



AGENDA ITEM: 5
SUMMARY

Report for:	AUDIT COMMITTEE
Date of meeting:	24 June 2015
PART:	1
If Part II, reason:	

Title of report:	Final Outturn 2014/15
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources James Deane, Corporate Director (Finance & Operations) Richard Baker, Group Manager (Financial Services)
Purpose of report:	The purpose of this report is to present the Council's Statement of Accounts for 2014/15.
Recommendations	It is recommended that Members of the Audit Committee: 1. Review the financial outturn position for 2014/15; 2. Approve movements on earmarked reserves; and 3. Review and approve capital slippage set out in Appendix C.
Corporate objectives:	Corporate Governance
Statutory Officer Comments:	S151 Officer: This is a Section 151 Officer Report, my comments have been incorporated into the body of the report. Monitoring Officer: The Council has a statutory duty to approve the Statement of Accounts by 30 September in accordance with the Account and Audit Regulations 2011.
Consultees:	None
Background Papers:	None

1. Introduction

- 1.1 The purpose of this report is to set out the Final Outturn for 2014/15 for approval, prior to members being requested to consider the Statement of Accounts later on this Agenda.
- 1.2 The Council's outturn position is a primary source of information for the production of the Statement of Accounts and provides context for members in their consideration of the accounts.
- 1.3 Outturn is reported for each the following funds, and set out in detail in the following sections:
- General Fund
 - Housing Revenue Account (HRA)
 - Capital Programme

2. General Fund Revenue Account

- 2.1 The General Fund (GF) revenue account records the income and expenditure associated with all Council functions except management of the Council's housing stock. This is accounted for within the Housing Revenue Account (HRA) (see Section 7).
- 2.2 Appendix A provides an overview of the General Fund outturn position, separating expenditure into controllable and non-controllable categories in order to focus scrutiny on those areas that officers are able to influence, i.e. the controllable.
- 2.3 The majority of non-controllable costs result from year-end accounting adjustments, e.g. depreciation charges, which are required to show the true value of resources used to provide the Council's services, but do not result in a cash charge to taxpayers. These adjustments have now been completed and are explained in section 6 of this report.
- 2.4 The table below provides a summary of the final outturn for the General Fund by Scrutiny area.

	Original Budget £000	Final Outturn £000	Variance	
			£000	%
Finance & Resources	11,746	11,611	(135)	-1.2%
Strategic Planning & Environment	6,169	5,590	(579)	-9.4%
Housing & Community	1,555	1,572	17	1.1%
Total	19,470	18,773	(697)	-3.6%

- 2.5 The following sections provide a subjective analysis of final outturn and major budget variances shown by Scrutiny area.

3. Finance and Resources

Finance & Resources	Controllable Budget £000	Final Outturn £000	Variance	
			£000	%
Employees	10,175	10,237	62	0.6%
Premises	1,524	1,704	179	11.8%
Transport	36	50	14	40.0%
Supplies & Services	4,960	4,834	(126)	-2.5%
Third-Parties	1,883	1,779	(104)	-5.5%
Income	(6,833)	(6,995)	(162)	2.4%
	11,746	11,611	(135)	-1.2%

3.1 Employees - £62k over budget (0.6%)

This overspend has arisen across services due to the vacancy factor, which is set at 5% of salary costs. In front-line areas such as Revenues and Benefits, where customer service is a primary focus, vacancies are filled quickly when they arise which has meant that the vacancy factor has not been met. A 0.6% overspend does, however, indicate that the current vacancy factor of 5% is materially correct and should be maintained.

3.2 Premises – £179k over budget (11.8%)

Overspend of £120k – This overspend relates to the Hemel Hempstead Civic Centre. Following the decision to remain in the Civic Centre until transfer to The Forum in January 2017, there have been a number of additional short-term repairs required to ensure that the building remains usable. This includes some of the costs incurred by the Council arising from the relocation of the library.

Overspend of £70k – This overspend relates to demand led repairs and maintenance at Community Centres and open spaces. The works to open spaces were in response to unforeseen incidents, primarily pavement subsidence at the Water Gardens and the repair of flint walls at Gadebridge Park following a number of vehicle incidents.

