TO:	**Corporate Policy Overview & Scrutiny Committee** **31st March 2011**
BY:	**Paul Carter, Leader** **Alex King, Deputy Leader** **John Simmonds, Cabinet Member for Finance & Business Support** **Roger Gough, Cabinet Member for Business Strategy, Performance and Health Reform** **Katherine Kerswell, Group Managing Director**
SUBJECT:	**Financial Monitoring 2010/11**
Classification:	**Unrestricted**

Summary:

Members of the POSC are asked to note the third quarter's budget monitoring report for 2010/11 due to be reported to Cabinet on 4th April

FOR INFORMATION

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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 third quarter's monitoring report for 2010/11 will be presented to Cabinet on 4th April 2011. 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.

2.3 Revenue Budget

Chief Executives Department

2.3.1 Since the last report to this POSC in January the forecast net under spend for CED has increased from £197k to £1.101m. Some of this is due to the moratorium agreed by CMT for the remainder of this financial year to help deliver next year's budget.

2.3.2 The additional significant variations other than moratorium since the last report are :

a. Under spend of £83k within Democratic Services on members IT support. We have reviewed the level of the member IT budget for 2011/12.
b. Personnel & Development are forecasting a net under spend of £276k. This derives from additional income from trading activities with schools and other local authorities, and under spends on a number of other budget headings. The only under spend of note is £70k re-phasing of work streams to deliver the changes to Total Contribution Pay which will be subject to request for committed roll-forward and therefore not available to help deliver 2011/12 budget.
c. £198k rates rebate on Invicta House and Sessions House. These rebates were confirmed too late to include as specific items in 2011/12 budget but will contribute to the target for savings from property holding costs from Total Place. Property are also predicting an under spend on staffing budgets of £120k as a result of covering the Director of Property post internally and holding other posts vacant
d. Additional forecast income earned by Legal Services and reduced related costs, have resulted in an increased forecast surplus of £137k to £0.453m.

Financing Items

2.3.4 The forecast under spend on Financing Items has increased from £5.241m reported to this POSC on 13th January (exception report to Cabinet 10th January) to £6.750m in the third quarter's report. Most of this variation (£1.106m) was reported to Cabinet in the exception report on 2nd February and related to further variation on debt charges and contribution to restructure reserve.

2.4 Capital

2.4.1 The monitoring shows a re-phasing of £3.366m from 2010/11 to 2011/12 and 2012/13. This includes £1.282m on the Gateway Programme as outlined in paragraph 1.2.4.1 of the attached appendix and £1.123m on Sustaining Kent (Maintaining the Infrastructure) as outlined in paragraph 1.2.4.2 in attached appendix.

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 third quarter's monitoring report to Cabinet.

Background Documents:

1) Cabinet 4th April 2011 – Revenue and Capital Budgets, Key Activity and Risk Monitoring

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CHIEF EXECUTIVES DIRECTORATE SUMMARY
JANUARY 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:							
- core service	4,912	-3	4,909	-144	-11	-155	Release of Members' annual IT fund & other Supplies & services moratorium savings
- support to directorates	260	-260	0	0	0	0	
TOTAL Democratic Services	5,172	-263	4,909	-144	-11	-155	
International Affairs Group	572	-35	537	-15	-7	-22	moratorium savings
Kent Partnerships	414	-48	366	-10	-4	-14	moratorium savings
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	8,642	-346	8,296	-169	-22	-191	
Less Support Costs delegated to Service Directorates	-260	260	0	0	0	0	
Total L&P portfolio	**8,382**	**-86**	**8,296**	**-169**	**-22**	**-191**	

