Subject:	**FINANCIAL OUTTURN 2013/14**
Meeting and Date:	**Governance – 25th September 2014** **Cabinet – 6th October 2014**
Report of:	**Mike Davis, Director of Finance, Housing and Community**
Portfolio Holder:	**Councillor Mike Conolly, Portfolio Holder for Corporate Resources and Performance**
Decision Type:	**Non-Key**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the financial outturn for 2013/14 following the audit of the Statement of Accounts
Recommendation:	That Members receive and note the report.

1. **Summary**

This report has been produced in order to provide Members with:

- An explanation of the outturn and the financial standing of the Council;
- Details of changes to the accounts; and
- A condensed version of the information included in the accounts.

The report should be considered in conjunction with both the Statement of Accounts and the Audit Findings Report (items 7 and 8 on the Governance agenda).

The accounts are a long and complex document that Members may not find accessible. The key points in the financial outturn for the year are:

- The General Fund was circa £320k in surplus for the year and balances have been maintained at over £2.5m;
- No funds have been drawn down from the HRA Transfer Reserve;
- HRA balances have been increased by over £3m;
- The capital and major revenues projects have stayed within budget, although resources for further projects remain limited;
- No new borrowing has been undertaken, the Council has complied with the Prudential Code and its own Treasury Management policies;
- The return of the Iceland investments is complete, over 97% has been recovered and so no further updates will be provided on this.

2. **Purpose of the Accounts**

2.1 The accounts are a statutory requirement and have a role in providing information to stakeholders and interested parties on the stewardship and management of public monies. They provide a significant amount of information, including the Council's financial position as at 31 March, a summary of the income and expenditure in the year to 31 March and details of assets and liabilities held at the year end.

2.2 However, the accounts are a long and complex document which may not be easily accessible to those Members not serving on the Governance Committee, the public and other stakeholders. Therefore, in order to further promote accountability, this Council also produces this outturn report.

2.3 When considering this report and the Statement of Accounts, Members are reminded that the final accounts, budget and Medium Term Financial Plan (MTFP) should not be considered in isolation. Together they form a continuous process of financial management, and so the outturn will feed into budget monitoring and the next MTFP.

3. **Format and Changes to the Accounts**

3.1 The main changes to the accounts for 2013/14 were:

- **National Non-Domestic Rates**

  Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).

  Until 1 April 2013 cash collected from NNDR payers by billing authorities (net of the cost of collection allowance) belonged to the government and the amount not paid to the government at the balance sheet date was included as a creditor; similarly, if cash paid to the government exceeds the cash collected from NNDR payers (net of the billing authority's cost of collection allowance), the excess was included in the Balance Sheet as a debtor.

  On 1 April 2013 the Business Rates Retention Scheme (BRRS) was introduced. Under BRRS, cash collected by the billing authority from NNDR debtors belongs proportionately to the government, the billing authority and the major precepting authorities. There will be a debtor or creditor position between the billing authority, the government and the major preceptors to be recognised at the end of each year, as the net cash paid to the government and the major preceptors during the year will not exactly match its share of the cash collected from NNDR payers.

  This is explained further in the Explanatory Foreword and the Collection Fund section of the Supplementary Statements.

- **Council Tax**

  Council tax benefit (CTB) was abolished by Government from April 2013 and billing authorities were required to implement a local 'Council Tax Reduction Scheme' (CTRS). This has had a significant impact on the council tax base, which is explained further in the Collection Fund section of the Supplementary Statements.

- **Accounting for Pensions**

  The Accounts also reflect the changes to International Accounting Standard 19 in respect of pensions. The main changes are: the expected return on assets and pensions interest cost are replaced by a net interest cost; some labelling changes to the charges to income and expenditure; and administration expenses are now accounted for within the charges to income and expenditure.

3.2 The core statements are:

- **Movement in Reserves Statement (page 17 of the accounts)**

This statement shows the movement in the year on the different reserves held by the Council, analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

- **Comprehensive Income and Expenditure Statement (page 18)**

  This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this is different from the accounting cost.

