

To: CABINET – 14 April 2008

By: Nick Chard, Cabinet Member – Finance

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REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

- 1.1 This exception report highlights the main movements since the detailed monitoring report to Cabinet on 17 March 2008. There has been little change in the overall net revenue position this month but there have been some significant movements on individual portfolios, as shown in table 1 below.
- 1.2 Revenue budgets have been adjusted this month to reflect a virement of £0.550m from the Regeneration & Supporting Independence portfolio to the Finance portfolio in respect of the funding for the Fort Hill, Margate, de-dualling works. In July, Cabinet agreed the funding for this capital project from the roll forward of 2006-07 revenue underspending within the Finance portfolio. However, an underspend on the East Kent Access Phase 1c project within the capital programme has resulted in sufficient residual developer contributions to fund these de-dualling works in Margate. As a result, it has been possible to return the rolled forward revenue funding to the Finance portfolio, providing the opportunity to make an additional contribution to the Asylum reserve in order to contribute to the potential Asylum funding shortfall.
- 1.3 The current underlying net revenue position by portfolio 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 after Proposed Management Action

Portfolio	Gross Position £m	Proposed Management Action £m	Net Position after mgmt action £m		Movement £m
			This month	Last month	
OR&S (CFE) *	+1.849	-0.562	+1.287	+0.248	+1.039
CF&EA	-1.044	-	-1.044	-	-1.044
KASS	+2.251	-0.500	+1.751	+1.915	-0.164
EH&W	-2.230	-	-2.230	-2.565	+0.335
R&SI	-0.775	-	-0.775	-1.055	+0.280
Communities	+1.130	-	+1.130	+1.130	-
Public Health	-0.050	-	-0.050	-0.050	-
Corporate Support	-0.509	-	-0.509	-0.449	-0.060
Policy & Performance	-0.068	-	-0.068	-	-0.068
Finance	-6.974	-	-6.974	-6.644	-0.330
Total (excl Asylum)	-6.420	-1.062	-7.482	-7.470	-0.012

* Of the £1.287m residual pressure within the OR&S (CFE) portfolio, +£1.044m relates to budgets managed within the CFE directorate and +£0.243m relates to budgets managed within the Chief Executives directorate (Kent Works).

- 1.4 In addition to the projected portfolio variances, there remain two projected overspends:
- The Asylum Service is expected to overspend by £3.805m.
 - Schools are projecting a draw-down of their reserves of £15m.
- 1.5 **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	
Operations, Resources & Skills (OR&S) (CFE)	+1.849	+1.854	-0.005
Children, Families & Educational Achievement (CF&EA)	-1.044	+0.643	-1.687
Kent Adult Social Services (KASS)	+2.251	+2.853	-0.602
Environment, Highways & Waste (EH&W)	-2.230	-2.565	+0.335
Regeneration & Supporting Independence (R&SI)	-0.775	-1.055	+0.280
Communities	+1.130	+1.130	-
Public Health	-0.050	-0.050	-
Corporate Support	-0.509	-0.449	-0.060
Policy & Performance	-0.068	-	-0.068
Finance	-6.974	-6.644	-0.330
Total (excl Asylum)	-6.420	-4.283	-2.137
Asylum	+3.805	+4.355	-0.550
Total (incl Asylum)	-2.615	+0.072	-2.687

