

Subject:	FINANCIAL OUTTURN 2012/13
Meeting and Date:	Governance – 26 September 2013 Cabinet – 7 October 2013
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 2012/13 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 12 and 13 on the Governance agenda).

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 No significant changes to the format of the accounts have been made for 2012/13.

3.2 The core statements are:

- **Movement in Reserves Statement** (page 14 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 15)**

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 16)**

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 17)**

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 18 – 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 – 85)**
 - **Collection Fund (pages 73 – 77)**

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 78 – 83)**

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 84 – 85)

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 2012/13 Original budget which is shown, together with the 2012/13 Projected Outturn and the 2012/13 Outturn, at Appendix A.
- 4.2 The original budget for 2012/13 forecast a deficit of £21k. The latest projection of the budget, following various changes in year, was a deficit of £6k. The outturn, after allowing budget carry forwards of £29k, was a surplus of £2k. This gives an underlying General Fund Balance of £2.26m
- 4.3 Appendix A shows the changes in the budget, Appendix B shows the analysis of the Outturn variances and Appendix C provides a breakdown of the 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 2012/13 Outturn is a surplus of £2k. However, budget carry forwards of £29k have been requested, and a transfer to an earmarked reserve has been made to allow for them. Therefore the underlying surplus for 2012/13 is £31k before allowing for these carry forward requests.

Movement in General Fund Balances	
	£000
Balance at start of the year	(2,258)
Surplus from 2012/13	(2)
Balance at the end of the year	(2,260)
Carry forwards charged against balance above	29

- 5.4 The Opening Balance of £2,258k and the year end balance of £2,260k 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. A detailed review of earmarked reserves was undertaken during 2012/13 as part of the 2013/14 budget setting process to ensure the reserves are held at appropriate levels for planned purposes. 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.
- 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 ending 2017/18;
- 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 £3,293k before transfers to reserves. This is a favourable variance of £2,759k against the original budgeted increase of £534k, and a favourable variance of £102k against the Projected Outturn of £3,191k surplus (see Appendix D).

7.2 A schedule of variances is contained in Appendix D (i) of this report and the main variances against the original budget are detailed below:

- The effect of Housing Finance Reform (£1,923k additional surplus);
- An increase in dwelling rents due to reduced void levels and lower than budgeted right-to-buy sales;
- Reduced spend on the Capital Works Programme.

7.3 The overall HRA Balance has increased to £8,158k (from £7,365k at 31 March 2012) after transfer of £2.5m to a separate 'Housing Initiatives' reserve. The Housing Initiatives reserve has been established as a source of funding for suitable future projects.

7.4 With effect from 1 April 2012 Housing Finance Reform brought the subsidy system to an end and replaced it with a self-financing system. This change required a one off payment to Central Government of £90,473k on 28 March 2012. To fund this payment the Council borrowed the same sum from the Public Works Loan Board on a 30 year repayment basis at a fixed interest rate. £1,839k was paid off the PWLB loan principle sum during 2012/13.

The reform will provide additional funds to invest in existing stock and future housing initiatives. The balance on the Housing Initiatives Reserve as at 31 March 2013 was £5m.

8. Collection Fund Outturn

8.1 The Collection Fund income and expenditure account, which is a separate statutory account to record the transactions for the collection of Council Tax and Non-Domestic Rates (NDR), shows a surplus of £1.6m at 31 March 2013. Any surplus balance on the fund is distributed to the precepting authorities (Kent County Council, Kent Police Authority, Kent and Medway Fire Authority and Dover District

Council) in proportion to their respective precept amounts. However this surplus is on an accruals basis and is not fully cash backed. As at 31 March 2013, after taking into account council tax prepayments relating to the 2013/14 year, there was a small cash surplus. This was in accordance with the forecast for the 2012/13 year and, accordingly, it was decided to distribute £254k between the precepting authorities within Dover District Council's budget for 2013/14.

9. **Capital Programme Outturn**

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

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 2012/13
- Proposed spending for 2013/14 and future years
- Revised total project budgets.