- **Balance Sheet (page 19)**

  The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. The bulk of the Council's net worth is derived from accounting reserves rather than useable reserves.

- **Cash Flow Statement (page 20)**

  The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Notes to the Core Financial Statements (pages 21 - 72)**

  The notes present information about the basis of preparation of the financial statements and the specific accounting policies used. The notes disclose information required by the Code that is not presented elsewhere in the financial statements but is relevant to understanding them.

- **Supplementary Statements (pages 73 – 87)**

  - Collection Fund (pages 73 – 79)

  This reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to precepting authorities and the General Fund.

  - Housing Revenue Account (pages 80 – 85)

  The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sales of council houses and flats. The account has to be self-financing and there is legal prohibition on cross subsidy to or from local taxpayers.

  - Charities Administered by Dover District Council (pages 86 – 87)

Dover District Council is the sole trustee for the three charities named below and has appointed a Committee to carry out the operational functions of administering them:

- Sir Ernest Bruce Charles Charity No 1021750
- Frederick Franklin Public Park Charity No 1092171
- The Salter Collection Charity No 288731

All accounts are submitted to the Charity Commission as they prescribe. These accounts do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

4. **General Fund Revenue Outturn**

4.1 The starting point for considering the financial outturn is the 2013/14 Original budget which is shown, together with the 2013/14 Projected Outturn and the 2013/14 Outturn, at Appendix A (i).

4.2 The original budget for 2013/14 forecast a surplus of £5k. The latest projection of the budget, following various changes in year, was a surplus of £296k. The outturn, after transfers to earmarked reserves, was a surplus of £325k. This gives an underlying General Fund Balance of £2.585m

4.3 Appendix A (ii) provides a breakdown of the main variances during the year.

5. **General Fund Reserves and Balances**

5.1 General Fund reserves are "cash backed" reserves and are available for the Council to use. For management and planning purposes they are split into "General Balances" and "Earmarked General Reserves".

5.2 General Balances are held at a prudent level in order that the Council can cope with unanticipated variations in spend. Earmarked General Reserves are funds set aside for planned purposes.

5.3 As reported above, the 2013/14 Outturn was a surplus of £325k. This was after transfers made to earmarked reserves, including the transfer of the 2012/13 HRA transfer of £12.5m to an earmarked reserve.

Movement in General Fund Balances	
	£000
Balance at start of the year	**(14,760)**
Surplus from 2013/14	(325)
Transfer to HRA transfer reserve	12,500
Balance at the end of the year	**(2,585)**

5.4 The Opening Balance of £14,760k and the year-end balance of £2,585k can be found in Appendix A to this report and also within the Statement of Accounts in the "Movement in Reserves Statement".

5.5 Note 24 to the Core Financial Statements in the draft Statement of Accounts provides a complete breakdown of the Earmarked Reserves. Contributions to and from the Earmarked Reserves have been managed in order to ensure there are sufficient reserves to meet anticipated commitments. The reserves held are:

- Special Projects & Events Reserve – This reserve is set aside to continue to fund one-off General Fund projects as they arise and to support major events in the district. It is used for both revenue and capital projects.

- Periodic Operations Reserve - This reserve is to cover costs of cyclical / periodic events such as elections, “carry forward requests” and to hold grants or other income streams for specific purposes, such as the Homelessness grant and On-Street parking surpluses.
- Urgent Works Reserve - This reserve is set aside to fund urgent works on corporate assets and for other urgent business requirements, for example to fund a provision for additional claims from Municipal Mutual Insurance or for future restructures to meet likely on-going grant reductions. The need for this reserve is greater than ever due to the ageing nature of our assets and the reduced levels of investment in them as reflected in the reduced revenue budget.
- Regeneration Reserve - In order to support the Local Development Framework process and associated regeneration projects a Regeneration Reserve has been established.
- ICT Equipment & Servers Reserve – The current ICT Equipment & Servers reserve is held in order to support the requirements of the current and future ICT Strategies.
- Business Rates & Council Tax Benefits Reserve – This reserve was established to allow for the risk of unforeseen pressures from the Redistribution of Business Rates and the new Council Tax Support scheme and future changes for Universal Credit. As there are still many uncertainties around these areas, in particular the unknown collection rates this reserve has been retained and will be reviewed on an annual basis.
- HRA Transfer - Council on 25th September 2013 resolved to transfer £10m from the Housing Revenue Account balance and £2.5m from the Housing Initiatives Reserves to the General Fund balance. This has been transferred into an earmarked reserve in 2013/14. No plans have yet been made for the application of the funds and any such plan will form the basis of future reports.

