

By: Paul Carter, Leader
Alex King, Deputy Leader
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To: Corporate Policy Overview Committee – 27 March 2008

Subject: Corporate Services Budget Monitoring 2007/08

1. Introduction

1.1 This report is the third of what will be a regular report to this Committee on the forecast outturn against budget for the Chief Executive's Department and the Financing Items budget.

2. Third-Quarter monitoring report

2.1 Attached are the monitoring reports for the third quarter for the Chief Executive's Department and the Financing Items budget. The main points to highlight are:

a) Chief Executive's Department

The forecast variance at year-end is an underspend of £361k. The attached report details the reasons for this forecast underspend. This latest forecast compares with a £55k overspend reported to the January meeting of this Committee. The main reasons for the movement of -£416k are:

Unit	£'000	Reason
Personnel & Development	-80	1) Increase (£25k) in underspend resulting from delays to the Well Being Healthcheck programme. 2) Underspend (£55k) resulting from delays in implementing the Workforce and Member Development Programmes
Kent TV	-130	Reflects the anticipated re-phasing of first year spend following confirmed profile of £1.2m cost over 2 years. Initial cash limits based on £600k per annum.
Other Corporate Management	-90	1) Re-phasing (£80k) of the Towards 2010 target, What's On in Kent, responsibility for which was transferred to CED Strategic Development Unit from Communities. 2) Increased underspend due to delay in Maidstone Gateway (£10k).
Finance	-50	Planned PwC Internal Audit activities to be rephased into 2008-09.
Property	-60	Underspend on car parking and staff vacancies has enabled £60k to be identified as a contribution to cover Revenue expenditure relating to Property Enterprise Fund activities.
Total	-410	

As stated in the first report on this subject to the November meeting of this Committee, compared to service directorate budgets, the CED budget is relatively low risk. There are not large demand-led budgets that can change significantly in-year, although large parts of the Legal Services, ISG and P&D budgets are reliant upon income from our own service directorates, schools and external customers. The service levels provided by that income are generally agreed as part of the annual budget process, and while there will always be in-year variations, they are normally managed without problems.

On the capital programme expenditure, the main variations are:

- 1) £400k re-phasing on Modernisation of Assets to allow relevant aspects of the programme to be reconciled with the Office Transformation project,
- 2) £220k re-phasing on the Maidstone Gateway due to delays arising from difficulties with planning,
- 3) £100k re-phasing of capital spend on the Technology Refresh Programme,
- 4) £90k re-phasing of costs relating to capitalized works within Property Group on the Turner Contemporary,
- 5) an underspend of £70k by Commercial Services, as they continue their strategy to lease vehicles rather than purchase them.

On the capital funding, we are closely monitoring the delivery of capital receipts, upon which a significant element of our capital programme is dependant, as well as an element of the Property Unit revenue budget.

b) Financing Items

The net underspend has increased to £6.5m compared to the £4.6m reported in January. This reflects the continued improved returns from cash investments, and the slower take-up of new borrowing as a consequence of slippage on the capital programme. The reasons for the full underspend (as opposed to the reason for the movement) are provided in paragraph 1.1.3.1 of Annex 6, which is page 11 of the appendix.

The other forecast variation on Financing Items is an overspend of £480k against the income target for outdoor advertising, due to delays caused by most of the Kent Districts requiring planning consent for the erection of signs on roundabouts. The knock-on effect is that the majority of the income received to date must now be attributed to next year's accounts.

3 Recommendations

- 3.1 Members of the Corporate POC are asked to note the projected outturn figures for the directorate as at the third quarter

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CHIEF EXECUTIVE'S DIRECTORATE SUMMARY

JANUARY 2007-08 FULL MONITORING REPORT

1. FINANCE

1.1 REVENUE

1.1.1 All changes to cash limits are in accordance with the virement rules contained within the constitution, with the exception of those cash limit adjustments which are considered "technical adjustments" ie where there is no change in policy, including:-

- Allocation of grants and previously unallocated budgets where further information regarding allocations and spending plans has become available since the budget setting process.
- Cash limits have been adjusted since the last full monitoring report to reflect a number of technical adjustments to budget and a virement of £100k to the Public Health portfolio for Healthwatch from the Financing Items savings within the Finance portfolio, as agreed by Cabinet on 3 December.

