APPENDIX 1

DOVER
DISTRICT
COUNCIL

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

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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 financial management process and in conjunction with other plans and strategies, in particular the Corporate Plan and the Asset Management Plan. This MTFP covers the period 2025/26 – 2028/29.

4. Year 1 (2025/26) is the formally approved budget for the coming year. Years 2 – 5 of the MTFP (2026/27 – 2028/29) are included as “indicative budgets” for planning purposes. These will be rolled forward and amended in subsequent MTFPs (Medium Term Financial Plan) 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 ongoing requirements and funding for the Dover Port Health Authority (DPHA).

6. Significant uncertainties at the time of writing, impacting (mainly) the 2024/25 revenue budget, include:

- 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.
    - 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.

7. In addition, the impact and timing of local government devolution and re-organisation is likely to have a very significant impact on costs, activities and the basis of decision making across the whole period of the budget and MTFP, but the scale of this impact and any central funding provision are currently unknown.

DEVOLUTION AND REORGANISATION TIMELINE

8. The Government wants to end the two-tier council system and replace it with unitary councils with a population of >500k. These unitaries will be 'principal authorities' that will deliver the public services and will replace counties and districts.

9. Kent County Council (KCC) have submitted an expression of interest (EOI) to be in the first wave of authorities moving to this new arrangement with either 3 or 4 unitary authorities covering the current areas of Kent County Council and Medway Council.

10. Government's decision is expected to be given by the end of January 2025. If the Government approve KCC's EOI, then it is expected that a shadow authority will be created in 2027, with vesting day for the new authority of 1st April 2028.

11. That would mean there are 3 further years of DDC and that this MTFP stretches beyond the last year of DDC.

12. There are many unknowns at the current time, the most significant being whether the Kent and Medway areas are in the first wave. In the meantime, the Council must continue to manage business as usual and continue its proper financial management. This MTFP has been prepared on that basis.

BUDGET HEADLINES

GENERAL FUND

13. The General Fund (GF) headlines are:

- The General Fund budget for 2025/26 forecasts a budget deficit of £432k, funded from earmarked reserves.
- General Fund balance forecast to be maintained at £1.5m.
- 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.
- There are no major reductions in services proposed within the budget.
- The 2025/26 budget assumes that the Dover Port Health Authority (DPHA) function will be cost neutral.

THE HOUSING REVENUE ACCOUNT

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

- The Housing Revenue Account forecasts a surplus of £520k.
- 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.
- The housing development programme is continuing to deliver additional social rent, affordable rent and shared ownership homes 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 2025/26.
- Housing Initiatives Reserve is forecast at £17m at the end of 2025/26.

THE CAPITAL AND SPECIAL REVENUE PROJECTS PROGRAMME

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

- The current Capital Programme totals £111.8m and is fully funded. The major projects in the programme are:
  - Dover Beacon Project
  - Major restoration works on Maison Dieu (Dover Town Hall)
  - Future High Street Funding
  - Regenerations Projects
  - Tides Leisure Centre Replacement
  - Deal Pier Repairs

- The current Special Revenue Programme totals £20.4m 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.
- The government are also consulting on changes in right to buy discounts and qualification periods which may reduce sales further.

- 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.
- The current HRA Capital programme totals £109m, the main projects included in the programme are:
    - Affordable Housing developments, including:
        - Grove Road, Preston
        - Military Road, Dover
        - Willowbank, Sandwich
        - Easole Street, Nonnington
    - HRA Property Purchases
    - District Development Sites
    - Section 106 Purchases
    - HRA Improvement Works

TREASURY MANAGEMENT AND CAPITAL STRATEGIES

16. 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

17. 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.

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

THE GENERAL FUND REVENUE ACCOUNTS

INTRODUCTION

19. 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) and various grants including Revenue Support, Funding Guarantee and New Homes Bonus. There are new finances being received called the Recovery Grant and Extended Producer Responsibility Funding.

FINANCIAL OBJECTIVES

20. 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

BUDGET DISCIPLINE

21. 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.

22. 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.

23. 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.

24. 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

25. The Council’s GF revenue budget for 2025/26 is shown in Annex 1. The budget forecasts a deficit of £432k for 2025/26, to be funded from the Operational and Fee Income Reserve, recognising the pressures on homelessness and key income streams in the year. The GF balance is forecast to be maintained at £1.5m.

26. The main factors impacting the General Fund budget are the ongoing and increasing pressures to support homelessness across the district, pressures on key income streams

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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.

and uncertainties relating 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.