- 1.6 The gross underlying revenue position (excluding schools & Asylum) is currently an underspend of £6.420m as shown in table 2 above, but this underspend is expected to increase to £7.482m by year end, after assuming the implementation of management action, as shown in table 1. However, with the inclusion of the Asylum pressure of £3.805m, this reduces to an overall underspend of £3.677m. The final pressure on the Asylum budget at year end will depend on the assumptions we make about the level of grant we expect to receive from the Special Circumstances bids when we close the accounts and this will be based on the best information available at the time from the ongoing negotiations with Government. The £3.805m pressure currently reported is the gross pressure, above what is available in the reserve, before making any assumptions about the level of grant we might receive from the 2007-08 Special Circumstances bids. Any residual pressure, after allowing for our assumed level of success with these bids, will need to be met from the underspending within the Financing Items budgets of the Finance portfolio.
- 1.7 Table 1 identifies that even after management action, residual pressures remain forecast within the Operations, Resources & Skills (CFE) (ORS (CFE)), Kent Adult Social Services (KASS) and Communities portfolios.
- The net residual pressure on the ORS (CFE) portfolio has deteriorated this month, but this is offset by an improvement in the position of the Children, Families & Educational Achievement (CFEA) portfolio. This is because the management action identified in last month's report of identifying eligible expenditure which could be re-badged against underspends on specific grant where projects have been delayed, has been implemented and this all impacts within the CFEA portfolio, whereas last month's forecasts assumed that this would impact in both the ORS (CFE) and CFEA portfolios.
 - The net residual pressure within the KASS portfolio has improved this month largely due to additional funding secured from the Eastern & Coastal Kent PCT in respect of intermediate care proposals and services for patients leaving hospital and requiring social care. As reported last month, it is probable that the residual pressure on this portfolio at year end will need to be offset by the underspending within the Finance portfolio, otherwise this overspend would roll 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.
 - The net residual pressure within the Communities portfolio remains unchanged from last month. This includes £0.3m of mediation and litigation costs incurred on the original Turner Gallery which, if we are successful with our case, will be recovered. In the meantime, this pressure will also need to be offset by underspending within the Finance portfolio.
- 1.8 Within the capital programme, there has been a further £4.670m of re-phasing of projects forecast this month. Details of the main changes are provided in section 3 of this report. The current forecast capital position by portfolio, compared with the position reported last month is shown in **table 3** below and **table 4** shows the impact of this variance on each of the funding sources.

Table 3: Capital Position

Portfolio	Variance		Movement £m
	This Month £m	Last Month £m	
Operations, Resources & Skills (CFE)	-6.806	-4.698	-2.108
Children, Families & Educational Achievement	-1.035	-0.557	-0.478
Kent Adult Social Services	-1.122	-0.795	-0.327
Environment, Highways & Waste	-3.607	-1.370	-2.237
Regeneration & Supporting Independence	-1.772	-2.471	+0.699
Communities	-0.570	-0.563	-0.007
Corporate Support	-0.320	-0.320	-
Policy & Performance	-	-	-
Finance	-0.723	-0.598	-0.125
Total (excl Schools)	-15.955	-11.372	-4.583
Schools	-0.133	-0.046	-0.087
Total	-16.088	-11.418	-4.670

Table 4: 2007-08 Capital Variance analysed by funding source

	Capital Variance £m
Supported Borrowing	-0.967
Prudential	-3.762
Prudential/Revenue	-1.571
Grant	-6.743
External Funding - Other	-0.244
External Funding – Developer Contributions	-0.479
Revenue & Renewals	+1.269
Capital Receipts	-1.901
General Capital Receipts (generated by Property Enterprise Fund)	-1.690
TOTAL	-16.088

1.9 Table 4 reflects that there is a reduced requirement for borrowing (both prudential and supported) of £6.3m against the revised capital cash limits for the current year, this is in addition to the £34.669m of re-phasing of projects funded by borrowing reflected in the 2008-11 MTP. This reduced requirement for external borrowing in the current year compared to the budget assumption is a contributory factor in the revenue underspend reported within the Finance portfolio.

2. 2007-08 REVENUE MONITORING POSITION BY PORTFOLIO

2.1 Operations, Resources & Skills (CFE) (ORS (CFE)) portfolio:

The forecast gross position for this portfolio before management action has only marginally changed this month from a pressure of £1.854m to £1.849m due to a slight reduction in the pressure on Kent Works. Management action is expected to reduce this position further by £0.562m to £1.287m (£1.044m relates to budgets managed within the CFE directorate and £0.243m relates to Kent Works, managed within the Chief Executives directorate). Details of this residual management action are provided in section 2.3 below.

