

## **Audit Committee**

31 July 2019

## **2018/2019 Final Outturn for the General Fund and Collection Fund**



# **Report of the Corporate Director of Resources**

### **Electoral division(s) affected:**

## Countywide

## Purpose of the Report

- 1 To provide Audit Committee with details of the final outturn for the General Fund and Collection Fund for 2017/18.

## **Executive summary**

- 2 The attached report was presented at Cabinet on 10 July 2019.
  - 3 The report presents:
    - (a) the final revenue and capital outturn for the General Fund for 2018/19;
    - (b) the final outturn for the Council's Council Tax and Business Rates Collection Fund for 2018/19;
    - (c) use of and contributions to earmarked, cash limit and general reserves in year and the closing position with regard to balances held at 31 March 2019.

## **Recommendation(s)**

- 4 Audit Committee is recommended to:

  - (a) Note the 2018/19 final outturn position on the General Fund and Collection Fund
  - (b) Note the use of and contributions to reserves and balances held at 31 March 2019.

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## **Appendix 1: Implications**

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### **Legal Implications**

This report shows the actual outturn compared to original and revised budgets as agreed by Council in relation to the 2018/19 financial year and is a key component of the council's Corporate and Financial Governance arrangements. The information contained within this report has been prepared in accordance with standard accounting policies and procedures.

### **Finance**

The report details the financial outturn for the council for 2018/19 for revenue and capital. The report covers general fund for revenue and capital and the outturn position for general and earmarked reserves at 31 March 2019, plus the Collection Fund outturn, covering council tax and business rates.

### **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 scrutinised and supplemented with information supplied by the Service Management Teams and budget holders. The outturn has been produced taking into consideration all spend in year and year end accounting practices. This should mitigate any risks regarding challenge over the accuracy and validity of the financial outturn position of the council as reported.

## **Procurement**

None.

**Cabinet**

**10 July 2019**

**2018/19 Final Outturn for the General Fund and Collection Fund**



**Ordinary Decision**

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**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) final revenue and capital outturn for the General Fund for 2018/19;
  - (b) final outturn for the Council's Council Tax and Business Rates Collection Fund for 2018/19;
  - (c) use of and contributions to earmarked, cash limit and general reserves in year and the closing position with regards to balances held at 31 March 2019.

**Executive summary**

- 2 The final revenue outturn position for 2018/19 is a net cash limit underspend of £3.353 million plus an overachievement of core government grant and underspend on all other budgets of £7.863 million. This total net underspend of £11.216 million represents 2.8% of the revised net expenditure budget of £395.367 million. Analysis within identifies that the majority of underspends were either one off items or sums included as a saving for 2019/20 in MTFP(9).
- 3 Total general, earmarked and cash limit reserves (excluding school reserves) increased by £8.391 million in 2018/19, from £225.784 million at 31 March 2018 to £234.175 million at 31 March 2019.

- 4 The final capital outturn position for 2018/19 is an underspend of £12.561 million, which is 12.1% of the revised capital budget of £103.819 million.
- 5 The final outturn for the Council Tax Collection Fund is a surplus of £1.592 million, which is broadly in line with the surplus declared in November 2018 of £1.716 million. Durham County Council's share of the actual surplus generated in 2018/19 is £1.342 million, which is broadly in line with the declared share of £1.447 million included in the 2019/20 budget.
- 6 The actual outturn for the Business Rates Collection Fund is a net surplus of £2.762 million. Durham County Council's share (49%) of this surplus is £1.353 million which higher than the £0.721 million declared and used as support to the 2019/20 budget.

## **Recommendation(s)**

- 7 It is recommended that Cabinet note:
  - (a) the final revenue outturn underspend of £11.216 million which has been realised in the main due to one off items and early achievement of sums included as savings for 2019/20 in MTFP(9).
  - (b) the decrease in the Cash Limit Reserves of £5.372 million during 2018/19 with closing Cash Limit Reserves of £12.915 million. These sums will continue to be held as Earmarked Reserves and be available for Service Groupings to manage their budgets effectively;
  - (c) the closing General Reserve balance of £25.106 million;
  - (d) the closing balance on General Fund Earmarked Reserves (excluding Cash Limit Reserves) is £196.154 million;
  - (e) the closing balance on Schools Reserves is £17.341 million;
  - (f) the outturn position for the Collection Funds in respect of Council Tax and Business Rates.
- 8 It is recommended that Cabinet approve:
  - (a) a capital budget of £46.908 million is carried forward into 2019/20 and that service groupings regularly review capital profiles throughout 2019/20 reporting revisions to dd Cabinet as necessary.

## **Background**

- 9 The financial landscape for the council is likely to remain challenging for the foreseeable future, resulting in the longest period of austerity in modern times. By 31 March 2020, the council will have delivered savings of £234 million since 2010.
- 10 The financial outlook will continue to be extremely uncertain as the outcome and timing of the Comprehensive Spending Review and Fair Funding Review are unknown at this time. These reviews will determine the quantum of funding available to local government and the share available to the council. The added uncertainty brought about by the expected exit from the European Union will only serve to compound these issues. There is a risk that funding reductions continue beyond this point placing further pressure on the Medium Term Financial Plan (MTFP).
- 11 On 21 February 2018, County Council agreed a net revenue budget of £400.288 million for 2018/19. Factoring in cuts in Government grant, inflation and other budget pressures, £14.803 million of savings was required in 2018/19 to deliver a balanced budget.
- 12 Quarterly forecast outturn reports have been considered by Cabinet throughout the 2018/19 financial year. Detailed reports on individual service groupings have also been considered by the various Overview and Scrutiny Committees.
- 13 This final outturn for 2018/19 has been prepared as part of the production of the Annual Statement of Accounts. During the process of finalising the Statement of Accounts, the Corporate Director of Resources is required to make a number of technical decisions in the best financial interests of the Council. Such decisions will be fully disclosed in the Statement of Accounts.

## **General Fund Outturn**

- 14 This section of the report details the following:
  - (a) cash limit outturn for service groupings;
  - (b) overall revenue outturn for the General Fund with summarised service grouping commentary;
  - (c) overall capital outturn of the General Fund with summarised service grouping commentary.

## **Cash Limit Outturn for Service Groupings**

- 15 The overall outturn for the council is shown in Appendix 2 which details how the cash limit outturn for each service grouping is calculated. Two key elements have been excluded from the service grouping outturn when calculating the cash limit outturn as detailed below:

**(a) Sums Outside the Cash Limit**

Some expenditure and income is excluded from the Cash Limit for a number of reasons. Examples of these are:

- (i) items not controlled by the service groupings e.g. technical accounting entries such as capital charges and central administration recharges processed at year end;
- (ii) exceptional items and expenditure pressures which were not accounted for in the service grouping base budget build and which are funded from contingencies or earmarked reserves held corporately e.g. redundancy and early access costs linked to restructuring activity to achieve MTFP savings proposals.

**(b) Use of or Contribution to Earmarked Reserves**

Sums that service groupings have utilised or contributed to earmarked reserves have been excluded from their outturn position in order to calculate their year end cash limit position.