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Corporate Support & Performance Management portfolio							
Personnel & Development:							
- core service & PAYG activity	7,447	-5,446	2,001	-86	-190	-276	Addt costs & income from trading activities. - £70k of underspends subject of committed roll-fwd
- support to directorates	3,679	-3,679	0	0	0	0	
TOTAL P&D	11,126	-9,125	2,001	-86	-190	-276	
Business Solutions & Policy:							
- ISG core service & PAYG activity	14,857	-12,741	2,116	697	-699	-2	IT project contractors funded by income
- ISG support to directorates	15,130	-15,130	0	0	0	0	
- Central Policy	656	0	656	-16	-1	-17	moratorium savings
- Performance, Improvement & Engagement	691		691	-28	-42	-70	moratorium savings
TOTAL Business Solutions	31,334	-27,871	3,463	653	-742	-89	
Finance Group:							
- Procurement & Audit	320	-34	286	45	-23	22	Balanced with underspend in Finance portfolio below
- Audit support to directorates	735	-735	0	0	0	0	
TOTAL Audit & Procurement	1,055	-769	286	45	-23	22	
Property Group:							
- core service	5,583	-4,416	1,167	-187	-139	-326	Rates rebate, vacancy savings & 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	-187	-139	-326	
Legal Services	6,789	-7,764	-975	1,301	-1,754	-453	£664k disbursements costs & income; addt costs & income from trading activities
Strategic Management Unit	431		431	0	0	0	
Kent Works	0	0	0	42	1	43	
Corporate Communications	1,832	-215	1,617	-67	18	-49	moratorium savings
Strategic Development Unit	2,604	-631	1,973	16	-16	0	Workplace transformation saving on 17 KHA rent, offset by costs of redeployments
Contact Kent	5,517	-2,248	3,269	24	-24	0	
Centrally Managed Budgets	2,013	-184	1,829	277	-37	240	£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	77,821	-63,560	14,261	2,018	-2,906	-888	
Less Support Costs delegated to Service Directorates	-24,987	24,987	0	0	0	0	
Total CS&PM	**52,834**	**-38,573**	**14,261**	**2,018**	**-2,906**	**-888**	

Finance Portfolio							
Finance Group:							
- core service	6,015	-4,046	1,969	-349	327	-22	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**	**-349**	**327**	**-22**	
Less Support Costs delegated to Service Directorates	-1,577	1,577	0	0	0	0	
Total Finance portfolio	**6,015**	**-4,046**	**1,969**	**-349**	**327**	**-22**	
TOTAL CORPORATE POC	**67,231**	**-42,705**	**24,526**	**1,500**	**-2,601**	**-1,101**	
Public Health & Innovation portfolio							
Kent Department of Public Health	**794**	**-227**	**567**	**-38**	**-11**	**-49**	
Total Directorate Controllable	**68,025**	**-42,932**	**25,093**	**1,462**	**-2,612**	**-1,150**	
Assumed Management Action:							
- L&P portfolio						**0**	
- CS&PM portfolio						**0**	
- Finance portfolio						**0**	
- PH&I portfolio						**0**	
Forecast after Mgmt Action				**1,462**	**-2,612**	**-1,150**	

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:

Localism & Partnerships portfolio

1.1.3.1 Democratic Services: Variance on gross spend of **(-£144k)** is due primarily to the release of -£83k for annual IT support to Members which is not needed in the current year. Other reductions have been made in response to the moratorium on non-essential spend.

Corporate Support & Performance Management portfolio:

1.1.3.2 Personnel & Development: Learning & Development now have a variance on gross spend of **(+£100k)** and income of **(-£145k)** reflecting recent additional demand for Leadership and Managerial qualifications. Several other units within P&D are underspending on gross by **(-£210k)** but less than £100k each. £70k of this is required to roll forward to 2011-12 to fund the re-phasing of some of the workstreams required to deliver the changes to Total Contribution Pay (TCP) arrangements. Further details are provided in section 1.1.6 below.

1.1.3.3 Information Systems (Business Solutions & Policy): The main variances are **(+£690k)** on gross spend and income **(-£690k)** reflecting the increased demand for additional IT Pay-as-you-go projects. Project demand is difficult to predict during budget setting.

1.1.3.4 Property Group: Variance on gross spend of **(-£198k**) due to the receipt of a rates rebate for Invicta House and Sessions House. Further variance on gross spend for **(-£120k)** due to the Director of Property post not being filled until the new financial year, plus other vacancy freezes. 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.

1.1.3.5 Legal Services: Variances on gross spend **(+£637k)** and income **(-£1090k)** 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 **(+/-£664k)** are due to increased costs & their recovery for Disbursements.

1.1.3.6 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 the costs of one-off alterations and cabling costs to existing buildings needed to expand occupancy to accommodate these displaced staff.