2024/25 FORECAST OUTTURN

27. The 2024/25 original budget forecast a surplus of £1k (excluding the £2.8m pressure to maintain the Dover Port Health service with the uncertainties relating to on-going DEFRA funding). The budget forecast included £567k 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.

28. Progress to deliver these targets is being made, and further budget variances have been identified in-year. The 2024/25 outturn as at 31st December 2024 forecasts a deficit of £1.05m deficit, mainly relating to the on-going homelessness pressures and pressures on key income streams being faced nationally by councils, to be funded from the general fund earmarked smoothing reserve.

29. There remain a number of uncertainties which may continue to impact the outturn position. These include the economic environment, inflation and interest rate pressures, business rates collection rates and potential appeals, Council Tax collection rates, homelessness levels, supported housing costs, and the future of the Port Health service.

VARIANCES BETWEEN 2024/25 BUDGET AND 2025/26 PROPOSED BUDGET

30. 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.

31. The table below summarises details the main variances between the 2024/25 original budget and the proposed 2025/26 budget.

Ref		£000	£000
	2024/25 Original Budget Forecast Surplus		**(1)**
1	Increase in forecast total National Non-Domestic Rates (NNDR) funding	(95)	
2	Increase in Council Tax income	(536)	
3	Increase in Council Tax Collection Fund surplus	0	
4	Increase in New Homes Bonus funding	(188)	
5	Introduction of Extended Producer Responsibility Funding	(1,019)	
6	Other grant funding movement	602	
7	**Movement in funding**		**(1,237)**
8	Increase in interest receivable forecast	(168)	
9	Increase in interest payable forecast	213	
10	Review of Grounds Maintenance service	(50)	
11	Review of Street Cleansing levels	(150)	
12	Reduce Corporate Maintenance provision	(110)	
13	Review of Deal Pier service provision and income options	(100)	
14	Review of Community service provision and income options	(50)	
15	Review of CCTV service provision and income options	(80)	
16	Target income stream, subject to the outcome of the parking strategy	(100)	
17	Target income stream from garages, beach huts & other properties	(150)	
18	Staff savings proposed from changes to senior structure and other changes	(245)	
18	Miscellaneous other savings	(50)	

Ref		£000	£000
19	Salaries from 2024/25 incorporated into base budgets	483	
20	**Movement in target savings**		**(602)**
21	Salary and associated staff costs Inflation	660	
22	Other increases in salary costs, including increments, priority areas, etc	310	
23	Increase in pensions backfunding costs	82	
24	Net increase in Homelessness temporary accommodation and other costs	889	
25	Contract inflation (mainly refuse, recycling and street cleansing)	214	
26	Computer software costs due to move to Cloud & increase in licences	97	
27	Increase in external audit charges	50	
28	Increase in forecast revenue costs associated with Tides leisure centre	148	
29	Reduction in forecast building control income	77	
30	Reduction in forecast planning income	98	
31	Reduction in forecast parking income, based on 2024/25 levels	195	
32	Reduction in forecast rental income across all properties	56	
33	Pressures from introduction of persistent organic pollutants regulations	39	
34	Net increase in cost to DDC relating to housing benefits and rent rebates	144	
35	Maison Dieu Staffing	150	
36	General inflationary pressures	182	
37	Increase in recharges to HRA and projects	(737)	
38	Increase in port health certification income	(143)	
39	Forecast increase in green waste income	(101)	
40	Forecast increase in Council Tax & NDR penalty & fine income	(45)	
43	Application of Fee Income & Operational Reserve to offset reduction in recharges to Port Health	(325)	
44	Application of Fee Income & Operational Reserve to offset budget pressures	(440)	
44	Reduced contribution to NDR Pooling Reserve for projects agreed with KCC	(82)	
45	Numerous miscellaneous variances	315	
46	**Movement in services & associated reserves**		**1,832**
47	**General Fund Surplus for the Year**		**(8)**

FINANCING THE BUDGET

32. The net cost of all General Fund services for 2025/26 is forecast to be £21.211m. The bulk of this (87.7%) is financed by locally through Council Tax and the proportion of Non-Domestic Rates retained by the Council.

