

By: Paul Carter, Leader  
Alex King, Deputy Leader  
Nick Chard, Cabinet Member for Finance  
Graham Gibbens, Cabinet Member for Health  
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To: Corporate Policy Overview Committee - 25 January 2008

Subject: Corporate Services Budget Monitoring 2007/08

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Classification: Unrestricted

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For Information

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## **1. Introduction**

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

## **2. Background**

2.1 Policy Overview Committees consider the draft Medium Term Financial Plan at their November and January meetings. To enable a more informed discussion, three reports will be presented to the Committee on a regular basis:

a) Budget Monitoring reports

A detailed quarterly budget monitoring report is presented to Cabinet, usually in September, December and March, and a draft final outturn report in June. A report for each directorate is annexed to the summary report, and the annex for the CED and Financing Items will be presented to this Committee at the meetings following those Cabinet meetings. This will help inform this POC about current trends, pressures and management actions in advance of the next year's budget setting

b) Performance data

This will be reported at least half-yearly to this Committee

c) Outturn report

Effectively an amalgam of the above two reports, the outturn report will summarise both the financial and performance information for the whole of the preceding year

## **3. Second Quarter monitoring report**

3.1 Attached are the monitoring reports for the second quarter. The narrative below has been updated from the attached annex to reflect the very latest

position, particularly on the financing Items budget. The main points to highlight are:

a) Chief Executive's Department

As stated in the first report on this subject to the November meeting of this committee, compared to service directorate budgets, the CED budget is relatively low risk. There are not large demand-led budgets that can change significantly in-year, although large parts of the Legal Services, ISG, Property and P&D budgets are reliant upon income from our own service directorates, schools and external customers. The service levels provided by that income are generally agreed as part of the annual budget process, and while there will always be in-year variations, they are normally managed without problems. The annex to this report shows that the only overspend of note is that on Kent Works. A review of service is nearing completion, with the expectation of a business plan being presented that is self-financing for 2008/09 and future years.

On the capital programme expenditure, the main variations are:

- 1) an underspend by Commercial Services, as they continue their strategy to lease vehicles rather than purchase them.
- 2) a small re-phasing of capital spend on Gateways into 2008/09, mainly due to the Maidstone project.
- 3) re-phasing of the power up-grade to the Sessions House machine room, which will be necessary as part of the WAN replacement
- 4) an underspend on works to properties awaiting disposal, as the disposals are now expected in 2008/09

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

b) Financing Items

The net budget on this is large; £96m. However, the net debt charge (i.e. the sum we have to pay against our outstanding borrowing) and interest received budget is £97m, against which we are forecasting an underspend of £4.8m, mainly due to increased interest income received due to higher average bank balances caused by the re-phasing of the capital programme, and the bank base rate is likely to be on average above the budgeted rate. The other forecast variation, an overspend of £250k, is a consequence of a delay in letting a contract for outdoor advertising. The attached annex provides the breakdown of the budget and forecast outturn for the Financing Items budget.

## **4 Recommendations**

- 4.1 Members of the POC are asked to note the projected outturn figures for the directorate as at the second quarter

**Officer Contact:**

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# CHIEF EXECUTIVES DIRECTORATE SUMMARY OCTOBER 2007-08 FULL MONITORING REPORT

## 1. FINANCE

### 1.1 REVENUE

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

- Allocation of grants and previously unallocated budgets where further information regarding allocations and spending plans has become available since the budget setting process.
- Cash limits have been adjusted since the last full monitoring report to reflect a number of technical adjustments to budget.