1.1.3.7 Centrally Managed Budgets: Budgeted base savings on delegated budgets of £231k have been held within Centrally Managed Budgets, but these savings have been 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:

1.1.3.8 Pensions & Insurance Teams: The main variances are **(-£325k)** 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 **(+£325k)** 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	Information Systems costs of additional pay as you go activity	+690	CSPM	Legal income resulting from additional work (partially offset by increased costs)	-1,090
CSPM	Legal Services increased costs of Disbursements	+664	CSPM	Information Systems income from additional pay as you go activity	-690
CSPM	Legal services cost of additional work (offset by increased income)	+637	CSPM	Legal Services increased income relating to Disbursements	-664
FIN	Reduced drawdown from Pension & Insurance funds to reflect reduced salary costs	+325	FIN	Vacancy freeze within pensions & insurance	-325
CSPM	Workplace Transformation - 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	Property - Rates rebate	-198
CSPM	Property - Increased staff costs for pay as you go activity	+140	CSPM	P&D - increased demand for leadership and managerial qualifications	-145
CSPM	P&D - increased demand for leadership and managerial qualifications (offset by income)	+100	CSPM	Property - increased income for pay as you go projects	-140
			CSPM	Property - Vacancy management including Director of Property post	-120
		+3,027			**-3,612**

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

Management action to date has been to freeze vacancies in a number of units and to restrict non-essential spend in order to generate maximum underspend in 2010-11 and to contribute towards the authority wide £1m moratorium saving required to roll forward to 2011-12 to balance the budget.

<u>Localism & Partnerships portfolio:</u>

The portfolio is able to offer -£163k towards the £1m moratorium saving.

<u>Corporate Support & Performance Management portfolio:</u>

Of the overall underspend in Corporate Support, approximately -£152k results from the moratorium. However, the -£198k rates rebate within the Property Group can also be used to contribute towards the £1m moratorium savings target.

1.1.5 **Implications for MTP**:

All current year pressures have been fully addressed in the 2011-13 MTFP.

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

*(Details of any **committed** projects included in the forecast as underspending, for which roll forward will be required)*

Personnel & Development:

Total Contribution Pay -£70k
Personnel & Development were awarded a one-off £300k in the 2010/11 MTFP to deliver the changes to the TCP arrangements. The full extent and scope of the changes have taken time to define and the following workstreams have had to be re-phased to 2011/12:

- The migration of 17,000 non teaching Kent Scheme Staff in Maintained Schools to the new Kent Scheme Pay Ranges on Oracle - It has been agreed that Kent Scheme Staff in Schools will switch over to the new pay ranges and TCP assessment process during 2011/12.
- Changes to the back end processes to accommodate the collection of the new assessment ratings for school based staff and calculation of pay entitlement (consolidated & non consolidated) derived from appropriate performance assessment category.
- Production of a file to advise external payroll providers of changes in pay stemming from the application of the new TCP process for school based staff.
- Changes to the Kent Scheme Handbook as a result of the extension of the revised Kent Scheme to school based staff
- Changes to the TCP Self Service Module to accommodate the new senior grades KR 16 - KR20 and automatic calculation of pay (consolidated & non consolidated) based on the assessment level achieved.
- Refinement & development of TCP process & system as a result of issues highlighted during the 2010/11 cycle.

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 to reflect the position in the 2011-14 MTFP as agreed by county council on 17 February 2011, any further adjustments are detailed in section 4.1.

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

	Prev Yrs Exp £000s	2010-11 £000s	2011-12 £000s	2012-13 £000s	Future Yrs £000s	TOTAL £000s
Corporate Support Services & Performance Management						
Budget	8,953	15,453	11,162	7,053	5,613	48,234
Adjustments:						
- Workplace transformation		180	-180			0
						0
Revised Budget	8,953	15,633	10,982	7,053	5,613	48,234
Variance		-3,234	3,166	200	0	132
split:						
- real variance		+132				+132
- re-phasing		-3,366	+3,166	+200		0
Localism & Partnerships Portfolio						
Budget	0	503	500	500	15,000	16,503
Adjustments:						
						0
Revised Budget	0	503	500	500	15,000	16,503
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	16,136	11,482	7,553	20,613	64,737
Variance	0	-3,234	3,166	200	0	132

Real Variance	**0**	**+132**	**0**	**0**	**0**	**+132**
Re-phasing	**0**	**-3,366**	**+3,166**	**+200**	**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						
			+0	**+0**	**+0**	**+0**
Underspends/Projects behind schedule						
CS&PM	Gateways Programme	phasing		-1,282		
CS&PM	Sustaining Kent Maintaining the Infrastructure	phasing		-1,123		
CS&PM	Web Platform	phasing		-396		
CS&PM	Modernisation of Assets	phasing		-300		
			0	**-3,101**	**-0**	**-0**
				-3,101	**-0**	**-0**