33. Government provides the balance of just 12.3% through a small number of grants, as shown below.

General Fund Revenue Financing	2024/25 £000	2025/26 £000	% of total
Non-Domestic Rates Income	9,109	9,204	43.4
Revenue Support Grant	254	294	1.4
Recovery Grant	0	451	2.1
Funding Guarantee	1,412	320	1.5
New Homes Bonus	346	534	2.5
Extended Producer Responsibility Funding	0	1,019	4.8
Council Tax	8,763	9,299	43.9

Collection Fund Surplus (Council Tax)	91	91	0.4
Total Financing	**19,975**	**21,211**	**100.0**

34. The basis of government's settlement is based on data collected by government in 2013 and earlier. It is therefore largely out of date and not a reasonable basis for a settlement. The following sections provide further explanation of the Council's main funding streams.

REVENUE SUPPORT GRANT

35. Revenue Support Grant (RSG) (from Government) had been reduced by significant amounts every year since 2012/13, with a slight increase in 23/24. For 2025/26 RSG has increased by 15.5% from £254k to £294k.

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

RECOVERY GRANT AND FUNDING GUARANTEE

37. 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. DDC is to be awarded £451k in 2025/26. For financial planning purposes it has been assumed that the grant will reduce significantly in 2026/27 and will cease by 2028/29.

38. The sector wide Funding Guarantee Grant replaced 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 a significantly reduced award of £320k for 2025/26. This has decreased from 2024/25 when DDC was awarded £1,386k. It is anticipated that this will continue in 2026/27 and that it will then be built into the Settlement Funding Assessment which determines the business rate baseline and subsequently the business rate income we receive.

EXTENDED PRODUCER RESPONSIBILITY FUNDING (EPR)

39. The EPR grant is essentially a tax on the packaging industry to meet the costs of managing the waste their activities generate. The grant is not ring fenced and there are no specific obligations on the Council, other than the recent requirements set out in the government's announcement regarding Simpler Recycling. As the Council's waste collection service is compliant with government requirements, this is just an additional income stream, which based on the assessment calculations, aims to meet the costs we are already incurring in processing packaging waste.

40. There are two particular issues with EPR. First, it has been in development for some years, the calculations of the awards to councils are complex and opaque, and the comparative awards to different districts are hard to explain. DEFRA has committed to provide information on the methodology used to make the calculations "in the spring", so at the moment we don't have sight of the grant, whether it accurately reflects DDCs base data and share of the scheme etc.

41. The second issue is that as a tax, and a source of funding for local government, it may not meet the requirement to remain buoyant. As the packaging industry responds to the tax it

can be expected to reduce the volume of packaging in use and to favour less heavily taxed types of packaging. As a result, the funds generated by the tax may be expected to fall and, accordingly, so would the share paid to waste collection authorities such as DDC. Unfortunately, our collection costs are unlikely to reduce in the same way.

42. Despite apparent commitments that the EPR will be “additional” funds, there have been suggestions that MHCLG may use this to claw back elements of the settlement in future years. So, the basis of this grant for longer term financial planning is uncertain.

43. However, it is worth noting that the phrase used in DEFRA’s notification letter was, "We trust that this guaranteed funding will enable you to drive the changes needed to deliver an efficient service.". Being able to demonstrate that we operate an "efficient" (and "effective") service for the collection of packaging materials is one of the criteria for determining the amount of future EPR payments. DEFRA have indicated that they will be publishing league tables in due course benchmarking Council performance, as a measure to encourage improvement in services.

BUSINESS RATES (BR)

The Business Rates Retention System

44. 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.

45. Although referred to as a 50% local retention system, of which 40% is currently retained by districts, this is not the full picture. DDC 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 2025/26 data before adjustment for S31 grant funding or reliefs).

Attribution of BR Income (Indicative)	**£m**
Dover district net rate yield	**(52.3)**
Less	
50% to Government	26.2
9% to KCC and 1% to Fire	5.2
Retained balance of 40%	(20.9)
Less: **tariff to Government**	16.2
Balance retained by DDC	**(4.7)**

46. 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.

47. 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 must continue to pay the tariff and bear the loss itself until it hits the safety net at which point losses are capped.

48. 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, this has continued to 2025/26.

49. 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.

50. For 2025/26 the baseline budget requirement (or 'Baseline Funding Level (BFL)) is deemed to be £4,081k. The safety net kicks in at £3,775k, meaning the first £306k 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 £3,775k).

51. 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.

52. 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.

53. 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

54. The Dover District has been successful in generating significant real growth in developments in the district during 2016/17 – 2025/26 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 (Valuation Office Agency).

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

DDC BR Profile

56. 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 Rateable Value (RV) of unique properties such as the Channel Tunnel.

