2024. Cabinet has agreed the revenue and capital budgets for 2024/25 details of which can be found in the appendices to this report. The draft budget was subject to review by the Finance & Performance Sub-Committee on 23 January 2024. It was also published for public consultation in mid-December and through the first week in February 2024.
- 1.3 This report makes recommendations to enable the council to set the council tax for each part of its area, after taking into account its council tax requirement for 2024/25 (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity) and the precepts of Kent County Council, the Kent Police & Crime Commissioner and Kent Fire & Rescue Service. Changes in respect of the major precept assumptions may result in a revised report having to be tabled.
- 1.4 The proposed General Fund budget for 2024/25 results in an increase to the council tax at Band D of £280.08 (2.94%), represent an annual increase of £8.01. This is the amount that Central Government monitors when considering whether any increase in council tax is excessive. Full details of the council tax calculations and additional precepts for parishes, special expenses, Kent county council, Kent police and crime commissioner and Kent fire and rescue services is detailed within appendix 2.

2. REVENUE BUDGET 2024/25

- 2.1 The budget has been prepared on the basis of the Council's approved Medium Term Financial Strategy (MTFS) and Budget Strategy. It also takes into account announcements, where relevant the Final Local Government Finance Settlement for 2024/25.
- 2.2 The MTFS initially identified a General Fund budget shortfall of £4.501m for the council regarding 2024/25. The Council replaced the incremental budget setting process with Priority Based Budgeting (PBB) for the 2024/25 budget, as a more robust method of allocating scarce resources to high priority areas and delivers the outcomes the Council want to achieve for local people under the new administration.
- 2.3 Following the Provisional and Final Local Government Finance Settlement announced by the Department for Levelling Up, Housing & Communities (DLUHC) on 18 December 2023 and 5 February 2024 respectively, the MTFS has been updated to include all the recently announced government financial settlement, economic pressures, latest CPI increases, additional borrowing costs, energy costs, service pressures and changes to funding as best known.
- 2.4 A Council Tax rise of 2.99% has been adopted as the limit outlined in the publication of the local government finance policy statement in December

2023, which is applicable to the 2024/25 budget. This budget is now being presented to Members for approval.

- 2.5 The 2024/25 net service expenditure is £18,995,555. The budget details are set out at Appendix 1.

3 COUNCIL TAX

- 3.1 Town and parish precepts form part of the council tax requirement, Folkestone & Hythe's Band D council tax rate is £280.08; an increase of £8.01 (2.94%) from the 2023/24 rate.

The average council tax to finance Folkestone & Hythe's net spending plans in 2024/25, including special expenses, is proposed to be increased by £8.59 (2.99%) to £295.96. The Council needs to ensure that it remains within this limit, including any Special Expenses.

Council Tax Requirement

- 3.2 The total local council precepts in 2024/25 are £ 2,993,850 – an increase of £192,554 (6.8%) in cash terms compared to £2,801,296 in the current year. An increase in precepts increases the council tax requirement and affects the average tax calculation; however, it is not taken into account by the Government when monitoring 'excessive' increases. Town and parish councils are not currently subject to referendums.

The statutory calculation for the council tax requirement is shown at Appendix 2. This sets out gross expenditure and gross income, including the Housing Revenue Account and overall changes to reserves. The outcome results in recommendations 3(a), (b) and (c).

4. GENERAL FUND REVENUE RESERVES

- 4.1 The General Fund Reserve is forecast to be £5.710m by 31 March 2025 and total General Fund Reserves (General Reserve plus Ringfenced and Earmarked Reserves) are forecast to be £17.444m at 31 March 2025.
- 4.2 These forecasts are based on the current projected outturn position for 2023/24 and on the assumption that in-year budget variances are contained within the overall approved 2024/25 budget. Any emerging issues in 2024/25 which have a revenue impact will affect the forecast position of the General Reserve.
- 4.3 The Council's reserves position is shown at Appendix 6.

5. CAPITAL STRATEGY AND MINIMUM REVENUE PROVISION STATEMENT 2024/25

- 5.1 The Capital Strategy is a requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code. The Prudential Code is a framework which should support local strategic planning, local asset

management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent, and sustainable. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

- 5.2 The main purpose of the capital strategy is to provide a high level summary of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. It is intended to be written in a way to enhance stakeholders understanding of these sometimes technical areas. The capital strategy for 2024/25 is set out in **appendix 4** to this report.

The areas to be covered in this strategy are:

- Capital expenditure
- Borrowing
- Minimum revenue provision
- Investments (treasury, service and commercial)
- Guarantees and loan commitments
- Knowledge and skills

- 5.3 The capital strategy also includes the Prudential Indicators for capital expenditure that set controls to ensure the authority's capital investment plans are affordable, prudent, and sustainable, required under the Prudential Code. The Prudential Indicators are required to be approved by full Council as part of the capital strategy.

