

Cabinet

14 September 2016

Forecast of Revenue and Capital Outturn 2016/17 – Period to 30 June 2016



Report of Corporate Management Team Paul Darby, Interim Corporate Director Resources Councillor Alan Napier, Portfolio Holder for Finance

Purpose of the Report

- 1 To provide Cabinet with a forecast of 2016/17 revenue and capital outturn, based on the period to 30 June 2016.

Background

- 2 This report is the first indication of the revenue and capital outturn for 2016/17 based on actual expenditure and known commitments as at 30 June 2016, together with the forecast balances on general reserves and earmarked reserves at 31 March 2017. The report also includes the initial forecasts for the Council Tax Collection Fund and Business Rates Collection Fund for 2016/17.

Revenue Outturn Forecast – Based on Position to 30 June 2016

- 3 The table overleaf compares the forecast with the revised budget with further detail to be found in Appendices 2 and 3.
- 4 The following adjustments have been made to the Original Budget agreed by Full Council in February 2016:
 - (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 Revenue Outturn 2016/17

	Original Budget 2016/17	Budget - incorporating adjustments	Service Groupings Forecast of Outturn	Forecasted Variance
	£'000	£'000	£'000	£'000
Assistant Chief Executive	9,448	10,622	10,612	-10
Children and Adults Services	250,015	264,870	262,723	-2,147
Neighbourhood Services	105,704	108,509	107,840	-669
Regeneration and Economic Development Resources	25,257 16,282	26,857 17,246	26,558 16,333	-299 -913
Cash Limit Position	406,706	428,104	424,066	-4,038
Contingencies	6,194	4,529	4,529	0
Corporate Costs	4,235	3,859	3,751	-108
NET COST OF SERVICES	417,135	436,492	432,346	-4,146
Capital charges	-55,478	-55,478	-55,478	0
Interest and Investment income	-1,641	-1,741	-2,735	-994
Interest payable and similar charges	37,401	37,650	37,450	-200
Levies	15,929	15,929	15,929	0
Net Expenditure	413,346	432,852	427,512	-5,340
Funded By:				
Council tax	-185,798	-185,798	-185,798	0
Use of earmarked reserves	-11,621	-29,447	-29,447	0
Estimated net surplus on Collection Fund	-2,617	-2,617	-2,617	0
Start up Funding Assessment	-192,977	-192,977	-192,977	0
New Homes Bonus	-10,182	-10,182	-10,182	0
New Homes Bonus - Re-imbusement	-267	-267	-267	0
Section 31 Grant	-4,267	-4,267	-4,366	-99
Education Services Grant	-5,407	-5,407	-5,407	0
Forecast contribution to/from(-) Cash Limit Reserve	-210	-1,890	2,148	4,038
Forecast contribution to General Reserves	0	0	1,401	1,401
TOTAL	0	0	0	0

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

- 5 The updated position in terms of sums provisionally agreed with Service Groupings as being outside the Cash Limit is shown in the table below:

SERVICE GROUPING	PROPOSAL	Amount
		£ million
Children and Adults Services (CAS)	Premises related costs for former school buildings	0.016
Regeneration and Economic Development (RED)	Concessionary fares	-0.389
Resources	Agency Staffing - Additional capacity to accommodate Teaching Assistants consultation	0.041
Total		-0.332

- 6 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 2016	Budgeted use at 1 April 2016	Movement during 2016/17		2016/17 Forecast of Outturn
			Planned use of reserve	Contribution to (-) reserve	
	£ million	£ million	£ million	£ million	£ million
Service Grouping Cash Limit					
Assistant Chief Executive	-0.277	0.000	0.000	-0.010	-0.287
Children and Adults Services	-13.500	0.142	1.147	-2.147	-14.358
Neighbourhoods	-2.579	0.000	0.058	-0.669	-3.190
Regeneration and Econ Development	-3.792	0.000	0.475	-0.299	-3.616
Resources	-2.151	0.068	0.000	-0.913	-2.996
TOTAL CASH LIMIT RESERVE	-22.299	0.210	1.680	-4.038	-24.447
General Reserve	-29.101	0.000	0.000	-1.401	-30.502

- 7 The forecasted Cash Limit and General Reserves position is a prudent one given the forecasted levels of savings the Council needs to make of £64.1 million over the period 2017/18 to 2019/20 with the delivery of further savings becoming ever more challenging to achieve.
- 8 The reasons for the major variances against the revised budgets are detailed by each Service Grouping overleaf.

