APPENDIX 1

DOVER DISTRICT COUNCIL

Budget 2024/25 and Medium-Term Financial Plan 2024/25–2027/28

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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 five 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 2024/25 – 2028/29.

4. Year 1 (2024/25) is the formally approved budget for the coming year. Years 2 – 5 of the MTFP (2025/26 – 2028/29) 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, the unpredictable system of local government finance and the impact of the withdrawal of DEFRA funding advised in December 2023.

6. Significant uncertainties at the time of writing, impacting (mainly) the 2023/24 revenue budget, include:
   - 2023/24
     - The final 2023/24 outturn and the reserves and balances to be carried forwards.
     - The impact of delays in the local audit sector which cause uncertainty regarding reserves and balances due to possible changes in the accounting treatments that the auditors may require.
   - 2024/25
     - The on-going macroeconomic position
     - Business Rates income
     - The costs to DDC of the PHA
     - Funding decisions by DLUHC.
   - 2025 – 2028
     - The net cost to DDC of the future Port Health Function
     - The continuing impacts of the macroeconomic position and the speed of economic recovery
     - The review of local government finance and the on-going baseline level of financing available including:
       - The Fair Funding Review
       - New Homes Bonus replacement (if any)
       - 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:

- The General Fund budget for 2024/25 forecasts a deficit of c.£2.8m, made up of:
    - £20k deficit from business as usual, and
    - £2.8m pressure to maintain the current level of Port Health activities with reduced DEFRA funding, to be funded from the earmarked reserves.
- General Fund balance forecast to be maintained at £1.5m,
- Proposed DDC Council Tax increase of £6.21 (2.98%) per annum (12p per week) for a Band D property, maintaining the lowest Council Tax in East Kent,
- There are no major reductions in services proposed within the budget.
- It is currently anticipated that, excluding the pressures from the DPHA function, there will be a requirement to deliver savings and / or income generation in the region of £1m for 2025/26, followed by a further £1.5m in 2026/27 and £700k in 2027/28.

THE HOUSING REVENUE ACCOUNT

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

- The Housing Revenue Account forecasts a deficit of £1m due to ongoing commitments to repairs and maintenance, to be funded from the Housing Initiatives Reserve, but remains financially viable,
- Housing rents will increase by 7.7%. The typical weekly rent on a 3 bedroom house will be £113.86, and is much lower than the private sector equivalent,
- Housing development programme on-going towards the extra 200 homes per annum for the district,
- Rent arrears levels are reducing year on year and prepayment levels are the highest in recent years. Rent collection levels have increased as a percentage of the total rent to be collected,
- HRA balance to be maintained at £1m for 2024/25,
- Housing Initiatives Reserve is forecast at £4.4m at the end of 2024/25.

THE CAPITAL AND SPECIAL REVENUE PROJECTS PROGRAMME

9. The capital and special revenue projects programme headlines are:

- The current Capital Programme totals £197.5m and is fully funded. The major projects in the programme are:

    - HRA Affordable Housing Development Projects;
    - Dover Beacon Project
    - 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);
    - HRA Improvement Works.

- The current Special Revenue Programme totals £19m and is fully funded.
- The current resources for funding capital and special 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 £125k 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 reviewed and are set out within this MTFP to ensure that Members are aware of the basis of the budget.

12. Periodic budget monitoring updates will continue to be circulated to all Members via the quarterly performance report, so that variances can be identified, and appropriate action initiated as early as possible.

CONSULTATION

13. The Council undertook an online budget consultation requesting resident feedback on the budgets for Council's services, value for money, and savings options. It included a budget reduction exercise where residents were asked to allocate revised budgets to services based on achieving a 10% reduction in costs.

14. The consultation was available on the website from 21st December to 8th January (with paper copies available on request). In total there were 370 responses to the consultation, of which 244 completed the budget reduction exercise. The main themes from the responses include:

    - Over 56% of respondents agree that we should increase Council Tax by 3% for 2024/25 to maintain as much as possible the services we provide.

    - Increasing Council Tax by 3% was the most preferred option (43% of respondents) to help us balance our budget and meet the needs of our community.

- Withdrawing services was the least preferred option to help us balance our budget (63% of respondents).

- 63% of respondents were satisfied or very satisfied with the local area as a place to live.

- Over 75% of respondents prefer to contact the Council by email or online via the website.

15. Initial results from the budget allocation exercise indicates that residents would allocate additional resources to Community Safety & CCTV, Environmental Crime, Public Conveniences and Climate Change Initiatives. They would then apply the necessary budget reductions across the other areas.

