

TO: Corporate Policy Overview & Scrutiny Committee – 13th January 2011

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Alex King, Deputy Leader
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SUBJECT: Financial Monitoring 2010/11

Classification: Unrestricted

Summary:

Members of the POSC are asked to note the second quarter's budget monitoring report for 2010/11 as reported to Cabinet on 29th November 2010 and the latest exception report on 10th January 2011.

FOR INFORMATION

1. Introduction

- 1.1 This is a regular report to this Committee on the forecast outturn for Chief Executives Department and Financing Items budgets within the Corporate Services portfolios.

2. Forecast Outturn

- 2.1 A detailed quarterly budget monitoring report is presented to Cabinet, usually in September, December and March, and a draft final outturn report in June. These reports outline the full financial position for each portfolio and are reported to POSCs after they have been considered by Cabinet. In the intervening months an exception report is made to Cabinet outlining any significant variations from the quarterly report.
- 2.2 The second quarter's monitoring report for 2010/11 was presented to Cabinet on 29th November 2010. Extracts from the annex for the Chief Executives Department for the portfolios reporting to this POSC and the annex for Financing Items are attached as appendix 1. An exception report was presented to Cabinet on 10th January 2011 which did not identify any significant variations from the quarterly report for Chief Executives Department and the changes to financing items are outlined in paragraph 2.3.5.
- 2.3 Revenue Budget

Chief Executives Department

- 2.3.1 Since the last report to this POSC in November we have identified the following significant variations:

- a. An increase in pay as you go activities and income of £0.620m for the Information Systems Group in response to demand from directorates.
- b. Additional income earned by Legal Services of £934k (partially offset by additional expenditure) resulting in a forecast surplus generated by legal services of £316k.
- c. Additional expenditure and income in the Property Group for pay as you go activities demanded from directorates
- d. A freeze on recruitment to staff vacancies in the Pensions and Insurance teams has resulted in a reduction in costs and corresponding reduction in income due to the reduced drawdown from the Pension and Insurance Funds.
- e. Workplace Transformation – A saving from the 4th quarter's rent for 17 Kings Hill Avenue has been generated however, this has been off-set by uncertainty around the one-off costs of alterations and cabling costs to existing buildings needed to expand occupancy to accommodate displaced staff.
- f. Consumer Direct have been holding staff vacancies until the decision on the awarding of the new contract was made in December 2010. The contract has been extended and recruitment is now progressing.
- g. Budgeted base savings on delegated budgets have been held within Centrally Managed Budgets, expected to be achieved by in-year opportunities on other service lines within the portfolio. There is a pressure on this budget which is offset by underspending elsewhere within the portfolio resulting in an overall underspend for the portfolio.

2.3.2 The overall impact is a net forecast underspend of -£197k which it is anticipated will be used towards the moratorium on non-essential spend and rolled forward to help balance next year's budget.

Financing Items

2.3.4 The Financing Items report for Quarter 2 moved to an underspend of -£3.828m. Members of the POSC are directed to Annex 1 to read the detailed explanations of this movement.

2.3.5 The exception report on 11th January 2010 identified an increased underspend for the portfolio of £1.5m this month from £3.741m to £5.241m. This is due to further underspending on the debt charges budget as a result of lower than expected costs of the Property Enterprise Fund.

2.4 Capital

2.4.1 The capital budget showed an over spend of £2.034m in 2010/11 on Commercial Services VPE but this was revised by -£0.643m to £1.391m for the later exception report. As this is funded by an increased contribution to and drawdown from their renewals fund, there are no implications on resources. The monitoring also shows a re-phasing of £583k from 2010/11 to 2011/12 and 12/13, primarily due to changes in phasing for Sustaining Kent – Maintaining the Infrastructure and the Gateway programme.

3 Recommendations

3.1 Members of the POSC are asked to note the projected outturn for the Chief Executive's Department and Financing Items for 2010/11 based on the second quarter's monitoring report to Cabinet and subsequent exception report.

Background Documents:

- 1) Cabinet 29th November 2010 – Revenue and Capital Budgets, Key Activity and Risk Monitoring
- 2) Cabinet 10th January 2011 – Revenue and Capital Budget Monitoring Exception Report

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CHIEF EXECUTIVES DIRECTORATE SUMMARY OCTOBER 2010-11 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.
- The inclusion of new 100% grants (ie grants which fully fund the additional costs) awarded since the budget was set. These are detailed in Appendix 2 of the executive summary.

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	
Localism & Partnerships portfolio							
Democratic Services:							0
- core service	4,902	-3	4,899	-34	-7	-41	
- support to directorates	260	-260	0	0	0	0	
TOTAL Democratic Services	5,162	-263	4,899	-34	-7	-41	
International Affairs Group	572	-35	537	3	-3	0	
Kent Partnerships	414	-48	366	17	-4	13	
County Council Elections	255		255	0	0	0	
Public Consultation	100		100	0	0	0	
Provision for Member Community Grants	853		853	0	0	0	
Local Scheme Spending recommended by Local Boards	468		468	0	0	0	
District Grants for Local Priorities	808		808	0	0	0	
Budget Managed by this portfolio	8,632	-346	8,286	-14	-14	-28	
Less Support Costs delegated to Service Directorates	-260	260	0	0	0	0	
Total L&P portfolio	8,372	-86	8,286	-14	-14	-28	
Corporate Support & Performance Management portfolio							
Personnel & Development:							0
- core service & PAYG activity	7,272	-5,271	2,001	-72	72	0	
- support to directorates	3,679	-3,679	0	0	0	0	
TOTAL P&D	10,951	-8,950	2,001	-72	72	0	
Business Solutions & Policy:							
- ISG core service & PAYG activity	14,857	-12,741	2,116	575	-575	0	IT project contractors funded by income
- ISG support to directorates	15,130	-15,130	0	0	0	0	
- Central Policy	656	0	656	1	-1	0	
- Performance, Improvement & Engagement	691		691	0	-50	-50	
TOTAL Business Solutions	31,334	-27,871	3,463	576	-626	-50	
Finance Group:							0
- Procurement & Audit	320	-34	286	106	-15	91	Balanced with underspend in Finance portfolio below
- Audit support to directorates	735	-735	0	0	0	0	
TOTAL Audit & Procurement	1,055	-769	286	106	-15	91	

