
Subject:	FINANCIAL OUTTURN 2014/15
Meeting and Date:	Governance – 22 September 2015
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 2014/15 following the audit of the Statement of Accounts
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Recommendation:	That Members receive and note the report.
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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 (elsewhere 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 £304k in surplus for the year and balances have been maintained at over £2.8m;
- No funds have been drawn down from the District Regeneration & Economic Development Reserve, which is the renamed "HRA Transfer Reserve";
- HRA balances have been increased by over £2m (incl. earmarked);
- 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;
- 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.

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.

2.2 However, the accounts are a long and complex document which may not be easily accessible to Members, the public and other stakeholders. Therefore, in order to further promote accountability, this outturn report is also produced.

3. General Fund Revenue Outturn

- 3.1 The starting point for considering the financial outturn is the 2014/15 Original budget which is shown, together with the 2014/15 Projected Outturn and the 2014/15 Outturn, at Appendix A.
- 3.2 The original budget for 2014/15 forecast a break-even position, i.e. £nil. The latest projection of the budget, following various changes in year, was a surplus of £203k. The outturn, after transfers to earmarked reserves, was a surplus of £304k. This gives an underlying General Fund Balance of £2.889m
- 3.3 The main variances during the year are as follows:

	Variance £000	Budget £000
Original Budget Surplus		0
Enterprise Zone Relief for prior years under new funding arrangements	(460)	
Safety Net Payment Due partially offset by reduced S31 Grant	(116)	
Business Rates & Council Tax Reserve – top up not required in 2014/15	(256)	
Vacancy and Efficiency savings	(251)	
Council Tax Collection – increased recovery of court costs, etc.	(133)	
Transfer to reserves for one-off projects (£500k)/IT Equipment (£268k)	768	
Waste - reduced sales of bins and sacks and increased purchases of bins for new developments	89	
Reduced HRA recharges	75	
Homelessness – additional emergency accommodation & storage costs	61	
Miscellaneous other variances (net)	20	
Revised Budget Surplus		(203)
Council Tax Reduction Scheme – New Burdens Grant credited to service	(89)	
Miscellaneous other variances (net)	(12)	
Actual Budget Surplus		(304)

4. General Fund Reserves and Balances

- 4.1 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”.
- 4.2 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.
- 4.3 As reported above, the 2014/15 Outturn was a surplus of £304k. This was after transfers made to earmarked reserves, and use of those reserves for agreed purposes.

Movement in General Fund Balances	
	£000
Balance at start of the year	(2,585)
Surplus from 2014/15	(304)
Balance at the end of the year	(2,889)

- 4.4 The Opening Balance of £2,585k and the year-end balance of £2,889k can be found in Appendix A to this report and also within the Statement of Accounts in the “Movement in Reserves Statement”.
- 4.5 Note 26 to the Core Financial Statements in the draft Statement of Accounts provides a complete breakdown of the Earmarked Reserves, also shown at Appendix B to this report. 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 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.
- Dover Regeneration Reserve - In order to support the Local Development Framework process and associated regeneration projects a Dover 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 future income collection rates, this reserve has been retained and will be reviewed on an annual basis.
- District Regeneration & Economic Development Reserve - This is the renamed “HRA Transfer Reserve”. No definitive plans have been made for the application of the funds in this reserve and any such plans will be reported. However, in broad terms, this reserve is intended to be applied to support the Council’s regeneration plans.

4.6 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.

4.7 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.

5. **Housing Revenue Account Outturn**

5.1 In 2014/15 the HRA outturn was a decrease in the HRA balance of £692k compared to the original budget forecast of an increase of (£385k) a variance of £1.1m. The main reasons for the variance are as follows:

- Transfer to Housing Initiatives Reserve - £2.8m
- Re-phased spend on the Capital Works Programme - (£886k).
- Additional dwelling rent income – (287k)
- Reduction in Rent, Rates Taxes & Other Charges of (£119k)

- Removal of Home Loss Payment (£100k) due to deferral of refurbishment of Norman Tailyour House to 2015/16
 - Reduction in the bad debt provision (£183k)
- 5.2 In 2014/15 £2.8m was transferred to the Housing Initiatives Reserve to provide investment for housing initiatives in the district whilst maintaining a working balance of circa £1m.
- 5.3 £1.5m was invested in new HRA housing projects including the provision of three new dwellings in Elvington & two new dwellings in Deal.
- 5.4 The overall HRA Balances (incl. Earmarked reserves) are £4.8m, which is an increase of £2.8m on the start of the year.