5.6 In considering the earmarked reserves and general balances Members are reminded that there is an “opportunity cost” of maintaining these reserves and balances when the resources could be applied to meet service or capital investment requirements. At the same time, maintaining cash backed reserves generates additional income from interest on cash balances, which is used as an additional income stream. However, the key judgement is to ensure that the reserves are set at levels that facilitate the prudent financial management of the authority, provide sufficient resources to meet anticipated future demands, and provide for a margin for unanticipated variation.

5.7 It is the view of the Director of Finance, Housing and Community (Section 151 officer) that the estimated General Fund balances and reserves are adequate for the Council's current spending plans. However, these are under regular review due to the ongoing changes to Local Government finance and the uncertain economic climate.

6. The Future

6.1 The Council, in common with others, will need to continue to make progress on and / or give consideration to:

- Development and regeneration of the local economy;
- On-going impacts following the implementation of localisation of Council Tax support;
- On-going impact of the Business Rates Retention Scheme;
- Welfare Reform and cessation of the administration of housing benefits over a transitional period;

- On-going reviews of local government financing and expected further cuts in government funding;
- On-going impact of the economic climate;
- Implications of the Localism Act.

7. **Housing Revenue Account Outturn**

7.1 The Housing Revenue Account shows an increase in the HRA balance of £3,128k before transfers to reserves. This is a favourable variance of £1,408k against the original budgeted increase of £1,720k, and a favourable variance of £833k against the Projected Outturn of £2,295k surplus (see Appendix B (i)).

7.2 The main variances against the original budget are detailed below;

- An increase in dwelling rents due to lower than budgeted void levels (£170k);
- Re-phased spend on the Capital Works Programme (£1,125k).

7.3 A detailed schedule of variances is contained in Appendix B (ii) to this report.

7.4 The overall HRA Balance has increased to £1,786k (from £658k at 31 March 2013) after the transfer of £2m to a separate 'Housing Initiatives' reserve. The Housing Initiatives reserve has been established as a source of funding for suitable future projects.

8. **Collection Fund Outturn**

8.1 This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates (NDR) and Council Tax, and illustrates the way in which these have been distributed to precepting authorities and the General Fund. There have been 2 significant changes to the Collection Fund in 2013/14:

- Replacement of Council tax Benefit with the Council Tax Support Scheme;
- Implementation of the Business Rates Retention Scheme.

These are explained in more detail in the Collection Fund section of the Statement of Accounts.

8.2 The Collection Fund shows a total surplus of £2.3m at 31 March 2014. This surplus is split between Council Tax (£1.8m) and NDR (£0.5m). Any surplus balance on the fund is distributed to the precepting authorities (Dover District Council, Kent County Council, Kent and Medway Fire Authority and Kent Police Authority (Council Tax only)) in proportion to their respective precept amounts. However this surplus is on an accruals basis and is not fully cash backed and calculations for distribution of the surplus form part of the following year's budget process.

9. **Capital Programme Outturn**

9.1 The Medium Term Capital Programme (MTCP) is set out at Appendix C.

9.2 For each project in progress and each project awaiting capital appraisal, the MTCP includes the Approved Budget which reflects the latest position reported to Members through the budget monitoring report.