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

Budget Book Heading	Cash Limit			Variance			Comment
	G £'000s	I £'000s	N £'000s	G £'000s	I £'000s	N £'000s	
<b>OR&amp;S (CFE)</b>							
Kent Works	825	-825	0	101	149	250	Higher costs & lower income than expected
<b>Regeneration &amp; Supporting Independence</b>							
Supporting Independence	604	0	604	0	0	0	
<b>Public Health portfolio</b>							
Kent Department of Public Health	312	0	312	-50	0	-50	R/fwd to support promotion activities in 2008-09
<b>Corporate Support portfolio</b>							
Personnel & Development	10,065	-3,945	6,120	425	-500	-75	Delayed start to Health Checks
Business Solutions & Policy (inc Information Systems)	21,657	-5,782	15,875	1,858	-1,858	0	
Democratic Services	4,101	-93	4,008	38	-38	0	
Legal	4,546	-4,853	-307	950	-950	0	
Corporate Management & Strategic Development	2,851	-250	2,601	-112	42	-70	Delays on Gateways construction/opening.
Dedicated Schools Grant	0	-2,789	-2,789	0	0	0	
<b>Total CS&amp;H</b>	<b>43,220</b>	<b>-17,712</b>	<b>25,508</b>	<b>3,159</b>	<b>-3,304</b>	<b>-145</b>	
<b>Policy &amp; Performance portfolio</b>							
Policy & Performance	1,236	-209	1,027	187	-187	0	
Kent Partnerships	368	0	368	177	-177	0	
International Affairs Group	375	-77	298	72	-72	0	
Corporate Communications	1,506	-92	1,414	5	-5	0	
<b>Total P&amp;P</b>	<b>3,485</b>	<b>-378</b>	<b>3,107</b>	<b>441</b>	<b>-441</b>	<b>0</b>	
<b>Finance Portfolio</b>							
Strategic Management	1,619	-110	1,509	80	-80	0	
Finance Group	8,390	-3,320	5,070	265	-265	0	
Property Group	16,612	-10,108	6,504	228	-228	0	
<b>Total Finance</b>	<b>26,621</b>	<b>-13,538</b>	<b>13,083</b>	<b>573</b>	<b>-573</b>	<b>0</b>	
<b>Total Directorate Controllable</b>	<b>75,067</b>	<b>-32,453</b>	<b>42,614</b>	<b>4,224</b>	<b>-4,169</b>	<b>55</b>	

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

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

O,R&S (CFE) - Despite efforts to reduce costs and increase income to achieve a sustainable position the Kent Works operation is having to report a potential overspend of £250k this year. Any reduction to costs must consider the Operation's obligations under the contract with the Learning and Skills Council and actual income for services provided to schools is still forecast to be significantly short of that originally planned.

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

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
OR&S (CFE)	Kent Works - higher costs & reduced income	+250			
		+250			-0

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

N/A

1.1.5 **Implications for MTFP:**

OR&S (CFE) - A review of the Kent Works operation is currently in progress, the outcomes of which will determine any implications for the MTFP.

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

**Public Health Portfolio:** -£50k will need to be re-phased into 2008/09 to help fund the continued support and promotional activity within the Kent Department of Public Health to successfully promote healthy living for Kent's residents.

**Corporate Support Portfolio:**

Personnel: -£75k will need to be re-phased into 2008/09 as there was a delayed start to the Health Checks programme resulting in part-year costs in 2007/08 and 2008/09.

Strategic Development: -£70k will need to be re-phased into 2008/09 as the construction of the Maidstone Gateway project has been delayed, therefore delaying it's opening until 2008/2009.

Excluded from the forecast position is the Home Computing Initiative which, due to the accounting treatment, will require a scheduled overspend of £255k to roll forward into 2008/09 to be met from staff salary deductions.

### 1.1.7 Details of proposals for residual variance:

With the underspends reported in 1.1.6 being proposed as roll-forwards there is a residual variance, relating to Kent Works, of +£250k. The review of the Kent Works operation, agreed by the 14-24 Innovation Board, includes addressing this year's overspend, evaluation of quality and provision and recommending short and medium term actions to deliver the LSC contract and services to schools. The review will be completed by the end of December but at the moment no additional management action has been identified.