1.1.2 **Table 1** below details the revenue position by Service Unit:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
OR&S (CFE) portfolio							
Kent Works	825	-825	0	284	-36	248	Income insufficient to meet higher operational costs
Regeneration & Supporting Independence portfolio							
Supporting Independence	604	0	604	0	0	0	
Public Health portfolio							
Kent Department of Public Health	412	0	412	-50	0	-50	R/fwd of staff costs
Corporate Support portfolio							
Personnel & Development	10,141	-3,945	6,196	633	-788	-155	Costs & income of extra courses\services plus re-phasing health checks & development programmes
Information Systems	21,657	-5,782	15,875	2,797	-2,797	0	Costs & income of extra project work and services
Democratic Services	4,101	-93	4,008	92	-46	46	
Legal	4,546	-4,853	-307	1,236	-1,285	-49	Costs & income of additional work & disbursements
Corporate Management & Strategic Development	2,809	-250	2,559	-318	27	-291	Gateways, Kent TV & Whats On in Kent
Dedicated Schools Grant	0	-2,789	-2,789	0	0	0	
Total CS&H	43,254	-17,712	25,542	4,440	-4,889	-449	
Policy & Performance portfolio							
Policy & Performance	1,236	-209	1,027	75	-75	0	
Kent Partnerships	387	0	387	89	-89	0	
International Affairs Group	375	-77	298	65	-65	0	
Corporate Communications	1,528	-92	1,436	6	-6	0	
Total P&P	3,526	-378	3,148	235	-235	0	

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Finance Portfolio							
Strategic Management	1,619	-110	1,509	83	-83	0	
Finance Group	8,414	-3,320	5,094	45	-95	-50	Re-phasing PWC audit work
Property Group	16,612	-10,108	6,504	-145	85	-60	Underspend to contribute to PEF revenue
Total Finance	26,645	-13,538	13,107	-17	-93	-110	
Total Directorate Controllable	75,266	-32,453	42,813	4,892	-5,253	-361	

1.1.3 **Major Reasons for Variance:** *[provides an explanation of the 'headings' in table 2]*

Table 2, at the end of this section, details all forecast revenue variances over £100k. Each of these variances is explained further below:

O,R&S (CFE) portfolio: despite efforts to reduce costs and increase income to achieve a sustainable position the Kent Works operation is having to report a potential net overspend of £248k this year. Actual income for services provided to schools has picked up but cost reduction has been difficult given the operation's obligations under the contract with the Learning and Skills Council.

Corporate Support portfolio:

- Personnel & Development:
 - **-£100k** will need to be re-phased into 2008/09 as there was a delayed start to the Well Being Health Checks programme.
 - variances on gross spend (**+£700k**) and income (**-£750k**) reflect the demand for additional P&D services, particularly staff care services and training courses, which are difficult to predict during budget setting
- Information Systems: variances on gross spend (**+£2.65m**) and income (**-£2.75m**) reflect the demand for additional IT services and projects, a demand which is difficult to predict during budget setting;
- Legal services:
 - variances on gross spend (**+£700k**) and income (**-£750k**) reflect the additional work that the function has taken on over and above that budgeted for, responding to both internal and external demand;
 - variances on gross spend (**+£500k**) and income (**-£500k**) are a result of additional disbursements incurred. Costs of disbursements are recovered from clients but they are difficult to predict during budget setting.
- Corporate Management & Strategic Development: **-£130k**, relating to Kent TV, is to be re-phased into 2008-09 as the actual profile of spend can now be confirmed against the allocated funding (£1.2m gross cost over 2 years);

Table 2: REVENUE VARIANCES OVER £100K IN SIZE ORDER

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
CS	Information Systems costs of additional services\projects	+2,650	CS	Information Systems income from additional services\projects	-2,750
CS	P&D costs of additional courses\services	+700	CS	P&D income from additional services\courses	-750
CS	Legal Services costs of additional work	+700	CS	Legal income resulting from additional work	-750
CS	Legal Services costs of additional disbursements	+500	CS	Legal Services costs of disbursements recovered from clients	-500
OR&S (CFE)	Kent Works - higher costs of on-going operation	+284	CS	Confirmed profile of Kent TV revenue spend over 2 year period	-130
			CS	Delayed start to P&D Health Checks programme	-100
		+4,834			-4,980

1.1.4 Actions required to achieve this position:

N/A

1.1.5 Implications for MTP:

OR&S (CFE) – The review of the Kent Works operation is not yet completed and the MTP has therefore assumed a nil net cash limit with gross expenditure matching forecast income.

