



**Draft  
Budget  
2023/24  
and  
Medium Term  
Financial Plan  
2023/24 – 2026/27**

# **CONTENTS**

**Executive Summary**

**General Fund Revenue Accounts**

**Housing and the Housing Revenue Account (HRA)**

**Asset Management Plan**

**Capital and Special Revenue Projects**

**Treasury Management and the Prudential Code**

**Key Assumptions**

**Significant Budget Risks**

## ANNEXES

1A	General Fund Revenue Budget Summary
1B	General Fund Service Expenditure by Cost Type
1C	General Fund Key Figures
1D	General Fund Key Elements
2	Three Year General Fund Revenue Budget Projection
3A – 3C	Service Summaries and Budgets (Figures to follow)
4	Projection of General Fund Reserves
5	Housing Revenue Account Budget Summary
5A	Housing Revenue Account Three-Year Forecast
5B	Housing Revenue Account Development Schemes
5C	Housing Revenue Account Programmes
6A	Capital Programme
6B	Capital Receipts
6C	Special Revenue Projects Programme
6D	Digital & ICT Projects Programme
7A	Capital Strategy– To Follow
7B	Treasury Management Strategy – To Follow
7C	Investment Strategy – To Follow
8A	Council Tax Resolution – To Follow
8B	Town Council & Parish Precepts – To Follow
8C	Precepts & the NDR Multiplier – To Follow
9	Grants to Other Organisations
10	Summary of Recommendations – To Follow

# EXECUTIVE SUMMARY

## OVERALL POSITION

1. This section provides a summary of the main points of the budget and Medium Term Financial Plan (MTFP) covering the General Fund Revenue Budget, Housing Revenue Account (HRA) and Capital Programme.

## BUDGET AND MEDIUM TERM PLANS

2. The MTFP is the Council's key financial planning tool and underpins the strategic approach to financial planning. Although it spans four years, it is reviewed at least annually, and is monitored during the year.
3. It should not be viewed in isolation but as part of the wider planning process and in conjunction with other plans and strategies, in particular the Corporate Plan and the Asset Management Plan. This MTFP covers the period 2023/24 – 2026/27.
4. Year 1 (2023/24) is the formally approved budget for the coming year. Years 2 - 4 of the MTFP (2024/25 – 2026/27) are included as “indicative budgets” for planning purposes. These will be rolled forward and amended in subsequent MTFPs and so approval of the MTFP does not set the budgets for the future years.
5. Regard has been given to the resources required to deliver the Council’s objectives and the budget has been prepared to reflect the anticipated service costs and pressures. However, this budget has been set in a period of uncertainty and volatility due to the unpredictable economy and public finances, exit from the EU and the role DDC will play a Port Health Authority.
6. Significant uncertainties at the time of writing, impacting (mainly) the 2023/24 revenue budget, include:
  - 2022/23
    - The 2022/23 outturn and the reserves and balances to be carried forwards.
  - 2023/24
    - Economic uncertainty;
    - The net cost to DDC of the expanded Port Health Function;
    - Expenditure for the year;
    - Income collection for the year including Council Tax and Business Rates;
    - The impact of Business rates revaluation and any subsequent appeals;
    - The government settlement for local authorities.
  - 2024 – 2027
    - The review of local government finance and the on-going baseline level of financing available including:
      - The Fair Funding Review
      - New Homes Bonus (or any replacement)
      - The reform of the Business Rates Retention model
      - Business Rates revaluations and re-sets.

# BUDGET HEADLINES

## GENERAL FUND

7. The General Fund (GF) headlines are:

- General Fund budget deficit of £1m for 2023/24 met from the Council's smoothing reserve;
- General Fund balance forecast at £1.5m;
- DDC Council Tax increase of £6.03 (3%) for a Band D property, maintaining the lowest Council Tax in East Kent;
- No major changes to services;

## THE HOUSING REVENUE ACCOUNT

8. The Housing Revenue Account (HRA) headlines are:

- 2023/24 budget is currently a deficit of £2.5m due to the on-going restorative works programme. This will be funded by a contribution from the Housing Initiatives Reserve;
- Major variances for 2023/24:
  - Rent increase of 7%;
  - Increased rent from new properties added;
  - Increased capital works to cover the programme of restorative works;
- Housing development programme on-going;
- HRA balance maintained at £1m for 2023/24;
- Housing Initiatives Reserve forecast at £7m at the end of 2023/24.

## THE CAPITAL AND REVENUE PROJECTS PROGRAMME

9. The capital and revenue projects programme headlines are:

- The current general fund capital programme totals £91m and is fully funded. The major projects in the programme are:
  - Dover Beacon Levelling Up Bid
  - Development of the Dover Fast Track Bus Route;
  - Major restoration works on Maison Dieu (Dover Town Hall);
  - Regeneration projects;
  - Future High Street Funding;
  - Sandwich Guildhall Forecourt public realm improvements;
  - Tides Leisure Centre redevelopment (subject to outcome of feasibility studies).
- The current resources for funding capital and revenue projects will be largely exhausted by the current programme.
- Future capital receipts are expected to come mainly from on-going housing right to buy sales (which amount to circa £500k per annum at current sales levels) and one-off asset sales, so will not replenish capital funds and will not be sufficient to maintain the current level of activity in the future.
- Revenue project resources will also be largely depleted, and no significant new resources are expected other than from contributions from the revenue budget.

- Borrowing for capital purposes can be undertaken but this will make business case proposals for projects more challenging as they will have to recognise the costs of borrowing and repayment to demonstrate affordability and comply with the Prudential Code.

## **TREASURY MANAGEMENT AND CAPITAL STRATEGIES**

10. The Council is required to produce a Capital Strategy, Treasury Management Strategy and Investment Strategy. These will be included in the second circulation of the budget papers.

## **KEY ASSUMPTIONS AND SIGNIFICANT BUDGET RISKS**

11. The budget and projections have been based on the best information available. However, there are always areas where there remains a degree of uncertainty or it has been necessary to make assumptions. The most significant of these assumptions, together with the significant budget risks, have been set out within this MTFP to ensure that Members are aware of the basis of the budget.
12. Periodic budget monitoring reports will continue to be produced and circulated to all Members via the quarterly performance report, so that adverse variances can be identified, and remedial action initiated as early as possible.

## **CONSULTATION**

13. The draft budget will be placed on the Council's website for comments.

# THE GENERAL FUND REVENUE ACCOUNTS

## INTRODUCTION

14. All the Council's services, other than housing, are provided through the General Fund (GF). The GF is mainly financed by Council Tax (CT), Business Rates (BR), Enterprise Zone Relief, Revenue Support Grant (RSG, received from government), and New Homes Bonus (NHB, also received from government).

## FINANCIAL OBJECTIVES

15. The main financial objectives for the GF Revenue Account<sup>1</sup> are as follows:
  - Produce a fully funded GF Budget;
  - Maintain general balances over the medium term at an appropriate level (considered to be a minimum of £1.5m);
  - Maintain and use a GF Smoothing Reserve to enable the council to take a measured approach to the forecast pressures;
  - Use earmarked reserves to finance one-off items;
  - Support the Council's corporate priorities and agreed service standards; and
  - Undertake appropriate consultation.

## BUDGET DISCIPLINE

16. Corporate Management Team, in consultation with the Leader and Portfolio Holders, have reviewed their service areas to support delivery of efficient and effective services within the budgets available.
17. In order to maintain firm downwards pressure on expenditure and recruitment, and to ensure budgets are directed to the Council's priorities the Council maintains a continuous "authority to recruit" process. The process requires formal sign-off before any recruitment is permitted.
18. The Council also undertakes efficiency and service reviews. These review services to deliver efficiencies, savings, alternative delivery methods, digital improvements, smarter working and improved customer experiences.
19. A key element of financial management is the treatment of unspent budgets. The Council gives budget managers the flexibility to manage their budgets responsibly. Accordingly, managers are given the opportunity to carry forward unused elements of their budget, subject to approval by the Strategic Director (Finance & Housing).

