2024-28 Medium Term Financial Strategy

Council	22 February 2024
Report Author	Chris Blundell, Director of Corporate Services and Section 151 Officer
Portfolio Holder	Cllr Rob Yates, Cabinet Member for Corporate Services
Status	For Decision and Recommendation
Classification:	Unrestricted
Key Decision	Budget and Policy Framework

Executive Summary:

This report presents the 2024-28 MTFS for consideration and recommendation.

Recommendation(s):

1. The 2024/28 MTFS be agreed.

Corporate Implications

Financial and Value for Money

As detailed in the body of the report.

Legal

The Council is required to set a balanced budget each year by various pieces of legislation, notably section 31(A) of the Local Government Finance Act 1992. Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. The Director of Finance is currently undertaking this role in an acting up capacity. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report on the robustness of the estimates made for the purposes of the calculations for the budget, and on the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the budget.

Corporate

The budget has been prepared with reference to the corporate priorities.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Actions arising from this report - in particular the savings requirements - will each be assessed for equalities implications by relevant managers.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *To keep our district safe and clean*
- *To deliver the housing we need*
- *To protect our environment*
- *To create a thriving place*
- *To work efficiently for you*

1. Introduction

1.1. The Medium Term Financial Strategy (MTFS) sets out the council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund revenue account, the Housing Revenue Account and the Capital Programme, and includes grant funded projects.

1.2. This strategy also comments on the significant risks facing the council in the forthcoming years and explains what the council is doing to reduce those risks. The main objectives of the MTFS are to:

- Explain the financial context within which the council is set to work over the medium term.
- Identify the financial resources needed to deliver the council's priority outcomes.
- Provide a medium term forecast of resources and expenditure.
- Achieve a stable and sustainable budget capable of withstanding financial pressures.

1.3. Separate four-year plans have been developed that accord with the respective budget strategies for each of the council's separate financial accounts, namely; the General Fund revenue and capital accounts and the Housing Revenue Account. The objective of these plans is a safe and sustainable budget over the medium term.

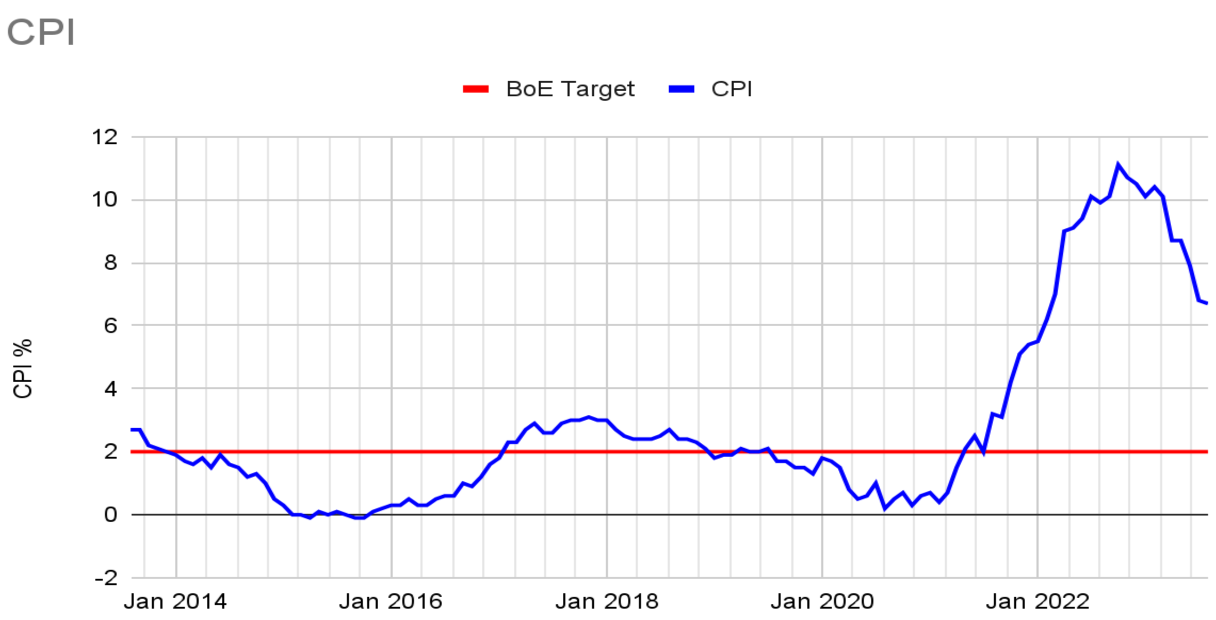
1.4. The budget has been produced within the context of our corporate priorities, government financial policy and resident feedback. Whilst only provisional information is available regarding government funding at the time of writing the report.