1.1.6 Details of re-phasing of revenue projects:

The following projects are re-phasing into 2008-09 and therefore roll forward will be required in order to fund the completion of these projects:

Public Health Portfolio:

- -£50k to fund the continued secondment of the Health Policy Officer.

Corporate Support Portfolio:

Personnel:

- -£100k due to a delayed start to the Well Being Health Checks programme following the need to re-tender programme contract;
- -£55k relating to the Workforce and Member Development Programmes.

Strategic Development:

- -£80k relating to the delayed construction, following planning issues, of the Maidstone Gateway project which will now open in late summer 2008/2009;
- -£134k relating to Kent TV spend profile;
- -£77k relates to the setting up of the Whats On in Kent website (the responsibility for which was transferred to CED from Communities),

Finance Portfolio:

- -£50k relating to planned PWC Internal Audit activities;

Excluded from the forecast position is the Home Computing Initiative which, due to the accounting treatment, will require a scheduled overspend of £261k to roll forward into 2008/09 to be met from staff salary deductions.

1.1.7 Details & impact of proposals for residual variance:

The roll forward requirements exceed the available underspend due to the overspend on Kent Works. This will be addressed once the final outturn position for the Authority as a whole is known.

The Property Group net underspend of £60k is proposed to be used to reduce the amount of Property Enterprise Fund revenue overspend to be rolled forward into 2008-09 (as reported in Revenue Implications of Section 2.2).

1.2 CAPITAL

1.2.1 All changes to cash limits are in accordance with the virement rules contained within the constitution and have received the appropriate approval via the Leader or relevant delegated authority.

Cash limits have been adjusted since the last full monitoring report to reflect:

	2007-08	2008-09	2009-10	Future Years
	£000s	£000s	£000s	£000s
Re-phasing per 2008-11 MTP:				
▪ Corporate Support portfolio	-1,369	356	900	2,413
▪ Policy & Performance portfolio			500	1,500
▪ Finance portfolio	-1,994	1,920	1,200	4,069

1.2.2 **Table 3** below provides a portfolio overview of the latest capital monitoring position.

	Prev Yrs Exp £000s	2007-08 £000s	2008-09 £000s	2009-10 £000s	Future Yrs £000s	TOTAL £000s
Corporate Support Portfolio						
Revised Budget per Dec Cabinet	2,680	3,995	4,757	1,239	497	13,168
Adjustments:						
- re-phasing per 2008-11 MTP		-1,369	356	900	2,413	2,300
Revised Budget	2,680	2,626	5,113	2,139	2,910	15,468
Variance		-320	320	0	0	0
split:						
- real variance		0	0	0	0	0
- re-phasing		-320	+320	0	0	0
Policy & Performance Portfolio						
Revised Budget per Dec Cabinet		501	500			1,001
Adjustments:						
- re-phasing per 2008-11 MTP				500	1,500	2,000
Revised Budget	0	501	500	500	1,500	3,001
Variance		0	0	0	0	0
split:						
- real variance		0	0	0	0	0
- re-phasing		0	0	0	0	0
Finance Portfolio						
Revised Budget per Dec Cabinet	1,103	6,527	4,344	4,079	9,185	25,238
Adjustments:						
- re-phasing per 2008-11 MTP		-1,994	1,920	1,200	4,069	5,195
Revised Budget	1,103	4,533	6,264	5,279	13,254	30,433
Variance		-598	+528	0	0	-70
split:						
- real variance		-70	0	0	0	-70
- re-phasing		-528	+528	0	0	0
Directorate Total						
Revised Budget	3,783	7,660	11,877	7,918	17,664	48,902
Variance	0	-918	848	0	0	-70
Real Variance		-70	0	0	0	-70
Re-phasing		-848	+848	0	0	0

1.2.3 Main Reasons for Variance

Table 4 below, details all forecast capital variances over £250k in 2007-08 and identifies these between projects which are:

- part of our year on year rolling programmes e.g. maintenance and modernisation;
- projects which have received approval to spend and are underway;
- projects which are only at the approval to plan stage and
- projects at preliminary planning stage.
-

The variances are also identified as being either a real variance i.e. real under or overspending which has resourcing implications, or a phasing issue i.e. simply down to a difference in timing compared to the budget assumption.

Each of the variances in excess of £1m which is due to phasing of the project, excluding those projects identified as only being at the preliminary planning stage, is explained further in section 1.2.4 below.