1.2.4 **Projects re-phasing by over £1m**:
None

1.2.4.1 **Gateways Programme – re-phasing of -£1.282m**

The Gateways Programme is made up of a number of projects. Individual projects within the programme have re-phased and are detailed below:

- **Swanley – re-phasing of -£0.292m**: the ownership of the building is unresolved and KCC are to take the building back.
- **Sheerness – re-phasing of -£0.310m**: delays to the building programme will mean that this building will not open until July 2011.
- **Canterbury – re-phasing of -£0.296m:** delayed due to ongoing discussions where the Gateway should be sited.
- **Gateways General – re-phasing -£0.284m**: delay in the procurement of Gateway Cluster Information System.
- **West Kent Mobile – re-phasing -£0.050m**: not commissioned due to the slow uptake of the Migrant Impact Fund.
- **East Kent Mobile – re-phasing -£0.050m**: will not be commissioned until 2011-12.

Revised phasing of the scheme is now as follows:

	Prior Years	2010-11	2011-12	2012-13	future years	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
BUDGET & FORECAST						
Budget	3,061	1,579	820	730		6,190
Forecast	3,061	297	1,902	930		6,190
Variance	0	-1,282	+1,082	+200	0	0
FUNDING						
Budget:						
capital receipt	1435	309	256			2000
prudential	1571	1270	564	730	0	4135
external other	55					55
TOTAL	3,061	1,579	820	730	0	6,190
Forecast:						
capital receipt	1435	297	268			2000
prudential	1571		1634	930		4135
external other	55					55
TOTAL	3,061	297	1,902	930	0	6,190
Variance	**0**	**-1,282**	**+1,082**	**+200**	**0**	**0**

1.2.4.2 **Sustaining Kent – Maintaining the Infrastructure – re-phasing of -£1.123m**

There have been delays to the Unified Communications stream of the capital programme due to issues surrounding implementation. A second stream of the programme is the Sessions Data Centre this has been re-phased due to property issues surrounding the changes to the building.

Revised phasing of the scheme is now as follows:

	Prior Years	2010-11	2011-12	2012-13	future years	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
BUDGET & FORECAST						
Budget	2,371	4,700	2,926		250	10,247
Forecast	2,371	3,577	4,049		250	10,247
Variance	0	-1,123	+1,123	0	0	0
FUNDING						
Budget:						
Revenue	147				0	147
Prudential/revenue	2224	4700	2926		250	10100
TOTAL	2,371	4,700	2,926	0	250	10,247
Forecast:						
Revenue	147					147
Prudential/revenue	2224	3577	4049		250	10100
TOTAL	2,371	3,577	4,049	0	250	10,247
Variance	**0**	**-1,123**	**+1,123**	**0**	**0**	**0**

1.2.5 **Projects with real variances, including resourcing implications:**

There is a real variance of -£1.343m (+£0.044m in 2010-11, -£0.427m in 2011-12, -£0.480m in 2012-13 and -£0.480m in later years) which is detailed as follows:

Modernisation of Assets +£0.100m (in 2010-11): Some of the works to Sessions House this year have been funded from a revenue contribution to capital outlay.
EIS Generator +£0.032m (in 2010-11). The Education Information Systems team at Oxford Road have purchased a generator for their site. The size of the purchase

requires it to be accounted for as capital expenditure which is to me met from a revenue contribution.

Taking these into account, there is no underlying real variance.

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 re-phasing will be shown. The possible re-phasing is detailed in the table below.

