

## **Cabinet**

**15 March 2017**

### **Forecast of Revenue and Capital Outturn 2016/17 – Period to 31 December 2016**



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### **Report of Corporate Management Team John Hewitt, Corporate Director Resources Councillor Alan Napier, Portfolio Holder for Finance**

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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 31 December 2016 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 16 November 2016 that showed the forecasted revenue and capital outturn based on expenditure and income up to 30 September 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 31 December 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:
  - (a) agreed budget transfers between Service Groupings;
  - (b) additions to budget for items outside the cash limit (for Cabinet consideration and recommended approval);
  - (c) planned use of or contribution to Earmarked Reserves (please refer to Appendix 4);

## Forecast of Revenue Outturn 2016/17

	Original Budget 2016/17	Budget - incorporating adjustments	Service Groupings Forecast of Outturn	Forecasted Variance
	£'000	£'000	£'000	£'000
Children and Adults Services	255,094	268,164	267,196	-968
Regeneration and Local Services	125,882	131,871	129,974	-1,897
Resources	16,282	18,187	16,658	-1,529
Transformation and Partnerships	9,448	10,660	10,573	-87
<b>Cash Limit Position</b>	<b>406,706</b>	<b>428,882</b>	<b>424,401</b>	<b>-4,481</b>
Contingencies	6,194	3,259	3,259	0
Corporate Costs	4,235	4,374	4,172	-202
<b>NET COST OF SERVICES</b>	<b>417,135</b>	<b>436,515</b>	<b>431,832</b>	<b>-4,683</b>
Capital charges	-55,478	-55,478	-55,478	0
Interest and Investment income	-1,641	-4,381	-5,207	-826
Interest payable and similar charges	37,401	42,146	41,946	-200
Levies	15,929	15,929	15,929	0
<b>Net Expenditure</b>	<b>413,346</b>	<b>434,731</b>	<b>429,022</b>	<b>-5,709</b>
<b>Funded By:</b>				
Council tax	-185,798	-185,798	-185,798	0
Use of earmarked reserves	-11,621	-26,372	-26,372	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-imburement	-267	-267	-267	0
Section 31 Grant	-4,267	-4,267	-4,302	-35
Education Services Grant	-5,407	-5,407	-5,392	15
Forecast contribution to/from(-) Cash Limit Reserve	-210	-6,844	-2,363	4,481
Forecast contribution to General Reserves	0	0	1,248	1,248
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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:

<b>Service Grouping</b>	<b>Proposal</b>	<b>Amount</b>
		<b>£ million</b>
Children and Adults Services (CAS)	Premises related costs for former school buildings	0.264
Regeneration and Local Services (REAL)	Concessionary fares underspend	-0.385
Regeneration and Local Services (REAL)	Strategic Employment Sites	0.158
Regeneration and Local Services (REAL)	Finance Durham start up costs	0.029
Resources	HR Staffing Capacity to accommodate additional workload	0.051
Resources	Coroners Service underspend	-0.079
<b>Total</b>		<b>0.038</b>

- 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:

<b>Type of Reserve</b>	<b>Opening Balance as at 1 April 2016</b>	<b>Budgeted use at 1 April 2016</b>	<b>Movement during 2016/17</b>		<b>2016/17 Forecast of Outturn</b>
			<b>Planned use of reserve</b>	<b>Contribution to (-) reserve</b>	
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Service Grouping Cash Limit</b>					
Children and Adults Services	-13.500	0.142	3.230	-0.968	-11.096
Regeneration and Local Services	-6.371	0.000	3.051	-1.897	-5.217
Resources	-2.151	0.068	0.353	-1.529	-3.259
Transformation and Partnerships	-0.277	0.000	0.000	-0.087	-0.364
<b>Total Cash Limit Reserve</b>	<b>-22.299</b>	<b>0.210</b>	<b>6.634</b>	<b>-4.481</b>	<b>-19.936</b>
<b>General Reserve</b>	<b>-29.101</b>	<b>0.000</b>	<b>0.000</b>	<b>-1.248</b>	<b>-30.349</b>

- 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 £59.6 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.