1.5. The draft 2024/25 budget was presented to Cabinet at its meeting on 19 October 2023 with the updated report appearing on this agenda for recommendation to Council for approval. The budget will also have been considered by the Overview and Scrutiny Panel.

1.6. A separate report is included elsewhere on this agenda in regards to the Housing Revenue Account.

2. Background and Context

2.1. The macroeconomic environment remains relatively unstable; whilst inflation (the rate of price increases) is falling from last year's 40 year high, prices are still rising with the Consumer Price Index (CPI) at 3.9% for November 2023, which is well above recent historical averages and also the Bank of England's (BoE) 2% target.



2.2. Consequently there are continuing increased cost pressures for both the council and our core stakeholders such as the district's residents, local businesses and the council's service users.

2.3. In budgetary terms these pressures are being realised directly through increased unit costs for items such as energy, fuel and utilities, alongside inflation linked contractual cost increases and also the need to agree a fair and affordable pay offer for staff. In addition to the increased costs for service provision, the macroeconomic environment is also resulting in increased demand for some of our services, most notably temporary accommodation for homelessness.

2.4. Coinciding with increased expenditure expectations for next year is the continuation of restrained increases in council's core income streams, with government grant funding now confirmed to be largely unchanged and council tax increases limited to below 3%. This divergence between the expenditure and core income budgets over the last couple of years has led to the development of budget strategy with a focus on optimising local income streams wherever possible, in order to protect and invest in service provision.

2.5. The development and progression of the council's Levelling Up Fund projects, both for Margate and Ramsgate, and also the Margate Town Deal make up a large proportion of the council's capital programme, meaning that the council has a sizable £92m capital programme to deliver over a four year timeframe. These funds in particular offer the opportunity for significant investment in two of the district's towns and the budgetary impacts are set out in the draft 2024/25 to 2027/28 capital programmes.

2.6. Finally, the settlement has provided funding allocations for one year only, as opposed to the multi-year settlements that have been provided in previous years. The provisional settlement and an accompanying policy statement did give some further information on plans for Local Government finance reform, stating "Now is not the time for fundamental reform, for instance implementing the Review of Relative Needs and Resources or a reset of accumulated business rates growth"

3. Medium Term Financial Strategy

3.1. As stated at above, the expected changes in the local government funding system make forecasting for 2025/26 and beyond very difficult. However, despite this uncertainty it is still prudent to plan for a number of different eventualities including those that are more pessimistic.

3.2. The council's MTFS has been built factoring the current business rate modelling assumptions and the other key assumptions that have been applied to arrive at the central forecast as set out in Table 5 and assumes that in 2025/26 Local Government Finance reform will not happen and is deferred to 2026/27.

Table 5: MTFS

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Neutral	0	266	4,026	3,958

3.3. The key assumption in place under this central forecast is that the reform of the local government finance system is implemented in 2026/27, resulting in:

- Funding allocations being broadly the same in 2025/26, including one final year of NHB at £228k
- That business rates baselines and related compensation funding remain at current levels and are increased by inflation

- No core grant funding (RSG, NHB or otherwise) allocated from 2026/27 onwards with a consequent £1.365m loss of funding
- A reset of the business rates systems in 2026/27, leading to a loss of £1.6m in accumulated growth,

Other key assumption applied include:

- Continued high inflation and stagnant economic growth at least into 2025/26
- Consequent 3% pay award assumed in the later years of MTFS
- Financial pressures on the Homelessness service remain high
- That the Council Tax referendum limit is 3% in 2025/26 and then 2% afterwards and that the council sets council tax at these limits (as per government funding assumptions)
- The Council tax base grows about 2% in each of the following three years of the MTFS
- Significant borrowing repayments associated with the financing of the capital programme, including budget provision for electrification of refuse collection vehicles.

3.4. Clearly there is great uncertainty as to what form local government finance will take over the medium term, let alone the shape of the macroeconomic environment. Nonetheless, the council continues to prudently identify longer-term budget savings, which can be implemented if and when necessary to close the forecast budget gaps presented above.