9.3 Under the heading "Proposed Budget" the MTCP includes:

- Cumulative expenditure from previous years
- Actual expenditure for 2013/14
- Proposed spending for 2014/15 and future years

- Revised total project budgets.

9.4 The Council invested £6.1m in Capital projects in 2013/14, the most significant of which were:

- £132k on works to progress the development of Dover Town Investment Zone and the surrounding area;
- £4.2m on Housing Revenue Account property projects;
- £148k on grants and loans for private sector housing;
- £613k on Disabled Facility Grants;
- £277k on coast protection and emergency sea defence works;
- £146k to purchase land at Whitfield to enable sustainable transport connections;
- £76k on ICT infrastructure projects;
- £123k on the 'Up on the Downs' landscape projects;
- £80k on the refurbishment of the East Cliff public conveniences;
- £65k on replacement of plant and equipment in the leisure centres;
- £48k on refurbishment of the Sheridan Road play area;
- £90k on demolition works at William Muge House and Snelgrove House;
- The remainder has been spent on a number of smaller projects.

9.5 The main sources of capital financing applied in the year were:

- £1.4m in grants from external bodies including the Homes and Communities Agency, Department of Communities and Local Government, Environment Agency, Heritage Lottery Fund, Kent County Council and Partnership Funding;
- £3m from the Major Repairs Reserve;
- £273k from capital receipts;
- £1.1m from Housing Revenue Account direct revenue financing;
- £302k funding from other reserves.

9.6 Overall, the capital programme is within budget; however, a low level of funding sources continues to limit the Council's ability to finance new projects.

10. Special Projects Outturn

10.1 The Special Projects reserve is mainly used to finance major one-off revenue projects, because, as revenue projects, they cannot be financed from the various capital financing sources listed in the section above. It is also used to provide a source of additional financing for a small number of capital projects.

10.2 The bulk of the Special Projects (see Appendix D) are shown as "projects in progress" and these had a total spend in year of £464k. The Special Projects programme is dynamic. It is adjusted as new projects are approved, and these changes are reported to Members during the year. However, "in year" variations in spend against approved budget for individual projects are mainly due to timing changes. There are no material variations to individual project's total budget, and the whole programme is fully financed.

10.3 In the 2013/14 accounts the following additional transfers have been made:

- £47k transferred to the Special Projects Reserve from the Invest to Save Reserve;
- £150k repayment to the Reserve of the 12/13 one-off allocation to fund 13/14 savings;

- £238k of Special Revenue expenditure on ICT projects has been funded by the ICT Reserve.

10.4 Allowing for future commitments of £785k and an allocation of £484k to the Reserve from the General Fund in 2014/15, the Special Projects reserve has a forecast uncommitted balance of £625k at the end of 2013/14.

11. Treasury Management

11.1 The Council retains the services of Sector as Treasury Management advisers and they provide market intelligence, economic forecasts, fund managers performance, debt re-scheduling, opportunities for borrowing and ad-hoc enquiries.

Investments

11.2 The Council is pro-active in its cash management and in March 2011 it adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009). Management of the Council's cash is divided between in-house management and the Councils' fund manager Investec. The Council employs Investec because they are able to invest in financial instruments such as Gilts and Certificates of Deposit that offer the potential for higher returns. However, returns in 2013/14 were lower than returns achieved through in-house investments.

11.3 At 31 March 2014 the Council had over £12m of investments managed by the Council's fund manager, Investec. In addition, investment balances and day-to-day cash balances managed in-house averaged approximately £6m in 2013/14.

11.4 The Council's in-house investments outperformed their benchmark (LIBID) and achieved an average return of 0.70% for the year. The investments with the investment managers, Investec, also outperformed the benchmark and achieved an average of 0.60% for the year. The total interest received for the year was approximately £245k.

