

Cabinet

13 March 2019

**Forecast of Revenue and Capital
Outturn 2018/19 – Period to 31
December 2018**



Ordinary Decision

Report of Corporate Management Team

John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Portfolio Holder for Finance

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide Cabinet with information on the:
 - (a) updated forecast revenue and capital outturn for 2018/19;
 - (b) updated forecast for the council tax and business rates collection fund position at 31 March 2019;
 - (c) updated forecast use of earmarked, cash limit and general reserves and estimated balances to be held at 31 March 2019.
- 2 To seek approval of the budget adjustments and proposed sums outside of the cash limit.

Executive summary

- 3 The 2018/19 updated projected revenue outturn is a cash limit underspend of £3.530 million plus an overachievement of core government grant and underspend on all other budgets of £3.144 million. This total net underspend of £6.674 million represents 1.6% of the net expenditure budget of £417.762 million.

- 4 Total earmarked and cash limit reserves (excluding school reserves) are forecast to reduce by £6.188 million in 2018/19, from £201.284 million to £195.096 million.
- 5 The updated projected capital outturn is £103.819 million.
- 6 The estimated outturn for the Council Tax Collection Fund is a surplus of £1.704 million, which is broadly in line with the surplus declared in November of £1.716 million. Durham County Council's share of this forecasted surplus is £1.437 million, which is broadly in line with the declared share of £1.447 million and available to support the 2019/20 budget.
- 7 The estimated outturn for the Business Rates Collection Fund is a surplus of £1.648 million Durham County Council's share (49%) of this estimated surplus is £0.808 million which is available to support the 2019/20 budget.

Recommendations

- 8 It is recommended that Cabinet:
 - (a) note the council's overall financial position for 2018/19;
 - (b) agree the proposed 'sums outside the cash limit' for approval;
 - (c) agree the revenue and capital budget adjustments;
 - (d) note the forecast use of earmarked reserves;
 - (e) note the forecast end of year position for the cash limit and general reserves;
- 9 note the position on the capital programme and the Collection Funds in respect of Council Tax and Business Rates.

Background

- 10 In accordance with the council's constitution, Council agreed the Medium Term Financial Plan (MTFP), which incorporates the revenue and capital budgets for 2018/19, on 21 February 2018.
- 11 The constitution also states that the Chief Finance Officer must report to Cabinet on the overall council budget monitoring position on a quarterly basis.
- 12 This report provides an updated forecast of the revenue and capital outturn for 2018/19, based upon expenditure and income up to 31 December 2018. This is the third report on forecast financial performance against the 2018/19 budgets this financial year.

Revenue Outturn Forecast – Based on Position to 31 December 2018

- 13 The following table compares the forecast of outturn with the revised budget. Further detail is provided in Appendices 2 and 3.
- 14 The following adjustments have been made to the original budget agreed by Council on 21 February 2018:
 - (a) agreed budget transfers between service groupings;
 - (b) additions to budget for items outside the cash limit (for Cabinet consideration and recommended approval);
 - (c) planned use of or contribution to earmarked reserves (please refer to Appendix 4).

Forecast of Revenue Outturn 2018/19

| | Original Budget 2018/19 | Budget - incorporating adjustments | Service Groupings Forecast of Outturn | Forecasted Variance |
|---|-------------------------|------------------------------------|---------------------------------------|---------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Adult and Health Services | 130,822 | 120,622 | 116,306 | -4,316 |
| Children and Young People's Services | 106,563 | 123,728 | 126,391 | 2,663 |
| Regeneration and Local Services | 126,987 | 136,355 | 134,995 | -1,360 |
| Resources | 15,635 | 16,318 | 15,898 | -420 |
| Transformation and Partnerships | 11,944 | 12,768 | 12,671 | -97 |
| Cash Limit Position | 391,951 | 409,791 | 406,261 | -3,530 |
| Contingencies | 3,737 | 1,011 | 1,011 | 0 |
| Corporate Costs | 3,844 | 4,051 | 3,842 | -209 |
| NET COST OF SERVICES | 399,532 | 414,853 | 411,114 | -3,739 |
| Capital charges | -56,650 | -56,650 | -56,650 | 0 |
| Interest and Investment income | -1,900 | -1,900 | -3,079 | -1,179 |
| Interest payable and similar charges | 43,113 | 45,255 | 43,755 | -1,500 |
| Levies | 16,193 | 16,204 | 16,207 | 3 |
| Net Expenditure | 400,288 | 417,762 | 411,347 | -6,415 |
| Funded By: | | | | |
| Council tax | -209,712 | -209,712 | -209,712 | 0 |
| Use of earmarked reserves | -4,711 | -11,909 | -11,909 | 0 |
| Estimated net surplus on Collection Fund | -7,506 | -7,506 | -7,506 | 0 |
| Business Rates | -51,889 | -51,889 | -51,889 | 0 |
| Top up grant | -70,350 | -70,350 | -70,350 | 0 |
| Revenue Support Grant | -41,860 | -41,860 | -41,860 | 0 |
| New Homes Bonus | -6,504 | -6,504 | -6,504 | 0 |
| Section 31 Grant | -7,723 | -7,723 | -7,982 | -259 |
| Forecast contribution to/from(-) Cash Limit Reserve | -33 | -9,409 | -5,879 | 3,530 |
| Forecast contribution to/from (-) General Reserves | 0 | -900 | 2,244 | 3,144 |
| TOTAL | 0 | 0 | 0 | 0 |

- 15 The above table identifies a forecast cash limit underspend of £3.530 million plus a forecast overachievement of core government grant and underspend on all other budgets of £3.144 million. This total net underspend of £6.674 million represents 1.6% of the net expenditure budget of £417.762 million.

- 16 Approval is being sought for the following sums to be funded from, or transferred to general contingencies. These sums are deemed to be outside of service grouping cash limits.

| Service Grouping | Proposal | Amount £ million |
|-------------------------|----------------------------------|-----------------------------|
| AHS | Transforming Care | 0.459 |
| CYPS | Children's Social Care Pressures | 0.502 |
| REAL | Concessionary Fares | -0.046 |
| All | Job Evaluation | 0.148 |
| TOTAL | | 1.063 |

- 17 After adjusting the budgets and reserves as detailed above, the forecast outturn for cash limit reserves and the general reserve are summarised in the following table.

| Type of Reserve | Opening Balance as at 1 April 2018 | Budgeted use at 1 April 2018 | Movement during 2018/19 | | 2018/19 Forecast of Outturn |
|--------------------------------------|---|-------------------------------------|--|--|------------------------------------|
| | | | Planned contribution to (-) or use of reserve | Contribution to (-) or use of reserve | |
| | £ million | £ million | £ million | £ million | £ million |
| Service Grouping Cash Limit | | | | | |
| Adult and Health Services | -8.238 | 0.000 | 4.312 | -4.316 | -8.242 |
| Children and Young People's Services | -1.248 | 0.000 | -1.415 | 2.663 | 0.000 |
| Regeneration and Local Services | -6.155 | 0.033 | 4.057 | -1.360 | -3.425 |
| Resources | -2.231 | 0.000 | 2.195 | -0.420 | -0.456 |
| Transformation and Partnerships | -0.415 | 0.000 | 0.227 | -0.097 | -0.285 |
| Total Cash Limit Reserve | -18.287 | 0.033 | 9.376 | -3.530 | -12.408 |
| General Reserve | -24.500 | 0.000 | 0.900 | -3.144 | -26.744 |

- 18 The forecasted cash limit and general reserves position is a prudent one given the forecasted levels of savings the council needs to make of £39.5 million over the period 2019/20 to 2022/23 with the delivery of further savings becoming ever more challenging to achieve. The previously forecast negative cash limit position for CYPS has been addressed through a transfer from general reserves, in recognition of the significant financial pressures experienced in this area over recent years.
- 19 The reasons for the major variances against the revised budgets are detailed below by each service grouping.