3.5. The work of Cabinet and CMT in terms of priorities has allowed for significant investment in key service areas. This does not, however, remove the need to look for areas for efficiencies and improvement over the medium term, so In addition to this, other areas for consideration include but are not limited to:

- Utilise the evidence gained from a strategic review of parking across the district.
- Continue to increase our property portfolio for the direct management of temporary accommodation in order to reduce the cost of the homelessness service.
- Property reviews, including stock condition surveys, updating EPC's, improving and re-letting vacant properties.
- In-line with the identified areas requiring growth to support continued service delivery in housing and waste the Cabinet is committed to continuing to ensure the services are delivered as efficiently as possible.
- Continued digitalisation and transformation of front facing and back office services
- Implementation of a new public toilet strategy, working closely with town and parish council's.
- In-line with the Margate Town Deal prospectus, a review of the provision and delivery of leisure and cultural services in the district, including the Theatre Royal and Winter Gardens.
- The Ramsgate Levelling Up programme of works could bring in new income for the council from the Port.
- Consideration of using the Minor Works team to generate income from selling handyperson services.

- A review of printing services income and expenditure including scope to in-source more printing.

4. Resident Views and Corporate Priorities

4.1. Every year the council conducts a residents' survey to capture the feedback of a random selection of local people. The survey is carried out to understand the priorities of residents and to ask for feedback on a range of key council services. Results are used to help inform the annual budget setting process and to ensure that resources can be directed towards the areas that matter most to local people. Feedback regarding satisfaction with key council services is also used as part of the way that the council monitors its overall performance to understand trends in satisfaction.

4.2. The 2023 survey went live in November in line with its usual timeframe of the Autumn, in order to feed into the budget process.

4.3. This year, the council is also asking for residents to give their views on its draft Corporate Plan 2024-2028 and draft budget for the next financial year. The information received will help to shape the work the council does in the district.

4.4. The consultation closed on 2 January 2024. 259 people responded to the targeted sample survey which was issued to 6,000 Thanet households. An additional open survey was also available on the council's online engagement platform, Your Voice Thanet. There were 299 responses to the open survey. The full responses to both surveys are currently being analysed and will be published on the council's website. Initial results indicate that overall, residents agree with the priorities set out in the Corporate Plan and are broadly supportive of the draft budget proposals set out in the Cabinet report in October 2023. Clean streets, thriving towns and feeling safe remain the priority areas.

5. General Fund Capital Programme

5.1. This section considers the capital programme and supporting strategy for the period 2024/25 to 2027/28. A detailed breakdown of the programme, at individual scheme level, is included in Annex 1.

5.2. The draft General Fund capital programme for 2024/25 is £53m, with £92m programmed to be spent across the four years up to 2027/28. This represents a significant increase in scale of the programme for the council compared to past years and is largely the result of an increase in the number and size of the schemes that are backed by external funding.

5.3. A minimum level of £15k has been set for capital expenditure (expenditure on the acquisition, construction or enhancement of a fixed asset which is expected to be in use for more than one year). Expenditure below this value is not treated as capital and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure also includes qualifying grants and loans, such as those provided for the enhancement of buildings to increase the extent to which they can be used by a disabled or elderly person. Capital expenditure can be met from borrowing, capital receipts, grants or revenue contributions.

5.4. Due to the complex and large-scale nature of capital projects, the original budgets have to be based on estimations that often need revising as the project advances. This in turn leads to re-phasing of the capital programme, in order to keep the overall costs within the agreed budget.

The Capital Budget Strategy

5.5. In order to ensure that the capital budget is able to meet the council's needs in the wider sense and to manage the impact on the revenue budget, the development and use of the capital programme is underpinned by a Capital Budget Strategy as follows:

- To maintain an affordable four-year rolling capital programme.
- To ensure capital resources are aligned with the council's strategic vision and corporate priorities.
- To undertake prudential borrowing only where there is a statutory service delivery requirement or alternatively if there are sufficient monies to meet in-full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding and disposal of surplus assets.
- To engage local residents in the allocation of capital resources where appropriate.

5.6. Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, the capital programme is subjected to a thorough review. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account.