16. Analysis on the detailed responses will continue and further information included in the second circulation of the budget.

THE GENERAL FUND REVENUE ACCOUNTS

INTRODUCTION

17. 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

18. The main financial objectives for the GF Revenue Account[1] 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

19. 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.

20. 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.

21. 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.

22. 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

23. The Council's GF revenue budget for 2024/25 is shown in Annex 1. The budget forecasts a small deficit of £20k for 2024/25, before accounting for the withdrawal of DEFRA funding for DPHA (to be funded from earmarked reserves). The GF balance is forecast to be maintained at £1.5m.

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[1] 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.

24. The main factor impacting the General Fund budget is the proposed change to the Port Health service and its funding as detailed in the Section 25 report. Other key areas of impact are detailed at Annex 1D.

2023/24 FORECAST OUTTURN

25. The 2023/24 original budget included £1.6m of savings and income generation targets and an assumption that an underspend of £500k will be delivered at year end in line with previous year outturn positions. Progress to deliver these targets is being made, with approximately £1m achieved. During the year, further savings / income in excess of £500k have been identified, offsetting target savings still being progressed. The 2023/24 forecast outturn remains at c.£1.1m deficit, to be funded from the Smoothing reserve.

VARIANCES BETWEEN 2023/24 ORIGINAL BUDGET AND 2024/25 PROPOSED BUDGET

26. The budget process identified significant pressures facing the GF budget and Heads of Service have worked with their portfolio holders and Corporate Management team to identify savings and income to offset these pressures and deliver a balanced budget.

27. As detailed below the draft budget started with a £1.1m deficit from 2023/24 and includes £3m in pressures from inflation, service pressures and reduction in New Homes Bonus. These pressures have been offset by £1.5m increase in funding, £2m of service savings and £0.6m of financing changes, resulting in a balanced budget, before the withdrawal of funding from DEFRA for the DPHA service.

28. The table below summarises details these main variances between the 2023/24 original budget and the proposed 2024/25 budget.

Ref		£000	£000
	2023/24 Original Budget Forecast Deficit		**1,130**
1	Salary Inflation	992	
2	Net increase in salary costs, including increments, priority areas, etc	383	
3	Actuarial increase in pensions back-funding costs	48	
4	Forecast increase in Homelessness temporary accommodation costs	357	
5	Refuse, recycling and street cleansing contract inflation	401	
6	Computer software costs due to move to Cloud & increase in licences	227	
7	Inflationary increase on shared service charges	166	
8	Net increase in cost to DDC relating to housing benefits and rent rebates	105	
9	Loss of fish certification income following DEFRA changes	35	
10	Decrease in New Homes Bonus funding	299	
11	**Total Pressures**		**3,013**
12	Increase in forecast total NNDR funding	(708)	
13	Increase in Council Tax income	(441)	
14	Increase in Council Tax Collection Fund surplus	(36)	
15	Other grant funding movement	(373)	
16	**Total Increase in funding**		**(1,558)**
17	Increase in recharges to HRA and projects	(391)	
18	Forecast increase in green waste income	(86)	
19	Target savings waste services	(100)	

Ref		£000	£000
20	Savings from vacancies, staff reductions and other structure changes	(317)	
21	Homelessness prevention grant increase	(110)	
22	Building control fee income increase	(50)	
23	Impact of ICT shared service returning to in-house service	(85)	
24	Removal of contribution to ICT reserve to offset Cloud pressures	(115)	
25	Increase in parking income from proposed changes and increased activity	(300)	
26	Increase in parking penalty charge income	(121)	
27	Forecast increase in parks & open spaces events income	(27)	
28	External funding to support community services resettlement projects	(150)	
29	External funding to support Climate Change resources	(29)	
30	Forecast rent increases across properties	(140)	
31	Numerous miscellaneous variances	55	
32	**Total Service Savings**		**(1,966)**
33	Increase in interest receivable forecast	(456)	
34	Increase in interest payable forecast	429	
35	Forecast change in borrowing allowance	(174)	
36	Reduction in contributions to Special Projects reserve	(398)	
37	**Total variance in financing adjustments**		**(599)**
38	**General Fund Deficit for the Year**		**20**
39	Net cost to DDC of Port Health service	2,800	
40	Transfer from DDC Earmarked reserves	(2,800)	
41	**2024/25 Forecast Budget Deficit**		**20**

