Subject:	**COUNCIL BUDGET 2025/26 AND MEDIUM-TERM FINANCIAL PLAN 2025/26–2028/29**
Meeting and Date:	**Cabinet – 3 February 2025** **Overview and Scrutiny Committee – 17 February 2025** **Cabinet – 3 March 2025** **Council – 5 March 2025**
Report of:	**Mike Davis, Director of Housing, Finance and Assets**
Portfolio Holder:	**Councillor Stacey Blair, Portfolio Holder for Finance, Governance, Climate Change and Environment**
Decision Type:	**Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To progress approval of the 2025/26 budget and the Medium Term Financial Plan (MTFP) for 2025/26 – 2028/29
Recommendation:	It is recommended that Cabinet: • Consider the draft General Fund Revenue Budget, the Project Programmes, the Housing Revenue Account budget, and the content of the Medium Term Financial Plan (MTFP) as proposed in Appendix 1, and advise the Director of Finance, Housing and Assets of any changes they require to be incorporated in the final version. • Note that the calculation of the 2025/26 Business Rates impact on the General Fund funding is still being finalised. Any changes will be reflected in adjustments to the use of the smoothing reserve in the final budget. • Note that the remaining Annexes, including the Council Tax Resolution and Treasury Management, Investment and Capital Strategies will be added to the MTFP and that other adjustments may be made before being presented to Cabinet and Council in March.

1. Summary

1.1 This report should be read in conjunction with the Chief Finance Officer's Section 25 report included separately on this agenda.

1.2 The budget faces a range of immediate uncertainties due to the macroeconomic position, the on-going challenges with the local government funding model and the impact of working with DEFRA and being a Port Health Authority (PHA).

1.3 This report sets out the broad areas of pressure and uncertainty and the strategy adopted to deal with them.

1.4 In summary the position is:

i) The General Fund budget for 2025/26 forecasts a deficit of c.£432k, funded from earmarked reserves, reflecting the pressures of homelessness and key income streams – pressures also faced by many councils nationally.
ii) Proposed DDC Council Tax increase of £6.39 (2.98%) per annum (12p per week) for a Band D property, maintaining the lowest Council Tax in East Kent.
iii) There are no major reductions in services proposed within the budget.
iv) Housing rents will increase by 2.7%. The typical weekly rent on a 3 bedroom house will be £117.38 and is much lower than the private sector equivalent.
v) The Housing Revenue Account forecasts a surplus of £520k.
vi) The Capital Programme is fully funded but resources for future projects are limited.

1.5 The forecasts contain a significant margin of uncertainty and pressures from homelessness, future funding, inflation, service proposals and the macroeconomic position. As a result, there is a risk that measures to produce a balanced budget may be too severe, or insufficient. To mitigate this risk the Council has a Smoothing Reserve which can be utilised to deal with unforeseen pressures faced.

1.6 This approach enables the total forecast pressures over the financial planning period to be balanced by savings and income over the full period whilst assessment of the on-going impact of pressures is undertaken and reviewed.

2. **Overview**

2.1 The budget for 2025/26 and the Medium-Term Financial Plan (MTFP) for 2025 – 2029 have been produced in circumstances that remain unusual and volatile because of the macroeconomic position, inflation levels, impact of being a Port Health Authority (PHA), the unpredictable economic environment and the proposals for local government reorganisation[1].

2.2 These events have led to significant uncertainties at the time of writing, impacting (mainly) the revenue budgets, including:

- 2024/25
  - The final 2024/25 outturn and the reserves and balances to be carried forwards.

- 2025/26
  - The on-going macroeconomic position.
  - Business Rates income.
  - The net costs to Dover District Council (DDC) of the DPHA.
  - Funding decisions by Ministry of Housing, Communities and Local Government (MHCLG).

- 2025 – 2028
  - The net cost to DDC of the future DPHA.
  - The continuing impacts of the macroeconomic position and the speed of economic recovery.

[1] As little information on local government reorganisation and its impact is available, the budget has been produced on a "business as usual" basis.

- 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.