6. **Collection Fund Outturn**

- 6.1 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. These are explained in more detail in the Collection Fund section of the Statement of Accounts.
- 6.2 The Collection Fund shows a total deficit of £1.6m at 31 March 2015. This is split between Council Tax (a surplus of £1.9m) and NDR (a deficit of £3.5m). 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 surpluses are on an accruals basis and are not fully cash backed and calculations for distribution of the surplus form part of the following year's budget process.
- 6.3 The NDR deficit has arisen mainly due to the need to increase the provision for appeals by £5.3m to £8.1m. This significant increase in appeals provision is partly due to a ratings tribunal decision to value purpose-built doctors' surgeries on a different basis than before (construction cost as opposed to rental value), which led to an average 66% reduction in rateable value and therefore income, backdated to 1st April 2010, for all surgeries falling within this class. The provision has also been increased for other appeals lodged before the year-end that have been resolved with a successful outcome (for the applicant) since 31st March 2015, along with an estimate for the significantly higher rateable value under appeal compared to the end of the previous year (which has approximately doubled from 2014 to 2015) due to Central Government's decision to only allow backdating of refunds for appeals for those appeals lodged by 31st March 2015. For any appeals made later than this date, refunds can only be backdated to 1st April 2015, although VOA has some discretion over backdating and may still backdate to earlier than 1st April 2015.
- 6.4 Dover's own accounts include only its share of the NDR appeals provision and NDR Collection Fund deficit.

7. **Capital Programme Outturn**

- 7.1 The Council invested £9.6m in major projects in 2014/15, the most significant of which were:
- £729k on works to progress the development of Dover Town Investment Zone and the surrounding area;
 - £118k on the construction of a new car park at Bench St;
 - £6.5m on Housing Revenue Account property projects including £1.6m on redevelopment of land, and purchase and refurbishment of affordable homes;
 - £120k on grants and loans for private sector housing;

- £731k on Disabled Facility Grants;
- £336k on the 'Up on the Downs' landscape projects;
- £1.4m for grant funding issued to the Discovery Park Enterprise Zone;
- The remainder has been spent on a number of smaller projects.

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

- £3.1m in grants from external bodies including the Homes and Communities Agency, Department for Communities and Local Government, Department for Energy and Climate Change; Environment Agency, Heritage Lottery Fund, and Partnership Funding;
- £2.9m from the Major Repairs Reserve;
- £2.6m from the Housing Revenue Account (revenue financing);
- £466k from Excess Right to Buy Receipts;
- £212k from Section 106 funding;
- £277k from capital receipts.

7.3 Overall, the capital programme is within budget.

7.4 Right to Buy sales continue to increase due to Government initiatives to encourage sales; overall sales were higher in 2014/15 than in 2013/14.

8. **Special Projects Outturn**

8.1 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.

8.2 The spend on Special Projects in the year was £434k. 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.

9. **Treasury Management**

9.1 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.

9.2 At 31 March 2015 the Council had over £13m of investments managed by the Council's fund manager, Investec . In addition, investment balances and day-to-day cash balances managed in-house were approximately £32m as at 31 March 2015.

9.3 The Council's in-house investments outperformed their benchmark (LIBID) and achieved an average return of 0.52% for the year. The investments with the investment managers, Investec, also outperformed the benchmark and achieved an average of 0.59% for the year.

9.4 The total interest received for the year was approximately £276k. This was higher than the original budget of £264k, which was almost entirely due to better than expected returns from Investec.

9.5 More detailed reports on the latest position are included elsewhere on the agenda.

10. Assets and Liabilities

- 10.1 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	2014 £000	2015 £000
Value of land, property and other assets	231,463	256,499
Investments held and cash at bank	34,520	44,983
Money owed to DDC for goods and services	6,976	9,876
Loans owed to DDC (short and long term)	2,850	2,817
Money owed by DDC for goods and services	(14,793)	(18,829)
Loans owed by DDC (short and long term)	(94,111)	(92,038)
Grants for assets received but not yet used	(768)	(1,513)
Share of pension scheme liabilities owed by DDC	(65,828)	(81,456)
Total Assets less Total Liabilities	100,309	120,339
Financed by:		
Usable reserves ¹	28,905	38,593
Unusable reserves ²	71,404	81,746
Net Worth of Council	100,309	120,339

¹ Usable reserves are made up of:

Capital receipts and grants	4,296	8,768
Revenue balances	4,371	3,983
Earmarked reserves	20,238	25,842
	28,905	38,593

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

- 10.2 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, except that assets valued at £1m or more are now re-valued on an annual basis to ensure that assets are carried at fair value and that there are no material differences to the balance sheet.
 - Impairments – these are 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). There were no significant impairments in the year.
- Money Owed to DDC for Goods and Services
 - The increase includes monies owed by Central Government for VAT and Safety Net for NDR entitlement, as well as increases in sums due from Shepway District Council for Waste contract, and funding from partners for both the White Cliffs Countryside Project and White Cliffs Landscape Partnership.