## THE GENERAL FUND BUDGET SUMMARY

20. The Council's GF revenue budget for 2023/24 is shown in Annex 1. The budget forecasts a deficit of £1m for 2023/24, to be funded from the Smoothing reserve, and the GF balance is forecast to be £1.5m. The net budget requirement for the Council's own purposes, after transfers to/from earmarked reserves is £19.7m.

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<sup>1</sup> The Revenue Account funds day to day recurrent expenditure (excluding housing). There are separate financing arrangements for capital expenditure where the benefit of the expenditure lasts for more than one year.

21. The main factors impacting the General Fund budget are detailed at Annex 1D.

### KEY VARIANCES / SIGNIFICANT ISSUES

22. The table below summarises the main variances between the 2022/23 original budget and the proposed 2023/24 budget.

	£000	£000
<b>2022/23 Original Budget Forecast</b>		<b>500</b>
Increase in forecast total NNDR funding	(816)	
Increase in Council Tax income	(284)	
Council Tax Collection Fund movement to deficit	(164)	
Decrease in New Homes Bonus funding	584.	
Revenue Support Grant movement	(178)	
Other grant funding movement	(488)	
<b>Total Variances in Funding</b>		<b>(1,346)</b>
Increased contribution relating to Business Rates pooling	183	
One-off NDR Renewable income to reserves 2022/23 only	(142)	
Port Health Operations reserve use one-off 2022/23	1,988	
Other net reserve use	33	
<b>Total Variances in transfers to / from reserves</b>		<b>2,063</b>
Reduction in forecast net cost of Port Health service (offset by reserve transfer)	(1,988)	
Reduced internal recharges to Port Health service	370	
Reduction in pension back funding allocation to Port Health	490	
Increase in salary and associated costs re inflation and increments	1,400	
Increase in in-year pension contribution rates	205	
Additional staff costs to support HRA recovery programme	250	
Increase in recharges to HRA and projects	(724)	
Saving in pension back funding from extending the repayment period	(260)	
Forecast increase in Homelessness temporary accommodation costs	230	
Utility inflation increases	91	
Refuse, recycling and street cleansing contract inflation	684	
Target saving / income for recycling and street cleansing	(440)	
Staff saving from vacant posts, reduction in Heads of Service and other structure changes	(500)	
Increase in expenditure re benefits overpayments	200	
Inflationary increase in shared service charges	150	
Numerous miscellaneous variances	147	
<b>Variance in Net Operating Expenditure</b>		<b>305</b>
Increase in interest receivable forecast	(295)	
Increased borrowing costs	252	
<b>Variance in Financing Adjustments</b>		<b>43</b>
<b>2023/24 Forecast Budget Deficit</b>		<b>1,015</b>

### FINANCING THE BUDGET



23. Financing of the net 2023/24 requirement is shown below.

<b>2023/24 General Fund Revenue Financing</b>	<b>£000</b>	<b>%</b>
Non-Domestic Rates Income	7,949	43.9
Revenue Support Grant	238	1.3
Services Grant & 3% Funding Guarantee	909	5.0
New Homes Bonus	645	3.6
Council Tax	8,321	45.9
Collection Fund Surplus (Council Tax)	55	0.3
<b>Total Financing</b>	<b>17,380</b>	<b>100.0</b>

24. The following sections provide further explanation of the Council's main funding streams.

#### **REVENUE SUPPORT GRANT**

25. RSG (from Government) had been reduced by significant amounts every year since 2012/13. For 2023/24 RSG has increased, however, this is due to the existing Local Council Tax Support administration support grant (£155k in 2022/23) being rolled into the RSG value.
26. For financial planning purposes it has been assumed that RSG will continue for the remainder of the MTFP planning period.

#### **LOWER TIER SERVICES GRANT, SERVICES GRANT AND FUNDING GUARANTEE**

27. The Lower Tier Services Grant was introduced in 2021/22. This was funded from £111m of NHB returned surplus from the previous year. It was introduced in the provisional settlement and ensured that no authority received a reduction in Core Spending Power. It was heavily weighted towards district councils, and particularly those that were losing from the changes in NHB. £360k was received in 2021/22 and £160k in 2022/23. The grant has now ended, and no award made in 2023/24.
28. Additionally, in 2022/23 a new grant, 2022/23 Services Grant was introduced, worth £822 million across the sector. The grant was intended to be for 2022/23 only, with the funding going to all tiers of local government in recognition of the range of vital services delivered by councils across the country. This grant was unringfenced with local authorities best placed to understand local priorities. DDC was awarded £255k in 2022/23. This grant has been extended and the 2023/24 settlement includes an award of £144k. For financial planning purposes it has been assumed that the grant will be received for 2023/24 and will then cease.
29. This £136m grant replaces the Lower Tier Services Grant. This grant is intended to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3% (before assumptions on council tax rate increases, but includes those on Council Tax base). The provisional settlement includes an award of £765k for 2023/24. It is anticipated that this will continue at a similar level for 2024/25.

#### **BUSINESS RATES (BR)**

### The Business Rates Retention System

30. The system is complex and volatile. It contains tariffs and top-ups, safety nets, levies, baseline “resets”, BR pools, pilot schemes, periodic revaluations, transition periods, s31 grants, adjustments for renewable energy, appeals and BR relief schemes.
31. Although referred to as a 50% local retention system, of which 40% is currently retained by districts, this is not the full picture. DDC actually retains about 10% (before s31 grants). A simplified illustration of the mechanism for the “50%” BR retention system is set out in the table below (illustrative, based on draft 2020/21 data before adjustment for S31 grant funding or reliefs).

<b>Attribution of BR Income (Indicative)</b>	<b>£m</b>
<b>Dover district net rate yield</b>	<b>(41.8)</b>
Less	
50% to Government	20.9
9% to KCC and 1% to Fire	4.2
Retained balance of 40%	(16.7)
Less: <b>tariff to Government</b>	12.3
<b>Balance retained by DDC</b>	<b>(4.4)</b>

32. From the 40% retained, if the baseline amount that remains with the council is greater than the council’s baseline budget requirement, then the council pays the excess to government in the form of a “tariff”. For Dover this means the bulk of the 40% is also paid to government, as shown in the table.
33. Once the tariff is set, a district will have to continue to pay this amount to government. If actual collection is lower (for example, due to demolition, successful appeals, bad debts etc.) the council has to continue to pay the tariff and bear the loss itself until it hits the safety net at which point losses are capped. For DDC this is circa £278k.
34. The dynamic nature of the system, the elements of which can all be moving in different directions, can produce perverse outcomes, which make it very difficult to develop a stable and robust budget. The accounting regulations for the different elements of the system also mean that some elements are recognised in different years, even though they arise in the current year.
35. Provisions for likely reductions in rateable value (RV) from appeals and bad debts also have to be calculated. These may or may not be sufficient.
36. For 2023/24 the baseline budget requirement (or ‘Baseline Funding Level (BFL)’) is deemed to be £3,844k. The safety net kicks in at £3,555k, meaning the first £278k of any loss must be borne by the Council before a safety net payment is received from Government. The safety net payment would top up the Council’s income to 92.5% of the BFL (i.e. to £3,555k).
37. BR revaluation is planned to occur in April 2023, the expected effect of which is an increase of 18% to the rateable value of properties in the Dover area. But this is offset by adjustments to the BFL so that the revaluation is expected to be broadly neutral at both the local authority and the national level.
38. The MTFP allows for the increase in rateable values, the estimated impact on the business rates baseline and tariffs / top-ups and the resultant impact on the share that Dover retains.

The budget also allows for a continuation of the current pooling arrangement to reduce levies.

39. There are several significant aspects to the current business rates regime:

- “Real” Growth
- The DDC BR Profile
- Renewable Energy Income
- Enterprise Zone Relief Compensation Grant (Income)
- The Business rates Pilot and Pool

#### Real Growth

40. The Dover District has been successful in generating significant real growth in developments in the district during 2016/17 – 2023/24 and this is vital to the Council since it helps to offset the erosion of the tax base and BR income from BR appeals, or from unexpected downward revisions by the VOA.

41. However, BR is still dominated by a small number of hereditaments.

#### DDC BR Profile

42. The BR profile for DDC is unusual for its high level of concentration, the unique nature of some of the properties and the volatility of the RV of unique properties such as the Channel Tunnel.