Assistant Chief Executive (ACE)

- 9 The forecast revenue outturn for 2016/17 is a cash limit underspend of circa £10,000 for the year after taking account of the forecast use of reserves and items outside the cash limit.

- 10 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 - £8,000 overbudget, primarily due to an overspend on employee costs as a result of the 3% staff turnover target not being met in this service.
 - Planning and Performance – £52,000 overbudget due to a managed overspend on employee related costs.
 - Policy and Communications - £70,000 underbudget, predominantly resulting from a £65,000 managed underbudget on employee related costs across the service.
- 11 In arriving at the forecast cash limit outturn position £1.025 million relating to contributions to and from reserves and cash limits have been excluded from the outturn. The major elements include:
- £0.622 million relating to delivering projects in the community;
 - £0.294 million relating to administering the Durham Ask, and Durham Community Action to support the work of the Centre for Voluntary and Social Enterprise.
- 12 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 £0.287 million from April 2017.

Children and Adults Services

- 13 The 2016/17 projected outturn position for Children and Adults Services (CAS), based on the position to 30 June 2016, is a cash limit underspend of £2.147 million. This represents circa 0.85% of the total budget for CAS.
- 14 The projected outturn takes into account adjustments for sums outside the cash limit including redundancy costs which are met from the corporate reserve, capital accounting entries and use of / contributions to earmarked reserves.
- 15 There are premises related costs of £15,962 relating to the former Durham Free School, Pelton Roseberry, Consett Moorside and Wolsingham, which have been treated as outside the cash limit.
- 16 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 and 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 £3.597 million;

- Net spend on adult care packages is forecast to be £0.314 million below budget. This area of spend is being closely monitored to assess the impact of demographic and procedural/operational changes, where significant MTFP savings have been taken over recent years. Ongoing savings have arisen from the consistent and effective application of the existing eligibility criteria.
- Children's Services are forecasting a net overspend of £2.220 million. This is primarily related to costs associated with Children's placements both those who have a legal status of looked after and those young people in permanent placements that are financially supported by the council. Current levels of demand have led to the number of children being looked after being at the highest recorded level for County Durham.
- Children's Services are also forecasting a £0.5 million overspend on staffing due to increased costs associated with agency staff covering vacancies and absences required to maintain safe service levels. This additional cost is mitigated by the service successfully accessing a range of grants that had previously not been budgeted for.
- The Education Service is currently forecasting a net underspend of £0.455 million. This relates to staff vacancies, reduction in pension liabilities and additional service level contract income. Changes to Home to School transport policy take effect from September along with the re-tendering of a number of mainstream contracts. The impact of these on the outturn for Home to School Transport will be factored into the quarter two projections.

17 Taking the projected outturn position into account, including the transfer to/from Reserves in year, the estimated cash limit reserve to be carried forward for Children and Adults Services is forecast to be £14.358 million.

Neighbourhood Services

18 The forecast outturn for 2016/17 is a cash limit under spend of £0.669 million, after taking account of the forecast use of reserves and items outside the cash limit.

19 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 and the main reasons accounting for the outturn position are shown below:

- Within Direct Services, there is an overall underspend of £0.423 million which is due to the early achievement of MTFP savings in respect of future years, mainly relating to Clean & Green and Facilities Management.

- Technical Services is forecasting a break-even position. This includes a surplus within Design Services (£0.474 million) and Highways Operations (£0.635 million) offset by a net overspend of approximately £1.139 million within Highways Services, where the additional surplus on the trading account areas have been used to invest in 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 £0.226 million, attributable to early achievement of MTFP savings / underspends on employees, supplies and services and transport in Health Protection, Consumer Protection and Environmental Protection.
- Within Strategic Waste there is an overspend of approximately £0.245 million forecast which is the net effect of an overspend on the waste contracts resulting from increasing tonnages and savings in other areas of Strategic Waste e.g. increased income from Garden Waste. This net overspend in Strategic Waste is being offset by savings on employee and supplies and services (£0.324 million) across all other areas of Projects & Business Services.

20 In arriving at the forecast outturn position £2.196 million relating to contributions to and from reserves and cash limits have been excluded from the outturn. The major elements include:

- a net use of earmarked reserves and cash limits to support specific projects in 2016/17, including a £0.843million use of earmarked reserves to support one off expenditure in Highways; a £0.532million use of earmarked reserves in respect of Culture and Sport; a £0.182m contribution to earmarked reserves in respect of Environmental Health; and a £0.660m use of earmarked reserves in respect of Refuse Collection and Grounds Maintenance. In addition; £0.272million is being drawn down from the MTFP redundancy reserve.

