

Cabinet

16 November 2016

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



**Report of Corporate Management Team
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Purpose of the Report

- 1 To provide Cabinet with an updated forecast of 2016/17 revenue and capital outturn, based on the period to 30 September 2016 and including an updated forecast for the Council's Council Tax and Business Rates Collection Fund position at 31 March 2017.

Background

- 2 This report updates the position presented to Cabinet on 14 September 2016 that showed the forecasted revenue and capital outturn based on expenditure and income up to 30 June 2016, providing updates to these forecasts and revised forecast balances on general reserves and earmarked reserves at 31 March 2017. The report also includes the updated forecasts for the Council Tax Collection Fund and Business Rates Collection Fund for 2016/17.

Revenue Outturn Forecast – Based on Position to 30 September 2016

- 3 The table overleaf compares the forecast with the revised budget with further detail to be found in Appendices 2 and 3.
- 4 The following adjustments have been made to the Original Budget agreed by Full Council in February 2016:
 - (i) agreed budget transfers between Service Groupings;
 - (ii) additions to budget for items outside the cash limit (for Cabinet consideration and recommended approval);
 - (iii) planned use of or contribution to Earmarked Reserves (please refer to Appendix 4).

Forecast of Revenue Outturn 2016/17

	Original Budget 2016/17	Budget - incorporating adjustments	Service Groupings Forecast of Outturn	Forecasted Variance
	£'000	£'000	£'000	£'000
Assistant Chief Executive	9,448	10,975	10,953	-22
Children and Adults Services	250,015	265,277	263,495	-1,782
Neighbourhood Services	105,704	110,268	109,404	-864
Regeneration and Economic Development	25,257	27,364	26,972	-392
Resources	16,282	17,795	16,629	-1,166
Cash Limit Position	406,706	431,679	427,453	-4,226
Contingencies	6,194	3,482	3,482	0
Corporate Costs	4,235	3,766	3,567	-199
NET COST OF SERVICES	417,135	438,927	434,502	-4,425
Capital charges	-55,478	-55,478	-55,478	0
Interest and Investment income	-1,641	-1,741	-5,301	-3,560
Interest payable and similar charges	37,401	38,776	38,576	-200
Levies	15,929	15,929	15,929	0
Net Expenditure	413,346	436,413	428,228	-8,185
Funded By:				
Council tax	-185,798	-185,798	-185,798	0
Use of earmarked reserves	-11,621	-29,586	-29,586	0
Estimated net surplus on Collection Fund	-2,617	-2,617	-2,617	0
Start up Funding Assessment	-192,977	-192,977	-192,977	0
New Homes Bonus	-10,182	-10,182	-10,182	0
New Homes Bonus - Re-imbursement	-267	-267	-267	0
Section 31 Grant	-4,267	-4,267	-4,302	-35
Education Services Grant	-5,407	-5,407	-5,407	0
Forecast contribution to/from(-) Cash Limit Reserve	-210	-5,312	-1,086	4,226
Forecast contribution to General Reserves	0	0	3,994	3,994
TOTAL	0	0	0	0

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

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

SERVICE GROUPING	PROPOSAL	Amount
		£ million
Children and Adults Services (CAS)	Premises related costs for former school buildings	0.189
Regeneration and Economic Development (RED)	Concessionary fares underspend	-0.389
Resources	Agency Staffing - Additional capacity to accommodate Teaching Assistants consultation	0.050
Total		-0.150

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

Type of Reserve	Opening Balance as at 1 April 2016 £ million	Budgeted use at 1 April 2016 £ million	Movement during 2016/17		2016/17 Forecast of Outturn £ million
			Planned use of reserve £ million	Contribution to (-) reserve £ million	
Service Grouping Cash Limit					
Assistant Chief Executive	-0.277	0.000	0.000	-0.022	-0.299
Children and Adults Services	-13.500	0.142	2.206	-1.782	-12.934
Neighbourhoods	-2.579	0.000	2.052	-0.864	-1.391
Regeneration and Econ Development	-3.792	0.000	0.519	-0.392	-3.665
Resources	-2.151	0.068	0.325	-1.166	-2.924
TOTAL CASH LIMIT RESERVE	-22.299	0.210	5.102	-4.226	-21.213
General Reserve	-29.101	0.000	0.000	-3.944	-33.045

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

Assistant Chief Executive (ACE)

- 9 The forecast revenue outturn for 2016/17 is a cash limit underspend of circa £22,000 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 one was £10,000.
- 10 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE to remain within the cash limit. The main reasons for the projected underspend is the net effect of the following items;
- Partnerships and Community Engagement - £14,000 overbudget, primarily due to an overspend on employee costs as a result of the 3% staff turnover target not being met in this service.
 - Planning and Performance – £42,000 overbudget due to a managed overspend on employee related costs.
 - Policy and Communications - £78,000 underbudget, predominantly resulting from a £56,000 managed underbudget on employee related costs across the service.
- 11 In arriving at the forecast cash limit outturn position £0.353 million relating to contributions to and from reserves and cash limits have been excluded from the outturn. The major elements include:
- £0.220 million relating to funding of the transformation agenda;
 - £87,000 from the Corporate MTFP reserve to fund the cost of early retirements/voluntary redundancies;
 - £20,000 delivering projects in the community.
- 12 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the total cash limit reserve forecasted to be carried forward for ACE is £0.299 million from April 2017.