<b>Dover’s Rateable Values</b>	<b>Rateable Value <sup>2</sup> £000</b>	<b>%</b>
Channel Tunnel	40,000	31
Discovery Park	12,346	10
Dover Harbour Board	3,250	3
Tesco, Whitfield	1,820	1
<b>Sub Total</b>	<b>60,706</b>	<b>45</b>
Remainder <sup>3</sup>	68,511	55
<b>Total</b>	<b>114,704</b>	<b>100</b>

#### Renewable Energy Income

43. The new Biomass Power Plant at Discovery Park is a renewable energy site. As such, we are able to retain all of the BR income ourselves, i.e. it does not have to be shared between the preceptors, so long as we granted planning permission.

44. The 2023 revaluation has reduced the value of the Biomass Power Plant by c.£1m, resulting in a reduction of the business rates retained by c.£500k.

#### The Business Rates Pool

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<sup>2</sup> Note – These figures are based on the 2023 valuations. Rateable Value is not the same as the Business Rates paid. RV is multiplied by a government set multiplier (49.9p in 2022/23 and 2023/24 for the standard multiplier) to determine the amount payable and this may be subject to BR reliefs.

<sup>3</sup> The next largest site is less than 1% of the total.

45. For 2018/19 DDC was included, with KCC and all other Kent districts, in the Kent BR Pilot, enabling all business rates growth to be retained locally (i.e. without Government taking its 50% share and without it charging any levy on growth). Government did not renew the Kent BR pilot for a second year and so the Kent BR Pool resumed operation in 2019/20 and continues in 2023/24.
46. DDC is not a full Member of the BR pool. Due to a quirk in the calculation of the levy, it is advantageous to all pool members, including DDC (and Sevenoaks who are also shadow members), to minimise the BR levy we pay, by giving DDC “shadow” pool member status and this has been agreed to continue for 2023/24.

#### Forecasts

47. The outcome for 2023/24 is expected to see an improved position compared to 2022/23. There is expected to be a deficit on the NDR Collection Fund at the end of the year that will need to be distributed in future years, in line with the Collection Fund accounting requirements.
48. The NDR1 return to Government will be submitted at the end of January 2021. This return determines the forecasts for the NDR budget to be recognised in 2023/24. The submission of the final figures may result in a change to the budgeted figures, any such change will be reported in the final circulation of the report.

#### **COUNCIL TAX (Further information to follow)**

49. A Council Tax increase of 2.98% for DDC purposes has been assumed for the 2023/24 budget which, if approved, will produce a Band D Council Tax of £208.17. This will result in an increase of £6.03 per year on a Band D property, which is within the Government’s capping requirements, which limit increases to 3% or £5<sup>4</sup>, whichever is the greater.
50. The increase in the tax base from 39,763.21 Band D equivalent properties in 2022/23 to 39,974.37 equivalent properties in 2023/24, a rise of 0.53%, is mainly due to new properties being registered for Council Tax (incl. estimates of new builds) less a forecast in growth for Council Tax Reduction Scheme (CTRS).
51. The combined impact of the Council Tax increase and the tax base increase is forecast to generate total Council Tax income of £8.3m. For planning purposes, a Council Tax increase of 3% per annum has been estimated for future years.
52. The total draft Council Tax charges for a Band D property is made up as follows:

	2022/23 £	2023/24 £	Increase %
Dover District Council	202.14	208.17	2.98
Kent County Council	1,461.24	1,534.23 <sup>5</sup>	4.99
The Police & Crime Commissioner for Kent	228.15	243.15 <sup>6</sup>	6.57
Kent & Medway Fire & Rescue Authority	82.35	To follow	

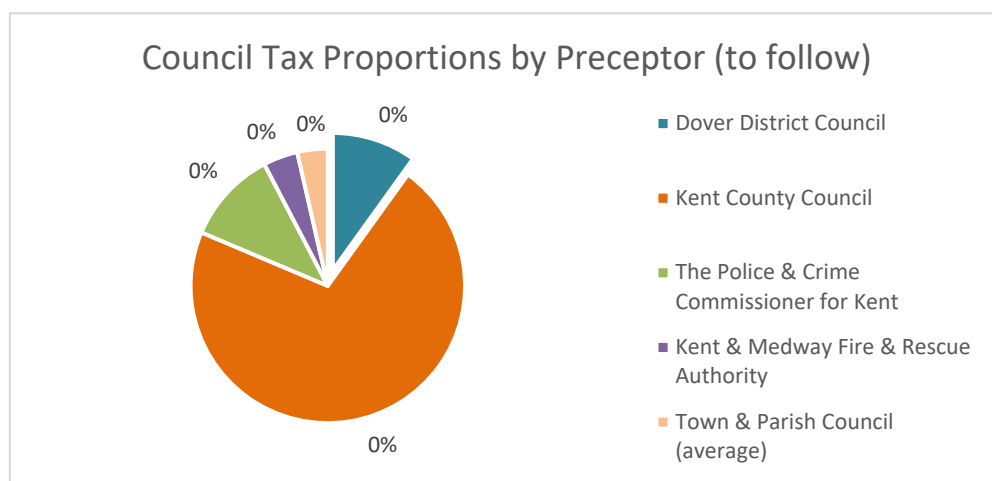
<sup>4</sup> District Councils are lobbying for the limit to be raised to £10. The result of this is expected to be available in February when the final settlement will be confirmed. If the limit is raised to £10, and if this is adopted by Council, it would add circa £140k to the Council’s Council Tax income.

<sup>5</sup> Provisional figure subject to approval at the Budget County Council meeting on 9<sup>th</sup> February 2023.

<sup>6</sup> Provisional figure subject to approval by the Kent and Medway Police and Crime Panel meeting on 1<sup>st</sup> February 2023.

	2022/23 £	2023/24 £	Increase %
<b>Sub-Total</b>	<b>1,973.88</b>		
Town & Parish Council (average)	75.93	To follow	
<b>Total Band D Council Tax</b>	<b>2,049.81</b>	To follow	

53. How the total Council Tax charge is allocated to the individual organisations will follow on receipt of all the preceptor information.



### COMPARISON WITH OTHER DISTRICTS' 2022/23 BAND D COUNCIL TAX

54. DDC has one of the lowest Council Tax rates in Kent. A comparison with the East Kent authorities' 2022/23 Council Tax rates below shows the percentage that their 2022/23 Council Tax level exceeded DDC's and the extra income DDC would receive at their level of Council Tax:

	Band D Council Tax £	Difference to DDC %	Extra Income DDC would receive
Dover District Council	202.14	-	-
Canterbury City Council	226.11	14.66%	£935k
Folkestone and Hythe District Council	264.24	34.00%	£2.40m
Thanet District Council	248.13	25.83%	£1.80m

### NEW HOMES BONUS

55. New Homes Bonus (NHB) was funded by the DLUHC<sup>7</sup> from a top slice of existing local government finance. The NHB received is credited to the General Fund revenue budget and it is therefore an essential element in balancing the Council's budget. Reductions in NHB results in offsetting savings being required.
56. The grant awarded to Dover since the start of the scheme is detailed below:

<sup>7</sup> Department for Levelling Up, Homes and Communities

Year of Scheme	Financial Year	Annual Grant £000	Cumulative Grant £000	Cumulative Years Included
1	2011/12	294	294	1
2	2012/13	155	449	2
3	2013/14	450	899	3
4	2014/15	396	1,296	4
5	2015/16	275	1,570	5
6	2016/17	328	1,899	6
7	2017/18	415	1,865	5
8	2018/19	497	1,515	4
9	2019/20	488	1,729	4
10	2020/21	333	1,733	4
11	2021/22	5	990	3
12	2022/23	741	1,229	2
13	2023/24	645	645	1
14 (Est)	2024/25	645	645	1
Future Years (Est)	2025/26 onwards	0	0	1

57. DLUHC's terms and promises of the original NHB scheme have not been honoured. Changes to the scheme from 2017/18 have resulted in a reduction in the number of years grant in payment from 6 years in 2016/17 to 5 years in 2017/18, further reducing to 4 years in 2018/19. In addition, a minimum growth threshold of 0.4% was introduced, below which no NHB will be paid. The growth delivered by DDC for the 2023/24 NHB calculations was sufficient to receive an award of £645k, including £36k for the delivery of affordable homes.
58. For the purposes of the MTFP it has been assumed that the new NHB grant will continue at a similar level in 2024/25 and then be reduced to nil for future years.