21 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 £3.190 million.

Regeneration and Economic Development (RED)

22 The forecast revenue outturn for Regeneration and Economic Development is a cash limit underspend of £0.299 million in 2016/17. 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.

23 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 - £0.174 million managed saving on employee related costs due to staff vacancies.

- Economic Development and Housing - £0.638 million underbudget, primarily due to managed savings on employee costs and additional income for business Space and Gypsy Roma Traveller sites.
- Planning and Assets - £0.272 million overspend, which consists of a £0.104 million underspend in the Planning Service and a £0.376 million overspend on Assets. The underspend in the Planning Service primarily results from an increase in planning fee income with planned savings in Building Control and Environment and Design, offset by agreed managed overspend on the Local Development Framework. 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 - £0.237 million overspend, primarily resulting from unachieved income, mainly in relation to Parking Services and Concessionary Fares boardings.

24 In arriving at the forecast outturn position some £1.320 million relating to contributions to and from reserves and cash limits has been excluded from the outturn. The major elements include:

- £0.389 million outside of the cash limit relating to reduced costs of concessionary fares;
- £0.150 million relating to impact of road diversions mostly in respect of New Brancepeth Bridge;
- £0.100 million relating to Durham City road modelling including traffic surveys;
- £0.575 million in respect of the Office Accommodation Project;
- £0.254 million relating to housing solutions/housing regeneration initiatives; and
- £0.100 million relating to use of employment and skills reserve to support employability initiatives

25 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 £3.616 million.

Resources

26 The 2016/17 outturn for Resources is a cash limit underspend of £0.913 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves and use of / contributions to earmarked reserves.

- 27 The Heads of Service across Resources continue to proactively manage activity to remain within the cash limit. The projected underbudget position is the net effect of the following items:
- Corporate Finance is forecast to be underbudget by £37,000. This relates to minor variances across various headings, the most significant being a £44,000 underspend within the Financial Systems team through the management of vacancies.
 - Financial Services is forecast to be underbudget by £0.400 million, consisting of a managed underbudget against employees in Revenues and Benefits in advance of a restructure to achieve 2017/18 MTFP savings (£0.601 million) and additional Financial Management SLA income (£0.143 million), partly offset by overspending of on agency packages (£0.350 million) and other variances.
 - ICT Services is forecasting an underbudget position of £25,000, through underspending on employees (£94,000), transport (£8,000) and premises (£4,000), plus overachieved income (£60,000), offset by an overspend for supplies and services (£0.141 million).
 - Internal Audit & Risk is forecast to be underbudget by £73,000, with a managed underspend employees accounting for the variance, in advance of a restructure to achieve 2017/18 MTFP savings
 - Legal and Democratic Services is forecast to be underbudget by £0.375 million, which includes a £0.214 million managed underspend on employees and £0.124 million on supplies and services in advance of a restructure to achieve 2017/18 MTFP savings, and an over recovery of income (£27,000) plus other minor variances.
 - Service Management is forecasting a £3,000 underbudget position.
- 28 The forecast cash limit outturn shows the position after some £0.732 million of net contributions from reserves and cash limits have been applied to finance the following items:
- £0.041 million relating to a contribution from the Corporate Contingency towards the Human Resources costs of the Teaching Assistants Exercise
 - £0.083 million from the Corporate MTFP reserve to fund the cost of early retirements/voluntary redundancies
 - £0.050 million from the Corporate Procurement Reserve to fund an external cost assurance project.
 - £0.144 million from the Oracle Development Reserve to fund the development of the Oracle Financial System.
 - £0.057 million from the Human Resources reserve to support the loss of SLA income.

- £0.061 million from the Modern Ways of Working Reserve to finance the costs of ICT and Human Resources staff who are supporting the introduction of new working practices through the Inspire People project
- £0.296 million from the ICT Trading Reserve to fund additional posts to support trading activity and apprenticeships, additional equipment to support services provided as part of schools Building Schools for the Future schemes and additional costs of Microsoft licences.

29 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is forecast to be £2.996 million.

Corporate Costs

30 The forecast revenue outturn for 2016/17 for Resources – Centrally Administered Costs is a cash limit under spend of £0.108 million. This takes into account adjustments for sums outside the cash limit such as the use of / contribution to earmarked reserves.

31 The forecast outturn position is mainly accounted for by a net underbudget position on payment card charges (£76,000).

32 In arriving at the forecast outturn position some £0.376 million relating to contributions to and from earmarked reserves have been excluded from the outturn, all of which relates to the welfare reform agenda.