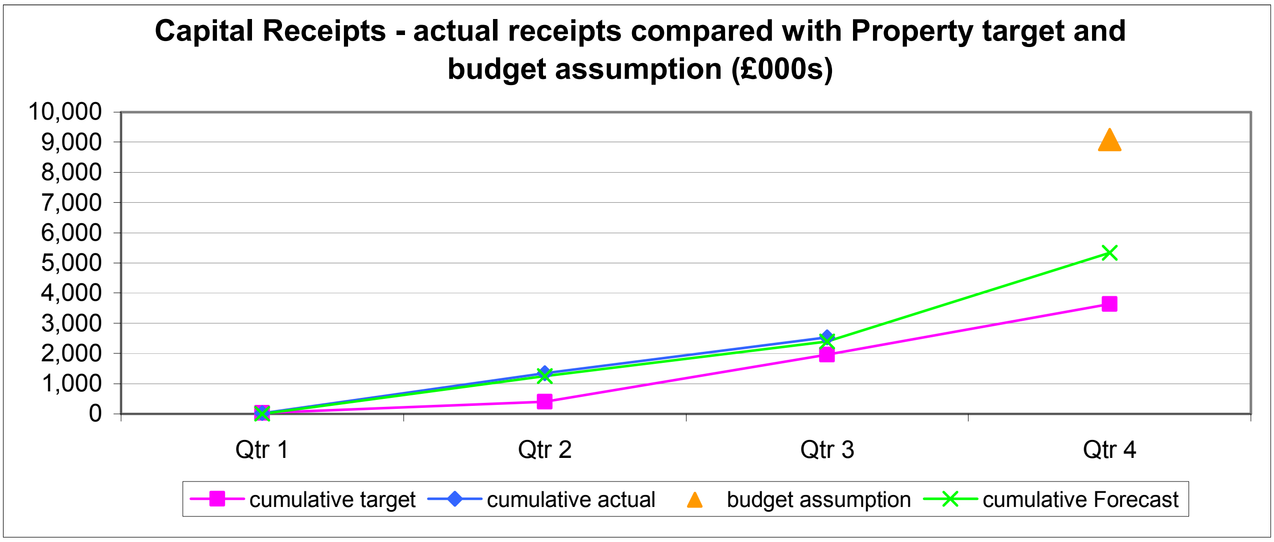
	2010-11	2011-12	2012-13	Future Years	Total
	£'000	£'000	£'000	£'000	£'000
Gateways Programme					
Amended total cash limits	+1,579	+820	+730		+3,129
re-phasing	-1,282	+1,082	+200		0
Revised project phasing	**+297**	**+1,902**	**+930**	**0**	**+3,129**
Sustaining Kent - Maintaining the Infrastructure					
Amended total cash limits	+4,700	+2,926	0	+250	+7,876
re-phasing	-1,123	+1,123	0		0
Revised project phasing	**+3,577**	**+4,049**	**0**	**+250**	**+7,876**
Web Platform					
Amended total cash limits	+790				+790
re-phasing	-396	+396			0
Revised project phasing	**+394**	**+396**	**0**	**0**	**+790**
Modernisation of Assets					
Amended total cash limits	+922	+1,250	+1,250	+3,000	+6,422
re-phasing	-300	+300			0
Revised project phasing	**+622**	**+1,550**	**+1,250**	**+3,000**	**+6,422**
Oracle Release 12					
Amended total cash limits	+1,017	+300			+1,317
re-phasing	-150	+150			0
Revised project phasing	**+867**	**+450**	**0**	**0**	**+1,317**
Property Asset Management System					
Amended total cash limits	+180	+94	+50		+324
re-phasing	-125	+125			0
Revised project phasing	**+55**	**+219**	**+50**	**0**	**+324**
Total re-phasing >£100k	**-3,376**	**+3,176**	**+200**	**0**	**0**
Other re-phased Projects below £100k	**+10**	**-10**			
TOTAL RE-PHASING	**-3,366**	**+3,166**	**+200**	**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	2,532	2,395
January - March		3,630		5,335
TOTAL	**9,091**	**3,630**	**2,532**	**5,335**

The budget funding assumption has been updated to reflect the proposed 2011-14 budget.
The cumulative target profile shows the anticipated receipts at the start of the year totalled £3.630m. 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.