## Children and Adults Services

- 9 The 2016/17 projected outturn position for CAS, based on the position to 31 December 2016, is a cash limit underspend of £0.968 million. This represents circa 0.4% of the total budget for CAS.
- 10 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.
- 11 There are further premises related costs of £75,000 in respect of the former Trimdon Village Infant and Nursery, Greenland Community Primary, Consett Academy, Pelton Roseberry Comprehensive, Wolsingham, Durham Johnston Whinney Hill site, Gilesgate and Hare Law schools, which have been treated as outside the cash limit. The total sums treated as outside the cash limit now totals £0.264 million for these former schools buildings.
- 12 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:
  - (a) early achievement of a number of future MTFP savings from management and support service proposals across the Adult Care and related areas, together with the careful management and control of vacant posts and supplies and services budgets across the service has created a projected net underspend for the year of £3.750 million;
  - (b) net spend on adult care packages is forecast to be £0.254 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;
  - (c) a change in accounting treatment as a result of accelerating the final accounts process this year has contributed to a further underspend for 2016/17 of circa £0.300 million;
  - (d) net expenditure in respect of Environment, Health and Consumer Protection services, previously reported under the former Neighbourhood Services area, is projected to be £0.200 million under budget, resulting mainly from early achievement of future MTFP savings.
  - (e) Children's Services are forecasting a net overspend of £4.269 million based on the latest forecasts. This is primarily related to costs associated with Children's placements, both those who have a legal status of looked after and those young people in permanent placements that are financially supported by the Council, details as follows:

- (i) young people requiring to be looked after is a volatile and high cost area of activity within CYPS and current external demographic demands are creating a strain on the service both in terms of staffing and financial resource allocation. The additional demand on the service has been recognised and growth funding has been agreed in 2017/18 to address the identified staffing pressure (circa £1.384 million) and placement costs for young people with a legal status of looked after and those young people accommodated in other placement arrangements that incur costs to the authority (circa £2.735 million). Work is actively being taken to try to address the placement mix of young people looked after, focusing on increasing the proportion of placements in higher quality low cost in house foster care but the current numbers and mix of placements is leading to an overspend when combined with non Looked After Children (LAC) permanent placements of circa £4.013 million;
  - (ii) Children's Services is forecasting a £0.343 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 partially mitigated by the service successfully accessing a range of grants that had previously not been budgeted.
- (f) The Education Service is currently forecasting a net underspend of £0.724 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 Special Educational Needs and Disabilities (SEND) as a result of greater numbers of students eligible for hardship funding than provided for. This is offset by an underspend across other areas of transport provision, partly due to better commissioning arrangements, so overall Home to School transport is forecast to be within budget in year.

- 13 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 Adult's Services is forecast to be £11.096 million

### **Regeneration and Local Services**

- 14 The updated forecast revenue outturn for Regeneration and Local Services is a cash limit underspend of £1.897 million in 2016/17. This compares to an equivalent cash limit underspend forecast at quarter two of £1.256 million.
- 15 The forecast outturn takes into account adjustments for sums outside the cash limit such as redundancy costs that are funded from an earmarked reserve, concessionary fares, capital accounting entries and use of contributions to earmarked reserves.

16 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Regeneration and Local Services to remain within the cash limit. The major items within the outturn position are detailed below:

- (a) within Direct Services, there is an underspend of £0.353 million forecast. This is mainly due to the early achievement of future years' MTFP savings (£0.350 million), and increased income relating to Trade and Bulky Waste (£0.278 million) which is being offset by short term overspends due to the re-organisation of refuse collection rounds and new trade bin purchases (£0.188 million), along with delayed 2016/17 savings relating to Fleet (£89,000);
- (b) within Projects and Business Services there is an underspend of £0.649 million, which is mainly due to savings on employee costs within Business Support (£0.193 million), Customer Services (£0.166 million), Policy & Performance (£54,000) and also savings within the Strategic Waste area (£0.221 million). The net savings on Strategic Waste includes an overspend on Waste Contracts of £0.331 million, offset by underspends on Garden Waste (£0.268 million) and the Joint Stocks and Environmental Monitoring teams (£0.284 million);
- (c) Culture and Sport is projected to overspend by £88,000. This is due to both reduced income and increased costs amounting to £0.179 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 and libraries facilities of £0.109 million;
- (d) Technical Services is showing a small overspend of £18,000. Within this area there is overspending of approximately £1.0 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. This is being offset by additional surpluses generated within Design Services (£0.200 million) and Highways Operations (£0.600 million), and early achievement of 2017/18 MTFP savings (£0.200 million);
- (e) Strategy Programmes and Performance is reporting a £0.207 million managed saving on employee related costs due to staff vacancies;
- (f) Economic Development and Housing is forecasting a £0.714 million underspend, primarily due to managed savings on employee costs and additional income for Business Space and Gypsy Roma Traveller sites;
- (g) within Planning and Assets there is a forecast £0.122 million underspend, which includes a £0.353 million underspend in the Planning Service and a £0.231 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 an agreed managed overspend on the Local Development Framework. The Assets Service 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.

