

By: Richard Hallett, Directorate Finance Manager, Environment & Regeneration

To: Environment & Regeneration Policy Overview Committee – 25 September 2008

**Subject: Financial Monitoring Update 2008/09**

Classification: Unrestricted

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Summary: To update the Committee on the financial position in the current year.

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### **Recommendation:**

The Committee is asked to note and comment on the report

### **Introduction**

1. The 1st quarter financial monitoring which has been reported to Cabinet is included with the papers for this meeting. Significant variations since this report was made are set out below:

#### *Revenue*

2. In EH&W the overall forecast remains at breakeven but behind this, there has been a further significant underspend of £0.9m predicted on Waste. This is partly due to increased income from recyclable materials and partly due to the Allington waste to energy plant being offline for some of July and August. This underspend is offset by an intention to increase the invest to save proposals (outlined in the full monitoring report attached) by £0.9m to produce savings and efficiencies to help with next year's inflation pressures
3. There has been no significant movement on the RS&I portfolio

#### *Capital*

4. There has been no significant movement on capital forecasts since the attached monitoring report.

### **Recommendation**

5. Members of this committee are invited to note and comment upon this report.

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# ENVIRONMENT & REGENERATION DIRECTORATE SUMMARY

## JULY 2008-09 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 budget was set to reflect a number of technical adjustments to budget; a virement of £0.250m from the underspending on debt charges within the Finance portfolio towards the development costs of the A2 outdoor activity centre and park and ride scheme; the addition of £2.045m of roll forward from 2007-08, as agreed by Cabinet on 16 June 2008 and the allocation of £3.288m of the contingency set aside from the 2007-08 rolled forward underspend for the impact of the current economic situation as agreed by Cabinet on 4 August.
- 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 to 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	
<b>Environment, Highways &amp; Waste portfolio</b>							
Kent Highways Services	59,540	-6,306	53,234	1,400	0	1,400	Invest to save proposals
Public Transport Contracts	14,524	-669	13,855	0	0	0	
Waste Management	66,760	-1,158	65,602	-1,600	0	-1,600	Diversion to landfill while Allington off-line and reduced tonnage
Environmental Group	8,140	-4,000	4,140	200	0	200	Country parks
Transport Strategy	617	0	617	0	0	0	
Strategic Management, Finance, Performance & Information & Analysis Group	6,801	-462	6,339	0	0	0	
<b>Total E, H &amp; W</b>	<b>156,382</b>	<b>-12,595</b>	<b>143,787</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Regeneration &amp; Supporting Independence portfolio</b>							
Regeneration & Projects	6,540	-1,118	5,422	0	0	0	
Economic Development	3,147	-991	2,156	0	0	0	
Planning & Development	1,100	-46	1,054	0	0	0	
Planning Applications	1,477	-468	1,009	0	0	0	
<b>Total Regen &amp; SI</b>	<b>12,264</b>	<b>-2,623</b>	<b>9,641</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Total Directorate Controllable</b>	<b>168,646</b>	<b>-15,218</b>	<b>153,428</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Assumed Management Action:</b>							
- EH&W portfolio						0	
- R&SI portfolio						0	
<b>Forecast after Mgmt Action</b>				<b>0</b>	<b>0</b>	<b>0</b>	

#### 1.1.3 Major Reasons for Variance:

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

#### Environment, Highways & Waste portfolio:

##### 1.1.3.1 Waste Management:

- Waste is experiencing higher than expected inflation largely due to fuel and gas oil increases. This has now been addressed for 2008-09 by allocation from the corporate contingency set aside from the 2007-08 underspending for the impact of the current economic conditions but will be an ongoing issue for the MTP.
- There is a one-off saving of £1.1m from the waste to energy plant at Allington not being operational during the first few months of the financial year. This saving results from 73,000 tonnes of waste at approximately £16 per tonne being diverted to landfill (which is currently a cheaper option but not sustainable in the long run due to increasing landfill taxes and restrictions in the allowances).
- Further waste savings of £0.5m are likely to be achieved through reduction in waste tonnage (as discussed in the July Cabinet exception report) because April to July figures are down on the previous year.