## 1.2 CAPITAL

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

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

2007-08  
£000s

#### Policy & Performance portfolio:

- Virement of Small Community Capital Grant budget to the Communities portfolio in respect of Herne Bay Youth & Community Centre -5

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

	Prev Yrs Exp	2007-08	2008-09	2009-10	Future Yrs	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Corporate Support Portfolio</b>						
Revised Budget per Sept Cabinet	2,680	3,995	4,757	1,239	497	13,168
Additions:						
-						0
Revised Budget	2,680	3,995	4,757	1,239	497	13,168
Variance		-669	-344	900	13	-100
<b>split:</b>						
- real variance		-100	0	0	0	-100
- re-phasing		-569	-344	+900	+13	0
<b>Policy &amp; Performance Portfolio</b>						
Revised Budget per Sept Cabinet		506	500			1,006
Adjustments:						
- virement of SCCG budget		-5				-5
-						0
Revised Budget	0	501	500	0	0	1,001
Variance		0	0	0	0	0
<b>split:</b>						
- real variance		0	0	0	0	0
- re-phasing		0	0	0	0	0
<b>Finance Portfolio</b>						
Revised Budget per Sept Cabinet	1,103	6,527	4,344	4,079	9,185	25,238
Additions:						
-						0

Revised Budget	1,103	6,527	4,344	4,079	9,185	25,238
Variance		-1,413	+40	0	0	-1,373
<b>split:</b>						
- real variance		-1,373	0	0	0	-1,373
- re-phasing		-40	+40	0	0	0
<b>Directorate Total</b>						
Revised Budget	3,783	11,023	9,601	5,318	9,682	39,407
Variance	0	-2,082	-304	900	13	-1,473
<b>Real Variance</b>		<b>-1,473</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,473</b>
<b>Re-phasing</b>		<b>-609</b>	<b>-304</b>	<b>+900</b>	<b>+13</b>	<b>0</b>

### 1.2.3 Main Reasons for Variance

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

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

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

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

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

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

portfolio	Project	real/ phasing	Project Status			
			Rolling Programme	Approval to Spend	Approval to Plan	Initial Planning Stage
			£'000s	£'000s	£'000s	£'000s
<b>Overspends/Projects ahead of schedule</b>						
			<b>+0</b>	<b>+0</b>	<b>+0</b>	<b>+0</b>
<b>Underspends/Projects behind schedule</b>						
FIN	Commercial Services Vehicles, Plant & Equipment	Real	-1,373			
CS	Gateways	Phasing			-336	
			<b>-1,373</b>	<b>0</b>	<b>-336</b>	<b>0</b>
			<b>-1,373</b>	<b>0</b>	<b>-336</b>	<b>0</b>

#### 1.2.4 Projects re-phasing by over £1m:

N/A

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

##### Corporate Support Portfolio

There is an underspend of £100k on Kent TV Pilot station, which will result in £100k less prudential borrowing.

##### Finance Portfolio

An underspend of -£1,373k on Commercial Services Vehicle, Plant & Equipment replacement is largely due to continuing the trend adopted last year of leasing vehicles rather than purchasing outright. This will be matched by a reduced contribution to their Renewals Fund.

#### 1.2.6 General Overview of capital programme:

(a) Risks

N/A

(b) Details of action being taken to alleviate risks

N/A

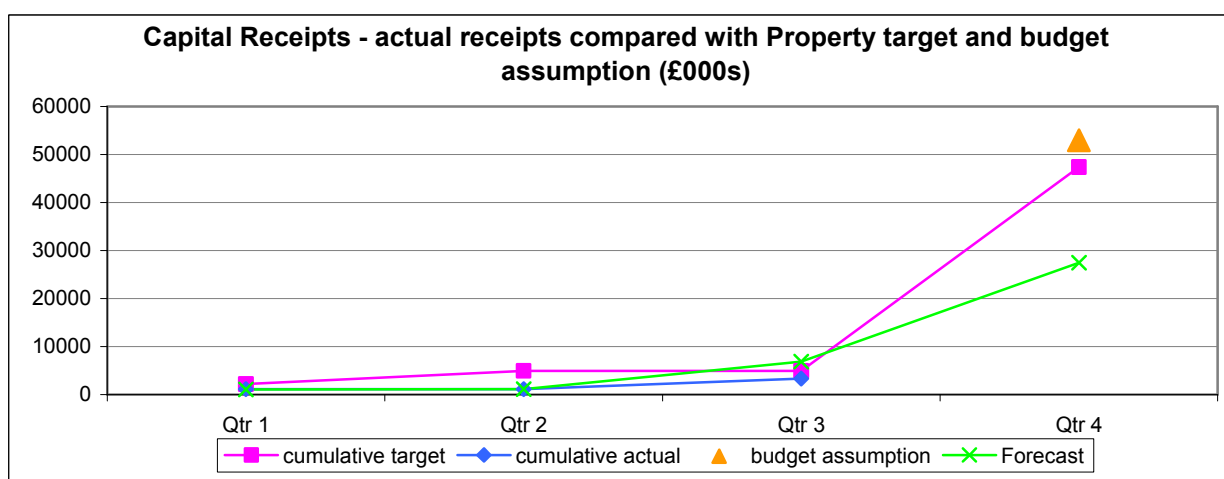
## 2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