- Money owed by DDC for Goods and Services
 - The main increase relates to DDC's share of the NDR Appeals Provision (£2.1m increase approx.) and other Collection Fund creditors (£1.0m increase approx.).
 - See Notes 29 – 31 for an analysis of this total.

- Pension Scheme Liabilities
 - The Pension Scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, on behalf of Kent County Council based upon the full valuation of the scheme as at 31 March 2015. The Council's annual contribution to the scheme is in line with the levels recommended by the actuaries.
 - The net liability at 31 March 2015 was £81.4m (£65.8m at 31 March 2014).
 - The liability is volatile and reflects the net effect of a range of factors, including valuation of the scheme's assets and yields on gilts as they occur on the day of valuation. An increase in interest rates will reduce the liability.
 - The scheme remains solvent and viable.

- Usable Reserves
 - The main reason for the increase in usable reserves in 2014/15 relates to the increase in HRA and General Fund Earmarked Reserves and an increase in 'Capital Grants Unapplied', i.e. grants received in-year that are allocated to fund future spend on projects.
 - In respect of General Fund Earmarked Reserves, the main increases are due to a net contribution to the Special Projects & Events Reserve, and the transfer of safety net monies due from Government for business rates to the 'Business Rates & Council Tax Support' reserve to cover the future recognition of the deficit on the NDR Collection Fund and other potential costs from localisation. See Appendix B for further details of General Fund Earmarked Reserves.
 - In respect of Capital Grants Unapplied, the main grant unapplied is the "Building Foundations for Growth" funding that is to be paid over to Discovery Park on submission of valid invoices for the refurbishment of some of the older buildings on the site.

11. **Production of the Accounts**

- 11.1 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 elsewhere on the Governance agenda. In addition, a summary of the controls operated by the Director of Finance, Housing and Community is provided at Appendix C.

12. **The Future**

- 12.1 The Council, in common with others, will need to continue to make progress on, or give consideration to, the on-going impacts of :
- development and regeneration of the local economy;
 - the implementation of localisation of Council Tax support;
 - the Business Rates Retention Scheme;
 - Welfare Reform and cessation of the administration of housing benefits over a transitional period;
 - reviews of local government financing and expected further cuts in government funding;
 - the wider economic climate;
 - the reduction by central government, of council house rents and housing association rents;

- the extension of right-to-buy to Housing Associations and the required additional sale of Council houses to provide the funds to compensate housing associations;
- the possible capping, by central government, of council reserves.

