

Cabinet

18 November 2015

Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 30 September 2015



Report of Corporate Management Team Don McLure, Corporate Director Resources Councillor Alan Napier, Portfolio Holder for Finance

Purpose of the Report

- 1 To provide Cabinet with a forecast of 2015/16 revenue and capital outturn, based on the period to 30 September 2015 for the Council's General Fund and Housing Revenue Account. The report also includes the forecasts for the Council Tax Collection Fund and Business Rates Collection Fund.

Background

- 2 This report updates the position presented to Cabinet on 16 September 2015 that showed the forecasted revenue and capital outturn based on expenditure and income up to 30 June 2015 and incorporates the recommended changes to cash limits within Service Groupings agreed at that time, providing updates to these forecasts and revised forecast balances on general and earmarked reserves at 31 March 2016.

Revenue – Current Position to 30 September 2015

- 3 The table overleaf compares the forecast with the revised budgets and is shown in more detail in Appendices 2 and 3.
- 4 The following adjustments have been made to the Original Budget that was agreed by Full Council in February 2015:
 - (i) agreed budget transfers between Service Groupings;
 - (ii) additions to budget for items outside the cash limit (for Cabinet consideration and recommended approval);
 - (iii) planned use of or contribution to Earmarked Reserves (please refer to Appendix 4).

Forecast of General Fund Revenue Outturn 2015/16

	Original Budget 2015/16	Budget - incorporating adjustments	Service Groupings Forecast of Outturn	Forecasted Variance
	£'000	£'000	£'000	£'000
Assistant Chief Executive	10,163	9,493	9,256	-237
Children and Adults Services	251,450	259,836	252,655	-7,181
Neighbourhood Services	104,236	109,432	108,021	-1,411
Regeneration and Economic Development Resources	41,535	26,752	26,120	-632
	15,855	18,023	17,033	-990
Cash Limit Position	423,239	423,536	413,085	-10,451
Contingencies	5,690	2,380	2,380	0
Corporate Costs	4,980	4,091	3,902	-189
NET COST OF SERVICES	433,909	430,007	419,367	-10,640
Capital charges	-48,977	-48,977	-48,977	0
Interest and Investment income	-1,641	-3,168	-4,132	-964
Interest payable and similar charges	38,530	46,031	45,773	-258
Levies	0	16,555	16,555	0
Net Expenditure	421,821	440,448	428,586	-11,862
Funded By:				
Council tax	-174,134	-174,134	-174,134	0
Use of earmarked reserves	-11,511	-16,230	-16,230	0
Estimated net surplus on Collection Fund	-500	-500	-500	0
Start up Funding Assessment	-215,540	-215,540	-215,540	0
New Homes Bonus	-8,322	-8,322	-8,323	-1
New Homes Bonus - Re-imburement	-377	-377	-377	0
Section 31 Grant - Small business rate relief	-2,398	-2,398	-2,424	-26
Section 31 Grant - Settlement Funding Assessment Adj	-919	-919	-1,022	-103
Section 31 Grant - Retail Adjustment	-1,681	-1,681	-1,648	33
Education Services Grant	-6,002	-6,002	-5,975	27
Forecast contribution to/from(-) Cash Limit Reserve	-437	-14,345	-3,894	10,451
Forecast contribution to General Reserves	0	0	1,481	1,481
TOTAL	0	0	0	0

Note: Negative figures in the variance column represent an underspend or overachievement of income

Note: the Regeneration and Economic Development (RED) budget has changed as a result of moving the North East Combined Authority levy for 2015/16 of £16.176m from the Net Cost of Services to reflect the correct accounting treatment. Other minor levies were also moved from the Resources budget.

- 5 The updated position in terms of sums provisionally agreed with Service Groupings as being outside the Cash Limit includes a new cost for premises related expenditure for former school buildings are shown in the table below:

SERVICE GROUPING	PROPOSAL	Amount
		£m
All Services	Car Mileage	0.240
Children and Adults Services	Premises related costs for former school buildings	0.091
Neighbourhoods	Climate Change Levy	0.200
RED	Whinney Hill School – Security (Surplus Property)	0.035
Total		0.566

- 6 The premises related costs for the former Durham Free School, Pelton Roseberry School and Gilesgate School which are no longer in use are proposed as being outside the cash limit. These costs would previously have been funded from the respective schools' budgets.

Review of Reserves

- 7 A fundamental review of all Reserves has been carried out to determine the available scope to utilise reserves to support corporate objectives. The review has resulted in the following reserves being identified as being available:

Reserve	Comment	Amount Available £m
Planned Delivery Programme	This reserve was created in the knowledge of savings targets in future years of austerity becoming more difficult to deliver and would therefore be used to balance the Council's Annual Budget when needed.	20.000
Housing Revenue Account	The Council's housing stock was transferred to the County Durham Housing Group (CDHG) on 13 April 2015. The remaining HRA reserves after transfer have reverted to the County Council. This transfer of reserves will enable the Council to close the HRA.	22.000
Demographic Reserve	This reserve was created to support increasing costs in relation to demographic pressures in Children and Adult Services (CAS). The reserve in recent years has been utilised to delay the impact of demographic pressures upon the MTFP. The lower than forecast Revenue Support Grant (RSG) reduction in 2016/17 has	19.450

Reserve	Comment	Amount Available £m
	enabled the Council to fully fund the demographic budget pressure and negate the need to utilise the reserve.	
Insurance Reserve	The current balance on this reserve is £15.6m. Although the Council faces several significant uninsured risks it is felt reasonable at this stage to reduce this reserve.	2.000
Local Council Tax Support	The Council received a Government grant in 2013/14 when Council Tax Benefit was localised to support the implementation of a local scheme. The Council is satisfied that risks in relation to any increased costs associated with Local Council Tax Support are accounted for in the Council Tax Collection Fund, therefore this reserve is no longer needed.	1.031
TOTAL RESERVES AVAILABLE		64.481

- 8 The Reserves review has therefore identified the availability of £64.481m to support corporate objectives. It is recommended that the £64.481m is transferred into the following reserves.