Children and Adults Services (CAS)

- 13 The updated 2016/17 projected outturn position for Children and Adults Services (CAS), based on the position to 30 September 2016, is a cash limit underspend of £1.782 million to year end. This represents circa 0.7% of the total budget for CAS and compares to a previously forecast position of a £2.147 million cash limit underspend based on the position to 30 June 2016.
- 14 The projected outturn takes into account adjustments for sums outside the cash limit including redundancy costs which are met from the corporate reserve, capital accounting entries and use of / contributions to earmarked reserves.

- 15 There are further premises related costs of £0.173 million relating to the former Greenland Community Primary, Consett Academy, Stanley School of Technology, Consett Moorside Comprehensive, Blackfyne Comprehensive, Wolsingham, Gilesgate and Hare Law schools, which have been treated as outside the cash limit. The total outside the cash limit is now £0.189 million taking into account the quarter one adjustments.
- 16 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across CAS to remain within the cash limit and is accounted for by the net effect of the following items:
- Early achievement of a number of proposed future MTFP savings from management and support service proposals across Adult Care and related areas, together with the careful management and control of vacant posts and supplies and services budgets across the service has created a projected net underspend for the year of £3.258 million.
 - Net spend on adult care packages is forecast to be £0.740 million below budget. This area of spend is being closely monitored to assess the impact of demographic and procedural/operational changes, where significant MTFP savings have been taken over recent years. Ongoing savings have arisen from the consistent and effective application of the existing eligibility criteria, though the level of underspend in this area is significantly reduced when compared to recent years.
 - Children's Services are forecasting a net overspend of £2.960 million. This is primarily related to costs associated with Children's placements, both those who have a legal status of looked after and those young people in permanent placements that are financially supported by the council. Current levels of demand have led to the number of children being looked after being at close to the highest recorded level for County Durham. A review of the MTFP savings proposals planned for 2017/18 in this area is underway.
 - Children's Services are also forecasting a £0.4 million overspend on staffing due to increased costs associated with agency staff covering vacancies and absences required to maintain safe service levels. This additional cost is mitigated by the service successfully accessing a range of grants that had previously not been budgeted for.
 - The Education Service is currently forecasting a net underspend of £0.743 million. This relates to early achievement of MTFP savings, staff vacancies, reduction in pension liabilities and additional service level contract income.

- Changes to the Home to School transport policy took effect from September and based on work undertaken to date there is an overspend forecast on Post 16 students unable to travel independently due to SEND as a result of greater numbers of students eligible for hardship funding than provided for. This is offset by an underspend in across other areas of transport provision, partly due to better commissioning arrangements, so overall home to school transport is forecast to be within budget by the end of the year at this stage. Work is ongoing to review the Autumn term contracts and assess the value of any further requests via the hardship fund which will help clarify the quarter three forecast.
- 17 Taking the projected outturn position into account, including the transfer to/from Reserves in year, the estimated cash limit reserve to be carried forward for Children and Adults Services is forecast to be £12.934 million.

Neighbourhood Services

- 18 The forecast revenue outturn for 2016/17 is a cash limit under spend of £0.864 million, after taking account of the forecast use of reserves and items outside the cash limit. This compares to a cash limit underspend forecast at quarter one of £0.669 million.
- 19 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Neighbourhood Services to remain within the cash limit. The main reasons accounting for the outturn position are shown below:
- Within Direct Services, there is an overall underspend of £0.700 million forecast. This is mainly due to the early achievement of future years' MTFP savings (£0.393 million), and increased income relating to Trade and Bulky Waste (£0.440 million) which is being offset by delayed 2016/17 savings relating to Fleet (£89,000).
 - Technical Services is showing a small underspend of £16,000. This the net position and includes an overspend of approximately £1.1 million within Highways Services, due to additional policy led expenditure on highways maintenance mainly in relation to Category 1 and 2 defects, and footway maintenance, which is being offset by additional surpluses generated within Design Services (£0.266 million) and Highways Operations (£0.914 million).
 - Environment, Health and Consumer Protection is projected to underspend by £0.139 million, largely attributable to underspends on employees and premises in Health Protection.
 - Within Projects & Business Services there is an underspend of £0.340 million, which is mainly due to savings on employee costs within Business Support and Customer Services.

- Culture & Sport is projected to overspend by £0.324 million. This is due to both reduced income and increased costs amounting to £0.506 million at the Gala Theatre, along with an overspend of £48,000 associated with the appointment of an additional Tier 4 post within the service. These overspends are partially offset by savings on leisure facilities of £0.230 million.
- 20 In arriving at the forecast outturn position £1.687 million relating to contributions to and from reserves and cash limits have been excluded from the outturn. The major elements include:
- £0.273 million drawn down from the MTFP redundancy reserve
 - a net use of earmarked reserves and cash limits to support specific projects in 2016/17, including a £0.314 million use of earmarked reserves to support one off expenditure in Highways; a £0.200 million use of earmarked reserves in respect of Refuse Collection and Fleet, and a £0.800 million use of earmarked reserves in Culture & Sport. This latter element specifically relates to externally funded projects (£0.400 million), Lumiere festival (£0.2 million), and World War I commemorations (£0.2 million).
- 21 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the forecasted cash limit reserve to be carried forward for Neighbourhood Services is £1.391 million.