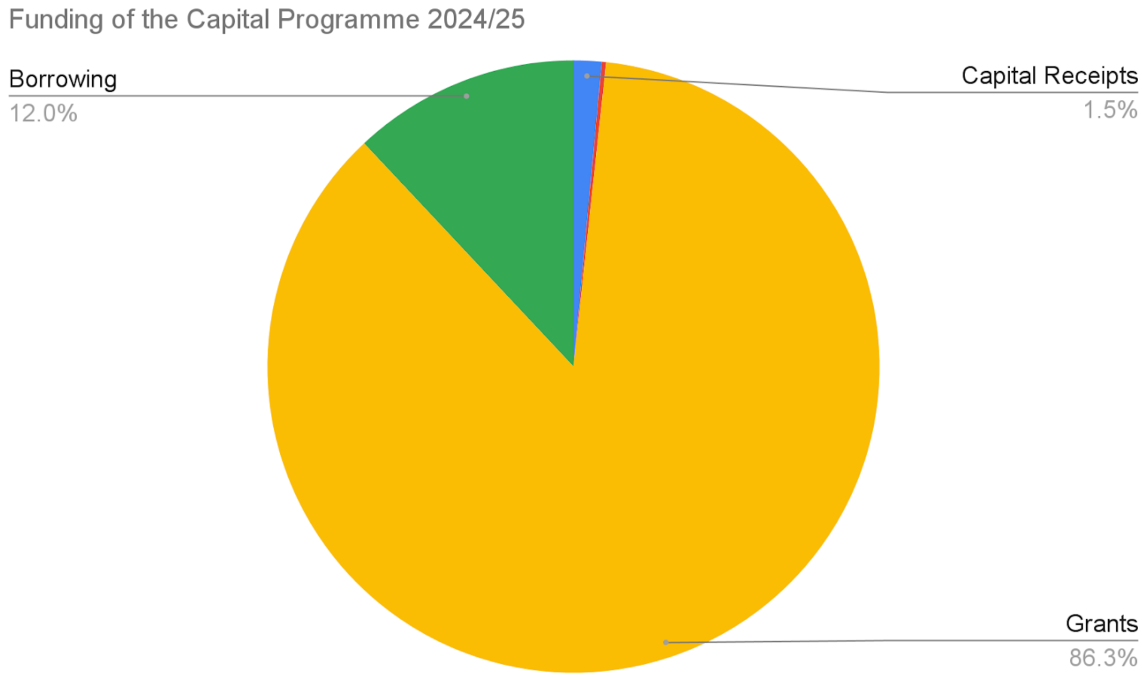
5.7. The level of resources available raises a number of issues and risks for future years, which need to be addressed. Over the past few years the council has seen a reduction in its available capital receipts, however the recent expansion of the Property Service function should result in a reversal of this trend. Should insufficient disposals be realised in 2024/25 onwards it would be necessary to reduce or defer the capital programme or to borrow, thus increasing the revenue pressure on the General Fund. Regular monitoring will be reported back to members and the capital programme adjusted accordingly.

5.8. Applications for capital bids have been reviewed by members of the Corporate Management Team and other specialist officers and scored against a weighted matrix to ensure they focus on the council's core priorities, benefit to the community, environmental impact, health and safety requirements, the generation or protection of income streams and affordability.

Available Capital Funding

5.9. Capital expenditure can be financed from revenue resources, grants, usable capital receipts and borrowing. The General Fund can only be used to fund General Fund related capital expenditure, and the Housing Revenue Account (HRA) can only finance expenditure on HRA assets; there can be no cross subsidisation between accounts. In both cases, the revenue resources are limited.

5.10. As referred to above the capital programme is of considerable scale for 2024/25 through to 2027/28, largely due to the extent of external funding the council has been successful in bidding for. This is illustrated in the graph below.



5.11. ***Capital Grants*** – these are offered by external funders to assist with certain types of expenditure. Capital grants include those from the Environment Agency and Lottery Fund. The Better Care Fund allocation for 2024/25 is estimated to be at least in line with the 2022/23 allocation, £3m. £3m has been set aside to fund the Housing Assistance Policy within the capital programme. This is made up of funding from the Better Care Fund and recycled Regional Housing Board monies. The 2023/24 capital programme also includes the Margate Town Deal, Margate & Ramsgate Levelling Up Funds, Ramsgate Future High Street Fund and projects to bolster Thanet's sea defences.