- (h) Transport and Contracted Services is forecasting a £34,000 overspend, primarily resulting from unachieved income, mainly in relation to Parking, offset by greater than expected SLA and client income levels in Care Connect.
- 17 In arriving at the forecast outturn position some £0.683 million relating to contributions to and from reserves and cash limits has been excluded from the outturn. The major elements include:
- (a) £0.459 million drawn down from the MTFP redundancy reserve;
  - (b) a net contribution to earmarked reserves and cash limit reserve to support specific projects in 2017/18, including a £0.333 million contribution to earmarked reserves in respect of Winter Maintenance; and a £1.1 million contribution to earmarked reserves in respect of Building maintenance, Street Cleaning, Refuse Collection and Fleet;
  - (c) £94,000 use of reserves relating to support employability initiatives;
  - (d) £0.430 million contribution to reserves relating to welfare assistance initiatives;
  - (e) £0.411 million use of reserves relating to initiatives to help local businesses;
  - (f) £0.124 million use of reserves to support other service initiatives and projects.
- 18 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 Local Services is £5.217 million.

## **Resources**

- 19 The updated forecast outturn for Resources is a cash limit underspend of £1.529 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 two was £1.166 million.
- 20 The Heads of Service across Resources continue to proactively manage activity to remain within the cash limit. The projected underspend position is the net effect of the following items:
- (a) Corporate Finance and HR is forecast to be underbudget by £0.326 million. This consists of a managed underspend of £0.205 million against employees and the overachievement of income across the service, including Procurement (£52,000), Strategic Finance (£24,000) and Pensions (£43,000);
  - (b) Financial Services and HR is forecast to be underbudget by £0.558 million, consisting of a managed underspend against employees in Revenues and Benefits in advance of a restructure to achieve 2017/18 MTFP savings (£0.677 million) and additional Financial Management SLA income (£0.182 million), offset in part by managed overspending

on supplies and services and agency packages (£0.320 million) in Revenues and Benefits;

- (c) ICT Services is forecasting an underbudget position of £0.146 million, mainly through underspending on employees (£0.138 million) and transport (£66,000). There are also offsetting variances on supplies and services (£1.079 million underbudget) and underachieved income (£1.131 million) that relate to the services trading activities and the printing service;
- (d) Internal Audit, Risk and Corporate Fraud is forecast to be underbudget by £81,000, comprising a managed underspend of £59,000 on employees, in advance of a restructure to achieve 2017/18 MTFP savings, and overachieved income of £22,000;
- (e) Legal and Democratic Services is forecast to be underbudget by £0.423 million, which includes a £0.155 million managed underspend on employees and £0.247 million on supplies and services in advance of 2017/18 MTFP savings;
- (f) Service Management has a minor variance of £5,000.

21 The forecast cash limit outturn shows the position after £0.265 million net contributions from reserves and cash limits have been applied to finance a range of items including the following:

- (a) £79,000 to the Corporate Contingency from projected savings against the budget for the Coroner's Service;
- (b) £0.109 million from the Corporate MTFP reserve to fund the cost of early retirements/voluntary redundancies;
- (c) £32,000 to the Land Search Fees Reserve from a government grant received towards costs incurred by the Council during the settlement of the dispute with the private search companies;
- (d) £17,000 to the ICT Trading Reserve for various items, most significant relating to adjustment to reserves used in previous quarters;
- (e) £69,000 to the Welfare Rights Reserve to fund future years' commitments;
- (f) £0.300 million from the Welfare Assistance Reserve and £30,000 from the Discretionary Housing Payment Reserve, towards increased rent allowance costs.

22 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is forecast to be £3.259 million.

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

23 The forecast revenue outturn for 2016/17 is a cash limit underspend of circa £87,000 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 two was £22,000.

- 24 The forecast underspend is a managed position, reflecting the proactive management of activity by Heads of Service across T&P to remain within the cash limit. The main reasons for the projected underspend is the net effect of the following items:
- (a) Partnerships and Community Engagement are forecast to be £43,000 underbudget, which includes a £10,000 overspend on employee costs as a result of the 3% staff turnover target not being met and a managed underspend of £53,000 on supplies and services;
  - (b) Planning and Performance is forecast to be £26,000 overbudget primarily due to a managed overspend on employee related costs;
  - (c) Policy and Communications is forecast to be £70,000 underbudget, predominantly resulting from a managed underspend on supplies and services.
- 25 In arriving at the forecast cash limit outturn position £0.220 million relating to contributions to and from reserves and cash limits have been excluded from the outturn, relating to delivering projects in the community.
- 26 Taking the projected outturn position into account, including items proposed to be treated as outside the cash limit, the total cash limit reserve forecasted to be carried forward for T&P at 31 March 2017 is £0.364 million.