Regeneration and Economic Development (RED)

- 22 The forecast revenue outturn for Regeneration and Economic Development is a cash limit underspend of £0.392 million in 2016/17. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year-end capital accounting entries and use of contributions to earmarked reserves. This compares to a cash limit underspend forecast at quarter one of £0.299 million.
- 23 The forecast underspend is a managed position. The Heads of Service across RED continue to proactively manage activity to remain within the cash limit. The main reasons accounting for the outturn position are shown below:
- Strategy Programmes and Performance - £0.140 million managed saving on employee related costs due to staff vacancies.
 - Economic Development and Housing - £0.633 million underbudget, primarily due to managed savings on employee costs and additional income for Business Space and Gypsy Roma Traveller sites.

- Planning and Assets - £0.300 million overspend, which consists of a £6,000 underspend in the Planning Service and a £0.306 million overspend on Assets. The underspend in the Planning Service primarily results from planned savings in Development Management, Building Control and Environment and Design, offset by agreed managed overspend on the Local Development Framework. Assets is continuing to experience income pressures, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre in Peterlee and the Millennium Square in Durham City where rental income is not being achieved.
 - Transport and Contracted Services - £0.81 million overspend, primarily resulting from unachieved income, mainly in relation to Parking, offset by greater than expected SLA and client income levels in Care Connect.
- 24 In arriving at the forecast outturn position some £0.598 million relating to contributions to and from reserves and cash limits has been excluded from the outturn. The major elements include:
- £0.208 million relating to support employability initiatives;
 - £0.150 million relating to welfare assistance initiatives;
 - £0.112 million relating to initiatives to help local businesses;
 - £0.128 million to support other service initiatives and projects.
- 25 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the forecasted cash limit reserve to be carried forward for Regeneration and Economic Development is £3.665 million.

Resources

- 26 The updated forecast outturn for Resources is a cash limit underspend of £1.166 million to year end. 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 one was £0.913 million.
- 27 The Heads of Service across Resources continue to proactively manage activity to remain within the cash limit. The projected under spend position is the net effect of the following items:
- Corporate Finance is forecast to be underbudget by £0.112 million. This relates to the overachievement of income across the service, including Procurement (£36,000), Strategic Finance (£21,000) and Pensions (£47,000).

- Financial Services is forecast to be underbudget by £0.430 million, consisting of a managed underspend against employees in Revenues and Benefits in advance of a restructure to achieve 2017/18 MTFP savings (£0.566 million) and additional Financial Management SLA income (£0.142 million), offset in part by managed overspending on agency packages (£0.350 million) and other variances.
- ICT Services is forecasting an underbudget position of £0.133 million, mainly through underspending on employees (£0.164 million), transport (£70,000) and supplies and services (£0.343 million) less underachieved income (£0.448 million). The supplies and services and income reductions relate mainly to printing service forecasts.
- Internal Audit & Risk is forecast to be underbudget by £83,000, with a managed underspend on employees accounting for £77,000 of the variance, in advance of a restructure to achieve 2017/18 MTFP savings.
- Legal and Democratic Services is forecast to be underbudget by £0.408 million, which includes a £0.184 million managed underspend on employees and £0.138 million on supplies and services in advance of 2017/18 MTFP savings, and increased income of £0.108 million for Electoral Registration grant.
- Central charges are £0.325 million overbudget, which relates to an agreed revenue contribution to fund the costs of a capital investment in ICT.

28 The forecast cash limit outturn shows the position after contributions from reserves and cash limits have been applied to finance the following items:

- £0.254 million from the Corporate MTFP reserve to fund the cost of early retirements/voluntary redundancies
- £22,000 from the Corporate Equal Pay Reserve to fund the costs of advice received in relation to equal pay settlements.
- £21,000 from the Oracle Development Reserve to fund improvements to the Oracle System.
- £0.111 million from the Land Search Fees Reserve to finance the costs of legal fees incurred during the settlement of the dispute with the private search companies.
- £0.113 million from the ICT Trading Reserve to fund costs of transferring the Children's services support system from Capita to Servelec Synergy (formerly Tribal).

Corporate Costs / Contingencies

- 29 The forecast revenue outturn for 2016/17 for Resources – Centrally Administered Costs is a cash limit underspend of £0.199 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 of a £0.108 million underspend at quarter 1.
- 30 The forecast outturn position is mainly accounted for by a net underbudget position on payment card charges (£76,000), subscriptions (£82,000) and expenses associated with loans (£32,000).
- 31 In arriving at the forecast outturn position some £93,000 relating to contributions to and from earmarked reserves have been excluded from the outturn, all of which relates to the welfare reform agenda.
- 32 At this time it is forecast that the full contingencies budget will be expended. The 2016/17 MTFP saving in relation to the 'Review of Business Support functions' was held against the contingencies budget until such time as the saving could be allocated to the relevant budget. It is presently forecast that this saving will not be achieved in 2016/17 and will in future form part of the Transformation Programme.