1.1.3.2 Country Parks have an inherent budget problem of about £0.2m. This has been brought about by under investment in an adequate maintenance programme (leading to health and safety issues) and taking on Lullingstone park and the loss-making Canterbury environment centre from CFE. The Country Parks service is currently reviewing all of its activity and looking to make efficiencies where possible. They are also trying to increase income generation but without some capital investment, this strategy is limited. An MTP capital bid will be submitted in order to invest in facilities that will encourage people to attend the parks and to spend money while they are there.

1.1.3.3 After offsetting the £0.2m pressure on Country Parks against the £1.6m one-off waste saving, there is a residual underspend of £1.4m. It is proposed to use this one-off money to fund invest to save schemes within KHS, which will be needed to help address the MTP inflation issues within the portfolio (for waste, highways maintenance, energy and transport inflation). Current schemes under investigation are streetlighting and paying off coastal protection loans to save on interest payments. The savings expected to be generated from these projects over the medium term will be reported once these schemes have been developed sufficiently, and formal virement of the funding from Waste to KHS will be requested.

1.1.3.4 KHS is also currently experiencing much higher inflation than was anticipated when setting the medium term financial plan last year. This is mainly due to increases in fuel prices, aggregates, electricity and oil related products such as coated roadstone. The Baxter index used to measure price pressures in the road maintenance industry was expected to be about 5.5% when the MTP was set. The index is currently running at 9.3% on a year on year basis and is expected to rise further, topping 10%. This means that the original KHS budget was short by about £0.984m to maintain the current programme, however this has been addressed for 2008-09 by a one-off allocation from the corporate contingency set aside from the 2007-08 underspending for the impact of the current economic conditions, but will be an ongoing issue for the MTP.

1.1.3.5 The other major difficulty for KHS is the renewal of the electricity contract with LASER from October of this year. The MTP has zero allowance for an electricity rise based on the existing price KHS was paying for its electricity under the previous contract and the market conditions at the time of setting the MTP. The situation has changed dramatically since then and the latest quote for the renewal will be a 52% rise. On the £4.8m budget, this equates to £1.248m for the six months to March 2009 (£2.496m for the full year effect). This has now also been addressed for 2008-09 by allocation from the corporate contingency set aside from the 2007-08 underspending for the impact of the current economic conditions, but will be an ongoing issue for the MTP.

**Regeneration & Supporting Independence portfolio:**

1.1.3.6 There are no issues on this portfolio at this stage

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

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
EHW	Invest to save schemes within KHS to address MTP issues	+1,400	EHW	Diversion to landfill while Allington waste to energy plant off-line	-1,100
EHW	Country parks	+200	EHW	Reduced waste tonnage	-500
		+1,600			-1,600

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

N/A

#### 1.1.5 Implications for MTP:

Although the inflation issues affecting KHS, Public Transport and Waste have been met through allocation from the one-off corporate contingency for 2008-09, these will need to be addressed in the base budget for the 2009-12 MTP. There will be a double impact on the MTP price allocations, firstly to address the base shortfall from 2008-09 and secondly to top up the allowances to take account of the difference between the existing MTP inflation estimates and those that are now prevalent. This will cause significant additional pressures on the EH&W portfolio of over £6m in 2009-10 in order to maintain current service levels.

It is proposed to invest the remaining waste underspend after offsetting the pressure on the Country Parks budget, to produce future savings to assist with meeting the MTP inflation pressures. Current projects under consideration are streetlighting and paying off coastal protection loans to save on interest payments, both within KHS. Once these schemes have been developed sufficiently we will come back to Cabinet with further details and to request formal virement of funds from the Waste underspend to KHS.