FINANCING THE BUDGET

29. Financing of the net 2024/25 requirement is shown below.

2024/25 General Fund Revenue Financing	£000	%
Non-Domestic Rates Income	9,270	46.3
Revenue Support Grant	254	1.3
Services Grant & 3% Funding Guarantee	1,266	6.3
New Homes Bonus	346	1.7
Council Tax	8,763	43.9
Collection Fund Surplus (Council Tax)	91	0.5
Total Financing	**19,989**	**100.0**

30. The following sections provide further explanation of the Council’s main funding streams.

REVENUE SUPPORT GRANT

31. Revenue Support Grant (RSG) (from Government) had been reduced by significant amounts every year since 2012/13. For 2024/25 RSG has increased slightly by inflation at 6.6%.

32. For financial planning purposes it has been assumed that RSG will continue for the remainder of the MTFP planning period.

SERVICES GRANT AND FUNDING GUARANTEE

33. 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 was extended into the 2023/24 financial year and DDC was awarded £150k. This grant has been further extended into the 2024/25 financial year and DDC will be awarded £24k. For financial planning purposes it has been assumed that the grant will be received for 2024/25 and will then cease.

34. The sector wide £136m funding guarantee 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 including those on Council Tax base). The settlement included an award of £760k for 2023/24. This has increased in 2024/25 and DDC is awarded £1,243k. It is anticipated that this will continue at a similar level for 2025/26.

BUSINESS RATES (BR)

The Business Rates Retention System

35. 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.

36. 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 2024/25 data before adjustment for S31 grant funding or reliefs).

Attribution of BR Income (Indicative)	**£m**
Dover district net rate yield	**(53.6)**
Less	
50% to Government	26.8
9% to KCC and 1% to Fire	5.4
Retained balance of 40%	(21.5)
Less: **tariff to Government**	16.0
Balance retained by DDC	**(5.5)**

37. 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.

38. 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 £302k.

39. 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. In addition, the government return has been revised for 2024/25 so that it splits out small and standard multiplier figures. This has created delays to the data collection due to the revenue systems having to be adapted to allow for the changes to the government return.

40. 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.

41. For 2024/25 the baseline budget requirement (or 'Baseline Funding Level (BFL)) is deemed to be £4,032k. The safety net kicks in at £3,729k, meaning the first £302k 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 £3,729k).

42. BR revaluation occurred in April 2023, the effect of which was an increase of 19% to the rateable value of properties in the Dover area. But this is offset by adjustments to the BFL so the revaluation was broadly neutral at both the local authority and the national level.

43. 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.

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

- "Real" Growth
- The DDC BR Profile
- Renewable Energy Income
- The Business rates Pilot and Pool

Real Growth

45. The Dover District has been successful in generating significant real growth in developments in the district during 2016/17 – 2024/25 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.

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

DDC BR Profile

47. 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.

Dover's Rateable Values	**Rateable Value [2] £000**	**%**
Channel Tunnel	40,000	31
Discovery Park	12,346	10

[2] 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.

Dover's Rateable Values	Rateable Value [2] £000	%
Dover Harbour Board	3,810	3
Tesco, Whitfield	1,820	1
Sub Total	**57,976**	**45**
Remainder[3]	71,561	55
Total	**129,537**	**100**

Renewable Energy Income

48. 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.

49. The 2023 revaluation 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

50. 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 2024/25.

51. 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 2024/25.

Forecasts

52. The outcome for 2024/25 is expected to see an improved position compared to 2023/24. There is expected to be a surplus 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.

COUNCIL TAX

53. A Council Tax increase of 2.98% for DDC purposes has been assumed for the 2024/25 budget which, if approved, will produce a Band D Council Tax of £214.38. This will result in an increase of £6.21 per year on a Band D property, which is within the Government's capping requirements, which limit increases to 3% or £5, whichever is the greater.

54. The increase in the tax base from 39,974.37 Band D equivalent properties in 2023/24 to 40,874.50 equivalent properties in 2024/25, a rise of 2.25%, is mainly due to new properties being registered for Council Tax (incl. estimates of new builds), plus a forecast reduction in the Council Tax Reduction Scheme (CTRS) and an addition for a small increase in the expected collection rate.