Adult and Health Services (AHS)

- 20 The 2018/19 updated projected outturn for AHS is a cash limit underspend of £4.316 million, representing circa 3.6% of the total budget for AHS. This is broadly in line with the quarter 2 forecast of outturn position, where a £4.356 million cash limit underspend was anticipated.
- 21 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.
- 22 The outturn is a managed position, reflecting the proactive management of activity by Heads of Service across AHS to remain within the cash limit and to prepare for 2019/20 MTFP savings requirements. The outturn position is accounted for as follows:
- (a) early achievement of a number of future years' 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, particularly in County Durham Care and Support Services, has created a net underspend for the year of £1.181 million.
 - (b) net spend on adult care packages is £3.135 million under 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 and where a £2 million saving is built into the 2019/20 budget as part of MTFP(9).
 - (c) net expenditure on Public Health-related activity is in line with grant allocations.
- 23 In arriving at the forecast outturn position, a net £6.375 million relating to contributions to and from reserves and contingencies has been excluded from the outturn. £0.473 million has been drawn from Corporate Contingencies to meet the costs associated with hospital discharges linked to the transforming care agenda and salary adjustments along with £0.698 million from the ER/VR Reserve. There has also been a contribution of £6.865 million to the Adult Social Care Reserve linked to system wide integration and associated NHS contributions and a contribution to the Adults cash limit reserve of £0.681 million to help fund the SSID replacement capital project.

- 24 Taking the projected outturn position into account, including the transfer to/from reserves in year, the transfer of £0.137 million to REAL and the transfer of £4.139 million to corporate reserves, the estimated cash limit reserve to be carried forward for AHS is forecast to be £8.242 million.

Children and Young People's Services (CYPS)

- 25 The 2018/19 projected outturn for CYPS is a cash limit overspend of £2.663 million, representing circa 2.4% of the total budget for CYPS. This takes into account adjustments for sums outside the cash limit, such as redundancy costs, which are met from the strategic reserve, year end capital entries and contributions to and from earmarked reserves. The position forecast at quarter 2 was a cash limit overspend of £2.303 million for CYPS.
- 26 The outturn position is accounted for as follows:
- (a) The Education Service is forecast to be £0.897 million under budget. This underspend primarily relates to alternative funding arrangements for the nursery sustainability service and vacancies in the early years team (£0.844 million saving) offset by a projected overspend on the Home to School Transport budget of £0.250 million. Early achievement of MTFP savings totalling £0.303 million within operational support make up the balance of the forecast outturn underspend position.
 - (b) Children's Services is forecast to be £3.560 million over budget for the year. 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, details as follows:
 - (i) Young people requiring to be looked after is a volatile and high cost area of activity within CYPS and current external demographic demands are creating a strain on the service in terms of financial resource allocation. It was anticipated that LAC numbers and costs would have stabilised by 2018/19 and that the budget augmented by £3.9 million of base growth and £0.5 million of demographic growth would meet demand in 2018/19. The current forecast indicates an in year overspend on placement costs of £1.983 million primarily driven by the requirement for expensive single residential and secure welfare placements to meet the care needs of particular young people.
 - (ii) Interagency adoption fees are forecast to overspend by circa £0.773 million as a result of successfully placing young

people in permanent adoptive placements outside of the county.

- (iii) Prior to 2018/19 the service had made a commitment to use agency staff only in areas where staff vacancies existed. Unfortunately due to service pressure and demands, unbudgeted agency staff costs in excess of savings accrued through vacancies are forecast to be circa £0.649 million. Increased cost of DCC employed staff at the in-house provided residential homes has also led to significant levels of overtime being payable of circa £0.261 million as a result of sickness and other absences.
- (iv) Income is however forecast to over achieve budget by £0.530 million primarily as a result of the service accessing additional non recurrent income (£0.615 million) in 2018/19. This one off funding is mitigating under achievement of budgeted income in relation to the non achievement of interagency income from the sale of DCC adoptive placements £0.122 million to other local authorities.
- (v) External transportation (taxi and volunteer drivers) costs are currently forecast to overspend by £0.446 million as a result of court direction on the frequency of supervised contact for Looked after children, combined with the continuing high numbers of children currently looked after.

27 The need to increase the budget in children's social care has been prevalent over the last three years, as the number of children in the care system has increased significantly whilst their needs have become more complex. This budget was increased by £5.5 million in 2018/19 however a forecast overspend in children's social care has arisen again this year.

28 A further increase in the base budget of £6.5 million was approved by County Council on 20 February 2019 to cover anticipated care costs as well as additional costs for staffing in order to meet the challenges and pressures identified for 2019/20. This is in addition to the £0.5 million demographic pressures already built into the MTFP. In 2019/20 a non-recurrent provision of £0.393 million has also been factored into the budgets next year to enable additional support for case management workloads.

29 Taking the outturn position into account, the cash limit reserve (£1.763 million) will be insufficient to cover the forecast overspend for Children and Young People's Services at 31 March 2019 and there will be a £0.900 million negative cash limit position at year end.

- 30 The council's financial procedure rules state that where a service groupings cash limit reserve is in deficit, the relevant service is required to make savings / underspends the following year to bring the reserve back into balance. In this case, given the financial pressures and issues facing CYPS, the service grouping will not be held to this and instead a transfer from General Reserves will be actioned at year end to reduce the CYPS cash limit Reserve to zero.

Regeneration and Local Services (REAL)

- 31 The updated forecast revenue outturn for 2018/19 is a cash limit underspend of £1.360 million to year end, after taking account of the forecast use of reserves and items outside the cash limit. This compares with a £1.506 million forecast underspend based on the position at quarter 2.
- 32 The forecast underspend reflects the proactive management of activity by Heads of Service across Regeneration and Local Services to remain within the cash limit, but it should also be noted that the underspend includes £0.500 million of 2019/20 MTFP savings that have been achieved early, meaning that the underlying underspend is closer to £0.860 million. A number of services within REAL are also using reserves to support their budget. The main reasons accounting for the outturn position are as follows:
- (a) Direct Services is forecast to be broadly break even, with a small £3,000 underspend forecast. There are overspend due to reduced income of £61,000 at the Joint Stocks landfill site, £22,000 additional business rates at the waste transfer stations and unachieved Fleet MTFP savings of £0.205 million. There are also unachieved Clean & Green MTFP savings of £73,000, a negotiated five year standby settlement with Refuse staff of £0.171 million, and overspends on Waste contracts of £0.316 million relating mainly to the downturn in the materials recycling market. These overspends are however largely offset by additional garden waste income of £0.259 million, that will help towards 2019/20 MTFP savings and £0.592 million additional income in Building Services due to additional construction works being secured.
 - (b) Culture & Sport is forecast to overspend by £0.122 million. There has been additional income relating to a change in the VAT treatment of Leisure income (£0.530 million), but this has been offset by budgetary pressures (£0.650 million) at the Gala Theatre, primarily linked to theatre and cinema income being below budgeted levels and a compensation to the third party contractor that operates Peterlee Leisure Centre. The compensation is as a

result of an income shortfall due to refurbishment works at the facility.