- 16 After taking into account the above exclusions, four of the service groupings generated a cash limit underspend in 2018/19 whilst one service grouping utilised cash limit reserves during the year. Further detail can be found within service grouping commentaries.
- 17 Overall in 2018/19 there was a net use of cash limit reserves of £5.372 million. The cash limit position for each service grouping is detailed in the table below:

Type of Reserve	Opening Balance at 1 Apr 18	Budgeted use at 1 Apr 18	Movement during 2018/19		Closing balance at 31 Mar 19
			Contribution to (-) or use of reserve during 2018/19	Final Outturn	
<b>Service Grouping Cash Limit</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Adult and Health Services	-8.238	0.000	4.313	-3.994	-7.919
Children and Young People's Services	-1.248	0.000	-2.143	3.391	0.000
Regeneration and Local Services	-6.155	0.033	4.099	-1.129	-3.152
Resources	-2.231	0.000	2.195	-1.536	-1.572
Transformation and Partnerships	-0.415	0.000	0.228	-0.085	-0.272
<b>Total Cash Limit Reserve</b>	<b>-18.287</b>	<b>0.033</b>	<b>8.692</b>	<b>-3.353</b>	<b>-12.915</b>

- 18 In closing the accounts for 2018/19, a review of all reserves has taken place which considered the pressures identified in the MTFP. Consequently the following earmarked reserves (totalling £5.625 million) have been created / replenished as part of the final accounts closedown process via a transfer from General Reserves:
- (a) Strategic Employment Site Reserve (£0.570 million) – to support development costs associated with the Aykley Heads site;
  - (b) Capital Reserve (£1.810 million) – to support spending on future capital schemes in line with the capital programme;
  - (c) CYPS School Reserve (£2.315 million) – to provide for anticipated deficit balances relating to schools converting to academy status during 2019/20; and
  - (d) CYPS PFI Lifecycle Reserve (£0.930 million) - to ensure funding is available in the future to cover PFI lifecycle replacement costs.

## Revenue Outturn

- 19 Appendix 2 provides a more detailed outturn position for the council's general fund by service grouping. In addition, Appendix 3 provides a detailed outturn position for the council by type of expenditure and income. The table below provides a summary of the final outturn position:

	£m	£m
Gross expenditure		1,476.303
Gross income		-1,080.936
<b>Net Expenditure</b>		<b>395.367</b>
<b>Financed by:</b>		
Council Tax	-209.718	
Estimated net surplus on Collection Fund	-7.506	
Business Rates	-51.904	
Top up grant	-70.009	
Levy Account Surplus Grant	-1.922	
Revenue Support Grant	-41.860	
New Homes Bonus	-6.504	
Section 31 Grant	-8.528	
Net contribution from Cash Limit Reserve	-5.372	
Use of (-) / contribution to earmarked reserves		
Schools and DSG	-5.808	
Non- schools	13.158	
Net contribution to the General Reserve	0.606	
		<b>-395.367</b>

- 20 The final outturn position for 2018/19 was an underspend of £11.216 million; the table below details the transfer to reserves:

	£m
2018/19 underspend transferred to General Reserve	-7.863
2018/19 underspend transferred to Cash Limit Reserves	-3.353
<b>Total 2018/19 Underspend</b>	<b>-11.216</b>

- 21 The final outturn position for the Council's General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2018	-24.500
2018/19 Underspend to General Reserve	-7.863
<u>Less:</u>	
Budgeted Use in 2018/19	0.900
Transfer to Earmarked Reserves	5.625
Transfer to CYPS Cash Limit Reserve	0.732
<b>Closing General Reserve Balance at 31 March 2019</b>	<b>-25.106</b>

- 22 The general reserve balance carried forward of £25.106 million is within the council's general reserves policy of retaining between 5% and 7.5% of the net budget requirement, which in cash terms is between £20.001 million and £30.002 million. The £25.106 million balance at 31 March 2019 equates to 6.28% of the 2019/20 net budget requirement. The main reasons why the general reserve has increased are detailed below:
- (a) levy account surplus grant - £1.922 million which was not budgeted for. This is a one off payment from the government relating to surplus national levy funding within the business rate retention process from 2017/18, which was distributed in March 2019;
  - (b) interest and Investment income - £1.610 million more than budgeted. This underspend is mainly generated from higher than forecast cash balances which are expected to reduce over the coming years and one off items. An increase in this income budget of £0.5 million has also been included as a saving in MTFP(9);
  - (c) section 31 grant income - £0.805 million more than budgeted, relating mainly to late changes in business rate reliefs resulting in an increase in Section 31 grant;
  - (d) top-up grant - £0.341 million less than budgeted;

- (e) corporate costs - £0.301 million less than budgeted, relating mainly to increased capital receipts below the £10k de minimus level and underspends on audit fees, subscriptions and bank charges. These budgets will be reviewed to determine if savings can be included in MTFP(10);
- (f) sums outside the cash limit - £0.463 million more than budgeted;
- (g) contingencies - £1.011 million less than budgeted;
- (h) interest payable and similar charges - £3.000 million less than budgeted. This relates to the Minimum Revenue Provision (MRP) review which has been included as an MTFP(9) saving. A sum of £1.810 million has been transferred into the Capital Reserve to finance roadworks at the Integra development in 2019/20;

substantially offset by:

- (i) use of reserve during the year of £0.9 million;
- (j) a transfer of £5.625 million to earmarked reserves during the year (para 18 refers); and
- (k) a transfer of £0.732 million to CYPS cash limit reserve at year end to eradicate the negative cash limit reserve. This negative cash limit reserve has resulted from intense pressure upon the CYPS revenue budget which is detailed later in the report.

- 23 The following tables show that in 2018/19 the total non schools reserves increased by 3.7%, from £225.784 million to £234.175 million. The schools balances reduced by 25.1%, from £23.149 million to £17.341 million, mainly as a result of an overspend in the centrally retained DSG reserves, which is detailed later in the report. Appendix 4 details the movement on Earmarked Reserves during 2018/19.

### Total Non School Reserves

	<b>General Reserve</b>	<b>Earmarked Reserves</b>	<b>Cash Limits</b>	<b>TOTAL</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Balance at 1 April 2018	-24.500	-182.997	-18.287	-225.784
Contribution to (-) / Use of Reserves	-0.606	-13.157	5.372	-8.391
<b>Reserve Balance at 31 March 2019</b>	<b>-25.106</b>	<b>-196.154</b>	<b>-12.915</b>	<b>-234.175</b>

## Schools Balances

	Schools Balances	Centrally Held DSG	TOTAL
	£m	£m	£m
Opening Balance at 1 April 2018	-18.415	-4.734	-23.149
Contribution to (-) / use of Reserves	0.725	5.083	5.808
<b>Balance at 31 March 2019</b>	<b>-17.690</b>	<b>0.349</b>	<b>-17.341</b>

## Service Grouping Commentary

- 24 A summary of the outturn for each service grouping is provided below. Detailed outturn reports will be provided to the relevant Overview and Scrutiny Committees.

### Adult and Health Services (AHS)

- 25 The 2018/19 outturn for Adult and Health Services (AHS) was a cash limit underspend of £3.994 million, representing circa 3.3% of the total budget for AHS. 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.
- 26 The cash limit outturn compares to the previously forecast position at quarter 3 of £4.316 million under budget, and therefore the actual outturn is broadly in line with the previously forecast position.
- 27 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 £1.623 million. The service also made a revenue contribution of £0.676 million to the capital budget to

- fund the capital costs associated with the replacement of the social services information database (SSID).
- (b) net spend on adult care packages is £3.047 million under budget. This area of the budget continues to be closely monitored to assess the impact of demographic and procedural/operational changes, where significant MTFP savings have been taken over recent years.
- (c) net expenditure on Public Health related activity is in line with grant allocations.
- 28 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn arriving at the cash limit at the year end:
- (a) £2.831 million relates to net contributions to earmarked reserves to support specific projects:
- (i) A net contribution to the Social Care Reserve of £0.532 million to fund future social care activity;
  - (ii) A £2.299 million contribution to Public Health Reserve, reflecting net underspending in year and ensuring this ring-fenced grant is retained for Public Health spending in future years.
- (b) £0.113 million net use of reserves in relation to ER/VR costs and insurance recharges incurred in quarter 4.
- (c) £0.813 million relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration charges outside the cash limit.
- 29 Taking the outturn position into account, the cash limit reserve to be carried forward for Adult and Health Services is £7.919 million as at 31 March 2019.