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Property Group:							
- core service	5,583	-4,416	1,167	132	-137	-5	Addt costs & income from trading activities
- support to directorates	5,443	-5,443	0	0	0	0	
TOTAL Property Group	11,026	-9,859	1,167	132	-137	-5	
Legal Services	6,789	-7,764	-975	1,348	-1,664	-316	£730k disbursements costs & income; addt costs & income from trading activities
Strategic Management Unit	431		431	0	0	0	
Kent Works	0	0	0	32	1	33	
Corporate Communications	1,682	-215	1,467	-63	63	0	
Strategic Development Unit	2,604	-631	1,973	20	-20	0	Workplace transformation saving on 17 KHA rent, offset by costs of redeployments
Contact Kent	5,517	-2,248	3,269	-85	13	-72	Consumer Direct vacancies off-set by other costs & reduced income
Centrally Managed Budgets	2,013	-184	1,829	256	-15	241	£231k centrally held base saving on delegated budgets which is offset by savings on other budget lines within the portfolio
Support Services purchased from CED	4,094		4,094	0	0	0	
PFI Grant		-605	-605	0	0	0	
Dedicated Schools Grant		-4,289	-4,289	0	0	0	
Budget Managed by this portfolio	77,496	-63,385	14,111	2,250	-2,328	-78	
Less Support Costs delegated to Service Directorates	-24,987	24,987	0	0	0	0	
Total CS&PM	52,509	-38,398	14,111	2,250	-2,328	-78	
Finance Portfolio							
Finance Group:							
- core service	6,015	-4,046	1,969	-434	343	-91	Vacancies held & reduced drawdown from Funds. Underspend offsets Finance Group (procurement) overspend in CS&PM portfolio above
- support to directorates	1,577	-1,577	0	0	0	0	
TOTAL Finance Group	7,592	-5,623	1,969	-434	343	-91	
Less Support Costs delegated to Service Directorates	-1,577	1,577	0	0	0	0	
Total Finance portfolio	6,015	-4,046	1,969	-434	343	-91	
TOTAL CORPORATE POC	66,896	-42,530	24,366	1,802	-1,999	-197	
Public Health & Innovation portfolio							
Kent Department of Public Health	794	-227	567	31	-31	0	

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Total Directorate Controllable	67,690	-42,757	24,933	1,833	-2,030	-197	
Assumed Management Action:							
- L&P portfolio						0	
- CS&PM portfolio						0	
- Finance portfolio						0	
- PH&I portfolio						0	
- Regen & ED portfolio						0	
Forecast after Mgmt Action				1,833	-2,030	-197	

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:

Corporate Support & Performance Management portfolio:

- 1.1.3.1 Information Systems (Business Solutions & Policy): The main variances are **(+£620k)** on gross spend and income **(-£620k)** reflecting the increased demand for additional IT Pay-as-you-go projects. Project demand is difficult to predict during budget setting.
- 1.1.3.2 Property Group: Variances on gross spend **(+£140k)** and income **(-£140k)** reflect the increased demand for additional Pay-as-you-go projects. Project demand is difficult to predict during budget setting.
- 1.1.3.3 Legal Services: Variances on gross spend **(+£618k)** and income **(-£934k)** reflect the additional work that the function has taken on over and above that budgeted for, responding to both internal and external demand. Variances of **(+/-£730k)** are due to increased costs & their recovery for Disbursements.
- 1.1.3.4 Strategic Development Unit: Workplace Transformation: Variance on Gross Spend **(-£240k)** is generated from saving the 4th quarter's rent for 17 Kings Hill Avenue, due to the closure of that office in December 2010. There is also a gross variance of **+£240k** due to uncertainty around the total costs of one-off alterations and cabling costs to existing buildings needed to expand occupancy to accommodate these displaced staff. As the costs are finalised, any saving remaining will accrue to the Directorates as County Office rents is a fully delegated budget.
- 1.1.3.5 Contact Kent – Consumer Direct: Underlying variance on gross spend of **(-£160k)**, partially offset by other increased costs, reflects the holding of staff vacancies until the decision has been announced on the awarding of the new contract in December 2010. If awarded, staff will be recruited in the new year.
- 1.1.3.6 Centrally Managed Budgets: Budgeted base savings on delegated budgets of £231k have been held within Centrally Managed Budgets, but these savings are expected to be achieved by in-year opportunities on other service lines within the portfolio. There is therefore a pressure on this budget, which is offset by underspending elsewhere within the portfolio resulting in an overall underspend forecast for the portfolio.