Central Budgets

- Interest Payable and Similar Charges - Capital Financing

- 33 Following a review of capital financing costs, linked to re-profiling within the capital programme earlier in the year, there is a forecast underspend of £0.200 million. This saving is being achieved due to lower than forecast interest rates on loans and borrowing not needing to take place yet due to higher levels of cash balances than forecast.

- Interest and Investment Income

- 34 The forecast at this stage is an overachievement of income of £3.560 million which is mainly due to receipt of a special dividend of £2.640 million arising from the refinancing of Newcastle Airport and a higher than anticipated level of cash balances. This is due in the main to capital expenditure being below base budget levels and generally higher than forecast cash balances.

Council Earmarked Reserves Forecast

- 35 The table at Appendix 4 sets out the Council's earmarked reserves plus two earmarked reserves for schools, where funding has been set aside in anticipation of future expenditure and shows the forecasted balance on these reserves by 31 March 2017.

- 36 A summary of the latest forecast of Council reserves by 31 March 2017 is shown below. Elements of the utilisation of £17.1 million of Earmarked Reserves are detailed in the service grouping commentaries. This level of utilisation is to be expected as these sums are expended upon the area they were earmarked for.

	Earmarked	Cash Limit	TOTAL
	£ million	£ million	£ million
Opening Earmarked Balances as at 1 April 2016	-183.076	-22.299	-205.375
Adjusted for forecasted increase (-) / use of Earmarked Reserves	17.120	1.086	18.206
Forecasted Earmarked Reserve Balance as at 31 March 2017	-165.956	-21.213	-187.169

Schools

- 37 Cumulative school reserves brought forward from 2015/16 were £24.083 million. This balance is net of loans to schools and other balances not related to maintained schools. Maintained schools balances amounted to £23.880 million. Based on budget plans approved by Governing bodies and the latest updated forecasts, schools are currently planning to use £10.308 million of these balances in 2016/17. The forecast balances at 31 March 2017 are therefore £13.572 million and a summary of this forecast position is provided below:

	Nursery	PRU	Primary	Secondary	Special	Total
Schools forecasting a surplus balance above 2.5% of annual funding						
Number	12	-	168	6	9	195
Forecast Balances	-£0.628m	-	-£13.107m	-£1.779m	-£1.442m	-£16.956m
Schools forecasting a surplus balance of less than 2.5% of annual funding						
Number	-	1	29	5	-	35
Forecast Balances	-	-	-£0.353m	-£0.313m	-	-£0.666m
Schools forecasting a deficit balance						
Number	-	-	9	5	-	14
Forecast Balances	-	-	£0.224m	£3.826m	-	£4.050m
TOTAL						
Number	12	1	206	16	9	244
Forecast Net Balances	-£0.628m	-	-£13.236m	£1.734m	-£1.442m	-£13.572m

- 38 The School Funding Team is visiting schools this term to review their budgets and forecasts of their year-end position, as part of preparation for budget-setting for 2017/18. Three of the secondary schools have long-term financial problems and options for resolving these problems are currently being explored by the CYPS management team. The other two secondary schools with forecast deficits based on initial budget plans are expected to have resolved their position at the end of the year, after recently completing staff restructuring exercises and the forecasts will be updated at quarter three. The primary schools with forecast deficits are all expected to be able to alter their spending plans to avoid a deficit; where this is not now the case following budget reviews they are starting staff restructuring exercises to address these base budget issues and the forecasts will be updated at quarter three.

Capital

Background

- 39 On 13 July 2016 Cabinet received a report, which provided details of the final outturn position of the 2015/16 Capital Programme. The report also included the additional capital allocations of £54.422 million approved by Full Council on 24 February 2016 and the reprofiling of budgets from 2015/16 amounting to £17.119 million, which resulted in the establishment of the original 2016/17 budget of £126.090 million shown in the table overleaf.
- 40 Cabinet has subsequently approved further revisions to the capital programme, on 14 September 2016 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. The revised 2016/17 Capital programme approved by Cabinet on 14 September 2016 is £128.653 million.

Current Position

- 41 The following table summarises the latest capital budget for approval, alongside the original budget and the budget reported in Quarter 1. The table also shows the forecast outturn for each service and the actual capital spend as at 30 September 2016.

Service Grouping	Original Budget 2016/17	Revised Budget 2016/17 Quarter 1	Amendments Recommended	Revised Budget 2016/17 Quarter 2	Projected Outturn 2016/17	Actual Spend to 30 September 2016
	£ million	£ million	£ million	£ million	£ million	£ million
Assistant Chief Executives	5.622	5.636	-0.272	5.364	5.364	0.657
Children and Adult Services	30.889	31.350	-1.939	29.411	29.411	14.704
Neighbourhoods	44.188	45.224	2.596	47.820	47.820	18.569
Regeneration and Economic Development	33.523	34.226	5.759	39.985	39.985	17.216
Resources	11.868	12.217	0.278	12.495	12.495	1.291
TOTAL	126.090	128.653	6.422	135.075	135.075	52.437

42 Since the revised Quarter 1 budget was reported to Cabinet on 14 September 2016, MOWG has considered a number of variations to the capital programme which are a result of additional resources received by the Council. The variations of note are as follows:

- **CAS – Additions – School Related** - The Schools Capital Maintenance budget has been increased by £0.798 million and will be funded from Direct Revenue Funding, school contributions and earmarked capital receipts. This includes the sale of surplus land at Wellfield School (£0.240 million) and the former sites of Durham Free School (£0.385 million) and Trimdon Village Community Infant School (£0.135 million).
- **CAS – Additions – Public Health** - Direct Revenue Funding has been identified towards the installation of broadband connectivity to support the 0-19 Public Health Contract (£71,000).
- **Neighbourhood Services – Additions** - The budget to improve the changing facilities at the former Roseberry school site has been increased by £0.514 million. The associated funding includes Section 106 money (£69,038), a grant from the Football Foundation (£0.293 million) and a contribution from the Neighbourhood Services Cash Limit Reserve (£0.151 million). The Gala Picturehouse refurbishment project will receive a £0.450 million contribution from the Neighbourhood Services Picturehouse Earmarked Reserve.
- **RED – Additions – Economic Development and Housing** - This budget has been increased by £3.789 million. This includes £0.167 million Section 106 money towards the Seaham Master Plan for work at Green Street and Railway Street, grant funding to the value of £50,000 from the Home and Communities Agency project towards the demolition of Unit 6 Faraday Road, on the North East Industrial Estate Peterlee, private sector contributions of £12,827 towards Group Repair Schemes in Craghead, Dawdon and Wembly. Borrowing to the value of £3.314 million is required to purchase Salvus House (£2.894 million) in advance of securing a grant from the North East Local Enterprise Partnership

(NELEP) and to support the Chapter Homes Agnew 5 Development at Newton Aycliffe (£0.420 million), which is also to be financed by the application of capital receipts to the value of £0.180 million. The Chapter Homes Development in Chester-le-Street will also be supported by capital receipts to the value of £65,000.

- **RED – Additions – Planning and Assets** – This budget has been increased by £1.662 million. This includes capital receipts to the value of £1.365 million to meet the cost of demolishing the former sites of Seaham School of Technology (£1.1 million) and Trimdon Village Community Infant School (£65,000) along with acquisition of land relating to the development of Stanley Bus Station (£0.300 million). Corporate contingencies to the value of £0.297 million will be used for the acquisition of Leazes Lane, Wolsingham.
- **RED – Additions – Transport and Contracted Services** – The Durham Wheels to Work Project has secured a £50,000 grant from NECA.

43 Budget managers continue to challenge and review the programming and phasing of works, which has resulted in the reprofiling of the following budgets in line with anticipated activity in 2016/17:

- **CAS** – Reprofile £2.885 million of the BSF budget from 2016/17 to 2017/18.
- **Neighbourhood Services – Strategic Highways** - To bring forward £2.019 million of the street lighting schemes from 2017/18 to 2016/17.
- **Neighbourhood Services – Culture and Museums** – Reprofile £0.466 million of the Gala Picturehouse refurbishment project from 2016/17 to 2017/18.
- **RED – Economic Development and Housing** – Reprofile £0.250 million of the Salvus House budget from 2017/18 to 2016/17 to facilitate the acquisition of this asset. Reprofile £0.100 million of the Seaham Master Plan – Railway Street and Green Street budget from 2016/17 to 2017/18. Reprofile of the Group Repair schemes in Craghead (£3,618) and Wembly (£6,303) from 2016/17 to 2017/18 as well as bringing forward £2,222 of the Dawdon Group Repair scheme from 2017/18 into 2016/17.
- **Resources - ICT Services** – To bring forward £0.330 million of the Storage Platform scheme at the Data Centre Tanfield from 2017/18 to 2016/17 and to reprofile £51,949 of the Members' ICT replacement budget into 2017/18.

Capital Financing

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

Financed By:	Original Budget 2016/17	Revised Budget 2016/17 Quarter 1	Amendments recommended by MOWG	Revised Budget 2016/17 Quarter 2
	£ million	£ million	£ million	£ million
Grants and Contributions	42.771	44.536	0.570	45.106
Revenue and Reserves	0.929	1.352	0.507	1.859
Capital Receipts	15.883	15.883	2.370	12.253
Borrowing	66.507	66.882	2.975	69.857
TOTAL	126.090	128.653	6.422	135.075

Council Tax and Business Rates Collection Funds

Council Tax

- 45 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.
- 46 The collection rate at 30 September 2016 was above the target of 56.70%, and is an improvement of 0.42 percentage points over 2015/16. This has been achieved through continued automation of the 2016/17 recovery schedule used to target non-payers, e-enablement of processes and availability of a wide range of payment methods.
- 47 The in-year collection rates in Quarter 2 for the last three years including the current year are shown below:

Billing Year	Position at 30 September Each Year %
2016/17	56.89
2015/16	56.47
2014/15	55.91

- 48 The current overall collection rate for 2015/16 council tax liabilities is now 97.44%, and for 2014/15 the rate is now 98.11%. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.48% which is line with our medium term financial plan forecasts.