### **FUTURE FUNDING**

59. The future of Local Government funding remains uncertain with numerous unknowns with potential significant impacts on local authority budgets, including:
- The Fair Funding Review
  - The future of New Homes Bonus
  - The future of Services and Funding Guarantee grants
  - The reform of the Business Rates Retention model
  - Business Rates revaluations and re-sets
  - Future Council Tax capping levels.
60. The forecasting for future years has taken assumptions from our funding advisors for each stream and include a Business Rates reset from 2025/26. These forecasts also include the cessation of New Homes Bonus, Services Grants and the Funding Guarantee grant in the timescale. The total impact of all these changes would result in a reduction in funding of c.£3m in 2025/26. It would not seem credible for such a significant impact to be applied across local government in a single year with only a short period of notice for councils to adjust to the change. Therefore, for the purposes of the MTFP this impact has been halved when forecasting future years.

### **COLLECTION FUNDS**

61. The Collection Funds (CF) are statutory funds. They sit entirely outside of the General Fund and the Council budget.

62. The Council manages separate Collection Funds for Council Tax (CT) and Business Rates (BR). Every year the CFs are credited with the income from CT and BR (c. £80m and £40m respectively).
63. The Council Tax CF is debited with the precepts from DDC, KCC, Fire, Police etc. These precepts are based on the forecast of income based on assumptions about the tax base, collection rates, etc. So, if income is below forecast, the collection fund will show a deficit at the year end. If it is above forecast, it will show a surplus.
64. Normally this surplus (or deficit) is owed to (or by) the preceptors and will be added to (or deducted from) the following year's precept in order to distribute the surplus available in the CF or contribute the projected deficit back to the CF to top it up. This is a continuous rolling process.
65. It is forecast that DDC's share of the NDR deficit at the end of 2023/24 will be £226k, this will be financed from the Business Rates & Council Tax Support Reserve in accordance with the planned smoothing of NDR timing differences.

#### **GENERAL FUND RESERVES AND BALANCES**

66. The standard budget strategy for DDC has been to estimate the baseline service costs, determine the financing available, drive savings where possible/required, produce a broadly balanced budget and maintain reserves and balances for one-off and planned purposes such as the project programmes, elections, ICT investment etc.
67. Although the standard strategy has served the council well and remains part of the process, in the 2022/23 process it was recognised that we need to do more. Therefore, to mitigate this risk and the volatility of the budget process the strategy included a £4m smoothing reserve to enable the council to take a measured approach to the forecast pressures.
68. For the 2023/24 budget process the Smoothing Reserve has been applied to balance the budget enabling a measured approach to be taken to the unprecedented impact of the macro-economic position, pressures from inflation, the Local Government settlement and on-going service requirements.
69. Although significant savings are included in the 2023/24 budget, application of the Smoothing Reserve to finance the forecast 2023/24 residual deficit of £1m has enabled consideration of further options for savings and income generation to be taken in 2024/25 and the rest of the planning period as a fuller understanding of the likely outturns and funding is developed. Replenishment of the reserve will need to be considered as part of future budgets.
70. The proposed General Fund balance of £1.5m reflects a revised "minimum preferred level", following the introduction on the General Fund Revenue Budget Smoothing Reserve.
71. The forecasts contain a significant margin of uncertainty and pressures from inflation, the macro-economic position and the future of local government funding. It is currently anticipated that there will be a requirement to deliver savings and / or income generation in the region of £1.5m for 2024/25, followed by a further £2.3m in 2025/26, as detailed in Annex 2.

72. The Council's earmarked reserves, and protocols for their use, are set out in Annex 4. Without these earmarked reserves the Council cannot plan effectively for anticipated future events and requirements and expenditure of a cyclical nature. Nor could the Council plan to smooth the impacts of the volatile income streams from Business Rates, New Homes Bonus etc. Therefore, the earmarked reserves are held at an appropriate level for the Council's plans.
73. Further supporting information on the GF budget is provided in the following Annexes:
- Annex 1 contains the budget summary for the General Fund;
  - Annex 1A summarises the net expenditure and financing requirements;
  - Annex 1B shows the net service expenditure analysed by categories of expenditure and income;
  - Annex 1C shows the key expenditure and income figures and patterns for the General Fund;
  - Annex 1D details the main factors impacting the General Fund budget;
  - Annex 2 provides the General Fund Revenue Budget projection for the period to 2023/24;
  - Annexes 3A – 3C contain summaries of the services managed by each Director and the associated budgets;
  - Annex 4 contains details of the General Fund balance and earmarked reserves; and
  - Annex 9 details the Grants made to Organisations for approval.

### **Recommendations from this Section**

74. It is recommended that Cabinet:
- Approve the grants to organisations detailed at Annex 9.
75. It is recommended that Council:
- Approve the General Fund Revenue budget for 2023/24;
  - Approve the policies and protocols regarding the General Fund balances and earmarked reserves, and transfers between reserves as set out in Annex 4.



# HOUSING AND THE HOUSING REVENUE ACCOUNT

## OVERVIEW

76. This section addresses two, separate but related, aspects of housing within the district. The first concerns the financial standing of the HRA, its budget and balances, and the rent levels for the coming year.
77. The second concerns housing development and investment, and includes developments by the HRA, Registered Providers (RPs) and by the private sector.

## HRA FINANCIAL OBJECTIVES

78. The main strategic financial objectives of the Housing Revenue Account are as follows:
- Maintain a Housing Revenue Account that is self-financing and reflects the requirements of residents;
  - Comply with the Decent Homes Standard and relevant health and safety requirements;
  - Maximise the recovery of rental income;
  - Minimise the number of void properties and minimise the level of rent arrears and debt write offs;
  - Provide sufficient investment in the current stock to maintain its condition and implement upgrades as necessary;
  - Maintain an adequate level of HRA balances and reserves;
  - Undertake prudential borrowing, in accordance with the Council's treasury management policies, where appropriate and there is a business case to do so, for investment in additional properties and property development;
  - Develop a programme to deliver new affordable housing across the district.
79. At the time of writing, the HRA has 4,390 dwellings, made up of 2,660 houses and 1,730 flats.

## 2023/24 DRAFT BUDGET AND MEDIUM TERM FORECAST

80. The HRA's financial position, detailed at Annex 5, can be summarised as follows:
- HRA balance to be maintained for the period at £1m;
  - Housing Initiatives Reserve balance is to be used for future years for restorative measures on DDC's housing stock.
  - The housing development projects (as detailed in paragraph) for the planning period will be funded by borrowing<sup>8</sup>.
81. The major variances between the 2022/23 budget and the 2023/24 proposed budget are:
- Increase in social rent of 7% as per DLUHC;
  - No increase in affordable rent as Local Housing Allowance (LHA) has been frozen;
  - Increase in shared ownership rents of 7%;

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<sup>8</sup> Project viability assessments are undertaken on the basis that borrowing will be required. However, where cashflow is sufficient to undertake the projects without borrowing, then the borrowing will only be undertaken when it is required or prudent to do so.

- Ongoing increase in major capital works, to include the restorative works programme which ensures that DDC brings our housing stock back to decent homes standard.

82. The future year projections show an increasing income stream from rents. This is due to the ending of the Government's requirement to reduce rents in cash terms by 1% per annum for the period 2016/17 – 2019/20, and so rents can now be increased. The HRA is also facing general inflationary pressures on its expenditure. During 2023/24 the major HRA development projects will be funded through borrowing instead of funding from the HIR. This will be used in future years on restorative measures on DDC's council stock. We are expecting to add 24 interim housing units, 32 properties across the district and 10 property buy-backs.
83. Annex 5 provides a draft HRA budget summary & Annex 5A details the 3-year forecast position for the HRA.
84. The planned capital and revenue works budgets have been set to account for the expected level of repairs needed to maintain the stock at an appropriate level for the planning period.