## **Children and Young People's Services (CYPS)**

- 30 The 2018/19 outturn for CYPS is a cash limit overspend of £3.391 million, representing circa 3.1% of the total budget for CYPS. This takes into account adjustments for sums outside the cash limit, such as redundancy costs, which were met from corporate reserves, year end capital entries and contributions to and from earmarked reserves. The position forecast at quarter 3 was a cash limit overspend of £2.663 million for CYPS.

31 The outturn position is accounted for as follows:

- (a) The Education Service was under budget by £0.332 million. This primarily relates to alternative funding arrangements for the nursery sustainability service and vacancies in the Early Years team of £0.812 million, along with early achievement of MTFP savings totalling £0.361 million within operational support and other staffing underspends of £0.043 million. These underspends however were offset by an overspend of £0.884 million on the Home to School Transport budget, which is largely as a result of increased costs on Special Educational Needs transport.
- (b) Children's Services were £3.722 million over budget for the year, 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 continuing to create a strain on the service. It was anticipated that looked after children (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 actual overspend on placement costs was £2.624 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 overspent by circa £0.751 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. Due to service pressure and demands, unbudgeted agency staff costs in excess of savings accrued through vacancies were circa £0.748 million.
  - (iv) External transportation (taxi and volunteer drivers) costs overspent by £0.458 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.
  - (v) The service accessed additional non recurrent income (£0.615 million) in 2018/19 and achieved savings (£0.244 million) from vacant posts, activities and office expenses in the Early Help

Service which partly offset the overspend position in the Social Care Service.

- 32 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 and costly. 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 in 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 to enable additional support for case management workloads.
- 33 At quarter 3, £0.900 million was transferred from general reserves to the CYPS cash limit reserve to prevent the service having a forecast deficit reserve balance carried forward at 31 March 2019. Taking the outturn position into account, the augmented cash limit reserve (£2.663 million) is insufficient to cover the actual overspend for CYPS at 31 March 2019 and there was a £0.732 million negative cash limit position at year end.
- 34 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 further transfer from general reserves has been actioned at year end to reduce the CYPS cash limit reserve to zero.

## Dedicated Schools Grant and Schools

- 35 The Dedicated Schools Grant (DSG) allocation for 2018/19 was £384.143 million. A sum of £97.993 million was deducted from this figure and paid directly to academies by the Education Skills Funding Agency (ESFA) and likewise a sum of £4.400 million was deducted and paid directly by the ESFA to high needs providers. The balance of £281.750 million was the sum paid to the council and includes both the delegated schools budget and the centrally retained DSG budget.
- 36 Maintained schools are responsible for their delegated budgets and carry forward accumulated surpluses and deficits from one year to the next. At the end of 2018/19 the net balances carried forward by maintained schools totalled £17.744 million, a net increase of £1.324 million in year. The total carried forward after adjusting for other balances was £17.690 million, a reduction of £0.725 million. The difference between the change in the maintained schools balances and

the overall change in balances is mainly due to the impact of academy conversions.

37 The changes in balances were as follows:

	<b>31 March 2018 £ million</b>	<b>Movement in Year £ million</b>	<b>31 March 2019 £ million</b>
<b>Maintained Schools</b>			
Nursery	0.700	0.174	0.874
Alternative Provision	0.000	0.000	0.000
Primary	15.766	2.464	18.230
Secondary	(2.407)	(1.237)	(3.645)
Special	2.361	(0.076)	2.285
<b>Total for maintained schools</b>	<b>16.374</b>	<b>1.324</b>	<b>17.744</b>
Other School Balances	2.027	(2.075)	0.048
<b>Total Schools</b>	<b>18.447</b>	<b>(0.751)</b>	<b>17.697</b>
Loans to Schools	(0.032)	0.025	(0.007)
<b>Total (Net Surplus)</b>	<b>18.415</b>	<b>(0.726)</b>	<b>17.690</b>

38 Maintained school balances held at 31 March 2019 are circa 6% of gross expenditure in 2018/19:

<b>Gross expenditure and balances</b>	<b>Gross expenditure 2018-19 £ million</b>	<b>Balance at 31 March 2019 £ million</b>	<b>Balance as % of gross expenditure</b>
Nursery	5.078	0.874	17%
Alternative provision	5.151	-	-
Primary	197.624	18.230	9%
Secondary	69.015	-3.645	-5%
Special	26.913	2.285	8%
<b>All schools</b>	<b>303.780</b>	<b>17.744</b>	<b>6%</b>

39 Other School Balances refers to:

- (a) a balance in respect of a school that had previously closed, which was transferred to the schools reserve during the year; and
- (b) schools that converted to academies during the year. Where this happens the balance is paid over to the academy trust, unless the school becomes a sponsored academy and has a deficit balance. In such cases the deficit balance is charged to the schools reserve.

- 40 The quarter 3 forecast of outturn, excluding schools that have now converted, indicated that school balances would reduce to £11.345 million by 31 March 2019. The outturn position for year end balances is therefore £6.352 million higher than previously forecast, with most schools ending the year with a higher balance than the Q3 forecast. The variation between te quarter 3 and outturn position is circa 2% of gross expenditure in the year to 31 March 2019.
- 41 The quarter 3 forecast previously reported to Cabinet were based on budget plans prepared by each of the schools. The variation in schools actual outturn position to that forecast in quarter 3 is in line with experience in previous years also. This is something that will be addressed in the 2019/20 monitoring arrangements, with greater challenge being put to schools forecasts and the Councils officers providing their own forecasts also going forward.
- 42 Loans to schools relates to the remaining balances on 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.
- 43 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 formula, pupil premium and other income.
- 44 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 2019, 21 schools had a deficit balance, where their spending had exceeded their accumulated balances in previous years, totalling £6.723 million:

Schools with deficits at 31 March 2019		
	Number	£ million
Nursery	-	-
Alternative provision	-	-
Primary	14	-0.315
Secondary	6	-6.082
Special	1	-0.325
<b>TOTAL</b>	<b>21</b>	<b>-6.723</b>

- 45 At 31 March 2018, there were 20 schools with deficit balances, with a total accumulated deficit of £5.633 million.
- 46 Included in the 21 schools with a deficit balance at 31 March 2019 are four with long-standing difficulties and officers from CYPS and Resources are supporting these schools. Other schools have either set a budget which will clear the deficit by the end of 2019/20, or will be

working with officers during the year to review their budget position and put in place a deficit recovery plan. Any of schools wishing to set a deficit budget for 2019/20 will require permission from the Corporate Director of Resources. A seprate report on school budget setting is included on the Cabinet Agenda.

### **PFI Re-financing**

- 47 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 has been credited to the centrally retained DSG reserves in year.

### **Dedicated Schools Grant Centrally Retained block**

- 48 The outturn position for the centrally retained DSG budgets was an overspend of £8.347 million against a total budget of £51.942 million, which represents a 16% overspend.

DSG Block	Budget £ million	Outturn £ million	Over / (Under) Spend £ million
Schools	0.617	0.904	0.287
High Needs	17.953	25.364	7.411
Early Years	30.544	31.249	0.705
Central Schools Services	2.828	2.772	0.056
<b>Total</b>	<b>51.942</b>	<b>60.289</b>	<b>8.347</b>

- 49 The forecast overspend position mainly relates to spending against the high needs block, which was £7.411 million higher than budget in 2018/19. 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 and a deficit position being carried forward to 2019/20.
- 50 The council sought permission from the Secretary of State (DfE) to top-slice the schools DSG budgets to transfer additional funding to the high needs budget in 2019/20, but 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 30 November 2018.