Central Budgets

- Interest Payable and Similar Charges - Capital Financing

33 Following a review of capital financing costs, linked to re-profiling within the capital programme earlier in the year, there is a forecast underspend of £0.200 million. 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

34 The forecast at this stage is an overachievement of income of £0.994 million which is due to a higher than anticipated level of cash balances. This is due in the main to capital expenditure being below base budget levels and generally higher than forecast cash balances.

Council Earmarked Reserves Forecast

35 The table at Appendix 4 sets out the Council's earmarked reserves 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 2017.

- 36 A summary of the latest forecast of Council reserves by 31 March 2017 is shown below:

	Earmarked £ million	Cash Limit £ million	TOTAL £ million
Opening Earmarked Balances as at 1 April 2016	-183.076	-22.299	-205.375
Adjusted for forecasted increase (-) / use of Earmarked Reserves	16.558	-2.148	14.410
Forecasted Earmarked Reserve Balance as at 31 March 2017	-166.518	-24.447	-190.965

Schools

- 37 The total delegated budget for maintained schools (including early years' providers) in 2016/17 is £250.752 million. In addition, schools are estimated to receive around £20.11 million in Pupil Premium income and £29.134 million in other income. Other income consists of:

	£ million
Grant Income	19.403
Contributions	0.135
Sales	5.704
Lettings	1.052
Income from local authority	1.086
Other	1.763
Total	29.143

- 38 Grant income includes funding for Universal Infant Free School Meals, PE and infant class sizes. Sales income is mainly from school meals and out-of-hours care (e.g. breakfast clubs). Income from the local authority is mainly funding for early years funding and funding from Communities of Learning budgets, (which are used to support provision for special educational needs).
- 39 All schools have delegated budgets and most have earmarked reserves / accumulated balances arising from underspending in previous years. Where schools spend more than their delegated budgets in any one year, the overspend reduces their accumulated balance carried forward to the following year. At 31 March 2016, ten schools had a deficit balance, where their spending had exceeded their accumulated balances, totalling £2.736 million, thirteen schools were holding a balance of less than 2.5% of their overall annual funding and 221 schools had balances of more than 2.5% of their overall annual funding. The Council encourages schools to have a retained balance of at least 2.5% of their overall annual funding to provide a contingency sum against unforeseen budget pressures.
- 40 Cumulative school reserves brought forward from 2015/16 are £24.083 million. This balance is net of loans to schools and other balances not related to maintained schools. Maintained schools balances amounted to £23.880 million. Based on budget plans approved by Governing bodies and the latest updated forecasts, schools are currently planning to use £10.737 million of these balances in 2016/17. The forecast balances at 31 March 2017 are therefore £13.143 million and a summary of this forecast position is provided below:

	Nursery	PRU	Primary	Secondary	Special	Total
Schools forecasting a surplus balance above 2.5% of annual funding						
Number	12	-	163	6	9	190
Forecast Balances	-£0.618m	-	-£12.805m	-£1.779m	-£1.445m	-£16.647m
Schools forecasting a surplus balance of less than 2.5% of annual funding						
Number	-	1	34	5	-	40
Forecast Balances	-	-	-£0.377m	-£0.362m	-	-£0.739m
Schools forecasting a deficit balance						
Number	-	-	9	5	-	14
Forecast Balances	-	-	£0.260m	£3.983m	-	£4.243m
Total						
Number	12	1	206	16	9	244
Forecast Net Balances	-£0.618m	-	-£12.922m	£1.842m	-£1.445m	-£13.143m

- 41 The Council is working with the schools in deficit and has strengthened financial monitoring of schools. There is a more integrated approach in place now, with officers in the Education Service being supported by Finance and HR to determine appropriate action to support these schools in the context of their financial position and any wider education / performance concerns. Of the fourteen schools with a deficit budget plan, nine are working on restructuring proposals to eliminate the deficit and a further three will be subject to further reports relating to their financial viability. The interim Corporate Director Resources will consider whether to approve deficit budgets for the remaining two schools after receiving deficit recovery plans from these schools.

Capital

Background

- 42 On 13 July 2016 Cabinet received a report, which provided details of the final outturn position of the 2015/16 Capital Programme. The report also included the additional capital allocations of £54.422 million approved by full Council on 24 February 2016 and the reprofiling of budgets from 2015/16 amounting to £17.119 million, which resulted in the establishment of the original 2016/17 budget of £126.090 million shown in the table overleaf.
- 43 The Council's Capital Member Officer Working Group (MOWG) that closely monitors the capital programme has since recommended to Cabinet the approval of further revisions to the capital programme, taking into account additional resources received by the authority and further requests for reprofiling as Service Management Teams continue to monitor and review their capital schemes.