Finance portfolio:

- 1.1.3.7 Pensions & Insurance Teams: The main variances are **(-£302k)** on gross spend, which has arisen due to a freeze on recruitment to staff vacancies in the Pensions and Insurance teams. A corresponding variance on income **(+£302k)** is due to the reduced drawdown from the Pension and Insurance Funds.

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

(shading denotes that a pressure has an offsetting saving, which is directly related, or vice versa)

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
CSPM	Legal Services increased costs of Disbursements	+730	CSPM	Legal income resulting from additional work (partially offset by increased costs)	-934
CSPM	Information Systems costs of additional pay as you go activity	+620	CSPM	Legal Services increased income relating to Disbursements	-730
CSPM	Legal services cost of additional work (offset by increased income)	+618	CSPM	Information Systems income from additional pay as you go activity	-620
FIN	Reduced drawdown from Pension & Insurance funds to reflect reduced salary costs	+302	FIN	Vacancy freeze within pensions & insurance	-302
CSPM	Workplace Transformation - Possible one-off costs re: alterations for displacements from Kings Hill Avenue	+240	CSPM	Workplace Transformation - 4th Qtr rent for 17 King's Hill Avenue	-240
CSPM	Centrally Managed Budgets: centrally held base saving on delegated budgets which is offset by savings on other budget lines within the portfolio	+231	CSPM	Contact Kent - Consumer Direct holding vacancies until replacement contract is negotiated	-160
CSPM	Property - Increased staff costs for pay as you go activity	+140	CSPM	Property - increased income for pay as you go projects	-140
		+2,881			-3,126

1.1.4 Actions required to achieve this position:

N/A

1.1.5 Implications for MTP:

The base budget implications of issues identified in this monitoring report will be a call on the amounts identified in the 2010/13 MTP as emerging pressures in 2011/12 and 2012/13. The details of individual amounts will be included when the revised plan is published for consultation in January 2011 together with any new pressures forecast for 2011/12 and 2012/13. There are no significant issues for the CED portfolios arising from 2010/11 budget monitoring.

The revised MTP will include proposals on how the in-year cuts in Government grants will be accommodated in base budgets once it has been confirmed that these reductions are permanent, following the announcement of the provisional local government finance settlement for 2011/12 which we anticipate will be in early December. The revised plan will also include the strategy to address the likely reductions in funding over the lifetime of the current parliament following the

Chancellor's emergency budget statement on 22nd June, in which he outlined his plans to address the national budget deficit, and the Spending Review announcement on 20 October.

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

None identified at the moment.

1.1.7 **Details of proposals for residual variance:** *[eg roll forward proposals; mgmt action outstanding]*

N/A

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.

The capital cash limits have been adjusted since last reported to Cabinet on 11th October 2010, as detailed in section 4.1.

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

	Prev Yrs Exp	2010-11	2011-12	2012-13	Future Yrs	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s
Corporate Support Services & Performance Management						
Budget	8,953	16,003	9,317	9,549	2,663	46,485
Adjustments:						
- August rephasing		-1,395	1,645	-250		0
						0
Revised Budget	8,953	14,608	10,962	9,299	2,663	46,485
Variance		1,651	263	-2,246	-50	-382
split:						
- real variance		+2,234	-394	-2,172	-50	-382
- re-phasing		-583	+657	-74	0	0
Localism & Partnerships Portfolio						
Budget	0	503	500	500	0	1,503
Adjustments:						0
						0
Revised Budget	0	503	500	500	0	1,503
Variance		0	0	0	0	0
split:						
- real variance		0	0	0	0	0
- re-phasing		0	0	0	0	0
Directorate Total						
Revised Budget	8,953	15,111	11,462	9,799	2,663	47,988
Variance	0	1,651	263	-2,246	-50	-382
Real Variance	0	+2,234	-394	-2,172	-50	-382
Re-phasing	0	-583	+657	-74	0	0

1.2.3 Main Reasons for Variance

Table 4 below, details all forecast capital variances over £250k in 2010-11 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 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 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	Approval to Spend	Approval to Plan	Preliminary Stage
			£'000s	£'000s	£'000s	£'000s
Overspends/Projects ahead of schedule						
CSS&PM	Commercial Services VPE	real	2,034			
			+2,034	+0	+0	+0
Underspends/Projects behind schedule						
CSS&PM	Sustaining Kent - Maintaining the Infrastructure	phasing		-450		
			0	-450	-0	-0
			+2,034	-450		-0

1.2.4 Projects re-phasing by over £1m:

None

1.2.5 Projects with real variances, including resourcing implications:

There is a real variance of -£0.166m (+£2.451m in 2010-11, -£0.395m in 2011-12, -£2.172m in 2012-13 and -£0.050m in later years) which is detailed as follows:

Commercial Services VPE +£2.034m (in 2010-11): This overspend is due to the following:

The increase in expenditure on vehicles, plant & equipment will be funded by an increased contribution to and drawdown from their Renewals Fund. There are therefore no implications on resources.

Workplace Transformation (formerly Better Workplaces) -£2.616m (-£0.394m in 2011-12, -£2.172m in 2012-13 and -£0.050m in later years): The underspend is due a review of the scope of the Better Workplace Programme and the decision to relocate 17 Kings Hill Avenue within the Corporate Office estate rather than undertake a new build.

1.2.6 General Overview of capital programme:

- (a) Risks
- (b) Details of action being taken to alleviate risks

1.2.7 Project Re-Phasing

Cash limits are changed 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 rephasing will be shown. The possible re-phasing is detailed in the table below.