- (c) The Bowes Museum approached the council for advances of £0.275 million to assist them with their cash flow in the current financial year. Discussions are on-going with the museum in relation to their future financial projections and their anticipated 2018/19 outturn position.
- (d) Technical Services is forecast to be £41,000 overspent. There is a net overspend of £0.451 million in Highways Services, which is a combination of an overspend of £1.185 million due to additional policy led expenditure on highways maintenance, mainly in relation to Category 1 and 2 defects and footway maintenance, offset by additional surpluses generated within Highways Services Trading Accounts of £0.831 million. Within Design Services and Project Management there is a net overspend of £41,000 due to reduced income that is partially offset by employee savings. Strategic Highways has a net underspend of £0.457 million due to employee savings of £0.364 million and additional income of £0.244 million that is partially offset by increased spend on professional fees and software costs. There is a net overspend of £7,000 on staff costs in other service areas.
- (e) Business Support is forecast to be £0.183 million underspent due to savings on vacant posts and reduced hours and increased income, which is offsetting additional supplies costs.
- (f) Transport is forecast to be £0.603 million underspent. This is mainly due to underspends in Sustainable Transport of £0.481 million and efficiency savings and increased income in Care Connect of £0.174 million, which is partially offset by increased costs within Strategic Traffic of £38,000.
- (g) Planning and Assets is forecast to be £0.814 million underspent, mainly resulting from additional planning fee income of £0.680 million, staffing underspends of £0.271 million due to delays in filling vacant posts and additional income of £0.118 million at Freemans Hydro. This is offset by additional costs relating to; £50,000 on an Archaeology collection relocation from Bowes Museum, £55,000 for corporate property health checks, and £0.150 million for the 'Powered by People' campaign.
- (h) Economic Development and Housing is forecast to be overspent by £0.149 million. Economic Development is overspent by £0.156 million largely on the employment and skills contract, due to lower than expected outcome payments. Physical Development is

overspent by £16,000 due to additional project development costs. There are combined net underspends on staff in other service areas of £24,000. In addition, Business Durham is underspent by £0.117 million due to a net increase in rental income and reduced costs, but this surplus will be taken to an earmarked reserve to provide additional resources for important business growth projects. Also Housing Solutions is underspent by £0.190 million due to savings on staff, savings on GRT site costs, and additional income in Housing Initiatives but this surplus will be taken to an earmarked reserve to provide additional resources for important initiatives relating to preventing homelessness.

- (i) Environment, Health and Consumer Protection is forecast to underspend by £60,000. This is mainly due to a number of vacant posts resulting in an underspend of £66,000, £23,000 over achieved licensing income and a £31,000 underspend on transport. These underspends are partially offset by £60,000 costs relating to the Evenwood fire.

33 In arriving at the forecast outturn position, £1.157 million relating to net use of earmarked and cash limit reserves has been excluded from the outturn. The major items being:

- (a) £0.427 million contribution to reserves relating to Economic Development for Business Durham and Housing Solutions;
- (b) £74,000 contribution to reserves in respect of Clean & Green, and Neighbourhood Protection;
- (c) £0.288 million use of reserves in respect of Repairs & Maintenance;
- (d) £0.335 million use of reserves relating to Culture & Sport, the majority of which relates to funding the in-year one off expenditure on Bowes;
- (e) £0.810 million use of reserves relating to Transport;
- (f) £0.170 million use of reserves relating to Winter Maintenance.

34 Taking the projected outturn position into account, and including the transfer to/from reserves in year, the estimated cash limit reserve to be carried forward for Regeneration and Local Services is £3.425 million.

Resources

35 The 2018/19 updated forecast revenue outturn for Resources is a cash limit underspend of £0.420 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. The cash limit underspend forecast at quarter 2 was £0.271 million.

- 36 The Heads of Service across Resources continue to proactively manage activity to remain within the cash limit. The projected under budget position is the net effect of the following items:
- (a) Corporate Finance and Commercial Services is forecast to be under budget by £82,000, primarily due to a managed underspend on employee costs in Financial Systems (£76,000). There are also a number of other minor variances in this service area.
 - (b) Finance and Transactional Services is forecast to be under budget by £0.232 million, primarily due to an underspend in employee costs in Revenues & Benefits (£0.300 million) and additional income / employee underspends in Financial Management (£83,000) and additional income in Revenues and Benefits (£0.119 million), offset by a £50,000 revenue contribution to capital to support the development of the HR/Payroll system as part of our Digital Workforce transformation objectives. There is an overspend of £0.252 million on supplies and services, primarily linked to associated with the use of outsourced work packages to maintain benefit processing performance and a number of other minor variances across this service area.
 - (c) Digital and Customer Services is forecast to be over budget by £31,000. There are underspends on employee related expenditure totalling £0.295 million in ICT Services and £0.153 million in Customer Services and on supplies and services of £30,000 in ICT Services and £47,000 in Customer Services. This has been offset by a forecast overspend on central expenses (£0.581 million) in ICT Services, mainly due to a £0.560 million revenue contribution to support various ICT capital schemes. There are also a number of other minor variances in this service area.
 - (d) Internal Audit, Risk and Corporate Fraud is forecast to be under budget by £40,000, comprising of a managed overspend of £13,000 on employee related expenditure and £21,000 on supplies and services, offset by additional income £74,000.
 - (e) Legal and Democratic Services is forecast to be under budget by £0.122 million, which includes a £37,000 managed overspend on employees and £51,000 on supplies and services, offset by an

over achievement of income of £0.181 million. There are also a number of other minor variances in this service area.

- (f) People and Talent Management is forecast to be over budget by £14,000, which includes a £19,000 managed overspend on employees and £17,000 on supplies and services, offset by an overachievement of income of £15,000. There are also a few other minor variances in this service area.
- (g) Service Management is forecasting a £12,000 over budget position, which is a minor variance against employee costs.

37 The forecast cash limit outturn shows the position after some £0.479 million of contributions from reserves and cash limits have been applied to finance the following items:

- (a) £89,371 contribution from the Resources cash limit reserve towards funding the development of robotics automated data processing in Finance & Transactional Services and Customer Services;
- (b) £45,595 from reserves to promote the take-up of welfare benefits;
- (c) £15,000 from reserves to meet the budget pressures from the ongoing impact of welfare reforms;
- (d) £90,000 from the ICT Reserve to support ICT developments and additional costs of software licences;
- (e) £30,656 from Corporate Contingencies in respect of the HPO Pay Review impact in 2018/19;
- (f) £25,000 from the Human Resources Reserve in respect of the Durham Manager Programme;
- (g) £15,794 from the Equal Pay Reserve to meet the cost of claims;
- (h) £0.167 million from the Microsoft Office 365 Reserve to support the roll out of the new software.

38 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the transfer of £2.097 million to corporate reserves, the cash limit reserve to be carried forward for Resources is forecast to be £0.456 million.

Transformation and Partnerships (T&P)

39 The updated forecast revenue outturn for 2018/19 is a cash limit underspend £97,000 for the year after taking account of the forecast

use of reserves and items outside the cash limit. The cash limit underspend forecast at quarter 2 was £40,000.

40 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across T&P to remain within the cash limit. A summary of the forecast outturn position across the service is provided below:

- (a) Partnership and Community Engagement is forecast to be underbudget by £52,000, primarily due to a managed overspend on employee costs of £72,000 and donations of £0.106 million, which has been more than offset by a managed underspend on supplies and services of £99,000 and additional income generated of £0.122 million. There are also a number of other minor variances in this service area.
- (b) Strategy is forecast to be underbudget by £25,000, primarily due to a managed underspend on employee costs.
- (c) Communications and Marketing is forecast to be underbudget by £56,000, primarily due to a managed underspend on employee costs of £80,000 and supplies and services of £36,000, offset by a forecast of unachievable income of £54,000. There are also a number of other minor variances in this service area.
- (d) Transformation is forecast to be over budget by £35,000, primarily due to a managed overspend on employee costs.

