

By: Andy Wood, Head of Financial Management
To: Corporate Policy Overview Committee – 8 November 2007
Subject: Financial Monitoring Report: Corporate Services 2007/08
Classification: Unrestricted

1. Introduction

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

2. Background

- 2.1 Policy Overview Committees consider the draft Medium Term 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

- 2.2 Armed with the above, the POCs will be in a stronger position to question and comment on the future budget and medium term proposals, as they will be asked to do at the November and January meetings.

3. First Quarter monitoring report

3.1 Attached are the monitoring reports for the first quarter. The main points to highlight are:

a) Chief Executive's Directorate (Appendix 1)

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 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 there are no major forecast variations from budget at this stage.

On the capital programme expenditure, the only significant variation is an underspend by Commercial Services, as they continue their strategy to lease vehicles rather than purchase them. On the capital funding, we are closely monitoring the delivery of capital receipts, upon which a significant element of our capital programme is dependant.

b) Financing Items (Appendix 2)

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 £1.3m, mainly due to increased interest income received as 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 first quarter

Andy Wood
Head of Financial Management
Ext. 4622

Background documents: Cabinet 17 September, Item 3, Revenue and Capital Budgets, key activity and risk monitoring

CHIEF EXECUTIVES DIRECTORATE SUMMARY

JULY 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” i.e. 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.
- This quarter cash limits have been adjusted to reflect a number of technical adjustments to budget, including an increase of £0.610m due to the apportionment of the e-recruitment saving to other directorates and the addition of £0.255m of roll forward from 2006-07, as agreed by Cabinet on 16 July 2007.

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	
Public Health portfolio							
Kent Department of Public Health	250	0	250	-50	0	-50	R/fwd to support promotion activities in 2008-09
Corporate Support portfolio							
Personnel & Development	10,075	-3,941	6,134	-79	4	-75	Delayed start to Health Checks
Business Solutions & Policy (inc Information Systems)	21,442	-5,782	15,660	925	-925	0	
Democratic Services	4,091	-93	3,998	27	-27	0	
Legal	4,546	-4,853	-307	864	-864	0	
Corporate Management & Strategic Development	2,725	-250	2,475	-52	52	0	
Dedicated Schools Grant	0	-2,789	-2,789	0	0	0	
Total CS&H	42,879	-17,708	25,171	1,685	-1,760	-75	
Policy & Performance portfolio							
Policy & Performance	1,840	-209	1,631	168	-168	0	
Kent Partnerships & Kent Works	368	0	368	79	-79	0	
International Affairs Group	375	-77	298	151	-151	0	
Corporate Communications	1,506	-92	1,414	2	-2	0	
Total P&P	4,089	-378	3,711	400	-400	0	

Finance Portfolio						
Strategic Management	1,619	-110	1,509	59	-59	0
Finance Group	8,373	-3,320	5,053	-7	7	0
Property Group	17,499	-10,995	6,504	0	0	0
Total Finance	27,491	-14,425	13,066	52	-52	0
Total Directorate Controllable	74,709	-32,511	42,198	2,087	-2,212	-125

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:

N/A

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

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
		+0			-0

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:

Public Health: -£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.

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.

Corporate Support: Although the portfolio is currently forecasting a breakeven position, this excludes the Home Computing Initiative which, due to the accounting treatment, will require a scheduled overspend of £263k to roll forward into 2008/09 to be met from staff salary deductions.

1.1.7 Details of proposals for residual variance:

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.

Cash limits have been adjusted this quarter to reflect:

	2007-08 £000s
<u>Corporate Support portfolio:</u>	
▪ Roll forward of the re-phasing from 2006-07	351
 <u>Policy & Performance portfolio:</u>	
▪ Roll forward of the re-phasing from 2006-07	34
▪ Virement of Small Community Capital Grant budget to the Environment, Highways & Waste portfolio	-28
 <u>Finance portfolio:</u>	
▪ Roll forward of the re-phasing from 2006-07	1,061