Budget Support Reserve: £30m

- 9 The Chancellor of the Exchequer's Summer Budget identified that Local Government would continue to face funding reductions until 2019/20. In the development of MTFP(6) it is recognised that frontline services will be significantly impacted in future years. The creation of a £30m Budget Support Reserve will enable the Council to protect frontline services for a period and ensure that the Council is able to plan effectively and consult fully on future years' savings plans.

Office Accommodation Capital Reserve: £34.481m

- 10 Cabinet agreed to the release of the Aykley Heads site for regeneration on 15 July 2015. The report recognised the need to invest in a new headquarters, which it was estimated would cost in the region of £50m. In addition to the investment in new headquarters there will also be capital costs in relation to the Council's other strategic sites and for the site works on Aykley Heads. There is presently an £8m Office Accommodation Capital Reserve and this transfer will result in a total reserve of £42.481m which can be utilised to support this major project subject to Cabinet approval.
- 11 In addition to the reserve adjustments detailed above, consideration has also been given to the current forecast balance on the MTFP ER/VR Redundancy Reserve. It is presently forecast that the reserve will have a balance of £6.2m at the end of 2015/16. In total £30m will have been drawn from this reserve

since its creation in 2011. To ensure there is sufficient reserve available to support further workforce reductions up to 2019/20, this reserve needs to be replenished. On that basis it is recommended that Service Grouping Cash Limit reserves are reduced by £10m to replenish the MTFP ER/VR Redundancy reserve. The apportionment of the £10m top slice is detailed below:

	£m
ACE	0.162
CAS	4.379
NS	2.039
RED	0.964
RES	2.456
TOTAL	10.000

- 12 After adjusting the budgets as detailed above the forecast outturn for Cash Limit Reserves and the General Reserve are summarised in the table below:

Type of Reserve	Opening Balance as at 1 April 2015	Budgeted use at 1 April 2015	Movement during 2015/16		2015/16 Forecast of Outturn
			Planned contribution to (-) or use of reserve	Contribution to (-) or use of reserve	
	£m	£m	£m	£m	£m
Service Grouping Cash Limit					
Assistant Chief Executive	-0.773	0.000	0.755	-0.237	-0.255
Children and Adults Services	-9.443	0.249	6.287	-7.181	-10.088
Neighbourhoods	-5.076	0.080	2.589	-1.411	-3.818
Regeneration and Econ Development Resources	-3.216	0.000	1.261	-0.632	-2.587
	-3.857	0.108	3.016	-0.990	-1.723
TOTAL CASH LIMIT RESERVE	-22.365	0.437	13.908	-10.451	-18.471
General Reserve	-28.897	0.000	0.000	-1.481	-30.378

- 13 The forecasted Cash Limit and General Reserves position is a prudent one given the forecasted levels of savings the Council needs to make of £102.8m over 2016/17 to 2018/19, as the delivery of such is becoming more and more difficult to achieve.
- 14 The reasons for the major variances against the revised budgets are detailed by each Service Grouping below.

Assistant Chief Executive (ACE)

- 15 The forecast revenue outturn for 2015/16 is a cash limit underspend of £0.237m for the year after taking account of the forecast use of reserves and items outside the cash limit. This represents a relatively small increased

underspend when compared to the Quarter 1 forecast of £0.152m underspend.

- 16 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE to remain within the cash limit. The main reasons for the projected underspend is the net effect of the following items:
- Partnerships and Community Engagement - £29k underspend, primarily due to a managed underspend on supplies and services related costs within the Area Action Partnerships (AAPs).
 - Planning and Performance - £22k managed underspend on employee related costs due to the management of vacancies and reduced hours.
 - Policy and Communications - £0.186m underspend, predominantly resulting from a £95k managed underspend on employee related costs across the service together with a £91k underspend on the supplies and services budget through tight control of expenditure in this area.
- 17 In arriving at the forecast cash limit outturn position £63k relating to contributions to and from reserves and cash limits have been excluded from the outturn:
- 18 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the total cash limit reserve forecasted to be carried forward for ACE is £0.255m from April 2016.

Children and Adults Services

- 19 The 2015/16 projected outturn position for Children and Adults Services (CAS), based on the position to 30 September 2015, is a cash limit underspend of £7.181m. This represents circa 2.8% of the total budget for CAS.
- 20 The projected outturn takes into account adjustments for sums outside the cash limit including redundancy costs which are met from the corporate reserves, capital accounting entries and the use of or contributions to earmarked reserves.
- 21 There are premises related costs of circa £91k re the former Durham Free School, Pelton Roseberry and Gilesgate which have been provisionally treated as outside the cash limit.
- 22 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across CAS to remain within the cash limit. The forecast underspend is accounted for by the net effect of the following items:
- Early achievement of a number of proposed future MTFP savings from management and support service proposals across the Adult Care and related areas, together with the careful management and control of vacant posts and supplies and services budgets across the service has created a projected net underspend for the year of circa £5.4m.

- Net spend on adult care packages is forecast to be circa £2.1m below budget, which represents circa 2% of the adult social care budget. This area of spend is being closely monitored to assess the impact of demographic and procedural/operational changes. Ongoing savings have arisen from the consistent and effective application of the existing eligibility criteria, and the ongoing transformational change agenda, linked to the provision of social care, will further refine processes. CAS Service Managers are reviewing their approach to current savings in order to consider building this increased saving associated with consistent application of eligibility criteria into the MTFP in future years. This will need to be carefully considered in light of transition cases, the potential for increased care package costs linked to older carers, and general increases in demand.
- Children's Services is forecasting a net overspend of £0.535m. This is primarily related to additional staffing costs incurred to provide required cover for absences, vacancies and higher than budgeted costs associated with the looked after children service, offset by additional income within the One Point Service, combined with reduced premises and supplies and services costs. In terms of the looked after children service, work is underway to set out plans for MTFP savings planned in this area in future years, in line with the increased pressures presently being faced. An Innovations and Transformation programme has also been set up to address budget pressures in this area.
- The Education Service is currently forecasting a net underspend of £0.231m. An underspend of £0.911m in relation to staff vacancies, reduction in pension liabilities and additional Service Level contract income is offset by a projected overspend on Home to School Transport of £0.680m which is principally due to an increase in pupils with Special Educational Need and Disabilities, that often require individual transport arrangements, and an increase in contract prices. Work is underway to better understand these pressures in light of further savings anticipated from the ongoing review of the home to school transport budget, though there may be a need for CAS to adjust the base budget in 2016/17 to offset these pressures in the short term. There has also been increased liability following the outcome of an employment tribunal legal case which has now been finalised and an additional £0.385m is to be funded from the CAS Cash Limit.