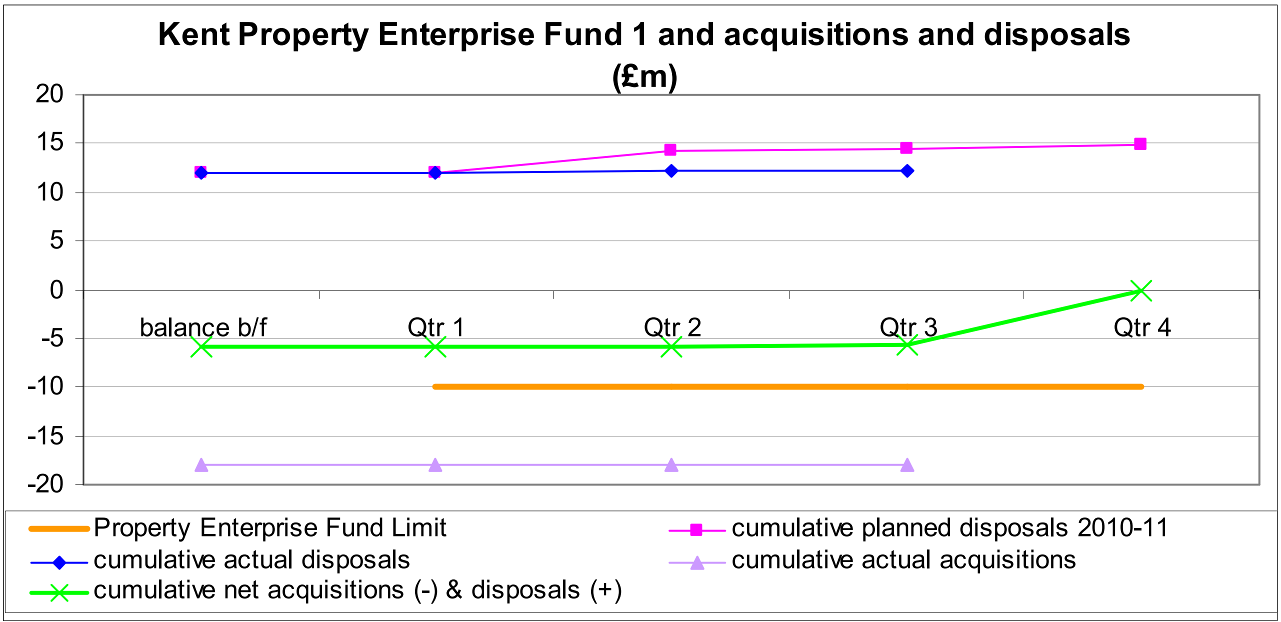
Comments:

- 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 £5.335m 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 a surplus of £0.743m 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	8,941
Property Groups' actual (forecast for 10-11) receipts	5,335
Receipts banked in previous years for use	1,459
Capital receipts from other sources	2,890
Potential Surplus Receipts	**743**

2.2 **Capital Receipts – Kent Property Enterprise Fund 1**:

	2010-11				
	Kent Property Enterprise Fund Limit *£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	12.253	-17.967	-5.714
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 **£3.014m** 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 31 January 2011 there have been three disposals which amounted to £0.367m.

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 £4.417m at the end of 2010-11.

Opening Balance – 01-04-10	-£5.948m
Planned Receipts (Risk adjusted)	£3.014m
Costs	-£0.173m
Acquisitions	-
Other Funding: - Ashford Library - Gateways	 -£1.000m -£0.309m
Closing Balance – 31-03-11	**-£4.417m**

Revenue Implications

In 2010-11 the fund is currently forecasting £0.038m of low value revenue receipts but, with the need to fund both costs of borrowing (£0.457m) against the overdraft facility and the cost of managing properties held for disposal (net £0.168m), the PEF1 is forecasting a £1.522m 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	-15.011
Forecast sale of PEF2 properties	13.088
Disposal costs	-0.654
Closing balance	-35.851
Revenue:	
Opening balance	-2.153
Interest on borrowing	-1.383
Holding costs	-1.035
Closing balance	-4.571
Overall closing balance	-40.422

The forecast closing balance for PEF2 is -£40.422m, this is within the overdraft limit of £85m.

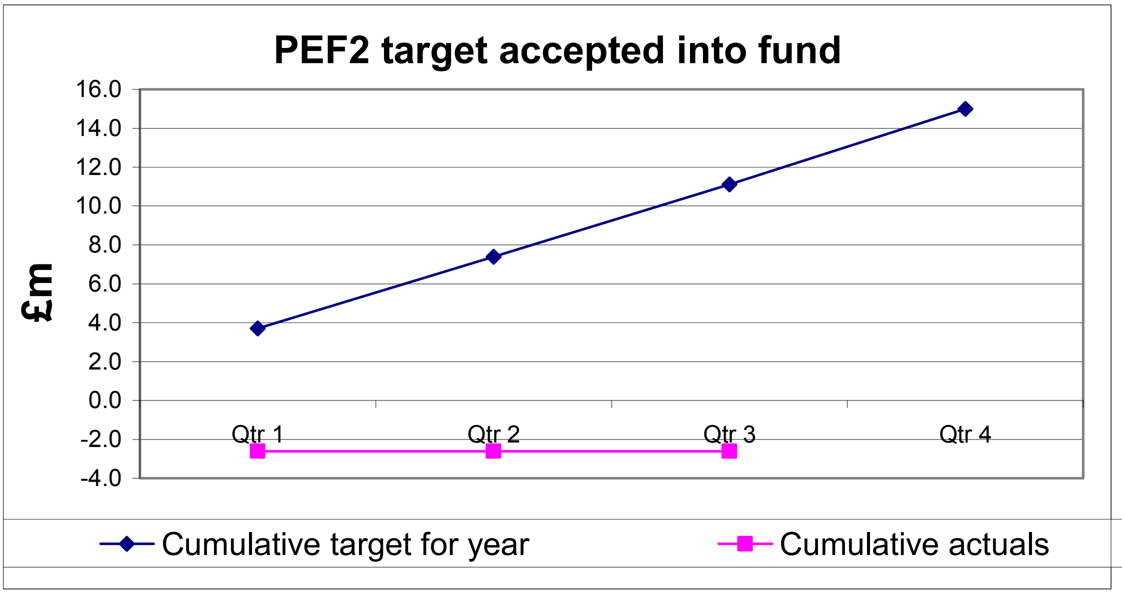
The target receipts to be accepted into PEF2 during 2010-11 equate to the PEF2 funding requirement in the 2011-14 budget book, and achievement against this is shown below:

	2010-11	
	Cumulative target for year	Cumulative actuals
	£m	£m
Balance b/fwd	-2.6	-2.6
Qtr 1	3.7	-2.6
Qtr 2	7.4	-2.6
Qtr 3	11.1	-2.6
Qtr 4	15.0	

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 five are in the process of completing. The cumulative profit on disposal to date is £0.92m. 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 £1.38m, a decrease of £0.18m. This is because there has been a decrease in the number of properties to be transferred into PEF2 to fund the capital programme.

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

FINANCING ITEMS SUMMARY
JANUARY 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	
Corporate Support & Performance Management portfolio							
Contribution to IT Asset Maintenance Reserve	2,352		2,352			0	
Audit Fees & Subscriptions	764		764	-202		-202	subscriptions -£112k; audit fees -£90k
Contribution from Commercial Services		-6,960	-6,960			0	
Total Corporate Support & PM	**3,116**	**-6,960**	**-3,844**	**-202**	**0**	**-202**	
Finance Portfolio							
Insurance Fund	3,479		3,479	600		600	increase in liability claims
Modernisation of the Council	3,810		3,810			0	
Environment Agency Levy	344		344	1		1	
Joint Sea Fisheries	264		264	15		15	
Interest on Cash Balances / Debt Charges	126,054	-10,043	116,011	-10,694	1,446	-9,248	2010-11 write down of discount saving from 2008-09 debt restructuring; saving on leasing costs; in year MRP reduction; savings on new borrowing; lower than expected costs of PEF
Transferred Services Pensions	22		22			0	
PRG	-1,500	0	-1,500			0	
Contribution to/from Reserves & Provisions	1,948		1,948	1,508		1,508	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	124		124	-124		-124	moratorium saving

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Restructure	161		161	700		700	tfr to restructure reserve to fund P&D and ICT support during transformation of council
Total Finance	**133,706**	**-10,043**	**123,663**	**-7,994**	**1,446**	**-6,548**	
Total Controllable	**136,822**	**-17,003**	**119,819**	**-8,196**	**1,446**	**-6,750**	

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 £0.090m underspend on the External Audit Fee budget.

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 has now be released.

c) There is a saving on leasing costs of £0.116m.

d) There are savings of £6.044m on debt charges largely due to delays in taking new borrowing and achieving lower interest rates on new borrowing than assumed in the budget, together with lower than expected costs of the Property Enterprise Fund.

e) There is a pressure of £0.664m 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 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.

1.1.3.4 <u>Contributions to/from reserves & provisions:</u>

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, £0.6m will be drawndown 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.

1.1.3.5 <u>ABG Centrally Held Allocations:</u>

As a consequence of the moratorium on non essential spend, the centrally held ABG allocations will not be spent.

1.1.3.6 <u>Restructure:</u>

A contribution of £0.7m is to be made to the Restructure reserve to fund the anticipated costs of Personnel & Development and ICT support through the transformation of the Council, over the short to medium term. These projects were recommended for funding by the Restructure Sub-Group and approved by the Leader, but were not to be funded from the existing £2m in the Restructure reserve.