- 51 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, plus the lack of a fully costed recovery plan to return high needs spending to within the DSG funding provided.
- 52 In 2019/20 high needs dedicated schools grant funding increased by £2.4 million. Assuming no further inflationary or demographic pressures, there was a forecast £5.6 million budget shortfall in 2019/20. In February, County Council agreed to meet the full £5.6 million budget shortfall in the 2019/20 general fund budget on a one-off basis.
- 53 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.
- 54 An urgent review of service delivery is underway to make efficiencies to balance the budget next year and reports will be presented to Cabinet in due course.
- 55 The following table shows the DSG earmarked reserve position as at 1 April 2018 and the position as at 31 March 2019, taking into account the outturn 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 has reduced the deficit on the high needs reserve to £2.728 million.

<b>DSG Reserves</b>	<b>High Needs Block £ million</b>	<b>Early Years Block £ million</b>	<b>Schools Block £ million</b>	<b>Total DSG £ million</b>
<b>Balance at 1 April 2018</b>	<b>1.418</b>	<b>2.075</b>	<b>1.240</b>	<b>4.733</b>
Contribution in/ -planned use 2018/19	-7.411	-0.705	-0.231	-8.347
Transfer from COLs	0.384	0	0	0.384
Transfer from PFI re-financing	2.881	0	0	2.881
<b>Projected balance at 31 March 2019</b>	<b>-2.728</b>	<b>1.370</b>	<b>1.009</b>	<b>-0.349</b>

- 56 The overall position for the centrally managed DSG reserve is a deficit carried forward of £0.349 million. This is below the level that would trigger the need for the council to produce a formal DSG deficit recovery plan. A formal plan would be required if the DSG deficit balance

exceeds 1% of the annual DSG grant, which would be a deficit of c. £3.8 million for Durham.

## **Regeneration and Local Services**

- 57 The 2018/19 outturn for Regeneration and Local Services is a cash limit underspend of £1.129 million. This takes into account adjustments for sums outside the cash limit, such as redundancy costs, that are met from corporate reserves, year-end capital accounting entries and use of/contributions to earmarked reserves.
- 58 The cash limit outturn position compares to the previously forecast position at quarter 3 of a cash limit underspend of £1.360 million to year end.
- 59 The underspend reflects the proactive management of activity by Heads of Service across Regeneration and Local Services to bring spend within the cash limit and to prepare for 2019/20 MTFP savings requirements. The main reasons accounting for the outturn position are as follows:
- (a) Direct Services was £0.633 million overspent. This was mainly due to overspends on waste disposal contracts of £0.470 million, relating to the downturn in the materials recycling market and waste contamination, along with unachieved MTFP savings in Fleet of £0.170 million, that were dependent on a review of craft worker terms and conditions.
  - (b) Culture and Sport was £43,000 underspent. Additional income of £0.600 million relating to a change in the VAT treatment of Leisure income was achieved in year, but this was offset by overspends of £0.338 million at the Gala Theatre, and a £0.303 million compensation payment to the third party contractor that operates Peterlee Leisure Centre. The compensation payment related to reimbursement of income shortfalls due to refurbishment works at the facility. The revised VAT treatment has been factored into the 2019/20 budgets as a MTFP saving.
  - (c) Technical Services was £20,000 underspent. Included in the outturn is an overspend of £1.310 million within Highway Services, due to additional policy led expenditure on essential highways maintenance, mainly in relation to Category 1 and 2 defects. This overspend was partially offset by additional surpluses in Highways Services trading areas of £0.288 million, together with underspends in Design Services and Project and Programme Management of £0.266 million, due to employee vacancy savings and additional income. Strategic Highways and

other service areas also had a net underspend of £0.780 million mainly due to employee savings and additional income.

- (d) Business Support was £0.173 million underspent due to managed savings on vacant posts and reductions in hours, in advance of the Business Support Review, where MTFP savings are factored into MTFP9 across 2020/21 and 2021/22.
  - (e) Transport and Contracted Services was £0.788 million underspent, due to an underspend on bus and rail contracts of £0.412 million and early achievement of 2019/20 MTFP savings of £0.247 million being. Car park income also exceeded budget by £0.126 million.
  - (f) Planning and Assets was £0.917 million underspent. This relates to additional planning fee income of £0.737 million, and staffing underspends of £0.181 million due to delays in filling vacant posts. £0.240 million of the additional planning income is earmarked for 2019/20 MTFP savings requirements.
  - (g) Economic Development and Housing was overspent by £0.173 million, mainly due to the income on the employment and skills contract being lower than budgeted as a result of delayed referrals from the Department of Work and Pensions.
  - (h) Environment, Health and Consumer Protection was underspent by £73,000, with employee costs being £50,000 lower than budget due to vacant posts, and an over achievement of licensing income of £30,000, offset by small overspends elsewhere in the budgets.
- 60 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- (a) £0.925 million - relating to a net contribution to earmarked reserves and cash limit reserves to support specific projects in 2019/20. This includes:
    - (i) £0.842 million contribution in respect of Business Growth, Economic Development and Housing;
    - (ii) £0.238 million contribution in respect of North Pennines AONB funding and Planning;
    - (iii) £0.141 million use of earmarked reserves in respect of externally funded Culture and Sport projects;

- (iv) £0.213 million contribution to earmarked reserves for Rights of Way and Care Connect related schemes.
  - (v) £0.227 million use of earmarked reserves for MTFP related ER/VR redundancy costs
- (b) In addition, the movement on reserves includes a use of £0.509 million transfer from the winter maintenance reserve to offset the in-year overspend on winter maintenance in 2019/20. The winter maintenance reserve was established in 2013/14 and now stands at £1.569 million. It is available when severe winter or weather events occur in future years and the annual budget is insufficient to meet the associated unavoidable costs.
- (c) There was also a £1.295 million net contribution to reserves in relation to Insurance costs.
- (d) A range of items outside the control of the service were also excluded from the outturn, with the major component relating to capital charges.
- 61 Taking the outturn position into account, the cash limit reserve to be carried forward for Regeneration and Local Services is £3.152 million.

## Resources

- 62 The 2018/19 outturn for Resources was a cash limit underspend of £1.536 million. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year end capital accounting entries and use of / contributions to earmarked reserves.
- 63 The cash limit outturn position compares to the previously forecast position at quarter 3 of a cash limit underspend of £0.420 million.
- 64 The underspend reflects the proactive management of activity by Heads of Service across Resources throughout the year to remain within the cash limit and to prepare for 2019/20 MTFP savings requirements. The outturn position is accounted for as follows:
- (a) Corporate Finance and Commercial Services was underspent by £0.355 million, of which £31,000 relates to a managed position on vacancies in year in advance of MTFP savings requirements in 2019/20. The remaining £0.324 million underbudget was as a result of overachieved income.
  - (b) Finance and Transactional Services was underspent by £0.639 million, consisting of a managed underspend position on

employee costs (£0.409 million), offset by a managed overspend on supplies and services expenditure (£0.295 million). There was also overachieved income of £0.606 million, circa £0.300 million of which related to unbudgeted government grant funding and £0.170 million related to additional court cost fee income, offset in part by other minor variances.