23 Taking the projected outturn position into account, including the transfer to or from Reserves in year, the estimated cash limit reserve to be carried forward for Children and Adults Services is forecast to be £10.088m – a forecasted increase of £0.645m for 2015/16.

Neighbourhood Services

- 24 The forecast revenue outturn for 2015/16 is a cash limit underspend of £1.411m, after taking into account the forecast use of reserves and items outside the cash limit.
- 25 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Neighbourhoods to

remain within the cash limit. The main reasons accounting for the outturn position are shown below:

- Within Direct Services, there is an overachievement in the surplus generated by Building Services of approximately £0.900m due to the level of turnover being significantly higher than originally anticipated. A review of the charge out rates is currently underway which will involve increasing the income budget to a more realistic level for 2016/17, and this should result in the surplus being closer to the budgeted level next year. In addition, there is £0.810m of 2016/17 MTFP savings that have been achieved early.
- Technical Services is showing a forecast underspend of £0.219m. This is due to additional income within Design Services of £0.450m, which is being partially offset by a net overspend of approximately £0.200m within Highways Services, where the additional surplus on the trading account areas have offset additional policy led expenditure on highways maintenance in relation to Category 1 and 2 defects.
- Environment, Health and Consumer Protection is projected to underspend by £0.112m, largely attributable to underspends on employees, supplies and services and transport in Health Protection, Consumer Protection and Environmental Protection.
- Within Strategic Waste there have been significant increases in the Materials Recycling Facility (MRF) costs of £0.900m, which is as a result of a national reduction in the market value of recycled materials and therefore outside the control of the Council, These overspends are being offset by savings of £0.340m on the waste disposal contract budgets.

26 In arriving at the forecast outturn position, £2.226m relating to contributions to and from reserves and cash limits have been excluded from the outturn figure.

27 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the forecasted cash limit reserve to be carried forward for Neighbourhood Services is £3.818m.

Regeneration and Economic Development (RED)

28 The forecast revenue outturn for Regeneration and Economic Development is a cash limit underspend of £0.632m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year-end capital accounting entries and use of contributions to earmarked reserves.

29 The forecast underspend is a managed position. The Heads of Service across RED continue to proactively manage activity to remain within the cash limit. The main reasons accounting for the outturn position are shown below:

- Strategy Programmes and Performance - £41k managed saving on employee related costs due to vacancies, maternity leave and staff working reduced hours.

- Economic Development and Housing - £0.317m underspend, primarily due to managed savings on employee related costs as a result of restructuring and residual income from the FamilyWise project.
 - Planning and Assets - £0.157m overspend, which is broken down into a £0.180m underspend in the Planning Service and a £0.337m overspend on Assets. The underspend in the Planning Service primarily results from an increase in planning fee income. Assets is continuing to experience income pressures, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre in Peterlee, the Millennium Square in Durham City and the Beveridge Arcades where rental income is not being achieved.
 - Transport - £0.431m underspend, primarily resulting from reduced payments on the Bus and Rail contracts.
- 30 In arriving at the forecast outturn position some £0.980m relating to contributions to and from reserves and cash limits has been excluded from the outturn.
- 31 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the forecasted cash limit reserve to be carried forward for Regeneration and Economic Development is £2.587m.

Resources

- 32 The forecast revenue outturn for 2015/16 is a cash limit underspend of £0.990m for the year after taking account of the forecast use of reserves and items outside the cash limit.
- 33 The forecast underspend is a managed position. The Heads of Service across Resources continue to proactively manage activity to remain within the cash limit. The projected underspend position is the net effect of the following items:
- Corporate Finance is forecast to underspend by £0.162m. £0.122m of this relates to a managed underspend in pay, with £18k from over recovery of income and £22k from supplies and services and transport.
 - Financial Services is forecast to underspend by £0.276m, consisting primarily of a managed underspend against employees (£0.204m), staff travel costs (£0.113m) and a forecast over recovery of income (£0.210m), offset by overspends on work packages (£0.150m) and supplies and services (£0.114m).
 - Human Resources is forecast to underspend by £22k through minor variances for overachieved income and supplies and services.
 - ICT Services is forecasting an underspend position of £3k, through underspends on transport (£70k), supplies and services (£66k) and premises (£3k), offset by overspends on employees (£76k) and Digital Durham (£60k).

- Internal Audit and Risk is forecast to underspend by £0.119m resulting from a £75k underspend on employees and a £45k over recovery of income plus other minor variances.
 - Legal and Democratic Services is forecast to underspend by £0.316m, with a £0.322m underspend on employees, following the implementation of a restructure to achieve MTFP savings.
 - Service Management is forecasting a £92k underspend position arising from Service Level Agreement income from Northumberland and NECA for HR support.
 - Housing Benefits is forecasting a balanced budget position.
- 34 There is also a £0.189m underspend against Centrally Administered Costs, comprising expenses associated with raising loans (£41k), Audit Fees (£94k), subscriptions (£18k), over recovery of credit card income (£15k) and other miscellaneous headings (£21k).
- 35 In arriving at the forecast outturn position contributions to and from reserves and cash limits have been excluded from the outturn for both Resources (£0.726m net contribution from reserves) and Centrally Administered Costs (£0.411m net contribution to reserves).
- 36 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the forecast cash limit reserve to be carried forward for Resources is £1.723m.

Central Budgets

- Interest Payable and Similar Charges - Capital Financing

- 37 Following a review of capital financing costs, linked to re-profiling within the capital programmes earlier in the year, there is a forecast underspend of £0.258m. This saving is being achieved due to lower than forecast interest rates on loans and borrowing not needing to take place yet due to higher levels of cash balances than forecast.