3.3 Supplies and Services - £126k under budget (2.5%)

Underspend of £95k - The Garage Disposal project has been re-phased into 2015/16, and the expenditure has therefore been deferred. The project is funded from earmarked reserves, and as such there is no impact on the overall outturn position.

Underspend of £100k – This relates to underspends in the Legal Service and the Performance and Projects area, most notably relating to the GIS project and the EDRMS project. As these projects are funded from reserves, there is no impact on the overall outturn position. The projects will now be delivered in 2015/16.

Overspend of £50k - The budget for the core funding grant to SportSpace was based on a proposal to amend the funding agreement. This amendment to the funding agreement has been postponed for one financial year.

Overspend of £130k – This relates to recharges across Council departments. A review of the apportionment of costs across services has been carried out, particularly the apportionment of ICT costs following the issue of laptops to all staff. Across the General Fund there are a number of variances against budget which have arisen from this re-working. The net effect is an increase in the recharge to the HRA of £80k.

3.4 Third Parties - £104k under budget (5.5%)

Underspend of £50k – This underspend related to the Internal Audit contract and is ongoing. The budget has been reduced for 2015/16 Budget.

Underspend of £30k – Costs of the Serco contract for Facilities Management have been lower than originally anticipated due to inflation rates being lower than budgeted. This saving has been reflected in the 2015/16 Budget.

3.5 Income – £162k over achieved (2.4%)

Under-achievement of £130k – This relates to the Revenues service, where the income from Court Costs recovered has been below budget. This is a continuing trend from prior years and has been amended for the 2015/16 Budget.

Surplus of £120k – An increase in income has been achieved from Investment Properties arising from the successful implementation of retrospective rent reviews. This increase has been incorporated within the 2015/16 Budget.

Deficit of £50k - This is an accounting adjustment relating to grant received in support of election costs. The monies have been received, and there is no overall impact on the outturn position, but accounting regulations require the grant income to be recognised as 'government grant' rather than within the Service income line.

Surplus of £163k – This relates to the re-working of internal recharges between Council departments for a share of ICT costs, as mentioned above.

4. Strategic Planning and Environment

Strategic Planning and Environment	Controllable Budget £000	Final Outturn £000	Variance	
			£000	%
Employees	8,336	8,291	(45)	-0.5%
Premises	1,204	1,208	3	0.3%
Transport	1,426	1,476	50	3.5%
Supplies & Services	4,684	4,599	(85)	-1.8%
Third-Parties	119	113	(6)	-5.0%
Income	(9,599)	(10,097)	(498)	-5.2%
	6,169	5,590	(579)	-9.4%

4.1 Employees - £45k under budget (0.5%)

Overspend of £120k – This has arisen due to the vacancy factor of 5% not having been met in full across a range of services. The most significant area is Clean, Safe and Green, where the variance is £110k over budget due to low levels of staff turnover.

Underspend of £80k – This relates primarily to Building and Development Control. There have been numerous vacancies in year which, together with county-wide recruitment challenges within the profession, has led to an underspend.

Saving of £85k – This has been achieved from the introduction of the new Waste Service in November 2014. This part-year saving has been captured in the Budget for 2015/16.

4.2 Transport - £50k over budget (3.5%)

Savings of £25k – Savings have been achieved in the Clean, Safe and Green budget for fuel due to a reduction in the price of fuel.

Overspend of £50k – This relates to increased transportation costs following the introduction of the new Waste Service, specifically the cost of transporting recyclable material from the Council's depot to the recycling plant. This cost has been incorporated into the budget for 2015/16.

Overspend of £25k – A more comprehensive programme of servicing has been introduced in the past financial year for grounds maintenance vehicles. Small plant is also being serviced on a regular basis, to ensure that it complies with new Health and Safety legislation.