Current Position

- 44 The following table summarises the latest capital budget recommended for approval by MOWG on 4 July 2016 alongside the original budget. The table also shows the forecast outturn for each service and the actual capital spend as at 30 June 2016.

Service Grouping	Original Budget 2016/17 as at May MOWG	Amendments recommended by MOWG	Revised Budget 2016/17 Q1	Projected Outturn 2016/17	Actual Spend to 30 June 2016
	£ million	£ million	£ million	£ million	£ million
Assistant Chief Executives	5.622	0.014	5.636	5.637	0.345
Children and Adult Services	30.889	0.461	31.350	31.350	5.895
Neighbourhoods	44.188	1.036	45.224	45.224	5.432
Regeneration and Economic Development	33.523	0.703	34.226	34.226	5.485
Resources	11.868	0.349	12.217	12.217	0.738
Total	126.090	2.563	128.653	128.653	17.895

- 45 Since the original budget 2016/17 budget was approved by Council on 24 February 2016, MOWG has recommended for approval a number of variations to the capital programme which are a result of additional resources received by the Council. The variations of note are as follows:

- **ACE – Additions** – The Members Neighbourhood budget has been increased by £74,000 from a contribution from the Neighbourhoods Revenue Reserve along with an increase of £75,045 to the AAP Capital budget by a contribution from the AAP Revenue Reserve.
- **CAS – Additions** – Additional grant funding to the value of £0.175 million from the Department of Education has been received towards the refurbishment of the Aycliffe Secure Centre along with a grant to the value of £82,068 from the Education Funding Agency towards the provision of ICT equipment and related furniture and fittings at the Seaham School of Technology.
- **Neighbourhood Services – Additions** - The budgets for the improvement of play areas throughout the county have been increased by section 106 funding to the value of £0.135 million and a contribution of £8,000 from Greater Willington Town Council. The Direct Services budget for the refurbishment of the Locomotion Café and Kitchen has received £0.100 million from the Locomotion Capital Investment Reserve. The Council has been allocated £0.666 million funding from the Department of Transport Incentive Fund towards Highway Maintenance schemes.
- **RED – Additions** – The Economic Development and Housing budget has been increased by £4.844 million. This includes grant funding to the value of £0.700 million from the Department of Communities and Local Government towards The North Dock Seaham project along with the

creation of the initial tranche of the Finance Durham Investment Fund of £4.144 million, which is to be financed from capital receipts.

- **Resources – Additions** – The ICT Software Conversion budget has been increased by a £0.174 million contribution from the ICT Trading Reserve.

46 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 in 2016/17:

- **RED – Finance Durham Investment Fund** – Approval was granted to reprofile the budget of £4.144 million within this service area from 2016/17 into 2017/18.
- **Resources - ICT Services** – Approval was received to bring forward £0.175 million of the ICT Services budget to carry out work on the Wide Area Network Capacity Upgrade and Remodelling scheme.

Capital Financing

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

Financed By:	Original Budget 2016/17 £ million	Amendments recommended by MOWG £ million	Revised Budget 2016/17 £ million
Grants and Contributions	42.771	1.765	44.536
Revenue and Reserves	0.929	0.423	1.352
Capital Receipts	15.883	0.000	15.883
Borrowing	66.507	0.375	66.882
Total	126.090	2.563	128.653

Council Tax and Business Rates Collection Funds

Council Tax

48 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.

49 The collection rate at 30 June 2016 in line with the profiled target of 29.00%, and is an improvement of 0.34 percentage points over the same position last year. This has been achieved through continued automation of the 2016/17 recovery schedule used to target non-payers

50 The in-year collection rates in Quarter 1 for the last three years including the current year are shown below:

Billing Year	Position at 30 June Each Year %
2016/17	29.00
2015/16	28.66
2014/15	28.63

- 51 The current overall collection rate for 2015/16 council tax liabilities is now 97.07%; for 2014/15 the rate is now 97.91%. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.42% which is line with our medium term financial plan forecasts.
- 52 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 estimated 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%.
- 53 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.
- 54 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.
- 55 At 30 June 2016, the estimated outturn for the Council Tax Collection Fund is a surplus of £1.015 million, as shown in the table below. Durham County Council's share of this forecasted surplus is £0.854 million.