9.4 The total budgeted expenditure for the programme was £37.91m (based on the latest budget monitoring report sent to members). The revised forecast including 2012/13 actual expenditure is £37.93m, an increase of £20k. The main variances are:

- Decrease in HRA property projects; offset by
- Homes & Communities Agency funded acquisition of land;
- Increased forecast for Private Sector Housing grants & loans, funded from the repayment of loans.

9.5 Appendix E also provides an analysis of the sources of financing for the MTCP. For 2012/13 the main sources of capital financing have been:

- £750k grants from external bodies including Homes and Communities Agency, South East England Development Agency (now HCA), Department of Communities and Local Government, Environment Agency, Dover Town Council and other government departments;
- £3m from the Major Repairs Reserve;
- £321k capital receipts;
- £610k funding from Housing Revenue Account direct revenue financing;
- £65k funding from General Fund direct revenue financing; and
- £264k funding from other reserves.

9.6 Overall the Capital Programme is within budget. However, limited sources of funding continue to constrain 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 F) are shown as “projects in progress” and these had a total spend in year of £107k. 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 2012/13 accounts the following additional transfers have been made:
- £150k contribution to the ICT Equipment & Servers Reserve to support the requirements of the current and future ICT Strategies;
 - £97k contribution towards the cost of the Olympic Torch Relay;
 - £139k contribution to fund projects supporting General Fund savings for 2012/13 and onwards;
 - £200k contribution from the General Fund balance to support the on-going availability of the reserve.
- 10.4 Allowing for future commitments of £884k the Special Projects reserve has a forecast uncommitted balance of £209k at the end of 2012/13.

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 2012/13 were lower than returns achieved through in-house investments.
- 11.3 At 31 March 2013 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 2012/13.
- 11.4 The Council’s in-house investments outperformed their benchmark (LIBID) and achieved an average return of 1.26% for the year. The investments with the investment managers, Investec, also outperformed the benchmark and achieved an average of 1.01% for the year. The total interest received for the year was approximately £350k.
- 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. UK local authorities’ claims have been recognised as deposits with priority status. It is now considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. The amounts and timing of payments to depositors such as the

Council will be determined by the administrators / receivers. Further information relating to the impairment is included in Note 12 to the Accounts.

Borrowing

- 11.6 The Council has just under £93m 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 2012/13. 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	2012	2013
	£000	£000
Value of land, property and other assets	229,252	228,823
Investments held and cash at bank	21,088	25,820
Money owed to DDC for goods and services	5,909	6,029
Loans owed to DDC (short and long term)	2,608	2,748
Money owed by DDC for goods and services	(11,688)	(10,628)
Loans owed by DDC (short and long term)	(97,863)	(96,024)
Grants for assets received but not yet used	(604)	(825)
Share of pension scheme liabilities owed by DDC	(57,419)	(64,198)
Total Assets less Total Liabilities	91,283	91,745
Financed by:		
Usable reserves ¹	18,683	24,237
Unusable reserves ²	72,600	67,508
Net Worth of Council	91,283	91,745
 ¹ Usable reserves are made up of:		
Capital receipts and grants	1,986	3,796
Revenue balances	9,623	10,419
Earmarked reserves	7,074	10,022
	18,683	24,237

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 2012/13 relates to the HRA contribution to the Housing Initiatives Reserves 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 12 on the Governance agenda. In addition, a summary of the controls operated by the Director of Finance, Housing and Community is provided at Appendix G.

14. **Appendices**

Appendix A – General Fund Budget Summary

Appendix A (i) – Reconciliation of General Fund Original Budget to Projected Outturn

Appendix B – Summary of General Fund Variances

Appendix C – Explanation of Main General Fund Variations

Appendix D – Housing Revenue Account Summary - BW

Appendix D (i) – Explanation of Main Housing Revenue Account Variations

Appendix E – Medium Term Capital Programme Outturn

Appendix F – Special Projects Outturn

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

15. **Background Papers**

Statement of Accounts 2012/13 - Item 13 Governance Agenda 27/09/12

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