### **Corporate Costs / Contingencies**

- 27 The forecast revenue outturn for 2016/17 for Resources – Centrally Administered Costs is a cash limit underspend of £0.202 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 £0.199 million underspend at quarter two.
- 28 The forecast outturn position is accounted for by a net underbudget position on payment card charges (£44,000), subscriptions (£76,000), expenses associated with raising loans (£32,000), and an overachievement of legal fees income (£50,000).
- 29 In arriving at the forecast outturn position some £0.640 million relating to contributions from earmarked reserves have been excluded from the outturn, all of which relates to the welfare reform agenda.
- 30 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

- 31 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

- 32 The forecast at this stage is an overachievement of income of £0.826 million which is mainly due to a higher than anticipated level of cash balances. This is due in the main to capital expenditure being below base budget levels and generally higher than forecast cash balances. The budget has been increased by £2.640 million due to receipt of a special dividend arising from the refinancing of Newcastle Airport. The MTFP(7) report to Council on 22 February 2017 approved the utilisation of this funding to support the capital programme. The sum will therefore be applied in 2016/17.

## Council Earmarked Reserves Forecast

- 33 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.
- 34 A summary of the latest forecast of Council reserves by 31 March 2017 is shown below. The summary highlights that Earmarked Reserves are forecast to reduce by £17 million in 2017/17 from £205million to £188million. Elements of the utilisation of £14.5 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.

	<b>Earmarked £ million</b>	<b>Cash Limit £ million</b>	<b>TOTAL £ million</b>
Opening Earmarked Balances as at 1 April 2016	-183.076	-22.299	-205.375
Adjusted for forecasted increase (-) / use of Earmarked Reserves	14.546	2.363	16.909
<b>Forecasted Earmarked Reserve Balance as at 31 March 2017</b>	<b>-168.530</b>	<b>-19.936</b>	<b>-188.466</b>

## Schools

35 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 £23.672 million: this is £0.208 million less than previously reported, due to removing the balances brought forward by schools that have either closed or converted to academies in year. Based on budget plans approved by Governing bodies and the latest updated forecasts, schools are currently planning to use £9.671 million of these balances in 2016/17. The forecast balances at 31 March 2017 are therefore £13.793 million and a summary of this forecast position is provided below:

	Nursery	PRU	Primary	Secondary	Special	Total
<b>Schools forecasting a surplus balance above 2.5% of annual funding</b>						
Number	11	-	160	7	8	186
Forecast Balances	-£0.557m	-	-£13.461m	-£2.164m	-£1.425m	-£17.607m
<b>Schools forecasting a surplus balance of less than 2.5% of annual funding</b>						
Number	1	1	35	4	-	41
Forecast Balances	-£0.003m	-	-£0.368m	-£0.201m	-	-£0.572m
<b>Schools forecasting a deficit balance</b>						
Number	-	-	8	4	1	13
Forecast Balances	-	-	£0.173m	£4.143m	£0.070m	£4.386m
<b>TOTAL</b>						
Number	12	1	203	15	9	240
<b>Forecast Net Balances</b>	<b>-£0.560m</b>	<b>-</b>	<b>-£13.656m</b>	<b>£1.778m</b>	<b>-£1.355m</b>	<b>-£13.793m</b>

36 Three of the secondary schools with a forecast deficit balance have long-term financial problems and options for resolving these problems are currently being explored by the CYPs management team. The other secondary schools with a forecast deficit expect to have their budget balanced and the deficit paid down by the end of 2017/18, after staff re-structuring exercises.

37 The primary schools with forecast deficits are all taking action to address their deficit position and are all expected to be able to balance their budgets by the end of 2017/18. The funding arrangements for the special school with a forecast deficit are currently under review, with the expectation that this, together with other changes being proposed, should address this position during the coming year.

## Capital

### Background

- 38 On 16 November 2016 Cabinet received a report, which provided details of the 2016/17 Capital Programme, which included the original budget reported to the Member Officer Working Group (MOWG) in May 2016, the revised budget reported to MOWG in October 2016 as well as the actual expenditure incurred as at September 2016 and the proposed outturn.
- 39 Budget managers in all Services continually monitor the schemes for which they are responsible and all changes to capital budgets are submitted to MOWG for consideration. Since the previous report to Cabinet, MOWG has considered further revisions to the capital programme, due to the additional resources received by the authority and requests for reprofiling as budget holders review their capital schemes. The revised 2016/17 Capital Programme approved by Cabinet on 16 November 2016 is £135.075 million.

### Current Position

- 40 The following table summarises the latest capital budget for approval, alongside the original budget and the budget reported in quarter two. The table also shows the forecast outturn for each service and the actual capital spend as at 31 December 2016.