- Interest and Investment Income

- 38 The forecast of outturn at this stage is an overachievement of income of £0.964m which is due to a higher than anticipated level of cash balances. This is due in the main to slower than expected use of reserves and capital expenditure.

Council Earmarked Reserves Forecast

- 39 The table at Appendix 4 sets out the 59 earmarked reserves that the Council has plus two earmarked reserves for schools, where funding has been set aside in anticipation of future expenditure and shows the forecasted balance on these reserves by 31 March 2016.

- 40 A summary of the latest forecast of Council reserves by 31 March 2016 is shown below:

	Earmarked	Cash Limit	TOTAL
	£m	£m	£m
Opening Earmarked Balances as at 1 April 2015	-157.571	-22.365	-179.936
Less/Plus Forecasted usage/increase of Earmarked Reserves	-13.955	3.894	-10.061
Forecasted Earmarked Reserve Balance as at 31 March 2016	-171.526	-18.471	-189.997

Schools

- 41 The current schools forecasts are summarised below:

Schools forecasting a surplus above 2.5% of funding						
	Nursery	PRU	Primary	Secondary	Special	Total
Number	12	-	187	7	9	215
Forecast	(£0.660m)	-	(£16.082m)	(£1.599m)	(£1.773m)	(£20.114m)
Schools forecasting a surplus of less than 2.5% of funding						
	Nursery	PRU	Primary	Secondary	Special	Total
Number	-	-	18	6	-	24
Forecast	-	-	(£0.217m)	(£0.309m)	-	(£0.526m)
Schools forecasting a deficit						
	Nursery	PRU	Primary	Secondary	Special	Total
Number	-	1	3	3	-	7
Forecast	-	£0.450m	£0.022m	£2.895m	-	£3.367m
Total						
	Nursery	PRU	Primary	Secondary	Special	Total
Number	12	1	208	16	9	246
Forecast	(£0.660m)	£0.450m	(£16.277m)	£0.987m	(£1.773m)	(£17.273m)

- 42 Compared to Quarter 1 there are three fewer primary schools reported above due to them converting to academies.

- 43 After excluding the academy conversions, the overall change from Quarter 1 to Quarter 2 is a £0.381m reduction in the forecast net balances held by schools at 31 March 2016, when the retained balances are forecast to be £17.743m.

- 44 One more school is forecasting a deficit at the end of 2015/16 than previously forecast and the total forecast deficit forecast has increased by £32k, mainly because of an increase in the forecast deficit of the Council's Pupil Referral Unit.
- 45 Of the remaining schools in deficit, the three primary schools are beginning restructuring processes to address their financial position. The three secondary schools are closely monitoring their budgets, but the Council is mindful of the need to provide places for their pupils and these schools cannot address their deficits in the short-term without unacceptable impacts on the standard of education that they are able to offer to their pupils.
- 46 The School Funding Team are visiting all schools this term for autumn budget reviews and some schools will be facing significant financial pressures next year, including the effects of changes to employers' contributions for National Insurance and pensions. It is likely that there will be a significant drawdown on school surpluses next year, in order to balance budgets, which will create a greater challenge for 2017/18.
- 47 The Schools will also be affected by planned changes to formula funding; subject to Council approval and any changes to statutory regulation, the primary lump sum will reduce from £0.175m to £0.168m in 2016/17 and then to £0.160m in 2017/18. A planned transfer of £1.5m from primary and secondary school funding to SEN provision in 2016/17 has been deferred pending a full review of SEN provision which is currently underway, but which may need to be implemented in 2017/18. These transitional arrangements will be funded through the application of unallocated centrally retained DSG reserves in 2016/17, which are ring-fenced to schools.
- 48 Officers from CAS and Finance have met to discuss our approach to identifying schools causing concern, and how we address their issues in a strategic way. Consultation with the Schools Forum and schools about the reduction in the primary lump sum has highlighted the number of small schools in the County and the cost to formula funding in respect of the lump sum, which is paid to every school, regardless of size. The Council and schools will work more closely together to look at ways of re-organising schools to reduce the number of small schools and thus release more money for pupil-led funding.

Housing Revenue Account (HRA)

- 49 On 13 April 2015, the Council transferred its housing stock of 18,500 dwellings to the County Durham Housing Group Ltd. Consent was received from the Secretary of State to close down the HRA any time from 30 April 2015 onwards as the Council is no longer a social housing landlord and not required to maintain a ring-fenced HRA.
- 50 There were some residual transactions still taking place reflecting the relatively short period of activity in 2015/16 and also costs associated with delivering stock transfer in April which have been met from available income and reserves. All transactions are now complete and the HRA will now be closed.

Capital

Background

- 51 The General Fund (GF) capital budget for 2015/16 was set at £148.480m by Council on 25 February 2015. Re-profiling from the 2014/15 capital programme outturn into 2015/16, amounting to £18.736m was reported to Cabinet on 15 July 2015 and was included in the Quarter 1 Forecast of Revenue and Capital Outturn Report to Cabinet 16 September 2015.
- 52 The Council's Member Officer Working Group (MOWG) that closely monitors the capital programme has since recommended approval to Cabinet of further revisions to the capital programme, taking into account additional resources received by the authority and further requests for re-profiling as Service Management Teams continue to monitor and review their capital schemes.

Current Position

- 53 The following table summarises the latest capital budget considered by MOWG on 5 October 2015, along with the original budget and the Quarter 1 budget reported in July. The table also shows the forecast outturn for each service and the actual capital spend as at 30 September 2015.