4.3 Supplies and Services - £85k under budget (1.8%)

Savings of £106k – This relates to a release of a provision for set up litigation claims against the Council. A settlement has now been agreed subject to agreement from other Councils. The agreed amount is lower than the original claim against the Council and this has resulted in the release of some of the provision and a surplus in the service.

4.4 Income - £498k over achieved (5.2%)

Surplus of £225k - Car Parking Income has exceeded budget in 2 key areas: off-street car parking has generated an additional £115k, due to increased usage of council car parks, and the income from on-street penalty charge notices has exceeded budget by £85k. An increase of £140k has been factored into the budget for 2015/16 (£90k in off-street car parking and £50k in on-street penalty charge income).

Surplus of £200k – This has been generated in the areas of Building and Development Control due to some large one-off applications, along with a general increase in the number of applications received as the economy shows signs of recovering. An increase of £115k has been incorporated into the budget for 2015/16.

Surplus of £50k - The legal challenge to the adoption of the Local Development Framework Core Strategy has been defeated, which has resulted in unbudgeted income from the recovery of legal expenses.

5. Housing and Community

Housing & Community	Controllable Budget £000	Final Outturn £000	Variance	
			£000	%
Employees	3,213	3,293	80	2.5%
Premises	402	381	(21)	-5.3%
Transport	43	37	(6)	-13.9%
Supplies & Services	1,965	2,007	42	2.1%
Third Parties	25	26	1	4.3%
Income	(4,094)	(4,173)	(79)	1.9%
	1,555	1,572	17	1.1%

5.1 Employees - £80k over budget (2.5%)

This overspend is across services, and is as a result of the vacancy factor not being achieved.

5.2 Premises - £21k under budget (5.3%)

Saving of £70k – In the Homelessness service, there have been savings in temporary accommodation costs arising from 2 key factors: firstly improved advice and prevention has led to a reduced need for temporary accommodation, and secondly, the Council-owned Leys Road hostel has now been open for the first full year.

Overspend of £66k - Dacorum has taken over the management of 2 Homes of Multiple Occupancy, through the process of Management Orders. This was due to the inadequate state of the properties which were posing a health and safety risk to tenants. Expenditure of £66k has been incurred to bring the properties up to the required standard. This will be recovered in full, as rental income from tenants is being retained by Dacorum until the expense is recovered.

5.3 Supplies and Services - £42k over budget (2.1%)

Underspend of £50k - A saving has been achieved against a budget of £83k on the cost of the Housing Stock Condition Survey. This was due to a joint procurement process being carried out with East Herts and Welwyn Hatfield District Councils. This expenditure is funded from reserves, so there will be no impact on the outturn overall.

Overspend of £36k - Unbudgeted expenditure has been incurred relating to the Community Safety Partnership. This expenditure is fully matched by increased grant income meaning that there is no overall impact on the taxpayer (see paragraph 5.4).

Overspend of £35k – This pressure has arisen as a result of the re-working of internal recharges across Council departments.

5.4 Income - £79k over achieved (1.9%)

Surplus of £60k - An increase in income across Regulatory Services has been generated, in the areas of Environmental Protection & Housing, Pest Control, Disabled Facility Grant Agency income and Primary Authority work.

Surplus of £36k - The grant income for the Community Safety Partnership of £36k referred to in paragraph 5.3 is unbudgeted income which offsets the budget pressure in expenditure.

6. Non-Controllable Expenditure

6.1 Appendix A sets out the outturn for non-controllable expenditure. These are largely year-end accounting adjustments which are reversed out below the General Fund Services Expenditure line, and therefore have no impact on the overall outturn position. The major variances are set out below:

	£'000
Capital Charges (Reversed no impact on overall outturn)	2,267
Housing Benefits and Subsidy	119
Bad debt provision	(64)
Recharges (HRA / General Fund change)	(33)
Pension Adjustments (Reversed no impact on overall outturn)	(459)
Total	1,830

The variance of £119k in Housing Benefits and Subsidy equates to 0.2% of the overall budget of £48m.

The bad debt provision was budgeted to increase by £118k based on trend analysis of previous years, but, based on the same calculation method the actual requirement was less, at £55k.

