Subject:	**FINANCIAL OUT-TURN 2017/18**
Meeting and Date:	**Cabinet – 2 July 2018** **Governance Committee – 30 July 2018**
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 2017/18.
Recommendation:	That Members receive and note the report.

1. Summary

1.1 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.

1.2 The report should be considered in conjunction with both the Statement of Accounts and the Audit Findings Report (to be included in full on the Governance agenda)[1].

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

- The General Fund was broadly balanced for the year, showing a small deficit of £6k. This leaves the year-end General Fund balance at £2.5m;
- HRA balances (including earmarked HRA reserves) have been increased by £2.2m;
- The capital and major revenues projects have stayed within budget, although resources for further projects remain limited;
- The total interest received for the year was approximately £525k, split between General Fund (£507k) and HRA (£18k). This was higher than the original budget of £305k, a favourable variance of £220k in total.
- No new borrowing was undertaken.
- The Council has complied with the Prudential Code and its own Treasury Management guidelines during the year;
- 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.

[1] Please note due to revised timings for the approval of the Statement of Accounts this report is being presented to Cabinet based on the draft, unaudited Statement of Accounts. Some changes may be required to the Governance version of the report following the completion of the audit process.

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. **Changes to the Accounts**

3.1 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Code is based on a hierarchy of approved accounting standards. There have been no changes to the presentation of the accounts for 2017/18.

4. **General Fund Revenue Outturn**

4.1 The starting point for considering the financial outturn is the 2017/18 Original budget which is shown, together with the 2017/18 Projected Outturn and the 2017/18 Outturn, at Appendix 1.

4.2 In March 2017 the Council approved the 2017/18 budget, forecasting a deficit of £61k. The latest projection of the budget, following various changes in the year, was a deficit of £97k. The outturn, after transfers to earmarked reserves, was a deficit of £6k, which is £91k better than the forecast position.

4.3 The main variances during the year are as follows:

	£000
Original Budget Deficit	**61**
Homelessness - increased costs of emergency accommodation	745
Staff - recognition of costs to implement 18/19 restructure savings	85
Business Rates Income - reduced S31 grant due to lower Small Business Rates Relief than budgeted	51
Bank Charges - increase in volume of card transactions and charge rates	43
Printing & postage savings	(15)
Universal Credit - additional grant from DWP towards pilot scheme	(19)
Business Rates Income - Enterprise Zone relief income re prior year	(25)
Regulatory services - increased income from licensing, food safety, port health, etc	(46)
Waste Income - increases in sales of bins, special collections & highway income	(49)
Parking Income - increased parking fees and PCNs, less reduced season tickets	(54)
Net excess of vacancy savings achieved after reserve transfer for GDPR regulations	(58)
Investment Income - increase due to use of pooled funds and GF/HRA split	(284)
Internal Recharges - net increase in recharges recovered	(301)
Miscellaneous other variances (net)	(37)
Revised Budget Deficit	**97**
Transfer to Regeneration Reserve	200
Transfer to ICT Equipment & Server Reserve	200
Refuse collection - additional net contract costs relating to 16/17	89
Transfer to Periodic Operations Reserve	50
Reduced rental income due to reduction in East Kent Housing use of office space	34
Deal Pier - reduced fishing and rental income	32
NNDR - Bus Shelters - reduction as new contractor's liability	(11)
Further printing & postage savings	(13)
Parks - inspection of play areas now provided in-house	(15)
Public Conveniences - lower cleaning and sewerage/waste utility costs	(16)
Electoral Registration - additional grant for Individual Electoral Registration	(21)
Regulatory services - increased income from licensing, port health, etc	(25)
Additional management fees saving from East Kent Services re 2016/17 released	(30)

	£000
Internal Recharge variances - additional net favourable variance	(41)
Street Cleansing - reduced need for traffic management and litter bin provision	(41)
Staff - further excess of vacancy savings achieved	(54)
Grounds maintenance - increased external income	(92)
Council Tax - excess costs recovery after allowing for bad debts	(103)
Homelessness - reduction in net emergency accommodation overspend	(176)
Miscellaneous other variances (net)	(58)
Actual Budget Deficit	**6**

4.4 The key points to note from the variances are:

- Increased costs:
  - (i) Overall increased cost of homelessness of £569k (initially forecast at £745k in the revised budget but reduced by £176k in the final outturn);
  - (ii) Transfer of £200k to the Regeneration Reserve;
  - (iii) Transfer of £200k to the ICT Equipment and Server Reserve.
- Offset by:
  - (i) Increased investment income £284k;
  - (ii) Increased "income" from internal recharges £301k;
  - (iii) Increased Council tax costs recovery £103k;
  - (iv) Grounds maintenance external income £92k.