2.2 Children, Families & Educational Achievement (CFEA) portfolio:

2.2.1 The latest forecast for this portfolio indicates a movement in the gross position of -£1.687m this month, from a pressure of £0.643m to an underspend of £1.044m. This movement is due to:

- -£1.550m achievement of management action: expenditure has been identified that can be re-badged against underspending on specific grant income which fulfils the eligibility criteria for the grants. If we did not do this re-badging exercise, we would need to repay the unspent grant.

- -£0.137m Children's Social Services – Assessment & Related Services: the pressure on this budget has reduced due to a delay in recruiting to front line vacant social work posts and a transfer of expenditure to capital for IT remote devices for Social Workers. The capital monitoring already included the costs of these IT remote devices and therefore this transfer does not alter the capital forecast outturn position.
- +£0.350m Independent Sector Residential Care: the pressure on this budget continues to increase due to the need to place children in higher than average cost placements in order for their needs to be met. In addition, the forecast now includes additional costs for two children who are to be in secure residential accommodation for longer than we previously anticipated.
- -£0.350m Grants to Voluntary Organisations: it has come to light from reviewing the actual expenditure to date within the financial management system that the previously reported forecast outturn position on this budget had been overstated.
- In addition, we have received confirmation that additional funding of £0.140m has been secured from the Learning & Skills Council (LSC) to fund some specific projects with Health to address Teenage Pregnancy. All of this additional expenditure will be incurred by the end of the 2007-08 financial year. This has a net nil effect but will increase our gross expenditure and income.

2.2.2 Asylum:

The forecast position on the Asylum service has reduced by £0.550m this month to a pressure of £3.805m. This is due to an additional contribution being made to the Asylum reserve following the virement detailed in paragraph 1.2 above. The £3.805m pressure is made up as follows:

- +£4.720m pressure in the current year, which remains unchanged from the previous report;
- +£0.757m pressure relating to 2006-07 arising from the data matching exercise which has reduced the main Asylum claim and increased the special circumstances bids for that year, of which, to be prudent, we assume we will only receive a proportion although lobbying will continue to ensure a successful resolution. This also remains unchanged since the last report;
- -£1.672m balance in the Asylum reserve which will be drawn down to offset these pressures.

The Asylum Service handled 82 referrals in February which had been anticipated within the previously forecast outturn position. However, there were only 38 referrals for March. At this stage it is not clear whether this is due to a genuine reduction in referrals or as a consequence of the industrial action in France during the early part of the month of March.

The position regarding previous year's outstanding Special Circumstances bids remains unresolved, as reported last month. However, we have received a settlement letter from the Home Office for 70% of the 2006-07 bid, but the Chief Executive has written to the Home Office Minister to say that this is not acceptable and that we will be doing everything in our power to receive a more just settlement. We will therefore be holding an event in the House of Lords in April with other Joint Council members in order to make the situation known to MPs and Peers.

The Border & Immigration Agency would like Kent to become a specialist assessment authority in relation to the Unaccompanied Asylum Seeking Children Reform programme but, although we are in favour of reform, we have currently declined to participate until our outstanding bids are paid in full and a way of resolving the legislative conflicts leading to such deficits is found.

2.3 Overall Children, Families & Education (CFE) directorate position and details of outstanding management action:

The overall forecast position for the CFE directorate remains a balanced position at year end with a forecast underspend on the CFEA portfolio of £1.044m offsetting a pressure of £1.044m on the budgets managed by CFE within the ORS (CFE) portfolio. However, this balanced position assumes that a further £0.562m of management action will be achieved by the end of the financial year within the ORS (CFE) portfolio. If the forecast outturn position for the directorate does not improve before the year end, this management action will be achieved by seeking Schools' Funding Forum approval to charge the pension and redundancy costs associated with closing schools to one-off DSG underspend from the previous financial year. To do this we would need to demonstrate to the Forum that there has been an overall saving in the schools budget, such as that arising from a school closure under the Primary Strategy.