### 2.1 Capital Receipts – actual receipts compared to budget profile:

	2007-08			
	<i>Budget funding assumption</i> £000s	Cumulative Target profile £000s	Cumulative Actual receipts £000s	Forecast receipts £000s
April - June		2,150	1,148	1,072
July - September		4,929	1,148	1,148
October - December		4,929	**3,288	6,866
January - March		47,359		27,450
<b>TOTAL</b>	<b>*52,958</b>	<b>47,359</b>	<b>3,288</b>	<b>27,450</b>

\* figure updated from 2007-08 budget assumption to reflect roll forward from 2006-07

\*\*actuals to 31 October 2007



**Comments:**

- The gap shown in the graph between the budget assumption and the Property target is due to a timing issue. The capital receipts need to be looked at over the three year span of the Medium Term Plan (MTP), in conjunction with the funding assumption, as shown in the table below. The current forecast for capital receipts over the 2007-10 MTFP now shows a potential deficit of £1.107m. This is being reviewed as part of the 2008-11 MTFP process to ensure that we set a balanced capital programme.
- The table below shows a deficit of £21.518m of capital receipts against a cash limit of £52.958m of projects funded by capital receipts in the current year. However, table 5 of section 4.3.3 of the executive summary identifies that £30.732m of the -£91.159m current variance against the overall capital budget for 2007/08 relates to capital receipt funded projects. Therefore, despite a delay in the timing of realising these receipts, the capital spend has also re-phased and we are currently expecting to have sufficient capital receipts to fund current forecast spend.
- If a reasonable level of capital receipts is not achieved this financial year there is also a risk that the 5% top slice on those actually achieved will be insufficient to meet the capitalised revenue costs of Property Group's disposal activity, creating a pressure upon Property Group's revenue budget.
- With the high percentage of the current year's receipts forecast to be delivered in the final quarter, there is an obvious risk that the actual receipts banked by 31 March 2008 are lower than projected.

