APPENDIX 1

DOVER DISTRICT COUNCIL

Draft Budget 2022/23 and Medium Term Financial Plan 2022/23 – 2025/26

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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 four years, it is reviewed at least annually, and is monitored during the year.

3. It should not be viewed in isolation but as part of the wider planning process and in conjunction with other plans and strategies, in particular the Corporate Plan and the Asset Management Plan. This MTFP covers the period 2022/23 – 2025/26.

4. Year 1 (2022/23) is the formally approved budget for the coming year. Years 2 - 4 of the MTFP (2023/24 – 2025/26) are included as "indicative budgets" for planning purposes. These will be rolled forward and amended in subsequent MTFPs and so approval of the MTFP does not set the budgets for the future years.

5. Regard has been given to the resources required to deliver the Council's objectives and the budget has been prepared to reflect the anticipated service costs and pressures. However, this budget has been set in a period of uncertainty and volatility due to the Covid pandemic, the winding down of central government support for Covid related pressures and consequences, the unpredictable economic recovery, exit from the EU and the role DDC will play as host to a Border Control Point and as a greatly expanded Port Health Authority.

6. The EU Transition has led to the requirement on DDC to create an expanded Dover Port Health Function which, when fully staffed, is expected to have up to 240 additional staff operating within a new Border Control Post (BCP) facility at Whitfield provided by DEFRA

1.1 These events have led to significant uncertainties at the time of writing, impacting (mainly) the 2022/23 revenue budget, including:

- 2021/22
  - The final value of government support to local authorities;
  - The 2021/22 outturn and the reserves and balances to be carried forwards.

- 2022/23
  - The duration / renewal of lockdown and / or restrictions;
  - The speed of economic recovery;
  - The net cost to DDC of the expanded Port Health Function;
  - Expenditure for the year;
  - Income for the year;
  - Council Tax income;
  - Business Rates income;
  - The government settlement for local authorities.

- 2023 – 2026
    - The continuing impacts of Covid 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 (or any replacement)
        - The reform of the Business Rates Retention model
        - Business Rates revaluations and re-sets.

7. It should be noted that the Covid support from government lead to an overall underspend in 2020/21, which will be used to support pressures in 2021/22. None of the Covid support measures are expected to remain in place beyond 2021/22 and so they do not affect the Council's underlying baseline position. The recovery from Covid may, of course, last into 2022/23 and beyond.

8. It is the view of the Strategic Director (Corporate Resources) (Section 151 Officer) that, having due regard to the circumstances and the range of uncertainties, the budget has been prepared in an appropriate and prudent manner. As far as can be determined and, based upon the information available at the time of producing this report, the estimates are robust, and the Council's resources are adequate for its spending plans in 2022/23.

BUDGET HEADLINES

GENERAL FUND

9. The General Fund (GF) headlines are:

- General Fund budget deficit of £23k for 2022/23;
- General Fund balance forecast at £2.9m;
- DDC Council Tax increase of £4.95 (2.5%) for a Band D property, maintaining the lowest Council Tax in East Kent;
- No major changes to services;
- Overall net expenditure levels decreased due to numerous factors, including;
  - Forecast return to pre-Covid levels of major income streams;
  - Savings / Income generation target of £405k.
- GF Smoothing Reserve to be established to enable the council to take a measured approach to future forecast pressures.

THE HOUSING REVENUE ACCOUNT

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

- The management of DDC's housing stock was transferred from East Kent Housing (EKH) back to DDC on 1st October 2020.
- 2022/23 budget is currently a deficit of £2m due to the on-going restorative works programme. This will be funded by a contribution of £2m from the Housing Initiatives Reserve;
- Major variances for 2022/23:
  - Increase of rent by CPI +1% (4.1% in total);
  - Increased rent from new properties added;
  - Increased capital works to cover the programme of restorative works;
- Housing development programme on-going;
- HRA balance maintained at £1m for 2022/23;
- Housing Initiatives Reserve forecast at £10m at the end of 2022/23.

THE CAPITAL AND REVENUE PROJECTS PROGRAMME

11. The capital and revenue projects programme headlines are:

- The current general fund capital programme totals £74.7m and is fully funded. The major projects in the programme are:

  - Development of the Dover Fast Track Bus Route;
  - Major restoration works on Maison Dieu (Dover Town Hall);
  - Town Centre Regeneration and Historic Buildings fund;
  - Purchase of refuse & recycling vehicles;
  - Future High Street Funding;
  - Sandwich Guildhall Forecourt public realm improvements;
  - Dover Market Square Public Realm Improvements;
  - Tides Leisure Centre redevelopment (subject to outcome of feasibility studies).

- The current resources for funding capital and revenue projects will be largely exhausted by the current programme.
- Future capital receipts are expected to come mainly from on-going housing right to buy sales (which amount to circa £300k per annum at current sales levels) and one-off asset sales, so will not replenish capital funds and will not be sufficient to maintain the current level of activity in the future.
- Revenue project resources will also be largely depleted, and no significant new resources are expected other than from contributions from the revenue budget.
- Borrowing for capital purposes can be undertaken but this will make business case proposals for projects more challenging as they will have to recognise the costs of borrowing and repayment in order to demonstrate affordability and comply with the Prudential Code.

TREASURY MANAGEMENT AND CAPITAL STRATEGIES

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

KEY ASSUMPTIONS AND SIGNIFICANT BUDGET RISKS

13. The budget and projections have been based on the best information available. However, there are always areas where there remains a degree of uncertainty or it has been necessary to make assumptions. The most significant of these assumptions, together with the significant budget risks, have been set out within this MTFP to ensure that Members are aware of the basis of the budget.

14. Periodic budget monitoring reports will continue to be produced and circulated to all Members via the quarterly performance report, so that adverse variances can be identified, and remedial action initiated as early as possible.

CONSULTATION

15. The draft budget will be placed on the Council’s website for comments.

THE GENERAL FUND REVENUE ACCOUNTS

INTRODUCTION

16. 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 Enterprise Zone Relief, Revenue Support Grant (RSG, received from government), and New Homes Bonus (NHB, also received from government).