- 49 The income shown in the Council Tax Collection Fund is the amount collectable from Council Tax payers in the long run, rather than the actual cash collected in the year the charges are raised. Likely bad debts are accounted for by maintaining a bad debt provision. The amount estimated to be collectable is estimated each year by reference to the actual council taxbase for all domestic properties in the county (schedule of all properties, discounts and reliefs) with an allowance for non-collection, currently 1.5%.
- 50 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.
- 51 Such differences at the end of each accounting year, after taking into account the calculated change required in the 'bad debt' provision, determines whether a surplus or deficit has arisen, which is then shared proportionately between the Council and its major preceptors, being Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Authority.
- 52 At 30 September 2016, the estimated outturn for the Council Tax Collection Fund is a surplus of £2.578 million as shown in the table below. Durham County Council's share of this forecasted surplus is £2.169 million.

	£ million
Net Bills issued during Accounting Year 2016/17	291.150
LCTRS and previous years CTB adjustments	-52.597
Calculated change in provision for bad debts required and write offs	-3.873
Net income receivable (a)	234.680
Precepts and Demands	
Durham County Council	185.798
Parish and Town Councils	11.513
Durham Police and Crime Commissioner	22.219
County Durham and Darlington Fire and Rescue Authority	12.822
Total Precepts and Demands (b)	232.352
Net Surplus / (-) Deficit for year (a) – (b)	2.328
Surplus Brought Forward from 2015/16	0.250
Estimated Year end surplus	2.578

- 53 At 15 January in each year, the estimated surplus/deficit on the Collection Fund Council Tax Account is notified to the two major preceptors for inclusion in the budget setting process for the following year as an additional income or expenditure item.

- 54 At 15 January 2017 an estimated year end position on the Council Tax Collection Fund for 2016/17 will be declared and taken into account in the budget setting process for 2017/18. Any difference between this and the actual surplus at 31 March 2017 will be carried forward to 15 January 2018 and will be taken into account in estimating the surplus/deficit for 2017/18, which will need to be taken into account for 2018/19 budget setting.
- 55 Over the past four years, the Council Tax provision for bad debts has been increasing steadily. This managed approach has been necessary to minimise the risk of the Council Tax Collection Fund moving into deficit whilst securing the robustness of the levels of provision held. The position has now been reached where maintaining the provision at a prudent level does not prevent the declaration of a surplus.

Business Rates

- 56 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.
- 57 Bills raised, exemptions and reliefs awarded are examined together with local knowledge of anticipated changes in reliefs such as Mandatory Charitable Relief and Discretionary Rate Relief on a monthly basis to enable a comparison with the January 2016 estimate of 2016/17 Business Rates income that was used for budget setting purposes. At 30 September 2016, the estimated outturn for the Collection Fund Business Rates is a surplus of £1.634 million, arrived at as shown in the table below, which takes into account the undeclared deficit as at 31 March 2016.

	£ million
Net rate yield for 2016/17 including previous year adjustments	120.882
Estimate of changes due to appeals lodged and future appeals	-3.913
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-1.813
Net income receivable (a)	115.156
Agreed allocated shares	
Central Government (50%)	55.918
Durham County Council (49%)	54.800
County Durham and Darlington Fire and Rescue Authority (1%)	1.118
Cost of Collection Allowance and Renewable Energy (paid to Durham County Council)	0.688
Total fixed payments (b)	112.524
Net surplus for year (a) – (b)	2.632
Undeclared Deficit brought forward from 2015/16	-0.998
Estimated year end Surplus	1.634

- 58 The in-year estimated surplus of £2.632 million is offset by the total undeclared deficit brought forward from 2015/16, leaving an estimated surplus of £1.634 million at 31 March 2017. Any surpluses or deficits at 31 March in any year are shared proportionately between Durham County Council, Central Government and County Durham and Darlington Fire and Rescue, Durham County Council's share being 49%. Durham County Council's share of the estimated year end surplus will therefore be £0.801 million.
- 59 The payment profile on collection performance is changing due to more businesses opting to spread their payments over 12 months rather than ten. The major Business Rates Payers have all opted to take up this opportunity to re-profile their cash flow. However, robust collection procedures have enabled the setting of a challenging collection rate target of 58.5% at 30 September 2016.
- 60 The in-year collection rates in Quarter 2 for the last three years, including the current year, are shown below:

Billing year	Position at 30 September Each Year %
2016/17	58.42
2015/16	58.65
2014/15	58.00

- 61 The 58.42% collection rate is marginally below the target by 0.08 percentage points.

- 62 The current overall collection rate for 2015/16 business rate liabilities is now 98.41% and for 2014/15 business rate liabilities is now 99.13%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.18% which is line with our medium term financial plan forecasts.

Section 31 Grant - Small Business Rate Relief

- 63 Small Business Ratepayers with properties with rateable values under £12,000 benefit from relief on their rates payable. The Government has awarded local authorities a special 'Section 31' grant to cover their share of the shortfall in business rates that these small business ratepayers would have paid had the relief scheme not been in place.
- 64 Small Business Ratepayers with properties with rateable values up to £6,000 are currently being granted full relief instead of 50% relief under the previous scheme, and properties with rateable values between £6,000 and £12,000 have a tapered relief applied to them ranging from 100% down to 0%, but in all cases double the standard relief.
- 65 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded.
- 66 The Government has only agreed to pay Section 31 grant for the additional Small Business Rate Relief in respect of business rates bills and adjustments thereof relating to the period commencing 1 April 2013. Any adjustments that relate to bills for years prior to this will be dealt with as part of the normal Rate Retention shares. At 30 September 2016, the gross Small Business Relief awarded against 2016/17 Business Rates bills and adjustments to 2015/16, 2014/15 and 2013/14 bills is £10.088 million, and on this the Council will receive £2.507 million in Section 31 Grant, including the capping adjustment.