All real variances are explained in section 1.2.5, together with the resourcing implications.

Table 4: CAPITAL VARIANCES OVER £250K IN SIZE ORDER

portfolio	Project	real/ phasing	Project Status			
			Rolling Programme £'000s	Approval to Spend £'000s	Approval to Plan £'000s	Preliminary Planning Stage £'000s
Overspends/Projects ahead of schedule						
			+0	+0	+0	+0
Underspends/Projects behind schedule						
FIN	Management & Modernisation of Assets	Phasing	-428			
			-428	0	0	0
			-428	0	0	0

1.2.4 Projects re-phasing by over £1m:

None

1.2.5 Projects with real variances, including resourcing implications:

Finance Portfolio

An underspend of -£70k on Commercial Services Vehicle, Plant & Equipment replacement is largely due to continuing the trend adopted last year of leasing vehicles rather than purchasing outright. This will be matched by a reduced contribution to their Renewals Fund.

1.2.6 General Overview of capital programme:

(a) Risks

N/A

(b) Details of action being taken to alleviate risks

N/A

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

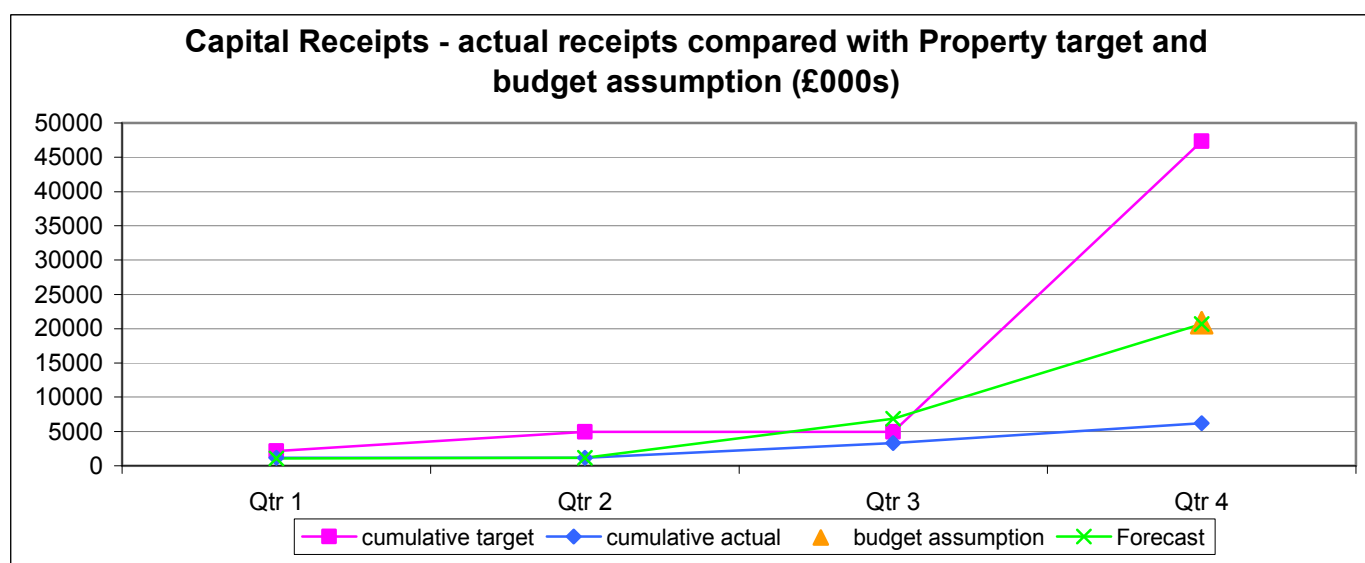
2.1 Capital Receipts – actual receipts compared to budget profile:

2007-08				
	Budget funding assumption £000s	Cumulative Target profile £000s	Cumulative Actual receipts £000s	Forecast receipts £000s
April - June		2,150	1,148	1,072
July - September		4,929	1,148	1,148
October - December		4,929	3,288	6,866
January - March		47,359	***6,190	20,687
TOTAL	*20,858	**47,359	6,190	20,687

* figure updated to reflect revised 2007-08 budget assumption per 2008-11 MTP

** this target was set at the beginning of the financial year when the budget funding assumption was £52,958k.

***actuals to 31 January 2008



Comments:

- The table below shows a potential surplus at the end of the current year of £2,111k if all remaining receipts come in as planned. However, with the majority of the current year's receipts forecast to be delivered in the final two months of the year, there is an obvious risk that the actual receipts banked by 31 March 2008 will be lower than projected.
- The overall forecast capital receipts surplus of £11,475k shown in the table below is due to the fact that some of the spend to be funded by these capital receipts is not yet reflected in the capital programme. This is because these schemes are still at very initial stages and have not yet been worked up for inclusion in the budget.