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

N/A

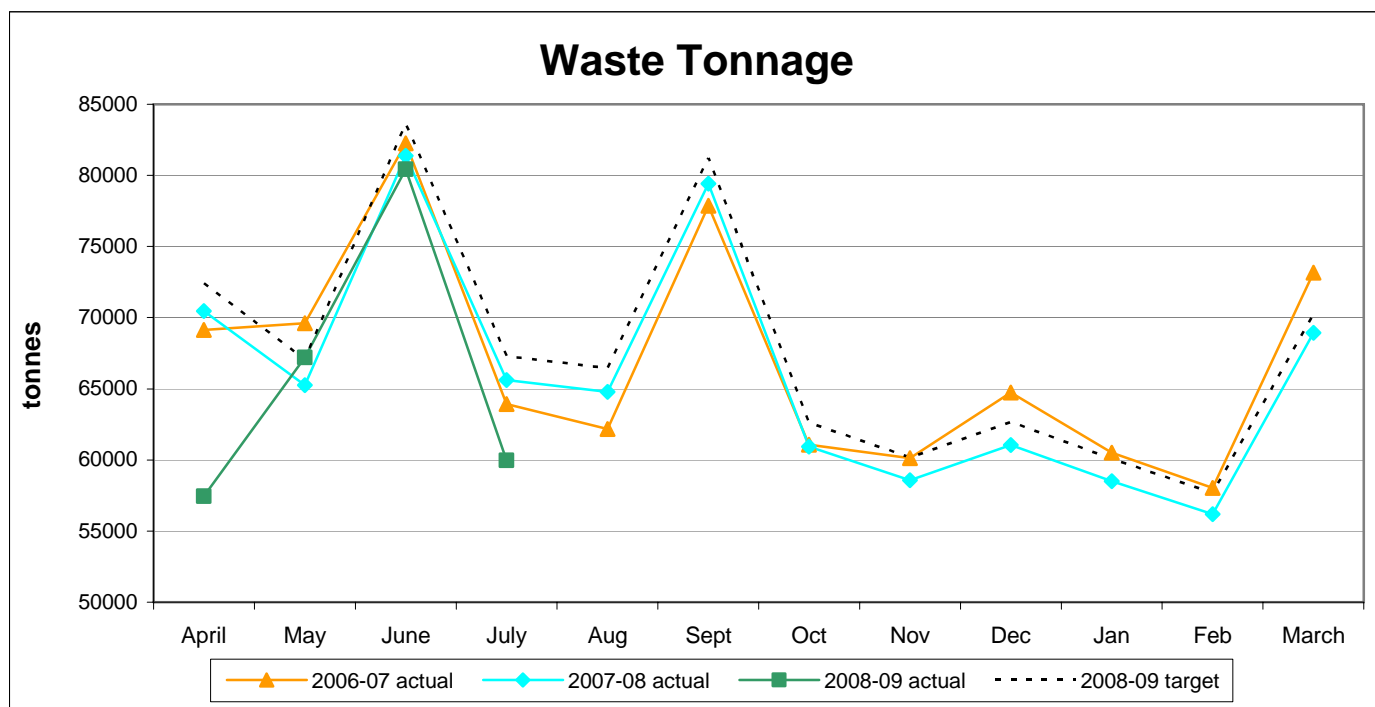
#### 1.1.7 Details of proposals for residual variance: *[eg roll forward proposals; mgmt action outstanding]*

N/A

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

### 2.1 Waste Tonnage:

	2006-07	2007-08	2008-09	
	Waste Tonnage	Waste Tonnage	Waste Tonnage	Target
April	69,137	70,458	57,448	72,411
May	69,606	65,256	67,201	67,056
June	82,244	81,377	80,425	83,622
July	63,942	65,618	59,968	67,275
August	62,181	64,779		66,459
September	77,871	79,418		81,212
October	61,066	60,949		62,630
November	60,124	58,574		60,180
December	64,734	61,041		62,669
January	60,519	58,515		60,073
February	58,036	56,194		57,679
March	73,171	68,936		70,234
<b>TOTAL</b>	<b>802,631</b>	<b>791,115</b>	<b>265,042</b>	<b>811,500</b>