Other Section 31 Grants

- 67 In the Autumn Statement 2013, 2014 and 2015, additional Business Rate Reliefs were announced for 2014/15, 2015/16 and 2016/17 for which Section 31 Grants would be payable. These included one for properties empty from new, reoccupation of long-term empty properties and an additional relief for small shops. Durham County Council will be recompensed for any retained rates foregone because of reliefs given.
- 68 When assessing estimated outturn income from Business Rates, due regard must also be given on the effect that changes in estimated reliefs will have on the Section 31 grants. At 30 September 2016, the increase in Durham County Council's Section 31 Grants (including Small Business Rate Relief) was £35,000.
- 69 Whilst the increase in S31 grants is accounted for in 2016/17, the surplus on Business Rates retention is accounted for in 2017/18.

Recommendations and Reasons

70 It is recommended that Cabinet:

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

Background Papers

- (a) County Council – 24 February 2016 – Medium Term Financial Plan 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17
- (b) Cabinet – 13 July 2016 - 2015/16 Final Outturn for General Fund, Housing Revenue Account and Collection Fund
- (c) Cabinet – 14 September 2016 - Forecast of Revenue and Capital Outturn 2015/16 – Period to 30 September 2016

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Appendix 1: Implications

Finance -

The report details the 2016/17 forecast of outturn position for Revenue and Capital and details the forecast movement on Reserves.

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

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

Appendix 3: Revenue Summary by Expenditure / Income for the period ended 31 March 2017

	Original Budget 2016/17	Revised Budget	Proposed Budget Revisions	Agreed Budget	Service Groupings Forecast of Outturn	Corporate Costs	Sums Outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves	Revised Service Outturn	Forecasted Variance (including Corporate Costs)	Forecasted Variance - Corporate Costs
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	496,559	503,589	187	503,776	500,226	484	-10	0	-810	499,890	-3,886	0
Premises	51,287	51,829	1,995	53,824	54,949	0	-171	-10	-178	54,590	766	0
Transport	41,402	41,431	-665	40,766	40,384	0	0	0	-5	40,379	-387	0
Supplies & Services	120,648	125,111	2,509	127,620	129,180	1,165	-2	-243	-1,316	128,784	1,164	-191
Agency & Contracted	310,712	307,586	7,905	315,491	318,865	2,251	0	0	-75	321,041	5,550	-8
Transfer Payments	209,047	188,468	12,071	200,539	199,976	0	0	0	-131	199,845	-694	0
Central Costs	75,877	92,700	-348	92,352	92,134	122	0	0	429	92,685	333	0
DRF	0	0	71	71	71	0	0	0	0	71	0	0
Other	25,199	25,083	300	25,383	26,350	0	0	-2,493	2,493	26,350	967	0
Capital Charges	55,478	55,478	0	55,478	55,478	0	0	0	0	55,478	0	0
GROSS EXPENDITURE	1,386,209	1,391,275	24,025	1,415,300	1,417,613	4,022	-183	-2,746	407	1,419,113	3,813	-199
Income												
Government Grants	584,251	545,871	12,206	558,077	559,632	305	0	0	151	560,088	-2,011	0
Other Grants and Contributions	70,538	73,548	-139	73,409	74,654	0	0	0	265	74,919	-1,510	0
Sales	8,881	7,774	296	8,070	7,960	150	0	0	10	8,120	-50	0
Fees and Charges	105,241	105,863	-286	105,577	107,516	0	0	0	-313	107,203	-1,626	0
Rents	8,787	7,627	59	7,686	6,972	0	0	0	0	6,972	714	0
Recharges To Other Services	190,646	211,426	10,910	222,336	225,266	0	0	0	142	225,408	-3,072	0
Other	6,924	7,203	115	7,318	8,160	0	0	0	-159	8,001	-683	0
Total Income	975,268	959,312	23,161	982,473	990,160	455	0	0	96	990,711	-8,238	0
NET EXPENDITURE	410,941	431,963	864	432,827	427,453	3,567	-183	-2,746	311	428,402	-4,425	-199