7. Housing Revenue Account (HRA)

7.1 The HRA is a ring-fenced account relating to the Council's Landlord functions. A guiding principle of the HRA is that revenue raised from rents and service charges must be sufficient to fund expenditure incurred. The final outturn position for the HRA is shown at Appendix B.

7.2 The HRA balance at the end of 2014/15 is £2.846m, which complies with the Council's approved strategy of maintaining a minimum balance on the HRA of 5% of turnover (£2.85m).

7.3 Over the course of the year the HRA generated a surplus of £123k, which is £116k lower than the budgeted surplus. Significant variances are explained in the paragraphs below.

7.4 Dwelling Rents - £136k surplus (0.3%)

Surplus income has been generated due to a number of tenants moving to target rent as they have begun a new tenancy. The level of void properties has also been kept low, with the average for the year running at approximately 0.6% (an estimate of 1% was used to set the budget).

7.5 Non Dwelling Rents - £30k surplus (37.5%)

A surplus has been generated on income from third parties for commercial use, for example telecommunications companies locating masts on HRA land. This is due to backdated income coming to the Council following the recent resolution of lease issues.

7.6 Leaseholder Charges - £34k surplus (7.9%)

This surplus is as a result of under-budgeted insurance costs chargeable to leaseholders. This has been corrected for Budget 2015/16.

7.7 Interest and Investment Income - £73k surplus (73%)

An increase in the number of Right to Buy sales over the year has resulted in increased capital balances, which have generated additional investment income.

7.8 Contribution towards expenditure - £232k surplus (50.4%)

This surplus results from the high number of repairs carried out in 2013/14 which were subsequently recharged to leaseholders on an arrears basis in 2014/15.

7.9 Repairs and Maintenance - £1,284k under budget (9.9%)

There is an efficiency saving of £400k across the areas of Responsive Repairs and Void Repairs arising from the new Total Asset Management contract with Osborne which commenced in July 2014.

There is an underspend of £680k in the area of Planned Maintenance due to delays in the programme of works, following the implementation of the Osborne contract in July 2014. The delay in the programme will be caught up in 2015/16.

There is an underspend of £256k in the area of recharges from other Council departments, following a review of the apportionment of costs. A reduction of costs to the HRA has arisen as a result of savings in the Customer Services Unit following the outsource to Northgate. In addition the share of Customer Services costs allocated to the HRA has decreased, as Housing Repairs phone calls are now being taken by Osborne rather than Dacorum Customer Services. As mentioned in paragraph 3.3 above, the net effect to the HRA of the recharges is an additional cost of £80k.

7.10 Supervision and Management - £240k over budget (0.7%)

Within this category of expenditure there is a combination of underspend and overspends which are detailed below:

Pension backfunding paid in 2013/14 – £210k. In February 2014, following the triennial actuarial review of the Council's pension scheme, Full Council approved a one-off payment of £210k (HRA element) to reduce the deficit on the pension scheme. At the time of approval it was anticipated that this payment would be made in the financial year 2014/15. However, since approval the Council received notification that payment was required in March and therefore would come from the 2013/14 budget.

Savings of £80k generated from the implementation of energy efficiency projects, including installation of solar panels on some sheltered housing roofs.

Underspend of £40k Under-Occupation Incentive Scheme – the number of tenants paid an incentive to move to a smaller home has been lower than anticipated, due to a lower than expected take up of the policy.

Underspend of £320k in Salaries - of this underspend, £120k relates to the TUPE of staff to Osborne. Other savings have arisen from a number of vacancies being held due to a restructure.

Overspend of £500k - Uninsured losses relating to insurance claims from tenants for damages to buildings and water leaks. After incorporating this year's figures, trend analysis has been carried out and the budget has been increased for 2015/16.

Overspend of £100k - ICT costs related to the Total Asset Management contract and merging Orchard with Osborne's equivalent (£50k), and additional development work to improve in-house systems such as Orchard and Sprint.

Overspend of £328k – an increase in recharges to the HRA has arisen from the re-working of cost allocation across departments.