Dover's Rateable Values	**Rateable Value [2] £000**	**%**
Channel Tunnel	40,000	31
Discovery Park	12,376	9
Dover Harbour Board	3,270	3
Tesco, Whitfield	1,820	1

[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	%
Sub Total	**57,466**	**44**
Remainder[3]	71,848	56
Total	**129,314**	**100**

Renewable Energy Income

57. 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.

58. 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. With a small inflationary increase, the Renewable Energy retained figure for 25/26 is £623k.

The Business Rates Pool

59. DDC will become a full member of the Kent BR pool in 25/26 after being in a "shadow" pool for previous years, this was agreed at a Kent Pool meeting. The pool has been agreed to continue for 2025/26.

Forecasts

60. The outcome for 2025/26 is expected to see an improved position compared to 2024/25. 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.

61. However, government have also announced that they intend to undertake a re-set of BR. This was long promised by the previous government but never happened. If a re-set is implemented, then it is likely that some / all of the BR growth achieved and retained by councils will be withdrawn and redistributed. It is not certain whether there will be a transitional arrangement and whether DDC would be a winner or a loser in this process.

COUNCIL TAX

62. A Council Tax increase of 2.98% for DDC purposes has been assumed for the 2025/26 budget which, if approved, will produce a Band D Council Tax of £220.77. This will result in an increase of £6.39 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.

63. The increase in the tax base from 40,874.50 Band D equivalent properties in 2024/25 to 42,119.72 equivalent properties in 2025/26, a rise of 3.05%, is mainly due to the inclusion of the 2nd Homes premium, partially offset by a forecast reduction in the expected Council Tax collection rate.

64. The combined impact of the Council Tax increase and the tax base increase is forecast to generate total Council Tax income of £9.3m. For planning purposes, a Council Tax increase of 3% per annum has been estimated for future years.

65. The total Council Tax charges for a Band D property is made up as follows: (Information not yet due from preceptors - to be added for final circulation of budget).

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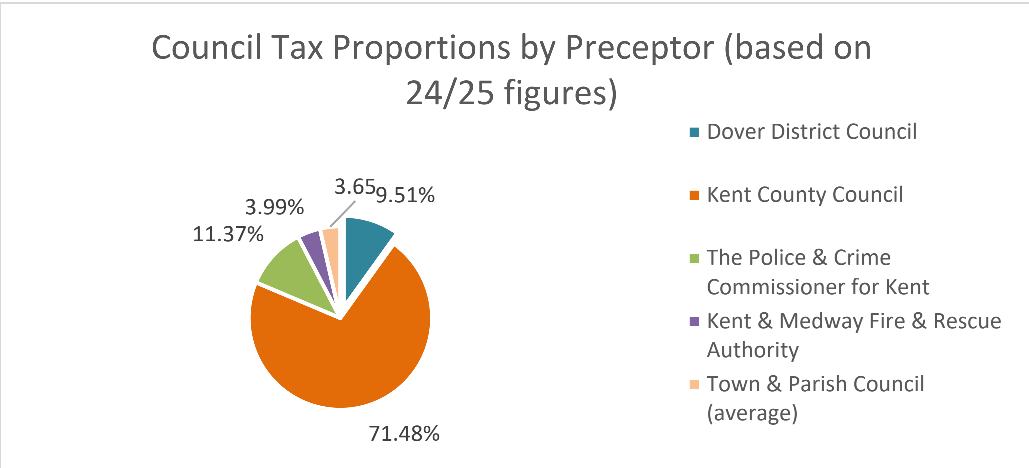
[3] The next largest site is less than 1% of the total.

	2024/25 £	2025/26 £	Increase %	2025/26 Proportion %
Dover District Council (proposed)	214.38	220.77	2.98	TBC
Kent County Council	1,610.82	TBC	TBC	TBC
The Police & Crime Commissioner for Kent	256.15	TBC	TBC	TBC
Kent & Medway Fire & Rescue Authority	89.91	TBC	TBC	TBC
Sub-Total	**2,171.26**	**TBC**	**TBC**	**TBC**
Town & Parish Council (average)	82.23	TBC	TBC	TBC
Total Band D Council Tax	**2,253.49**	**TBC**	**TBC**	**TBC**

The Council Tax, by band, for the major preceptors will be as follows: (Information to be added for final circulation of budget)

	Valuation Bands							
	A	B	C	D	E	F	G	H
Precepting Authority:	£	£	£	£	£	£	£	£
Kent County Council	TBC	TBC	TBC	TBC	TBC	TBC	TBC	TBC
The Police & Crime Commissioner for Kent	TBC	TBC	TBC	TBC	TBC	TBC	TBC	TBC
Kent & Medway Fire & Rescue Service	TBC	TBC	TBC	TBC	TBC	TBC	TBC	TBC
Dover District Council	147.18	171.71	196.24	220.77	269.83	318.89	367.95	441.54
Total	TBC	TBC	TBC	TBC	TBC	TBC	TBC	TBC