## **BACKGROUND**

85. With effect from 1st April 2012 the government replaced the existing subsidy based system of HRA financing with "Self-Financing". For DDC this resulted in the replacement of the subsidy that we were paying to Government (£6.3m in 2011/12) with a single payment to them of £90.5m. This was facilitated by the compulsory borrowing by DDC of the required sum from the PWLB. Government direction was to plan for long term rent increases of 1% above inflation. Servicing the loan, over 30 years, cost less than the negative subsidy, and so the HRA started to accrue a surplus which could be invested in new housing or other appropriate requirements. The current balance outstanding on the PWLB loan is c.£66m.
86. The HRA budget is balanced for 2023/24. The HIR balance during 2023/24 is being used for restorative works. New projects will use borrowing, as required, to support the on-going programme of housing development.
87. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2023/24 budget is based on the work programme provided by the property services section and incorporating the results of the survey.
88. In May 2017 Dover District Council Jobcentre Plus went live with the Universal Credit Full Service. There had been a significant increase in HRA rent arrears until January 2021 when the in-house rent team started to be able to recover some of the arrears. The rent arrears are now at their lowest level since April 2018. The debt appears to be mainly a cash flow issue rather than a bad debt due to the timing delays associated with payment of Universal Credit. However, tenants now directly receive the Universal Credit payment, whereas with Housing Benefit, payments are made direct to the landlord. This is resulting in some cases of higher debt levels from tenants not paying their rent and we are beginning to see some evictions due to this.

## Rent Setting

89. Council house social rents are effectively controlled by Government. As the Department for Levelling Up, Housing & Communities (DLUHC) has now imposed a rent ceiling allowing for rents to be increased to 7% for 2023/24. This is as per the consultation outcome of the Social housing rents consultation which took place in December 2022. [Social housing rents: government response to the consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/social-housing-rents-gov-uk)

90. Rent levels are usually calculated on an individual property basis using rent formulas previously prescribed by DLUHC. The ceiling rent increase of 7% applies only to existing tenants, any properties which are subsequently re-let will be charged the maximum initial rent which will use the rent increase of CPI + 1% (11.1%) for 2023/24. This is also outlined in the consultation report mentioned in paragraph 97 as above.
91. It is not, therefore, possible to report on the rent to be set for, say, a standard two bedroom flat or a standard 3-bedroom house. However, for Members' information the following figures may be helpful:
- The 2022/23 average weekly rent across all properties is £90.30;
  - The 2023/24 average weekly social rent is forecast to be £96.59;
  - The increase in the average weekly social rent is £6.29 or 7%; and
  - Three bedroom houses have rents (for 2023/24) ranging from £92.65 per week to £121.33 per week with an average of £105.72.
92. DDC now has 35 properties which are charged at affordable rent. This is defined as homes let below market rent. The rent (including service charges) is set at up to 80% of the local market rent for an equivalent home for most registered providers but the Council's view is that wherever possible affordable rent levels should not exceed the Local Housing Allowance (LHA) rate. The LHA rates for Dover have been frozen since April 2020 so will be as below for 2023/24:
- Shared accommodation/Bedsit - £65.00 weekly rent
  - 1 Bedroom - £100.11 weekly rent
  - 2 Bedrooms - £132.33 weekly rent
  - 3 Bedrooms - £172.60 weekly rent
  - 4 Bedrooms - £207.12 weekly rent
93. The LHA rates in the Dover District are determined by Broad Rental Market Areas (BRMAs). There are two BRMAs in the district; Canterbury BRMA and the Dover-Shepway BRMA. The latter is the largest of the two in our district but has the lowest LHA rate in Kent. This has a negative impact on the Council's ability to develop new affordable housing, and on our resident's ability to pay their rent through Housing Benefit.
94. Local Authorities can request a review of a BRMA that affects its area provided they have valid reasons. Reviews are conducted by the Valuation Office Agency (VOA) who also set the LHA rates. DDC is completing a preliminary investigation into the BRMAs and LHAs to assess whether a review outcome would be favourable or not, prior to sending a formal request to the VOA.
95. DDC also has 33 shared ownership properties, these are houses and flats which are sold on a leasehold basis with the Council being the landlord and having the remaining share of the lease. The initial share purchase for shared ownership homes is between 25% and 75%.
96. As part of the scheme the owner of the property agrees to pay rent on the remaining unsold share which is approx. 3%. There is also an annual service charge to pay. The increase in rents is determined in the lease as Retail Price Index (RPI) +0.5% per annum. For Members' information the following figures may be helpful:
- The 2023/24 average weekly shared ownership rent is forecast to be £63.23
  - The increase in the average weekly shared ownership rent is £5.32 or 7%

### Capital Receipts

97. Like the majority of Councils, Dover has entered into an agreement with Government to retain 100% of the receipts from right-to-buy sales above the anticipated trend level. These excess receipts (known as “1:4:1 replacement”) are ring fenced to provide part funding of the cost of new affordable/social housing. This means that there is a cap on the receipts that can be used for general capital purposes. This can be supplemented by the element of excess RTB receipts retained for ‘debt repayment’ that may be used for other capital purposes if repayment of debt is funded from an alternative source.
98. As at the end of December 2022 there had been 15 RTB sales in the financial year. It is estimated that retained ‘excess receipts’ will be in excess of £500k by the end of the financial year. This has to be used within 5 years of receipt, or else it must be repaid to DLUHC, and when applied to a capital scheme, it cannot comprise more than 40% of the scheme costs, so other funding sources must also be available.
99. In order to comply with these rules and avoid claw back by DLUHC, this funding is normally applied to HRA housing projects, before any other sources are used.

### Service Charges

100. The Council currently levies service charges to tenants and leaseholders based on the costs of the specific services received by the two groups. Service charges and charges for insurance are made to leaseholders in addition to the ground rent charged.
101. Service charges to tenants are made in addition to their weekly rent, these are reviewed on a rolling yearly basis depending on the type of charge.

### **THE MANAGEMENT OF DDC’S HOUSING STOCK**

102. The management of DDC’s housing stock has been with DDC since 1<sup>st</sup> October 2020 following a special Cabinet meeting to bring the management of the Council’s housing stock back in house on 20<sup>th</sup> February 2020.
103. The three other Councils also decided to take back the management of their own housing stock.
104. The in-house teams are now established and operational. Much of the work has been completed including:
  - Compliance levels and procedures are now at the required level and have received sign-off from the Social Housing Regulator;
  - The disaggregation and implementation of computer systems; and
  - The Embedding and development of the smooth running of the new service.
105. The cumulative problems indicated above have given rise to building a new HRA Business Plan to help to forecast the cash flow needed for the Council. This includes a 14-year capital investment programme of restorative measures as well as working towards its housing stock becoming carbon neutral by 2050 (as per the Climate Change Emergency report to cabinet on 4<sup>th</sup> November 2019).

### **HRA BUSINESS PLAN**

106. As mentioned above the HRA Business Plan has been built to assess the impact on future modelling of the HRA cashflow for both future major projects and future increased spend on improvements on the housing stock. The plan evaluated and confirmed that a 3-year profiled spend on capital investment is an affordable approach to support the restorative measures required. The Business Plan will be reviewed within the 2023/24 to assess the on-going impact of the current restorative works, future spending plans, the impact of the macro economic environment and other relevant factors on the long term viability of the HRA.

## **HOUSING DEVELOPMENT AND INVESTMENT**

107. Housing development and investment within the district is taking place on a number of fronts, of which the most significant are:
- HRA Investment, utilising
    - Housing Initiatives Reserve (HIR)
    - Borrowing
    - 1:4:1 Right to Buy Replacement
    - Acquisition and new build
    - Investment in existing stock
  - Registered Providers Investment
  - Private Sector Housing
  - Commercial housing developments
  - Homelessness strategy

108. These are discussed in more detail below.

## **HRA INVESTMENT**

### Housing Initiatives Reserve (HIR) & 1:4:1 Right to Buy Replacement

109. The HIR has been funded by the transfer of surpluses, and an under investment by EKH in our housing stock, in previous years whilst maintaining a £1m balance in the HRA. The HIR was established to fund a programme of new house building / acquisition.
110. Since 2017/18 HIR funding, coupled with 1:4:1 Right to Buy funding has enabled the re-purchase of 75 former Council properties which have been added to the HRA stock.
111. To date in 2022/23, 5 properties have been purchased and this is expected to increase by the end of the financial year.
112. Additionally since 2017/18 we have refurbished or acquired the following properties:
- Folkestone Road, Dover – 9 flats refurbished
  - George Close, Capel – 9 houses purchased of which 3 were shared ownership.
  - Norman Tailyour House, Deal – refurbished providing 18 new 1 and 2 bedroom flats
  - Former sites of 2 sheltered housing schemes, Harold Street, Dover – now providing 29 shared ownership flats, 24 flats added to the HRA stock and 12 houses for private sale.
  - Ottoway House, Folkestone Road, Dover – 8 units refurbished into 1 bedroom flats.