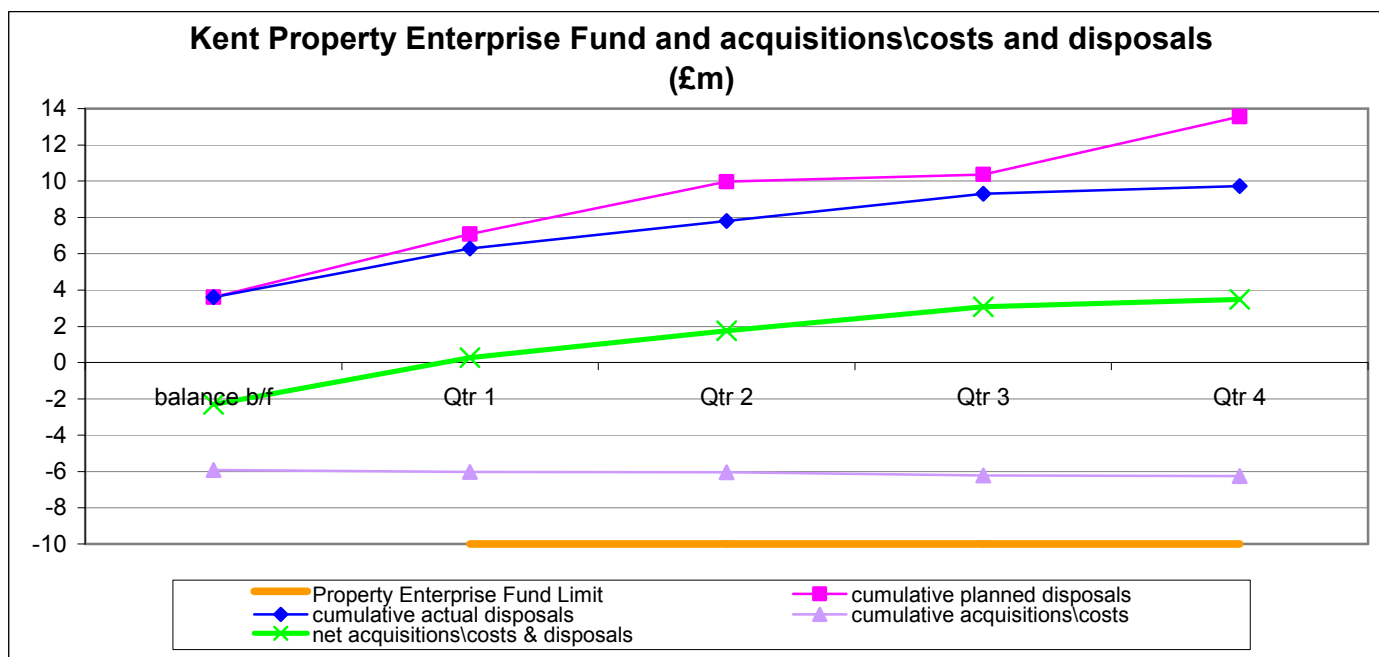
	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000	Total £'000
Capital receipt funding per 2008-11 MTP	20,858	64,635	66,100	53,167	204,760
Property Group's forecast receipts	20,687	80,556	30,050	13,500	144,793
Receipts banked in previous years for use	1,000	151	1,313	0	2,464
Receipt funding from other sources	1,282	1,051	1,575	11,400	15,308
Potential Surplus\Deficit (-) Receipts	2,111	17,123	-33,162	-28,267	-42,195
Sites identified by Directorates for Property to work up for disposal*		2,445	25,652	25,573	53,670
Overall Potential Surplus\Deficit (-)	2,111	19,568	-7,510	-2,694	11,475