FINANCIAL OBJECTIVES

17. 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 a GF Smoothing Reserve to enable the council to take a measured approach to the forecast pressures;
- Use earmarked reserves to finance one-off items;
- Support the Council's corporate priorities and agreed service standards; and
- Undertake appropriate consultation.

BUDGET DISCIPLINE

18. 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.

19. In order to maintain firm downwards pressure on expenditure and recruitment, and to ensure budgets are directed to the Council’s priorities the Council maintains a continuous “employment management” process. The employment management process provides sign-off for all recruitment before any recruitment is permitted.

20. The Council also has the facility to undertake efficiency and service reviews. These review services to deliver efficiencies, savings, alternative delivery methods, digital improvements, smarter working and improved customer experiences.

21. A key element of financial management is the treatment of unspent budgets. The Council has sought to promote a culture whereby budget managers have 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 (Corporate Resources).

THE GENERAL FUND BUDGET SUMMARY

22. The Council’s GF revenue budget for 2022/23 is shown in Annex 1. The budget forecasts a deficit of £37k for 2022/23, and the GF balance is forecast to be £1.6m. The net budget requirement for the Council's own purposes, after transfers to/from earmarked reserves is £17.4m.

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[1] The Revenue Account funds day to day recurrent expenditure. There are separate financing arrangements for capital expenditure where the benefit of the expenditure lasts for more than one year.

Movement of budget requirement between 2021/22 and 2022/23	2021/22 Original Budget £000	2022/23 Original Budget £000	Difference
Underlying Budget Requirement	**16,959**	**15,979**	**(980)**
Earmarked Reserve adjustments[2]	1,323	1,443	120
Net Budget Requirement	**18,282**	**17,422**	**(860)**
Budget Financing	(17,782)	(17,385)	397
(Surplus) / Deficit	**500**	**37**	**(463)**

23. The underlying Budget Requirement has decreased between the financial years, reflecting the forecast return to normality of significant income streams following the impact of Covid 19 in 2021/22.

24. The Council's GF revenue budget for 2022/23 is shown in Annex 1. The main factors impacting the General Fund budget are detailed at Annex 1D.

KEY VARIANCES / SIGNIFICANT ISSUES

25. The table below summarises the main variances between the 2021/22 original budget and the proposed 2022/23 budget.

	£000	£000
2021/22 Original Budget Forecast		**500**
Increase in forecast total NNDR funding	(402)	
Increase in Council Tax income	(349)	
Council Tax Collection Fund movement to deficit	150	
Increase in New Homes Bonus funding	(239)	
Lower Tier Services Grant reduction	194	
2022/23 Services Grant introduced	(255)	
Covid Funding Support ceased	1,301	
Other net movement in funding (minor)	(3)	
Total Variances in Funding		**397**
One-off NDR EZ/Renewable income to Projects reserve	252	
Increased annual contribution to ICT & Digital reserve	30	
Use of Port Health Operations reserve to fund net cost	(1,988)	
Reduced contribution to reserve for NDR fluctuations	(265)	
Application of reserve for Development Plan expenditure	(220)	
Other net reserve use	81	
Total Variances in transfers to / from reserves		**(2,110)**
Forecast net cost of Port Health service due to phased service start	1,988	
Covid Pressures ceased / absorbed into service budgets	(1,895)	
Target savings removed / absorbed into service budgets	1,295	
2022/23 savings / income generation target	(405)	

[2] Earmarked reserves are used to offset agreed expenditure within services in accordance with the protocols detailed in Annex 4.

	£000	£000
Impact of 4.5% inflation forecast on refuse contract	205	
Savings from capital financing of refuse contract	(640)	
Central support costs recharged to Port Health function	(375)	
Port Health staffing share of pension backfunding	(600)	
Impact of salaries inflation, changes in posts and associated pensions impact	640	
Reduction in Council Tax penalty & fine income	94	
Estimated reduction in leisure provider income	125	
Corporate maintenance increase re inflation and work levels	70	
Forecast on-going expenditure on Local Plan (reserve funded)	220	
Numerous miscellaneous variances	335	
Variance in Net Operating Expenditure		**1,057**
Reduction in interest receivable forecast	33	
Short term borrowing interest budget reduced	(160)	
Borrowing allowance increased for waste vehicles	320	
Variance in Financing Adjustments		**193**
2022/23 Forecast Budget Deficit		**37**

FINANCING THE BUDGET

26. Financing of the net 2022/23 requirement is shown below.

2022/23 General Fund Revenue Financing	**£000**	**%**
Non-Domestic Rates Income	7,746	44.6
Revenue Support Grant	60	0.3
Lower Tier Services Grant & 22/23 Services Grant	422	2.4
New Homes Bonus	1,229	7.1
Council Tax	8,038	46.2
Collection Fund Surplus (Council Tax)	(115)	-0.6
Total Financing	**17,380**	**100.0**

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

REVENUE SUPPORT GRANT

28. RSG (from Government) has been reduced by significant amounts every year since 2012/13.

29. The cash settlements are shown in the table below. RSG was expected to fall away to £nil from 2021/22, however the provisional settlement includes an additional year at the current level (plus inflation).

Revenue Support Grant Settlement	Grant £000	Reduction £000	Reduction %	Cumulative £000	Cumulative %
2012/13[3]	5,112				
2013/14[4]	4,699	413	8.1	413	8.1
2014/15	3,698	1,001	21.3	1,414	27.7
2015/16	2,529	1,169	31.6	2,583	50.5
2016/17	1,758	771	30.5	3,354	65.6
2017/18	1,027	731	41.6	4,085	79.9
2018/19	568	459	44.7	4,544	88.9
2019/20	57	511	90.0	5,055	98.9
2020/21	57	0	0	5,055	98.9
2021/11	58	(1)	(1.8)	5,054	98.9
2022/23	60	(2)	(3.4)	5,052	98.8
2023/24	75	(15)	(25.0)	5,037	98.5
2023/24 Onwards	0	75	100.00	5,112	100.0

30. For financial planning purposes it has been assumed that RSG will cease after 2023/24 and will remain at zero for the remainder of the MTFP planning period.