Service Grouping	Original Budget 2015/16	Revised Budget at Quarter 1 2015/16	Amendments Recommended by MOWG	Revised Budget 2015/16 at Quarter 2 October MOWG	Projected Outturn 2015/16	Actual Spend to 30 Sept 2015
	£m	£m	£m	£m	£m	£m
Assistant Chief Executives	3.768	5.681	-0.326	5.355	5.355	0.847
Children and Adult Services	34.366	50.724	-1.955	48.769	48.769	21.838
Neighbourhoods	35.691	48.504	-2.551	45.953	45.953	17.587
Regeneration and Economic Development	61.307	40.611	1.607	42.218	42.218	9.617
Resources	13.348	13.909	0.114	14.023	14.023	4.441
Total	148.480	159.429	-3.111	156.318	156.318	54.330

- 54 At this stage of the year expenditure is not at expected levels, with only 35% of the total estimated spend for the year having been incurred in the first six months of the year. All service groupings have been asked to thoroughly review all capital budget profiles to determine whether budgets should be reprofiled into the future.
- 55 Since the Quarter 1 2015/16 budget was reported to Cabinet on 16 September 2015, MOWG has approved a number of variations to the capital programme which are a result of additional resources received by the Council as well as reductions in grants notified by central government departments. The variations of note are as follows:

- **ACE** – The Community Buildings Budget received a contribution of £3k from Ludworth Community Association.
- **Resources** – The ICT budget, covering various equipment and software replacement schemes has been increased by £0.350m. The increase will be funded by Direct Revenue Contributions to the value of £0.270m and £80k from the ICT Trading Reserve.
- **RED** – Section 106 funding to the value of £0.208m has been secured towards capital projects in Murton (£83k), improvements to the Holliday Park project in Langley Moor (£75k), Affordable Housing projects (£5k) as well as the Heart of Teesdale Landscape scheme (£45k). The School Demolition programme is to be increased by £1.418m and will be funded from anticipated capital receipts to the value of £1.202m and £0.216m from Capital Contingencies. The South Moor Regeneration scheme budget is to be increased by Private Sector Contributions of £31k and British Gas Ecofunding of £36k. The Group Repairs in Craghead will also receive British Gas Ecofunding to the value of £68k. The North East Combined Authority (NECA) has agreed to contribute £0.600m towards the Durham Rail Cycle Links project.
- **Neighbourhood Services** – The Burnigill Bank scheme has received additional funding to the value of £0.248m from Network Rail and Environment Agency Grant payments of £0.276m have now been received towards flood defence schemes in the Chester-le- Street area.
- **CAS** – Wolsingham School has been awarded £95k from Sport England towards the MUGA
- **RED** – The NECA Budget for Transport Related Schemes – has been reduced by £0.100m following the announcement from NECA in July 2015 that the £0.100m had been deducted prior to the payment of the Quarter 1 Integrated Transport and Maintenance Block Grant.

56 Budget managers continue to challenge and review the programming and phasing of works, which has resulted in the re-profiling of the following budgets in line with anticipated activity:

- **ACE – Assets to Communities** – It was agreed to carry forward £0.100m from 2015/16 to 2016/17 to reflect the anticipated cost of Capital Defects work within this budget area.
- **CAS – Public Health** - £1.160m relating to three Public Health schemes is to be carried forward from 2015/16 into 2016/17; this includes £0.160m relating to the Drug Estate Dilapidations budget as ongoing negotiations regarding premises to be vacated have indicated that the associated dilapidation works will now take place in 2016/17. The £0.500m budget relating to establishment of Safe Walking Routes has also been re-profiled from 2015/16 to 2016/17 to reflect the revised completion schedule. Due to delays in obtaining the relevant approvals and identifying suitable properties in the area the £0.500m Drug and Alcohol Alterations Castlebridge, Bishop Auckland has been re-profiled from 2015/16 to 2016/17.

- **CAS – School Related** – MOWG agreed to bring forward £0.500m of the Unprogrammed Capital Grant budget from 2017/18 and £0.152m of that budget from 2016/17 into 2015/16 to meet the cost of anticipated work in the 2015/16 financial year. Permission was also granted to re-profile £1.300m of the Priority School Building budget from 2015/16 into 2016/17 to reflect service delivery.
- **Neighbourhood Services** – It was agreed to re-profile £3.448m from 2015/16 to 2016/17 relating to the proposed programme delivery of Waste Management schemes, to re-profile £3.810m of the Street Lighting Energy Reduction Programme from 2017/18 into 2018/19 and to bring forward £0.330m of the budget for the Refurbishment of Stainton Grove Waste Transfer Station from 2016/17 into 2015/16 to reflect the progress made to date.
- **RED – Durham Rail Station Cycle Links** – Permission was sought to re-profile £0.450m of the additional £0.600m NECA funding received in 2015/16 into 2016/17 in line with the schedule of work to be undertaken.

Capital Financing

57 The following table summarises the recommended financing of the revised Capital Programme:

Financing – General Fund Capital Programme 2015/16

Financed By:	Original Budget 2015/16 £m	Quarter 1 Budget 2015/16 £m	Amendments Recommended by MOWG £m	Revised Budget 2015/16 £m
Grants and Contributions	36.041	52.572	1.007	53.579
Revenue and Reserves	0.280	2.913	0.791	3.704
Capital Receipts	16.619	16.619	0.012	16.631
Borrowing	95.540	87.324	-4.920	82.404
Total	148.480	159.428	-3.110	156.318

Council Tax and Business Rates Collection Funds

Council Tax

- 58 Council Tax is charged for all residential dwellings in bandings agreed by the Valuation Office Agency, which is part of Her Majesty's Revenues and Customs (HMRC). Exemptions, reliefs and discounts are awarded dependent upon the state of the property, its use and occupiers' personal circumstances.
- 59 The collection rate at 30 September 2015 was above the target of 56.0% and also an improvement of 0.56% points over 2014/15 actual collection. This has been achieved through more automation of the 2015/16 recovery schedule used to target non-payers

- 60 The in-year collection rates to Quarter 2 for the last three years including the current year are shown below:

Billing Year	Position at 30 September Each Year %
2015/16	56.47
2014/15	55.91
2013/14	55.18