41 In arriving at the forecast cash limit outturn position, a net £0.578 million relating to contributions to and from reserves and cash limits have been excluded from the outturn and include:

- (a) £0.122 million contribution to the Transformation Programme Reserve. The contribution reflects the forecast underspend on employee costs in 2018/19 associated with the Transformation Team;
- (b) £0.105 million from reserves in respect of early retirement / voluntary redundancy costs associated with MTFP savings;
- (c) £0.122 million from the Youth Work Support Grant Reserve to support services for young people;
- (d) £58,915 contribution to reserves to support the work of the Local Safeguarding Adults Board;

- (e) £10,011 further contribution from the T&P cash limit reserve to offset the effect of the MTFP savings that won't be achieved in the current financial year;
- (f) £29,000 contribution from the T&P cash limit reserve towards the costs of producing the Durham County News;
- (g) £19,099 from reserves in respect of undertaking consultation with residents;
- (h) £0.169 million from the Celebrating Durham Reserve to help Durham raise its profile both regionally and nationally so it can continue to attract inward investment and build a bright and stable economic future;
- (i) £53,155 from the My Future is Durham Reserve to support various initiatives to promote the Council's successes and career opportunities for the next generation;
- (j) £1,500 from reserves to support the 'Modern Ways of Working' project;
- (k) A net £0.200 million from the Community Reserve in respect of costs associated with the spending on community buildings awaiting disposal;
- (l) £6,500 from reserves to support the work of the Area Action Partnerships;
- (m) £35,000 from reserves in respect of promoting social inclusion in communities;
- (n) £8,779 from Corporate Contingencies in respect of the HPO Pay Review impact in 2018/19.

42 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 T&P at 31 March 2019 is £0.285 million.

Corporate Costs

43 The forecast revenue outturn for 2018/19 for Centrally Administered Costs is a cash limit underspend of £0.209 million. This takes into account adjustments for sums outside the cash limit such as the use of / contribution to earmarked reserves and compares with the previously forecast position to maintain spending within its cash limit at quarter

one. A number of MTFP savings totalling £0.150 million were applied to the above budgets in 2018/19.

- 44 The forecast outturn position reflects increased expenditure in respect of expenses associated with raising loans to achieve the MTFP savings from agreeing up front interest rates prior to borrowing, which has been more than offset by increased income from de-minimis capital receipts.

Central Budgets

Interest Payable and Similar Charges - Capital Financing

- 45 The budget of £43.738 million has been increased by £1.517 million to £45.255 million, mainly as a result of service decisions to fund capital schemes by contributions of £1.523 million from reserves. Against this budget there is forecast spend of £43.755 million, that leaves a forecast underspend of £1.500 million, arising from MRP savings that are partially offset by a contribution to support the capital programme that was agreed by Cabinet.

Interest and Investment Income

- 46 The forecast at this stage is an achievement of income of £3.079 million, which is £1.179 million higher than the £1.900 million budgeted returns on loan investments and council commercial activities.

Council Earmarked Reserves Forecast

- 47 Earmarked reserves are funds set aside for specific, known or predicted future expenditure. Appendix 4 details the council and school earmarked reserves showing the opening balance at 1 April 2018, the forecast movement on reserves during the year and the forecast closing balance as at 31 March 2019.
- 48 A summary of the latest forecast of council reserves (excluding school reserves) is shown below. The summary highlights that the total earmarked and cash limit reserves are forecast to reduce by £6.188 million in 2018/19, from £201.284 million to £195.096 million. The movement in earmarked reserves is explained in the service grouping commentaries. This utilisation is to be expected as these funds are applied to the expenditure for which they were earmarked.

| | Earmarked £ million | Cash Limit £ million | Total £ million |
|--|--------------------------------|---------------------------------|----------------------------|
| Opening Earmarked Balances as at 1 April 2018 | -182.997 | -18.287 | -201.284 |
| Adjusted for increase (-) / use of Earmarked Reserves | 0.309 | 5.879 | 6.188 |
| Forecasted Earmarked Reserve Balances as at 31 March 2019 | -182.688 | -12.408 | -195.096 |

Dedicated Schools Grant and Schools

- 49 The Dedicated Schools Grant (DSG) allocation for 2018/19 is £384.144 million. A sum of £90.084 million is deducted from this figure and paid directly to academies by the Education Skills Funding Agency (ESFA) and likewise a sum of £4.400 million is deducted and paid directly by the ESFA to High Needs providers. The balance of £289.660 million is the sum paid to the council and includes both the delegated schools budget and the centrally retained DSG budget.
- 50 Maintained schools budgets and carry forward accumulated surpluses and deficits from one year to the next. At the end of 2017/18 the net balances carried forward by schools totalled £18.415 million:

| | 31 March 2018 £ million |
|----------------------------|------------------------------------|
| Maintained Schools | 18.063 |
| Communities of Learning | 0.384 |
| Loans to Schools | (0.032) |
| Total (Net Surplus) | 18.415 |

- 51 The Communities of Learning balance is unspent amounts allocated to clusters of schools to support collaborative provision for Special Educational Needs. This balance was moved to the Local Authority balances during quarter 1.
- 52 Loans to Schools are the remaining loans made to schools under the old loan scheme, which ended in 2013. Schools are now able to obtain loans from a new scheme, financed by the council.
- 53 For maintained schools, the balances carried forward form part of the available resources available to school to fund future year's activity. The retained balances supplement the budget share determined by the current formal, Pupil Premium and other income.

- 54 All schools have delegated budgets and carry forward under or over spends to the following financial year as either a surplus or deficit. At 31 March 2018, 20 schools had a deficit balance, where their spending had exceeded their accumulated balances in previous years, totalling £5.634 million:

| Schools with deficits at 31 March 2018 | | |
|---|------------|------------------|
| | No. | £ million |
| Nursery | 1 | (0.010) |
| Alternative provision | - | - |
| Primary | 13 | (0.330) |
| Secondary | 5 | (5.220) |
| Special | 1 | (0.074) |
| TOTAL | 20 | (5.634) |

- 55 At the time the budgets were set, with the exception of three schools where the Corporate Director of Resources (in his capacity as section 151 officer) had granted permission to set a deficit budget and the nursery school, all of these schools were forecast to clear their deficits in 2018/19.
- 56 Since the start of the financial year five schools have converted to academies. Excluding the balances for these former maintained schools, the total net maintained school balances brought forward to 2018/19 are £16.420 million.
- 57 After accounting for the identified funding and budgeted activity at the end of quarter 3, the revised forecast balances at 31 March 2019 are for an overall net surplus balance of £11.345 million to be carried forward to 2019/20, as summarised in the tables below. Seven additional primaries, one additional secondary and one additional special school are now forecast to have a deficit balance as at 31 March 2019 – in addition to the three secondary and one nursery schools the section 151 officer granted permission to set a deficit budget.

| Forecasts of school balances at 31 March 2019 (£ million) | | | | |
|--|--|--|------------------------|---------------|
| | Surplus balance of at least 2.5% of funding | Surplus balance below 2.5% of funding | Deficit balance | Total |
| Nursery | 0.572 | - | - | 0.572 |
| Alternative Provision | - | - | - | - |
| Primary | 14.171 | 0.213 | (0.153) | 14.230 |
| Secondary | 0.659 | 0.573 | (6.213) | (4.981) |
| Special | 1.614 | 0.016 | (0.106) | 1.524 |
| TOTAL | 17.017 | 0.801 | (6.472) | 11.345 |

58 In previous years schools have at this stage also been planning to spend significant retained balances in year that hasn't materialised. Experience in previous years is that schools often achieve efficiencies through restructuring and other initiatives which reduces the need to rely on use of their retained balances. At quarter 3 2017/18 schools were forecasting reserves in hand at the end of the year of £12.6 million, but in the outturn there was actually £18.1 million. If the same pattern were to manifest itself this year then the actual use of balances would be lower than currently forecast and the year-end net balance would be circa £16 million.