3. **Report Pursuant to Section 25 Local Government Act 2003**

3.1 Section 25(2) of the Local Government Finance Act requires the Council to have regard to the S25 report when making decisions about the calculations in connection with which it is made. The Director of Housing, Finance and Assets (Section 151 Officer) has produced a separate report on this agenda to be consider alongside the budget and MTFP.

4. **General Fund Budget Strategy**

4.1 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.

4.2 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. During the year the forecast budget deficit was decreased to £935k. Overall the year-end position resulted in a £509k deficit for the year, which is £426k less than the forecast position.

4.3 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 was developed. Based on current forecasts it is expected that c.£1m will be applied from the Smoothing Reserve in 2024/25 mainly relating to the on-going homelessness pressures and pressures on key income streams being faced nationally by councils, leaving £2.5m for future requirements.

4.4 The 2025/26 budget is currently forecast to have a deficit of £432k, to be funded from earmarked reserves. It is assumed that the cost to DDC of maintaining the current PHA service will continue to be funded by DEFRA in line with the current arrangements.

5. **Dover Port Health Function**

5.1 See the Section 25 report included separately on the agenda for information on the port health function.

6. **Wider Local Government Finance Picture**

6.1 This section supplements the issues raised in the Section 25 report.

6.2 There is a pressing need for reform to local government finance. It is not possible to set out in detail all the variables and potential outcomes. The notes below provide the headlines.

<u>Core Spending Power</u>

6.3 Core spending power is a measure used by central government to demonstrate the resources available to local authorities and includes council tax as well as Revenue Support Grant, Business Rates etc. The measure has its flaws, but it does demonstrate an overall trend and shire districts have generally seen the largest reduction, or smallest increase, in core spending power.

Council Tax

6.4 The Government is placing an increasing burden for funding local services onto the local taxpayer. Overall, approximately 56% of Core Spending Power (CSP) across England in 2024/25 is forecast to be funded from Council Tax.

6.5 Council tax increases for shire districts is proposed, in the settlement consultation, to be limited to 2.99% or £5, whichever is the greater. This maintains the existing inequity between low and higher taxing districts. DDC is a low tax district.

Business Rates Retention

6.6 There are several potential changes to the Business Rates Retention (BRR) scheme.

6.7 A baseline re-set is overdue. At present Councils still work to the baseline that was set when the system was introduced. A reset will remove some, or all, of the retained Business Rates arising from growth. This will feed resources back into the system, but without some form of damping the impacts on “growth” councils could be significant and appear to be penal to councils reliant on the extra income from growth and therefore delivering the government’s agenda.

Recovery Grant and Funding Guarantee

6.8 In 2025/26 a new ‘Recovery Grant’ is to be distributed to local authorities as part of the core spending power calculations that government undertook. The grant is currently intended to be for 2025/26 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. For financial planning purposes it has been assumed that the grant will reduce significantly in 2026/27 and will cease by 2028/29.

7. Housing Revenue Account (HRA)

7.1 The HRA budget has been set based on the current anticipated level of costs of running the service. Rent levels will be set in line with government guidance of CPI + 1% (equating to 2.7% for 2025/26). To further strengthen the HRA budget and planning, a stock condition survey started in 2024/25 and will continue over 4 years to ensure the programme of investment remains affordable and that stock condition is maintained. This results in a forecast surplus for the HRA of £520k for 2025/26.

7.2 DDC’s Tenancy Strategy 2021-2026 states that the Council’s view is that wherever possible affordable rent levels should not exceed Local Housing Allowance (LHA) rates, the LHA rates are remaining the same as 2024/25 so therefore affordable rents will stay at the same levels.

7.3 The shared ownership properties increase as per the lease which states RPI + 0.5% which for 2025/26 is a 3.2% increase in weekly rents.

7.4 The HRA is viable now and in the medium term, even with the underlying pressure to borrow, but this relies on rigorous financial discipline to ensure that the current investment programme is managed within existing and forecast resources.