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. The protocols for the application of these reserves is set out in the MTFP, and their anticipated use is generally included in the revenue or capital budgets.

5.3 As reported above, the 2017/18 Outturn was a deficit of £6k. This was after transfers made to earmarked reserves and the use of those reserves for agreed purposes.

Movement in General Fund Balances	
	£000
Balance at start of the year	**(2,533)**
Deficit for 2016/17	6
Balance at the end of the year	**(2,527)**

5.4 The Opening Balance of £2,533k and the year-end balance of £2,527k can be found in Appendix 1 to this report and also within the Statement of Accounts (in the "Movement in Reserves Statement").

5.5 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 2 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 Support Reserve – This reserve has been 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, such as the unknown collection rates achievable and the level of business rates appeals, etc., this reserve has been retained and will be reviewed on an annual basis.
- District Regeneration & Economic Development Reserve - This reserve is to be applied to support the Council’s regeneration plans. An element of the reserve has been allocated to fund new Leisure Centre provision and improvements to Dover Town Hall.

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 to 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 remain under regular review due to the ongoing changes to Local Government finance and the uncertain economic climate.

6. Housing Revenue Account Outturn

6.1 In 2017/18 the HRA outturn was a deficit of £35k compared to the original budget forecast of a surplus of £38k, an adverse variance of £73k. The main reasons for the variance are as follows:

- Increased transfer to the Housing Initiatives Reserve – £1.1m
- Reduced spend on the capital works programme due to re-phasing of works - (£1.03m)
- Reduction expenditure in revenue maintenance budgets (£688k)
- Loss of income following the approved appropriation of HRA garages to the General Fund - £495k
- Higher rent income than forecast due to reduced void levels and periods than forecast – (£372k)

6.2 The HRA working balance was maintained at £1m.

6.3 In 2017/18 £1.4m was spent from the Housing Initiatives reserve to fund approved projects including the refurbishment of Folkestone Rd properties, the buy-back of ex-stock properties to be used for interim housing and design and associated works for the refurbishment of Norman Tailyour House and further interim housing schemes. £3.6m was transferred to the reserve in the year. The balance at the end of 2017/18 on the reserve was £14.5m to be used to continue to provide funding for investment in future housing initiatives in the district.

7. Collection Fund Outturn

7.1 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. The surpluses and deficits on the collection account are shared between the major preceptors (KCC, Police, Fire and DDC) pro rata and so are not borne totally by DDC and do not have a direct or immediate impact on DDC's finances.

7.2 The Collection Fund shows a total surplus of £65k at 31 March 2018. This is split between Council Tax (a surplus of £1,998k) and NDR (a deficit of £1,933k). 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. Separately, deficits have to be contributed back to the fund by preceptors.

7.3 The Council Tax surplus of £2.0m will be distributed to preceptors during future years, of which £0.97m will be distributed in 2018/19 based on the amount estimated in January 2018, as required under legislation (DDC's share £141k or 14.5%). The remaining undistributed amount of £1.03m, which was not represented fully by available cash at that time, will form part of the surplus estimate to be calculated in January 2019 for distribution in 2019/20 and subsequent years.

7.4 The calculation and forecasting of NDR income, and the accounting treatment for it, have to reflect the legislative and other government requirements, and these have made it unduly complex. Additionally there was a revaluation of the rateable values of business premises at 1st April 2017 (The '2017 revaluation'). The following notes and Table provide a simplified summary.