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 reserves of in year MRP saving to cover potential impact in future years	+1,899	FIN	Treasury savings - lower debt charges & lower than expected costs of Property Enterprise Fund	-6,044
FIN	Contribution to economic downturn reserve of 2010-11 write down of discount saving from 2008-09 debt restructuring	+1,016	FIN	In year Minimum Revenue Provision saving as a result of 2009-10 re-phasing of the capital programme	-1,899
FIN	Contribution to restructure reserve to fund P&D & ICT support during transformation of council	+700	FIN	2010-11 write down of discount saving from 2008-09 debt restructuring	-1,016
FIN	Treasury - pressure on the interest on cash balances budget	+664	FIN	release of provisions following review of balance sheet	-807
FIN	Pressure on Insurance Fund due to rise in liability claims	+600	FIN	release of Minimum Revenue Provision contingency	-739
			FIN	Drawdown from Insurance Reserve to cover pressure on Insurance Fund	-600
			FIN	ABG Centrally held allocations moratorium saving	-124
			FIN	savings on leasing costs	-116
			CSPM	local authority subscriptions	-112
		+4,879			**-11,457**

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

The moratorium on non-essential spend has delivered £124k of savings, which are reflected in the £6.750m underspend reported in table 1.

1.1.5 **Implications for MTFP**:

All ongoing pressures and savings from the current year have been fully addressed in the 2011-13 MTFP.

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

N/A

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

A virement of £0.250m from the underspending on the debt charges budget to the Libraries budget within the Communities portfolio is requested to fund a stand-by facility for an increase in the cost of the Beaney project within the Communities capital programme, by way of revenue contribution to capital, should alternative external funding not be realised. This funding will not be required until 2011-12, so this underspend will be required to roll forward in order to make the revenue contribution to capital next financial year, if necessary. If alternative external funding is secured and this stand-by facility is not required, then the £250k revenue funding will be returned to general reserves.

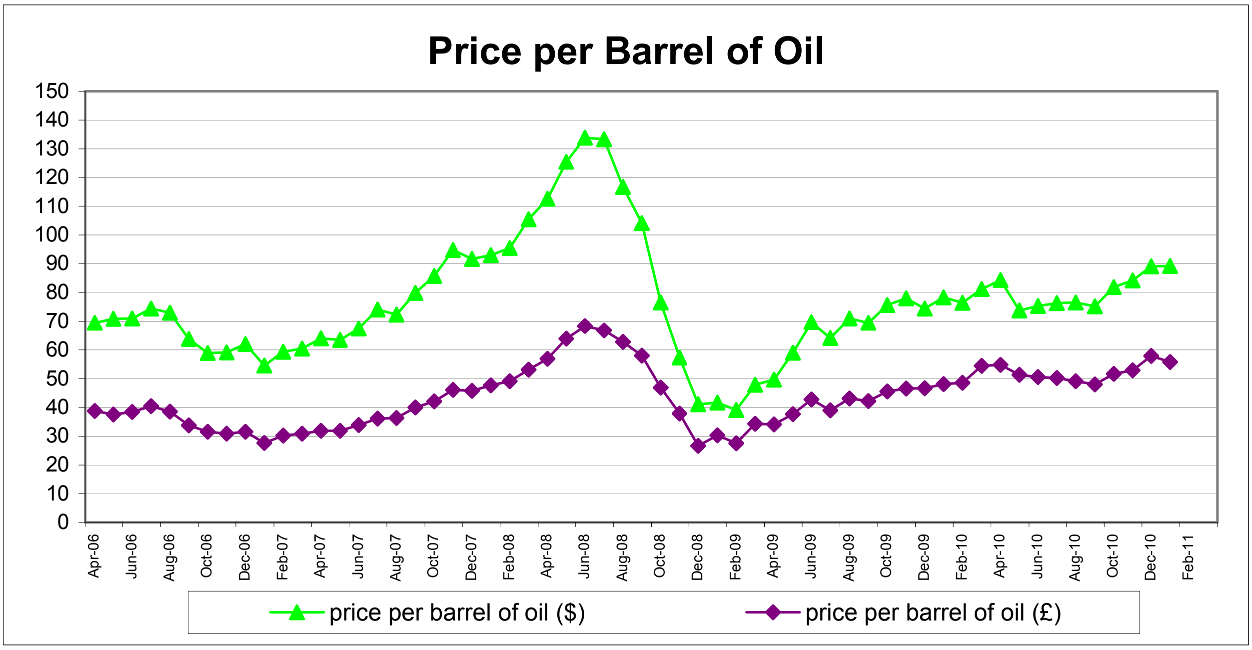
1.2 CAPITAL

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	84.25
December	61.96	91.69	41.12	74.47	89.15
January	54.51	92.97	41.71	78.33	89.17
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.