LOWER TIER SERVICES GRANT AND 2022/23 SERVICES GRANT

31. The Lower Tier Services Grant was introduced last financial year. This was funded from £111m of NHB returned surplus from the previous year. It was introduced in the provisional settlement and ensured that no authority received a reduction in Core Spending Power. It was heavily weighted towards district councils, and particularly those that were losing from the changes in NHB. It was anticipated that this was a short-term grant and that the funding of £360k would apply for 2021/22 only. However, the 2022/23 settlement includes a further award of the Lower Tier Services Grant of £160k.

32. Additionally, in 2022/23 a new grant, 2022/23 Services Grant has been introduced, worth £822 million across the sector. This grant is for 2022/23 only DLUHC have advised that they will work with the sector on to distribute this funding from 2023/24 onwards. The funding will go to all tiers of local government in recognition of the range of vital services delivered by councils across the country. This grant will be unringfenced with local authorities best placed to understand local priorities. DDC has been awarded £255k for this grant.

BUSINESS RATES (BR)

<u>The Business Rates Retention System</u>

33. 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, appeals and BR relief schemes.

34. Although referred to as a 50% local retention system, of which 40% is currently retained by districts, it is not the full picture. DDC actually retains about 10% (before

[3] Split for 2012/13 based on proportion of RSG:NNDR for 2013/14 before Council Tax Support Funding, with an adjustment to add to the 2012/13 RSG the level of CTS funding of £1,218k awarded in 13/14 for comparability across the years.

[4] Council Tax Support Funding added by Govt. to RSG from 2013/14 onwards, replacing subsidy for council tax benefit previously shown in service costs. This effectively covers reduced income from Council Tax due to discounts being applied against tax base/council tax bills instead of being awarded as Benefit. CTS Funding not disclosed separately by Government from 14/15 onwards.

s31 grants). A simplified illustration of the mechanism for the “50%” BR retention system is set out in the table below (based on draft 2020/21 data before adjustment for S31 grant funding of reliefs).

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

35. 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.

36. Once the tariff is set, a district will have to continue to pay this amount to government. If actual collection is lower (for example, due to demolition, successful appeals, bad debts etc.) the council has to continue to pay the tariff and bear the loss itself until it hits the safety net at which point losses are capped. For DDC this is circa £278k.

37. 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.

38. 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.

39. For 2022/23 the baseline budget requirement (or ‘Baseline Funding Level (BFL)) is deemed to be £3,705k. The safety net kicks in at £3,427k, meaning the first £278k of any loss must be borne by the Council before a safety net payment is received from Government. The safety net payment would top up the Council’s income to 92.5% of the BFL (i.e. to £3,427k).

40. Reform / revision of the BR system is overdue and may occur in 2022/23, at which point a “reset” is also expected to occur and some loss of ‘growth retention’ is expected. However, the exact mechanisms and timings are not yet known.

41. Therefore, the MTFP assumes the continuation of the system as at present, without any “reset”, and with a continuation of pooling to reduce levies.

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

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

Real Growth

43. The Dover District has been successful in generating significant real growth in developments in the district during 2016/17 – 2022/23 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.

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

DDC BR Profile

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

Dover's Rateable Values	**Rateable Value [5] £000**	**%**
Channel Tunnel	28,000	25
Discovery Park	9,438	8
Dover Harbour Board	2,730	2
Tesco, Whitfield	2,370	2
Biomass Power Plant	2,120	2
Sub Total	**44,658**	**39**
Remainder[6]	70,046	61
Total	**114,704**	**100**

Renewable Energy Income

46. 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. The RV of the plant is £2,120k.

Enterprise Zone Relief Compensation Grant

47. The Discovery Park is a 'Case B' type Enterprise Zone (EZ), and the EZ Relief given to its businesses are compensated by separate government grants. The compensation grant received is split between the preceptors in accordance with the tier split and is not subject to any additional levy (which is advantageous). As such, it also sits outside of the pooling arrangements.

48. Although now declining as the period of EZ relief expires, and no new businesses are allowed to claim it, Enterprise Zone Relief Compensation grant is still expected to generate £1,347k in 2022/23 (£1,915k in 2021/22).

The Business Rates Pilot

49. For 2018/19 DDC was included, with KCC and all other Kent districts, in the Kent BR Pilot, enabling all business rates growth to be retained locally (i.e. without Government taking its 50% share and without it charging any levy on growth).

[5] Note – These figures are based on 2017 valuations. Rateable Value is not the same as the Business Rates paid. RV is multiplied by a government set multiplier (50.4p in 2018/19 increasing to 51.2p in 2019/20 for the standard multiplier) to determine the amount payable and this may be subject to BR reliefs.

[6] The next largest site is just 1% of the total.

Government did not renew the Kent BR pilot for a second year and so the Kent BR Pool resumed operation in 2019/20 and continues in 2022/23.

50. DDC is not a full Member of the BR pool, as it is advantageous to all pool members, including DDC, to minimise the BR levy we pay, by giving DDC "shadow" pool member status and this has been agreed to continue for 2022/23.

Forecasts

51. Despite the extreme volatility, the outcome for 2021/22 is expected to be an improved position compared to 2020/21. There is expected to be a small 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.

52. The NDR1 return to Government was submitted at the end of January 2021. This return determines the forecasts for the NDR budget to be recognised in 2021/22. Despite the volatility of the current financial situation, it is forecast that the net NDR position (after allowing from transfers to and from reserves to negate the impact of timing differences between the accounting for transactions and the application to the GF budget) will be at a similar level to that forecast for the 2021/22 budget.

COUNCIL TAX

53. A Council Tax increase of 2.5% for DDC purposes has been assumed for the 2022/23 budget which, if approved, will produce a Band D Council Tax of £202.14. This will result in an increase of £4.95 per year on a Band D property, which is 5p within the Government's capping requirements, which limit increases to 2% or £5, whichever is the greater.

54. The increase in the tax base from 38,993.34 Band D equivalent properties in 2021/22 to 39,763.21 equivalent properties in 2022/23, a rise of 1.97%, is mainly due to a forecast reduction in the claimant counts for Council Tax Reduction Scheme (CTRS), along with new properties being registered for Council Tax (incl. estimates of new builds).