	£ million
Net Bills issued during Accounting Year 2016/17	291.126
LCTRS and previous years CTB adjustments	-53.083
Calculated change in provision for bad debts required and write offs	-4.926
Net income receivable (a)	233.117
Precepts and Demands	
Durham County Council	185.798
Parish and Town Councils	11.513
Durham Police and Crime Commissioner	22.219
County Durham and Darlington Fire and Rescue Authority	12.822
Total Precepts and Demands (b)	232.352
Net Surplus / (-) Deficit for year (a) – (b)	0.765
Surplus Brought Forward from 2015/16	0.250
Estimated Year end surplus	1.015

- 56 At 15 January in each year, the estimated surplus/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.
- 57 At 15 January 2017 an estimated year end position on the Council Tax Collection Fund for 2016/17 will be declared and taken into account in the budget setting process for 2017/18. Any difference between this and the actual surplus at 31 March 2017 will be carried forward to 15 January 2018 and will be taken into account in estimating the surplus/deficit for 2017/18, which will need to be taken into account for 2018/19 budget setting.
- 58 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. The position has now been reached where maintaining the provision at a prudent level does not prevent the declaration of a surplus.

Business Rates

- 59 2013/14 was the first year of the new Business Rates Retention Scheme whereby the Council 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%). Therefore, it is not only the accuracy and timeliness of bills levied and 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.

60 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 2016 estimate of 2016/17 Business Rates income that was used for budget setting purposes. At 30 June 2016, the estimated outturn for the Collection Fund - Business Rates is a surplus of £0.274 million, arrived at as shown in the table below, which takes into account the undeclared deficit as at 31 March 2016.

	£ million
Net rate yield for 2016/17 including previous year adjustments	120.660
Estimate of changes due to appeals lodged and future appeals	-5.002
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-1.862
Net income receivable (a)	113.796
Agreed allocated shares	
Central Government (50%)	55.918
Durham County Council (49%)	54.800
County Durham and Darlington Fire and Rescue Authority (1%)	1.118
Cost of Collection Allowance and Renewable Energy (paid to Durham County Council)	0.688
Total fixed payments (b)	112.524
Net surplus for year (a) – (b)	1.272
Undeclared Deficit brought forward from 2015/16	-0.998
Estimated year end Surplus	0.274

61 The in-year estimated surplus of £1.272 million is offset by the total undeclared deficit brought forward from 2015/16, leaving an estimated surplus of £0.274 million at 31 March 2017. 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 surplus will therefore be £0.134 million.

62 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 enabled the setting of a challenging collection rate target of 34.0% at 30 June 2016.

- 63 The in-year collection rates in Quarter 1 for the last three years, including the current year, are shown below:

Billing Year	Position at 30 June Each Year %
2016/17	33.55
2015/16	34.40
2014/15	33.36

- 64 The 33.55% collection rate is marginally below the profiled target by 0.45 percentage points. This was due mainly to rate payers exercising their right to extend their instalment payments to March instead of January after a change of legislation in 2014. Take up has steadily increased and this financial year an additional 196 customers have taken advantage of the option which directly impacts upon cashflow.
- 65 The current overall collection rate for 2015/16 business rate liabilities is now 98.09% and for 2014/15 business rate liabilities is now 99.04%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.14% which is line with our medium term financial plan forecasts.

Section 31 Grant - Small Business Rate Relief

- 66 Small Business Ratepayers with properties with rateable values under £12,000 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.
- 67 Small Business Ratepayers with properties with rateable values up to £6,000 are currently being granted full relief instead of 50% relief under the previous scheme, and properties with rateable values between £6,000 and £12,000 have a tapered relief applied to them ranging from 100% down to 0%, but in all cases double the standard relief.
- 68 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded.
- 69 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 June 2016, the gross Small Business Relief awarded against 2016/17 Business Rates bills and adjustments to 2015/16, 2014/15 and 2013/14 bills is £9.856 million, and on this the Council will receive £2.450 million in Section 31 Grant, including the capping adjustment.

Other Section 31 Grants

- 70 In the Autumn Statement 2013, 2014 and 2015, additional Business Rate Reliefs were announced for 2014/15, 2015/16 and 2016/17 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.

- 71 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 June 2016, the increase in Durham County Council's Section 31 grants (including Small Business Rate Relief) was £99,000.
- 72 Whilst the shortfall in S31 grants is accounted for in 2016/17, the surplus on Business Rates retention is accounted for in 2017/18.