2.4 Kent Adult Social Services:

2.4.1 The latest forecast indicates a pressure before management action of £2.251m, which is a reduction of £0.602m since last month. This reduction in part results from the impact of management actions imposed to bring the Directorate and portfolio back to a balanced position. The reduction also results from additional funding, secured from the Eastern and Coastal Kent PCT, in respect of intermediate care proposals and services for patients leaving hospital and requiring social care. This funding recognises both the growing pressures that have been seen within our financial forecast on services for older people, but also allows us to start working jointly on a strategy for intermediate care across the East Kent area for 2008-09. The income and any associated costs have now been included within the forecast.

Management Action plans were finalised in August which, at the time, were anticipated to bring us back to a breakeven position. Although a range of Management Actions remains in place, the amount of financial savings generated, have to an extent been offset by increased demand for services. It is therefore considered prudent to forecast a year end pressure, after Management Action, of £1.751m, which is a reduction of £0.164m from the last report.

2.4.2 The movements over £0.1m this month in the gross position before management action are:

- -£0.761m Older People – an increase in the underspend from £0.193m to £0.954m. There has been a net reduction in residential and nursing placements primarily as a result of higher levels of attrition than anticipated. The funding secured for the Eastern & Coastal PCT has also helped to allay some of the pressures within the Older People budget.
- +£0.251m Other Services – a reduction in the underspend from £2.174m to £1.923m, which in part results from revised estimates of staff turnover. The increase also follows the decision by the Directorate to make a provision in respect of costs relating to the delayed implementation of client billing on Swift.

2.5 Environment, Highways & Waste portfolio:

The underspend for the portfolio has reduced by £0.335m this month to £2.230m. The main changes are:

- +£0.410m Waste Management: the price increase in oil has adversely affected contract inflation indices (+£0.1m) and the re-routing of waste due to the Waste to Energy plant at Allington not being in operation for several months has made cost forecast very complex and firmer figures are now reflected (+£0.310m).
- +£0.120m Public Transport Contracts following revisions to forecasts for a number of contracted services including the Freedom Pass.
- -£0.200m Kent Highways Services due to a reduced forecast for design work (£0.1m) and increased fees and recharges (£0.1m).

A decision on the funding of £0.685m of emergency expenditure arising from the floods, gales, tidal surge and the earthquake in Folkestone will be made at year end.

2.6 Regeneration & Supporting Independence portfolio:

The underspend for the portfolio has reduced by £0.280m this month to £0.775m. The main changes are:

- +£0.450m Regeneration & Projects due to the removal of the funding for the Fort Hill de-dualling works as explained in paragraph 1.2 above. (The previous forecast reflected a £0.450m underspend on this £0.550m project in 2007-08 due to re-phasing, with only a £0.1m revenue contribution required to fund the costs of this capital project in the current year. Following the virement, both the £0.550m budget and the need for the £0.1m revenue contribution (as the costs are now to be funded from developer contributions), have been removed from the revenue position, therefore changing the forecast by +£0.450m).
- -£0.125m further re-phasing of projects within Regeneration & Projects, as follows:
 - -£0.075m for completion of the Regeneration Strategy
 - -£0.050m for the Dover Pride project
 - -£0.050m for the Bio-fuels project
 - +£0.050m reduction in the re-phasing of running costs for the Manston/Eurokent development.

2.7 Communities:

2.7.1 The gross pressure on this portfolio has remained at £1.130m this month, which reflects a residual year end pressure of £0.830m in respect of Adult Education and £0.3m of mediation and litigation costs incurred on the original Turner Gallery. The former will need to be rolled forward and addressed during the 2008-09 and 2009-10 with progress monitored against an agreed action plan and the latter will be offset by underspending within the finance portfolio as explained in paragraph 1.7 above.

2.7.2 In addition, the only significant variation from the last report is a forecast overspend on essential day to day building maintenance due to maintenance emergencies during the winter months. This budget is managed by Property Group on behalf of Communities. The extent to which this additional expenditure is revenue maintenance or items that should be charged to the capital maintenance programme is currently being investigated. In the meantime, further revenue underspends within services spending on consumables have been identified, which can be delayed to ensure no overall impact to the total position for the portfolio.