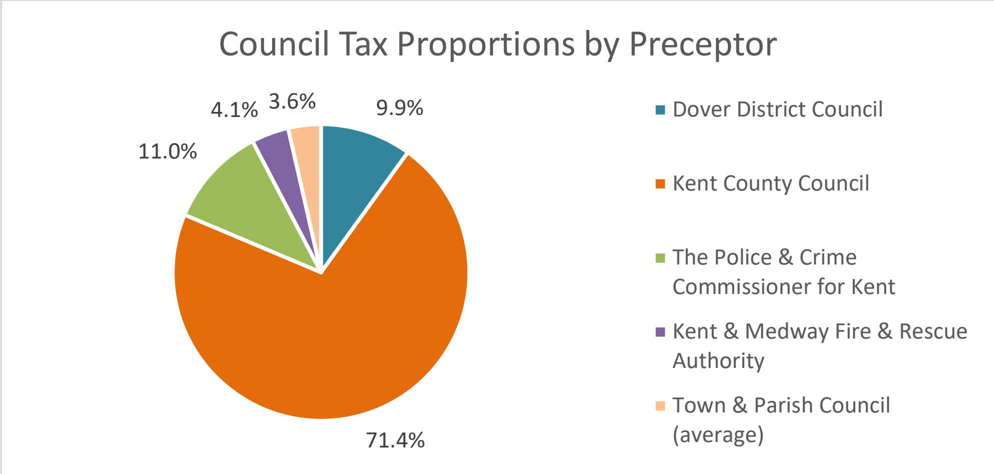
55. The combined impact of the Council Tax increase and the tax base increase is forecast to generate total Council Tax income of £8m. For planning purposes, a Council Tax increase of £4.95 per annum has been estimated for future years.

56. The total draft Council Tax charges for a Band D property is made up as follows:

	2021/22 £	2022/23 £	Increase %
Dover District Council	197.19	202.14	2.5
Kent County Council[7]	1,418.76	1,461.24	3.0
The Police & Crime Commissioner for Kent	218.15	TBA	
Kent & Medway Fire & Rescue Authority	80.82	TBA	
Sub-Total	**1,914.92**		
Town & Parish Council (average)	71.08	TBA	
Total Band D Council Tax	**1,986.00**		

[7] Based on KCC's Draft Budget 2022-23 and 2022-25 MTFP published 5th January 2022, not yet approved.

57. How the total Council Tax charge is allocated to the individual organisations is illustrated below (currently based on 21/22 values):



COMPARISON WITH OTHER DISTRICTS' 2021/22 BAND D COUNCIL TAX

58. DDC has one of the lowest Council Tax rates in Kent. A comparison with the East Kent authorities' 2021/22 Council Tax rates below shows the percentage that their 2021/22 Council Tax level exceeds 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	197.19	-	-
Canterbury City Council	221.22	15%	£938k
Folkestone and Hythe District Council	259.20	35%	£2.40m
Thanet District Council	243.13	26%	£1.80m

NEW HOMES BONUS

59. New Homes Bonus (NHB) was funded by the MHCLG[8] from a top slice of existing local government finance. The NHB received is credited to the General Fund revenue budget and it is therefore an essential element in balancing the Council's budget. Reductions in NHB results in offsetting savings being required.

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

Year of Scheme	**Financial Year**	**Annual Grant £000**	**Cumulative Grant £000**	**Cumulative Years Included**
1	2011/12	294	294	1
2	2012/13	155	449	2
3	2013/14	450	899	3
4	2014/15	396	1,296	4

[8] Ministry of Housing, Communities and Local Government

Year of Scheme	Financial Year	Annual Grant £000	Cumulative Grant £000	Cumulative Years Included
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 year only)	1,733	4
11	2021/22	5 (1 year only)	990	3
12	2022/23	741 (1 year only)	1,229	2
13 (Est)	2023/24	Unknown	922	?
14 (Est)	2024/25	Unknown	617	?
15 (Est)	2025/26	Unknown	309	?
16(Est)	2026/27	0	0	0

61. The terms and commitments of the original NHB scheme have not been maintained. The Government implemented changes to the scheme from 2017/18 resulting in a reduction in the number of years grant in payment from 6 years in 2016/17 to 5 years in 2017/18, further reducing to 4 years in 2018/19. In addition, Government introduced a minimum growth threshold of 0.4%, below which no NHB will be paid. The growth delivered by DDC for the 2022/23 NHB calculations was sufficient to receive an award of £741k, including £34k for the delivery of affordable homes.

62. For the purposes of the MTFP it has been assumed that the new NHB grant will be reduced to nil proportionally over the next four years. There may be changes to other areas of funding, for example from the results of the Fair Funding Review, that may offset this reduction.

COLLECTION FUNDS

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

64. The Council manages separate Collection Funds for Council Tax and Business Rates. Every year the CF is credited with the income from CT and BR (c. £70m and £50m respectively).

65. The Council Tax CF is also 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.

66. Normally this surplus (or deficit) is owed to (or by) the preceptors and will be added to (or deducted from) the following year's precept in order to distribute the surplus available in the CF or contribute the projected deficit back to the CF to top it up. This is a continuous rolling process.

67. It is forecast that DDC's share of the NDR deficit at the end of 2022/23 will be £290k, this will be financed from the Business Rates & Council Tax Support Reserve in accordance with the planned smoothing of NDR timing differences.

GENERAL FUND RESERVES AND BALANCES

1.2 In past years the standard budget strategy for DDC has been to estimate the baseline service costs, determine the financing available, drive savings where possible / required, produce a broadly balanced budget and maintain reserves and balances for one-off and planned purposes such as the project programmes, elections, ICT investment etc.

1.3 Although the standard strategy has served the council well and remains part of the process, in the current circumstances we need to do more. Therefore, to mitigate this risk and the volatility of the budget process the strategy will therefore incorporate a £4m smoothing reserve to enable the council to take a measured approach to the forecast pressures. This will involve:

a) Creating a General Fund Revenue Budget Smoothing Reserve of £4m by taking £1.3m from GF balances (reducing them to £1.5m as an "absolute last resource" balance for major overspends only), £1.4m from retained Covid grants and £1.3m from unallocated revenue reserves.
b) The projections for future revenue budgets will then be based on "mid case" assumptions.
c) Produce a balanced budget on the basis set out above and maintain the existing budget management disciplines.
d) If there is a subsequent overspend, this will be met from the Smoothing Reserve and remedial action (including rebuilding of the Smoothing Reserve) will be planned for the following year.