66. 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' 2024/25 BAND D COUNCIL TAX

67. DDC has one of the lowest Council Tax rates in Kent. A comparison with the East Kent authorities' 2024/25 Council Tax rates below shows the percentage that their 2024/25

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	214.38	-	-
Canterbury City Council	239.89	11.90%	£1.07m
Folkestone and Hythe District Council	280.08	30.65%	£2.77m
Thanet District Council	263.18	22.76%	£2.06m

NEW HOMES BONUS

68. 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.

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

Year of Scheme	Financial Year	Annual Grant £000	Cumulative Grant[5] £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
15	2025/26	534	534	1
Future Years (Est)	2026/27 onwards	0	0	n/a

70. 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 and is now on a single year by year basis. 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 2025/26 NHB calculations was sufficient to receive an award of £534k.

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

[4] Department for Levelling Up, Homes and Communities

[5] "Cumulative Grant" is the total grant paid in the year, based on the annual grants from previous years still being in payment for a number of years. Grants are now made on a single year basis and so in recent years the annual grant and cumulative grants are the same.

FUTURE FUNDING

72. 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
    - The Extended Producer Responsibility Grant
    - Recovery Grant

73. 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 of all these changes would result in a reduction in funding of between £2m and £3m. 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 an allowance for damping any significant reductions in funding has been included in the forecasts for future years.

74. The situation will be kept under review and reported to Members accordingly – but the timescale for government releasing the required draft financial settlements is unknown.

COLLECTION FUNDS

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

76. 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. £88m and £53m respectively).

77. 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.

78. 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. An estimate of the expected Surplus is calculated in the January before the start of the year.

79. DDC's share of the NDR surplus/deficit will be calculated as part of the NDR1 process, if a deficit is forecast it 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

80. 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.

81. Significant savings were included in the 2024/25 budget to finance the forecast 2024/25 residual deficit. This enabled consideration of further options for savings and income generation to be taken in 2025/26 and the rest of the planning period as a fuller understanding of the likely outturns and funding was developed. In 2023/24 £510k of the Smoothing Reserve was applied to balance the outturn position, which was £426k less than the original forecast position. Based on current forecasts it is expected that c.£1m will be applied from the Smoothing Reserve in 2024/25, leaving c.£2.5m for future requirements. Replenishment of this reserve will be considered as part of future budget setting processes.

82. The 2025/26 budget is currently forecast to have a deficit of £432k for 2025/26, to be funded from the Operational and Fee Income Reserve, recognising the pressures on homelessness and key income streams in the year.

83. 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.

84. The forecasts contain a significant margin of uncertainty and pressures from inflation, the macroeconomic position, and the future of local government funding. Based on current assumptions. it is currently forecast that there will be a requirement to deliver savings and / or income generation in the region of £2.5m in 2026/27 and a further £1m per annum in future years, as detailed in Annex 2. This value is subject to the impacts of local government financing and will be kept under review.

85. 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.

86. 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 2028/29
- 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
- Annex 9 details the Grants made to Organisations for approval

Recommendations from this Section

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

88. It is recommended that Council:
    - approve the General Fund Revenue budget for 2025/26.
    - 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

89. 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.

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

HRA FINANCIAL OBJECTIVES

91. 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

92. At the time of writing, the HRA has 4,482 dwellings, made up of 2,721 houses and 1,761 flats.

2025/26 DRAFT BUDGET AND MEDIUM-TERM FORECAST

93. 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 stock condition and planned works for DDC's housing stock
- The housing development projects (as detailed in paragraph 119) for the planning period will be funded by retained right-to-buy receipts, grant funding and borrowing[6]
- Increase in social rent of 2.7% as per MHCLG
- No increase in affordable rent as Local Housing Allowance (LHA) rates have stayed the same
- Increase in shared ownership rents of 3.2% as per MHCLG guidance

94. 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 2.7% for 2024/25). These rent increases help to partially offset the general inflationary pressures

[6] 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.

on the HRA expenditure and to maintain service levels. The Housing Initiatives Reserve (HIR) is currently planned to be used to continue the work on improving DDC housing stock.

95. During 2025/26, 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 123 for more details, and further developments and proposals in the pipeline.