5.12. ***Capital Receipts*** – When a fixed asset is sold, provided that the sale receipt is over £10k, the income has to be treated as a "capital receipt", which means that it can only be used to fund capital expenditure. All of the monies received from the disposal of General Fund assets are available to the council for use.

5.13. Before the start of each financial year, a Flexible Use of Capital Receipts Strategy has been prepared as part of the annual budget documents. This sets out the circumstances when the council can capitalise expenditure that would normally be deemed as revenue. The Flexible Use of Capital Receipts Strategy is set out in Annex 2 and details the criteria where this may be considered as per guidance issued by Government. The Flexible Use of Capital Receipts scheme ends on 31 March 2025.

5.14. The level of capital receipts available from the sale of surplus assets has been very constrained over the last few years. Reasons for this have included the economic situation, assets being removed from the disposal list following consultation, and capital funding being switched from reserves to capital receipts wherever possible due to significant pressures on the council's revenue budget. Members should note that an estimated £897k in capital receipts/reserve contributions have been forecast to fund the 2024-25 programme. This will be monitored closely during the financial year, as it may be necessary to adjust the programme in-year depending on asset disposal and funding outcomes.

5.15. Every new capital project requires a funding source. This may be external grant funding, or else funded from within the council's own resources. A major source of funding the capital programme for some years has been capital receipts. The policy has been to dispose of some of the council's assets to enable investment in other of the council's assets. The council needs to be sure that the assets that benefit from investment offer a return of some sort; such as additional social value or an enhanced operational capability to deliver better/more efficient services. Only in exceptional cases does the council consider funding a capital project from borrowing, as this creates a long term liability that requires debt repayments, the cost of which has to be funded from the same source as for service delivery.

Capital Projects and Schemes

5.16. Projects already agreed from previous years within the four year programme are:

- **Margate Levelling Up Fund** - The total size of this capital project is £6.3m across all financial years with £4.891m currently programmed to be spent in 2024/25. This scheme is wholly externally funded and will fund the development of the Margate Digital campus.
- **Ramsgate Levelling Up Fund -** The total size of this capital project is £19.84m, with £18.242m currently programmed to be spent in 2024/25. This scheme is wholly externally funded and will provide funding for investment in the port, a new green campus building to provide a centre for excellence for operations and maintenance including a training and low carbon business centre, development of the clock house, new public realm at pier yard square and improvements to community space.
- **Margate Town Deal** - The total size of this capital project is £20.412m, with £17.117m currently programmed to be spent between 2024/25 and 2025/26. This

scheme is wholly externally funded and delivers a range of initiatives including creation of the Creative Land Trust, investment in the Theatre Royal, a programme to reinvigorate and provide new wellbeing infrastructure at key sites, improving links between key areas of the town and enhancing the Dreamland site.

- **Ramsgate Future High Street Fund -** The total size of this capital project is £2.7m, with £1.867m currently programmed to be spent in 2024/25. This scheme is wholly externally funded and will deliver creative workspace and highway improvements.
- **Housing Assistance Policy (including Disabled Facilities Grants)** £3m per annum rolling programme that is grant funded.
- **Vehicle & Equipment Replacement Programme** - £10.960m over four years, the size of the scheme has been increased significantly to include budget provision for electrification of refuse collection vehicles. The delivery of this expanded scheme will depend on the successful completion of the associated new infrastructure. This scheme is funded from borrowing.
- **Property Enhancement Programme** - £1.250m over 4 year programme to allow for capital enhancement to corporate property estate. Funded from the disposal proceeds of surplus properties.
- **End User Computing Refresh of Devices & IT Infrastructure -** £0.740m over four years, funded from borrowing.
- **Stone Bay Sea Wall Work** - £450k, reprofiled for delivery in 2025/26, externally funded.
- **Ramsgate Port - Berth 1 Refurbishment** - £300k reprofiled for delivery now in 2024/25, funded from borrowing
- **Walpole Coping and Sea Wall - £**450k, preprofiled for delivery in 2024/25, externally funded.
- **Royal Harbour Multi-Storey Car Park** - £3m in 2025/26 for the purchase of this site (which the Council currently leases), funded from borrowing.
- **Homelessness Accommodation (phase 2)** - The total size of this capital project is £2.2m, of which £1.2m is profiled for 2024/25 (funded from borrowing).