Business Rates Collection Fund	**Budget per NNDR1 2017/18**	**Major Rate Payer 2017 RV Change**	**Other Changes**	**Actual Outturn 2017/18**
	£000	**£000**	**£000**	**£000**
Estimated / Final Rateable Value	**111,362**	**(7,000)**	**629**	**104,991**
Gross Rates Yield	**(51,895)**	**3,262**	**(9)**	**(48,642)**
Enterprise Zone Relief given	2,654	0	243	2,897
Transitional Protection Relief given	4,615	(3,262)	(51)	1,302
Small Business Rates Relief given	4,237	0	(544)	3,693
Small Business Rates Supplement	(1,076)	91	1	(984)
Other Reliefs	3,995	0	119	4,114
Net Rates billed to NDR Payers	**(37,470)**	**91**	**(241)**	**(37,620)**
Enterprise Zone Relief from Govt.	(1,327)	0	(121)	(1,448)
Transitional Protection from Govt.	(4,615)	3,262	51	(1,302)

Total Income	**(43,412)**	**3,353**	**(311)**	**(40,370)**
Precepts Payable	38,272	0	0	38,272
Prior year est. deficit contributed	(1,820)	0	0	(1,820)
Total Precepts & Shares	**36,452**	**0**	**0**	**36,452**
Enterprise Zone Relief Payable	1,327	0	121	1,448
Other Payments & Provisions	3,813	(882)	174	3,105
Total Other Payments & Provisions	**5,140**	**(882)**	**295**	**4,553**
Total Expenditure	**41,592**	**(882)**	**295**	**41,005**
(Surplus)/Deficit for the year	**(1,820)**	**2,471**	**(16)**	**635**
Balance Brought Forward at 1st April	1,820	0	(522)	1,298
Balance Carried Forward 31st March	**0**	**2,471**	**(538)**	**1,933**

7.5 The NDR deficit has mainly arisen due to the change in the rateable value (RV) of the Council's largest NDR payer between the date of setting the budget for 2017/18, based on the draft '2017 valuation list' supplied by the Valuation Office Agency (VOA) on 29th September 2016, and the date that the 2017 revaluation took effect (1st April 2017). The change was notified by VOA on 22nd March 2017 when the RV for this NDR payer was reduced from £35m to £28m, a decrease of £7m, which resulted in a reduction in income to the Collection Fund of £3.35m after taking into account transitional relief arrangements. We had allowed for some reduction within our projection of appeals for 2017/18 when setting the budget, but were only able to release £0.88m to offset this, due to the ongoing risk of further reductions from future appeals, leaving a net impact of £2.47m (adverse) as shown in the table above.

7.6 Separately, the preceptors contributed £1.82m to the Collection Fund in 2017/18 to cover the projected deficit at 31st March 2017. However, the actual (opening) deficit was only £1.3m (rounded), which meant an over-contribution of £0.52m was made in 2017/18 (favourable).

7.7 There are numerous other variations during the year as shown in the 'Other Changes' column on the above table, but these net down to £0.02m (rounded) or just £16k (favourable).

7.8 The impact of the reduced RV for the largest NDR Payer (£2.47m adverse), less the over-contribution towards the prior year's deficit (£0.52m favourable), less the other ups and downs (£0.02m favourable) gives the NDR Collection Fund closing balance of £1.93m (net deficit).

7.9 The NDR Deficit of £1.93m at 31/03/2018 will need to be contributed back to the Collection Fund by the preceptors. However, a lower figure of £1.51m will be contributed in 2018/19 based on the amount estimated in January 2018, as required under legislation (DDC's share £605k). The remaining underlying deficit arising from the 'contribution shortfall' of £0.42m will form part of the surplus estimate to be calculated in January 2019 for distribution in 2019/20 and subsequent years (or a deficit, if applicable on re-calculation, for contribution in 2019/20).

7.10 The Council has also had to consider the appeals provision required relating to the 2017/18 NDR liability following the '2017 revaluation' of properties (£2.2m provided at 31st March 2018), although a further small increase has also been made for prior years' appeals under the 2010 valuation (£0.6m), reflecting the expected greater complexity of those appeals remaining unresolved by the VOA at 31st March 2018. The total appeals provision stands at £4.98m at 31st March 2018, but the Council brings only its 40% share into its own balance sheet.

7.11 Few appeals have actually been lodged so far against the 2017 valuation, but this does not mean that they will not be lodged later if activity from ratings agents (who pursue appeals on behalf of businesses for a fee) increases. The provision for appeals against the 2017 valuation is based on an estimate of 2.1p per £1 of Rateable Value (approximately 4.5% of gross rates liability for Dover's businesses), which is in accordance with the calculations proposed by other Kent Authorities. This is a national rate that Central Government used when re-calculating tariffs payable by local authorities under the 2017 revaluation. It represents the average annual decrease in RV expected across the period of the 2017 valuation.