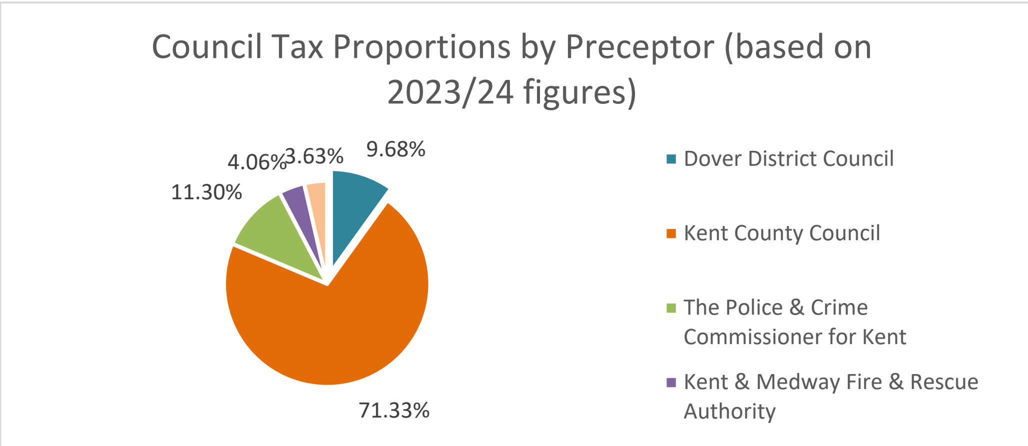
55. The combined impact of the Council Tax increase and the tax base increase is forecast to generate total Council Tax income of £8.76m. For planning purposes, a Council Tax increase of 3% per annum has been estimated for future years.

[3] The next largest site is less than 1% of the total.

56. The total Council Tax charges for a Band D property is made up as follows (information to be added for final circulation of budget):

	2023/24 £	2024/25 £	Increase %	2024/25 Proportion %
Dover District Council (proposed)	208.17	214.38	2.98	TBC
Kent County Council	1,534.23	TBC	TBC	TBC
The Police & Crime Commissioner for Kent	243.15	TBC	TBC	TBC
Kent & Medway Fire & Rescue Authority	87.30	TBC	TBC	TBC
Sub-Total	**2,072.85**	**TBC**	**TBC**	**TBC**
Town & Parish Council (average)	78.06	TBC	TBC	TBC
Total Band D Council Tax	**2,150.91**	**TBC**	**TBC**	**TBC**

57. 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' 2023/24 BAND D COUNCIL TAX

58. DDC has one of the lowest Council Tax rates in Kent. A comparison with the East Kent authorities' 2023/24 Council Tax rates below shows the percentage that their 2023/24 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	208.17	-	-
Canterbury City Council	232.92	11.89%	£989k
Folkestone and Hythe District Council	272.07	30.70%	£2.6m
Thanet District Council	255.54	22.76%	£1.9m

NEW HOMES BONUS

59. New Homes Bonus (NHB) was funded by DLUHC[4] 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.

60. The grant awarded to Dover since the start of the scheme is detailed below:

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	2024/25	346	346	1
Future Years (Est)	2025/26 onwards	0	0	n/a

61. 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 2024/25 NHB calculations was sufficient to receive an award of £346k, including £72k for the delivery of affordable homes.

62. For the purposes of the MTFP it has been assumed that the NHB grant will be reduced to nil for future years.

FUTURE FUNDING

63. The future of Local Government funding remains uncertain with numerous unknowns with potential significant impacts on local authority budgets, including:
- The Fair Funding Review
- New Homes Bonus replacement (if any)
- 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.

64. The forecasting for future years has taken assumptions from our funding advisors for each stream and includes a Business Rates reset from 2026/27. These forecasts also include the cessation of New Homes Bonus and Services Grants in the timescale. The total impact

[4] Department for Levelling Up, Homes and Communities

of all these changes would result in a reduction in funding of over £2m in 2026/27. 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

65. The Collection Funds are statutory funds. They sit entirely outside of the General Fund and the Council budget.

66. The Council manages separate collection funds for Council Tax and Business Rates. Every year the Collection Funds are credited with the income from Council Tax and Business Rates (c. £92m and £54m respectively).

67. The Council Tax collection fund 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.

68. 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 collection fund or contribute the projected deficit back to the collection fund to top it up. This is a continuous rolling process.

69. It is forecast that DDC's share of the NDR deficit at the end of 2024/25 will be £768k, 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

70. In the 2022/23 budget process it was recognised that to mitigate the risk and volatility associated with the budget process a £4m smoothing reserve should be created to enable the council to take a measured approach to the forecast pressures.

