

To: CABINET – 11 October 2010

By: John Simmonds, Cabinet Member – Finance
Lynda McMullan, Director of Finance

REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

1.1 The first full monitoring report for 2010-11 was presented to Cabinet in September. This exception report, based on the monitoring returns for August, highlights the main movements since that report.

2. REVENUE

2.1 There are a number of significant pressures that will need to be managed during the year if we are to have a balanced revenue position by year end. The current underlying net revenue position by portfolio, before and after the implementation of assumed management action, compared with the net position reported last month, is shown in **table 1** below.

Table 1: Net Revenue Position before and after Proposed Management Action

Portfolio	Gross Position £m	Proposed Management Action £m	Net Position after mgmt action £m		Movement £m
			This month	Last month	
Children, Families & Education	+0.059	-0.059	-	-	-
Kent Adult Social Services	+2.661	-2.661	-	-	-
Environment, Highways & Waste	-0.213	-	-0.213	-0.213	-
Communities	-0.076	-	-0.076	-0.055	-0.021
Localism & Partnerships	-	-	-	-	-
Corporate Support & Performance Mgmt	-0.213	-	-0.213	-0.213	-
Finance	-0.152	-	-0.152	-	-0.152
Public Health & Innovation	-	-	-	-	-
Regeneration & Economic Development	-0.065	-	-0.065	-	-0.065
Total (excl Schools)	+2.001	-2.720	-0.719	-0.481	-0.238
Schools	+3.401	-	+3.401	+3.401	-
TOTAL	+5.402	-2.720	+2.682	+2.920	-0.238

2.2 **Table 2** shows the forecast underlying gross position **before** the implementation of proposed management action, compared with the gross position reported last month.

Table 2: Gross Revenue Position before Management Action

Portfolio	Variance		Movement £m
	This Month £m	Last Month £m	
Children, Families & Education	+0.059	+0.259	-0.200
Kent Adult Social Services	+2.661	+2.838	-0.177
Environment, Highways & Waste	-0.213	-0.213	-
Communities	-0.076	-0.055	-0.021
Localism & Partnerships	-	-	-
Corporate Support & Performance Management	-0.213	-0.213	-
Finance	-0.152	-	-0.152
Public Health & Innovation	-	-	-
Regeneration & Economic Development	-0.065	-	-0.065
Total (excl Schools)	+2.001	+2.616	-0.615
Schools	+3.401	+3.401	-
TOTAL	+5.402	+6.017	-0.615

2.3 The gross underlying revenue pressure (excluding schools) is currently £2.001m as shown in table 2 above, but this is expected to reduce to an underspend of £0.719m by year end, after assuming the implementation of management action, as shown in table 1.

2.4 Table 2 shows that there has been a reduction of £0.615m in the overall gross pressure before management action this month. The main movements, by portfolio, are detailed below:

2.5 Children, Families & Education portfolio:

2.5.1 The pressure on this portfolio (excluding schools) has reduced by £0.200m this month to £0.059m. A review of all high cost placements within the 16+ service is currently underway following the significant pressure on this budget reported last month. Where appropriate, and in harmony with the wishes of the individual child, the team are looking to transfer children to lower cost supported lodgings. Early indications suggest that a reduction of £0.2m from the previous forecast may be achievable, reducing the pressure on this service to £1.503m. The review is ongoing and the provider Catch 22 is working hard to bring costs down. Any further progress in containing this pressure will be reported in future monitoring reports.

2.5.2 Delegated Schools Budgets

Following the Secretary of State's announcement that outstanding schools could convert to academy status and the passing of the Academies Act 2010, the latest position is as follows: 18 schools (including four primary schools, two of which are in federation with secondary schools) have been agreed and Academy Orders have been issued. Two schools (operating as a Federation) transferred on 1st September and it is expected that another three schools will convert at the beginning of October. Five schools are due to convert on or before 1st November and the remainder on 1st January 2011.