Service Grouping	Original Budget 2016/17 May MOWG £ million	Revised Budget 2016/17 Quarter 2 £ million	Amendments Recommended by MOWG £ million	Revised Budget 2016/17 Quarter 3 £ million	Projected Outturn 2016/17 £ million	Actual Spend to 31 December 2016 £ million
Transformation and Partnerships	5.622	5.364	-1.322	4.042	4.042	1.548
Children and Adults Services	30.889	29.411	-3.614	25.797	25.797	20.258
Regeneration and Local Services	77.711	87.805	-8.994	78.811	78.811	54.256
Resources	11.868	12.495	-8.316	4.179	4.179	2.470
<b>TOTAL</b>	<b>126.090</b>	<b>135.075</b>	<b>-22.246</b>	<b>112.829</b>	<b>112.829</b>	<b>78.532</b>

- 41 Since the revised quarter two budget was reported to Cabinet on 16 November 2016, MOWG has considered a number of variations to the capital programme, which are a result of additional resources received by the Council. The additional resources are as follows:
- (a) **Transformation and Partnerships – Additions** – the Community Buildings budget has been increased by a contribution of £10,949 from Hawthorn Community Association towards the refurbishment of Hawthorn Community Centre, Seaham. The West Rainton Community Investment Fund has also been increased by £49,339 by a contribution from the Economic Employability Reserve;

- (b) **Children and Adults Services – Additions** – the Schools Capital Maintenance Budget has been increased by Direct Revenue Funding of £37,764 for work at Shotton Hall Academy, resurfacing the playground at Toft Hill Primary and the school swimming pool refurbishment project;
- (c) **Regeneration and Local Services – Additions** – this Service has received additional funding of £10.722 million. This includes £0.953 million Section 106 funding for the Affordable Housing Project (£0.685 million), improvements to play area (£0.161 million) and £0.107 million towards the Stanley Burn Wetlands project. Borrowing of £0.788 million will contribute to the Chapter Homes project (£0.415 million) and the acquisition of two refuse vehicles (£0.373 million). The Department for Transport has issued additional grant of £0.931 million from the Pot Hole Fund. The North Dock, Seaham project has received £50,190 from the Department of Communities and Local Government, the North East Combined Authority has paid grant of £0.111 million towards the Rail Station Cycle Links scheme and the North East Local Enterprise Partnership has paid grant of £5.364 million towards the Net Park Explorer Village project (£3.200 million) and Bishop Auckland Enabling Works project (£2.164 million). Mountsett Crematorium Joint Committee has made a contribution of £2.508 million towards the refurbishment of the crematorium;
- (d) **Resources – Additions** – the ICT budget has been increased by £0.100 million from the ICT Trading reserve towards the conversion of Capita One software to Tribal project;
- (e) **Regeneration and Local Services – Reductions** - this Service budget has been reduced by £0.320 million. This includes a reduction of £0.250 million for the Bishop Auckland Market Place Enhancement scheme, which will now be funded by the Local Enterprise Partnership. The Heart of Teesdale Landscape budget has been reduced by £70,030 as a number of schemes towards the end of the project have not progressed;
- (f) **Resources – Reductions** – the acquisition of the Electronic Voting System is now complete and therefore the remaining budget of £40,578 is no longer required.

42 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:

- (a) **Transformation and Partnerships** – within this Service there been net reprofiling of £0.923 million. Ten budgets to the value of £0.978 million have been carried forward into 2017/18 and £54,790 has been brought forward into 2016/17 from 2017/18;

- (b) **Children and Adults Services** – within this Service there has been net reprofiling of £3.738 million. The budgets carried forward into 2017/18 include £0.200 million for the Castlebridge project, £11,000 for improvement works at the Durham Pathways building, £42,507 of the Children’s Care budget, two School Capital Programme schemes (£1.133 million), Free School Meals (£72,104) and the School Related budget (£2.355 million). The budgets brought forward from 2017/18 into 2016/17 include the Free School Meals budget (£52,303) and the School Related budget (£24,020);
- (c) **Regeneration and Local Services** – within this Service there has been significant net reprofiling of £20.683 million. The budgets carried forward into future financial years with a value exceeding a million pounds include Netpark Infrastructure Phase 3 (£1.505 million), Forrest Park (£1.245 million), Burnigill Bank (£1.561 million), Netpark Explorer Village (£3.200 million), Refurbishment of Mountsett Crematorium (£2.258 million) and the Household Waste Recycling Facility, Stainton Grove (£1.700 million). The significant budget brought forward into 2016/17 from 2017/18 relates to Chapter Homes, Agnew 5 (£1.000 million);
- (d) **Resources – ICT Services** – within this Service there has been net reprofiling of £7.464 million. Budgets to the value of £8.282 million have been carried forward from 2016/17 into 2017/18 of which £7.340 million relates to the Digital Durham Programme. Budgets to the value of £0.818 million have been brought forward from 2017/18 into 2016/17 of which £0.661 million relates to the Data Refresh project.

