MEDIUM TERM FINANCIAL STRATEGY

2025/26 TO 2028/29

(Version produced in February 2025)

MEDIUM TERM FINANCIAL STRATEGY

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 2024/25, a number of new and significant pressures have arisen for both Central and Local Government, these being: -

- The ongoing need to actively manage inflation and overall volatility in the economy.
- interest rates which have remained stubbornly high
- Bank of England base rates at 4.75% (as of 03/02/2025) likely to remain at thie elevated level for longer than previously predicted
- Increases in the cost of borrowing due to higher interest rates.
- Volatility in the bond and currency markets affecting the financial climate
- Local Government Reorganisation (announced December 2024)

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 Rachel Reeves MP, delivered the 2024 Autumn Budget Statement on 30 October 2024. This included, amongst other things, a significant shift in employer National Insurance ('NI') contributions, with the Class 1 rate increasing by 1.2 percentage points to 15%, and a lowered earnings threshold now starting at £5,000 (down from £9,100). Whilst the Government promised that this would be a funded pressure for the public sector, the final Local Government Settlement calculations are based on a metric (net service expenditure) which means that it does not fully cover the costs for authorities. In fact, the funding only covers around 50% of the true cost to the Council.

Further, on 16 December 2024 following the publication of the English Devolution White Paper, the Minister of State for Local Government and English Devolution Jim McMahon MP wrote to all councils in remaining two-tier areas and neighbouring small unitaries to set out plans for a joint programme of devolution and local government reorganisation. ‘Local Government Reorganisation’ (‘LGR’) will result in the effective abolition of Shire Districts such as this Council and the creation of new unitary authorities. We could also see a new Strategic Authority created, led by a new Mayor. This could cover the whole of Kent.

However, these announcements do not expressly address the deep-set financial and operational challenges facing local government. The Final Local Government Settlement, announced on 03 February 2025 confirmed the majority of the information already provided in the provisional Local Government Settlement published on 18 December 2024. Most of the 164 district councils, which represent 20 million people, are likely to get little or no real-terms rise in funding in 2025-26. Although district councils are promised a 0.3% cash increase, this is dependent upon council tax increases and does not reflect many of the rising costs councils face. This is set against a backdrop where district councils have already faced a real-terms funding cut of 21% between 2010/11 and 2024/25.

They will be heavily dependent on the extra funding from the Extended Producer Responsibility for Packaging scheme. However, this funding stream is designed to encourage manufacturers to shift to more environmentally-friendly packaging. If this goal succeeds, this funding source will substantially drop in the coming years.

<u>Key Headlines</u>

- In effect, no cash or real terms increases in Core Spending Power.
- NI changes are not fully funded and will add to pressures on Shire Districts.
- Shire Districts will be heavily dependent on the extra funding from the Extended Producer Responsibility for Packaging scheme – a volatile funding stream
- Funding from the Rural Services Delivery Grant has been “repurposed” while the New Homes Bonus will be reformed beyond 2025-26.
- A welcome increase in the Homelessness Prevention Grant allocated to district councils.
- A new Recovery Grant which will benefit districts with high levels of deprivation.

FHDC has worked hard to protect its budgets, but there is no painless way to set a balanced budget each year of this MTFS, especially following a significant transformation in late 2023 ahead of the current 2024/25 financial year which removed any ‘low hanging fruit’. 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.

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. These limits have been further carried into 2025/26.

A second phase of the Spending Review was launched by the Chancellor on 12 December 2024. Government departments will be expected to find savings and efficiencies in their budgets, in a push to drive out waste in the public sector and ensure all funding is focused on the government's priorities.

Every single pound the government spends will be subjected to a line-by-line review to make sure it's being spent to deliver the Plan for Change and that it is value for money. It will be the first time in over a decade and a half that government departments have been asked to take such an approach, with what's called a "zero-based review" last undertaken 17 years ago.

Furthermore, talks are underway to determine how the government can reform the business rates system to ensure it is fairer and better protects retailers. During the Autumn Budget 2024, the government announced plans to introduce permanently lower business rates for retail, hospitality and leisure properties from 2026-27, "to level the playing field for the high-street".

Latest updates suggest that the Fair Funding Review is being modelled 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 significantly more challenging.