5.17. Capital bids for the forthcoming years have been reviewed and scored. Where projects require prudential borrowing further details can be found within the attached Annex 1.

Table 6: New Capital Projects

New Capital Project	Total Cost (over 4 years) £’000	Project Outline
Vehicle & Equipment Replacement Programme (Maritime)	771	To give Maritime its own programme rather than having separate capital projects. This will increase flexibility as well as streamlining and simplifying the capital process for Maritime vehicles and equipment.

Margate Harbour Wall Stabilisation	450	To reduce the risk of structural failure, maintain flood protection for Margate old town, and maintain access to the harbour arm and businesses.
CCTV Control Room and Systems Upgrade	350	Expand the CCTV control room, upgrade systems, and further develop the district's CCTV coverage and monitoring.
Ramsgate Leisure Centre - solar panels	570	To generate clean and renewable electricity on site, and to reduce carbon emissions.
Hartsdown Leisure Centre - solar panels	213	To generate clean and renewable electricity on site, and to reduce carbon emissions.
Thanet Gateway Windows / Rooflights	176	Refurbishment of windows and rooflights, increasing thermal efficiency and reducing carbon emissions.
Ramsgate Port & Harbour: Ladder Refurbishment	70	To facilitate berthing for vessels that are currently too large to be accommodated.
Mill Lane Car Park Refurbishment	1,563	Work to ensure the car park remains safe and compliant for use by drivers.

Table 6b: New Capital Projects (placeholders only at this stage - subject to finalisation of capital bids and scoring)

New Capital Project	Total Cost (over 4 years) £'000	Project Outline
Homelessness Accommodation (further phases)	7,200	The further provision of temporary accommodation to meet the needs of homeless people.
Household Waste and Recycling Container Improvement	1,096	To replace red bags with standard wheeled bins (for kerbside paper and card collections). Bags have a relatively short lifespan and, once emptied, can blow away in windy weather. This project will also consider the implications of Section 57 of the Environment Act in terms of the separation of waste requirements and what this will mean for our current suite of waste receptacles.
Litter and Recycling Bin Replacement	303	Improvement programme to ensure that bins are in good condition and to facilitate recycling
Decarbonisation of the Kent Innovation Centre	2,065	Replace the current gas boilers with a low carbon alternative heating solution (such as additional roof insulation, window improvements, LED lighting, heat pumps, new radiators etc etc).
Decarbonisation of Cecil St Main Office & Gateway	4,400	Replace the current gas boilers with a low carbon alternative heating solution (such as additional roof insulation, window improvements, LED lighting, heat pumps, new radiators etc etc).
Coastal Bin Housings	90	The installation of coastal bin housings to control fly-tipped waste
Ramsgate Port & Harbour: Refurbishment of Dockmaster Office	50	To improve the specification and create a drying room

5.18. The draft General Fund Capital Programme for 2024/25 is £52.626m, which will be funded in the main from grants, usable capital receipts and prudential borrowing. This is shown in summary format below.

Table 7: Draft Capital Programme 2024-2028

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Statutory and Mandatory Schemes	3,000	3,000	3,000	3,000
Ongoing Schemes from Previous Years	1,200	0	0	0
Annual/Regular Enhancement Programmes	4,019	5,215	3,323	9,763
Wholly/Part Externally Funded	42,417	7,515	0	0
Construction, Replacement and Enhancement	1,890	4,421	71	0
Capitalised Salaries (not yet allocated to capital projects)	100	100	100	100
Total Capital Programme Expenditure	**52,626**	**20,251**	**6,494**	**12,863**
Capital Resources Used:				
Capital Receipts and Reserves	897	1,721	421	350
Grants and Contributions	45,417	7,929	3,000	3,000
Contributions from Service Revenue Budgets	0	0	0	0
Prudential Borrowing	6,312	10,601	3,073	9,513

5.19. Any slippage from the 2023/24 capital programme will be in addition to the numbers in the above table. For example, the Budget Monitoring Report for the 21 September 2023 Cabinet meeting gives an estimated 2023/24 General Fund capital programme underspend of £5.960m

6. Robustness of budget estimates

6.1. The estimates have been subject to significant review and scrutiny by the Section 151 Officer, the Corporate Management Team, and Financial Services Officers.

6.2. One of the key tools for implementing the budget strategy was the use of budget prioritisation meetings. This allowed for in depth scrutiny of existing service budgets alongside the request for any budget growth or saving proposals; aiding the accuracy and robustness of the budget estimates.