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

97. 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

98. 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 Public Works Loans Board (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.

99. The HRA budget is funded for 2025/26. The HIR balance will be added to with the £520k surplus from the HRA. New projects will use borrowing, as required, to support the on-going programme of housing development.

100. The 2025/26 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 was started in 2024/25 to review the latest position and provide up to date information for forecasting futures works and budget requirements and will continue in 2025/26.

101. 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 continue to stay at their lowest level since April 2018. The debt is 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>

102. Council house rents are effectively controlled by Government. The current guidelines from the Ministry of Housing, Communities and Local Government (MHCLG) are for social rents to be increased using CPI (Consumer Prices Index) + 1%, this results in an increase for 2025/26 of 2.7%. Social rent levels are calculated on an individual property basis using rent formulas previously prescribed by MHCLG.

103. 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 2024/25 average weekly social rent across all properties is £103.99
- The 2024/25 average weekly social rent is forecast to be £106.90
- The increase in the average weekly social rent is £2.91 or 2.7%
- Three bedroom houses have rents (for 2025/26) ranging from £102.48 per week to £155.12 per week with an average of £117.38
- These rents are all significantly lower than those available in the private rental sector

104. DDC now has 76 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

105. 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.

106. 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.

107. DDC also has 43 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%.

108. 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 2025/26 average weekly shared ownership rent is forecast to be £70.10.
- The increase in the average weekly shared ownership rent is £1.93 or 3.2%.

Capital Receipts

109. 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.

110. As at the end of December 2024 there had been 10 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 MCHLG. To comply with these rules and avoid claw back by MHCLG, this funding is normally applied to HRA housing projects before any other sources are used.

111. MHCLG has launched a consultation on right to buy reform which would include changes to the qualifying criteria for tenants, the initial and maximum discounts as a percentage of the property's value and types of properties that should be exempt from the scheme. The details of any changes from the consultation will follow.

Service Charges

112. 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.

113. 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

114. 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.

115. 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.

116. 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
- The embedding and development of the smooth running of the new service

117. 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

118. 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 continue to be reviewed within 2025/26 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

119. 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

120. These are discussed in more detail below.

HRA INVESTMENT

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

121. 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.

122. Since 2017/18 HIR funding, coupled with 1:4:1 Right to Buy funding and borrowing plans have enabled the purchase of 96 former Council properties which have been added to the HRA stock.

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

- Sandwich Road, Sholden – 40 properties inc. 15 shared ownership purchases
- Willowbank, Sandwich – 20 shared ownership purchases
- Military Road, Dover – 8 properties.
- Mongeham Road, Great Mongeham – 10 properties inc. 3 shared ownership purchases
- Poulton Close, Dover – 24 properties
- Wallers Field – 10 properties inc. 5 shared ownership purchases
- Easole Street, Nonington – 6 property purchases
- Local Authority Housing Fund – 16 property purchases.

124. 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.

125. It is proposed that the pipeline projects for 2025/26 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 2024/25 is projected to be around £17m. The four year HRA forecast (Annex 5A), shows the balance will continue to stay around £17m and will be used to improve the condition of DDC's housing stock.

Supporting Information

126. 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
- Annex 5C shows the housing development capital projects

Recommendations from this Section

127. It is recommended that Council:
- approve the HRA budget for 2025/26.
- approve the HRA Capital and Revenue Works Programmes.

ASSET MANAGEMENT PLAN (AMP)

128. The AMP is used as a management tool to assist in ensuring that the Council's property assets meet the Strategic Priorities that are identified in the Corporate Plan. It covers:

- effective maintenance of assets.
- capital works and planned maintenance programmes.
- compliance and Health & Safety.
- data on performance of significant corporate assets.
- properties identified for disposal.

129. Property Assets are currently working on previously identified priorities but note the need to prepare a new AMP and review corporate priorities moving forward. The new Asset Management Plan will be completed in 2025/26.

130. Expenditure on repairs, maintenance and compliance forms a direct link with the revenue budget, which contains the resources to meet the programme of repairs, maintenance and compliance. Standards of maintenance, and therefore of required expenditure, are to some extent subjective. The Head of Property Assets 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 is not sufficient resource to facilitate significant reductions in the carbon footprint of DDC owned assets. The Councils Capital Works Programme (which has a limited and reducing budget) provides the resource to fund any significant work.