- 61 The current overall collection rate for 2014/15 council tax liabilities is now 96.88% and for 2013/14 council tax liabilities is now 97.84%. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.02% which is in line with our medium term financial plan forecasts.
- 62 The income shown in the Council Tax Collection Fund is the amount collectable from Council Tax payers in the long run, rather than the actual cash collected in the year the charges are raised. Likely bad debts are accounted for by maintaining a bad debt provision. The amount estimated to be collectable is calculated each year by reference to the actual council taxbase for all domestic properties in the county (schedule of all properties, discounts and reliefs) with an allowance for non-collection, currently 1.5%.
- 63 Due to changes in the number of properties (including new build and demolitions), eligibility of discounts and reliefs during the year, the actual amount collectable increases or decreases from the estimate on a dynamic day to day basis. In addition, adjustments for previous billing years take place during each accounting year. All of these adjustments mean that the actual amounts collected will always differ from the estimate.
- 64 Such differences at the end of each accounting year, after taking into account the calculated change required in the 'bad debt' provision, determines whether a surplus or deficit has arisen, which is then shared proportionately between the Council and its major preceptors, being Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Authority.
- 65 At 30 September 2015, the Estimated Outturn for the Council Tax Collection Fund is a surplus of £7.031m as shown in the table overleaf. Durham County Council's share of this forecasted surplus is £5.896m.

	£'000
Net Bills issued during Accounting Year 2015/16	279,939
LCTRS and previous years CTB adjustments	-52,389
Calculated change in provision for bad debts required and write offs	-2,459
Net income receivable (a)	225,091
Precepts and Demands	
Durham County Council	174,134
Parish and Town Councils	10,921
Durham Police and Crime Commissioner	21,235
County Durham and Darlington Fire and Rescue Authority	12,261
Total Precepts and Demands (b)	218,551
Net Surplus / (-) Deficit for year (a) – (b)	6,540
Surplus Brought Forward from 2014/15	491
Estimated Year end surplus	7,031

- 66 At 15 January in each year, the estimated surplus or deficit on the Collection Fund Council Tax Account is notified to the two major preceptors for inclusion in the budget setting process for the following year as an additional income or expenditure item.
- 67 At 15 January 2016 an estimated year end position on the Council Tax Collection Fund for 2015/16 will be declared and taken into account in the budget setting process for 2016/17. Any difference between this and the actual surplus at 31 March 2016 will be carried forward to 15 January 2017 and will be taken into account in estimating the surplus/deficit for 2016/17, which will need to be taken into account for 2017/18 budget setting.
- 68 Over the past four years, the Council Tax provision for bad debts has been increasing steadily. This managed approach has been necessary to minimise the risk of the Council Tax Collection Fund moving into deficit whilst securing the robustness of the levels of provision held.

Business Rates

- 69 2013/14 was the first year of the new Business Rates Retention Scheme whereby the Council now has a vested budget interest and stake in the level of business rate yield, as income generated from Business Rates is now shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). It is therefore, not only the accuracy and timeliness of bills levied and tax collected that is monitored and audited, but the level of income anticipated for the year is important and new monitoring procedures have been devised for this purpose.

- 70 Bills raised, exemptions and reliefs awarded are examined together with local knowledge of anticipated changes in reliefs such as Mandatory Charitable Relief and Discretionary Rate Relief on a monthly basis to enable a comparison with the January 2015 estimate of 2015/16 Business Rates income that was used for budget setting purposes. At 30 September 2015, the estimated outturn for the Collection Fund - Business Rates is a deficit of £5.545m, arrived at as shown in the table below, which takes into account the actual surplus brought forward from 2014/15, including the previously declared estimated surplus plus the undeclared surplus based upon the actual surplus as at 31 March 2015.

	£'000
Net rate yield for 2015/16 including previous year adjustments	117,728
Estimate of changes due to appeals lodged and future appeals	-9,539
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-1,766
Net income receivable (a)	106,423
Agreed allocated shares	
Central Government (50%)	55,916
Durham County Council (49%)	54,798
County Durham and Darlington Fire and Rescue Authority (1%)	1,118
Payment of Previous year's declared surplus	1,020
Cost of Collection Allowance and Renewable Energy (paid to Durham County Council)	640
Total fixed payments (b)	113,492
Net deficit for year (a) – (b)	-7,069
Declared Surplus brought forward from 2014/15	1,020
Undeclared Surplus brought forward from 2014/15	504
Estimated year end deficit	-5,545

- 71 The in-year estimated deficit of £7.069m is mainly due to forecasted increased loss of income from business rate payers' successful appeals so that they are paying less. This forecasted loss is being offset by the total surplus brought forward from 2014/15, leaving an estimated deficit of £5.545m at 31 March 2016. Any surpluses or deficits at 31 March in any year are shared proportionately between Durham County Council, Central Government and County Durham and Darlington Fire and Rescue, Durham County Council's share being 49%. Durham County Council's share of the estimated year end deficit will therefore be £2.718m.
- 72 The forecasting of the outturn position on the Business Rate Collection Fund is volatile and is therefore being monitored very closely. It is important that the Council can accurately ascertain the net position of both the Council Tax and Business Rate Collection Funds as part of the development of MTFP(6).

- 73 The payment profile on collection performance is changing due to more businesses opting to spread their payments over 12 months rather than ten. The major Business Rates Payers have all opted to take up this opportunity to re-profile their cash flow. However, robust collection procedures have ensured that the challenging collection target of 58.0% has been marginally exceeded.
- 74 The in-year collection rates to Quarter 2 for the last three years, including the current year, are shown below:

Billing year	Position at 30 September Each Year %
2015/16	58.65
2014/15	58.00
2013/14	60.71

- 75 The 58.65% collection rate exceeds the target by 0.65 percentage points.
- 76 The current overall collection rate for 2014/15 business rate liabilities is now 98.18% and for 2013/14 business rate liabilities is now 98.9%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.45% which is in line with our medium term financial plan forecasts.