Key business rates headlines include:

- Revaluation 2026 – the Valuation Office Agency are preparing a new rating list to apply from 1 April 2026, this will update valuations and change bills.
- New business rates multipliers - the government announced at Budget 2024 proposals to introduce more multipliers: (reduced) small and standard multipliers for Retail, Hospitality & Leisure, and a higher multiplier to fund this. It has also announced an intention that this is revenue neutral for local government.
- Business Rates Reset – it was always intended that business rates retention system would be 'reset'. Each local authority has a 'target' level of funding (Baseline Funding Level – 'BFL') and a 'target' business rates collection (Business Rates Baseline - 'BRB'). These are set and then inflated each year with the multiplier. Any changes in taxbase or reliefs result in growth or decline. A reset would affect both the BFL and BRB, redistributing growth from where it has arisen to where the government want to allocate it.

If the Government chose to 'hard reset' business rates for FHDC and remove all growth above the baseline level, this could mean a loss of up to £2.5m income. At present, it is unclear how the reset will affect FHDC, likely only made clearer in late 2025.

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; however, there is also significant uncertainty towards the later years of the MTFS. 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.

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 2024/25 the Council planned to spend approximately £19.4 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 2024/25, are high mortgage interest rates for homeowners (continuing from 2023/24), cost of living pressures from recent high inflation, 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 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.

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.
- 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 2025/26, 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 2025/26 the impact of CPI inflation on costs, borrowing and rent 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 2025/26 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 2025 and the agreement of the Budget for the new financial year.

Priority Based Budgeting

For the 2025/26 budget, the Council utilised a budgeting approach known as Priority Based Budgeting (PBB). Priority Based Budgeting (PBB) 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 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.

For 2025/26, a range of different economic factors have had to be considered in the MTFS, in light of the recent higher CPI inflation 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, including the most recent Autumn Budget in October 2024. 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 2025/26 to 2028/29 are detailed below and are summarised as follows:

- Business rates income – pending the result of the 2026 revaluation, the overall Business Rates income is largely unchanged from the previous MTFS.
- Securing a level of external funding through capital schemes.
- Council Tax Base (dwellings) – an increase of 1.00% in 2025/26 and growth of 1.0% p.a. thereafter.
- Council Tax model increases of the higher of 2.99% at Band D equivalent for 2025/26 or £5.00 (whichever is the higher) per annum.
- An assumed pay award of 4.0% for 2025/26, 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 3% to reflect contractual commitments and price risk areas.
- Interest rates receivable budget in 2025/26 of 4% 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 pressures in years 2025/26 onwards.

Medium Term Financial Forecast

Financial Forecast	**2025/26** **£000**	**2026/27** **£000**	**2027/28** **£000**	**2028/29** **£000**
Deficit / (Surplus)	0	723	2,887	1,913
Cumulative Deficit	**-**	**723**	**3,610**	**5,523**

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 £120k for the Council in 2025/26.

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 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 2024/25 Budget, and this will also have to be considered for the 2025/26 Budget due to the 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:

Earmarked Reserves	Balance at 01/04/2024 £000s	2024/25 Projection	Estimated Balance at 31/03/2025 £000s	2025/26 Projection	Estimated Balance at 31/03/2026 £000s	Purpose
Business Rates	(338)	143	(195)	195	-	To Support requirements of Rates Retention Scheme
Leisure	(497)	-	(497)	25	(472)	To meet future Leisure improvements.
Carry Forward	(2,316)	613	(1,703)	680	(1,023)	For items of Expenditure not incurred or ringfenced grant or income not applied in the previous financial year
Vehicles, Equip and Technology Reserve	(146)	115	(31)	-	(31)	To meet, vehicle, equipment and technology replacement needs or improvements.
Maintenance of Graves	(12)	-	(12)	12	-	Amounts in held in perpetuity to meet the cost of maintaining certain graves.
New Homes Bonus (NHB)	(409)	-	(409)	409	-	To fund the anticipated additional cost of services.
Corporate Initiatives	(151)	14	(137)	-	(137)	To support Corporate Plan and goals.
IFRS Reserve	(5)	-	(5)	5	-	The impact of International Financial Reporting Standards
Economic Development	(1,235)	325	(910)	834	(76)	Towards the regeneration of the distric and to support the generation of new income.
Community Led Housing	(193)	60	(133)	66	(67)	To support Community Led Housing Developments and to deliver more affordable housing units of mixed tenure.
Lydd Airport	(9)	-	(9)	9	-	To fund anticipated ongoing costs of monitoring the conditions at Lydd Airport.
Homelessness Prevention	(824)	87	(737)	693	(44)	To flexibly fund ways to reduce the Homelessness expenditure by taking preventative action.
High Street Regeneration	(1,196)	-	(1,196)	914	(282)	To support the delivery of regeneration projects within the distric 's high street areas.
Climate Change	(3,574)	381	(3,193)	3082	(111)	To fund initiatives to help the council achieve net -zero carbon emissions by 2030.
Transformation Fund	(1,165)	752	(413)	133	(280)	Set aside to enable investment initiatives that will deliver Future Savings
Fin Stability Reserves (FSR)	-	(410)	(410)	(4,876)	(5,286)	To provide required stability and resilience for one off projects
Total Earmarked Reserves	(12,070)	2,080	(9,990)	2,181	(7,809)	
General Fund Reserve	(4,686)	-	(4,686)	-	(4,686)	

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.