The forecast drawdown of schools reserves, currently estimated at £3.401m (as reported last month), will be revised in the next full monitoring report to Cabinet in November, to reflect the latest position on schools converting to academy status and also to reflect the forecast drawdown of school reserves from schools' half yearly monitoring returns.

2.6 Kent Adult Social Services portfolio:

The latest forecast indicates a pressure of £2.661m, which is a reduction of £0.177m since last month. Guidelines for Good financial Practice are in place to reduce the pressure in order to achieve a balanced budget position by the end of the financial year, which KASS is still hopeful of achieving. The forecast assumes that all savings identified in the MTP will be achieved. Work is on-going with the Areas to identify methods of accurately tracking progress against each saving on a monthly basis.

The movements over £0.1m this month are:

2.6.1 +£0.189m Older People Direct Payments – an increase from an underspend of -£0.131m to a pressure of +£0.058m this month, reflecting a net increase of 23 clients together with increases in one-off payments.

2.6.2 -£0.345m Learning Disability Residential – a reduction in the pressure from +£3.671m to +£3.326m this month, which assumes the transfer of a number of clients back into more community based settings with either a direct payment or supported living type arrangement. The reduction also results in part from an increase in the income forecast based on the latest trends of charges made.

2.6.3 -£0.243m Learning Disability Other Services – an increase in the underspend from -£1.069m to -£1.312m this month as a result of small changes to a number of services within this line including day-care, payments to voluntary organisations, Learning Disability Development Framework and Supported Employment.

2.6.4 +£0.155m Physical Disability Direct Payments – an increase in the pressure from +£0.080m to +£0.235m this month following an increase of 18 clients who are in receipt of a direct payment.

2.6.5 -£0.246m Strategic Business Support – an increase in the underspend from -£0.814m to -£1.060m which is spread across a number of teams both at Headquarters and in the two Areas. The reduction in spend reflects vacancy management and further savings against non-pay costs.

2.6.6 In addition to these variances, there are a number of other smaller variances, each below £0.1m, across all other services which make up a further £0.313m pressure mainly within older persons nursing and domiciliary care and learning disability direct payments and supported accommodation.

2.7 Communities portfolio:

The gross underspend on this portfolio has increased by £0.021m this month from £0.055m to £0.076m. This is made up of a number of small compensatory movements, all below £0.1m, across many units, which include a further increase in Coroners costs and additional legal fees, which are more than offset by further vacancy savings, an anticipated saving on the out of hours service within the Youth Offending Service (YOS) and increased income within YOS and Registration.

2.8 Finance portfolio:

A £152k underspend is forecast this month on leasing costs. However, we have received an application from Contemporary Coast, the working title for the Creative Foundation and Turner Contemporary partnership, for funding to develop their joint marketing plan to position East Kent as an exciting destination and maximise opportunities to attract new contemporary art audiences to Margate and Folkestone. It is therefore recommended that £75k of the underspend within the Finance portfolio is vired to the Arts Unit within the Communities portfolio to contribute towards the Contemporary Coast marketing campaign.

2.9 Regeneration and Economic Development portfolio:

An underspend of £0.065m is now forecast for this portfolio. Following the Chancellor's emergency budget statement on 22nd June in which he outlined his plans to address the national budget deficit and taking into account the savings identified in the 2010-13 MTP, staff vacancies (2 FTE) within the Regeneration and Economic Development division have been frozen to enable the division to align its future priorities and meet the challenges of the emerging economic and financial landscape.

2.10 Appendix 1 details the Government funding announcements affecting KCC in 2010-11 and provides details of their impact upon the position reflected in this report. There are no changes from the situation reported last month.