71. Significant savings were included in the 2023/24 budget, alongside application of the Smoothing Reserve to finance the forecast 2023/24 residual deficit of £1m. This 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. Based on current forecasts it is expected that c.£1.1m will be applied from the Smoothing Reserve in 2023/24, leaving £2.9m for future requirements. Replenishment of this reserve will be considered as part of future budget setting processes.

72. The 2024/25 budget is currently forecast to have a small deficit of £20k, before the £2.8m impact of the DEFRA decision to withdraw funding for the PHA. The cost to DDC of maintaining the current PHA service will need to be financed from other earmarked reserves in 2024/25 to protect the purpose for which the Smoothing reserve was established.

73. 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.

74. The forecasts contain a significant margin of uncertainty and pressures from inflation, the macroeconomic position and the future of local government funding. It is currently anticipated that, excluding the pressures from the DPHA function, there will be a requirement to deliver savings and / or income generation in the region of £1m for 2025/26, followed by a further £1.5m in 2026/27 and £700k in 2027/28, as detailed in Annex 2.

75. 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.

76. Further supporting information on the GF budget is provided in the following Annexes:

- Annex 1A contains the budget summary for the General Fund,
- 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

77. It is recommended that Cabinet:
- Approve the grants to organisations detailed at Annex 9.

78. It is recommended that Council:
- Approve the General Fund Revenue budget for 2024/25,
- 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

79. 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.

80. The second concerns housing development and investment, and includes developments by the HRA, Registered Providers (RPs) and by the private sector.

HRA FINANCIAL OBJECTIVES

81. 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.

82. At the time of writing, the HRA has 4,426 dwellings, made up of 2,677 houses and 1,749 flats.

2024/25 DRAFT BUDGET AND MEDIUM-TERM FORECAST

83. 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 (HIR) balance to be used for restorative measures on DDC's housing stock,
- The housing development projects (as detailed in paragraph 109) for the planning period will be funded by retained right-to-buy receipts, grant funding and borrowing[5],
- Increase in social rent of 7.7% as per DLUHC,
- Increase in affordable rent on average of 27.9% (based on government changes to Local Housing Allowance (LHA) rates),
- Increase in shared ownership rents of 9.4% as per DLUHC guidance.

84. The future year projections show an increasing income stream from rents. This is due to the Government's guidance to increase rents annually by CPI+1% (totalling 7.7% for

[5] 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.

2024/25). These rent increases help to partially offset the general inflationary pressures on the HRA expenditure and to maintain service levels. The Housing Initiatives Reserve (HIR) is currently planned to be used to continue the restorative measures on DDC's council stock.

85. During 2024/25, and for the duration of the MTFP, it is assumed that the HRA development projects will be funded through retained right-to-buy receipts, external funding and borrowing. The council is aiming to add 200 units per year to its housing stock, progress is under way, see paragraph 113 for more details, and further developments and proposals in the pipeline.

86. Annex 5 provides a draft HRA budget summary & Annex 5A details the 4-year forecast position for the HRA.

87. 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

88. With effect from 1st April 2012 the government replaced the 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.£64m.

89. The HRA budget is funded for 2024/25. The HIR balance during 2024/25 is being used for restorative works. New projects will use borrowing, as required, to support the on-going programme of housing development.

90. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2024/25 budget is based on the work programme provided by the property services section and incorporating the results of the survey. A new stock condition survey is planned for 2024/25 to review the latest position and provide up to date information for forecasting futures works and budget requirements.

91. 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.

<u>Rent Setting</u>

92. Council house rents are effectively controlled by Government. The current guidelines from the Department for Levelling Up, Housing & Communities (DLUHC) are for social rents to be increased using CPI + 1%, this results in an increase for 2024/25 of 7.7%. Social rent levels are calculated on an individual property basis using rent formulas previously prescribed by DLUHC.

93. It is not, therefore, possible to report on the rent to be set for, say, a standard 2-bedroom flat or a standard 3-bedroom house. However, for Members' information the following figures may be helpful:

- The 2023/24 average weekly social rent across all properties is £96.56,
- The 2024/25 average weekly social rent is forecast to be £103.99,
- The increase in the average weekly social rent is £7.43 or 7.7%, and
- Three bedroom houses have rents (for 2024/25) ranging from £99.78 per week to £130.68 per week with an average of £113.86.
- These rents are all significantly lower than those available in the private rental sector.

94. 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 are as below for 2024/25:

- Shared accommodation/Bedsit - £99.30 weekly rent,
- 1 Bedroom - £117.37 weekly rent,
- 2 Bedrooms - £159.95 weekly rent,
- 3 Bedrooms - £199.07 weekly rent,
- 4 Bedrooms - £276.16 weekly rent.