- (c) Digital and Customer Services was underspent by £91,000, consisting of a managed underspend on employee costs of £0.155 million in Customer Services and £0.299 million in ICT Services linked to the early achievement of future MTFP savings. There was a net overspend of £0.147 million on supplies and services costs (£0.195 million underspend) in Customer Services and (£0.342 million overspend) in ICT Services. There was also a net overachievement of income of £0.355 million (£0.168 million underachieved) in Customer Services and (£0.523 million overachieved) in ICT Services. These underspends were however offset by funding three ICT capital schemes from revenue contributions in 2018/19 (totalling £0.560 million). There were also a number of other minor variances in this service area.
  - (d) Internal Audit, Risk and Corporate Fraud was underspent by £36,000, mainly comprising managed overspends of £17,000 on employees and £29,000 on supplies and services costs, which has been more than offset by additional income generated which amounted to £82,000.
  - (e) Legal and Democratic Services was underspent by £0.412 million, mainly from the overachievement of several income budgets amounting to £0.397 million. There were also a number of other minor variances in this service area.
  - (f) People and Talent Management was £7,000 underspent due to a managed overspend position on employee and supplies and services costs which were more than offset by overachieved income and an underspend on transport costs.
  - (g) Service Management was £4,000 overspent, which related to a few minor variances in this service area.
- 65 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:
- (a) £2.672 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration charges;

- (b) £0.253 million from the Corporate MTFP ER/VR Reserve to fund the cost of early retirements/voluntary redundancies;
- (c) £0.124 million to the ICT Reserve to finance ICT developments and additional costs of software licences;
- (d) £45,000 to the Inspire Reserve from in-year underspends associated with the Inspire Programme;
- (e) £69,262 to the Microsoft Office 365 Reserve from in-year underspends to support the deployment, development and support of the Microsoft Office 365 software across the County Council;
- (f) £0.138 million to the Welfare Reforms New Burdens Grant Reserve in respect of the unused balance of the allocation to Customer Services;
- (g) £58,862 from the Welfare Assistance Funding Reserve to cover the overspend in respect of the 2018/19 Discretionary Housing Payments (£51,981) and the balance of the first-year costs in respect of a Welfare Rights Officer for the Young People's Service (£6,881);
- (h) £56,000 to the Elections Reserve in respect of a transfer of funds from unused balances on the election accounts;
- (i) £44,016 from the Oracle Development Reserve to finance system development works;
- (j) £25,641 to the Procurement Development Reserve from in-year underspends to support training and development in the Corporate Procurement Team;
- (k) £27,682 to the Insurance Reserve from in-year underspends on central insurance provision;
- (l) £0.400 million to the Corporate Procurement Reserve from additional income received from the NEPO procurement rebate which will be used to help finance future procurement initiatives;
- (m) £0.641 million to the DWP Housing Benefit Subsidy Reserve to finance the potential cost of Housing Benefit backdated claims which are not fully funded by Government Subsidy as a result of the external audit;
- (n) £0.150 million contribution to the Revenues and Benefits Reserve to fund new software developments;

- (o) £0.325 million contribution to the Digital Customer Reserve to support the work of the Digital Customer Transformation Board;
  - (p) £50,000 contribution to the Digital Workforce Reserve to fund the work required to complete the back scanning of all employee personal records as part of the digitisation of our HR processes;
  - (q) £7,500 from the Welfare Rights Reserve to fund a Citizens advice Co-ordinator;
  - (r) £12,725 to the Human Resources Reserve to help finance future corporate training costs.
- 66 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 £1.572 million.

## **Transformation and Partnerships (T&P)**

- 67 The 2018/19 outturn for the Transformation and Partnerships (T&P) Service was a cash limit underspend of £85,000. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year end capital accounting entries and use of / contributions to earmarked reserves.
- 68 The cash limit position compares to the previously forecast position at quarter 3 of a cash limit underspend of £98,000.
- 69 The outturn underspend was a managed position, reflecting the proactive management of activity by Heads of Service across T&P throughout the year to remain within the cash limit. The outturn position is accounted for as follows:
  - (a) The year-end underspend of £85,000 takes into account the restructure of the former Assistant Chief Executives Service Grouping which was delayed following the unitisation of services into T&P. As a result, the full effect of the savings were not achieved in the 2018/19 financial year. An amount of £0.198 million has been drawn from the T&P Cash Limit Reserve to cover the shortfall in year.
  - (b) Partnerships and Community Engagement was £39,000 underspent, primarily due to a managed overspend on employee costs and supplies and services costs more than offset by additional income received.

- (c) Strategy was £72,000 underspent, primarily due to a managed underspend on employee related costs and overachieved income.
  - (d) Communications and Information Management was £39,000 underspent, primarily due to a managed underspend on employee related costs, offset by a managed overspend on supplies and services costs and unachieved income.
  - (e) Transformation was £65,000 overspent, primarily due to a managed overspend on employee and supplies and services costs.
- 70 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:
- (a) £34,000 – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration charges;
  - (b) £0.129 million – relates to net contributions to earmarked reserves to support specific projects in 2018/19 and beyond, details of the main contributions as follows:
    - (i) £0.139 million from the MTFP ER/VR Reserve to fund the cost of early retirement/voluntary redundancies;
    - (ii) £0.174 million from the AAP Reserve to support projects within the local community
    - (iii) £0.117 million from the Social Isolation Reserve;
    - (iv) £0.150 million contribution to the Members Neighbourhoods Reserve;
    - (v) £0.103 million contribution to the Community Led Development Reserve;
    - (vi) £0.105 million contribution to the EU Exit Reserve;
    - (vii) £57,000 to the Office Accommodation Capital Reserve;
    - (viii) £0.123 million to the Inspire Programme Reserve.
- 71 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for T&P is £0.272 million.

## **Resources - Centrally Allocated Costs (Corporate Costs)**

- 72 The 2018/19 outturn for Resources - Centrally Administered Costs is a cash limit underspend of £0.301 million. This takes into account adjustments for sums outside the cash limit such as the use of / contribution to earmarked reserves.
- 73 The cash limit outturn position compares to the previously forecast position at quarter 3 of a cash limit underspend of £0.209 million.
- 74 The 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. MTFP savings totalling £0.150 million were applied to the Corporate Costs area in 2018/19. MTFP savings are possible for MTFP10 in this area of the budget.
- 75 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash outturn position:
  - (a) £0.784 million – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration charges;
  - (b) £10,798 – relates to net contributions from earmarked reserves including £0.101million from the Insurance Reserve and £90,350 to the Welfare Assistance Funding Reserve.

## **Central Budgets**

### *Interest and Investment Income*

- 76 There was an overachievement of £1.610 million which is due to higher than forecast returns on loan investments and the council's commercial activities. A number of these savings are one off items and a MTFP(9) saving of £0.5 million has been applied to this budget i.e. an increase in the income target.

### *Interest Payable and Similar Charges*

- 77 Following a review of the Council's MRP policy during 2017/18, there has been an underspend of £3.000 million against the 2018/19 budget.

## **2018/19 Capital Outturn**

### **General Fund Capital Programme**

- 78 The original capital budget for 2018/19, taking into account the budgets approved by Council on 21 February 2018 and adjustments for re-profiling of underspends at 2017/18 year end was £137.053 million. This was agreed by Cabinet on 11 July 2018.
- 79 Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2019 have also been considered by MOWG.
- 80 The following table summarises the revised capital budgets, taking into account revisions considered by MOWG and agreed by Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regard to re-profiling and budget additions/ deletions at year end.