59 The numbers of schools in each category are shown below:

| Forecasts of school balances at 31 March 2019 (no of schools) | | | | |
|--|--|--|------------------------|--------------|
| | Surplus balance of at least 2.5% of funding | Surplus balance below 2.5% of funding | Deficit balance | TOTAL |
| Nursery | 10 | 1 | - | 11 |
| Alternative Provision | - | 1 | - | 1 |
| Primary | 161 | 26 | 7 | 194 |
| Secondary | 4 | 4 | 5 | 13 |
| Special | 7 | 1 | 1 | 9 |
| TOTAL | 182 | 33 | 13 | 228 |

60 The significance of balances above or below 2.5% of funding is that the council views a balance of at least 2.5% as being appropriate in terms of the ability of schools to cope with unforeseen expenditure during the year.

61 The School Funding Team continues to work with schools to support and provide advice about budget issues. Budget reviews are currently underway in preparation for budget-setting in spring 2019. Where there are concerns about a school's financial viability this is shared with the Education Service so that a joined-up approach to resolving these issues can be adopted.

PFI Re-financing

62 Following the discussion with the PFI provider and in light of favourable market conditions, additional one off income relating to a re-financing gain share of £2.881 million has been received. In light of the significant pressures being experienced in the High Needs DSG block, this income, net of the re-financing transaction costs, will be credited to the centrally retained DSG reserves in year.

Dedicated Schools Grant Centrally Retained block

- 63 The quarter 3 financial forecasts for the DSG budget show an overspend of £8.278 million against a total budget of £51.943 million to year end, which represents a 16% over spend.

| DSG Block | Budget £ million | Forecast £ million | Over / (Under) Spend £ million |
|--------------------------|-----------------------------|-------------------------------|---|
| Schools | 0.617 | 1.067 | 0.450 |
| High Needs | 17.954 | 24.962 | 7.008 |
| Early Years | 30.544 | 31.364 | 0.820 |
| Central Schools Services | 2.828 | 2.828 | 0.000 |
| TOTAL | 51.943 | 60.221 | 8.278 |

- 64 The forecast overspend position mainly relates to spending against the High Needs Block, which is forecast to overspend by £7.008 million. The pressure on the High Needs block is driven by increasing demand to meet the requirement of young people with special education needs and disabilities. This is a demand driven volatile area of activity, for which the council has a statutory duty to provide. This overspend will result in the Centrally Retained DSG reserve being exhausted.
- 65 To address this issue in 2019/20, the council sought permission from the Secretary of State (DfE) to top-slice the schools DSG budgets, although this was not supported by the Schools Forum. The maximum top slice that could have been applied for is circa 1.8%, however following feedback and discussion with schools, the council submitted an application for a smaller 0.5% top slice totalling circa £1.5 million on the 30 November 2018.
- 66 Unfortunately the Secretary of State (DfE) did not support the application for the 0.5% top slice, citing the lack of support from the Schools Forum as a major determining factor in this decision. Subsequently on 28 January the Schools Forum were advised of the Secretary of State (DfE) decision and were asked to reconsider the previous decision not to support the top slice. After due consideration the Schools Forum felt they were still unable to support the 0.5% top slice
- 67 In 2019/20 it is forecast that the High Needs Dedicated Schools Grant funding will increase by £2.4 million which includes the £1.057 million announced by the DfE on 17 December. Assuming no further

inflationary or demographic pressures arising next year, there is a forecast £5.6 million budget shortfall in 2019/20. In December, Cabinet agreed to meet the shortfall of £4.1 million from the General Fund Budget Support Reserve on a one off basis. However, the decision by the Secretary of State to refuse the council's top slice application has resulted in a requirement to include the full £5.6 million budget shortfall in the 2019/20 general fund budget on a one-off basis. This was agreed by Cabinet on 6 February 2019 and factored into the budgets agreed by County Council on 20 February 2019.

- 68 The inclusion of this significant education cost pressure in the general fund budget is a one-off measure which will provide time for a longer term solution to this issue to be found. A review of high needs spending is currently underway, whilst it is also hoped that the intense lobbying upon the DfE will result in increased funding from the 2020/21 Comprehensive Spending Review. This position will be kept under constant review.
- 69 An urgent review of service delivery is underway to make efficiencies to balance the budget next year.
- 70 The following table shows the DSG earmarked reserve position as at 1 April 2018 and the projected position as at 31 March 2019 taking into account the projections in this report and the transfer of £0.384 million from school reserves in relation to Communities of Learning funding. In December 2018 Cabinet agreed to a transfer of £2.881 million in relation to PFI refinancing, which reduces the projected deficit on the high needs reserve to £2.325 million.

| DSG Reserves | High Needs Block £ million | Early Years Block £ million | Schools Block £ million | Total DSG £ million |
|--|---------------------------------------|--|------------------------------------|--------------------------------|
| Balance as at 1 April 2017 | 6.070 | 2.361 | 2.728 | 11.159 |
| Use (-) / Contribution in 2017/18 | -4.652 | -0.286 | -1.488 | -6.426 |
| Balance as at 31 March 2018 | 1.418 | 2.075 | 1.240 | 4.734 |
| Planned Use (-) / Contribution in 2018/19 | -7.008 | -0.820 | -0.450 | -8.278 |
| Transfer from COLs | 0.384 | 0.000 | 0.000 | 0.384 |
| Transfer from PFI re-financing | 2.881 | 0.000 | 0.000 | 2.881 |
| Projected balance as at 31 March 2019 | -2.325 | 1.255 | 0.790 | -0.279 |

Capital

Background

- 71 On 11 July 2018 Cabinet received a report which provided details of the final outturn position of the 2017/18 Capital Programme. This included details of budgets of £45.094 million that were reprofiled from 2017/18 to 2018/19. Adding these to the new 2018/19 capital allocations approved by Council on 21 February 2018 and the existing 2018/19 budget gives the original budget for 2018/19 that is shown in the table below.
- 72 The council's Member Officer Working Group (MOWG) that closely monitors the capital programme has since considered 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

73 The following table summarises the latest capital budget alongside the original budget. The table also shows the forecast outturn for each service and the actual capital spend as at 31 December 2018.

| Service Grouping | Original Budget 2018/19 as at May MOWG £ million | Revised Budget 2018/19 Quarter 2 £ million | Amendments recommended by MOWG £ million | Revised Budget 2018/19 Quarter 3 £ million | Projected Outturn 2018/19 £ million | Actual Spend to 31 December 2018 £ million |
|--------------------------------------|---|---|---|---|--|---|
| Adult and Health Services | 0.232 | 0.232 | -0.200 | 0.032 | 0.032 | 0.000 |
| Children and Young People's Services | 33.144 | 25.364 | -6.369 | 18.995 | 18.995 | 11.892 |
| Regeneration and Local Services | 91.604 | 79.129 | -3.337 | 75.792 | 75.792 | 48.901 |
| Resources | 6.989 | 7.135 | -2.098 | 5.037 | 5.037 | 3.809 |
| Transformation and Partnerships | 5.085 | 4.330 | -0.367 | 3.963 | 3.963 | 1.008 |
| TOTAL | 137.054 | 116.190 | -12.371 | 103.819 | 103.819 | 65.610 |

74 Further to the revised quarter 2 2018/19 budget that was agreed by Cabinet on 14 November 2018, the MOWG has considered a number of variations to the capital programme which are a result of additions and reductions in resources received by the council. The variations of note are as follows:

Additions/Deletions

- (a) **AHS** - £0.200 million Public Health Grant will have to be paid back to Public Health England re the Low Newton Recovery housing scheme which is no longer going ahead.
- (b) **CYPS** – budget increases of £2.511 million are required for a variety of schemes. Tudhoe Colliery Primary School have provided £100,000 toward a two classroom extension. A sum of £0.473 million in relation to S106 monies and £0.450 million of capital receipts will be used to help fund the Bowburn Primary School new build scheme. Direct revenue funding of £0.165 million will be used by six schools toward capital projects. £1.323

million direct revenue funding will be used to fund additional costs for the replacement of the Social Services Information Database.