Section 31 Grant - Small Business Rate Relief

- 77 Small Business Ratepayers with properties with rateable values under £12k benefit from relief on their rates payable. The Government has awarded local authorities a special 'Section 31' grant to cover their share of the shortfall in business rates that these small business ratepayers would have paid had the relief scheme not been in place.
- 78 Small Business Ratepayers with properties with rateable values up to £6k are currently being granted full relief instead of 50% relief under the previous scheme, and properties with rateable values between £6k and £12k have a tapered relief applied to them ranging from 100% down to 0%, but in all cases double the standard relief.
- 79 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded.
- 80 The Government has only agreed to pay Section 31 grant for the additional Small Business Rate Relief in respect of business rates bills and adjustments thereof relating to the period commencing 1 April 2013. Any adjustments that relate to bills for years prior to this will be dealt with as part of the normal Rate Retention shares. At 30 September 2015, the gross Small Business Relief awarded against 2015/16 Business Rates bills and adjustments to 2014/15 and 2013/14 bills is £9.774m, and on this the Council will receive £2.424m in Section 31 Grant, including the capping adjustment.

Other Section 31 Grants

- 81 In the Autumn Statement 2013 and 2014, additional Business Rate Reliefs were announced for 2014/15 and 2015/16 for which Section 31 Grants would be payable. These included one for properties empty from new, reoccupation

of long-term empty properties and an additional relief for small shops. Durham County Council will be recompensed for any retained rates foregone because of reliefs given.

- 82 When assessing estimated outturn income from Business Rates, due regard must also be given on the effect that changes in estimated reliefs will have on the Section 31 grants. At 30 September 2015, the surplus in Durham County Council's Section 31 grants (including Small Business Rate Relief) was £0.096m, in addition to the estimated deficit discussed above.
- 83 Whilst the surplus in S31 grants is accounted for in 2015/16, the deficit on Business Rates retention is accounted for in 2016/17.

Recommendations and Reasons

- 84 It is recommended that Cabinet:
1. Note the projected change in the Council's overall financial position for 2015/16.
 2. Agree the proposed 'sums outside the cash limit' for approval.
 3. Agree the revenue and capital budget adjustments.
 4. Note the creation of the Budget Support Reserve and the transfer of available reserves into Office Accommodation Capital Reserve.
 5. Note the transfer of £10m from Cash Limit reserves to replenish the MTFP ER/VR reserve
 6. Note the forecast use of Earmarked Reserves.
 7. Note the forecast end of year position for the Cash Limit and General Reserves.
 8. Note the position on the Capital Programme and the Collection Funds in respect of Council Tax and Business Rates.
 9. Note the closure of the Housing Revenue Account.

Background Papers

- (a) County Council – 25 February 2015 – General Fund Medium Term Financial Plan 2015/16 to 2017/18, Revenue and Capital Budget 2015/16
- (b) Cabinet – 15 July 2015 - 2014/15 Final Outturn for General Fund, Housing Revenue Account and Collection Fund
- (c) Cabinet – 16 September 2015 - Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 30 June 2015

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Appendix 1: Implications

Finance -

The report details the 2015/16 forecast of outturn position for Revenue and Capital and details the forecast movement on Reserves.

Staffing -

None

Risk -

The figures contained within this report have been extracted from the General Ledger, and have been scrutinised and supplemented with information supplied by the Service Management Teams and budget holders. The projected outturn has been produced taking into consideration spend to date, trend data and market intelligence, and includes an element of prudence. This, together with the information supplied by Service Management Teams and budget holders, helps to mitigate the risks associated with achievement of the forecast outturn position.

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

The outturn proposals contained within this report have been prepared in accordance with standard accounting policies and procedures.

Appendix 3: Revenue Summary by Expenditure / Income for the period ended 31 March 2016

	Original Budget 2015/16	Revised Budget	Proposed Budget Revisions	Agreed Budget	Service Groupings Forecast of Outturn	Corporate Costs	Sums Outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves	Revised Service Outturn	Forecasted Variance (including Corporate Costs)	Forecasted Variance - Corporate Costs
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	470,911	481,351	1,339	482,690	479,197	484	0	-1,978	160	477,863	-4,827	-20
Premises	50,757	49,876	819	50,695	51,136	0	-90	-450	435	51,031	336	0
Transport	47,915	35,016	6,210	41,226	40,841	0	0	-500	503	40,844	-382	0
Supplies & Services	112,068	120,793	2,944	123,737	124,558	1,269	-2	-257	-2,668	122,900	-837	-152
Agency & Contracted	307,725	310,697	138	310,835	305,036	2,309	0	-420	-14	306,911	-3,924	-2
Transfer Payments	204,317	205,983	-9	205,974	202,826	0	0	0	-638	202,188	-3,786	0
Central Costs	96,263	96,562	333	96,895	97,685	0	0	0	220	97,905	1,010	0
DRF	0	125	0	125	125	0	0	0	0	125	0	0
Other	18,603	20,331	-133	20,198	20,078	0	0	-10,073	9,901	19,906	-292	0
Capital Charges	48,977	48,977	0	48,977	48,977	0	0	0	0	48,977	0	0
GROSS EXPENDITURE	1,357,536	1,369,711	11,641	1,381,352	1,370,459	4,062	-92	-13,678	7,899	1,368,650	-12,702	-174
Income												
- Specific Grants	564,352	577,026	313	577,339	571,898	45	0	0	-98	571,845	5,494	0
- Other Grants & conts	53,488	70,291	-101	70,190	72,811	0	0	0	-86	72,725	-2,535	0
- Sales	5,966	6,449	69	6,518	6,384	100	0	0	49	6,533	-15	0
- Fees & charges	104,473	104,311	-1,790	102,521	99,663	15	0	0	81	99,759	2,762	-15
- Rents	6,494	6,301	1,397	7,698	7,126	0	0	0	0	7,126	572	0
- Recharges	186,789	175,183	11,842	187,025	189,790	0	0	0	-92	189,698	-2,673	0
- Other	7,755	8,018	-89	7,929	9,702	0	-1	0	-229	9,472	-1,543	0
Total Income	929,317	947,579	11,641	959,220	957,374	160	-1	0	-375	957,158	2,062	-15
NET EXPENDITURE	428,219	422,132	0	422,132	413,085	3,902	-91	-13,678	8,274	411,492	-10,640	-189