- 5.4 The capital strategy also sets out the Minimum Revenue Provision (MRP) Statement for 2024/25 required to be approved by full Council and is set out in **appendix 4** to this report. The proposed Statement is broadly unchanged from that approved for 2023/24, however the section dealing with capital expenditure on loans to third parties met from prudential borrowing has been updated to reflect changes from a recent government consultation on MRP charges, outlined below in the underlined text:

- i) For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes,
- ii) MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected

credit loss. This option was proposed by the government in its recent MRP consultation and in the authority's view is consistent with the current regulations. While this is not one of the options in the DLUHC Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- 5.5 The capital strategy should be considered alongside the investment strategy, due to be considered separately as part of this agenda. Like the capital strategy, the investment strategy is also required to be adopted by full Council.
- 5.6 The capital strategy is required to be reviewed annually as part of the authority's budget setting process. However, if the nature and structure of the authority's proposed capital expenditure and financing were to change significantly during the year it may be necessary to revise the strategy at the same time.
- 5.7 The capital strategy contains links to the proposed General Fund and Housing Revenue Account (HRA) medium term capital programmes, the investment strategy, and the treasury management strategy statement (TMSS) being considered on this agenda as part of the current budget process. With the exception of the TMSS, these documents are required to be approved by full Council on 28 February 2024 as part of the budget process.

6 CAPITAL PROGRAMME

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

7 INVESTMENT STRATEGY 2024/25

- 7.1 In 2018 the Department for Levelling Up, Housing and Communities (DLUHC) revised their *Statutory Guidance on Local Government Investments* mainly as a response to the increased commercial investment activity in the sector. The DLUHC Guidance requires all local authorities to produce an annual Investment Strategy for their non-treasury management investments which has to be approved by full Council. The DLUHC

Guidance also requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) publications of *The Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services* which both complement it.

7.2 The authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

7.3 The main purpose of the investment strategy is to identify the level of the authority's service and commercial investments and to set risk management parameters around these.

7.4 Treasury management investments and borrowing continue to be covered by a separate annual Treasury Management Strategy Statement (TMSS) which is due to be considered and approved by Cabinet on 31 January 2024 and is include as appendix 7. However, the DLUHC Guidance requires some limited treasury management information to feature in the investment strategy, including the level of interest received by the General Fund.

7.5 The investment strategy, set out in the **appendix 8** to this report, is based on the authority's existing and planned service-related and commercial investments and is consistent with the proposed Medium Term Capital Programme and was considered by the Cabinet on 31st January 2024 and is here now submitted for approval to full Council.

7.6 It is anticipated that the investment strategy will continue to develop and evolve over time in line with the council's own capital investment aspirations and plans. The intention is to review the investment strategy annually as part of the authority's budget setting process and in line with the statutory guidance. However, if the nature and structure of the authority's proposed service and commercial investments was to change during the year it may be necessary to revise the strategy at the same time.

7.7 **Environmental, Social and Governance (ESG) Considerations** – In line with statutory guidance and the CIPFA Treasury Management Code, the proposed TMSS includes an ESG Policy for the authority's treasury investments. For other investments the authority has committed to reducing its own carbon footprint to a net zero target by 2030 through the Folkestone and Hythe District Carbon Action Plan which sits within the framework provided by the draft Corporate Plan 2021-30, 'Creating Tomorrow Together'.

8. TREASURY MANAGEMENT STRATEGY

- 8.1 Treasury management is the management of the authority's cash flows, borrowing and investments, and the associated risks. The authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the authority's treasury management strategy and its prudent financial management.
- 8.2 Treasury risk management at the authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code). The Code requires the authority to approve a treasury management strategy before the start of each financial year. This report fulfils the authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The authority's own Financial Procedure Rules also require an annual plan and strategy for treasury management to be approved in advance of each financial year.

9 BUDGET CONSULTATION

- 9.1 The objectives for consultation on the 2024/25 budget proposals were to:
- (i) Engage with key stakeholder groups and local residents;
 - (ii) Seek feedback on specific budget proposals for 2024/25; and
 - (iii) Seek feedback on general spending and income generation priorities.
- 9.2 Information was placed on the website, promoted via posters, through partners, social media and feedback through email encouraged. Additionally, some specific groups such as the Business Advisory Board and Joint Parish Council Committee were directly engaged with.
- 9.3 There was no consensus among the feedback received and a summary of the consultation responses and its key messages are provided within the attached Appendix 12.

10. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 10.1 The Local Government Act 2003 requires the Council's Chief Finance Officer to give an opinion on the robustness of the budget and adequacy of the reserves. This statement is set out in full at Appendix 9.

11. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

11.1 Legal Officer's Comments (AK)

The Council must consistently comply with the Local Government Finance Act 1992 (as amended) and associated legislation. All the legal issues have been covered in the body of this report.

Members have a fiduciary duty to weigh the needs of the service users against the interest of local taxpayers. In planning the budget Members are under the fiduciary duty to act prudently, responsibly, in a business like manner and in their view of what constitutes the best interests of the general body of local tax payers.

In deciding upon expenditure, the council must fairly hold a balance between recipients of the benefits of services provided by the council and local tax players.

The Council has a duty under the Local Government Finance Act 1992 to set a balanced budget. Failure to set a lawful Council Tax could have serious financial results for the council.