- (c) **REAL – Highways** – In November 2018 the government announced additional funding of £5.269 million for highways authorities to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe.
- (d) **REAL – Direct Services, Street Scene** – a budget increase of £97,000 is proposed for three play area refurbishment schemes. This will be funded by S106 agreements.
- (e) **REAL - Economic Development and Housing** – In December the government announced additional funding of £55 million toward the Disabled Facility costs of English authorities. The council has been informed that its share of this allocation is £0.607 million and has written to the MHCLG to accept the offer of additional funds. A report to Cabinet in October 2018 asked for approval for a £2.5 million increase in the capital budget for HQ and car park provision. A sum of £1.3 million will be drawn from the Capital Reserve toward this additional cost in quarter 3 with £1.2 million already drawn from capital contingencies. S106 contribution of £0.363 million income will be used to support County Durham Housing Group to build 195 affordable houses across the county and Riverside Homes to build 50 affordable houses in Bishop Auckland. Private sector contributions of £9,000 will be used toward three group repair schemes at Craghead, Wembly and Dawdon.
- (f) **REAL – Planning and Assets** - £4,000 has been contributed by Stanhope Parish Council for the refurbishment of War Memorials countywide.
- (g) **REAL – Culture and Sport** - £0.275 million has been recovered from a developer in relation to the Thornley Waste Transfer scheme. It is proposed to use this receipt towards the Peterlee Library Leisure Centre Co-Location Project.
- (h) **T&P** – £23,000 has been contributed from Direct Revenue Financing toward Members Neighbourhood schemes and £6,000 toward AAP capital schemes.

75 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 2018/19:

- (a) **CYPS** - The service has reviewed its budget and proposes the net reprofiling of £8.916 million from 2018/19 to future years, of which

£4.181 million relates to the new build at Bowburn Primary School, £0.360 million relates to four Building Schools for the Future (BSF) schemes, £1.903 million to work at Bishop Barrington School and £2.655 million relates to the replacement Social Services Information Database (SSID) system.

- (b) **REAL** – The service has identified net budgets of £11.499 million that will need to be re-profiled from 2018/19 to future years. The most significant are detailed below:-
 - (i) **REAL – Economic Development and Housing** - The most significant amount is £2.672 million for the Finance Durham Investment Fund, this is due to the slower than forecast uptake of the scheme. Another significant amount (£2.128 million) concerns the New Headquarters where the project has been delayed due to planning issues.
 - (ii) **REAL- Planning and Assets** – Slower than forecast progress with the Beamish Museum project require budget re-profiling of £1.403 million.
 - (iii) **REAL – Transport and Contracted Services** - £1.711 million relating to the A19/A182 Hawthorn Junction scheme will need to be re-profiled into 2020/21 as designs will depend on what is needed for the nearby Jade Development.
- (c) **Resources** – re-profiling to future years, totalling £2.098 million, has been identified of which £0.840 million relates to the Customer Relation Management system and £0.610 million to the Office Accommodation project.
- (d) **T&P** – there has been a net re-profiling of budget of £0.121 million from 2018/19, most of which relates to the delay in the Durham History Centre scheme.

Capital Financing

76 The following table summarises the recommended financing of the revised capital programme:

| Financed By: | Original Budget 2018/19 | Revised Budget 2018/19 - Quarter 2 | Amendments recommended by MOWG | Revised Budget 2018/19 - Quarter 3 |
|--------------------------|--------------------------------|---|---------------------------------------|---|
| | £ million | £ million | £ million | £ million |
| Grants and Contributions | 52.857 | 59.109 | 4.535 | 63.644 |
| Revenue and Reserves | 45.186 | 46.135 | -15.224 | 30.911 |
| Capital Receipts | 22.439 | 9.263 | 0.000 | 9.263 |
| Borrowing | 16.572 | 1.683 | -1.683 | 0.000 |
| TOTAL | 137.054 | 116.190 | -12.371 | 103.819 |

Council Tax and Business Rates Collection Funds

Council Tax

- 77 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.
- 78 The collection rate at 31 December 2018 was slightly below the profiled target of 84.76%, and 0.55% points below the same position in 2017/18, reflecting an increased trend of Council Taxpayers choosing to pay over twelve monthly instalments rather than the traditional ten statutory instalment periods.
- 79 The in-year collection rates at the end of quarter three for the current and last two financial years, are shown below:

| Billing Year | Position at 31 December Each Year % |
|---------------------|--|
| 2018/19 | 84.15 |
| 2017/18 | 84.70 |
| 2016/17 | 84.76 |

- 80 The current overall collection rate for 2017/18 council tax liabilities is now 98.15% (compared to 96.83% at 31 March 2018), and for 2016/17 the rate is now 98.63% (compared to 96.69% at 31 March 2017). The council continues to recover council tax from earlier years, and currently the collection rate for all years excluding the current year is 99.65%, which is line with our medium term financial plan forecasts.
- 81 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 tax base for all domestic properties in the county (schedule of all properties, discounts and reliefs) with an allowance for non-collection.
- 82 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.
- 83 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 Crime and Victim's Commissioner and County Durham and Darlington Fire and Rescue Authority.
- 84 At 31 December 2018, the estimated outturn for the Council Tax Collection Fund is a surplus of £1.704 million as shown in the table below, which takes into account the undeclared surplus as at 31 March 2018 of £0.976 million. Durham County Council's share of this forecasted surplus is £1.437 million, which is broadly in line with the declared surplus position and which is available to support the 2019/20 budget.

| | £ million |
|--|------------------|
| Net Bills issued during Accounting Year 2018/19 | 319.673 |
| LCTRS and previous years CTB adjustments | -55.015 |
| Calculated change in provision for bad debts required and write offs | -2.672 |
| Net income receivable (a) | 261.986 |
| Precepts and Demands | |
| Durham County Council | 209.712 |
| Parish and Town Councils | 12.544 |
| Durham Police Crime and Victim's Commissioner | 25.087 |
| County Durham and Darlington Fire and Rescue Authority | 13.915 |
| Total Precepts and Demands (b) | 261.258 |
| Net Surplus / (-) Deficit for year (a) – (b) | 0.728 |
| Undeclared Surplus Brought Forward from 2017/18 | 0.976 |
| Estimated Year end surplus | 1.704 |

- 85 Prior to 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.
- 86 The council is required to determine and declare the forecast surplus or deficit on the Council Tax Collection Fund for 2018/19 by 31 January 2019. This will then need to be taken into account in the budget setting process for 2019/20. Any difference between this and the actual surplus at 31 March 2019 will be carried forward to next financial year and taken into account in estimating the surplus / deficit position for 2019/20, which will need to be taken into account for 2020/21 budget setting.
- 87 Over the last five 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

- 88 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.
- 89 In 2017/18, following consultation, the Government implemented the first revaluation of Business Rates since April 2010.
- 90 The revaluation of the rateable values of all Business Properties was undertaken by the Valuation Office Agency and, along with national changes to Multipliers, Relief Thresholds and Transitional Arrangements, came into effect from April 2017. The overall effect of the revaluation on the Collection Fund saw a decrease of an estimated £9.3 million in rates yield/ liability when compared to 2016/17. The revaluation should be cost neutral to Durham County Council and County Durham and Darlington Fire and Rescue Authority, therefore compensation arrangements are to be made through adjustments to Section 31 grants and Top Ups for their shares of losses of income.
- 91 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 2018 estimate of 2018/19 Business Rates income that was used for budget setting purposes.
- 92 At 31 December 2018, the estimated outturn for the Collection Fund Business Rates is a surplus of £1.648 million, after taking into account the undeclared deficit position as at 31 March 2018 of £1.724 million, as calculated in the following table.