Appendix 4: Earmarked Reserves Position as at 30 September 2016

	EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2015/16 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2016/17 CLOSING BALANCE AS AT 30 SEPT 2016
			£'000	£'000	£'000	£'000	£'000	£'000
1	ACE AAP/Members Reserve	ACE	-3,606	876	0	0	876	-2,730
2	ACE Grant Reserve	ACE	-1,412	447	-52	0	395	-1,017
3	ACE Operational Reserve	ACE	-747	23	0	0	23	-724
4	Social Care Reserve	CAS	-13,363	2,499	-30	892	3,361	-10,002
5	Aycliffe Young People's Centre Reserve	CAS	-204	204	0	0	204	0
6	Continuing Professional Development Reserve	CAS	-1,201	200	-70	0	130	-1,071
7	Education Reserve	CAS	-3,652	1,181	-90	51	1,142	-2,510
8	Tackling Troubled Families	CAS	-1,697	1,160	-206	0	954	-743
9	Transformation Reserve	CAS	-2,924	1,611	0	-51	1,560	-1,364
10	Innovations and YEI Redundancy Reserve	CAS	-1,000	0	0	0	0	-1,000
11	Innovations 2018/19 2019/20	CAS	0	0	0	-1,059	-1,059	-1,059
12	YOS Development Reserve	CAS	-10	0	0	0	0	-10
13	Public Health Reserve	CAS	-4,955	2,670	0	-892	1,778	-3,177
14	Social Work Academy Reserve	CAS	0	371	0	-743	-372	-372
15	Neighbourhoods AAP Reserve	NS	-49	0	0	0	0	-49
16	Customer Services Reserve	NS	-233	70	0	23	93	-140
17	Direct Services Reserve	NS	-2,991	815	-159	0	656	-2,335
18	Env. Health and Consumer Protection Reserve	NS	-948	58	-240	26	-156	-1,104
19	Culture and Sport Reserve	NS	-3,112	2,147	-270	-1,383	494	-2,618
20	Strategic Waste Reserve	NS	-136	0	0	0	0	-136
21	Technical Services Reserve	NS	-4,353	939	0	-500	439	-3,914
22	Transport Asset Management Programme Reserve	NS	-160	160	0	0	160	0
23	Business Growth Fund Reserve	RED	-816	67	0	0	67	-749
24	Economic Development Reserve	RED	-1,323	199	0	0	199	-1,124
25	Planning Reserve	RED	-1,329	217	0	0	217	-1,112
26	North Pennines AONB Partnership Reserve	RED	-206	0	0	0	0	-206
27	Employability and Training Reserve	RED	-1,706	320	-100	0	220	-1,486
28	RED Match Fund Programme Reserve	RED	-2,012	0	0	0	0	-2,012
29	Housing Regeneration Reserve	RED	-320	100	0	0	100	-220
30	Housing Solutions Reserve	RED	-1,142	154	0	0	154	-988
31	Restructure Reserve	RED	-188	60	0	0	60	-128
32	Transport Reserve	RED	-249	0	0	0	0	-249
33	Funding and Programmes Management Reserve	RED	-156	0	0	0	0	-156
34	Resources Corporate Reserve	Resources	-931	270	0	0	270	-661
35	Resources DWP Grant Reserve	Resources	-2,035	195	-471	0	-276	-2,311
36	Resources System Development Reserve	Resources	-874	165	0	0	165	-709
37	Resources Housing Benefit Subsidy Reserve	Resources	-500	0	0	0	0	-500
38	Resources Revenue and Benefits Reserve	Resources	-200	0	0	0	0	-200
39	Resources Single Fraud Incentive Scheme	Resources	-257	0	0	0	0	-257
40	Resources Land Search Fees Reserve	Resources	-444	111	0	0	111	-333
41	Resources Legal Expenses Reserve	Resources	-200	0	0	0	0	-200
42	Resources Legal Services Reserve	Resources	-154	0	0	0	0	-154
43	Resources Elections Reserve	Resources	-1,010	0	0	0	0	-1,010
44	Resources ICT Reserves	Resources	-1,727	470	0	0	470	-1,257
45	Human Resources Reserve	Resources	-65	57	0	0	57	-8
46	Equal Pay Reserve	Corporate Fin	-9,529	24	0	0	24	-9,505
47	Insurance Reserve	Corporate Fin	-10,228	0	0	0	0	-10,228
48	Performance Reward Grant Reserve	Corporate Fin	-685	47	0	400	447	-238
49	MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-13,859	1,958	0	0	1,958	-11,901
50	Office Accommodation Project Support Reserve	Corporate Fin	-697	575	0	0	575	-122
51	Budget Support Reserve	Corporate Fin	-30,000	1,624	0	0	1,624	-28,376
52	Office Accommodation Capital Reserve	Corporate Fin	-42,481	0	0	0	0	-42,481
53	Housing Stock Transfer Reserve	Corporate Fin	-1,000	0	0	0	0	-1,000
54	Pension Deficit Reserve	Corporate Fin	-10,000	0	0	0	0	-10,000
	Total Earmarked Reserves		-183,076	22,044	-1,688	-3,236	17,120	-165,956
	Cash Limit Reserves							
55	Assistant Chief Executive		-277	0	-22	0	-22	-299
56	Children and Adults Services		-13,500	546	-1,782	1,802	566	-12,934
57	Neighbourhood Services		-2,579	618	-864	1,434	1,188	-1,391
58	Regeneration and Economic Development		-3,792	519	-392	0	127	-3,665
59	Resources		-2,151	393	-1,166	0	-773	-2,924
	Total Cash Limit Reserves		-22,299	2,076	-4,226	3,236	1,086	-21,213
	Total Council Reserves		-205,375	24,120	-5,914	0	18,206	-187,169
	Schools' Balances							
Sch 1	Schools' Revenue Balance	CAS	-24,083	10,308	0	0	10,308	-13,775
Sch 2	DSG Reserve	CAS	-12,185	2,152	0	0	2,152	-10,033
	Total Schools and DSG Reserve		-36,268	12,460	0	0	12,460	-23,808