- Jute Fields, Deal – 6 houses purchased of which 2 were shared ownership.
- Elizabeth Carter Court, Deal – 2 blocks of flats at a former garage site providing 8, 1 bedroom flats.
- Walter Hammond Close, Dover – 2 blocks of flats at a former garage plot site providing 16 bedsits.

113. Further projects are being developed to provide additional affordable housing in the district; these include:

- The development of interim housing (24 properties) on sites at Barwick Road Dover.
- 26 properties at Napchester Road in Whitfield.
- 2 properties at Foxborough Close, Woodnesborough
- 9 properties at Military Road, Dover.
- 10 properties at Mongeham Road, Great Mongeham.

114. Further opportunities are being considered and the business case for each examined prior to a formal a project approval being sought.

115. It is proposed that the 2023/24 housing developments will be financed by borrowing. The balance in the HIR at the end of 2022/23 is projected to be around £7m. The three year HRA forecast (Annex 5A), shows the balance will be depleted by the end of 2025/26 due to the restorative measures on DDC's Council stock.

#### Investment in Existing Stock

116. The HRA budget and projects take account of the need to invest in existing stock before establishing a surplus for the HIR. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2023/24 budget is based on the work programme provided by the property services section incorporating the results of the survey and the work required for Decent Homes standards.

#### **Recommendations from this Section**

117. It is recommended that Council:

- Approve the HRA budget for 2023/24;
- Approve the HRA Capital Programmes.

## ASSET MANAGEMENT PLAN (AMP)

118. The AMP is used as a management tool to assist in ensuring that the Council's property assets meet the objectives set out in the Council's Corporate Property Strategy. It covers:
- Revenue maintenance requirements;
  - Capital works programmes;
  - Data on performance of significant corporate assets; and
  - Properties identified for disposal.
  - During 2021 the AMP was amended to reflect the commitment of the Council to be a zero-carbon organisation but will be reviewed in 2022 to reflect any further changes to legislative requirements.
119. Expenditure on repairs and maintenance forms a direct link with the revenue budget, which contains the resources to meet the programme of repairs and maintenance. Standards of maintenance, and therefore of required expenditure, are to some extent subjective. The Strategic Director (Operations and Commercial) confirms that there are sufficient resources to keep properties generally wind and water-tight, but it continues to be a challenge to maintain all buildings without deterioration. Continuing with this approach increases the risk, but it ensures that the limited budget focuses mainly on essential maintenance. Similarly, the budget constraints are not sufficient to facilitate significant reductions in the carbon footprints of the DDC owned assets.
120. There is a growing backlog of planned maintenance required for "Operational Assets". Significant expenditure is needed at:
- Tides Leisure Centre- because of its age, needs work to the external envelope of the wet side buildings. Work to mechanical and electrical services in the last 3-4 years have addressed the short-term future of the building. The Council has however refrained from undertaking external envelope repairs while it assesses the viability of redevelopment options because redevelopment is likely to obviate the need for repairs.
  - Maison Dieu (Dover Town Hall) - During 2020 Dover District Council secured stage 2 NLHF funding for Dover Town Hall, to support a scheme which will provide a sustainable future for the building and conserve William Burgess decoration for future generations to enjoy. The main contract started on site during January 2023, following on from enabling works undertaken during the autumn and are due to be complete in late 2024. The project is addressing the planned maintenance issues.
  - Deal Pier - is a concrete clad metal structure in an extreme maritime environment and therefore subject to enhanced rates of corrosion. It therefore needs cyclical repairs. These were last undertaken about 10 years and the 2023/24 MTFP includes a budget allocation to cover the cost of investigative work to ascertain the current condition and the extent and cost of any necessary repairs.
121. An Urgent Works earmarked reserve has been established and this is held to fund urgent works on corporate assets if required.

### Summary

The key points for Members to note are:

- There are sufficient resources to maintain the Council's General Fund properties in a basic state of repair but it is a significant challenge to maintain all the buildings

without deterioration and this does carry a risk of service failure or an increase in the overall maintenance backlog; The current resource levels preclude wholesale expenditure on initiatives to cut carbon emissions however innovative sustainable projects and solutions will cumulatively and significantly reduce emissions in order to help the Council achieve its organisational zero carbon ambition by 2030.

- The Strategic Director (Place & Environment) continues to review opportunities for realising capital receipts from surplus assets to support financing of the capital programme.



# CAPITAL PROGRAMME & SPECIAL REVENUE PROGRAMME

## Purpose of the Capital Programme

122. The primary objectives are to:

- Maintain an achievable, affordable capital programme;
- Ensure capital resources are aligned with corporate priorities;
- Identify any requirement for Prudential Borrowing, and ensure that it is only undertaken if it is affordable; and
- Maximise available resources by actively seeking external funding and disposing of surplus assets.

## Definition of Capital

123. Capital expenditure is expenditure which increases the capital value, performance, use or life of an asset. It can be financed by several means including:

- Capital receipts;
- Capital grants;
- Prudential Borrowing;
- Revenue resources; and
- Leasing.

124. With the exception of revenue resources and the use of external leasing, none of the sources above can be applied to meet revenue requirements.

## Content of the Capital Programme

125. Members are referred to the draft Medium Term Capital Programme (MTCP) at Annex 6A. This is a dynamic programme and a formal bidding process is operated every year to identify and plan future projects.

126. However, if formal approval is required for every minor change in the programme, this will potentially generate delays. In order to manage this, it is proposed that the current practice, as set out below, is continued:

- The programme will be continuously updated to reflect the latest position;
- The latest programme will be included in the budget monitoring report (or a summary of changes will be provided) circulated to Members during the year;
- The latest version of the programme will be displayed on the intranet and internet;
- Whenever changes are required which exceed the overall spend of the programme, Member approval will be required – in effect, approval will be required if officers cannot find savings within existing resources to accommodate changes, or cannot finance them from external sources; and
- Any changes which are expected to have significant policy implications will be discussed with the Leader and relevant portfolio holder and will be reported to Members.

127. To simplify the management of regeneration budgets it has been agreed that they are treated as one major project and virements between them can be authorised by the Strategic Director (Corporate Resources).

128. To facilitate efficient decision making, final approval for projects up to £50k that are included on the Capital and Special Revenue Programmes are delegated to the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance.
129. In addition, a contingency has been included on the MTCP and Special Revenue Programme to allow progression of small projects without significant policy implications. It is proposed that the approval of such projects continues to be delegated to the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance.
130. All projects will continue to require reports for approval of a Project Appraisal and at evaluation, design and tender stages, where appropriate, in accordance with the Constitution.
131. The structure of the programme is reflected in the format of Annex 6A and is explained below:
- Committed General Fund Projects  
These are live General Fund projects that have been approved by Cabinet through the Project Appraisal process, or under the agreed delegated authority, and are committed or in progress.
  - Proposed General Fund Projects  
New projects are shown in the programme for approval of funding to the projects. These projects will be subject to the completion of a Project Appraisal for Cabinet or delegated approval before they commence.
  - Financed by  
This table provides a summary of the financing of the proposed Capital Programme. Members will note that there are sufficient resources to finance the projects included in the table. However, Members should also note that:
    - If Members wish to include additional projects in the programme, these can only be resourced by removal of the equivalent value in new bids, unless the projects have external funding;
    - Removal of projects financed by specific grants, or from the HRA, will not generate additional resources for other projects in the General Fund programme.