7.12 While major growth projects are ongoing, the exact timing of fresh NDR income streams cannot be exactly determined, and project timing and related business rates increases are reviewed and updated during the year. However, it should be noted that there is a considerable further impact on 'in-year' NDR income when significant appeals are won that continue to erode overall income, so that growth is needed to offset the attrition, before any additional surplus (i.e. "net growth") can be achieved. The Council has set aside monies in an earmarked Business Rates & Council Tax Reserve to deal with the impact of such pressures as well as the timing differences arising from statutory arrangements for the recognition of income and deficits, and the impact of the 2017 Revaluation. There is £1.8m in this reserve at 31/03/2018 (Appendix 2).

7.13 From 2018/19 Dover has joined the Kent pilot scheme with all other Kent Authorities, under which all NDR growth is retained locally without payment of a levy. This will increase the retained NDR. The additional sum retained is subject to complex sharing arrangements, but all authorities are expected to gain.

7.14 Dover's own accounts include only its share of the NDR appeals provision, NDR Collection Fund deficit, Council Tax Collection Fund surplus and related balances.

8. **Capital Programme Outturn**

8.1 The Council invested £35m in major projects in 2017/18, the most significant of which were:

- £5.24m on Housing Revenue Account projects including
    - £3.17m on Housing Stock projects;
    - £1.18m on the purchase of property for social housing;
    - £534k on the refurbishment of Folkestone Rd properties for social housing;
    - £158k on the Norman Tailyour sheltered upgrade; and
    - £114k on the refurbishment of St Radigunds play area;
- £21.75m on the acquisition of properties as part of the Property Investment Strategy including
    - £17.25m on the purchase of B&Q, Whitfield, inclusive of Stamp Duty, etc.
    - £4.5m on the purchase of Whitfield Court, inclusive of Stamp Duty, etc.
- £6.6m on the construction of the new Dover District Leisure Centre;
- £665k on disabled facility grants;
- £112k on grants and loans for private sector housing;
- £113k on coast protection works in Deal;
- The remainder has been spent on a number of smaller projects.

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

- £27.645m internal borrowing[2];
- £1.575m in grants from external bodies including KCC Better Care Fund, Sport England, and the Environment Agency;
- £2.5m from the Major Repairs Reserve;
- £1.5m from earmarked reserves;
- £776k from the Housing Revenue Account (revenue financing);
- £878k from capital receipts, including Private Sector Housing loan receipts and excess right to buy receipts.

8.3 Right-to-buy sales also continued at high levels, in 2017/18 36 sales were completed.

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[2] Internal borrowing is the use of cash balances to avoid the immediate requirement to borrow, thus postponing borrowing costs.

8.4 Overall, the capital programme is within budget.

9. **Special Projects Outturn**

9.1 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.

9.2 The expenditure on Special Projects in the year was £1,134k. The major projects were:

- £466k on the Commonwealth War Memorial project;
- £204k on ICT equipment, systems and server projects;
- £90k on street lighting repairs & replacements; and
- £87k on the North Deal land study.

9.3 The Special Projects programme is dynamic, and is adjusted as new projects are approved. 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 projects' total budget, and the whole programme is fully financed.

9.4 The main sources of financing for the programme in the year were as follows:

- £215k – Special Project Reserve;
- £203k – ICT Reserve;
- £98k – other reserves;
- £466k – HM Treasury grant;
- £81k – external contributions;
- £71k – Housing Revenue Account.

10. **Treasury Management**

10.1 The Council retains the services of treasury management advisers who provide market intelligence, economic forecasts, advice and opportunities for debt re-scheduling and borrowing, details of fund managers' performance, and an ad-hoc enquiries service. During the year, this function was provided by Arlingclose Ltd.

10.2 At 31st March 2018 the Council had investment balances and day-to-day cash balances managed in-house of approximately £45m. In addition, the Council held £1.9m of UK Gilts.

10.3 The Council's in-house investments outperformed their benchmark (LIBID) and achieved an average return of 0.84% for the year.