**Comments:**

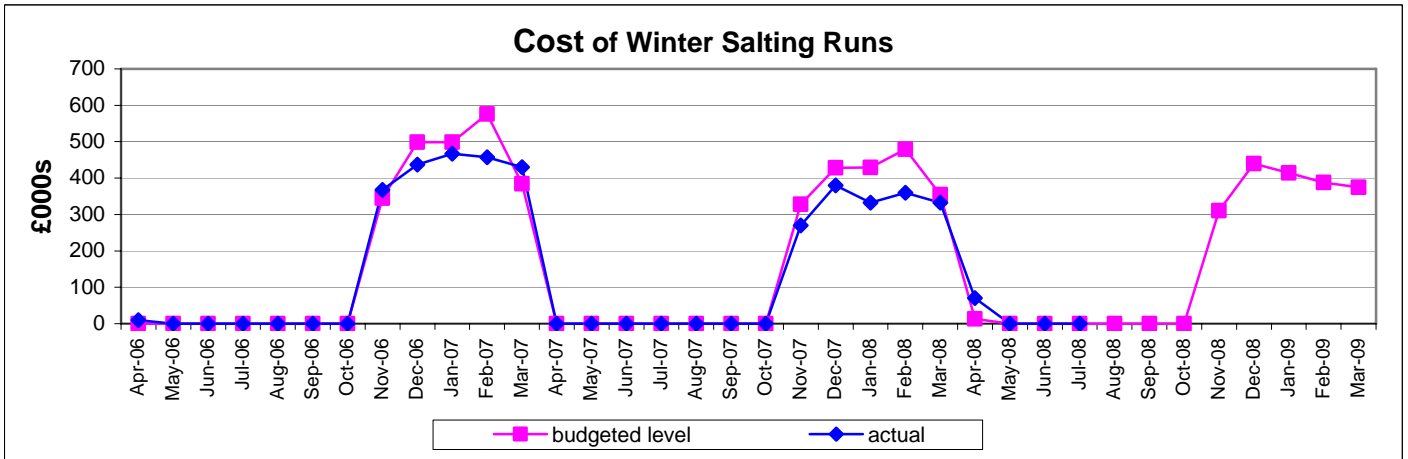
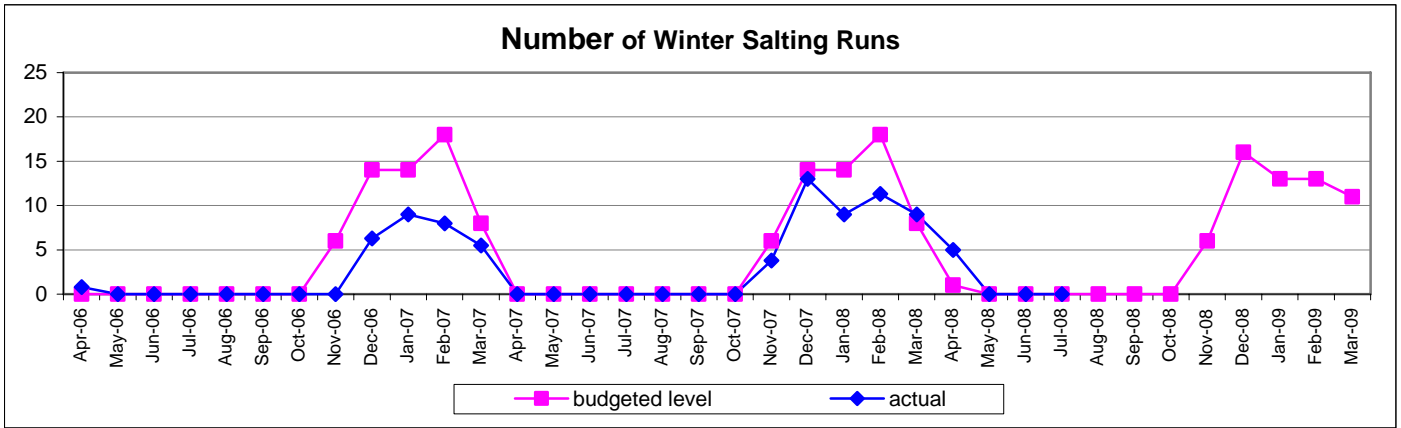
- April tonnage is significantly down on previous years but May and June are similar to expectations. The reduced April figure may be partly attributable to Easter being in March this year or possibly a reflection of a downturn in consumption. However, waste statistics in previous years have not followed this pattern and waste tonnage continues to be very difficult to predict accurately. The July tonnage is also down on the previous year, but this may change as it includes estimates for some districts.