Under Section 114 (2) and 114 (3) of the Local Government Finance Act 1988, the Chief Finance Officer is required to make a report, if it appears to him/her that a decision or course of action the council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.

Section 25 of the Local Government Act 2003 imposes a specific duty on the S151 Officer to formally report to the council at the time of the budget is considered and the council tax is set on the robustness of the budget estimates and the adequacy of reserves. This statement by the S151 Officer is included alongside the budget and council tax setting report to both Cabinet and Full Council in February.

11.2 **Finance Officer's Comments (LM)**

The Financial implications are detailed in the report.

S151 Comments

Members should be reminded of the financial challenges facing all local authorities across the country. The Council finds itself in a fortunate position that it is in a position to approve a balance budget with minimal use of specific reserves unlike many other authorities and continues to have a reasonable level of reserves.

However, the Council does have some ongoing pressures and future challenges to manage.

Members should ensure themselves they are comfortable that the proposed budget meets the statutory legal requirements whilst delivering value for money for the residents of the District.

11.3 **Diversities and Equalities Implications (CS)**

The Equality Impact Assessment is attached at Appendix 6.

12. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

Ola Owolabi, Chief Financial Services Officer
Office: 01303 853728,
Email: ola.owolabi@folkestone-hythe.gov.uk

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

- Budget working papers
- 13 December 2023 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2024/25 to 2027/28
- 13 December 2023 - Reports to Cabinet - Budget Strategy 2024/25 and Fees & Charges 2024/25
- 31 January 2024 - Report to Cabinet - Draft General Fund Original Revenue Budget 2024/25

13. APPENDICES:

- Appendix 1 - General Fund Budget 2024/25
- Appendix 2 – Council Tax Resolution
- Appendix 3 – Medium Term Financial Strategy
- Appendix 4 – Capital Strategy and Annual Minimum Revenue Provision Statement
- Appendix 5 – Capital Programme
- Appendix 6 – Council Reserves (for noting only)
- Appendix 7 – Treasury Management Strategy
- Appendix 8 – Investment Strategy
- Appendix 9 - Statement on Robustness of the Estimates and Adequacy of Reserves (for noting only)
- Appendix 10 – Budget Strategy 2024/25 and Fees and Charges 2024/25 (for noting only)
- Appendix 11 - Equality Impact Assessment (for noting only)
- Appendix 12 - Budget Consultation Responses 2024/25 (for noting only)

APPENDIX 1

GENERAL FUND SUMMARY		Appendix 1	
2023/24		2024/25	2024/25
Original Budget		Draft Original Budget	Draft Original Budget
		Jan-24	Feb-24
£		£	£
SUMMARY OF NET EXPENDITURE			
Service Heads			
8,445,560	Finance, Strategy & Corporate Services	7,751,330	7,834,430
683,190	Human Resources	733,260	733,260
2,976,100	Governance & Law	3,248,940	3,230,640
740,960	Leadership Support	590,900	524,860
6,712,940	Place	6,957,130	7,022,130
413,180	Economic Development	435,800	435,800
165,400	Planning	206,080	208,480
2,483,630	Operations	2,301,180	2,283,680
3,048,610	Housing	2,971,090	3,081,790
(5,919,556)	Recharges	(6,440,405)	(6,475,515)
33,040	Vacancy Target/Pay Award provisions	(424,000)	116,000
19,783,054	TOTAL HEAD OF SERVICE NET EXPENDITURE	18,331,305	18,995,555
541,430	Internal Drainage Board Levies	585,610	585,610
2,502,000	Interest Payable and Similar Charges	2,381,000	2,381,000
(2,521,000)	Interest and Investment Income	(3,043,000)	(3,043,000)
-	Council Tax Freeze Grant	-	-
(365,568)	New Homes Bonus Grant	(135,700)	(135,700)
(4,616,551)	Other non-service related Government Grants	(5,584,550)	(5,758,680)
2,801,300	Town and Parish Council Precepts	2,801,300	2,993,850
18,124,665	TOTAL GENERAL FUND OPERATING NET EXP	15,335,965	16,018,635
(2,180,000)	Net Transfers to/(from) Earmarked Reserves	57,720	(478,330)
1,625,000	Minimum Revenue Provision	2,325,000	2,325,000
2,487,000	Capital Expenditure funded from Revenue	1,055,000	1,055,000
20,056,665	TOTAL TO BE MET FROM LOCAL TAXPAYERS	18,773,685	18,920,305
(59,451)	Transfer to/(from) the Collection Fund	-	-
(3,921,454)	Business Rates Income	(4,023,175)	(4,023,175)
	Revenue Support Grant	-	-
16,075,760	TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND & GENERAL RESERVE	14,750,510	14,897,130
(14,289,513)	Council Tax-Demand on Collection Fund	(14,750,510)	(14,897,130)
1,786,247	(SURPLUS)/DEFICIT FOR YEAR	-	-
(1,786,247)	Contribution from General Reserve	-	-
-	BALANCE AT END OF YEAR	-	-