13. **Appendices**

Appendix A – General Fund Budget Summary

Appendix B – General Fund – Earmarked Reserves Summary

Appendix C - Summary of the Main Controls Applied in Production of the Accounts

14. **Background Papers**

Statement of Accounts 2014/15

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APPENDIX A

<u>2013/14 Actual</u>	General Fund Budget Summary	<u>2014/15 Original Budget</u>	<u>2014/15 Revised Budget</u>	<u>2014/15 Actual</u>
£000		£000	£000	£000
	<u>Directorate</u>			
1,633	Chief Executive	2,178	2,358	3,763
2,168	Governance	2,434	2,387	2,043
2,513	Finance, Housing & Community	2,437	1,614	2,996
7,295	Environment & Corporate Assets	7,510	7,451	6,607
464	Special Revenue Projects	198	602	434
0	Vacancy Allowance	(100)	0	0
0	Delivering Effective Services/EKS Target	(95)	0	0
(113)	Council Tax Second Homes Income	(113)	(113)	(113)
0	Contingency	97	8	0
13,960	Directorate Service Costs	14,546	14,307	15,730
(1,636)	Depreciation & Revaluations	(1,675)	(1,675)	(1,205)
830	IAS 19 Pension Adjustments	828	1,167	907
4	Accrued Annual Leave Adjustment	0	0	(6)
64	River Stour Drainage Board	66	66	66
284	Council Tax Support to Towns & Parishes	142	142	142
	<u>Contribution to/(from) Reserves:</u>			
(56)	- Special Projects & Events Reserve	306	733	798
(66)	- Periodic Operations Reserve	5	159	457
363	- Urgent Works Reserve	0	299	299
539	- Regeneration Reserve	209	(7)	63
(90)	- IT Equipment Reserve	58	19	98
210	- Revenue Grants in Advance Reserve	0	(1)	(123)
(32)	- Business Rates & Council Tax Reserve	256	0	1,233
14,374	Net Service Expenditure	14,741	15,209	18,459
	<u>Financing Adjustments</u>			
(182)	Interest & Investment Income	(185)	(201)	(206)
251	Interest Payable & Loan Repayments	237	237	249
(329)	Revenue Expenditure Funded by Capital Under Statute & Capital Grants Unapplied	0	0	(2,470)
0	Direct Revenue Financing of Capital	0	0	373
(71)	Soft Loan Adjustments	0	0	(62)
867	NDR Collection Fund Adjustment	0	0	0
14,910	Total Budget Requirement	14,793	15,245	16,343
	Financed by:			
2,994	Non-Domestic Rates	3,332	3,448	4,682
697	Enterprise Zone Relief Retained	515	975	975
4,699	Revenue Support Grant	3,698	3,698	3,698
5,822	Council Tax	5,874	5,874	5,874
37	Collection Fund Surplus	20	20	20
927	New Homes Bonus	1,296	1,307	1,307
59	New Burdens, CT freeze & Other Grants	58	126	91
15,235	Total Financing	14,793	15,448	16,647
(325)	General Fund Surplus for the Year	0	(203)	(304)
(14,760)	General Fund Balance at Start of Year	(2,531)	(2,585)	(2,585)
12,500	HRA Transfer to Earmarked Reserves	0	0	0
(2,585)	Leaving Year End Balances of	(2,531)	(2,788)	(2,889)

APPENDIX B

Earmarked General Reserves (2014/15 Year End Position)										
	Balance	Contrib- ution	Application	Balance	Contrib- ution	Application	Balance	Contrib- ution	Application	Balance
	2013/14	2014/15	2014/15	2014/15	2015/16	2015/16	2015/16	2016/17	2016/17	2016/17
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Balance	-2,585	-304	0	-2,889	-92	0	-2,981	0	360	-2,621
Special Projects & Events Reserve	-949	-1,018	220	-1,746	-727	576	-1,897	-20	80	-1,837
Periodic Operations Reserve	-1,357	-647	312	-1,692	-77	456	-1,313	-47	254	-1,106
Urgent Works Reserve	-1,467	-299	0	-1,766	0	200	-1,566	0	200	-1,366
Dover Regeneration Reserve	-1,017	-379	315	-1,080	-294	28	-1,346	-294	388	-1,251
ICT Equipment & Servers	-357	-347	249	-455	-182	226	-411	-58	50	-419
Business Rates & Council Tax Support	-579	-1,233	0	-1,812	0	0	-1,812	0	0	-1,812
District Regen & Economic Dev Reserve	-12,500	0	0	-12,500	0	0	-12,500	0	0	-12,500
Earmarked Reserves Total	-18,226	-3,923	1,096	-21,052	-1,279	1,486	-20,846	-418	972	-20,292
Total Revenue Reserves	-20,811	-4,226	1,096	-23,941	-1,371	1,486	-23,827	-418	1,332	-22,913

Summary of the Main Controls Applied in Production of the Accounts

Production of the accounts in accordance with the Code of Practice on Local Authority Accounting requires a large number of tasks to be undertaken, and controls to be applied. These include:

- Preparation of a closedown plan, communication with budget managers as appropriate and monitoring progress.
- Staff preparing the accounts have attended seminars / briefings with CIPFA and with the auditors.
- Staff preparing the accounts have access to the Code Practitioners Guidance Notes.
- The Council's financial feeder systems have been reconciled to the General Ledger.
- The General Ledger has been balanced.
- The value of fixed assets in the accounts has been reconciled to the asset register.
- The cash balance in the General Ledger has been reconciled to the Council's bank accounts.
- All significant variances have been explained in the Outturn Report.
- Service expenditure in the Outturn report has been reconciled to the Income and Expenditure Account.
- The entries on the Collection Fund have been reconciled to the Council Tax set by the Council and the other precepting authorities.
- The cash movement on the balance sheet is reconciled.
- The balances on reserves reported in the Movement in Reserves Statement has been reconciled to the balance sheet.
- An analytical review has been undertaken and major variances have been explained.



Mike Davis
Director of Finance