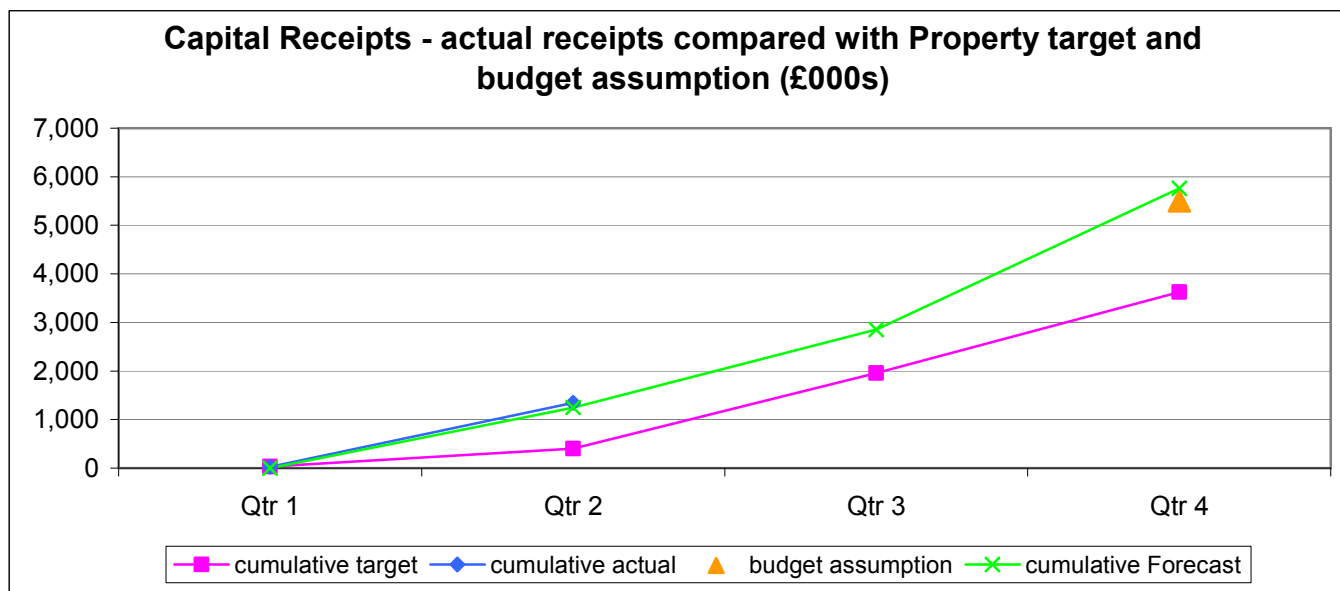
	2010-11	2011-12	2012-13	Future Years	Total
	£k	£k	£k	£k	
Gateways (CSS&PM)					
Amended total cash limits	+1,605	+720	+804		+3,129
re-phasing	-26	+100	-74		0
Revised project phasing	+1,579	+820	+730	0	+3,129
Sustaining Kent - Maintaining the Infrastructure					
Amended total cash limits	+5,150	+2,476		+250	+7,876
re-phasing	-450	+450			0
Revised project phasing	+4,700	+2,926	0	+250	+7,876
Total re-phasing >£100k	-476	+550	-74	0	0
Other re-phased Projects below £100k	-107	+107			0
TOTAL RE-PHASING	-583	+657	-74	0	0

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 Capital Receipts – actual receipts compared to budget profile:

	2010-11			
	Budget funding assumption £000s	Cumulative Target Profile £000s	Cumulative Actual Receipts £000s	Cumulative Forecast receipts £000s
April - June		36	25	0
July - September		399	1,345	1,250
October - December		1,960		2,850
January - March		3,630		5,765
TOTAL	5,503	3,630	1,345	5,765

The cumulative target profile shows the anticipated receipts at the start of the year totalled £3.630k. The difference between this and the budget funding assumption is mainly attributable to timing differences between when the receipts are anticipated to come in and when the spend in the capital programme will occur. There are banked receipts achieved in prior years which were not required to be used for funding until 2010-11.