* Timescale for delivery uncertain until worked up by Property Group

2.2 Capital Receipts – Kent Property Enterprise Fund:

	<i>Kent Property Enterprise Fund Limit £m</i>	Cumulative Planned Disposals (+) £m	Cumulative Actual Disposals (+) £m	Cumulative Actual Acquisitions\Costs (-) £m	Cumulative Net Acquisitions\Costs (-) & Disposals (+) £m
Balance b/f		3.606	3.606	-5.918	-2.312
April - June	-10	7.088	6.280	-6.013	0.267
July – September	-10	9.973	7.798	-6.040	1.758
October – December	-10	10.371	9.291	-6.210	3.081
January – March*	-10	13.555	9.729	-6.249	3.480

* reflects position to the end of January



Comments:

- County Council approved the establishment of the Property Group Enterprise Fund, with a maximum permitted deficit of £10m, but self-financing over a period of 10 years. The cost of any temporary borrowing will be charged to the Fund to reflect the opportunity cost of the investment. The aim of this Fund is to maximise the value of the Council’s land and property portfolio through:
 - the investment of capital receipts from the disposal of non operational property into assets with higher growth potential, and
 - the strategic acquisition of land and property to add value to the Council’s portfolio, aid the achievement of economic and regeneration objectives and the generation of income to supplement the Council’s resources.

Any temporary deficit will be offset as disposal income from assets is realised. It is anticipated that the Fund will be in surplus at the end of the 10 year period.

Balance brought forward

In 2005-06, £0.541m of capital receipts were realised from the disposal of non-operational property. The associated disposal costs of £0.054m were funded from these receipts, leaving a balance of £0.487m available for future investment in the Kent Property Enterprise Fund. In 2006-07, £3.065m of capital receipts were realised from the disposal of non-operation property giving a balance of £3.606m for investment. The Fund was used to acquire land at Manston Business Park. Together with the costs of acquisition and disposal, costs in the year totalled £5.864m, leaving a deficit of £2.312m to be temporarily funded from the £10m borrowing facility.

The balances brought forward have been amended to account for receipts that have subsequently been confirmed as non-earmarked (disposals increased by £0.433m and costs increased by £0.030m).

Planned Disposals

At the start of 2007-08 Property Group identified £9.949m worth of potential non-earmarked receipts to be realised this financial year.

Disposals to date this year have been encouraging but the market has hardened affecting the ability to achieve the original target. Property Group are now working to a revised target of **£6.875m**.

Actual Disposals

As at the end of January 2008 the Fund had realised £6.123m of capital receipts this financial year through the sale of 52 non-operational properties.

Acquisitions\Costs

At present there are no committed acquisitions to report, however forecast outturn for costs of disposals (staff and fees) is currently estimated at **£0.597m**.

Other Fund Commitments

The 2007-08 revenue budget includes income of £3.3m of receipts to be generated by the Fund in the current year.

The Fund has been earmarked to provide funding of £5.4m for the Eurokent Access Road scheme in Ramsgate, Thanet. Budgeted over 2 years, the current forecast is for £0.750m in 2007-08 and £4.650m in 2008-09

Forecast Outturn

Taking all the above into consideration the Fund is expected to be in a deficit position of £0.084m by the end of this financial year.

Opening Balance – 01-04-07	-£2.312m
Planned Receipts	£6.875m
Costs	-£0.597m
Acquisitions	-
Other Fund Commitments:	
- revenue budget support	-£3.300m
- Eurokent Access Road	-£0.750m
Closing Balance – 31-03-08	-£0.084m

Revenue Implications

Approximately £0.080m of low value revenue receipts are currently forecast for this financial year but, with the need to fund both costs of borrowing (£0.145m) against the overdraft facility and the cost of managing properties held for disposal (£0.194m), the PEF is forecasting a £0.259m deficit on revenue which will be rolled forward to be met from future income streams. Property Group are proposing to use a managed revenue underspend of £0.060m to reduce the PEF roll forward to £0.199m.

FINANCING ITEMS SUMMARY

JANUARY 2007-08 FULL MONITORING REPORT

1. FINANCE

1.1 REVENUE

1.1.1 All changes to cash limits are in accordance with the virement rules contained within the constitution, with the exception of those cash limit adjustments which are considered “technical adjustments” ie where there is no change in policy, including:

- Allocation of grants and previously unallocated budgets where further information regarding allocations and spending plans has become available since the budget setting process.
- Cash limits have been adjusted since the last full monitoring report to reflect a number of technical adjustments to budget and a virement of £100k from the debt financing savings within the Finance portfolio to the Public Health portfolio for Healthwatch, as agreed by Cabinet on 3 December.