Recommendations and Reasons

- 73 It is recommended that Cabinet:
- (i) Note the projected change in the Council's overall financial position for 2016/17.
 - (ii) Agree the proposed 'sums outside the cash limit' for approval.
 - (iii) Agree the revenue and capital budget adjustments.
 - (iv) Note the forecast use of Earmarked Reserves.
 - (v) Note the forecast end of year position for the Cash Limit and General Reserves.
 - (vi) Note the position on the Capital Programme and the Collection Funds in respect of Council Tax and Business Rates.

Background Papers

- (a) County Council – 24 February 2016 – Medium Term Financial Plan 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17
- (b) Cabinet – 13 July 2016 - 2015/16 Final Outturn for General Fund, Housing Revenue Account and Collection Fund

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Appendix 1: Implications

Finance -

The report details the 2016/17 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 2017

	Original Budget 2016/17	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	496,559	496,002	4,572	500,574	499,160	504	-25	-1,172	-1,818	496,649	-3,925	0
Premises	51,287	51,813	-195	51,618	53,995	0	-16	-10	-185	53,784	2,166	0
Transport	41,402	41,197	218	41,415	40,300	0	0	-11	-5	40,284	-1,131	0
Supplies & Services	120,648	120,985	1,457	122,442	125,435	1,228	-16	-200	-2,453	123,994	1,552	-108
Agency & Contracted	310,712	305,644	1,120	306,764	316,438	2,259	389	-215	-996	317,875	11,111	0
Transfer Payments	209,047	204,250	-16,698	187,552	188,080	0	0	0	-916	187,164	-388	0
Central Costs	75,877	81,273	418	81,691	92,180	122	0	-50	-10,959	81,293	-398	0
DRF	0	0	0	0	71	0	0	0	0	71	71	0
Other	25,199	24,013	499	24,512	26,082	0	0	-22	-549	25,511	999	0
Capital Charges	55,478	55,478	0	55,478	55,478	0	0	0	0	55,478	0	0
GROSS EXPENDITURE	1,386,209	1,380,655	-8,609	1,372,046	1,397,219	4,113	332	-1,680	-17,881	1,382,103	10,057	-108
Income												
Government Grants	584,251	559,428	-13,705	545,723	546,694	212	0	0	-148	546,758	-1,035	0
Other Grants and Contributions	70,538	69,973	3,621	73,594	75,191	0	0	0	46	75,237	-1,643	0
Sales	8,881	7,764	10	7,774	7,685	150	0	0	0	7,835	-61	0
Fees and Charges	105,241	106,841	-1,061	105,780	105,214	0	0	0	-83	105,131	649	0
Rents	8,787	7,733	-106	7,627	6,931	0	0	0	0	6,931	696	0
Recharges To Other Services	190,646	211,030	396	211,426	223,310	0	0	0	0	223,310	-11,884	0
Other	6,924	6,945	239	7,184	8,128	0	0	0	-19	8,109	-925	0
Total Income	975,268	969,714	-10,606	959,108	973,153	362	0	0	-204	973,311	-14,203	0
NET EXPENDITURE	410,941	410,941	1,997	412,938	424,066	3,751	332	-1,680	-17,677	408,792	-4,146	-108