## Capital Financing

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

<b>Financed By:</b>	<b>Original Budget 2016/17</b>	<b>Revised Budget 2016/17 Quarter 2</b>	<b>Amendments recommended by MOWG / Capital Receipts Revision</b>	<b>Revised Budget 2016/17 Quarter 3</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Grants and Contributions	42.771	45.106	-7.562	37.544
Revenue and Reserves	0.929	1.859	0.181	2.040
Capital Receipts	15.883	18.253	-9.525	8.728
Borrowing	66.507	69.857	-5.340	64.517
<b>Total</b>	<b>126.090</b>	<b>135.075</b>	<b>-22.246</b>	<b>112.829</b>

## Council Tax and Business Rates Collection Funds

### Council Tax

- 44 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.
- 45 The collection rate at 31 December 2016 was above the target of 84.70%, and is an improvement of 0.29 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.
- 46 The in-year collection rates in quarter three for the last three years including the current year are shown below:

Billing Year	Position at 31 December Each Year %
2016/17	84.76
2015/16	84.47
2014/15	82.94

- 47 The current overall collection rate for 2015/16 council tax liabilities is now 97.73%, and for 2014/15 the rate is now 98.30%. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.53% which is line with our medium term financial plan forecasts.
- 48 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%.
- 49 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.
- 50 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.
- 51 At 31 December 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.

	<b>£ million</b>
Net Bills issued during Accounting Year 2016/17	290.837
LCTRS and previous years CTB adjustments	-52.007
Calculated change in provision for bad debts required and write offs	-4.150
<b>Net income receivable (a)</b>	<b>234.680</b>
<b>Precepts and Demands</b>	
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
<b>Total Precepts and Demands (b)</b>	<b>232.352</b>
<b>Net Surplus / (-) Deficit for year (a) – (b)</b>	<b>2.328</b>
<b>Surplus Brought Forward from 2015/16</b>	<b>0.250</b>
<b>Estimated Year end surplus</b>	<b>2.578</b>

- 52 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.
- 53 At 15 January 2017 an estimated year end position on the Council Tax Collection Fund for 2016/17 was 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.
- 54 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**

- 55 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.



- 56 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 31 December 2016, the estimated outturn for the Collection Fund Business Rates is a surplus of £1.696 million, arrived at as shown in the table below, which takes into account the undeclared deficit as at 31 March 2016.

	<b>£ million</b>
Net rate yield for 2016/17 including previous year adjustments	118.674
Estimate of changes due to appeals lodged and future appeals	-1.676
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-1.780
<b>Net income receivable (a)</b>	<b>115.218</b>
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
<b>Total fixed payments (b)</b>	<b>112.524</b>
<b>Net surplus for year (a) – (b)</b>	<b>2.694</b>
<b>Undeclared Deficit brought forward from 2015/16</b>	<b>-0.998</b>
<b>Estimated year end Surplus</b>	<b>1.696</b>

- 57 The in-year estimated surplus of £2.694 million is offset by the total undeclared deficit brought forward from 2015/16, leaving an estimated surplus of £1.696 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 £0.831 million.
- 58 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 83.0% at 31 December 2016.

- 59 The in-year collection rates in quarter three for the last three years, including the current year, are shown below:

<b>Billing year</b>	<b>Position at 31 December Each Year %</b>
2016/17	83.04
2015/16	82.95
2014/15	81.63

- 60 The 83.04% collection rate is marginally above the target by 0.04 percentage points.
- 61 The current overall collection rate for 2015/16 business rate liabilities is now 98.75% and for 2014/15 business rate liabilities is now 99.43%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.25% which is line with our medium term financial plan forecasts.

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

- 62 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.
- 63 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.
- 64 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded.
- 65 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 31 December 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 £10.140 million, and on this the Council will receive £2.520 million in Section 31 Grant, including the capping adjustment.

### **Other Section 31 Grants**

- 66 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.

- 67 When assessing estimated outturn income from Business Rates, due regard must also be given on the effect that changes in estimated reliefs will have on the Section 31 grants. At 31 December 2016, the increase in Durham County Council's Section 31 Grants (including Small Business Rate Relief) was £35,000.
- 68 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**

- 69 It is recommended that Cabinet:
- (a) note the projected change in the Council's overall financial position for 2016/17;
  - (b) agree the proposed 'sums outside the cash limit' for approval;
  - (c) agree the revenue and capital budget adjustments;
  - (d) note the forecast use of Earmarked Reserves;
  - (e) note the forecast end of year position for the Cash Limit and General Reserves;
  - (f) 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 June 2016;
- (d) Cabinet – 16 November 2016 - Forecast of Revenue and Capital Outturn 2015/16 – Period to 30 September 2016.