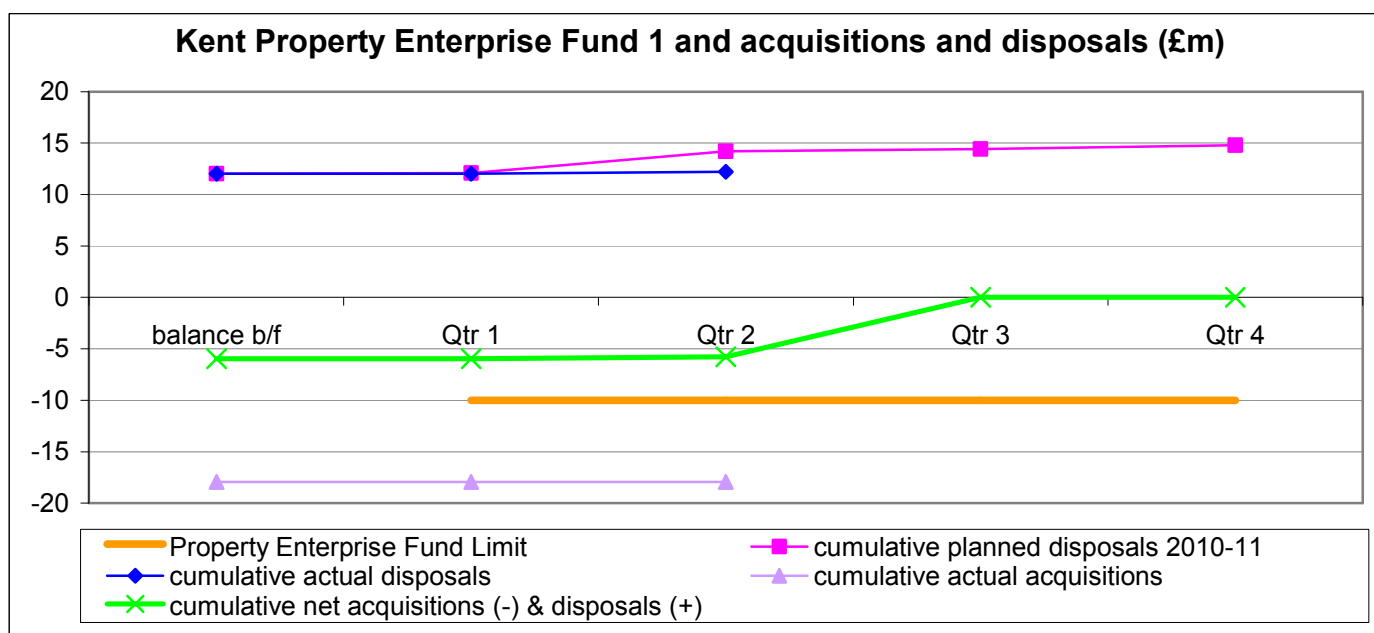
Comments:

- The table below compares the capital receipt funding required per the capital programme this year, with the expected receipts available to fund this.
- Property Group are actually forecasting a total of £5.765m to come in from capital receipts during the year. Taking into consideration the receipts banked in previous years and receipts from other sources there is a forecast surplus of £5.085m in 2010-11. This is due to receipts being forecast to be achieved during 2010-11 which are earmarked to fund spend in future years of the programme.

	2010-11 £'000
Capital receipt funding per revised 2010-13 MTP	6,170
Property Groups' actual (forecast for 10-11) receipts	5,765
Receipts banked in previous years for use	2,600
Capital receipts from other sources	2,890
Potential Surplus Receipts	5,085

2.2 Capital Receipts – Kent Property Enterprise Fund 1:

	2010-11				
	<i>Kent Property Enterprise Fund Limit</i> £m	Cumulative Planned Disposals (+) £m	Cumulative Actual Disposals (+) £m	Cumulative Actual Acquisitions (-) £m	Cumulative Net Acquisitions (-) & Disposals (+) £m
Balance b/f		12.019	12.019	-17.967	-5.948
April - June	-10	12.102	12.019	-17.967	-5.948
July - September	-10	14.199	12.209	-17.967	-5.758
October - December	-10	14.420			0
January - March	-10	14.778			0



Background:

- County Council approved the establishment of the Property Enterprise Fund 1 (PEF1), 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 the disposal of assets are realised. It is anticipated that the Fund will be in surplus at the end of the 10 year period.

Comments:

The balance brought forward from 2009-10 on PEF1 was **-£5.948m**.

A value of **£2.868m** has been identified for disposal in 2010-11. This is the risk adjusted figure to take on board the potential difficulties in disposing some of the properties.

As at the 30 September 2010 there has been one disposal which amounted to £0.19m.

The fund has been earmarked to provide **£1m** for Ashford Library and **£0.309m** for Gateways in this financial year.

At present there are no committed acquisitions to report, however forecast outturn for costs of disposals (staff and fees) is currently estimated at **£0.173m**.

Forecast Outturn

Taking all the above into consideration, the Fund is expected to be in a deficit position of £4.562m at the end of 2010-11.

Opening Balance – 01-04-10	-£5.948m
Planned Receipts (Risk adjusted)	£2.868m
Costs	-£0.173m
Acquisitions	-
Other Funding:	
- Ashford Library	-£1.000m
- Gateways	-£0.380m
Closing Balance – 31-03-11	-£4.562m

Revenue Implications

In 2010-11 the fund is currently forecasting £0.033m of low value revenue receipts but, with the need to fund both costs of borrowing (£0.460m) against the overdraft facility and the cost of managing properties held for disposal (net £0.138m), the PEF1 is forecasting a £1.5m deficit on revenue which will be rolled forward to be met from future income streams.

2.3 Capital Receipts – Kent Property Enterprise Fund 2 (PEF2):

County Council approved the establishment of PEF2 in September 2008 with a maximum permitted overdraft limit of £85m, but with the anticipation of the fund broadly breaking even over a rolling five year cycle. However, due to the slower than expected recovery, breakeven, is likely to occur over a rolling seven to eight year cycle. The purpose of PEF2 is to enable Directorates to continue with their capital programmes as far as possible, despite the downturn in the property market. The fund will provide a prudent amount of funding up front (prudential borrowing), in return for properties which will be held corporately until the property market recovers.