95. 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.

96. DDC completed a preliminary investigation into a BRMA review which showed that the Local Housing Allowance (LHA) rates for the Dover-Shepway BRMA were not reflective of the existing housing market which has changed significantly since 2011 when the current BRMAs were established. Subsequently, DDC completed and submitted a report to the Valuation Office Agency that requested they review the Dover-Shepway BRMA boundary to bring it into line with the changes highlighted in the report. Our request for a boundary review was refused by the VOA.

97. DDC also has 34 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%.

98. 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% (as at the September prior to the financial year) per annum. For Members' information the following figures may be helpful:

- The 2024/25 average weekly shared ownership rent is forecast to be £68.17,
- The increase in the average weekly shared ownership rent is £5.85 or 9.4%.

Capital Receipts

99. 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.

100. As at the end of December 2023 there had been 3 RTB sales in the financial year. It is estimated that retained ‘excess receipts’ will be in excess of £125k 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.

101. 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.

<u>Service Charges</u>

102. 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.

103. 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

104. The management of DDC’s housing stock has been with DDC since 1st October 2020 following a special Cabinet meeting to bring it back in house on 20th February 2020.

105. The stock had previously been managed by East Kent Housing (EKH) who also managed the stock for Canterbury, Folkestone and Hythe and Thanet Councils. The three other Councils also decided to take back the management of their own housing stock.

106. 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.

107. 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 4th November 2019).

HRA BUSINESS PLAN

108. 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 2024/25 to assess the on-going impact of the current restorative works, future spending plans, the impact of the macroeconomic environment and other relevant factors on the long-term viability of the HRA.

HOUSING DEVELOPMENT AND INVESTMENT

109. Housing development and investment within the district is a corporate priority and is taking place on a number of fronts, of which the most significant are:

- HRA Investment, utilising
    - External funding
    - 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

110. These are discussed in more detail below.

HRA INVESTMENT

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

111. 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.

112. Since 2017/18 HIR funding, coupled with 1:4:1 Right to Buy funding and borrowing plans have enabled the purchase of 87 former Council properties which have been added to the HRA stock.

113. Current and future projects underway to provide additional affordable housing in the district are detailed below.

- 24 interim housing properties at Barwick Road Dover.
- 9 properties at Military Road, Dover.
- 10 properties at Mongeham Road, Great Mongeham.
- Local Authority Housing Fund – 22 property purchases.
- 83-87 Folkestone Rd – 11 flat purchases.
- Willowbank, Sandwich – 20 shared ownership purchases.

114. The current economic climate of construction inflation and higher interest rates and the VOA's refusal to adjust LHA rates in the district above their currently unfeasibly low level, means that the viability test for new developments is hard to pass. We continue to work constructively with Homes England to find support for new projects where possible.

115. It is proposed that the pipeline projects for 2024/25 and future projects will be financed by external funding, retained right-to-buy receipts and borrowing. The balance in the HIR at

the end of 2023/24 is projected to be around £5.5m. The four year HRA forecast (Annex 5A), shows the balance will be largely depleted by the end of 2027/28 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 2024/25 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.

Supporting Information

117. Further supporting information on the HRA budget is provided in the following Annexes:

- Annex 5 contains the budget summary for the HRA,
- Annex 5A shows the four-year forecast by categories of expenditure and income,
- Annex 5B details the revenue and capital works programmes.

Recommendations from this Section

118. It is recommended that Council:

- Approve the HRA budget for 2024/25;
- Approve the HRA Capital and Revenue Works Programmes.

ASSET MANAGEMENT PLAN (AMP)

119. 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.

120. Property Assets are currently working on previously identified priorities but note the need to prepare a new AMP and review corporate priorities moving forward.

121. 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 (Place and Environment) 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 mean that there isn't sufficient resource to facilitate significant reductions in the carbon footprint of DDC owned assets.

122. There is a growing backlog of planned maintenance required for "Operational Assets". Significant expenditure is needed at:

- Tides Leisure Centre - an ageing facility and currently undergoing viability work to assess future provision at this site. Work to mechanical and electrical services in the last few years has addressed the short-term future of the building but essential repairs and maintenance are a continual risk as parts of the current centre reach the end of their operational life.
- Deal Pier - a concrete clad metal structure in a maritime environment and therefore subject to enhanced rates of corrosion. It therefore needs cyclical repairs; these were last undertaken about 10 years ago. There is allocation within the 2023/24 MTFP to cover the cost of investigation works, with survey work due to commence Spring 2024. This survey will help determine the extent and cost of any necessary repair works.