#### Content of the Special Revenue Projects Programme

132. The Special Revenue Projects Programme (Annex 6C) comprises significant projects which are not, in the main, capital, but which are still one-off revenue expenditure in nature and are therefore to be funded from reserves as annual recurrent revenue budgets are insufficient to finance them. As one-off projects they are generally managed with the same disciplines and controls as capital projects. As they are financed from revenue reserves cancellation of any of these projects would free up resources which could be used to finance capital projects, other revenue projects, or for other purposes.

#### Content of the Digital and ICT Projects Programme

133. The Digital and ICT Projects Programme (Annex 6D) comprises significant projects which are required to deliver digital improvements to services and support the ICT infrastructure.

These are usually one-off revenue expenditure in nature and are therefore to be funded from reserves as annual recurrent revenue budgets are insufficient to finance them.

#### Financing of the Capital and Special Revenue Projects Programmes

134. In order to maximise the capital resources available to the Council, the detailed decision to apply capital receipts, revenue resources, grants, s106 monies etc. to finance the approved Capital and Special Revenue Projects Programmes is delegated to the Strategic Director (Corporate Resources), in consultation with the portfolio holder responsible for Finance, and capital receipts from particular sources will not be hypothecated to specific projects. Instead, they will be treated as one overall stream to finance Capital and Special Revenue projects within both the General Fund and HRA according to the priority of the projects and the availability of financing.
135. The financing of the capital programme will be reported to Members as part of the Outturn Report. This is produced annually and accompanies the final accounts.
136. In addition to financing of capital expenditure, the Council must also consider what provision, if any, should be made for the repayment of debt. Although new long term borrowing has not yet been undertaken, it is intended that new borrowing, when required, will be repaid by making revenue provisions based, inter alia, on the life of the asset as set out in the Treasury Management Strategy Statement.

#### Prudential Code

137. The "Prudential" regime was introduced on 1 April 2004, and since then local authorities have had the freedom to borrow monies that are judged affordable, sustainable and prudent. This enables local authorities to fund new borrowing from savings in revenue expenditure or the generation of additional revenue income.

#### Capital Receipts

138. In 2004/05 the Government introduced the pooling of housing capital receipts, from Right-to-Buy sales, for distribution to authorities where there is greatest need. From 1 April 2012 new Right-to-Buy regulations apply. The main change from previous regulation is that receipts in excess of those allowed for under the Housing Finance Reform Debt Settlement may be retained by an authority for 1:4:1 replacement of Affordable Housing.
139. Right-to-Buy (RTB) sales in 2022/23 have been similar to levels in 2021/22. Although the level of receipts available for general capital purposes is capped additional funding is available from the element of excess RTB retained for debt repayment that may be used for other capital purposes.
140. The Council generally retains 100% of non-HRA capital receipts and non-RTB HRA capital receipts, subject to capital allowance regulations.
141. Annex 6B details the level of capital receipts held, expected, committed to projects proposed and to be used for new projects. The balance of receipts after these anticipated receipts and commitments is shown as zero. Future capital receipts are expected to come mainly from housing right to buy sales and amount to circa £500k per annum at current sales levels, so will not replenish capital funds and will not be sufficient to maintain the current level of activity in the future. No other major receipts are currently expected.

#### Summary

142. The key points for Members to note are:

- The Capital Programme operates on a cash funded position with no new projects being approved to commence unless the whole project costs can be financed through additional funding, sufficient capital receipts have been banked, external borrowing is approved or other savings in the programme have been identified. The new projects in the programme have been approved subject to the completion of a Project Appraisal for approval by Cabinet, or the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance under delegated powers;
- The Capital Programme is partly financed from HRA Right-to-Buy sales. Since 2017/18 the level of RTB sales has been declining and the level of sales for 2022/23 is currently showing this trend is continuing. Therefore, the amount of receipts available for general capital purposes remains limited.
- The detailed financing of the Capital and Special Revenue Projects Programmes is delegated to the Strategic Director (Corporate Resources) in consultation with the portfolio holder responsible for Finance;
- There is no provision for making capital grants to other organisations, other than those grants already approved; and
- The lack of headroom in the capital programme for additional projects is a significant constraint and new large projects will need to be funded from external borrowing where revenue savings can be identified to offset the borrowing costs.

#### **RECOMMENDATIONS FROM THIS SECTION**

143. It is recommended that Cabinet:

- Delegate the approval of projects included in Annex 6D, the Digital & ICT Programme to the Head of Transformation in consultation with the Portfolio Holder for Finance, Governance, Digital and Climate Change.

144. It is recommended that Council:

- Approve the Capital, Special Revenue Projects and Digital & ICT Programmes;
- Approve that capital resources required to finance new projects are secured before new projects commence.

## TREASURY MANAGEMENT AND THE PRUDENTIAL CODE

145. The Local Government Act 2003 introduced new capital accounting regulations, which required Councils to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code when setting their budgets.
146. The new capital system promotes a Council framework to ensure:
- That the authority maintains a balanced budget;
  - That the impact of capital investment decisions is reflected in the revenue budget; and
  - That performance measurement is implemented in managing and controlling the impact of capital investment decisions.
147. Annexes 7A – 7C (to follow) set out estimates for each of the relevant Prudential Indicators in each of the financial years 2023/24 to 2025/26 and include the latest estimates for 2022/23 aligned with the revised forecast budget. Approval is sought for the proposed indicators for 2023/24 – 2025/26.
148. The capital programme has been financed to date within existing resources, which include capital receipts, specific capital grants, the Major Repairs Allowance, and useable reserves and internal borrowing. Significant projects, including the Dover District Leisure Centre, will ultimately be financed by borrowing; however no borrowing has been undertaken at this time. Approval levels for borrowing will be included in Annex 7B.

### TREASURY MANAGEMENT

149. The Council's Treasury Strategy complies with the requirements of the CIPFA Code of Practice on Treasury Management, which was adopted by the Council in September 2002 and the CIPFA Code of Practice on Treasury Management (revised December 2021) that was adopted by this Council in March 2022.
150. Approval of the strategy is a Council decision.

### RECOMMENDATIONS FROM THIS SECTION

151. It is recommended that Council:
- Approve the Capital, Treasury Management and Investment Strategies, including the Prudential Indicators and Minimum Revenue Provision statement (Annexes 7A, 7B and 7C).

## KEY ASSUMPTIONS & READY RECKONER

### **Background**

152. To complete the budget and MTFP in accordance with the timetable it is necessary to make various assumptions. These are based on the most realistic information available at the time of production, but it is important that Members are aware of these assumptions and their implications.

### **Inflation**

153. Salary inflation will be based on the results of the Collective Bargaining process.
154. Contract inflation for 2023/24 is based on the details of the specific contracts, the state of the market for the specific services and any other relevant factors.
155. General inflation is assumed to be 5% for 2024/25, reducing to 3% in 2025/26 and 2% for future years.

### **Staff Numbers**

156. The 2023/24 budget includes 480 full time equivalent posts directly employed for DDC. This includes 34 Port Health posts and 15 posts employed by DDC as part of the East Kent Audit Partnership (working for Canterbury, Thanet, Folkestone and Hythe and Dover and recharged accordingly) and East Kent Payroll (working for Canterbury, Thanet and Dover and recharged accordingly) allocated across services.

### **Triennial Valuation of the Pension Fund by the Fund Actuaries**

157. The triennial valuation will take effect from April 2023. The Council's actuaries have agreed a reduction in payments to the pension fund to clear the Council's deficit over eleven years rather than eight, reducing the annual payment from £1.75m to £1.25m for 2023/24. Additionally, the in-year, current service, contribution rates increased from 18.8% in 2022/23 to 20.2% in 2023/24.

### **Interest Rates**

158. It is assumed that DDC will maintain the 2023/24 level of income from investments for the remainder of the planning period. Any additional income generated will be transferred to reserves to support future projects.

### **Revenue Support Grant**

159. The current draft settlement provides figures for 2023/24. For 2023/24 RSG has increased due to the existing Local Council Tax Support administration support grant (£155k in 2022/23) being rolled into the RSG award. For financial planning purposes it has been assumed that RSG will continue for the remainder of the MTFP planning period.