Overall forecast position on the fund

	2010-11 Forecast
	£m
Capital:	
Opening balance	-33.274
Properties to be agreed into PEF2	-26.686
Forecast sale of PEF2 properties	18.038
Disposal costs	-0.902
Closing balance	-42.824
Revenue:	
Opening balance	-2.153
Interest on borrowing	-1.522
Holding costs	-1.154
Closing balance	-4.829
Overall closing balance	-47.653

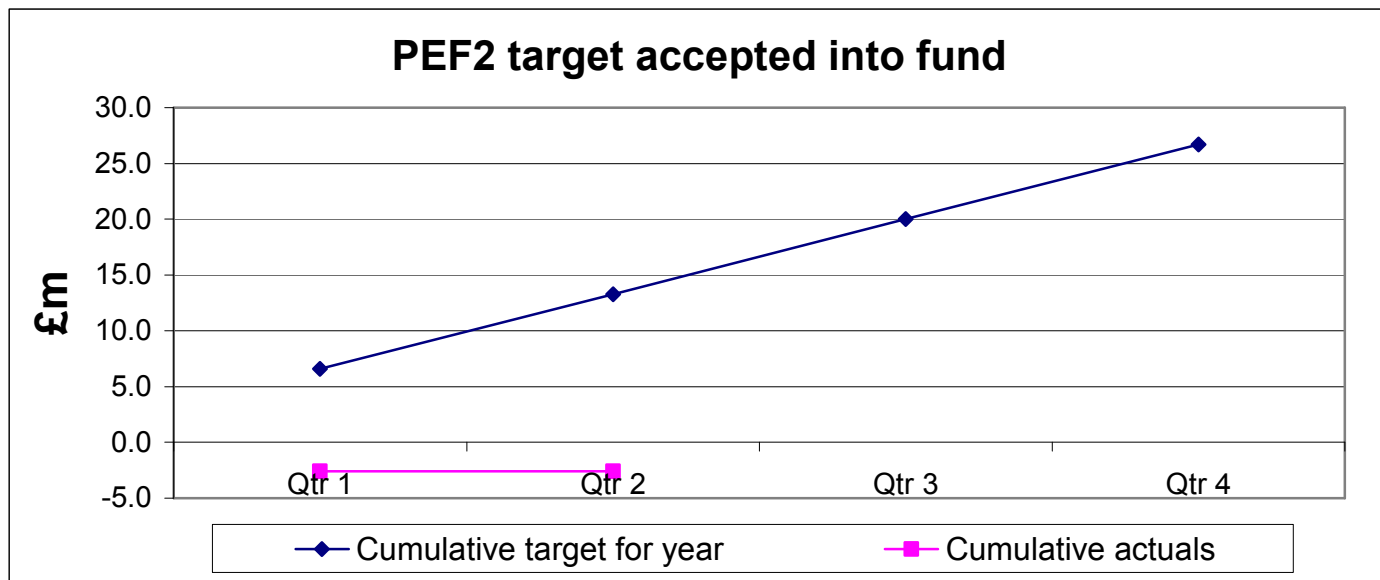
The forecast closing balance for PEF2 is -£47.653m, this is within the overdraft limit of £85m.

The target receipts to be accepted into PEF2 during 2010-11 equate to the PEF2 funding requirement in the 2010-13 budget book, and achievement against this is shown below:

	2010-11	
	Cumulative target for year	Cumulative actuals
	£m	£m
Balance b/fwd	-2.6	-2.6
Qtr 1	6.6	-2.6
Qtr 2	13.3	-2.6
Qtr 3	20.0	
Qtr 4	26.7	

Comments:

- The above table shows a £2.6m deficit which is the net of a £5.4m deficit within CFE and £2.8m of PEF2 achieved in 2008-09 by KASS and EH&W that was not required until later years.
- To date no properties have been transferred into PEF2. Corporate Property and Directorates continue to work together to enable properties to be transferred into the fund.



PEF2 Disposals

To date seven PEF2 properties have been sold and four are in the process of completing. The cumulative profit on disposal to date is £1.29m. Large profits or losses are not anticipated over the lifetime of the fund.

Interest costs

At the start of the year interest costs on the borrowing of the fund for 2010-11 were expected to total £1.56m.

Latest forecasts show interest costs of £1.52m, a decrease of £0.04m. This is because there has been an increase in the forecast of properties being disposed during the year.

Interest costs on the fund are calculated at a rate of 4%.

FINANCING ITEMS SUMMARY

OCTOBER 2010-11 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, including the virement of £75k from the debt charges budget to the Arts Unit within the Communities portfolio to fund a contribution towards the Contemporary Coast marketing campaign, as approved by Cabinet in October.
- The inclusion of new 100% grants (ie grants which fully fund the additional costs) awarded since the budget was set. These are detailed in Appendix 2 of the executive summary.

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 & Performance Management portfolio							
Contribution to IT Asset Maintenance Reserve	2,352		2,352			0	
Audit Fees & Subscriptions	764		764	-178		-178	subscriptions -£112k; audit fees -£66k
Contribution from Commercial Services		-6,960	-6,960			0	
Total Corporate Support & PM	3,116	-6,960	-3,844	-178	0	-178	
Finance Portfolio							
Insurance Fund	3,479		3,479	1,000		1,000	increase in liability claims
Modernisation of the Council	3,810		3,810			0	
Environment Agency Levy	344		344			0	
Joint Sea Fisheries	264		264			0	
Interest on Cash Balances / Debt Charges	126,215	-10,043	116,172	-7,026	1,268	-5,758	2010-11 write down of discount saving from 2008-09 debt restructuring; saving on leasing costs; in year MRP reduction; savings on new borrowing
Transferred Services Pensions	22		22			0	
PRG	-1,500	0	-1,500			0	
Contribution to/from Reserves & Provisions	1,948		1,948	1,108		1,108	transfer of 10-11 write down of discount saving from 08-09 debt restructuring to reserves; transfer of MRP saving to reserves to fund potential impact on future years; drawdown of insurance reserve to cover pressure on Insurance Fund; review of balance sheet
Drawdown from Kings Hill reserve	-1,000		-1,000			0	
ABG Centrally Held Allocations	90		90			0	
Total Finance	133,672	-10,043	123,629	-4,918	1,268	-3,650	
Total Controllable	136,788	-17,003	119,785	-5,096	1,268	-3,828	