Appendix 4: Earmarked Reserves Position as at 30 June 2016

	EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2015/16 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2016/17 CLOSING BALANCE AS AT 30 JUNE 2016
			£'000	£'000	£'000	£'000	£'000	£'000
1	ACE AAP/Members Reserve	ACE	-3,606	856	0	0	856	-2,750
2	ACE Grant Reserve	ACE	-1,412	408	-40	0	368	-1,044
3	ACE Operational Reserve	ACE	-747	23	0	0	23	-724
4	Social Care Reserve	CAS	-13,363	2,500	0	892	3,392	-9,971
5	Aycliffe Young People's Centre Reserve	CAS	-204	88	0	0	88	-116
6	Continuing Professional Development Reserve	CAS	-1,201	200	0	0	200	-1,001
7	Education Reserve	CAS	-3,652	1,042	0	0	1,042	-2,610
8	Tackling Troubled Families	CAS	-1,697	1,160	0	0	1,160	-537
9	Transformation Reserve	CAS	-2,924	1,611	0	0	1,611	-1,313
10	Innovations and YEI Redundancy Reserve	CAS	-1,000	0	0	0	0	-1,000
11	YOS Development Reserve	CAS	-10	0	0	0	0	-10
12	Public Health Reserve	CAS	-4,955	2,671	0	-892	1,779	-3,176
13	Social Work Academy Reserve	CAS	0	372	0	-743	-371	-371
14	Neighbourhoods AAP Reserve	NS	-49	0	0	0	0	-49
15	Customer Services Reserve	NS	-233	70	0	0	70	-163
16	Direct Services Reserve	NS	-2,991	660	0	0	660	-2,331
17	Env. Health and Consumer Protection Reserve	NS	-948	58	-240	0	-182	-1,130
18	Culture and Sport Reserve	NS	-3,112	782	-250	-400	132	-2,980
19	Strategic Waste Reserve	NS	-136	0	0	0	0	-136
20	Technical Services Reserve	NS	-4,353	785	0	0	785	-3,568
21	Transport Asset Management Programme Reserve	NS	-160	0	0	0	0	-160
22	Business Growth Fund Reserve	RED	-816	0	0	0	0	-816
23	Economic Development Reserve	RED	-1,323	0	0	0	0	-1,323
24	Planning Reserve	RED	-1,329	164	0	0	164	-1,165
25	North Pennines AONB Partnership Reserve	RED	-206	0	0	0	0	-206
26	Employability and Training Reserve	RED	-1,706	112	0	0	112	-1,594
27	RED Match Fund Programme Reserve	RED	-2,012	0	0	0	0	-2,012
28	Housing Regeneration Reserve	RED	-320	100	0	0	100	-220
29	Housing Solutions Reserve	RED	-1,142	154	0	0	154	-988
30	Restructure Reserve	RED	-188	60	0	0	60	-128
31	Transport Reserve	RED	-249	0	0	0	0	-249
32	Funding and Programmes Management Reserve	RED	-156	0	0	0	0	-156
33	Resources Corporate Reserve	Resources	-931	50	0	0	50	-881
34	Resources DWP Grant Reserve	Resources	-2,035	195	-378	0	-183	-2,218
35	Resources System Development Reserve	Resources	-874	144	0	0	144	-730
36	Resources Housing Benefit Subsidy Reserve	Resources	-500	0	0	0	0	-500
37	Resources Revenue and Benefits Reserve	Resources	-200	0	0	0	0	-200
38	Resources Single Fraud Incentive Scheme	Resources	-257	0	0	0	0	-257
39	Resources Land Search Fees Reserve	Resources	-444	0	0	0	0	-444
40	Resources Legal Expenses Reserve	Resources	-200	0	0	0	0	-200
41	Resources Legal Services Reserve	Resources	-154	0	0	0	0	-154
42	Resources Elections Reserve	Resources	-1,010	0	0	0	0	-1,010
43	Resources ICT Reserves	Resources	-1,727	357	0	0	357	-1,370
44	Human Resources Reserve	Resources	-65	57	0	0	57	-8
45	Equal Pay Reserve	Corporate Fin	-9,529	0	0	0	0	-9,529
46	Insurance Reserve	Corporate Fin	-10,228	0	0	0	0	-10,228
47	Performance Reward Grant Reserve	Corporate Fin	-685	47	0	400	447	-238
48	MTRP Redundancy and Early Retirement Reserve	Corporate Fin	-13,859	1,284	0	0	1,284	-12,575
49	Office Accommodation Project Support Reserve	Corporate Fin	-697	575	0	0	575	-122
50	Budget Support Reserve	Corporate Fin	-30,000	1,624	0	0	1,624	-28,376
51	Office Accommodation Capital Reserve	Corporate Fin	-42,481	0	0	0	0	-42,481
52	Housing Stock Transfer Reserve	Corporate Fin	-1,000	0	0	0	0	-1,000
53	Pension Deficit Reserve	Corporate Fin	-10,000	0	0	0	0	-10,000
	Total Earmarked Reserves		-183,076	18,209	-908	-743	16,558	-166,518
	Cash Limit Reserves							
54	Assistant Chief Executive		-277	0	-10	0	-10	-287
55	Children and Adults Services		-13,500	546	-2,147	743	-858	-14,358
56	Neighbourhood Services		-2,579	58	-669	0	-611	-3,190
57	Regeneration and Economic Development		-3,792	475	-299	0	176	-3,616
58	Resources		-2,151	68	-913	0	-845	-2,996
	Total Cash Limit Reserves		-22,299	1,147	-4,038	743	-2,148	-24,447
	Total Council Reserves		-205,375	19,356	-4,946	0	14,410	-190,965
	Schools' Balances							
Sch 1	Schools' Revenue Balance	CAS	-24,083	10,737	0	0	10,737	-13,346
Sch 2	DSG Reserve	CAS	-12,185	2,152	0	0	2,152	-10,033
	Total Schools and DSG Reserve		-36,268	12,889	0	0	12,889	-23,379