6.3. Realistic assumptions have also been incorporated with regards to inflationary increases for 2024/25. This includes a 5.75% increase in staff pay that has been agreed with the unions, and inflationary budget adjustments for energy and other key expenditure lines. Sufficient budgetary requirements have also been included for the continuation of the waking watch service.

6.4. Regardless of the level of planning or security, budget estimates are inherently uncertain due to their forward looking nature. Key risks to the delivery of the 2024/25 budget have been detailed in the main budget report at section 9, but the section 151 officer is of the opinion that the council holds sufficient and adequate reserves to face these risks, as explained further below.

Adequacy of Reserves

6.5. It has been well reported in recent years that the council holds relatively low reserves, compared to other district councils, to historic levels and our risk profile. However as explained at section 7 of the main budget report, reserve levels are now at the highest level in over a decade. At their lowest point in 2015/16 earmarked reserves and balances stood at £8.2m, which equated to only 42% of the council's net revenue budget of £19.2m.

6.6. Over recent years reserve holdings have steadily increased, and now stand at £16m (subject to final Audit of the Accounts), which is double the level held at 31st March 2016 and now represents approximately 70% of planned net revenue expenditure for 2024/25. This improved position allows the council to look more confidently into the future and adopt a more balanced risk appetite when considering the financial risks and implications of potential opportunities for investment, to generate income, or transform our services.

6.7. Planned contributions to reserves of £180k were agreed to be included in the 2022/23 and 2023/24 budgets, in order to restate the reserve balances that were used to fund the anticipated costs associated with the conclusion of governance and disciplinary matters. However, given the overall improvement in the council's reserves and balance position this planned contribution is no longer required for 2024/25 and beyond.

6.8. Earmarked reserves are proposed to be used on a number of occasions for the 2024/25 budget, however the section 151 officer is satisfied that these allocations are appropriate; the contributions are of a one-off nature and are in keeping with the intended purpose of the reserve, in that they will either help smooth or mitigate emergency expenditure pressures or will help to generate additional income or reduce costs in the future.

6.9. The provisional year-end position for 2022/23 shows that the council has £1.9m set aside within the reserve for risk management, which is earmarked to meet the financial pressures from any necessary actions to address any unforeseen or developing risks the council faces. In addition to this, the council also has £4,09m in the equalisation reserve to smooth financial pressures that may arise from in-year budget volatility (e.g. housing benefit, business rates, planning income).

6.10. Finally, the council's General Fund balance remains above the £2.0m risk assessed threshold.

6.11. As such, the section 151 officer is satisfied with the adequacy of the council's current reserve holdings and the robustness of the estimates that have been applied to the 2024/25 budget.

7. The Housing Revenue Account

7.1. The council is required by the Local Government and Housing Act 1989 (section 74) to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the council is not allowed to fund any expenditure for nonhousing related services from this account.

The HRA 30 Year Business Plan

7.2. The current HRA Business Plan is forecast to fall into deficit post 2024 and further work is required to identify sufficient efficiencies to allow for a sustainable 30 year HRA Business Plan. Finance and the Head of Housing will continue to work together to remodel a sustainable plan. This will include a review of charges and costs from the General Fund, maximising income generation opportunities, and contract efficiencies.

The Housing Revenue Account Budget Strategy

7.3. The Housing Revenue Account Business Plan sets out the main strategic priorities for investment in homes and services over the long term. The strategic priorities, set out below, were adopted as part of last year's budget report:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the council.
- To provide opportunities for tenants and leaseholders to become involved in the management of their homes.
- To provide safe, well maintained and energy efficient homes.
- To invest in long-term improvements to the council's housing stock and provide homes that people choose to live in.
- To increase the council's housing stock through programmes of new build and refurbishment.
- To review the alternative options for homes that cannot be maintained to meet current and future standards.
- To maintain a rent and charging policy that is both affordable for residents and ensures the resources needed for investment in homes and services.
- To maintain a minimum level of HRA reserves of £1m.

As with the General Fund Revenue Account, the HRA budget is arrived at after the consideration of inflationary increases; growth in expenditure arising from service led demands and other pressures; reductions in expenditure through the realisation of efficiencies; and changes in income through rent increases and the impact of the sale of council houses.