Appendix 4: Earmarked Reserves Position as at 30 September 2015

	EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2014/15 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2015/16 CLOSING BALANCE AS AT 30 SEPTEMBER 2015
			£'000	£'000	£'000	£'000	£'000	£'000
1	ACE AAP/Members Reserve	ACE	-3,699	674	0	-118	556	-3,143
2	ACE Grant Reserve	ACE	-194	48	-1,145	0	-1,097	-1,291
3	ACE Operational Reserve	ACE	-124	8	-88	-475	-555	-679
4	Social Care Reserve	CAS	-13,335	902	0	0	902	-12,433
5	Aycliffe Young People's Centre Reserve	CAS	-1,202	1,202	0	0	1,202	0
6	Continuing Professional Development Reserve	CAS	-1,035	566	-110	0	456	-579
7	Education Reserve	CAS	-2,440	578	-166	-1,409	-997	-3,437
8	Tackling Troubled Families	CAS	-2,027	281	-93	0	188	-1,839
9	Transformation Reserve	CAS	-1,483	0	-1,594	0	-1,594	-3,077
10	Innovations and YEI Redundancy Reserve	CAS	0	0	0	-1,000	-1,000	-1,000
11	Special Projects Reserve	CAS	-37	37	0	0	37	0
12	Public Health Reserve	CAS	-4,983	1,209	-300	0	909	-4,074
13	Neighbourhoods AAP Reserve	NS	-40	0	0	0	0	-40
14	Customer Services Reserve	NS	-373	350	0	0	350	-23
15	Direct Services Reserve	NS	-3,043	789	-96	0	693	-2,350
16	Env. Health and Consumer Protection Reserve	NS	-1,000	210	0	0	210	-790
17	Culture and Sport Reserve	NS	-3,193	536	0	0	536	-2,657
18	Strategic Waste Reserve	NS	-1,796	1,548	0	0	1,548	-248
19	Technical Services Reserve	NS	-2,922	702	0	0	702	-2,220
20	Transport Asset Management Programme Reserve	NS	-318	206	0	0	206	-112
21	Business Growth Fund Reserve	RED	-913	97	-278	0	-181	-1,094
22	Economic Development Reserve	RED	-1,486	316	0	0	316	-1,170
23	Planning Reserve	RED	-1,423	65	0	0	65	-1,358
24	North Pennines AONB Partnership Reserve	RED	-329	0	0	0	0	-329
25	Employability and Training Reserve	RED	-458	93	0	0	93	-365
26	RED Regeneration Reserve	RED	-1,344	0	-700	0	-700	-2,044
27	Housing Regeneration Reserve	RED	-410	0	-827	0	-827	-1,237
28	Housing Solutions Reserve	RED	-867	188	0	0	188	-679
29	Restructure Reserve	RED	-663	0	0	0	0	-663
30	Transport Reserve	RED	-287	0	0	0	0	-287
31	Funding and Programmes Management Reserve	RED	-140	45	0	0	45	-95
32	Resources Corporate Reserve	Resources	-984	59	0	0	59	-925
33	Resources DWP Grant Reserve	Resources	-1,930	217	-469	0	-252	-2,182
34	Resources System Development Reserve	Resources	-840	205	0	0	205	-635
35	Resources Housing Benefit Subsidy Reserve	Resources	745	0	0	0	0	-745
36	Resources Single Fraud Incentive Scheme	Resources	0	0	-257	0	-257	-257
37	Local Council Tax Support Scheme Reserve	Resources	-1,031	0	0	1,031	1,031	0
38	Resources Land Search Fees Reserve	Resources	-1,000	491	0	509	1,000	0
39	Resources Legal Expenses Reserve	Resources	-200	0	0	0	0	-200
40	Resources Legal Services Reserve	Resources	0	0	-154	0	-154	-154
41	Resources Elections Reserve	Resources	-1,036	26	0	0	26	-1,010
42	Resources ICT Reserves	Resources	-1,130	247	0	-500	-253	-1,383
43	Human Resources Reserve	Resources	-65	65	0	0	65	0
44	Corporate Reserve - Demographic Pressures	Corporate Fin	-23,600	4,150	0	19,450	23,600	0
45	Equal Pay Reserve	Corporate Fin	-14,114	4,744	-207	0	4,537	-9,577
46	Insurance Reserve	Corporate Fin	-15,601	0	0	2,000	2,000	-13,601
47	Performance Reward Grant Reserve	Corporate Fin	-1,044	320	0	0	320	-724
48	MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-10,878	4,705	0	-10,000	-5,295	-16,173
49	Office Accommodation Project Support Reserve	Corporate Fin	-1,007	743	0	0	743	-264
50	Planned Delivery Programme (PDP) Reserve	Corporate Fin	-20,000	0	0	20,000	20,000	0
51	Budget Support Reserve	Corporate Fin	0	0	0	-30,000	-30,000	-30,000
52	Capital Expenditure Reserve	Corporate Fin	-2,802	1,450	0	450	1,900	-902
53	Office Accommodation Capital Reserve	Corporate Fin	-8,000	0	-22,000	-12,481	-34,481	-42,481
54	Housing Stock Transfer Reserve	Corporate Fin	0	0	-1,000	0	-1,000	-1,000
	Total Earmarked Reserves		-157,571	28,072	-29,484	-12,543	-13,955	-171,526
	Cash Limit Reserves							
55	Assistant Chief Executive		-773	0	-237	755	518	-255
56	Children and Adults Services		-9,443	707	-7,181	5,829	-645	-10,088
57	Neighbourhood Services		-5,076	630	-1,411	2,039	1,258	-3,818
58	Regeneration and Economic Development		-3,216	297	-632	964	629	-2,587
59	Resources		-3,857	168	-990	2,956	2,134	-1,723
	Total Cash Limit Reserves		-22,365	1,802	-10,451	12,543	3,894	-18,471
	Total Council Reserves		-179,936	29,874	-39,935	0	-10,061	-189,997
	Schools' Balances							
Sch 1	Schools' Revenue Balance	CAS	-24,244	6,825	0	0	6,825	-17,419
Sch 2	DSG Reserve	CAS	-10,365	360	0	0	360	-10,005
	Total Schools and DSG Reserve		-34,609	7,185	0	0	7,185	-27,424