1.4 It is important to note that the smoothing reserve will not be available for capital or other projects. It is there to support the General Fund revenue budget. It is not planned to use it when preparing the budget – it is there to cope with any unexpected pressures in the outturn and any last-minute significant changes such as the government settlement. If it is called upon, it will be necessary to restore the reserve back to its agreed level.

68. The proposed General Fund balance in 2022/23 of £1.5m reflects a revised "minimum preferred level", following the introduction on the new General Fund Revenue Budget Smoothing Reserve.

69. Forecasting future years is particularly challenging at this time due to the uncertain nature of the current unprecedented economic environment, the unknown longer-term impact of Covid 19 lockdowns and the future of Government funding.

70. However, considering the anticipated reduction in NHB and other government funding alongside inflationary pressures it is anticipated that there will be a requirement to save in the region of £900k from 2023/24, followed by a further £400k in 2024/25, as detailed in Annex 2.

71. 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.

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

- Annex 1 contains the budget summary for the General Fund;
- Annex 1A summarises the net expenditure and financing requirements;
- Annex 1B shows the net service expenditure analysed by categories of expenditure and income;
- Annex 1C shows the key expenditure and income figures and patterns for the General Fund;
- Annex 1D details the main factors impacting the General Fund budget;
- Annex 2 provides the General Fund Revenue Budget projection for the period to 2023/24;
- Annexes 3A – 3C contain summaries of the services managed by each Director and the associated budgets;
- Annex 4 contains details of the General Fund balance and earmarked reserves; and
- Annex 9 details the Grants made to Organisations for approval.

Recommendations from this Section

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

74. It is recommended that Council:
    - Approve the General Fund Revenue budget for 2022/23;
    - 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

75. 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.

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

HRA FINANCIAL OBJECTIVES

77. 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.

78. At the time of writing, the HRA has 4,372 dwellings, made up of 2,665 houses and 1,707 flats.

2022/23 DRAFT BUDGET AND MEDIUM TERM FORECAST

79. The HRA's financial position, detailed at Annex 5, can be summarised as follows:

- HRA balance to be maintained for the period at £1m;
- Housing Initiatives Reserve balance is to be used for future years for restorative measures on DDC's housing stock. The housing development projects (as detailed in paragraph 81) for the planning period will be funded by borrowing.

80. The major variances between the 2021/22 budget and the 2022/23 proposed budget are:
    - Increase in rent of CPI + 1% (4.1%);
    - Ongoing increase in major capital works, to include the restorative works programme which ensures that DDC brings our housing stock back to decent homes standard.

81. The future year projections show an increasing income stream from rents. This is due to the ending of the Government's requirement to reduce rents in cash terms by 1%

per annum for the period 2016/17 – 2019/20, and so rents can now be increased. The HRA is also facing general inflationary pressures on its expenditure. During 2022/23 the major HRA development projects will be funded through borrowing instead of funding from the HIR. This will be used in future years on restorative measures on DDC's council stock. We are expecting to bring in 24 interim housing units, 30 properties across the district, 12 property buy-backs as well as a further 2 shared ownership properties in Deal.

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

83. The planned capital and revenue works budgets were supplied by the property services section and 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

84. With effect from 1st April 2012 the government replaced the existing subsidy based system of HRA financing with "Self-Financing". For DDC this resulted in the replacement of the subsidy that we were paying to Government (£6.3m in 2011/12) with a single payment to them of £90.5m. This was facilitated by DDC borrowing the required sum from the PWLB. Government direction was to plan for long term rent increases of 1% above inflation. Servicing the loan, over 30 years, cost less than the negative subsidy, and so the HRA started to accrue a surplus which could be invested in new housing or other appropriate requirements. The current balance outstanding on the PWLB loan is c.£70m.

85. The HRA budget is balanced for 2022/23. The HIR balance during 2022/23 is being used for restorative works. New projects will use borrowing, as required, to support the on-going programme of housing development.

86. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2022/23 budget is based on the work programme provided by the property services section and incorporating the results of the survey.

87. In May 2017 Dover District Council Jobcentre Plus went live with the Universal Credit Full Service. There had been a significant increase in HRA rent arrears until January 2021 when the in-house rent team started to be able to recover some of the arrears The rent arrears are now at their lowest level since April 2018. The debt appears to be mainly a cash flow issue rather than a bad debt due to the timing delays associated with payment of Universal Credit. However, tenants now directly receive the Universal Credit payment, whereas with Housing Benefit, payments are made direct to the landlord. This is resulting in some cases of higher debt levels from tenants not paying their rent and we are beginning to see some evictions due to this.

Rent Setting

88. Council house rents are effectively controlled by Government. As the MHCLG has now allowed for rents to be increased from 2022/23 the average increase is 4.1%. Rent levels are calculated on an individual property basis using rent formulas previously prescribed by MHCLG.

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

- The 2021/22 average weekly rent across all properties is £86.75;
- The 2022/23 average weekly rent is forecast to be £90.35
- The increase in the average weekly rent is £3.60 or 4.1%; and
- Three bedroom houses have rents (for 2022/23) ranging from £91.20 per week to £113.50 per week with an average of £102.35

90. Approval of rent levels is an executive function that has been delegated to the Head Housing in consultation with the Portfolio Holder responsible for Housing based on the model described above.

Capital Receipts

91. 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.

92. As at the end of December 2021 there had been 12 RTB sales in the financial year. It is estimated that retained 'excess receipts' will be in excess of £500k by the end of the financial year. This has to be used within 5 years of receipt, or else it must be repaid to MHCLG, and, when applied to a capital scheme, it cannot comprise more than 40% of the scheme costs, so other funding sources must also be available.

93. In order to comply with these rules and avoid claw back by the MHCLG, this funding is normally applied to HRA housing projects, before any other sources are used.