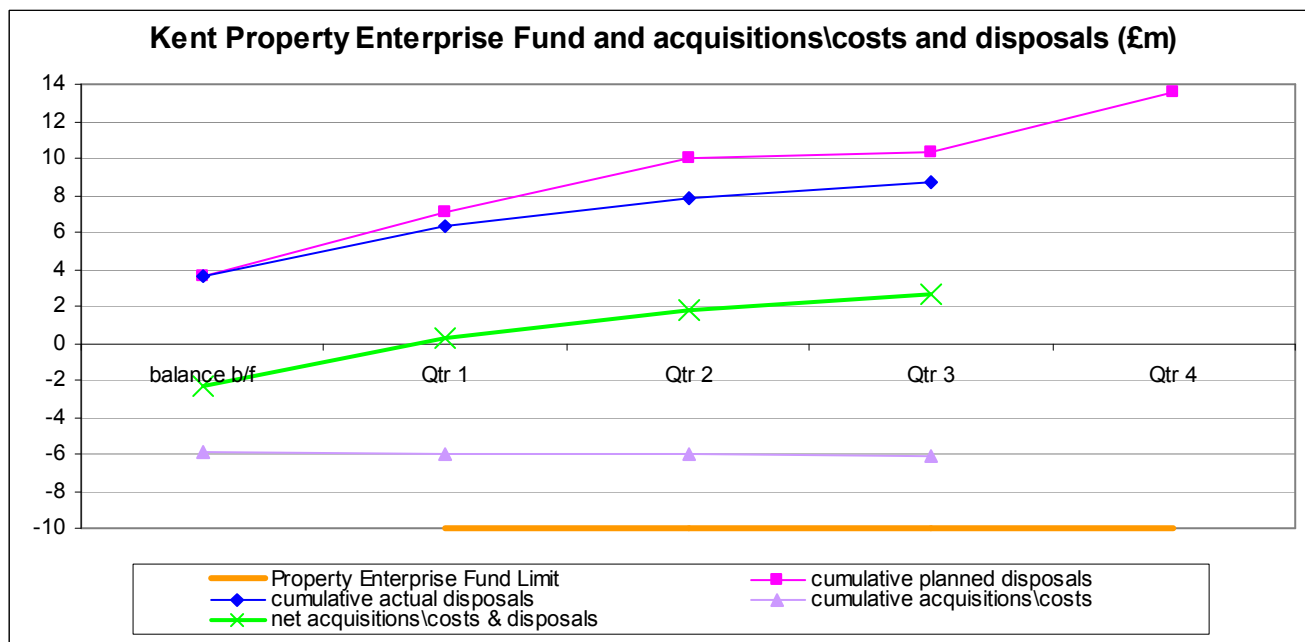
	2007-08 £'000	2008-09 £'000	2009-10 £'000	Total £'000
Capital receipt funding per 2007-10 MTP	47,973	71,943	50,424	170,340
Capital receipt roll forward changes	4,985	-9,110	113	-4,012
	<b>52,958</b>	<b>62,833</b>	<b>50,537</b>	<b>166,328</b>
Property Group's forecast receipts	27,450	60,675	22,800	110,925
Receipts banked in previous years for use	2,208	256		2,464
Receipt funding from other sources	1,782	1,500	4,500	7,782
<b>Potential Surplus\Deficit (-) Receipts</b>	<b>-21,518</b>	<b>-402</b>	<b>-23,237</b>	<b>-45,157</b>
Sites identified by Directorates for Property to work up for disposal*				<b>44,050</b>
<b>Overall Potential Deficit</b>				<b>-1,107</b>

\* Timescale for delivery uncertain until worked up by Property Group

## 2.2 Capital Receipts – Kent Property Enterprise Fund:

	<i>Kent Property Enterprise Fund Limit</i> £m	Cumulative Planned Disposals (+) £m	Cumulative Actual Disposals (+) £m	Cumulative Actual Acquisitions\Costs (-) £m	Cumulative Net Acquisitions\Costs (-) & Disposals (+) £m
Balance b/f		3.606	3.606	-5.918	-2.312
April - June	-10	7.088	6.280	-6.013	0.267
July – September	-10	9.973	7.798	-6.040	1.758
October – December *	-10	10.371	8.749	-6.084	2.665
January – March	-10	13.555			

\* reflects position to the end of October



### Comments:

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

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

### Balance brought forward

In 2005-06, £0.541m of capital receipts were realised from the disposal of non-operational property. The associated disposal costs of £0.054m were funded from these receipts, leaving a balance of £0.487m available for future

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

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

#### Planned Disposals

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

Disposals to date this year have been encouraging but there are signs that the market is hardening affecting the ability to achieve the original target. A recent review of the receipts currently being worked up for disposal has determined a revised working target of c.**£7.75m**.

#### Actual Disposals

As at the end of October 2007 the Fund had realised £5.143m of capital receipts this financial year through the sale of 40 non-operational properties.

#### Acquisitions\Costs

At present there are no committed acquisitions to report, however forecast outturn for costs of disposals (staff and fees) is currently estimated at **£0.608m**.