3. CAPITAL

3.1 There have been a number of cash limit adjustments this month as detailed in **table 3** below:

Table 3: Capital Cash Limit Adjustments

	£000s 2010-11	£000s 2011-12
1 Cash Limits as reported to Cabinet on 13th September	499,527	424,115
2 Roll forwards agreed at Cabinet on 13th September		
Children, Families & Education	3,260	-1,465
Kent Adult Social Services	-4,741	2,832
Environment, Highways & Waste	-1,251	-27,572
Communities	-237	237
3 SSR - The Orchard - aligned cash limit reported - CFE portfolio	-237	237
4 SSR - The Wyvern (Buxford) - aligned cash limit and transfer from plan - CFE portfolio	1,000	2,000
5 SSR - approval to plan - aligned cash limit and transfer to spend - CFE portfolio		-2,917
6 Datford Campus - additional developer contributions - CFE portfolio	84	
7 Devolved Capital PRUs - additional banked grant - CFE portfolio	346	
8 Gateway Multi-Channel Service - reduction in other external funding - CSS&PM portfolio	-75	
	497,676	397,467
9 PFI	45,101	88,000
	542,777	485,467

3.2 The current forecast capital position by portfolio, compared with the position reported last month is shown in **table 4** below.

Table 4: Capital Position

	Real and Re-phasing Variance This month	Real Variance Last month	Movement This month
Portfolio			
£m			
Children, Families & Education (CFE)	0.298	0.780	-0.482
Kent Adult Social Services	-0.277	-0.367	0.090
Environment, Highways & Waste	-1.313	-0.364	-0.949
Communities	-0.292	0.215	-0.507
Regeneration & Economic Development	0.000	0.000	0.000
Corporate Support Services & PM	0.300	1.758	-1.458
Localism & Partnerships	0.000	0.000	0.000
Total (excl Schools)	-1.284	2.022	-3.306
Schools	0	0	0
Total	-1.284	2.022	-3.306

This month there is re-phasing of -£3.9m and a real variance of +£2.6m. -£0.4m of the re-phasing and +£2.4m of the real variance was reported in the previous month. The main movements this month are detailed below:

3.3 Children, Families & Education portfolio:

The forecast for the portfolio has moved by -£0.482m since the last month. Projects subject to re-phasing and overall variances affecting 2010-11 are:

- Primary Improvement Programme (-£0.759m, rephasing -0.761m): the major changes on this programme relate to projects at St Matthews PS (-£0.565m) and Beaver Green Community PS (-£0.120m).
St Matthews – the planned start date for this project was late July. Temporary accommodation is required to accommodate the vacated classrooms which are to be demolished. The decision was made to delay the project by six weeks rather than hiring temporary accommodation over the summer vacation period.
Beaver Green - the discovery of asbestos on site has caused delays to the project resulting in the need for rephasing.
Overall there is a residual variance of -£0.074 which results from several minor movements.
- Dartford Campus (+£0.309m, real variance): this relates to additional works required associated due to the relocating of Adult Services from the old Yeomans Building on the Dartford Campus site to accommodation within North West Kent College.
- The Bridge (-£0.237m, real variance): the settlement of contractor claims on this project have now been agreed and are significantly better than previously expected resulting in a net project saving. The saving of prudential borrowing on this project has been used to fund most of the additional costs on Dartford Campus.
- Modernisation Programme 2008-11 (+£0.207m, real variance): the additional costs, funded by developer contributions, relate to early costs for the proposed scheme at Maidstone Grammar School for Girls.

Overall there is no residual balance.

3.4 Kent Adult Social Services portfolio:

Excluding PFI, the forecast for the portfolio has moved by +£0.090m since the last month, there have been no major variances.

3.5 Environment, Highways & Waste portfolio:

The forecast for the portfolio has moved by -£0.949m since the last month. Projects subject to re-phasing and overall variances affecting 2010-11 are:

- Highway Major Maintenance (+£0.224m, real variance): £0.1m has been made available from the Member Highway Fund. Revenue contributions will be made from the fund to cover these costs. Essential capital maintenance works (£0.124m) have been planned on the A259 using DFTs de-trunking fund.
- Integrated Transport (+0.150m, real variance): £0.15m has been made available from the Member Highway Fund. Revenue contributions will be made from the fund to cover the cost of the works.
- Energy usage reduction programme (-£0.155m, rephasing): due to the uncertainty of the occupancy of the existing KCC buildings there has been a lack of interest in the energy usage reduction programme. There have also been problems finding projects falling within the agreed payback time.
- Wetland Creation (-£0.478m real variance in 2011-12): KCC were targeted to develop a nationally significant Wetland. Initially this was to be achieved in partnership with the RSPB, but it will now be developed without KCC investment.
- Household Waste Recycling Centres – (-£1.16m, rephasing): The optimum revenue saving from the East Kent joint waste arrangements project requires £0.855m of additional capital spend over and above that already included in the capital budget for new containers. This overspend will be covered from redirecting funding from the remaining waste capital improvement programme. There is a forecast underspend on the Lydd/New Romney site of £0.36m to report this month this will help fund the shortfall in the East Kent project, leaving a further £0.525m to find. The balance will be found from a review of the waste capital improvements as part of the MTP. Cabinet are asked for approval to increase the containerisation budget for the East Kent joint arrangement project accordingly (the funding for which will be found from the existing programme)

Overall there is no residual balance.

3.6 Communities portfolio:

The forecast for the portfolio has moved by -£0.507m since last month. The project subject to re-phasing affecting 2010-11 is:

- Tunbridge Wells Library (-£0.332m rephasing): the construction of a lift will be considered alongside progress on the Tunbridge Wells master planning process and any possible decision to redevelop the broader Town Hall site that may arise from this. We are therefore re-phasing accordingly.
- Grove Green Library (-£0.175m, real variance): the scheme to provide a library on the Grove Green site is not considered feasible in the current economic climate, nor is it in line with the current library strategy. This project has recommended for removal from the capital programme.

Overall there is no residual balance.

3.7 Corporate Support & Performance Management portfolio:

The forecast for the portfolio has moved by -£1.458m since last month. The main variances are detailed below:

- Sustaining Kent – maintaining the infrastructure (-£1.076m rephasing): Unified Communications contract will be let this year, the capital expenditure will not be made until 2011-12 due to lead times on delivery of solution.
- Oracle Self Service (-£0.125m rephasing): the delivery timescales for continued development of manager self service and additional employee self service functions has been re-profiled as a result of the development and moratorium in the run-up to Oracle Release 12 implementation.
- Oracle Release 12 (-£0.300m rephasing): the 'go live' date for the upgrade of Oracle (Financials/HR/Payroll) to Version 12 is still scheduled for the end of October/beginning of November 2010 but because of issues with the delivered software upgrade provided by Oracle it has been necessary to reschedule some of the associated work. This work is to ensure that KCC derives the full benefit of the improved functionality of the upgraded system and reduce maintenance costs associated with current bespokeing of some of the modules.
- Workplace Transformation (formerly Better Workplaces) (+£0.106m rephasing): At this stage, it appears that additional capital spend will be needed in 2010-11 in order to relocate displaced staff from 17 Kings Hill Avenue.

Overall this leaves a residual balance of -£0.063m.

3.8 Capital Project Re-phasing

It is proposed that a cash limit change be recommended for projects that have re-phased by greater than £0.100m to reduce the reporting requirements during the year. Any subsequent re-phasing greater than £0.100m will be reported and the full extent of the re-phasing will be shown. Following last month's Cabinet meeting there were changes made of £2.969m for re-phasing and the table below summarises the proposed re-phasing this month of £3.367m.