123. Significant restoration works are currently underway at Dover Town Hall (Maison Dieu) as part of National Lottery Heritage Fund funded works with the project due for completion late 2024.

<u>Summary</u>

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.

PROJECT PROGRAMMES

Purpose of the Project Programmes

124. The primary objectives are to:

- Maintain achievable, affordable project programmes,
- 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

125. 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.

126. Of the above only revenue resources and the use of external leasing can be applied to meet revenue requirements.

Content of the Capital Programme

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

128. However, if formal approval is required for every minor change in the programme, this will potentially generate delays. 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,
- A summary of changes will be provided in the quarterly performance reports,
- 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.

129. 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 (Finance and Housing / Section 151 Officer).

130. 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 (Finance and Housing / Section 151 Officer) in consultation with the Portfolio Holder responsible for Finance.

131. In addition, a contingency has been included on the 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 (Finance and Housing / Section 151 Officer) in consultation with the Portfolio Holder responsible for Finance.

132. 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.

133. The structure of the programme is reflected in the format of Annex 6A and is explained below:

- Committed Projects
  These are live 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 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

134. 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

135. 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 Project Programmes

136. 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 (Finance and Housing / Section 151 Officer), 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 projects according to the priority of the projects and the availability of financing.

137. 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.

138. 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

139. 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

140. From 1st April 2012 new Right-to-Buy regulations were introduced under the Housing Finance Reform Debt Settlement. This allows authorities to retain receipts for 1:4:1 replacement of Affordable Housing, see paragraph 99 for more details.

141. Right-to-Buy (RTB) sales in 2023/24 have been at a much lower level than in 2022/23. 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.

142. The Council generally retains 100% of non-HRA capital receipts and non-RTB HRA capital receipts, subject to capital allowance regulations.

143. Annex 6B details the level of capital receipts held, expected, committed to projects and to be used for new projects. Future capital receipts are expected to come mainly from housing right to buy sales and amount to circa £125k 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

144. 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 (Finance and Housing / Section 151 Officer) 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 2023/24 is currently showing this trend is continuing. Therefore, the amount of receipts available for general capital purposes remains limited.
- The detailed financing of the Project Programmes is delegated to the Strategic Director (Finance and Housing / Section 151 Officer) in consultation with the portfolio holder responsible for Finance.
- 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

145. It is recommended that Cabinet:

- Delegate the approval of projects included in Annex 6D, the Digital & ICT Programme, to the Digital Services Manager, in consultation with the Head of Finance & Investment and the Portfolio Holder responsible for ICT.

146. It is recommended that Council:

- Approve the Capital, Special Revenue 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

147. 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.

148. 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.

149. Annexes 7A – 7C (to follow) set out estimates for each of the relevant Prudential Indicators in each of the financial years 2024/25 to 2027/28 and include the latest estimates for 2023/24 aligned with the revised forecast budget. Approval is sought for the proposed indicators for 2024/25 – 2027/28.

150. 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

151. 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.

152. Approval of the strategy is a Council decision.

RECOMMENDATIONS FROM THIS SECTION

153. 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 – to follow).

KEY ASSUMPTIONS & READY RECKONER

Background

154. 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

155. Salary inflation will be based on the results of the Collective Bargaining process.

156. Contract inflation for 2024/25 is based on the details of the specific contracts, the state of the market for the specific services and any other relevant factors.

157. General inflation is assumed to be 3% for 2025/26, reducing to 2% for future years.

Staff Numbers

158. The 2024/25 budget includes 480 full time equivalent posts directly employed for DDC. This includes 34 Port Health posts and 8 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

159. The triennial valuation took effect from April 2023, when the Council's actuaries agreed a reduction in payments to the pension fund to clear the Council's deficit over eleven years rather than eight. It is assumed that the annual DDC backfunding contribution will increase by 5% per annum for the planning period.

Interest Rates

160. It is assumed that DDC will maintain the 2024/25 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 (RSG)

161. The local government settlement provides figures for 2024/25. For 2024/25 the RSG has increased. For financial planning purposes it has been assumed that RSG will continue for the remainder of the MTFP planning period

Non-Domestic Rates (NDR) Retention

162. The calculations are based on working figures from models that are used to estimate the NDR1 figures and what they will be. The figures will be reviewed following the completion of the NDR1 returns and will be updated in the second circulation of the papers if the changes are significant. The forecasts assume the same level of NDR income in 2025/26, followed by a reduction due to NDR reforms impacting from 2026/27.