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.

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 2025/26 assumes no further awards in this respect, save what was announced in the Final Local Government Finance Settlement.

It should be noted that the Council forecasts £2.16m use of its earmarked reserve in 2024/25 to balance its Budget. This reserve is likely to continue to be depleted in 2025/26 unless the Government provides a compensating alternative.

Homelessness, Asylum, & Refugees

Homelessness continues to be a pressure for Councils up and down the country. Temporary accommodations costs in particular have stretched local authority general fund budgets significantly given the demand led nature of these services. In response, the Government has increased the level of funding of Homelessness Prevention Grant significantly to help offset some of the costs of temporary accommodation and allow more funding to prevent homelessness in the first instance.

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; it is expected that there will be a ‘business rates reset’ which will potentially redistribute growth above the baseline. Any changes made would have a significant impact on FHDC given that we have significant income above the baseline (over £2m) which could be lost on a ‘hard reset’ if the government chose to redistribute this growth elsewhere.

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 full impact of this will only become clear as proposals are developed with likely implementation from 2026/27. This adds a further element of uncertainty to the projected position and suggests significant caution is needed in any future projections.

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. The Office for Budget Responsibility (OBR) has assessed the impact of the government's Autumn Budget 2024. The OBR forecasts the economy to grow by 1.1% in 2024, before increasing to 2.0% and 1.8% in 2025 and 2026. Growth then returns to around the OBR's estimate of its potential rate, at 1.5%, 1.5% and 1.6% over 2027, 2028 and 2029 respectively. The OBR judges that policies announced at Autumn Budget 2024 boost output in the near term and expect the package as a whole to have a net positive effect on potential output beyond the forecast horizon.

The OBR expects annual CPI inflation to remain close to the 2% target throughout the forecast period (to 2029). The OBR forecasts inflation to average 2.5% in 2024, before increasing to 2.6% in 2025. It is expected to fall towards target across the final three years of the OBR forecast. Reflecting the impact of policy on inflation and demand, the OBR has adjusted its assumed path for Bank Rate, resulting in a slower reduction in interest rates over the forecast.

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. This Carbon Action Plan sits within the framework provided by the council's Corporate Plan 2021-30, 'Creating Tomorrow Together' under service ambition 2, 'A Thriving Environment'.

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 2025/26 budget strategy and beyond to address those financial challenges. This should all be considered in the light of LGR which it is expected to take significant effect from 2027.

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 an estimate 77 residential units, 660m2 of commercial office units and 5,142m2 of light industrial units. The Council undertook remediation and infrastructure works to the site to enable it to be sold for the planned redevelopment and it was sold in late 2024, having addressed the market failure on the site.

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 Interim Director of Finance and Governance (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.

On 18th October 2023, Cabinet considered a paper on Otterpool Park LLP. The report presented an update on Otterpool Park and detailed outcomes of the governance, finance, and management reviews to ensure the successful continuation of this important significant project.

Recommendations covered the strategic direction, funding, and future delivery of the project. The report, which also included 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 explored 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. In light of the Final Local Government Financial Settlement announced on 3 February 2025, the Council's reserve balances will be further depleted for 2025/26 as the settlement was 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. The current plan was brought to Cabinet and Council in February 2024.

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 February 2025 alongside this paper before being submitted to full Council for approval 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 2025/26, the projection in the MTFS is likely to see many changes before the budget reaches Cabinet and Full Council in February 2025 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. These include items such as LGR and the business rates reset. As such, the latter 2 years of the MTFS are highly uncertain.

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 2026/27, 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 2026/27 as part of the LGR agenda.

  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. At present, this would be purely speculation.

- **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 continued national issues impacting on the picture due to the cost of living crisis and high interest rates affecting borrowing costs. Funding settlements in the next spending review are likely to be very tight indeed.

For Shire Districts, there is no planned additional increase in grant funding –. The current settlement is clearly insufficient to meet the cost of inflation and cost of living.

- **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. Work in ongoing with Homes England in this regard, as reported to Cabinet in December 2024.

- **Local Government Finance Settlement.** Future settlement announcements by the Government each year impact the forecasts. Understanding which grants the Council may receive, particularly the future of NHB and Lower Tier funding holistically 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 in 2026/27.