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:

Corporate Support & Performance Management portfolio:

1.1.3.1 There is an underspend of £0.112m on the local authority subscriptions budget and a £0.066m underspend on the External Audit Fee budget. The final amount of the External Audit fee is yet to be agreed, so there could be further savings. The current forecast takes into account the estimated fees for grant claim audits and a rebate to mitigate the increase in fees arising from the transition to International Financial Reporting Standards (IFRS).

Finance portfolio:

1.1.3.2 Insurance Fund:

A forecast pressure on the Insurance Fund is largely due to an increase in the value of outstanding liabilities, as a result of a continued rise in the number of liability claims recorded for 2010 (currently more than twice the annual average since 2001), together with some notable increases in reserves for some claims. This will be met by a drawdown from the Insurance Reserve (see 1.1.3.4(c) below).

1.1.3.3 Interest on Cash Balances and Debt Charges:

- a) There is a saving of £1.016m which relates to the write-down in 2010-11 of the £4.024m discount saving on debt restructuring undertaken at the end of 2008-09. (£2.362m was written down in 2008-09 and 2009-10, therefore leaving a further £0.646m to be written down over the period 2011-12 to 2012-13).
- b) There is an in-year saving in the Minimum Revenue Provision (MRP). This used to be based on 4% of our capital financing requirement but 2008-09 was the last year we were able to calculate it that way. Thereafter we must make an amount of MRP which we consider prudent. We have adopted the asset life method. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an "MRP holiday". MRP is based on capital expenditure incurred in the previous year and therefore cannot be calculated until the previous year's accounts have been finalised and audited. Due to the re-phasing in the capital programme during 2009-10, fewer assets became operational than anticipated and therefore MRP in 2010-11 is £1.9m less than budgeted. However, once these assets do become operational we will incur MRP in the following year, therefore we need to transfer this £1.9m to reserves in order to fund the potential impact in future years of this re-phasing.
As this method of calculating MRP is very complex and it is only the second year of calculating it this way, we were also holding a contingency of £0.7m (1.5% of the MRP budget) in case of any adverse impact compared to the budgeted amount; this contingency can now be released.
- c) There is a saving on leasing costs of £0.277m.
- d) There are savings of £2.409m on debt charges largely due to delays in taking new borrowing and achieving lower interest rates on new borrowing than assumed in the budget.
- e) There is a pressure of £0.680m on the interest on cash balances budget which is due to:
 - The downgrade of the Spanish sovereign rating resulting in the policy decision to remove £40m on call deposit with Santander UK and to place these funds with the Government's Debt Management Office has resulted in a reduction in the interest rate from 0.8% to 0.25%.
 - The transfer out of Pension Fund cash, which now has to be handled wholly separately, and a reduction in government grants following the emergency budget has had an adverse impact on our cashflow and consequently our interest returns.
 - Reduced cash balances compared to that assumed when the budget was set due to policy of internalising debt, as reported in the cash balances financial health indicator in Appendix 3.
 - Reduced interest returns due to the impact of maturing long-term deposits.
 - Additional brokerage costs on new borrowing, including two market loans taken in advance for 2011-12.

1.1.3.4 Contributions to/from reserves & provisions:

- a) As planned, the £1.016m write down of the discount saving earned from the debt restructuring in 2008-09, will be transferred to the Economic Downturn reserve.
- b) As referred to in 1.1.3.1(b) above, £1.9m will be transferred to reserves in order to fund the potential impact in future years of the current year saving on MRP.
- c) In addition, £1m will be drawdown from the Insurance Reserve to fund a forecast pressure on the Insurance Fund (see 1.1.3.1 above)
- d) As part of the balance sheet management process, regular reviews of balances held within the balance sheet are undertaken. Following this latest review and settlement of some of our outstanding liabilities, £0.807m has been identified which can be released back to revenue as it is no longer required.

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

(shading denotes that a pressure has an offsetting saving, which is directly related, or vice versa)

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
FIN	Contribution to economic downturn reserve of 2010-11 write down of discount saving from 2008-09 debt restructuring	+1,016	FIN	Treasury savings - lower debt charges	-2,409
FIN	Contribution to reserves of in year MRP saving to cover potential impact in future years	+1,899	FIN	In year Minimum Revenue Provision saving as a result of 2009-10 re-phasing of the capital programme	-1,899
FIN	Pressure on Insurance Fund due to rise in liability claims	+1,000	FIN	2010-11 write down of discount saving from 2008-09 debt	-1,016
FIN	Treasury - pressure on the interest on cash balances budget	+680	FIN	Drawdown from Insurance Reserve to cover pressure on Insurance Fund	-1,000
			FIN	release of provisions following review of balance sheet	-807
			FIN	release of Minimum Revenue Provision contingency	-739
			FIN	savings on leasing costs	-277
			CSPM	local authority subscriptions	-112
		+4,595			-8,259

1.1.4 Actions required to achieve this position:

N/A

1.1.5 Implications for MTP:

Please refer to section 1.1.5 above.