**2.2 Number and Cost of winter salting runs:**

	2006-07				2007-08				2008-09			
	Number of salting runs		Cost of salting runs		Number of salting runs		Cost of salting runs		Number of salting runs		Cost of salting runs	
	Actual <sup>2</sup> £000s	Budgeted Level £000s	Actual £000s	Budgeted Level £000s	Actual £000s	Budgeted Level £000s	Actual £000s	Budgeted Level <sup>2</sup> £000s	Actual	Budgeted level	Actual £000s	Budgeted Level <sup>2</sup> £000s
April	0.8 <sup>1</sup>	-	10	-	-	-	-	-	5	1	70	13
November	-	6	368	345	3.8	6	270	328		6		310
December	6.3	14	437	499	13.0	14	380	428		16		440
January	9.0	14	467	499	9.0	14	332	429		13		414
February	8.0	18	457	576	11.3	18	360	479		13		388
March	5.5	8	430	384	9.0	8	332	354		11		375
<b>TOTAL</b>	<b>29.6</b>	<b>60</b>	<b>2,169</b>	<b>2,303</b>	<b>46.1</b>	<b>60</b>	<b>1,674</b>	<b>2,018</b>	<b>5</b>	<b>60</b>	<b>70</b>	<b>1,940</b>

Note <sup>1</sup>: only part of the Kent Highways Network required salting

Note <sup>2</sup>: the 2007-08 & 2008-09 budgets exclude overheads, as these are now charged centrally.



Comment:

- The charges for the Winter Maintenance Service reflect two elements of cost: the smaller element being the variable cost of the salting runs undertaken; the major element of costs, relating to overheads and mobilisation within the contract, have been apportioned equally over the 5 months of the salting period.
- In setting the 2008-09 Budget, a reassessment of the overheads and mobilisation element of the costs of the service has enabled a slightly lower budget to be set.

2.3 **Number of insurance claims arising related to Highways with accident dates during these periods:**

	2005-06	2006-07	2007-08	2008-09
<b>Accident Date</b>	Cumulative no. of claims	Cumulative no. of claims	Cumulative no. of claims	Cumulative no. of claims
April – June	286	335	330	313
July – September	530	569	622	
October – December	770	978	913	
January - March	1,083	1,575	1,523	

## Cumulative Number of insurance claims relating to Highways



### Comments:

- Numbers of claims will continually change as new claims are received relating to accidents occurring in previous quarters. Claimants have 3 years to pursue an injury claim and 6 years for damage claims. The data previously reported has been updated to reflect claims logged with Insurance as at 19 August 2008.
- Quarter 1 figures for 2008-09 are currently slightly down on the previous two years, however it is highly likely that we will receive further claims over the next few months and years which will increase this figure.
- The Insurance section continues to work closely with Highways to try to reduce the number of successful claims and currently the Authority manages to achieve a rejection rate of claims where it is considered that we do not have any liability, of about 80%.