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## **Appendix 1: Implications**

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### **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
<b>Employees</b>	496,559	504,596	422	505,018	498,576	484	-16	0	-656	498,388	-6,630	0
<b>Premises</b>	51,287	54,183	11	54,194	54,760	0	-61	0	-232	54,467	273	0
<b>Transport</b>	41,402	40,771	-64	40,707	39,335	0	-1	-28	300	39,606	-1,101	0
<b>Supplies &amp; Services</b>	120,648	129,181	-8	129,173	130,422	1,180	-148	-177	691	131,968	2,795	-144
<b>Agency &amp; Contracted</b>	310,712	315,566	-2,305	313,261	324,583	2,251	0	40	243	327,117	13,856	-8
<b>Transfer Payments</b>	209,047	200,670	10,316	210,986	210,826	0	0	0	-452	210,374	-612	0
<b>Central Costs</b>	75,877	91,923	-234	91,689	91,567	762	0	0	1,506	93,835	2,146	0
<b>DRF</b>	0	71	0	71	71	0	0	0	0	71	0	0
<b>Other</b>	25,199	25,383	2,062	27,445	26,294	0	0	-1,367	1,332	26,259	-1,186	0
<b>Capital Charges</b>	55,478	55,478	0	55,478	55,478	0	0	0	0	55,478	0	0
<b>GROSS EXPENDITURE</b>	<b>1,386,209</b>	<b>1,417,822</b>	<b>10,200</b>	<b>1,428,022</b>	<b>1,431,912</b>	<b>4,677</b>	<b>-226</b>	<b>-1,532</b>	<b>2,732</b>	<b>1,437,563</b>	<b>9,541</b>	<b>-152</b>
<b>Income</b>												
Government Grants	584,251	557,926	10,265	568,192	569,787	306	-51	0	-405	569,637	-1,445	-1
Other Grants and Contributions	70,538	73,144	246	73,390	74,660	0	15	0	-155	74,520	-1,130	0
Sales	8,881	8,060	9	8,069	7,321	150	0	0	0	7,471	598	0
Fees and Charges	105,241	105,890	810	106,700	111,383	49	-1	0	210	111,641	-4,941	-49
Rents	8,787	7,686	0	7,686	7,666	0	0	0	0	7,666	20	0
Recharges To Other Services	190,646	222,194	-1,149	221,045	228,039	0	0	0	-811	227,228	-6,183	0
Other	6,924	7,477	19	7,496	8,655	0	0	0	-16	8,639	-1,143	0
<b>Total Income</b>	<b>975,268</b>	<b>982,377</b>	<b>10,200</b>	<b>992,578</b>	<b>1,007,511</b>	<b>505</b>	<b>-37</b>	<b>0</b>	<b>-1,177</b>	<b>1,006,802</b>	<b>-14,224</b>	<b>-50</b>
<b>NET EXPENDITURE</b>	<b>410,941</b>	<b>435,445</b>	<b>0</b>	<b>435,444</b>	<b>424,401</b>	<b>4,172</b>	<b>-189</b>	<b>-1,532</b>	<b>3,909</b>	<b>430,761</b>	<b>-4,683</b>	<b>-202</b>