1.1.6 Details of re-phasing of revenue projects:

N/A

1.1.7 Details of proposals for residual variance: [eg roll forward proposals; mgmt action outstanding]

A virement of £0.161m from the underspending on the debt charges budget to a new Restructure budget line, also to be held and reported within the Finance portfolio, is requested to cover the costs of the Transformation Programme Manager and related project costs. **Cabinet is asked to agree this virement.** It is proposed that further restructure costs, as they arise, will also be charged here, to be met from either a drawdown from the Restructure reserve, or other appropriate funding to be determined prior to the expenditure being incurred.

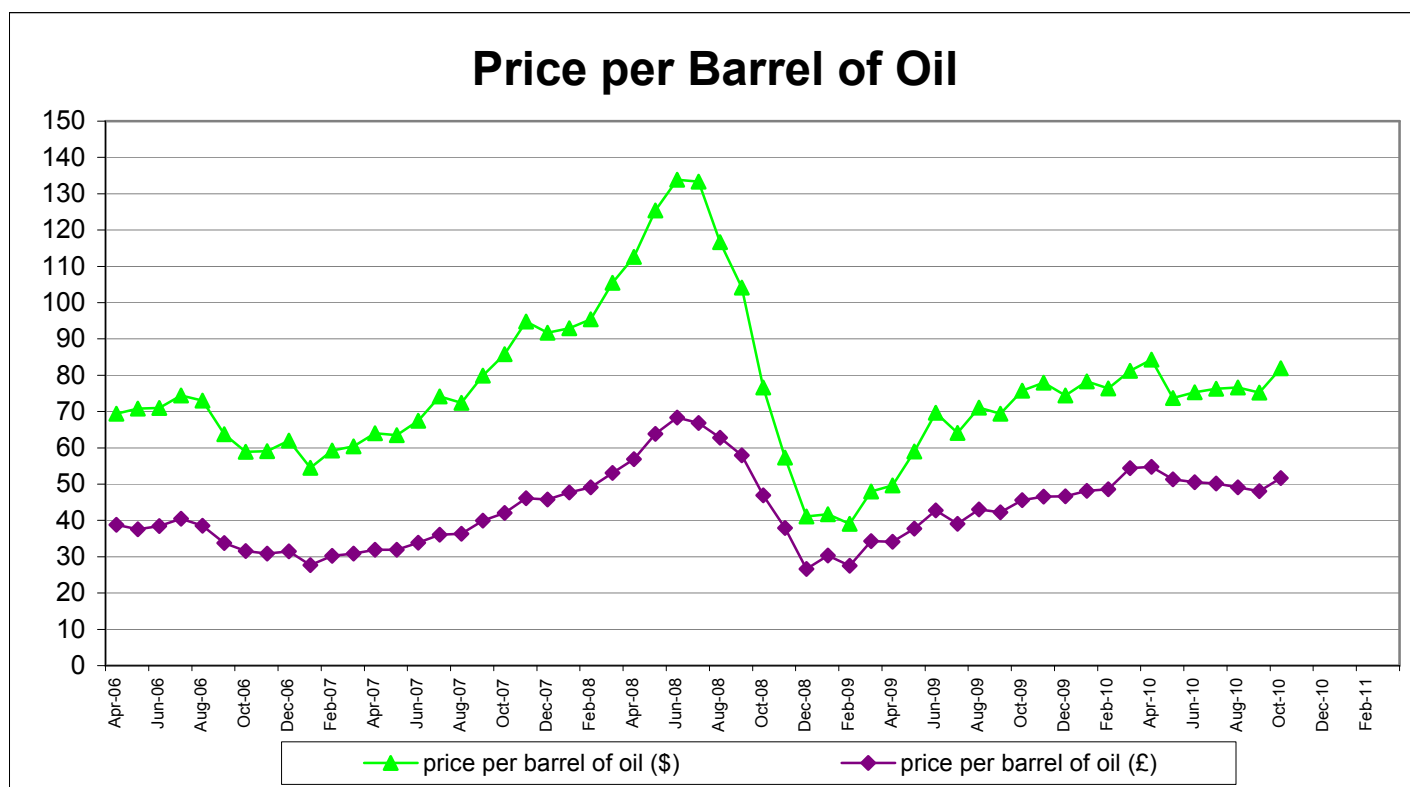
1.2 CAPITAL

N/A

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 Price per Barrel of Oil – average monthly price in dollars since April 2006:

	Price per Barrel of Oil				
	2006-07	2007-08	2008-09	2009-10	2010-11
	\$	\$	\$	\$	\$
April	69.44	63.98	112.58	49.65	84.29
May	70.84	63.45	125.40	59.03	73.74
June	70.95	67.49	133.88	69.64	75.34
July	74.41	74.12	133.37	64.15	76.32
August	73.04	72.36	116.67	71.05	76.60
September	63.80	79.91	104.11	69.41	75.24
October	58.89	85.80	76.61	75.72	81.89
November	59.08	94.77	57.31	77.99	
December	61.96	91.69	41.12	74.47	
January	54.51	92.97	41.71	78.33	
February	59.28	95.39	39.09	76.39	
March	60.44	105.45	47.94	81.20	



Comments:

- The figures quoted are the West Texas Intermediate Spot Price in dollars per barrel, monthly average price.
- The dollar price has been converted to a sterling price using exchange rates obtained from the HMRC website.