### **General Fund Capital Outturn 2018/19**

Service Grouping	Original Budget 2018-19	Revised Budget 2018-19	Service Grouping Outturn	Variance	-Additions / Deletions from Budget	Reprofiling
	£m	£m	£m	£m	£m	£m
Adult and Health Services	0.232	0.032	-	-0.032	-	-
Children and Young People's Services	33.144	18.995	16.194	-2.801	-2.754	5.602
Regeneration and Local Services	91.605	75.792	69.376	-6.416	-31.008	37.578
Resources	6.988	5.037	4.368	-0.669	-0.583	1.252
Transformation and Partnerships	5.084	3.963	1.320	-2.643	-0.002	2.475
<b>TOTAL</b>	<b>137.053</b>	<b>103.819</b>	<b>91.258</b>	<b>-12.561</b>	<b>-34.347</b>	<b>46.908</b>

- 81 The variances in the table above include requests to carry forward budgets to fund the completion of capital schemes from 2019/20 onwards. Also included are overspends on some projects as a result of an acceleration in project delivery timescales, and for these projects future years' budgets have been reduced. All of the resultant re-profiling is reflected in the capital budgets for 2019/20 to 2022/23.

- 82 The capital programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2018/19 outturn is detailed in the following table:

### **Financing – General Fund Capital Programme 2018/19**

<b>Financed by</b>	<b>2018/19 Outturn £m</b>
Grants and Contributions	52.183
Revenue and Reserves	22.116
Capital Receipts	9.391
Borrowing	7.568
<b>TOTAL</b>	<b>91.258</b>

### **Service Grouping Commentary**

- 83 The primary reasons for the net capital underspend of £12.561 million (circa 12% under budget at year end) are set out below:

#### **Adult and Health Services (AHS)**

- 84 The underspend of £0.032 million is mainly due to:

- (a) **Low Newton Recovery Housing.** This budget is no longer required as the Low Newton Recovery Housing scheme is no longer progressing.

#### **Children and Young People's Services (CYPS)**

- 85 The underspend of £2.801 million for CYPS is mainly due to:

- (a) **Childrens' Services - Planning and Services Strategy –** underspend of £0.436 million. This relates to a re-profiling of the resource plan to meet the needs of the project to review the social services information database (SSID) system in CYPS and AHS. The project is expected to be completed in 2021/22.
- (b) **Early Years** – underspend of £0.181 million. The underspend relates to the 30 hours free childcare programme and the increased provisions for two year olds. The schemes could not be completed within the current financial year mainly due to awaited planning permission. The underspend will be rolled forward to be used in 2019/20.

- (c) **Devolved Formula Capital** – underspend of £1.850 million which is mainly due to additional DfE funding of £2.130 million received in February 2019. The underspend will be carried forward into 2019/20.
- (d) **School Related** – underspend of £0.235 million. This is mainly due to the delay between when budgets are allocated to schemes as they are commissioned and when the schemes are completed, usually in major school holidays to minimise disruption.

## **Regeneration and Local Services (REAL)**

- 86 The underspend of £6.416 million is primarily due to a combination of under and over spending within the service area as follows:
- (a) **Economic Development & Housing** – underspend of £2.142 million. The most significant part of the underspend related to the new headquarters scheme which was delayed due to planning issues.
  - (b) **Planning and Assets** – underspend of £3.338 million through various overspends and underspends. Structural capitalised maintenance schemes overspent by £0.362m due to over-programming - these schemes are part of a rolling programme between years. The overspend will be funded from future year budgets. The major underspend was £2.290 million for an arrangement at Beamish Museum that was introduced in the final quarter of 2017/18, to enable the Museum to benefit from an HRMC approved scheme to reduce their VAT liability. Another major underspend was £1.629 million for the PEATLife project where progress was delayed by poor weather conditions.
  - (c) **Culture and Sport** – underspend of £0.666 million. The most significant underspend was on the Peterlee Library/ Leisure Centre Co-Location Project. The project has slipped over into 2019/20 and is anticipated to be completed by the end of April 2019.
  - (d) **Transport and Contracted Services** – overspend of £0.353 million. This was mainly due to 2 schemes, Sheraton Junction and Junction 61 Capacity Enhancements, where works have progressed on site faster than anticipated.
  - (e) **Direct Services** – underspend of £0.218 million. There were various schemes within this service area with underspends. The

Household Waste Recycling Facility Replacement at Stainton Grove was underspent by £0.090 million.

- (f) **Technical Services** – underspend of £0.401 million. There were various over and underspends across this service. The majority of the underspend relates to unused highways funding received late in the year (£5.269 million) from The Department for Transport. This will be rolled forward into 2019/20.

## Resources

87 The underspend of £0.669 million mainly falls in the ICT area:

- (a) **ICT, including Design and Print** - underspend of £0.574 million. There is a £0.455 million underspend on the Digital Durham project as Openreach failed to meet contractual milestones. The remaining underspend relates to various ICT projects which have either continued into 2019/20 or been delayed to fit in with operational requirements or due to market pricing and availability.

## Transformation and Partnerships (T&P)

88 The underspend of £2.643 million is mainly due to:

- (a) **Members Budgets** - underspend of £2.200 million. Elected Members are encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may be carried forward but not beyond an elected Member's term of office. £0.876 million is committed in 2019/20 and £2.931 million has been carried forward as uncommitted to be used to fund new applications before 2021/22.
- (b) **AAP Budgets** - underspend of £0.251 million. Uncommitted funds may be carried forward to be used in future years. £0.313 million is committed in 2019/20 and £0.263 million has been carried forward as uncommitted to be used to fund new applications before 2021/22.
- (c) **Community Buildings** - underspend of £0.133 million. The uncommitted budget for the community asset transfer programme will be carried forward to be available to commit to schemes from 2019/20.

## **Council Tax and Business Rates Collection Funds**

### *Council Tax*

- 89 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.
- 90 The collection rate at 31 March 2019 was below the annual target of 96.90%, and 0.18% points below the same position in 2017/18, reflecting the impact of Universal Credit, which produces frequent changes in entitlement to Local Council Tax Reduction and therefore multiple in-year billing and constant reprofiling of instalments, which delays the recovery processes in-year.
- 91 The in-year collection rates at 31 March for the current and last two financial years, are shown below:

<b>Billing Year</b>	<b>Position at 31 March</b>
2018/19	96.65%
2017/18	96.83%
2016/17	96.69%

- 92 The current overall collection rate for 2017/18 council tax liabilities is now 98.39% (compared to 96.83% at 31 March 2018), and for 2016/17 the rate is now 98.72% (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 99.70%, which is line with our medium term financial plan forecasts.
- 93 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.

- 94 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.
- 95 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.
- 96 At 31 March 2019 the final outturn for the council tax collection fund is a surplus of £1.592 million as shown in the following table, 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 £1.342 million.

	<b>£ million</b>
Net Bills issued during Accounting Year 2018/19	319.143
LCTRS and previous years CTB adjustments	-54.640
Calculated change in provision for bad debts required and write offs	-2.629
<b>Net income receivable (a)</b>	<b>261.874</b>
 <b>Precepts and Demands</b>	
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
<b>Total Precepts and Demands (b)</b>	<b>261.258</b>
 <b>Net Surplus / (-) Deficit for year (a) – (b)</b>	<b>0.616</b>
<b>Undeclared Surplus Brought Forward from 2017/18</b>	<b>0.976</b>
 <b>Year end surplus</b>	<b>1.592</b>

- 97 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.
- 98 The council is required to determine and declare the forecast surplus or deficit on the council tax collection fund for 2018/19 by 15 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.
- 99 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**

- 100 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.
- 101 In 2017/18, following consultation, the Government implemented the first revaluation of business rates since April 2010.
- 102 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 up grants for their shares of losses of income.

- 103 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.
- 104 At 31 March 2019, the actual outturn for the collection fund business rates is a surplus of £2.762 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	117.227
Estimate of changes due to appeals lodged and future appeals	-5.013
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-1.283
<b>Net income receivable (a)</b>	<b>110.931</b>
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)	0.764
<b>Total fixed payments (b)</b>	<b>106.445</b>
<b>Net surplus for year (a) – (b)</b>	<b>4.486</b>
<b>Undeclared Deficit brought forward from 2017/18</b>	<b>-1.724</b>
<b>Estimated year end Surplus</b>	<b>2.762</b>

- 105 The in-year estimated surplus of £4.486 million and the total undeclared deficit brought forward from 2017/18, leaves a surplus of £2.762 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 £1.353 million.