10.4 The total interest received for the year was approximately £525k. This was higher than the original budget of £305k, which is a favourable variance of £220k. This is due to a change in treasury management strategy whereby the Council invested £26m into pooled investment funds which generate a higher rate of interest than call accounts and fixed term deposits. These investments are classed as long term as it is anticipated they will be held for a minimum of five years. In addition, the General Fund also gained from a re-calculation of the split in investment income between the GF and the HRA, leading to a net gain of £284k for the GF.

10.5 The Council had just over £82.5m of borrowing from the Public Works Loan Board (PWLB) at 31st March 2018, the bulk of which the Council was required to borrow by Government and pay over to them as part of the HRA "self-financing" initiative. The Council also had a £3m LOBO (Lender's Option, Borrower's Option) with KA Finanz AG.

10.6 The Council has remained within its Treasury Management guidelines, and has complied with the Prudential Code during the year.

11. Assets and Liabilities

11.1 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	**2017** **£000**	**2018** **£000**
Value of land, property and other assets	291,762	328,207
Investments held and cash at bank	66,347	46,452
Money owed to DDC for goods and services	6,626	10,954
Loans owed to DDC (short and long term)	2,074	2,101
Money owed by DDC for goods and services	(11,493)	(22,155)
Loans owed by DDC (short and long term)	(91,913)	(85,738)
Grants for assets received but not yet used	(378)	(727)
Share of pension scheme liabilities owed by DDC	(85,823)	(81,053)
Total Assets less Total Liabilities	**177,202**	**198,041**
Financed by:		
Usable reserves[1]	60,833	66,899
Unusable reserves[2]	116,369	131,145
Net Worth of Council	**177,202**	**198,041**

[1] Usable reserves are made up of:		
General Fund Balance	2,533	2,527
Housing Revenue Account Balance	1,047	1,012
General Fund Earmarked Reserves (Appendix 2)	24,274	25,903
Housing Initiatives Reserve (HRA)	12,499	14,695
Usable Capital Receipts Reserve (Appendix 3)	17,312	19,258
Capital Grants	3,168	3,504
	60,833	**66,899**

The main reasons for the increase in usable reserves are:

- £1.7m increase in GF earmarked reserves, from £24.2m to £25.9m, as detailed in appendix 2;
- £2.2m increase in the Housing Initiatives Reserve as detailed in paragraph 6.3;
- £1.9m increase in usable capital receipts as detailed at appendix 3.

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

11.2 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.

- Investments held and cash at bank
  - The decrease in investments and cash at bank reflects a net decrease in cash, mainly due property purchases made as part of the property investment strategy and increased capital expenditure.

- Money Owed to DDC for Goods and Services
  - The net increase in debtors incorporates:
    - An increase in payments in advance due to early precept payments to the parish councils (£2,300k);
    - An increase in rent arrears due to Universal Credit (£340k);
    - An increase in other sundry General Fund debtors (£1,000k);
    - An increase in the Central Government debts (General Fund) which includes:
      - An increase in the Business Rates Tariff Adjustment (£1,137k);
      - Offset by a reduction in monies owed by DWP relating to the Housing Benefit subsidy (£375k);
      - Numerous other smaller variations.
  - See Note 27 of the Statement of Accounts for an analysis of this total.

- Money owed by DDC for Goods and Services
  - The net increase in creditors is due to changes in both DDC and Collection Fund creditors including:
    - £2.2m increase in the amount owed to DWP for Housing Benefit subsidy;
    - £528k increase in Local Authority creditors (including £225k increase in amounts owed to East Kent Services, and £161k for Council Tax Support);
    - £1,140k increase in sundry General Fund creditors (mainly goods and services received but not invoiced at year end)
    - £199k increase in HRA sundry creditors,
    - £900k increase in sundry capital creditors,
    - £176k increase in amounts owed to Sainsbury's for car parking income collected on their behalf;
    - £149k increase in retentions on building projects.
  - Additionally, there are Collection Fund increases due to:
    - An NDR transitional payment protection reduction following a significant decrease in rateable value of a major site after the submission of the NNDR1 form (£3.3m); and
    - An increase in the Collection Fund cash owed to Government (£1.1m).
  - See Note 29 of the Statement of Accounts for an analysis of this total.

- Loans owed by DDC (short and long term)
  - The net decrease relates to the principal repaid on the PWLB loan for "HRA self-financing" (£2,154k) and the repayment of a temporary loan (£4m) that was taken out in 16/17.