Service Charges

94. 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 to tenants are made in addition to their weekly rent. Service charges and charges for insurance are made to leaseholders in addition to the ground rent charged.

THE MANAGEMENT OF DDC'S HOUSING STOCK

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

96. The three other Councils also decided to take back the management of their own housing stock.

97. The in-house teams are now established and operational. Much of the work has been completed including:
    - Compliance levels and procedures are now at the required level and have received sign-off from the Social Housing Regulator;
    - The disaggregation and implementation of computer systems; and
    - The Embedding and development of the smooth running of the new service.

98. 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

99. 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 14-year profiled spend on capital investment is an affordable approach to support the restorative measures required. The plan will form a basis for any future modelling the Council wishes to consider.

HOUSING DEVELOPMENT AND INVESTMENT

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

    - HRA Investment, utilising
        - Housing Initiatives Reserve (HIR)
        - Borrowing
        - 1:4:1 Right to Buy Replacement
        - Acquisition and new build
        - Investment in existing stock
    - Registered Providers Investment
    - Private Sector Housing
    - Commercial housing developments
    - Homelessness strategy

101. These are discussed in more detail below.

<u>HRA INVESTMENT</u>

<u>Housing Initiatives Reserve (HIR) & 1:4:1 Right to Buy Replacement</u>

102. 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.

103. Since 2017/18 HIR funding, coupled with 1:4:1 Right to Buy funding has enabled the re-purchase of 64 former Council properties which have been added to the HRA stock.

104. To date in 2021/22, 7 properties have been purchased and this is expected to increase by the end of the financial year.

105. Additionally since 2017/18 we have refurbished or acquired the following properties:-

- Folkestone Road, Dover – 9 flats refurbished
- George Close, Capel – 9 houses purchased of which 3 were shared ownership.
- Norman Tailyour House, Deal – refurbished providing 18 new 1 and 2 bedroom flats
- Former sites of 2 sheltered housing schemes, Harold Street, Dover – now providing 29 shared ownership flats, 24 flats added to the HRA stock and 12 houses for private sale.
- Ottowa House, Folkestone Road, Dover – 8 units refurbished into 1 bedroom flats

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

- The development of interim housing (48 properties) on sites at Kimberley Close and Barwick Road Dover and Stockdale Gardens in Deal;
- 6 properties being developed at St Richards Road in Deal;
- 26 properties being developed at Napchester Road in Whitfield.
- 2 properties being developed at Foxborough Close, Woodnesborough

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

108. It is proposed that the 2022/23 housing developments will be financed by borrowing. The balance in the HIR at the end of 2021/22 is projected to be around £13m. The four year HRA forecast (Annex 5A), shows the balance will be depleted by the end of 2025/26 due to the restorative measures on DDC's Council stock.

Investment in Existing Stock

109. The HRA budget and projects take account of the need to invest in existing stock before establishing a surplus for the HIR. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2022/23 budget is based on the work programme provided by the property services section incorporating the results of the survey and the work required for Decent Homes standards.

Recommendations from this Section

110. It is recommended that Council:

- Approve the HRA budget for 2022/23

ASSET MANAGEMENT PLAN (AMP)

111. The AMP is used as a management tool to assist in ensuring that the Council's property assets meet the objectives set out in the Council's Corporate Property Strategy. It covers:

- Revenue maintenance requirements;
- Capital works programmes;
- Data on performance of significant corporate assets; and
- Properties identified for disposal.
- During 2021 the AMP was amended among other things to reflect the commitment of the Council to be a zero-carbon organisation but will again be reviewed in 2022 to reflect any further changes to legislative requirements.

112. Expenditure on repairs and maintenance forms a direct link with the revenue budget, which contains the resources to meet the programme of repairs and maintenance. Standards of maintenance, and therefore of required expenditure, are to some extent subjective. The Strategic Director (Operations and Commercial) confirms that there are sufficient resources to keep properties generally wind and water-tight, but it continues to be a challenge to maintain all buildings without deterioration. Continuing with this approach increases the risk, but it ensures that the limited budget focuses mainly on essential maintenance.

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

- Tides Leisure Centre- because of its age, needs work to the external envelope of the wet side buildings. Extensive renewal of worn out and inefficient heating plant for the wet side completed in January 2019. Survey work has indicated that more extensive repairs and replacements than were originally thought are also necessary. Further work is being undertaken to establish the route to achieve a sustainable future for the complex over the next 30-40 years.
- Dover Town Hall - During 2020 Dover District Council secured stage 2 HLF funding for Dover Town Hall, to support a scheme which will provide a sustainable future for the priceless Burgess heritage assets and the Stone Hall. The construction phase is due to start in late spring 2022.
- Deal Pier - cyclical concrete repairs are again becoming necessary and investigative work to ascertain the extent and cost of such repairs will continue during 2022.

114. An Urgent Works earmarked reserve was established and this is held to fund urgent works on corporate assets if required.

<u>Summary</u>

The key points for Members to note are:

- There are sufficient resources to maintain the Council's General Fund properties in a basic state of repair but it is a significant challenge to maintain all the buildings without deterioration and this does carry a risk of service failure or an increase in the overall maintenance backlog; The current resource levels preclude wholesale expenditure on initiatives to cut carbon emissions however innovative sustainable projects and solutions will cumulatively and significantly reduce emissions in order to help the Council achieve its organisational zero carbon ambition by 2030.

- The Strategic Director (Operations and Commercial) continues to review opportunities for realising capital receipts from surplus assets to support financing of the capital programme.

CAPITAL PROGRAMME & SPECIAL REVENUE PROGRAMME

Purpose of the Capital Programme

115. The primary objectives are to:

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

Definition of Capital

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

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

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

Content of the Capital Programme

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

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

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

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

121. To facilitate efficient decision making, final approval for projects up to £50k that are included on the Capital and Special Revenue Programmes are delegated to the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance.

122. In addition, a contingency has been included on the MTCP and Special Revenue Programme to allow progression of small projects without significant policy implications. It is proposed that the approval of such projects continues to be delegated to the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance.

123. 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.

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

- Committed General Fund Projects
  These are live General Fund projects that have been approved by Cabinet through the Project Appraisal process or under the agreed delegated authority, and are committed or in progress.