- 106 The payment profile on collection performance is changing due to changes in statutory discounts and exemptions and 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 31 March, for the current and last two financial years, are shown in the following table:

Billing year	Position at 31 March
2018/19	97.90%
2017/18	98.42%
2016/17	97.78%

- 107 In year performance to 31 March 2019 shows a collection rate of 97.90%, which was below the annual target by 0.60% points and 0.52% below the in-year recovery rate in 2017/18. In-year performance in 2018/19 was also impacted by some large rating assessments that were brought onto the rating list in March 2019.
- 108 The current overall collection rate for 2017/18 business rate liabilities is now 99.44% (compared to 98.42% at 31 March 2018) and for 2016/17 business rate liabilities is now 99.73% (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 99.41%, which is in line with our medium term financial plan forecasts.

## **Section 31 Grant - Small Business Rate Relief**

- 109 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.
- 110 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%.
- 111 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 March 2019, 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 £14.534 million, and the council will receive £4.827 million in Section 31 grant, including the capping adjustment and threshold change adjustments, in this regard.

## **Other Section 31 Grants**

- 112 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.
- 113 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 March 2019, the increase in Durham County Council's Section 31 grants (including small business rate relief) was £0.278 million.

## **Other Useful Documents**

- 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.
- Cabinet – 14 November 2018 - Council Tax Base 2019/20 and Forecast Surplus on the Council Tax Collection Fund as 31 March 2019.
- Cabinet – 13 March 2019 - Forecast of Revenue and Capital Outturn 2018/19 – Period to 31 December 2018.

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## **Appendix 1: Implications**

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### **Legal Implications**

This report shows the actual outturn compared to original and revised budgets as agreed by Council in relation to the 2018/19 financial year and is a key component of the council's Corporate and Financial Governance arrangements. The information contained within this report has been prepared in accordance with standard accounting policies and procedures.

### **Finance**

The report details the financial outturn for the council for 2018/19 for revenue and capital. The report covers general fund for revenue and capital and the outturn position for general and earmarked reserves at 31 March 2019, plus the Collection Fund outturn, covering council tax and business rates.

### **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 scrutinised and supplemented with information supplied by the Service Management Teams and budget holders. The outturn has been produced taking into consideration all spend in year and year end accounting practices. This should mitigate any risks regarding challenge over the accuracy and validity of the financial outturn position of the council as reported.

## **Procurement**

None.

## Appendix 2: General Fund Revenue Summary 2018/19

	Original Budget 2018/19	Revised Budget	Service Groupings Final Outturn	Variance	Cash Limit Adjustments			Variance
					Sums Outside the cash limit	Cash Limit Reserve	Contribution to / - Use of Earmarked Reserves	
	£000	£000	£000	£000	£000	£000	£000	£000
Adult and Health Services	130,822	120,622	114,723	-5,899	-813	0	2,718	-3,994
Children and Young People's Services	106,563	123,728	103,620	-20,108	15,691	0	7,808	3,391
Regeneration and Local Services	126,987	136,355	127,392	-8,963	6,075	-42	1,801	-1,129
Resources	15,635	16,318	15,753	-565	-2,672	0	1,701	-1,536
Transformation and Partnerships	11,944	12,768	12,588	-180	-34	0	129	-85
<b>Cash Limit Position</b>	<b>391,951</b>	<b>409,791</b>	<b>374,076</b>	<b>-35,715</b>	<b>18,247</b>	<b>-42</b>	<b>14,157</b>	<b>-3,353</b>
Contingencies	3,737	1,011	0	-1,011	0	0	0	-1,011
Centrally Held Budgets	0	0	0	0	0	0	0	0
Corporate Costs	3,844	4,051	4,544	493	-784	0	-10	-301
<b>NET COST OF SERVICES</b>	<b>399,532</b>	<b>414,853</b>	<b>378,620</b>	<b>-36,233</b>	<b>17,463</b>	<b>-42</b>	<b>14,147</b>	<b>-4,665</b>
Capital charges	-56,650	-56,650	-80,726	-24,076	-13,291			-37,367
Gains/ losses on disposal of fixed assets	0	0	37,367	37,367				37,367
Interest and Investment income	-1,900	-1,900	-3,510	-1,610		0	-1,610	
Interest payable and similar charges	43,113	45,255	44,427	-828	-1,653	-519	-3,000	
HR Accrual	0	0	2,982	2,982	-2,982		0	
Levies	16,193	16,204	16,207	3				3
<b>Net Expenditure</b>	<b>400,288</b>	<b>417,762</b>	<b>395,367</b>	<b>-22,395</b>	<b>-463</b>	<b>-42</b>	<b>13,628</b>	<b>-9,272</b>
<b>Funded By:</b>								
Council tax	-209,712	-209,712	-209,718	-6				-6
Use of earmarked reserves	-4,711	-11,909	7,350	19,259		5,634	24,893	
Estimated net surplus on Collection Fund	-7,506	-7,506	-7,506	0				0
Business Rates	-51,889	-51,889	-51,904	-15				-15
Top up grant	-70,350	-70,350	-70,009	341				341
Levy Account Surplus Grant	0	0	-1,922	-1,922				-1,922
Revenue Support Grant	-41,860	-41,860	-41,860	0				0
New Homes Bonus	-6,504	-6,504	-6,504	0				0
Section 31 Grant	-7,723	-7,723	-8,528	-805				-805
Forecast contribution to/from(-) Cash Limit Reserve	-33	-9,409	-5,372	4,037		732		4,769
Forecast contribution to/from (-) General Reserves	0	-900	606	1,506				1,506
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-463</b>	<b>690</b>	<b>19,262</b>	<b>19,489</b>

### Appendix 3: General Fund Revenue Summary by Expenditure/ Income for 2018/19

	Original Budget 2018/19	Revised Budget	Corporate Costs Outturn	Final Outturn (including Corporate Costs)	Variance (including Corporate Costs)	Cash Limit Adjustments			Cash Limit Position	Cash Limit Carr forward (including corporate costs)	Variance - Corporate Costs
						Sums Outside the cash limit	Cash Limit Reserve	Contribution to / - Use of Earmarked Reserves			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	528,594	530,444	463	517,988	-12,456	3,031	0	187	-9,238	9,238	-1
Premises	52,813	53,487	0	46,577	-6,910	6,286	0	125	-499	499	0
Transport	41,597	41,156	0	43,322	2,166	0	0	-97	2,069	-2,069	0
Supplies & Services	123,450	125,642	2,004	128,812	3,170	-1,292	-42	2,368	4,204	-4,204	-45
Agency & Contracted	358,765	366,842	2,215	379,204	12,362	116	0	-2,852	9,626	-9,626	4
Transfer Payments	190,369	219,193	0	195,747	-23,446	0	0	-112	-23,558	23,558	0
Central Costs	86,462	82,653	295	97,432	14,779	-894	0	9,460	23,345	-23,345	0
DRF	710	1,063	0	3,431	2,368	-1,392	0	-22	954	-954	0
Other	0	0	0	174	174	0	0	0	174	-174	0
Capital Charges	56,650	56,650	0	43,359	-13,291	13,291	0	0	0	0	0
<b>GROSS EXPENDITURE</b>	<b>1,439,410</b>	<b>1,477,130</b>	<b>4,977</b>	<b>1,456,046</b>	<b>-21,084</b>	<b>19,146</b>	<b>-42</b>	<b>9,057</b>	<b>7,077</b>	<b>-7,077</b>	<b>-42</b>
<b>Income</b>											
Government Grants	613,492	620,211	14	599,908	-20,303	-1	0	-496	-20,800	20,800	0
Other Grants and Contributions	74,807	85,425	0	89,623	4,198	2	0	516	4,716	-4,716	0
Sales	10,439	9,438	434	8,064	-1,374	0	0	14	-1,360	1,360	-284
Fees and Charges	112,372	108,484	-25	108,729	245	-334	0	-189	-278	278	25
Rents	8,358	8,629	0	10,804	2,175	-1,392	0	-63	720	-720	0
Recharges To Other Services	215,198	224,407	10	241,929	17,522	3,408	0	-4,176	16,754	-16,754	0
Other	8,949	6,694	0	18,369	11,675	0	0	-696	10,979	-10,979	0
<b>Total Income</b>	<b>1,043,615</b>	<b>1,063,288</b>	<b>433</b>	<b>1,077,426</b>	<b>14,138</b>	<b>1,683</b>	<b>0</b>	<b>-5,090</b>	<b>10,731</b>	<b>-10,731</b>	<b>-259</b>
<b>NET EXPENDITURE</b>	<b>395,795</b>	<b>413,842</b>	<b>4,544</b>	<b>378,620</b>	<b>-35,222</b>	<b>17,463</b>	<b>-42</b>	<b>14,147</b>	<b>-3,654</b>	<b>3,654</b>	<b>-301</b>