Budgetary Growth

7.4. Contract and Price Inflation - For direct expenditure budgets, price increases have been included at 72% for gas/electric and 5% for insurances, which is the best estimate of the level of inflation at this point in time, unless there is a known inflation factor within a specific contract, in which case this has been used. Salaries have been uplifted in line with the agreed pay award of 5.75%

Increased Income

7.5. The council receives income from a variety of sources in respect of its council houses, including that raised from rents and from service charges to residents of flats for communal services in order to recover its costs.

7.6. **Rent Increases** – Social rents have been set based on government rent guidance. Affordable Rents are linked to local market rents and to the Local Housing Allowance for the area. Rents are applied to individual properties at the lower of either 80% of the local market rent or the Local Housing Allowance. Normally the Council has the flexibility to increase rents by Consumer Price Index (CPI)+1% for social and affordable rent tenants.

CPI was 6.7% in September 2023 and it is this month that is used to calculate maximum rental increases from April 2024, this means a maximum rental increase of 7.7%, which due to the inflationary pressures on the HRA, is required to ensure the business plan remains as sustainable as possible.

Based on the proposed increase across the whole stock the average rent is £102.11, this is an average increase of £7.28p per property per week. Table 2 sets out the proposed average rents across the different property types within the HRA portfolio.

7.7. **Service Charges** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week

7.8. **HRA Investment Income** – This consists of interest accruing on HRA balances. The budget for 2024/25 of £822k is based on achieving an average interest rate of 4.7%.

HRA Reserves

7.9. The council keeps three HRA specific reserves: the HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve. These are explained in more detail below:

- **Housing Revenue Account Major Repairs Reserve** – The funding held in this reserve is used to fund the Major Repair schemes included on the capital programme, enabling the council to maintain the housing stock in a good condition. The council currently maintains its social housing to Decent Homes Plus standard.

  An amount equivalent to the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. In-line with the depreciation calculation, the estimated transfer to the Major Repairs Reserve for 2024/25 is £4.353m. As at 1 April 2024 the forecast reserve balance is £15m.

- **Housing Revenue Account Balance Reserve** – This reserve holds the accumulated balance of prior year surpluses and deficits relating to the HRA. Accordingly, it is used to draw down to budgeted deficit for 2024/25 and smooth out any peaks and troughs within the 30 year business plan. As at 1 April 2024 the forecast reserve balance is £4.63m.

- **HRA New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. As at 1 April 2024 the forecast reserve balance is nil, due to it being budgeted to be fully utilised in 2023/24 Capital Programme. Annually the budget was set at £300k for a contribution to this reserve, but this will be reduced to finance in part the revenue impact of new acquisitions. As at 1 April 2024 the forecast reserve balance is £0m.

The Medium Term HRA Budget Requirements

7.10.

	2024/25	2025/26	2026/27	2027/28
	£000	**£000**	**£000**	**£000**
Gross Expenditure	**17,044**	**16,899**	**17,341**	**17,777**
Income	**-18,999**	**-19,379**	**-20,271**	**-20,970**
Net Cost of Services	**-1,955**	**-2,480**	**-2,930**	**-3,193**
Share of Members and Democratic Core	132	132	132	132
HRA Investment Income	-823	-525	-490	-534
Debt Interest Charges	2031	2204	2675	2843
Government grants and contributions	-10,038	-4,557	0	0
Adjustments made between accounting basis and funding basis	10,766	5,339	825	868
(Surplus)/Deficit on HRA	113	113	212	116
Housing Revenue Account Balance:				
Surplus(-)/Deficit at Beginning of Year	-4,631	-4,518	-4,405	-4,193
Surplus(-)/Deficit For Year	113	113	212	116
Surplus(-)/Deficit at End of Year	**-4,518**	**-4,405**	**-4,193**	**-4,077**

8. Options

8.1. Counciltt could choose not to approve some or all of the proposals presented in the report.

8.2. Council could endorse and approve the MTFS.

Contact Officer: *Chris Blundell (Acting Deputy Chief Executive)*
Reporting to: *Colin Carmichael (Interim Chief Executive)*

Annex List

Annex 1 2024/28 Capital Programme

Background Papers

Title: 2024/25 Budget Report,Council 08 February 2024

Corporate Consultation

Finance: *Not applicable*
Legal: Ingrid Brown (Head of Legal and Democracy & Monitoring Officer)