2.8 Finance:

The underspend on this portfolio has increased by £0.330m to £6.974m due to further savings on the Interest on Cash Balances / Debt Charges budgets largely as a result of further re-phasing of the capital programme therefore reducing the level of new borrowing required in the current year.

2.9 Policy & Performance:

An underspend of £0.068m is now forecast for this portfolio relating to re-phasing of aspects of the Climate Change project into 2008-09.

3. 2007-08 CAPITAL MONITORING POSITION BY PORTFOLIO

3.1 There has been some cash limit adjustments this month as detailed below:

	£000s
1. As reported to Cabinet on 17 March 2008	268,521
2. Additional Growth Area Funding grant (GAF2) for Ashford Ring Road Arts project within Major Scheme Design (EH&W portfolio)	80
3. External funding from Eastern & Coastal Kent PCT for vehicle purchases for Windchimes and Fairlawn respite centres (CF&EA portfolio)	45
4. External funding from GOSE for water meter installation project at gypsy sites (KASS portfolio)	14
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	268,660
5. PFI	11,593
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	280,253

3.2 Overall there is a further -£4.670m of re-phasing of projects this month, as identified in table 3, the main movements are detailed below:

3.3 Operations, Resources & Skills (CFE) portfolio:

The forecast variance for the portfolio has moved by -£2.108m from -£4.698m to -£6.806m this month. The main changes are:

- -£0.789m Dartford Campus (Development Opportunities) – this re-phasing mainly relates to the Dartford Technology College (-£0.691m) and Enabling Works (-£0.094m) elements of the project. Progress at the Dartford Technology College has been slower than anticipated largely due to delays in deliveries of materials.
- -£0.750m Tonbridge Girls' Grammar School (Development Opportunities) – re-phasing into 2008-09 is required as preliminary steelwork has been deferred pending the receipt of DCSF Schedule 22 consent to dispose of some of the schools' playing fields, the receipt from which is necessary to complete the funding package for this project.
- -£0.700m North Dartford, The Bridge (Development Opportunities) – the phasing has been revised to take account of a revised start on site date of late June 2008. Part of the delay has been due to design alterations but the main reason is that the original phasing was very optimistic.

- -£0.612m Greenfields Primary School (Development Opportunities) – due to tender estimates on phase 1 and pre tender estimates on Phase 2 being significantly higher than was expected, value engineering work is currently being undertaken with the intention of reducing costs. The start date of the project has consequently been delayed.
- -£0.483m The Oaks, Ashford (a Primary Strategy Project) – delayed due to site access issues and action required to reduce tender costs.
- -£0.357m Modernisation Programme 2006/07/08 – there are 2 main elements of re-phasing:
 - -£0.160m Sussex Road Primary School – the original contractor pulled out of the project resulting in delays whilst a new contractor was appointed
 - -£0.113m Astor College for the Arts – this re-phasing is due to firming up on 2nd stage tender prices and waiting for the school to confirm that full funding for the project had been secured.

These reductions have been partially offset by:

- +£1.227m Building Schools for the Future (BSF) Development costs – the BSF programme is moving ahead faster than anticipated and this additional development costs have been necessary in 2007-08. A compensating saving in 2008-09 is forecast.
- +£0.200m funding for early development costs for Dartford Grammar School for Girls Basic Need project (£0.1m) and The Judd School, a 2008/09/10 Modernisation Programme Project (£0.1m).
- +£0.103m Development Opportunity Consultancy Costs due to additional costs supporting the Learning Plaza project at New Line Learning Academy.