## Appendix 4: General Fund Earmarked Reserves as at 31 March 2019

	EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	OPENING BALANCE £'000	USE OF RESERVES £'000	CONTRIBUTION TO RESERVES £'000	TRANSFERS BETWEEN RESERVES £'000	TOTAL MOVEMENT ON RESERVES £'000	CLOSING BALANCE AT 31 MAR 2019 £'000
1	T&P AAP/Members Reserve	T&P	-1,850	634	0	-265	369	-1,481
2	T&P Grant Reserve	T&P	-1,224	175	0	-39	136	-1,088
3	T&P Operational Reserve	T&P	-1,573	466	-247	-1,050	-831	-2,404
4	T&P Transformation Reserve	T&P	-2,147	457	0	0	457	-1,690
5	Social Care Reserve	AHS	-21,235	1,032	-7,541	2,338	-4,171	-25,406
6	Public Health Reserve	AHS	-2,943	509	-1,534	-492	-1,517	-4,460
7	Children's Services Reserve	CYPS	-1,875	771	-887	-200	-316	-2,191
8	Education Reserve	CYPS	-14,285	2,343	-3,156	1,226	413	-13,872
9	Env, Health and Consumer Protection Reserve	REAL	-735	153	0	0	153	-582
10	Neighbourhoods AAP Reserve	REAL	-71	71	0	0	71	0
11	Direct Services Reserve	REAL	-2,905	945	-116	0	829	-2,076
12	Culture and Sport Reserve	REAL	-3,680	388	-191	-150	47	-3,633
13	Technical Services Reserve	REAL	-2,798	1,085	0	0	1,085	-1,713
14	Business Growth Fund Reserve	REAL	-743	139	0	0	139	-604
15	Economic Development Reserve	REAL	-1,501	209	-1,052	-10,772	-11,615	-13,116
16	Planning Reserve	REAL	-1,573	0	-7	0	-7	-1,580
17	North Pennines AONB Partnership Reserve	REAL	-1,302	0	-165	0	-165	-1,467
18	Employability and Training Reserve	REAL	-57	0	0	0	0	-57
19	REAL Match Fund Programme Reserve	REAL	-1,653	66	0	0	66	-1,587
20	Housing Regeneration Reserve	REAL	-1,086	35	0	413	448	-638
21	Housing Solutions Reserve	REAL	-1,680	265	-611	0	-346	-2,026
22	Restructure Reserve	REAL	-114	0	0	114	114	0
23	Transport Reserve	REAL	-1,065	940	-140	-226	574	-491
24	Funding and Programmes Management Reserve	REAL	-480	2	0	0	2	-478
25	Customer Services Reserve	Resources	-346	12	0	0	12	-334
26	Resources Corporate Reserve	Resources	-890	0	-426	890	464	-426
27	Resources DWP Grant Reserve	Resources	-2,233	34	-217	1,028	845	-1,388
28	Resources System Development Reserve	Resources	-412	44	0	0	44	-368
29	Resources Housing Benefit Subsidy Reserve	Resources	-820	0	-589	268	-321	-1,141
30	Resources Revenue and Benefits Reserve	Resources	-980	167	-150	205	222	-758
31	Resources Legal Reserves	Resources	-354	0	0	-25	-25	-379
32	Resources Elections Reserve	Resources	-709	0	-56	0	-56	-765
33	Resources ICT Reserves	Resources	-1,326	174	-325	0	-151	-1,477
34	Resources Registrars Trading Reserve	Resources	-200	0	0	0	0	-200
35	Resources Human Resources Reserves	Resources	-426	126	0	0	126	-300
36	Resources Operations and Data Reserve	Resources	0	0	-50	0	-50	-50
37	Equal Pay Reserve	Corporate	-19,509	16	0	4,500	4,516	-14,993
38	Insurance Reserve	Corporate	-11,485	0	-1,803	3,300	1,497	-9,988
39	Performance Reward Grant Reserve	Corporate	-38	0	0	38	38	0
40	ER/VR Reserve	Corporate	-7,507	5,024	0	-6,164	-1,140	-8,647
41	Office Accommodation Project Support Reserve	Corporate	-77	0	0	77	77	0
42	Budget Support Reserve	Corporate	-30,000	340	0	0	340	-29,660
43	Office Accommodation Capital Reserve	Corporate	-31,731	87	0	-1,300	-1,213	-32,944
44	Inspire Programme Reserve	Corporate	-1,379	493	0	0	493	-886
45	Commercialisation Support Reserve	Corporate	-4,000	0	0	-1,800	-1,800	-5,800
46	Capital Reserve	Corporate	0	0	-1,810	-700	-2,510	-2,510
47	Feasibility Study Reserve	Corporate	0	0	0	-500	-500	-500
	<b>Total Earmarked Reserves</b>		<b>-182,997</b>	<b>17,202</b>	<b>-21,073</b>	<b>-9,286</b>	<b>-13,157</b>	<b>-196,154</b>
	<b><u>Cash Limit Reserves</u></b>							
48	Adult and Health Services		-8,238	37	-3,994	4,276	319	-7,919
49	Children and Young People's Services		-1,248	-1,632	3,395	-515	1,248	0
50	Regeneration and Local Services		-6,155	775	-1,129	3,357	3,003	-3,152
51	Resources		-2,231	98	-1,536	2,097	659	-1,572
52	Transformation and Partnerships		-415	227	-84	0	143	-272
	<b>Total Cash Limit Reserves</b>		<b>-18,287</b>	<b>-495</b>	<b>-3,348</b>	<b>9,215</b>	<b>5,372</b>	<b>-12,915</b>
	<b>Total Council Reserves</b>		<b>-201,284</b>	<b>16,707</b>	<b>-24,421</b>	<b>-71</b>	<b>-7,785</b>	<b>-209,069</b>
	<b><u>Schools' Balances</u></b>							
Sch 1	Schools' Revenue Balance	CYPS	-18,415	270	0	455	725	-17,690
Sch 2	DSG Reserve	CYPS	-4,734	5,467	0	-384	5,083	349
	<b>Total Schools and DSG Reserve</b>		<b>-23,149</b>	<b>5,737</b>	<b>0</b>	<b>71</b>	<b>5,808</b>	<b>-17,341</b>

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