- Proposed General Fund Projects
  New projects are shown in the programme for approval of funding to the projects. These projects will be subject to the completion of a Project Appraisal for Cabinet or delegated approval before they commence.

- Financed by
  This table provides a summary of the financing of the proposed Capital Programme. Members will note that there are sufficient resources to finance the projects included in the table. However, Members should also note that:

  - If Members wish to include additional projects in the programme, these can only be resourced by removal of the equivalent value in new bids;
  - 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

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

Content of the Digital and ICT Projects Programme

126. The Digital and ICT Projects Programme (Annex 6D) comprises significant projects which are required to deliver digital improvements to services and support the ICT infrastructure. These are usually one-off revenue expenditure in nature and are therefore to be funded from reserves as annual recurrent revenue budgets are insufficient to finance them.

Financing of the Capital and Special Revenue Projects Programmes

127. In order to maximise the capital resources available to the Council, the detailed decision to apply capital receipts, revenue resources, grants, s106 monies etc. to finance the approved Capital and Special Revenue Projects Programmes is delegated to the Strategic Director (Corporate Resources), in consultation with the portfolio holder responsible for Finance, and capital receipts from particular sources will not be hypothecated to specific projects. Instead they will be treated as one overall stream to finance Capital and Special Revenue projects within both the General Fund and HRA according to the priority of the projects and the availability of financing.

128. 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.

129. In addition to financing of capital expenditure, the Council also has to 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

130. 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

131. In 2004/05 the Government introduced the pooling of housing capital receipts, from Right-to-Buy sales, for distribution to authorities where there is greatest need. From 1 April 2012 new Right-to-Buy regulations apply. The main change from previous regulation is that receipts in excess of those allowed for under the Housing Finance Reform Debt Settlement may be retained by an authority for 1:4:1 replacement of Affordable Housing.

132. Right-to-Buy (RTB) sales in 2021/22 have been similar to levels in 2020/21. 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.

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

134. Annex 6B details the level of capital receipts held, expected, committed to projects proposed and to be used for new projects. The balance of receipts after these

anticipated receipts and commitments is shown as zero. Future capital receipts are expected to come mainly from housing right to buy sales and amount to circa £300k 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

The key points for Members to note are:

- The Capital Programme operates on a cash funded position with no new projects being approved to commence unless the whole project costs can be financed through additional funding, sufficient capital receipts have been banked, external borrowing is approved or other savings in the programme have been identified. The new projects in the programme have been approved subject to the completion of a Project Appraisal for approval by Cabinet, or the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance under delegated powers;
- The Capital Programme is partly financed from HRA Right-to-Buy sales. Since 2017/18 the level of RTB sales has been declining and the level of sales for 2021/22 is currently showing this trend is continuing. Therefore, the amount of receipts available for general capital purposes remains limited.
- The detailed financing of the Capital and Special Revenue Projects Programmes is delegated to the Strategic Director (Corporate Resources) in consultation with the portfolio holder responsible for Finance;
- There is no provision for making capital grants to other organisations, other than those grants already approved; and
- The lack of headroom in the capital programme for additional projects is a significant constraint and large projects will need to be funded from external borrowing where revenue savings can be identified to offset the borrowing costs (such as the Dover District Leisure Centre project).
- Following a number of years during which only patch repairs have been undertaken, there is now a need for significant investment across the authority's assets, parks and ICT to achieve a standard that will enable a programme of rolling works to be introduced.

RECOMMENDATIONS FROM THIS SECTION

135. It is recommended that Cabinet:

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

136. It is recommended that Council:

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

TREASURY MANAGEMENT AND THE PRUDENTIAL CODE

137. 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.

138. The new capital system promotes a Council framework to ensure:

(a) That the authority maintains a balanced budget;
(b) That the impact of capital investment decisions is reflected in the revenue budget; and
(c) That performance measurement is implemented in managing and controlling the impact of capital investment decisions.

139. Annexes 7A – 7C (to be included in the March report) will set out estimates for each of the relevant Prudential Indicators in each of the financial years 2022/23 to 2025/26 and include the latest estimates for 2020/21 aligned with the revised forecast budget. Approval will be sought for the proposed indicators for 2022/23 – 2025/26.

140. 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

141. 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 November 2017) that was adopted by this Council in March 2018.

142. Approval of the strategy is a Council decision.

RECOMMENDATIONS FROM THIS SECTION

143. It is recommended that Council:

- Approve the Capital, Treasury Management and Investment Strategies, including the Prudential Indicators and Minimum Revenue Provision statement (Annexes 7A, 7B and 7C –to be included in the March report).

KEY ASSUMPTIONS & READY RECKONER

Background

144. In order 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

145. Salary inflation will be based on the results of the Collective Bargaining process. Contract inflation for 2022/23 is based on the details of the specific contracts, the state of the market for the specific services and any other relevant factors. Contract inflation is assumed to be 2% for future years. Inflation on all other expenditure will aim to be limited to the current budget level; however, a small allowance of 2% has been forecast to allow some limited growth.

Staff Numbers

146. The 2022/23 budget includes 630 full time equivalent posts directly employed for DDC. This includes 196 Port Health posts and 14 posts employed by DDC as part of the East Kent Audit Partnership (working for Canterbury, Thanet, Folkestone and Hythe and Dover and recharged accordingly) and East Kent Payroll (working for Canterbury, Thanet and Dover and recharged accordingly) allocated across services.

Triennial Valuation of the Pension Fund by the Fund Actuaries

147. The triennial valuation took effect from April 2019. It has been assumed that the DDC backfunding contribution will increase by 4% above the 2021/22 level of £1.82m for the planning period.

Interest Rates

148. It is assumed that DDC will maintain the 2021/22 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

149. The current draft settlement provides figures for 2021/22. It is assumed that this will reduce to nil for future years.

Business Rates Retention

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

Council Tax

151. Council tax increases have been assumed at £4.95 for 2022/23 and for the remainder of the planning period.

New Homes Bonus

152. 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 new NHB grant will be reduced to nil proportionally over the four years following 2022/23.