3.4 Children, Families & Educational Achievement portfolio:

The forecast for the portfolio has moved by -£0.478m from -£0.557m to -£1.035m. The main movements are detailed below:

- -£0.435m Integrated Children's Systems (ICS) – the £0.435m grant for phase 1c of the programme of works has been deferred by the DCSF from 2007-08 to 2008-09. The Project Officer responsible for the ICS is confident that the expenditure will be curtailed/redirected to ensure that the available funds for 2007-08 are not exceeded.
- -£0.065m Mobile Working Devices for Children's Social Workers – to date 318 laptops have been purchased and charged to this project. The remaining funds, estimated to be circa £0.065m are to be used to apply Access 2 Kent (A2K) via wireless connectivity but cannot be undertaken until the new financial year. The DCSF have given the Project Officer a verbal assurance that the unspent grant can be 'rolled' into 2008-09.

3.5 Kent Adult Social Services portfolio:

The forecast for the portfolio has moved by -£0.327m from -£0.795m to -£1.122m this month. This is made up of a number of small movements, all below £0.1m, including re-phasing on Crispe House, Telehealth, Mental Health and Public Access. Also, there are a number of small uncommitted budgets, including Day Services Review, Age Concern Loan and Mental Health, which will be required to roll forward to 2008-09 to cover further development work on the Swift system due to uncertainty around replacement of Systems Replacement Programme (SRP) capital grant.

3.6 Environment, Highways & Waste portfolio:

The forecast for the portfolio has moved by -£2.237m from -£1.370m to -£3.607m. The main movements are detailed below:

- -£1.410m Re-shaping KHS Accommodation – further re-phasing resulting from a delay concerning the Wrotham site, following the judicial review process and there has also been a 6 week delay to the Ashford programme of works following the need to make design alterations following the recent determination of the KHS Divisional restructure and the need for separate computer network connections for the contractor part of the alliance sharing the accommodation.
- -£0.500m Wetland Creation – re-phasing to 2008-09 as it is no longer feasible to conclude the negotiations before the end of the financial year.
- -£0.252m Energy & Water Investment Fund re-phasing following programme delays.
- -£0.236m Highway Capital Maintenance – this reflects the impact of efforts to reduce the forecast overspend due to acceleration of the programme, reported last month.
- -£0.133m Safety Camera Partnership, reflecting the re-phasing of some activity into 2008-09.

These reductions have been partially offset by:

- +£0.220m Integrated Transport Programme reflecting reduced re-phasing into 2008-09 on a range of schemes.
- +£0.154m A228 Leybourne/West Malling bypass – this reflects a higher cost of the project than previously estimated. Part of this will be funded from the revenue budget for residual expenditure on old TSG schemes, funding of the balance will be resolved once final costs are known.

3.7 Regeneration & Supporting Independence portfolio:

The forecast for the portfolio has moved by +£0.699m from -£2.471m to -£1.772m. This is due to:

- +£0.789m Eurokent Spine Road – the previous forecast reflected only the net cost to KCC and did not include the costs being met by external funding from SEEDA and developer contributions.
- -£0.090m Gravesend Community Arts Complex – this project has re-phased partly due to funding uncertainty.

3.8 Communities portfolio:

The forecast variance for this portfolio has only marginally changed this month, from -£0.563m to -£0.570m, but there have been compensating movements. The main changes are as follows:

- -£0.092m Big Lottery Fund – PE & Sport following a re-evaluation of the costs of the individual projects and an assessment of the net costs of the whole programme (taking into account costs charged to schools and CFE DDA budget). This underspend largely relates to an unallocated balance of funding which will need to re-phase into 2008-09 in order to complete the programme.
- +£0.118m Modernisation of Assets, which is a consequence of needing to capitalise appropriate Libraries IT costs. This overspend will be rolled forward to be first call against the 2008-09 budget.

3.9 Finance portfolio:

The forecast for the portfolio has moved by -£0.125m from -£0.598m to -£0.723m this month. The main movement is a -£0.090m reduction in the purchase of vehicles and software within Commercial Services.

4. RECOMMENDATIONS

Cabinet is asked to:

- 4.1 Note the latest forecast revenue and capital budget monitoring position for 2007-08.
- 4.2 Note the revenue virement detailed in section 1.2 above.
- 4.3 Note the additional revenue funding from the LSC to fund specific projects with Health to address Teenage Pregnancy issues, as detailed in section 2.2.1.