11.5 The Council (like a number of other public sector bodies) had money invested in one of the Icelandic banks that in October 2008 went into administration. At the time, the Council held a £1m investment with the Icelandic bank Landsbanki, made on 26/11/07 for a period of one year, which was in compliance with the Council's approved policy for treasury management. The Council sold the remaining balance of the deposit to a third party in January 2014. Further information relating to the impairment is included in Note 12 to the Accounts.

Borrowing

11.6 The Council has just under £91m of borrowing from the Public Works Loans Board (PWLB). This includes £90m of borrowing that was undertaken in 2011/12 for payment of the Self-Financing Determination under Housing Finance Reform. £1.8m of the housing finance reform loan has been repaid in 2013/14. The Council also has a £3m LOBO (Lender's Option, Borrower's Option) with KA Finanz AG (formally Commerzbank).

11.7 The significant interest rates, over the year, were:

- PWLB HRA self financing £90,473m – 3.18% interest charged
- PWLB (25 years and over) £4m - 6.56% interest charged.
- KA Finanz AG LOBO £3m - 4.75% interest charged.

11.8 The PWLB debt appears expensive in comparison with the returns on investments, however there are redemption penalties which have made it uneconomical to pay back the loan. This is being monitored and if interest rates increase, the penalties may change, making redemption a viable option.

12. Assets and Liabilities

12.1 At the year end the balance sheet is drawn up. This shows the value of Dover District Council's land and buildings and assets and liabilities. The full balance sheet is provided in the Statement of Accounts together with comprehensive explanatory notes. A summary balance sheet has been produced (see below).

As at 31 March	**2013** **£000**	**2014** **£000**
Value of land, property and other assets	228,823	231,463
Investments held and cash at bank	25,820	34,520
Money owed to DDC for goods and services	6,029	6,976
Loans owed to DDC (short and long term)	2,748	2,850
Money owed by DDC for goods and services	(10,628)	(14,793)
Loans owed by DDC (short and long term)	(96,024)	(94,111)
Grants for assets received but not yet used	(825)	(768)
Share of pension scheme liabilities owed by DDC	(64,198)	(65,828)
Total Assets less Total Liabilities	**91,745**	**100,309**
Financed by:		
Usable reserves[1]	24,237	28,905
Unusable reserves[2]	67,508	71,404
Net Worth of Council	**91,745**	**100,309**

[1] Usable reserves are made up of:

Capital receipts and grants	3,796	4,296
Revenue balances	10,419	4,371
Earmarked reserves	10,022	20,238
	24,237	**28,905**

[2] Unusable reserves mainly comprise revaluations of assets from their original purchase value and the Pensions Reserve.

12.2 The main points to note against the prior year comparative are:

- Value of land, property and other assets
  The main changes in the values are due to:
  - Disposals – council house and other sales
  - Revaluations - council dwellings are revalued each year and other land and property are revalued on a five-year rolling programme.
  - Impairments – caused by either a general fall in property prices or specific revaluations due to clear consumption of economic benefits (e.g. through physical damage or deterioration).

- Usable Reserves
  - The main reason for the increase in usable reserves in 2013/14 relates to the increase in the HRA balances and an increase in capital receipts received in year allocated to fund future projects.

13. **Production of the Accounts**

13.1 Governance Committee require assurance that the accounts are robust and that they can place reliance upon them. The accounts have been subject to audit by Grant Thornton and their findings are set out in the Audit Findings Report at item 7 on the Governance agenda. In addition, a summary of the controls operated by the Director of Finance, Housing and Community is provided at Appendix E.

14. **Appendices**

Appendix A (i) – General Fund Budget Summary

Appendix A (ii) – Explanation of Main General Fund Variations

Appendix B (i) – Housing Revenue Account Summary - BW

Appendix B (ii) – Explanation of Main Housing Revenue Account Variations

Appendix C – Medium Term Capital Programme Outturn

Appendix D – Special Projects Outturn

Appendix E – Summary of Main Controls Applied in Production of the Accounts

15. **Background Papers**

Statement of Accounts 2013/14 - Item 8 Governance Agenda 25/09/14

Contact Officer: Helen Lamb, extension 2063