131. There is a growing backlog of planned maintenance / project work required for DDC's "Operational Assets". Significant expenditure is needed at:

- Tides Leisure Centre – It was agreed at Cabinet in January 2025 to move forward with RIBA Stages 3 and 4 for the development of the six-lane pool option and confirmed that the current centre would close temporarily from April 2025.
- 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. An investigative survey was undertaken in 2024 and a series of immediate structural repairs were completed in early 2025. Further significant work is required to a number of the main pylons (support legs) under a separate tender package. An allowance has been made within the MTFP for this work which it is anticipated will be undertaken during 2025.
- Dover Museum – an ageing facility in need of a new roof and significant replacement / enhancement of its mechanical and electrical services (with priority in the Bronze Age Boat gallery). An allowance has been proposed within the MTFP for this work to be undertaken .
- Kearsney – A strategic DDC asset that requires further works to ensure the Council continues to provide high quality open space. Works will include (but not be limited too) where budget allows; repairs to two bridges and the boat house in Russell Gardens, works to the Russell Gardens pond, works to the sluice in Kearsney Abbey, cafe floor replacement (within listed section of building) and a new boardwalk in Kearsney Abbey to provide year round access .
- Roman Painted House – following the return of the building by The Dover Roman Painted House Trust in October significant essential remedial and environment works were carried out. The property was added to Historic England's Heritage

at Risk Register and ongoing works are required to protect and monitor the building and scheduled monument.

132. Significant restoration works are currently underway and nearing completion at Dover Town Hall (Maison Dieu) as part of National Lottery Heritage Fund funded works with the project due for completion in early 2025.

<u>Summary</u>

The key points for Members to note are:

- There are currently 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 any significant expenditure on initiatives to cut carbon emissions; however, innovative sustainable projects and solutions will cumulatively and significantly reduce emissions help the Council achieve its organisational zero carbon ambition by 2030.

- The Head of Property Assets 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

133. 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.
- maximise available resources by actively seeking external funding and disposing of surplus assets.

Definition of Capital

134. 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
- Leasing

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

Content of the Capital Programme

136. 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.

137. 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.
- 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.

138. 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).

139. 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.

140. 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.

141. 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.

142. 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

143. The Special Revenue Projects Programme (Annex 6B) 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

144. The Digital and ICT Projects Programme (Annex 6C) 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.
Any ongoing software which becomes business as usual, will be incorporated into department budgets from year two.

Financing of the Project Programmes

145. 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.

146. 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.

147. 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

148. 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

149. 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 109 for more details.

150. Right-to-Buy (RTB) sales in 2024/25 have increased than in 2023/24 although they are still significantly lower than in previous years. 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.

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

152. 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

153. 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.
    - 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 2024/25 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

154. It is recommended that Cabinet:

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

155. 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

156. 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.

157. 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.
- that performance measurement is implemented in managing and controlling the impact of capital investment decisions.

158. Annexes 7A – 7C (to follow) set out estimates for each of the relevant Prudential Indicators in each of the financial years 2025/26 to 2028/29 and include the latest estimates for 2024/25 aligned with the revised forecast budget. Approval is sought for the proposed indicators for 2025/26 – 2028/29.

159. 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

160. 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.

161. Approval of the strategy is a Council decision.

RECOMMENDATIONS FROM THIS SECTION

162. 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, 7C and 7D – to follow in second circulation).

KEY ASSUMPTIONS & READY RECKONER

Background

163. 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

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

165. Contract inflation for 2025/26 is based on the details of the specific contracts, the state of the market for the specific services and any other relevant factors.

166. General inflation is assumed to be 2% for 2025/26 and future years.

Staff Numbers

167. The 2025/26 budget includes 487 full time equivalent posts directly employed for DDC. This includes 25 Port Health posts, 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 5 posts employed by DDC as part of the 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

168. 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

169. It is assumed that DDC will maintain the 2025/26 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)

170. The local government settlement provides figures for 2025/26. For 2025/26 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

171. 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 some small growth in the level of NDR income in 2025/26, followed by a reduction due to NDR reforms impacting from 2026/27.

Council Tax

172. 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)

173. 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 2026/27.

Capital Projects

174. 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 £250k
- Council tax - 1% raises c.£93k
- NDR – 1% growth in BR income equates to c.£102k (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.£70k

SIGNIFICANT BUDGET RISKS

175. 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.