8. **Capital and Revenue Projects Programmes**

8.1 The Council holds limited capital resources (other than the capacity to borrow[2] and any grants (often match funded) that the Council is awarded), but within these resources it has discretion over which projects to support. In setting the project programmes for the future it is important to note that:

- Capital resources are virtually exhausted if all current commitments are met;
- The capital and GF revenue budgets are interdependent and pressure on one can lead to pressure on the other;
- The ability of the revenue budget to contribute to capital resources in the future is very limited;
- Assets for sale to gain future receipts are limited;
- Proposed changes to "Right to Buy" are likely to lead to a reduction in HRA housing sales.

8.2 The proposed project programmes show that these limited resources have been applied to prioritise regeneration projects in support of the Council's corporate objectives. Resources for new projects not currently included in the proposed programme are expected to be significantly limited.

9. **Identification of Options**

9.1 It is a statutory duty to set a budget and approve a Council Tax level. This report seeks Cabinet's approval to consider the proposed budget and associated content in the MTFP. Therefore, there are two options:

9.2 Option 1 - Approve the proposed budget to be progressed for final review by Cabinet and approval by Council and approve the increase to social, affordable and shared ownership rents; or

9.3 Option 2 – Propose changes to the proposed budget to be presented to Council and propose changes to the proposed Council Tax and rent levels.

10. **Evaluation of Options**

10.1 Option 1 - Approve the proposed budget to be progressed.

10.2 The proposed budget recognises that there is a wide range of unknowns in the expenditure, income and financing of the Council for 2025/26 and that, as in 2024/25, the Council needs the ability to be able to react to changing circumstances and demands in a timely manner.

10.3 The budget therefore proposes to address this by continuing to provide the Section 151 Officer with delegated authority (in consultation with the Leader and the Portfolio Holder for Finance, Governance and Digital) to draw on reserves to meet unexpected costs or lost income, should that be necessary without recourse to Council for a revised budget. For these reasons, this is the recommended option.

10.4 Option 2 – Propose changes to the proposed budget to be presented to Council and propose changes to the proposed rent levels.

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[2] Borrowing can be undertaken for capital projects but revenue budgets have to finance the interest and repayment costs. This makes it more difficult for projects to be viable.

10.5 There are two ways to approach this. First, the option to flex the budget in year could be rejected in favour of a more rigid budget envelope. Second, within the proposed envelope, resources could be moved between areas of service.

10.6 Fixing the budget envelope at the current time, with the range of uncertainties set out in this report, would inhibit the Council's ability to react to changing circumstances. The allocation of resources between services reflects the existing level of service provision and the current service pressures.

10.7 Members could also choose to apply more reserves to balance the budget and set a lower Council tax. This would have implications for the Council's ability to maintain services in the future.

10.8 The social rent increases proposed are in line with government policy of CPI + 1% and so cannot be increased further, the shared ownership rents are restricted to RPI + 0.5% which is stated in the shared ownership leases. Affordable rents are increasing as DDC policy is that affordable rents are kept at the same level as Local Housing Allowance (LHA). The LHA rates have been increased to the 30th percentile of local market rates by the Valuation Office Agency (VOA). A lower increase could be implemented for all rent types, but this would create further pressure on the future viability of the HRA.

10.9 For these reasons this is not the recommended option.

11. Resource Implications

11.1 The revenue budgets and capital plans determine the level of Council Tax and the utilisation of resources for the next year. The MTFP is a key element in the prudent use of resources over the medium term.

12. Climate Change and Environmental Implications

12.1 Recovery plans, strategies and projects should all consider the impacts on Climate change on a case by case basis, and what could be done within the Council's resources to reduce emissions to support delivery of DDC's Climate Emergency ambitions.

13. Corporate Implications

13.1 Comment from the Director of Housing, Finance and Assets: No further comments to add (MD).

13.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

13.3 Comment from the Equalities Officer: This report relating to the Council Budget 2025/26 and Medium-Term Financial Plan 2025/26 – 2028/29 does not specifically highlight any equality implications. Members are reminded that in discharging their duties they are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010
http://www.legislation.gov.uk/ukpga/2010/15/section/149

14. Appendices

Appendix 1 – Draft Budget 2025/26 and Medium-Term Financial Plan 2025/26–2028/29

15. **Background Papers**

2025/26 Budget Working Papers

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