- 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 2016. The Council's annual contribution to the scheme is in line with the levels recommended by the actuaries.
  - The net liability at 31 March 2018 was £81.1m (£85.8m at 31 March 2017).
  - The liability is a snapshot of the position if the scheme had been closed at 31st March 2018 with no further contributions. In practice this is not a realistic scenario.

- The liability is also 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 2017/18 relates to the increase in HRA and General Fund Earmarked Reserves (£3.8m), and an increase in Capital Receipts & Grants held in reserve (£2.3m).
    - The main increases are due to the net transfer from the HRA to the Housing Initiatives Reserve (£2.2m) and a net contribution to the Periodic Operations Reserve (£1.8m). The latter includes the transfer of monies received for Community Housing, and a contribution made for future borrowing in relation to Property Investment Strategy purchases during 2017/18. Additionally, capital receipts have increased, mainly due to the sale of 36 council houses and flats under the "Right to Buy" scheme.
    - See Appendix 2 for further details of General Fund Earmarked Reserves.

12. **Production of the Accounts**

12.1 Governance Committee requires assurance that the accounts are robust and that they can place reliance upon them. The accounts will be subject to audit by Grant Thornton and their findings will be set out in the Audit Findings Report to be included on the Governance agenda. In addition, a summary of the controls operated by the Director of Finance, Housing and Community is provided at Appendix 4.

13. **The Future**

13.1 The Council, in common with others, will need to continue to make progress on, or give consideration to, the on-going impacts of :

- The economic climate and the impact of the EU Referendum outcome;
- Development and regeneration of the local economy;
- The ongoing impact of the Government's budget deficit reduction programme on the Council's finances;
- Welfare Reform and cessation of the administration of housing benefits for working age claimants over a transitional period in the lead up to the introduction of Universal Credit;
- The sustainability of the New Homes Bonus scheme and what will follow;
- The Fair Funding Review and the result of any changes implemented from 2020/21;
- The ongoing impact of the localisation of council tax support;
- The ongoing impact of the Business Rates Retention scheme and the possible continuation of the 2018/19 pilot scheme into 2019/20, followed by the likely implementation of a 75% retention scheme from 2020/21;
- Further explore and develop partnership arrangements with others in order to achieve cost efficiencies.
- The "reset" of business rates baselines for 2020/21 and any resulting gains or losses, with the likely exclusion of some element of growth from retention.

14. **Corporate Implications**

14.1 Comment from the Section 151 Officer: Finance have no further comments to make. (SG)

14.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

14.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications, however in discharging their duties members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15