Table 5 – re-phasing of projects >£0.100m

Portfolio	2010-11	2011-12	2012-13	Future Years	Total
	£k	£k	£k	£k	£k
CFE					
Amended total cash limits	224,256	234,604	246,005	154,816	859,681
Re-phasing	-685	694	-9	0	0
Revised cash limits	223,571	235,298	245,996	154,816	859,681
KASS					
Amended total cash limits	9,714	10,117	4,170	1,541	25,542
Re-phasing	0	0	0	0	0
Revised cash limits	9,714	10,117	4,170	1,541	25,542
E,H&W					
Amended total cash limits	161,106	92,010	89,904	247,185	590,205
Re-phasing	-955	955	-500	500	0
Revised cash limits	160,151	92,965	89,404	247,685	590,205
Communities					
Amended total cash limits	26,808	12,398	3,060	350	42,616
Re-phasing	-332	0	332	0	0
Revised cash limits	26,476	12,398	3,392	350	42,616
Regen & ED					
Amended total cash limits	11,996	4,230	3,242	2,980	22,448
Re-phasing	0	0	0	0	0
Revised cash limits	11,996	4,230	3,242	2,980	22,448
Corporate Support & PM					
Amended total cash limits	16,003	9,317	9,549	2,663	37,532
Re-phasing	-1,395	1,645	-250	0	0
Revised cash limits	14,608	10,962	9,299	2,663	37,532
Localism & Partnerships					
Amended total cash limits	503	500	500	0	1,503
Re-phasing	0	0	0	0	0
Revised cash limits	503	500	500	0	1,503
TOTAL RE-PHASING >£100k	-3,367	3,294	-427	500	0
Other re-phased Projects below £100k	-503	+448	-26	+81	0
TOTAL RE-PHASING	-3,870	+3,742	-453	+581	0

Table 6 details individual projects which have further re-phased since being reported to Cabinet on 13 September.

	2010-11	2011-12	2012-13	Future Years	Total
	£k	£k	£k	£k	
CFE					
Primary Improvement Programme - St Matthews High Brooms					
Original budget	+837	+17	+1		+855
Amended cash limits	-101	+100	+1		0
additional re-phasing	-565	+566	-1		0
Revised project phasing	+171	+683	+1	0	+855

4. RECOMMENDATIONS

Cabinet is asked to:

- 4.1 **Note** the latest forecast revenue and capital budget monitoring position for 2010-11.
- 4.2 **Agree** a virement of £75k from the underspending within the Finance portfolio to the Arts Unit within the Communities portfolio, to contribute towards the Contemporary Coast marketing campaign.
- 4.3 **Note** the changes to the capital programme.
- 4.4 **Agree** that £3.367m of re-phasing on the capital programme is moved from 2010-11 capital cash limits to future years.
- 4.5 **Agree** the removal of Grove Green Library from the capital programme.
- 4.6 **Agree** the increase of £0.855m to the containerisation budget for the East Kent joint arrangement which is to be found from within the existing capital programme.

IMPACT OF RECENT GOVERNMENT FUNDING ANNOUNCEMENTS ON KCC

	ANNOUNCEMENT	REDUCTION £000s	DETAILS OF HOW REFLECTED IN REPORT
1.	10 JUNE LOCAL GOVERNMENT SAVINGS ANNOUNCEMENT The following KCC grants were reduced:		
	REVENUE BASE:		
	• Area Based Grant for CFE	6,873	The £1,326k PRG was not assumed in the 2010-11 budget, therefore the reduction had no impact on the cash limit. £750k LABGI and £441k Kickstart were specific grants therefore the reductions had a net nil impact on the cash limit. Overall therefore, cash limits have been reduced by £8,349k
	• Area Based Grant for Supporting People	736	
	• Area Based Grant for Road Safety	608	
	• DoT Kickstart 2009 Specific Grant	441	
	• Area Based Grant for Stronger Safer Communities	132	
		8,790	
	REVENUE ONE-OFFS:		
	• Performance Reward Grant (PRG)	1,326	
	• LABGI	750	
		2,076	
	TOTAL 2010-11 REVENUE GRANT REDUCTIONS	10,866	
	CAPITAL GRANT REDUCTIONS:		
	• Integrated Transport Block	4,105	Capital cash limits have been reduced accordingly
	• Road Safety capital grant	508	
	• PRN Network funding	40	
	TOTAL 2010-11 CAPITAL GRANT REDUCTIONS	4,653	
	TOTAL GRANT REDUCTION (REV & CAP)	15,519	
2.	16 JUNE/14 JULY DFE ANNOUNCEMENT The following KCC grants were reduced:		As these are specific grants, gross & income budgets have been reduced within CFE with a net nil impact, with the exception of the Local Delivery Support Grant as the estimate included in the original 2010-11 budget was less than the reduced amount that we are still going to receive. There is expected to be a zero financial impact from the withdrawal of this funding following the review of existing commitments and/or diverting funding from other sources. These grants, except the local delivery support grant, were expected to end by March 2011 and recent announcements have resulted in the cessation of some services earlier than expected.
	REVENUE:		
	• Play Pathfinder grant	18	
	• Buddying grant	462	
	• Local Delivery Support Grant for 14 – 19 year olds	238	
	• Training and Development Agency for Schools (TDA) – school workforce development and higher level teaching assistants	579	
		1,297	