Council Tax

163. Council tax increases have been assumed at 3% for 2025/26 and for the remainder of the planning period. It is also assumed that the Council Tax base will increase by 1% per year.

New Homes Bonus (NHB)

164. 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 be reduced to nil by 2025/26.

Capital Projects

165. 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.£88k,
- NDR – 1% growth in BR income equates to c.£136k (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.£68k.

SIGNIFICANT BUDGET RISKS

166. 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.

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

168. Expenditure risks:
- Macroeconomic environment and inflation
- Port Health
- Pension Funding
- Homelessness
- Contract renewals
- Major capital projects

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
1	Port and Border	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. Impact is dependent on the events, timing, duration and the responses of other agencies.
2	Port Health	DEFRA have given late notice they are withdrawing £2m of funding from Dover Port Health Authority for 2024/25 and the remaining £1.2m of funding in 2025/26. Either DDC funds Port Health Authority for the benefit of the UK food chain and pork industry (which is now at high risk) or checks at the border and Coquelle will cease, with biosecurity, food security, economic and reputational risks to Dover and the UK from the unintentional introduction of diseases such as African Swine Flu.	£2m in 2024/25. £3.2m in 2025/26.
3	Business Rates	The key challenges are: • Maintaining collection rates during a difficult trading climate for many companies. • Future re-sets of the DDC baseline, sacrificing some / all of the gains made to date.	£8m pa

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		• The outcome of the 2023 revaluation – will likely have new appeals as a result. • Individual appeals from large BR payers. • Fraudulent claims, appeals and tax evasion by BR payers. • Difficulty in forecasting future BR taxbase changes. • Operation of the Collection Fund and the timing of recognition of income. • Unexpected revaluations, errors and initiatives by the VOA. • Errors in the DLUHC settlement. • DLUHC not using the most recent data in the settlement. • Changes in the renewables schemes. • Weak BR performance by other Kent districts leading to an impact on the Kent pool. • Poor understanding of the regime by DLUHC. • The Fair Funding Review leading to changes in the baseline or other aspects of the regime. 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. 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.	
4	New Homes Bonus	Government have changed their commitment to New Homes Bonus and are expected to scrap it altogether. This is a core part of DDC's funding stream, generated in recognition of 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. The key issue will be whether NHB is replaced and if so, by what.	£0.36m pa.

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
5	Fair Funding Review	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 2024/25 and to apply from 2025/26. Pressure from upper tier and unitary authorities and the challenges arising from adult social care may reduce the resources available to district councils. 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.	Unable to forecast at the time of writing.
6	Council Tax Base & Collection Rates	The draft budget includes the current forecasts of the Council Tax base and collection rates. The uncertainty around current economic performance and employment may have an on-going impact on Council Tax income.	£8.8m pa
7	Treasury Management	Of the current forecast £2.4m 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. 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.	£1.9m pa
8	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.	£2.35m pa
9	Capital resources and receipts	Capital resources (other than borrowing) are almost depleted and will not be easily replaced from revenue contributions or receipts. 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. 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.	£125k pa (average level)

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
10	HRA rent arrears	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. 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.	Annual HRA rent £23.6m Current arrears £550k
11	Car Parking	Car parking income is affected by visitor numbers, shopping patterns, household income and charge levels and is therefore difficult to predict. A review of parking is proposed, and this may lead to changes in parking charge arrangements.	£3.2m pa
12	Homeless expenditure	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. The service will continue investigating innovative options and working with partners to support homeless requirements in the district.	£1.7m
13	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.
14	Major Capital Projects	The Council is involved with a number of major capital projects including Bench Street (Levelling Up Fund round 2), Fasttrack, Maison Dieu, Tides. 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. Mitigation is through robust forecasts of costs, contingency, effective contracts and contract management.	Unable to forecast.

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
15	Supported Housing	The government have proposed self-funding licensing arrangements for regulating the Supported Housing sector. However, the regulations are still awaited. It is not possible to forecast the budget sensitivity. The government had declined the opportunity to address the gap between the cost to the Council of the supported housing premium (when the housing is provided by charities and the private sector) and the lower level of housing benefit that can be reclaimed. In addition to this long-standing financing anomaly, the level of supported housing in Dover is increasing as KCC decant their own facilities and the net costs are shunted to DDC.	 £300k+ pa.