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

177. 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 and the subsequent delay in implementation of the Entry/Exit System (EES) increases the risks of border closures and related disruptions to the traffic flows in and out of the Port of Dover and the 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 are yet to confirm the funding for Dover Port Health Authority activities/checks in respect of African Swine Fever (ASF) and now Foot & Mouth Disease (FMD) for 2025/26. Throughout 2024/25, funding has been provided by DEFRA on an ad hoc basis, based on the continuation of the existing service (out of Dover Port only, nothing in Coquelles) upon submissions of claims by DPHA. It is assumed that funding will continue in this manner, until a more sustainable funding package is agreed by DEFRA. If that does not happen then either DDC funds the Port Health Authority activities (which is likely to be unaffordable) for the benefit of the UK food chain and meat industry (which is now at high risk) or checks at the border (and Coquelles, should they start) will cease, with biosecurity, food security, economic and	Assumed as budget neutral.

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		reputational risks to Dover and the UK from the unintentional introduction of diseases such as ASF and FMD.	
3	Local Government Reform	This presents a number of financial challenges for which there are, at the moment, no answers. It is uncertain: 1. Whether the Kent and Medway EOI will be accepted into the Devolution Priority Programme, 2. What the cost of preparing and delivering unitarization will be and how this will be met, 3. The costs of consolidation after unitarization, 4. The basis of harmonisation / equalisation of Council Tax and other charges, 5. The extent, if any, to which government will seek to freeze local authority reserves in advance, and 6. What discipline will be required to maintain business as usual and operate on a "going concern" basis in the meantime.	Unable to forecast at the time of writing.
4	Local Government Finance Settlement	This risk relates mainly to 2026/27 and later years, where the basis of future settlements remains uncertain. The Council's total financing is £21.2m. The future of circa 57% of this financing is uncertain, as set out below. <u>Core Spending Power</u> Although the government have stated they will protect core spending power it is considered unlikely that they will include income from Business Rates (BR) in this calculation. BR income is currently £9.2m, or 43% of financing. <u>Business Rates</u> Government proposes to re-set the BR system. The Council currently retains a proportion of its BR reflecting growth achieved since the inception of the system. It is not clear whether the Council would lose or gain from a re-set of its baseline, tariff etc. <u>Revenue Support Grant (RSG)</u> Government proposes to review the local government settlement. The basis of this is not certain and therefore the impact on is unknown.	Core Spending Power: Unknown Business Rates: Unknown Revenue Support Grant (RSG): £294k

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		Services and Funding Guarantee Grants This is unlikely to be continued beyond 2025/26. New Homes Bonus This has been rolled over on a one year basis and so based on current understanding, it is unlikely to be continued beyond 2025/26. Extended Producer Responsibility Funding This grant is funded by a tax on the producers of packaging. As the industry reacts to the tax, it is likely to be less productive over time, leading to a reduction in the grant. The timescale for this is uncertain.	£771k £534k £1,019k
5	National Insurance Increase	Government have indicated that they will fully fund the NI increase for local authorities. Initial indications suggest that the increase will not be fully funded and MHCLG do not appear to have used the relevant data, despite having it at their disposal.	Circa £200k
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.	£9.3m pa.
7	Treasury Management	Of the current forecast £2.6m 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 properties. There is an inherent risk that this income may be reduced if tenants are unable to continue to trade.	£2.4m 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	£125k pa (average level)

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		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.	
10	HRA Rent Arrears	Current tenant rent arrears have been significantly reduced in the last year. A bad debt provision is included within the budget and arrears levels are being monitored.	Annual HRA rent £24.8m Current arrears £516k
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 new parking strategy is currently being developed, this may lead to changes in parking charge arrangements in the 2025/26 financial year.	£3.3m 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.	£2.2m
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 Dover Beacon, Maison Dieu, Tides Leisure Centre and Fasttrack. 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.	Unable to forecast.

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		Mitigation is through robust forecasts of costs, contingency, effective contracts, and contract management. Regarding Fasttrack, DDC is the accountable body, receives the grant funding and is, arguably, liable for any overspend. DDC has appointed KCC to deliver the project, and in turn KCC appointed contractors. The main contract value is circa £20m, the construction work is complete, and the bus service is operating. However, a series of disagreements have arisen between KCC and the main contractor, who now claims that they have incurred rechargeable costs of more than £50m. The Council considers these claims to be wildly inflated and exaggerated, it appears that the contractor has submitted them purely to create a negotiating position. KCC and their consultant team have vigorously defended these claims in adjudications. To date, of £5.7m claimed through adjudication just £480k has been found in favour of the contractor. The details of these claims, as well as DDC and KCC's responses, are being treated as commercially confidential and therefore have not been provided in this summary.	
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 has 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 potentially increasing as KCC decant their own facilities and the net costs are shunted to districts.	£300k+ pa.