## Appendix 4: Earmarked Reserves Position as at 31 December 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 31 DEC 2016
			£'000	£'000	£'000	£'000	£'000	£'000
1	T&P AAP/Members Reserve	T&P	-3,606	876	-223	0	653	-2,953
2	T&P Grant Reserve	T&P	-1,412	450	-86	0	364	-1,048
3	T&P Operational Reserve	T&P	-747	33	-70	0	-37	-784
4	Social Care Reserve	CAS	-13,363	2,499	-192	892	3,199	-10,164
5	Public Health Reserve	CAS	-4,955	2,705	0	-892	1,813	-3,142
6	Env. Health and Consumer Protection Reserve	CAS	-814	302	-240	26	88	-726
7	Children's Services Reserve	CAS	-5,835	3,346	-645	-2,877	-176	-6,011
8	Continuing Professional Development Reserve	CAS	-1,201	200	-385	0	-185	-1,386
9	Education Reserve	CAS	-3,652	1,190	-1,091	51	150	-3,502
10	Neighbourhoods AAP Reserve	REAL	-49	10	0	0	10	-39
11	Customer Services Reserve	REAL	-233	70	0	23	93	-140
12	Direct Services Reserve	REAL	-3,125	1,255	-1,309	0	-54	-3,179
13	Culture and Sport Reserve	REAL	-3,112	2,591	-597	-1,383	611	-2,501
14	Strategic Waste Reserve	REAL	-136	0	0	0	0	-136
15	Technical Services Reserve	REAL	-4,353	939	-425	-500	14	-4,339
16	Transport Asset Management Programme Reserve	REAL	-160	160	0	0	160	0
17	Business Growth Fund Reserve	REAL	-816	67	0	0	67	-749
18	Economic Development Reserve	REAL	-1,323	246	-455	0	-209	-1,532
19	Planning Reserve	REAL	-1,329	546	0	0	546	-783
20	North Pennines AONB Partnership Reserve	REAL	-206	0	0	0	0	-206
21	Employability and Training Reserve	REAL	-1,706	436	-100	0	336	-1,370
22	REAL Match Fund Programme Reserve	REAL	-2,012	0	0	0	0	-2,012
23	Housing Regeneration Reserve	REAL	-320	100	0	0	100	-220
24	Housing Solutions Reserve	REAL	-1,142	154	-153	0	1	-1,141
25	Restructure Reserve	REAL	-188	69	0	0	69	-119
26	Transport Reserve	REAL	-249	0	0	0	0	-249
27	Funding and Programmes Management Reserve	REAL	-156	0	0	0	0	-156
28	Resources Corporate Reserve	Resources	-931	270	0	0	270	-661
29	Resources DWP Grant Reserve	Resources	-2,035	1,165	-541	0	624	-1,411
30	Resources System Development Reserve	Resources	-874	165	0	0	165	-709
31	Resources Housing Benefit Subsidy Reserve	Resources	-500	0	0	0	0	-500
32	Resources Revenue and Benefits Reserve	Resources	-200	0	0	0	0	-200
33	Resources Single Fraud Incentive Scheme	Resources	-257	0	0	0	0	-257
34	Resources Land Search Fees Reserve	Resources	-444	111	-32	0	79	-365
35	Resources Legal Expenses Reserve	Resources	-200	0	0	0	0	-200
36	Resources Legal Services Reserve	Resources	-154	0	0	0	0	-154
37	Resources Elections Reserve	Resources	-1,010	0	0	0	0	-1,010
38	Resources ICT Reserves	Resources	-1,727	565	-70	0	495	-1,232
39	Human Resources Reserve	Resources	-65	57	0	0	57	-8
40	Equal Pay Reserve	Corporate Fin	-9,529	71	0	0	71	-9,458
41	Insurance Reserve	Corporate Fin	-10,228	0	0	0	0	-10,228
42	Performance Reward Grant Reserve	Corporate Fin	-685	47	0	400	447	-238
43	MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-13,859	2,526	0	0	2,526	-11,333
44	Office Accommodation Project Support Reserve	Corporate Fin	-697	575	0	0	575	-122
45	Budget Support Reserve	Corporate Fin	-30,000	1,624	0	0	1,624	-28,376
46	Office Accommodation Capital Reserve	Corporate Fin	-42,481	0	0	0	0	-42,481
47	Housing Stock Transfer Reserve	Corporate Fin	-1,000	0	0	0	0	-1,000
48	Pension Deficit Reserve	Corporate Fin	-10,000	0	0	0	0	-10,000
	<b>Total Earmarked Reserves</b>		<b>-183,076</b>	<b>25,420</b>	<b>-6,614</b>	<b>-4,260</b>	<b>14,546</b>	<b>-168,530</b>
	<b>Cash Limit Reserves</b>							
49	Children and Adults Services		-13,500	546	-968	2,826	2,404	-11,096
50	Regeneration and Local Services		-6,371	1,617	-1,897	1,434	1,154	-5,217
51	Resources		-2,151	421	-1,529	0	-1,108	-3,259
52	Transformation and Partnerships		-277	0	-87	0	-87	-364
	<b>Total Cash Limit Reserves</b>		<b>-22,299</b>	<b>2,584</b>	<b>-4,481</b>	<b>4,260</b>	<b>2,363</b>	<b>-19,936</b>
	<b>Total Council Reserves</b>		<b>-205,375</b>	<b>28,004</b>	<b>-11,095</b>	<b>0</b>	<b>16,909</b>	<b>-188,466</b>
	<b>Schools' Balances</b>							
Sch 1	Schools' Revenue Balance	CAS	-24,083	9,671	0	0	9,671	-14,412
Sch 2	DSG Reserve	CAS	-12,185	2,152	0	0	2,152	-10,033
	<b>Total Schools and DSG Reserve</b>		<b>-36,268</b>	<b>11,823</b>	<b>0</b>	<b>0</b>	<b>11,823</b>	<b>-24,445</b>