| | £ million |
|---|------------------|
| Net rate yield for 2018/19 including previous year adjustments | 116.622 |
| Estimate of changes due to appeals lodged and future appeals | -5.697 |
| Estimated losses in Collection – Provision for Bad Debts and Write-offs | -1.179 |
| Net income receivable (a) | 109.746 |
| Agreed allocated shares | |
| Central Government (50%) | 51.784 |
| Durham County Council (49%) | 52.840 |
| County Durham and Darlington Fire and Rescue Authority (1%) | 1.057 |
| Cost of Collection Allowance and Renewable Energy (paid to Durham County Council) | 0.693 |
| Total fixed payments (b) | 106.374 |
| Net surplus for year (a) – (b) | 3.372 |
| Undeclared Deficit brought forward from 2017/18 | -1.724 |
| Estimated year end Surplus | 1.648 |

- 93 The in-year estimated surplus of £3.372 million is offset by the undeclared deficit brought forward from 2017/18, which leaves an estimated net surplus of £1.648 million at 31 March 2019. The surplus / deficit 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 £0.808 million.
- 94 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. The in-year collection rates at the end of quarter three for the current and last two financial years, are shown below:

| Billing year | Position at 30 September Each Year % |
|---------------------|---|
| 2018/19 | 83.01 |
| 2017/18 | 83.52 |
| 2016/17 | 83.04 |

- 95 In year performance to 31 December 2018 shows a collection rate of 83.01%, which is below the profiled target by 0.58%points.
- 96 The current overall collection rate for 2017/18 business rate liabilities is now 99.33% (compared to 98.42% at 31 March 2018) and for 2016/17 business rate liabilities is now 99.67% (compared to 97.78% at 31 March 2017). The council continues to recover business rates from earlier years and currently, the collection rate for all years excluding the current year is 99.40%, which is line with our medium term financial plan forecasts.

Section 31 Grant - Small Business Rate Relief

- 97 Small business ratepayers with properties with rateable values under £15,000 benefit from relief on their rates payable. The Government has awarded local authorities a 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.
- 98 Small business ratepayers with properties with rateable values up to £12,000 are now being granted full relief, and properties with rateable values between £12,000 and £15,000 have a tapered relief applied to them ranging from 100% down to 0%.
- 99 The Government has agreed to pay Section 31 grant for any 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 31 December 2018, the gross small business relief awarded against 2018/19 business rates bills and adjustments to 2017/18, 2016/17, 2015/16, 2014/15 and 2013/14 bills is £14.365 million, and the council will receive £4.775 million in Section 31 grant, including the capping adjustment and threshold change adjustments, in this regard.

Other Section 31 Grants

- 100 In the Autumn Statement 2016, Spring Budget 2017 and Autumn Statement 2018 additional business rate relief schemes were announced on which Section 31 grants would be payable. These relief schemes include Rural Rate Relief and Local Newspaper Reliefs, Supporting Small Business, Local Discretionary Relief Scheme, Pub Relief and Retail Relief Schemes. Funding for these schemes is provided through Section 31 grants.
- 101 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 31 December 2018, the increase in Durham County Council's Section 31 grants (including small business rate relief) was £0.278 million.

Other useful documents

- County Council – 21 February 2018 – Medium Term Financial Plan 2018/19 to 2021/22 and Revenue and Capital Budget 2018/19.
- Cabinet – 11 July 2018 - 2017/18 Final Outturn for the General Fund and Collection Fund.
- Cabinet – 12 September 2018 – Forecast of Revenue and Capital Outturn 2018/19 – Period to 30 June 2018.
- Cabinet – 14 November 2018 – Forecast of Revenue and Capital Outturn 2018/19 – Period to 30 September 2018.

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Appendix 1: Implications

Legal Implications

The consideration of regular budgetary control reports is a key component of the council's Corporate and Financial Governance arrangements. This report shows the forecast spend against budgets agreed by Council in February 2018 in relation to the 2018/19 financial year. The forecasts contained within this report have been prepared in accordance with standard accounting policies and procedures.

Finance

The report details the 2018/19 forecast of outturn position for Revenue and Capital and details the forecast movement on reserves.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

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.

Procurement

None.

Appendix 3: Revenue Summary by Expenditure / Income for the period ended 31 March 2019

| | Original Budget 2018/19 | Revised Budget | Proposed Budget Revisions | Contribution to / Use of Cash Limit Reserve | Contribution to / Use of Earmarked Reserves | Budget - incorporating adjustments | Service Groupings Forecast of Outturn | Corporate Costs Forecast of Outturn | Forecast of Outturn (including Corporate Costs) | Forecasted Variance (including Corporate Costs) | Forecasted Variance - Corporate Costs |
|--------------------------------|-------------------------|------------------|---------------------------|---|---|------------------------------------|---------------------------------------|-------------------------------------|---|---|---------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Employees | 528,594 | 528,050 | 708 | 10 | 859 | 529,627 | 524,285 | 394 | 524,679 | -4,948 | 0 |
| Premises | 52,813 | 52,765 | 299 | 0 | 302 | 53,366 | 53,150 | 0 | 53,150 | -216 | 0 |
| Transport | 41,597 | 41,174 | 13 | 0 | -42 | 41,145 | 42,242 | 0 | 42,242 | 1,097 | 0 |
| Supplies & Services | 123,450 | 125,000 | -867 | -34 | 780 | 124,879 | 127,587 | 1,430 | 129,017 | 4,138 | -1 |
| Agency & Contracted | 358,765 | 360,422 | 1,592 | -681 | 3,785 | 365,118 | 370,934 | 2,124 | 373,058 | 7,940 | 29 |
| Transfer Payments | 190,369 | 218,341 | 60 | 0 | 792 | 219,193 | 210,631 | 0 | 210,631 | -8,562 | 0 |
| Central Costs | 86,462 | 84,268 | 34 | 0 | -17 | 84,285 | 86,019 | 295 | 86,314 | 2,029 | 0 |
| DRF | 710 | 1,055 | 0 | 0 | 0 | 1,055 | 1,665 | 0 | 1,665 | 610 | 0 |
| Other | 0 | 0 | 0 | 150 | -150 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Charges | 56,650 | 56,650 | 0 | 0 | 0 | 56,650 | 56,650 | 0 | 56,650 | 0 | 0 |
| GROSS EXPENDITURE | 1,439,410 | 1,467,725 | 1,839 | -555 | 6,309 | 1,475,318 | 1,473,163 | 4,243 | 1,477,406 | 2,088 | 28 |
| Income | | | | | | | | | | | |
| Government Grants | 613,492 | 617,857 | -119 | 0 | 1,792 | 619,530 | 613,133 | 14 | 613,147 | 6,383 | 0 |
| Other Grants and Contributions | 74,807 | 74,862 | 45 | 0 | 10,296 | 85,203 | 86,983 | 0 | 86,983 | -1,780 | 0 |
| Sales | 10,439 | 9,687 | -268 | 0 | 0 | 9,419 | 9,064 | 400 | 9,464 | -45 | -250 |
| Fees and Charges | 112,372 | 106,951 | 868 | 0 | 564 | 108,383 | 106,134 | -23 | 106,111 | 2,272 | 23 |
| Rents | 8,358 | 8,609 | 0 | 0 | 0 | 8,609 | 9,090 | 0 | 9,090 | -481 | 0 |
| Recharges To Other Services | 215,198 | 223,964 | 285 | 0 | -89 | 224,160 | 235,657 | 10 | 235,667 | -11,507 | -10 |
| Other | 8,949 | 6,195 | -44 | 0 | 21 | 6,172 | 6,841 | 0 | 6,841 | -669 | 0 |
| Total Income | 1,043,615 | 1,048,125 | 767 | 0 | 12,584 | 1,061,476 | 1,066,902 | 401 | 1,067,303 | -5,827 | -237 |
| NET EXPENDITURE | 395,795 | 419,600 | 1,072 | -555 | -6,275 | 413,842 | 406,261 | 3,842 | 410,103 | -3,739 | -209 |