7.11 Revenue Contribution to Capital £3,222k under budget (20.8%)

Revenue Contribution to Capital (RCC) is that amount of surplus revenue, generated over the course of the year, which is transferred out of the Housing Revenue Account into the Housing Capital Programme in order to fund capital projects.

Because it is revenue over and above the amount that is required to operate the HRA for the year, the actual level of RCC will go up or down dependent on over- or under-spends elsewhere within the HRA budget. The reduction in RCC at final outturn 2014/15 reflects the reduced contribution from the Strategic Acquisitions reserve, following the re-phasing of the purchase of Martindale School into 2015/16.

7.12 Depreciation £808k over budget (9.1%)

The annual depreciation charge is a nominal amount that represents the total value of the housing stock that has been 'used' over the course of the year. For audit purposes, DBC housing stock is said to have a 'useful economic life' of 60 years, therefore the annual depreciation charge is approximately one sixtieth of the value of the housing stock. The charge for depreciation in 2014/15 is above budget because the value of the housing stock has increased since the budget was set.

8. Final Capital Outturn

8.1 The final capital outturn position is summarised by Scrutiny area in the table below. Appendix C shows the final outturn by scheme.

The 'Rephasing' column refers to those projects where expenditure is still expected to be incurred, but will now be in 2015/16 rather than 2014/15, or conversely, where expenditure planned initially for 2015/16 has been incurred in 2014/15.

The 'Variance' column refers to those projects which are now complete, but have come in under or over budget and those projects which are no longer required.

	Current Budget £000	Final Outturn £000	Rephasing £000	Variance	
				£000	%
Finance & Resources	3,245	2,462	(758)	(26)	-0.8%
Strategic Planning & Environment	8,985	7,327	(1,104)	(555)	-6.2%
Housing & Community	5,856	6,540	(3)	686	11.7%
G F Total	18,087	16,329	(1,864)	106	0.6%
HRA Total	35,050	25,468	(8,282)	(1,301)	-3.7%
Grand Total	53,137	41,796	(10,146)	(1,195)	-2.2%

8.2 General Fund Major Variances

The final position for the General Fund comprises the following elements:

- £106k - overspends on completed projects
- £1.864m - slippage on incomplete projects into 2015/16

The major variances on the General Fund capital programme are as detailed below.

8.3 Net overspend of £106k comprises the following key elements:

- Line 106: unbudgeted spend of £653k relating to the Highbarns Land Stabilisation Project. This expenditure is for work to the highways which has been fully funded by Herts County Council.
- Line 129: an underspend of £150k on Home Improvement Loans due to take up being less than expected. The annual budgets for future years have been reduced from £250k to £150k to reflect a lower than anticipated demand going forward.

- Line 142: a pressure of £174k on the Elms Hostel development at Redbourne Road due to the tender price being higher than budgeted. Section 106 funding has been earmarked to offset this pressure.
- Line 151: an underspend of £176k on the Car Park Refurbishment project relating to two schemes which could not be completed this year due to staff capacity. The schemes will still be undertaken but can be accommodated within the future budget allocations, so there is no requirement to slip the budget.
- Line 160: an underspend of £137k on Waste and Recycling Service Improvements, as wheeled bins were procured more cheaply than expected through a successful tender process.
- Line 170: an underspend of £112k on Neighbourhood Centre improvements now not being undertaken.

8.4 Slippage of £1.864m comprises the following major elements:

- Line 75: £406k slippage on the budget for The Forum. The development agreement has been signed and £1.1m of the £1.5m allocated budget has been spent this financial year with the balance required in 2015/16.
- Line 106: £77k slippage on Highbarns Land Stabilisation Project. The majority of the work at this site is complete and the Council has fulfilled its obligation under the Derelict Land Clearance order. However the work is not completely finished and final sign off from the contractor is awaited.
- Line 116: £194k slippage on the purchase of the land at Bunkers Farm for a new burial site. The land will be purchased from the Homes & Communities Agency, once satisfactory site investigations have been concluded, which is estimated to be early 2015/16.
- Line 172: £720k slippage on Regeneration of the Town Centre. This is due to inaccurate forecasting of council cash flows.