### **Business Rates Retention**

160. The calculations are based draft figures available at the time of publishing this report. They will be finalised on the completion of the NDR1 to be submitted by 31<sup>st</sup> January. The forecasts assume a small element of inflation / growth for the planning period.

### **Council Tax**

161. Council tax increases have been assumed at 3% for 2023/24 and for the remainder of the planning period.

### **New Homes Bonus**

162. New Homes Bonus is a scheme that provided incentives and rewards for councils and communities who support delivery of new homes in their area. It is assumed that the NHB grant will continue at the 2023/24 rate in 2024/25 and be reduced to nil by 2025/26.

### **Capital Projects**

163. Revenue pressures arising from capital projects will be built into future budgets and MTFP forecasts as they are identified.

### **Ready Reckoner**

- Payroll - 1% increase costs the General Fund approximately £200k;
- Council tax - 1% raises c.£83k;
- RSG – assumed to be £238k in 2023/24 and then continue to be paid for at least 7 more years;
- NDR – 1% growth in BR income equates to c.£100k (DDC's share @ 40%, less 50% levy, but will be higher under pooling due to reduced levy rates);
- Investment Income - 1% equals approximately £500k (based on investment balances of £50m);
- Contract inflation – 1% equals c.£60k;

## SIGNIFICANT BUDGET RISKS

164. Budgets, by their nature, involve an element of forecasting which entails uncertainty and hence risk. The schedule below highlights the main strategic / high value budget risks.

165. Income risks:

- Business Rates
- New Homes Bonus
- Fair Funding Review
- Council Tax
- Treasury Management
- Property Investment
- Capital Receipts
- Housing rent collection
- Car parking

166. Expenditure risks:

- Brexit
- Port Health
- Pension Funding
- Homelessness
- Contract renewals
- Major capital projects

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
1	Business Rates	<p>The key challenges are:</p> <ul style="list-style-type: none"> <li>• Maintaining collection rates during a difficult trading climate for many companies.</li> <li>• Future re-sets of the DDC baseline, sacrificing some / all of the gains made to date.</li> <li>• The outcome of the 2023 revaluation – will it be fiscally neutral or negative.</li> <li>• Class action appeals.</li> <li>• Individual appeals from large BR payers..</li> <li>• Difficulty in forecasting future BR taxbase changes.</li> <li>• Operation of the Collection Fund and the timing of recognition of income.</li> <li>• Unexpected revaluations, errors and initiatives by the VOA.</li> <li>• Errors in the DLUHC settlement</li> <li>• Changes in the Enterprise Zone and / or renewables schemes.</li> <li>• Weak BR performance by other Kent districts leading to an impact on the Kent pool.</li> <li>• Poor understanding of the regime by the DLUHC.</li> <li>• The Fair Funding Review leading to changes in the baseline or other aspects of the regime.</li> </ul>	£8m pa



Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		<p>The opportunities for Councils individually or collectively to mitigate the above impacts are limited other than through the management of their own finances, smoothing reserves etc. and individual lobbying and response to consultations.</p> <p>Collective lobbying and response to consultations will also take place where possible, but the impacts of changes are often re-distributive and do not fall evenly across the sector and so it is difficult to create consensus.</p>	
2	New Homes Bonus	<p>Government have indicated that they wish to change their commitment to New Homes Bonus and are expected to scrap it altogether.</p> <p>This is a core part of DDC's funding stream, generated in recognition of recent planning decisions, which were taken, in part, on the understanding that the NHB pledge would be honoured by government and may be used to mitigate the impacts of those decisions.</p> <p>The key issue will be whether NHB is replaced and if so, by what.</p>	£0.65m pa.
3	Fair Funding Review	<p>The government has consulted on a Fair Funding review (FFR) which will re-calibrate the local government settlement. The FFR has been repeatedly delayed and is now expected to take place in 2023/24 and to apply from 2024/25.</p> <p>Pressure from upper tier and unitary authorities and the challenges arising from adult social care may reduce the resources available to district councils.</p> <p>As with the current settlement, the Council can take part in Kent wide lobbying on the settlement but has limited ability to influence the settlement.</p>	Unable to forecast at the time of writing.
4	Council Tax Base & Collection Rates	<p>The draft budget includes the current forecasts of the Council Tax base and collection rates.</p> <p>The uncertainty around current economic performance and employment may have an on-going impact on Council Tax income.</p>	£8.3m pa

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
5	Treasury Management	<p>Of the current forecast £1.9m treasury management income £600k is being transferred to earmarked reserves to support future projects and reduce the GF risk of over-reliance on the income stream.</p> <p>Reductions in the capital value of investments would only impact the GF if the funds were realised when the values were low. Due to the breadth of investments held it is unlikely that this would become necessary as other funds could be realised or short term borrowing undertaken if cash flow shortages occur.</p>	£1.9m pa
6	Property Income	The Council receives rental income from its commercial regeneration properties. There is a risk that this income may be reduced if tenants are unable to continue to trade.	£2.1m pa
7	Capital resources and receipts	<p>Capital resources (other than borrowing) are almost depleted and will not be easily replaced from revenue contributions or receipts.</p> <p>Capital receipts come from housing and other asset sales. Any drop-off in the level of receipts will lead to reduced resources available to complete projects. The reduced receipts could arise from lower sales, lower prices or both.</p> <p>We cannot mitigate against market movements or reduced levels of sales. To some degree lower values may increase the level of demand, but this will also be dependent on interest rate movements.</p>	£500k pa (average level)
8	HRA rent arrears	<p>Current tenant rent arrears have been significantly reduced in the last year. However, inflation and recession could put pressure on household budgets and could reverse this trend.</p> <p>A bad debt provision is included within the budget and arrears levels are being monitored. The Coronavirus 2020 Housing Act had resulted in eviction cases currently being on hold since March 2020 but from October 2021 the notice period for possession proceedings has returned to pre-Covid length.</p>	<p>Annual HRA rent £22 m</p> <p>Current arrears £560k</p>
9	Car Parking	Car parking income is affected by visitor numbers, shopping patterns, household income and charge levels and is therefore difficult to predict. Changes in parking charge arrangements are proposed for consideration alongside the budget.	£2.7m pa

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
10	Brexit – Port and East Kent impact	The creation of a “third country” border between the UK and France increases the risks of border closures and related disruptions to the traffic flows in and out of the port and Channel Tunnel. This poses a risk in terms of the impact on local businesses and communities, the disruption in the delivery of services such as waste collection, and the requirement clear litter, clean highways etc.	Unable to forecast the impact at the time of writing.
11	Port Health	DEFRA have not yet developed an operating model for the UK Ports, nor have they determined the Council’s responsibilities with regards to checks at Dover and Coquelle. There is minimal bio-security on Products of Animal Origin (PAO) imported to the UK and therefore there are bio-security, food security, economic and reputational risks to Dover and the UK from the unintentional introduction of diseases such as African Swine Flu.	Unable to forecast the impact at the time of writing.
13	Homeless expenditure	<p>Expenditure will continue to increase due to the impact of the Homeless Reduction Bill, the continued implementation of Universal Credit in the district, refugee dispersal and the moving on of Ukrainian refugees on the Homes for Ukraine scheme. Close monitoring of the impact of the Bill and the in-year budget is required. Additionally, changes proposed in the Kent County Council budget may impact the support available to vulnerable adults in the district, potentially resulting in additional homeless presentations to the Council.</p> <p>The service will continue investigating innovative options and working with partners to support homeless requirements in the district.</p>	Unable to forecast at the time of writing.
14	Major Contract Renewals	When major recurrent contracts are up for renewal the price achieved by the council depends upon the functioning of the market in the particular sector and the attractiveness of the package assembled by DDC.	Unable to forecast at the time of writing.
15	Major Capital Projects	<p>The Council is involved with a number of major capital projects including Bench Street (LUF2), Fasttrack, Maison Dieu, Tides.</p> <p>These projects are vulnerable to significant inflation and unexpected events including unexpected costs in historic buildings, ground conditions, archaeological risks, contractor failure and poor performance and inclement weather.</p> <p>Mitigation is through robust forecasts of costs, contingency, effective contracts and contract management.</p>	Unable to forecast.