Appendix 4: Earmarked Reserves Position as at 31 December 2018

| | EARMARKED RESERVES AND CASH LIMIT RESERVES | SERVICE GROUPING | 2017/18 | USE OF | CONTRIBUTION | TRANSFERS | TOTAL | 2018/19 |
|-------|--|------------------|-----------------|---------------|----------------|------------------|----------------------|-----------------------------------|
| | | | CLOSING BALANCE | RESERVES | TO RESERVES | BETWEEN RESERVES | MOVEMENT ON RESERVES | CLOSING BALANCE AS AT 31 DEC 2018 |
| | | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 1 | T&P AAP/Members Reserve | T&P | -1,850 | 229 | -139 | 39 | 129 | -1,721 |
| 2 | T&P Grant Reserve | T&P | -1,224 | 168 | 0 | -139 | 29 | -1,195 |
| 3 | T&P Operational Reserve | T&P | -1,573 | 427 | -108 | -1,050 | -731 | -2,304 |
| 4 | T&P Transformation Reserve | T&P | -2,147 | 454 | 0 | 0 | 454 | -1,693 |
| 5 | Social Care Reserve | AHS | -21,235 | 1,032 | -7,009 | 2,276 | -3,701 | -24,936 |
| 6 | Public Health Reserve | AHS | -2,943 | 1,276 | 0 | 0 | 1,276 | -1,667 |
| 7 | Children's Services Reserve | CYPS | -1,875 | 845 | -563 | -200 | 82 | -1,793 |
| 8 | Education Reserve | CYPS | -14,285 | 3,919 | -178 | 1,226 | 4,967 | -9,318 |
| 9 | Env. Health and Consumer Protection Reserve | REAL | -735 | 153 | 0 | 0 | 153 | -582 |
| 10 | Neighbourhoods AAP Reserve | REAL | -71 | 33 | 0 | 0 | 33 | -38 |
| 11 | Direct Services Reserve | REAL | -2,905 | 880 | 0 | 0 | 880 | -2,025 |
| 12 | Culture and Sport Reserve | REAL | -3,680 | 396 | -120 | -150 | 126 | -3,554 |
| 13 | Technical Services Reserve | REAL | -2,798 | 420 | 0 | 0 | 420 | -2,378 |
| 14 | Business Growth Fund Reserve | REAL | -743 | 160 | 0 | 0 | 160 | -583 |
| 15 | Economic Development Reserve | REAL | -1,501 | 131 | -9 | -10,622 | -10,500 | -12,001 |
| 16 | Planning Reserve | REAL | -1,573 | 74 | 0 | 0 | 74 | -1,499 |
| 17 | North Pennines AONB Partnership Reserve | REAL | -1,302 | 0 | 0 | 0 | 0 | -1,302 |
| 18 | Employability and Training Reserve | REAL | -57 | 9 | 0 | 0 | 9 | -48 |
| 19 | REAL Match Fund Programme Reserve | REAL | -1,653 | 215 | 0 | 0 | 215 | -1,438 |
| 20 | Housing Regeneration Reserve | REAL | -1,086 | 110 | 0 | 413 | 523 | -563 |
| 21 | Housing Solutions Reserve | REAL | -1,680 | 222 | -460 | 0 | -238 | -1,918 |
| 22 | Restructure Reserve | REAL | -114 | 0 | 0 | 114 | 114 | 0 |
| 23 | Transport Reserve | REAL | -1,065 | 1,013 | 0 | -176 | 837 | -228 |
| 24 | Funding and Programmes Management Reserve | REAL | -480 | 31 | 0 | 0 | 31 | -449 |
| 25 | Customer Services Reserve | Resources | -346 | 12 | 0 | 0 | 12 | -334 |
| 26 | Resources Corporate Reserve | Resources | -890 | 0 | 0 | 890 | 890 | 0 |
| 27 | Resources DWP Grant Reserve | Resources | -2,233 | 165 | -134 | 142 | 173 | -2,060 |
| 28 | Resources System Development Reserve | Resources | -412 | 0 | 0 | 0 | 0 | -412 |
| 29 | Resources Housing Benefit Subsidy Reserve | Resources | -820 | 0 | 0 | 320 | 320 | -500 |
| 30 | Resources Revenue and Benefits Reserve | Resources | -980 | 167 | 0 | 205 | 372 | -608 |
| 31 | Resources Legal Reserves | Resources | -354 | 0 | 0 | -25 | -25 | -379 |
| 32 | Resources Elections Reserve | Resources | -709 | 0 | 0 | 0 | 0 | -709 |
| 33 | Resources ICT Reserves | Resources | -1,326 | 367 | 0 | 0 | 367 | -959 |
| 34 | Resources Registrars Trading Reserve | Resources | -200 | 0 | 0 | 0 | 0 | -200 |
| 35 | Resources Human Resources Reserve | Resources | -426 | 138 | 0 | 0 | 138 | -288 |
| 36 | Equal Pay Reserve | Corporate | -19,509 | 0 | 0 | 4,500 | 4,500 | -15,009 |
| 37 | Insurance Reserve | Corporate | -11,485 | 0 | 0 | 1,500 | 1,500 | -9,985 |
| 38 | Performance Reward Grant Reserve | Corporate | -38 | 0 | 0 | 38 | 38 | 0 |
| 39 | ER/VR Reserve | Corporate | -7,507 | 4,026 | 0 | -6,164 | -2,138 | -9,645 |
| 40 | Office Accommodation Project Support Reserve | Corporate | -77 | 0 | 0 | 77 | 77 | 0 |
| 41 | Budget Support Reserve | Corporate | -30,000 | 340 | 0 | 0 | 340 | -29,660 |
| 42 | Office Accommodation Capital Reserve | Corporate | -31,731 | 144 | 0 | 0 | 144 | -31,587 |
| 43 | Inspire Programme Reserve | Corporate | -1,379 | 759 | 0 | 0 | 759 | -620 |
| 44 | Commercialisation Support Reserve | Corporate | -4,000 | 0 | 0 | 0 | 0 | -4,000 |
| 45 | Capital Reserve | Corporate | 0 | 0 | 0 | -2,000 | -2,000 | -2,000 |
| 46 | Feasibility Study Reserve | Corporate | 0 | 0 | 0 | -500 | -500 | -500 |
| | Total Earmarked Reserves | | -182,997 | 18,315 | -8,720 | -9,286 | 309 | -182,688 |
| | Cash Limit Reserves | | | | | | | |
| 47 | Adult and Health Services | | -8,238 | 36 | -4,316 | 4,276 | -4 | -8,242 |
| 48 | Children and Young People's Services | | -1,248 | 0 | 2,663 | -1,415 | 1,248 | 0 |
| 49 | Regeneration and Local Services | | -6,155 | 733 | -1,360 | 3,357 | 2,730 | -3,425 |
| 50 | Resources | | -2,231 | 98 | -420 | 2,097 | 1,775 | -456 |
| 51 | Transformation and Partnerships | | -415 | 227 | -97 | 0 | 130 | -285 |
| | Total Cash Limit Reserves | | -18,287 | 1,094 | -3,530 | 8,315 | 5,879 | -12,408 |
| | Total Council Reserves | | -201,284 | 19,409 | -12,250 | -971 | 6,188 | -195,096 |
| | Schools' Balances | | | | | | | |
| Sch 1 | Schools' Revenue Balance | CYPS | -18,415 | 6,132 | 0 | 455 | 6,587 | -11,828 |
| Sch 2 | DSG Reserve | CYPS | -4,734 | 5,397 | 0 | -384 | 5,013 | 279 |
| | Total Schools and DSG Reserve | | -23,149 | 11,529 | 0 | 71 | 11,600 | -11,549 |