15. **Appendices**

Appendix 1 – General Fund Budget Summary

Appendix 2 – General Fund Earmarked Reserves Summary

Appendix 3 – Useable Capital Receipts Summary

Appendix 4 - Summary of the Main Controls Applied in Production of the Accounts

16. **Background Papers**

Statement of Accounts 2017/18 – Governance agenda 30th July 2018

Contact Officer: Helen Lamb, extension 2063

APPENDIX 1

General Fund Summary – 2017/18 Outturn

2016/17 Actual £000		2017/18 Original Budget £000	2017/18 Revised Budget £000	2017/18 Actual £000
	Directorate			
1,000	Chief Executive	1,785	1,850	1,411
2,236	Governance	2,714	2,583	2,479
7,361	Finance, Housing & Community	7,501	8,250	7,495
4,832	Environment & Corporate Assets	4,834	4,079	3,434
186	Non-distributed costs	(48)	186	172
630	Special Revenue Projects	1,011	1,516	516
16,245	**Directorate Service Costs**	**17,797**	**18,464**	**15,507**
68	River Stour Drainage Board	70	70	70
67	Council Tax Support Funding to Towns & Parishes	39	39	39
(1,227)	Recharge Income from HRA & Capital Projects	(1,543)	(1,731)	(1,424)
113	Accrued Annual Leave Adjustment	0	0	0
	Contribution to/(from) Reserves:			
48	- Special Projects & Events Reserve	(991)	(1,496)	(195)
162	- Periodic Operations Reserve	117	175	1,054
(539)	- Urgent Works Reserve	0	0	24
466	- Dover Regeneration Reserve	(115)	(231)	(51)
(142)	- IT Equipment Reserve	58	58	54
614	- Revenue Grants in Advance Reserve	0	(60)	413
(924)	- Business Rates & Council Tax Reserve	(728)	398	466
14,951	**Net Service Expenditure**	**14,704**	**15,686**	**15,957**
	Financing Adjustments			
(263)	Interest Receivable	(229)	(516)	(507)
237	Interest Payable	238	238	236
9	Loan Principal Repayments	9	457	9
(1,099)	Revenue Expenditure Funded by Capital Under Statute	(859)	(859)	(665)
654	Direct Revenue Financing of Capital (excluding direct expenditure)	0	0	0
14,489	**Total Budget Requirement**	**13,863**	**15,006**	**15,030**
	Financed by:			
2,794	Non-Domestic Rates	2,852	3,911	4,013
1,081	Business Rates - Enterprise Zone Relief Retained	1,129	1,170	1,153
12	Business Rates - Renewable Energy Retained	84	84	84
1,758	Revenue Support Grant	1,027	1,027	1,027
6,251	Council Tax	6,600	6,600	6,600
145	Council Tax - Collection Fund Surplus	236	236	236
1,907	New Homes Bonus	1,874	1,874	1,874
529	New Burdens & Other Grants	0	7	37
14,477	**Total Financing**	**13,802**	**14,909**	**15,024**
12	**General Fund Deficit/(Surplus) for the Year**	**61**	**97**	**6**
(2,995)	**General Fund Balance at Start of Year**	**(2,689)**	**(2,533)**	**(2,533)**
450	**Transfer to Earmarked Reserves**	**0**	**0**	**0**
(2,533)	**Leaving Year End Balances of**	**(2,628)**	**(2,436)**	**(2,527)**

APPENDIX 2

Earmarked General Reserves (2017/18 Year End Position)

	Balance 2016/17 **£000**	**Contrib-ution** 2017/18 £000	**Application** 2017/18 £000	**Balance** **2017/18** **£000**	**Contrib-ution** 2018/19 £000	**Application** 2018/19 £000	**Balance** **2018/19** **£000**
General Fund Balance	**(2,533)**	0	6	**(2,527)**	(99)	0	**(2,609)**
Special Projects & Events Reserve	**(2,966)**	(20)	724	**(2,262)**	(670)	1,657	**(1,275)**
Periodic Operations Reserve	**(3,530)**	(2,416)	572	**(5,373)**	(415)	3,210	**(2,579)**
Urgent Works Reserve	**(1,126)**	(24)	70	**(1,080)**	0	0	**(1,080)**
Dover Regeneration Reserve	**(2,041)**	(538)	458	**(2,121)**	(125)	551	**(1,695)**
ICT Equipment & Servers	**(724)**	(258)	226	**(756)**	(115)	671	**(200)**
Business Rates & Council Tax Support	**(1,338)**	(1,381)	915	**(1,804)**	0	605	**(1,198)**
District Regen & Economic Dev Reserve	**(12,548)**	0	42	**(12,507)**	0	7,558	**(4,948)**
Earmarked Reserves Total	**(24,274)**	(4,636)	3,007	**(25,903)**	(1,325)	14,253	**(12,976)**
Total Revenue Reserves	**(26,807)**	(4,636)	3,013	**(28,430)**	(1,424)	14,253	**(15,585)**

APPENDIX 3

Useable Capital Receipts (2017/18 Year End Position)

	2017/18 Opening Balance £000	**Receipts in year £000**	**Allocated to Projects £000**	**2017/18 Closing Balance £000**	**Anticipated future income £000**	**MTCP Project Funding £000**	**Available funding £000**
Ring-fenced for 1:4:1 Affordable Housing	(3,475)	(1,665)	533	(4,606)	(2,000)	5,960	**(646)**
Ring-fenced for Private Sector Housing	(559)	(241)	112	(688)	0	576	**(112)**
Ring-fenced for Dover Regeneration	(250)	0	0	(250)	0	250	**0**
Ring-fenced for Aylesham contractual commitments	(839)	0	63	(777)	0	0	**(777)**
Ring-fenced for DFGs	0	(39)	0	(39)	0	39	**0**
Unring-fenced capital receipts	(12,189)	(879)	170	(12,898)	(1,557)	11,552	**(2,903)**
Total	**(17,312)**	**(2,824)**	**878**	**(19,258)**	**(3,557)**	**18,377**	**(4,438)**

APPENDIX 4

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