#### Other Fund Commitments

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

The Fund has been earmarked to provide funding of £5.4m for the Eurokent Access Road scheme in Ramsgate, Thanet, with £2.4m currently forecast for 2007-08, subject to formal decision.

#### Forecast Outturn

Taking all the above into consideration the Fund is expected to be in a deficit position of £0.870m by the end of this financial year.

<b>Opening Balance</b>	-£2.312m
Planned Receipts	£7.750m
Costs	-£0.608m
Acquisitions	-
Other Fund Commitments:	
- revenue budget support	-£3.300m
- Eurokent Access Road	-£2.400m
<b>Closing Balance</b>	<b>-£0.870m</b>

## Revenue Implications

Approximately £0.075m of low value revenue receipts are currently forecast for this financial year but, with the need to fund both costs of borrowing (£0.163m) against the overdraft facility and the cost of managing properties held for disposal (£0.213m), the PEF is forecasting a £0.301m deficit on revenue which will be rolled forward to be met from future income streams.

# FINANCING ITEMS SUMMARY

## OCTOBER 2007-08 FULL MONITORING REPORT

### 1. FINANCE

#### 1.1 REVENUE

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

- Allocation of grants and previously unallocated budgets where further information regarding allocations and spending plans has become available since the budget setting process.
- Cash limits have been adjusted since the last full monitoring report to reflect a number of technical adjustments to budget.

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>Corporate Support portfolio</b>							
Contribution to IT Asset Maintenance Reserve	2,433		2,433			0	
PFI Grant		-683	-683			0	
<b>Total Corporate Support</b>	<b>2,433</b>	<b>-683</b>	<b>1,750</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Finance Portfolio</b>							
Insurance Fund	3,479		3,479			0	
County Council Elections	255		255			0	
Workforce Reduction	1,359		1,359			0	
Environment Agency Levy	331		331			0	
Joint Sea Fisheries	252		252			0	
Audit Fees & Subscriptions	800		800			0	
Interest on Cash Balances / Debt Charges	103,544	-6,297	97,247	-1,353	-456	-1,809	debt restructuring & increased base rates
Contribution from Commercial Services		-5,010	-5,010		250	250	delay in letting outdoor advertising contract
Public Consultation	100		100			0	
Provision for Kent Scheme Revision	18		18			0	
Local Priorities	682		682			0	
Local Scheme spending recommended by Local Boards	722		722			0	
Local Boards - Member Community Grants	38		38			0	
Transferred Services Pensions	22		22			0	
PRG & Capital Reserves		-2,159	-2,159			0	
Income from Kings Hill		-1,000	-1,000			0	
LABGI income		-3,200	-3,200			0	
Margate's Big Event	10		10			0	
Kent Celebration of Youth Event	5		5			0	
<b>Total Finance</b>	<b>111,617</b>	<b>-17,666</b>	<b>93,951</b>	<b>-1,353</b>	<b>-206</b>	<b>-1,559</b>	
<b>Total Controllable</b>	<b>114,050</b>	<b>-18,349</b>	<b>95,701</b>	<b>-1,353</b>	<b>-206</b>	<b>-1,559</b>	

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

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

1.1.3.1 Financing Costs:

Interest on Cash Balances

- There have been 2 base rate rises since the budget was set and market pessimism has made investment returns higher than originally forecast.
- Longer term callable deposits have been restructured to give an improved interest return.
- Balances have increased with the receipt of grants earlier than we had profiled at the time of setting the budget.

Debt Charges

- No new borrowing has yet been taken in 2007-08 thereby saving against interest costs.
- Restructuring of £184.9m of existing debt has made further savings against the budget.

1.1.3.2 Commercial Services:

Due to delays in letting the contract for outdoor advertising and sponsorship, we will not achieve all of the expected £500k in the current year.

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

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
FIN	Commercial Services - delay in letting outdoor advertising contract	+250	FIN	savings resulting from debt restructuring & higher investment income due to cash balances and increased interest rates	-1,809
		+250			-1,809

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

N/A

1.1.5 **Implications for MTFP:**

N/A

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

N/A

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

N/A

**1.2 CAPITAL**

N/A

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

N/A