	ANNOUNCEMENT	REDUCTION £000s	DETAILS OF HOW REFLECTED IN REPORT
	CAPITAL:		
	<ul style="list-style-type: none"> Extended Schools grant 	653	Capital cash limit reduced
	TOTAL GRANT REDUCTION (REV & CAP)	1,950	
3.	16 JUNE/22 JULY DFE ANNOUNCEMENT The following service was stopped:		
	<ul style="list-style-type: none"> Contactpoint 	151	As this is a specific grant, gross & income budgets have been reduced within CFE with a net nil impact. The service will be wound down in accordance with the decision from the coalition Government to stop Contactpoint nationally.
4.	5 JULY BUILDING SCHOOLS FOR THE FUTURE ANNOUNCEMENT		
	CAPITAL:		
	<ul style="list-style-type: none"> 40 school building projects have been stopped in Kent 		This has not yet been reflected in the report as it has yet to be quantified, as there will be some abortive costs of these schemes which will require funding.
5.	8 JULY DCMS ANNOUNCEMENT The following DCMS grant reduction has been passed on to us via CABE (Commission for Architecture and the Built Environment)		
	<ul style="list-style-type: none"> Sea Change programme grant reduction 	12	We are still working to establish whether any of this will be passed on to our partners, therefore this reduction is not yet reflected in the report.

	ANNOUNCEMENT	REDUCTION £000s	DETAILS OF HOW REFLECTED IN REPORT
6.	14 JULY DFE ANNOUNCEMENT The following KCC grants were reduced:		
	CAPITAL:		
	<ul style="list-style-type: none"> Harnessing Technology grant 	2,758	<p>Neither of these two grants (Harnessing Technology or Youth Capital Fund) were included in the capital programme.</p> <p>The Harnessing Technology grant is used to fund the KPSN revenue project. The original plan showed that this project would have sufficient funds until the middle/end of 2011-12 and at that point schools would be asked to pay. Following this grant reduction, the date from which schools will be asked to pay has been brought forward to the start of 2011-12. As this grant was not included in the original budget, gross and income cash limits have been adjusted to include Harnessing Technology grant at the newly reduced level.</p>
	<ul style="list-style-type: none"> Youth Capital fund 	318	The Youth Capital fund was included in the youth revenue budget as both income and spend (to reflect the handing out of capital grants), therefore the gross and income cash limits have been reduced accordingly.
		3,076	
	<p>In addition there were several other national savings announced but we have yet to establish the impact to KCC. These include:</p> <ul style="list-style-type: none"> Co-location projects School Swimming Support to 77 LEAs not in early BSF Waves Social Work IT Support 		Not yet reflected in the report.

	ANNOUNCEMENT	REDUCTION £000s	DETAILS OF HOW REFLECTED IN REPORT
7.	20 JULY DFE ANNOUNCEMENT To simplify 16-19 education funding		
	This reverses the key changes introduced by the last government so that the Young People's Learning Agency (YPLA), not local authorities will now be charged with paying for student places at further education colleges, sixth form colleges and other training providers from August. School sixth forms will continue to be funded by local authorities.		The gross and income budgets for the original transfer of responsibility to the local authority was not included in the original budget, therefore gross and income cash limits have now been amended to reflect the transfer for the period April to July only.