These are offset by pressures requiring funding to be drawn from the 2015/16 budget allocation:

- Line 81: £100k pressure on Enterprise Licence Agreements due to a change in licensing arrangements. There is no additional cost to scheme overall, just a change in cost profiling.
- Line 128: £105k pressure on Disabled Facilities Capital Grants. This is due to a high level of demand for disabled adaptations to properties, which is expected to continue into 2015/16.
- Line 142: £250k pressure on the Elms Hostel due to the tender price being higher than budgeted. This is in addition to the £173k referred to above. The total overspend is £424k. The £250k will be funded from budget brought forward from the Affordable Housing Development Fund.

- Line 162: £288k pressure relating to fleet purchases. The long term fleet requirements have been reviewed and have been incorporated into the Capital Programme for 2015/16 to 2019/20.

8.3 Housing Revenue Account Major Variances

There is a projected underspend on the HRA capital programme of £1.3m.

- Line 196: £331k underspend on the New Build at Farm Place Berkhamsted where the tender price was lower than budgeted.
- Line 201: £970k underspend relating to the transfer of The Point from the General Fund to the HRA, which will be made through an accounting adjustment rather than the use of budget. The financial implications for both funds will be exactly the same.

There is projected slippage of £8.28m into 2015/16 from the following:

- Line 194: £1.3m slippage in Planned Fixed Expenditure. This figure is mainly due to re-profiling of large projects which continue into 2015/16, offset by efficiencies identified in the Osborne open book contract.
- Line 196: £217k slippage on the New Build scheme at Farm Place, which was due for completion at the end of March but will now complete early 2015/16.
- Line 198: £2.89m of slippage due to delays on the New Build scheme at London Road. Construction works have been delayed due to difficulties relocating the substation during the initial phase of the scheme. Works have now commenced and the contractor is on site.
- Line 200: £3.98m of slippage on the purchase of land for the new build site at Martindale. A deposit of 5% has been paid in this financial year to secure the purchase, but the balance has been paid in 2015/16 following completion of an archaeological survey and the granting of planning permission.

It is recommended that Members of the Audit Committee approve the capital rephasing detailed in Appendix C.

9 Balances and Reserves

9.1 The Reserves Summary at Appendix D reflects the movements approved by Council in February 2015.

9.2 Following final outturn, members of the Audit Committee are recommended to approve the following additional reserve movements, which are also reflected within Appendix D:

- Management of Change Reserve – contribution £296k
To meet the costs of one-off projects required to make improvements or significant changes to services for which no budgetary provision exists, including transformation, redundancy, and pension strain payments.

This reserve was approved by Full Council as a priority area within the Reserves Strategy of the Budget 2015 report in February 2015.

- Earmarked Grants Reserve – drawdown £79k
This reserve contains unutilised grants from prior years. This recommended draw down would fund relevant expenditure incurred in 2014/15.
- Building Control reserve – contribution £86k
There are statutory requirements the Council must observe in relation to income derived from certain Building Control activities. Any operating surplus generated from these activities is transferred to this reserve for future re-investment in the service.
- Funding Equalisation reserve - £1,533k use of the reserve
The provisional outturn report suggested a drawdown of £2,442k from this reserve for the repayment of the 2013/14 Collection Fund deficit. The additional contribution relates to timing differences arising from the Business Rates Retention Scheme. These funds are earmarked to the repayment of the Collection Fund deficit arising in 2014/15.

9.3 Appendix A shows that after the above reserve movements are made there will be a reduction to the General Fund Working Balance of £46k. This reflects the forecast reduction approved by Council in February 2015, and is consistent with the strategy of reducing the Working Balance to £2.5m by the end of 2015/16.

9.4 In cases where reserves were to be drawn down in 2014/15 to fund budgeted expenditure which was not spent in full, only the amount required to fund actual expenditure was drawn down. The remainder is held in reserve to fund the approved expenditure as it is incurred in future years.