1.1.2 **Table 1** below details the revenue position by Service Unit:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Corporate Support portfolio							
Contribution to IT Asset Maintenance Reserve	2,433		2,433			0	
PFI Grant		-683	-683			0	
Total Corporate Support	2,433	-683	1,750	0	0	0	
Finance Portfolio							
Insurance Fund	3,479		3,479			0	
County Council Elections	255		255			0	
Workforce Reduction	865		865			0	
Environment Agency Levy	331		331			0	
Joint Sea Fisheries	252		252			0	
Audit Fees & Subscriptions	800		800			0	
Interest on Cash Balances / Debt Charges	103,444	-6,297	97,147	11,255	-18,269	-7,014	debt restructuring, reduced level of new borrowing & increased base rates
Contribution from Commercial Services		-5,010	-5,010		480	480	delay in letting outdoor advertising contract & delays due to planning consent
Public Consultation	100		100			0	
Provision for Kent Scheme Revision	18		18			0	
Local Priorities	682		682			0	
Local Scheme spending recommended by Local Boards	722		722			0	
Local Boards - Member Community Grants	38		38			0	
Transferred Services Pensions	22		22			0	
PRG & Capital Reserves		-2,159	-2,159			0	
Income from Kings Hill		-1,000	-1,000			0	
LABGI income		-3,200	-3,200			0	
Margate's Big Event			0			0	
Kent Celebration of Youth Event			0			0	
Total Finance	111,008	-17,666	93,342	11,255	-17,789	-6,534	
Total Controllable	113,441	-18,349	95,092	11,255	-17,789	-6,534	

1.1.3 Major Reasons for Variance: *[provides an explanation of the 'headings' in table 2]*

Table 2, at the end of this section, details all forecast revenue variances over £100k. Each of these variances is explained further below:

1.1.3.1 Financing Costs:

Interest on Cash Balances

- For the majority of the year base interest rates have been higher than assumed when the budget was set and market pessimism has made investment returns higher than originally forecast.
- Longer term callable deposits have been restructured to give an improved interest return.
- Balances have increased with the receipt of grants earlier than we had profiled at the time of setting the budget.

Debt Charges

- Only £20m of new borrowing has been taken in 2007-08, compared with £104.598m assumed when the budget was set thereby saving against interest costs. In addition this new borrowing was at a lower interest rate than budgeted.
- Restructuring of £185.1m of existing debt has made further savings against the budget.

1.1.3.2 Commercial Services:

Due to delays in letting the contract for outdoor advertising and sponsorship, we will not achieve all of the expected £500k in the current year. Planning consent for the erection of signs has subsequently been required by districts, which has delayed this further. To date we have received £163k from sponsors but the majority of this is in relation to future years.

Table 2: REVENUE VARIANCES OVER £100K IN SIZE ORDER

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
FIN	Commercial Services - outdoor advertising - delays in letting contract & further delays due to requirement for planning consent	+480	FIN	savings resulting from debt restructuring & higher investment income due to cash balances and increased interest rates	-7,014
		+480			-7,014

1.1.4 **Actions required to achieve this position:**

There is likely to be a draw-down from the Insurance Reserve in order to balance the Insurance Fund in the current year.

1.1.5 **Implications for MTP:**

Further savings from debt re-phasing and increasing investment income have been built into the base budget in the 2008-11 MTP.

1.1.6 **Details of re-phasing of revenue projects:**

N/A

1.1.7 **Details of proposals for residual variance:**

- The 2008-09 budget requires £0.638m of this £6.534m underspend to be carried forward into 2008-09 to compensate for the loss of Government Grant when the final settlement was announced.
- The pressure on Asylum will be the second call against the £6.534m underspend if we are unsuccessful with our negotiations with central Government or if these negotiations remain unresolved at the end of the financial year.
- In addition, this underspend will be required to offset the costs of mediation and litigation on the original Turner Gallery project which have been incurred within the

Communities directorate. The costs involved in preparing our case are currently forecast at £0.3m. If we are successful, these costs will be recovered.

- It is also probable that we will need to offset the residual variance forecast on the KASS portfolio, otherwise this would need to be rolled forward to 2008-09. It is considered that with the increasing demands on these services, it would not be prudent to start the new financial year with a deficit to manage.

1.2 CAPITAL

N/A

2. **KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING**

N/A