- **Other Government Legislation.** There are a significant number of political initiatives particularly in relation to localisation and the role of local government. These will need to be assessed for their relevance to Folkestone and Hythe and the impact on future finances.

- **Buoyancy of income streams.** These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored.

Conclusion

The MTFS represents the collation of the key financial documents which looks to forecast the likely financial position the Council will be facing over the next 4 years. It is the critical financial planning tool for the Council and will provide the overall steer for the ongoing discussions throughout the annual budget cycles in dealing with the current economic climate.

Appendices

2 MTFS workings
3 Reserves Policy

Appendix 2

MTFS workings

	Base 2024/25 £	*Forecast* 2025/26 £	*Forecast* 2026/27 £	*Forecast* 2027/28 £	*Forecast* 2028/29 £
Heads of Service					
Leadership Support	549,040	1,745,940	1,745,940	1,745,940	1,745,940
Governance and Law	2,257,250	0	0	0	0
People & Customer Services	4,231,360	3,064,860	3,064,860	3,064,860	3,064,860
Governance, Law and Finance	5,371,250	7,428,300	7,428,300	7,428,300	7,428,300
Corporate Estates & Development	1,648,890	1,586,760	1,586,760	1,586,760	1,736,760
Planning & Building Control	312,560	1,789,520	1,789,520	1,789,520	1,789,520
Reg & Community Services	5,199,840	4,854,930	4,851,930	4,845,930	4,838,930
Housing	3,085,090	3,704,200	3,704,200	3,704,200	3,704,200
Place & Growth	2,706,160	2,919,920	3,349,628	3,688,279	3,820,574
Changes not attributed to services		0	101,630	153,727	206,865
Recharges to non GF accounts	-6,481,885	-7,040,640	-7,251,859	-7,469,415	-7,693,497
Unallocated net employee costs	116,000	-474,000	326,000	1,126,000	1,926,000
Total for Service	18,995,555	19,579,790	20,696,909	21,664,101	22,568,452
Internal drainage board levies	585,610	609,034	633,396	658,732	685,081
Interest payable and similar charges	2,381,000	3,093,000	3,235,000	3,343,000	3,450,000
Interest and investment income	-3,043,000	-3,056,000	-3,628,000	-4,586,000	-5,533,000
New Homes Bonus grant	-135,700	-431,953	0	0	0
Other non-service related grants	-5,758,680	-4,431,185	-3,908,533	-3,861,518	-3,810,631
Town and Parish Council Precepts	2,993,850	3,161,440	3,161,440	3,161,440	3,161,440
Minimum revenue provision adjust.	2,325,000	2,525,000	2,743,000	2,969,000	3,022,000
Capital Expenditure financed from Revenue	1,055,000	1,205,000	205,000	205,000	-55,000
Net Revenue Expenditure Before Use Of Reserves	19,398,635	22,254,126	23,138,211	23,553,754	23,488,342
Net transfers to/(from) reserves	-405,290	-2,406,296	-2,317,000	0	0
Total To Be Met From Taxpayers & Formula Grant	18,993,345	19,847,830	20,821,211	23,553,754	23,488,342
Transfer to/(from) Collection Fund	0	0	0	0	0
Net business rates income	-4,023,175	-4,063,130	-4,110,526	-4,157,541	-4,208,428
Council Tax Requirement	-14,970,170	-15,784,700	-15,987,865	-16,509,319	-17,366,500
(Surplus)/deficit to General Reserve	**0**	**0**	**722,821**	**2,886,894**	**1,913,413**
Cumulative (surplus)/deficit			**722,821**	**3,609,715**	**5,523,128**

Appendix 3

Reserves Policy

INTRODUCTION

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

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

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

Reserves can be held for four reasons:

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

Such reserves are generally referred to as earmarked reserves.

WHAT ARE RESERVES?

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

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

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

LEVEL OF RESERVES

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

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

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

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

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

ASSESSING THE ADEQUACY OF RESERVES

The Chartered Institute of Public Finance and Accountancy (CIPFA) state that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances.' It does however confirm that authorities should make their own judgment on such matters, taking into account all relevant local circumstances on the advice of their Chief Finance Officer / S151.

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

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

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

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

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

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

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

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

Allocation of Reserves

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

Budget Assumptions

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

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

Required Levels of Reserves

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

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

The table above shows that a minimum General Reserve balance of £1.5 million should be maintained until the 2026/27 financial year. This level will be monitored and should be addressed as savings proposals are developed and implemented over the term of this plan. The HRA minimum balance has been set at £2.0 million as part of the preparation of the HRA business plan.

OPPORTUNITY COST OF HOLDING RESERVES

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

REPORTING FRAMEWORK

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