Capital Projects

153. There are no material revenue pressures expected from current capital projects as they go live.

Ready Reckoner

- Payroll - 1% increase costs the General Fund approximately £100k;
- Council tax - 1% raises c.£80k;
- RSG – assumed to reduce to nil by 2023/24;
- NDR – 1% growth in BR income equates to c.£60k (DDC's share @ 40%, less 50% levy, but will be higher under pooling due to reduced levy rates);
- Investment Income - 1% equals approximately £400k (based on investment balances of £40m);
- Contract inflation – 1% equals c.£65k;

SIGNIFICANT BUDGET RISKS

154. 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.

155. Although it currently represents the greatest risk, a specific heading has not been included for Covid-19, because it will impact to a significant extent across all of the other risks.

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

157. Expenditure risks:
- Brexit
- Port Health
- Pension Funding
- Homelessness
- Contract renewals

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
1	Business Rates	The key challenges are: • Changes to the overall Business rates retention (BRR) regime including the future level of BRR – 50%, 75%, 100%? • Future re-sets of the DDC baseline, sacrificing some / all of the gains made to date. • The next revaluation – will it be fiscally neutral or negative and who will make up the shortfall? • Class action appeals • Individual appeals such as Channel Tunnel. • The difficulty in forecasting future BR taxbase changes. • Operation of the Collection Fund and the timing of recognition of income. • Unexpected revaluations, errors and initiatives by the VOA such as reduced valuations for hospitals and fire stations. • Errors in the MHCLG settlement • Changes in the Enterprise Zone and / or renewables schemes. • Weak BR performance by other Kent districts leading	£7.8m pa

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		to an impact on the Kent pool. • Poor understanding of the regime by the DLUHC. • The Fair Funding Review leading to changes in the baseline or other aspects of the regime. The opportunities for Councils individually or collectively to mitigate the above impacts are limited other than through the management of their own finances, smoothing reserves etc. and individual lobbying and response to consultations. Collective lobbying and response to consultations will also take place where possible, but the impacts of changes are often re-distributive and do not fall evenly across the sector and so it is difficult to create consensus.	
2	New Homes Bonus	Government have indicated that they wish to change their commitment to New Homes Bonus and are expected to scrap it altogether. This is a core part of DDC's funding stream, generated in recognition of recent planning decisions, which were taken, in part, on the understanding that the NHB pledge would be honoured by government and may be used to mitigate the impacts of those decisions. The 2022/23 settlement included an unexpected increase in NHB funding. However, it is anticipated that this will be reduced over future years. The key issue will be whether NHB is replaced and if so, by what.	£1.2m pa.
3	Fair Funding Review	The government has consulted on a Fair Funding review which will re-calibrate the local government settlement. The FRR is now expected to take place in 2022/23. Pressure from upper tier and unitary authorities and the challenges arising from adult social care may reduce the resources available to district councils. As with the current settlement, the Council can take part in Kent wide lobbying on the settlement but has limited ability to influence the settlement.	Unable to forecast at the time of writing.
4	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.	£7.7m pa

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
5	Treasury Management	Of the current forecast £1.6m 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 capital values 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.	£1.6m pa
6	Property Income	The Council receives rental income from its commercial regeneration properties. There is a risk that this income may be reduced if tenants are unable to continue to trade.	£2.3m pa
7	Capital receipts	Capital receipts come from housing and other asset sales. Any drop-off in the level of receipts will lead to reduced resources available to complete projects. The reduced receipts could arise from lower sales, lower prices or both. We cannot mitigate against market movements or reduced levels of sales. To some degree lower values may increase the level of demand, but this will also be dependent on interest rate movements.	£300k pa (average level)
8	HRA rent arrears	The roll out of Universal Credit has been mirrored by a significant increase in housing rent arrears. However, the rent arrears levels have been reducing since housing has come back in house and are now at the same levels as 2018-19. A bad debt provision is included within the budget and arrears levels are being monitored. The Coronavirus 2020 Housing Act had resulted in eviction cases currently being on hold since March 2020 but from October 2021 the notice period for possession proceedings has returned to pre-Covid length.	Annual HRA rent £20.5 m Current arrears £602k
9	Car Parking	Car parking income is expected to be impacted by the lockdown and tier restrictions. The depth and length of the impact is unknown.	£2.6m pa

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
10	Brexit – Port and East Kent impact	The creation of a "third country" border between the UK and France increases the risks of border closures and related disruptions to the traffic flows in and out of the port and Channel Tunnel. This poses a risk in terms of the impact on local businesses and communities, the disruption in the delivery of services such as waste collection, and the requirement clear litter, clean highways etc. The Council is in discussions with DLUHC regarding the additional costs being borne by the Council.	Unable to forecast the impact at the time of writing.
11	Port Health	The Government, via Defra, have funded start-up costs for the expanded service of the Port Health, which once fully operational, will be able to charge fees for each check it conducts. This will then enable the service to be self-financing. However, until the service is fully operational, and the trade has settled, it is very difficult to accurately assess the number of checks that will be required and total income that can be expected. As Port Health Authority the Council is required to develop a whole new team of circa 200 staff to service the new Border Control Point at Whitfield. Significant risks include: • The start date for the service (expected to be July 2022) but is dependent on completion of works by Defra • The recruitment challenges • Trade volumes • Estimated income, expenditure and fees.	Unable to forecast the impact at the time of writing.
12	Pension Funding	Prior to the Covid-19 pandemic the Kent scheme was at the highest overall level of funding since the 1980's and had made significant progress towards 100% funding. It is not yet clear how the pandemic will change this position and whether the Council will have to make significantly increased contributions following the next triennial valuation. It should also be noted that DDC's share of the scheme costs is heavily impacted by staff demographics and the maturity of the scheme and is therefore significantly less well funded. This also adds upwards pressure to the costs.	£6.9m pa contribution (increased from 2021/22 budget due to impact of Port Health staffing)

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
13	Homeless expenditure	Expenditure will continue to increase due to the impact of Coronavirus, the Homeless Reduction Bill and the continued implementation of Universal Credit in the district. Close monitoring of the impact of the Bill and the in-year budget. 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.	Unable to forecast at the time of writing.
14	Major Contract Renewals	When major recurrent contracts are up for renewal the price achieved by the council depend 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.