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
Corporate Support Portfolio						
Budget	2,680	3,644	4,757	1,239	497	12,817
Additions:						
- roll forward		351				351
-						0
Revised Budget	2,680	3,995	4,757	1,239	497	13,168
Variance		-93	93	0	0	0
split:						
- real variance		0	0	0	0	0
- re-phasing		-93	+93	0	0	0
Policy & Performance Portfolio						
Budget		500	500			1,000
Additions:						
- roll forward		34				34
- virement of SCCG budget		-28				-28
-						0
Revised Budget	0	506	500	0	0	1,006
Variance		0	0	0	0	0
split:						
- real variance		0	0	0	0	0
- re-phasing		0	0	0	0	0
Finance Portfolio						
Budget	1,103	5,466	4,344	4,079	9,185	24,177
Additions:						
- roll forward		1,061				1,061
-						0

Revised Budget	1,103	6,527	4,344	4,079	9,185	25,238
Variance		-1,496	0	0	0	-1,496
split:						
- real variance		-1,496	0	0	0	-1,496
- re-phasing		0	0	0	0	0
Directorate Total						
Revised Budget	3,783	11,028	9,601	5,318	9,682	39,412
Variance	0	-1,589	93	0	0	-1,496
Real Variance		-1,496	0	0	0	-1,496
Re-phasing		-93	+93	0	0	0

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 £'000s	Approval to Spend £'000s	Approval to Plan £'000s	Initial Planning Stage £'000s
	Overspends/Projects ahead of schedule					
			+0	+0	+0	+0
	Underspends/Projects behind schedule					
FIN	Commercial Services Vehicles, Plant & Equipment	Real	-1,496			
			-1,496	-0	-0	-0
			+1,496	+0	+0	+0

1.2.4 Projects re-phasing by over £1m:

N/A

1.2.5 Projects with real variances, including resourcing implications:

Finance Portfolio

An underspend of -£1,496.1k 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.

After allowing for this funding issue there is no underlying variance.

1.2.6 General Overview of capital programme:

(a) Risks

N/A

(b) Details of action being taken to alleviate risks

N/A

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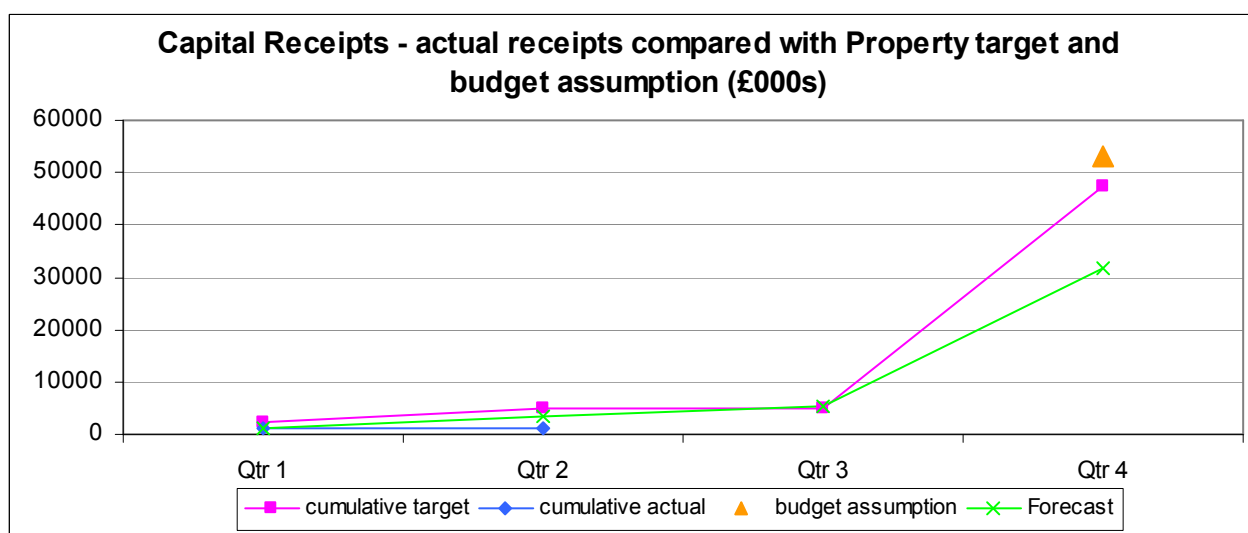
2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 Capital Receipts – actual receipts compared to budget profile:

	2007-08			
	Budget funding assumption £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	3,314
October - December		4,929		5,444
January - March		47,359		31,540
TOTAL	*52,958	47,359	1,148	31,540

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

**actuals to 31 July 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.
- 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. This could have to be compensated by short term borrowing.

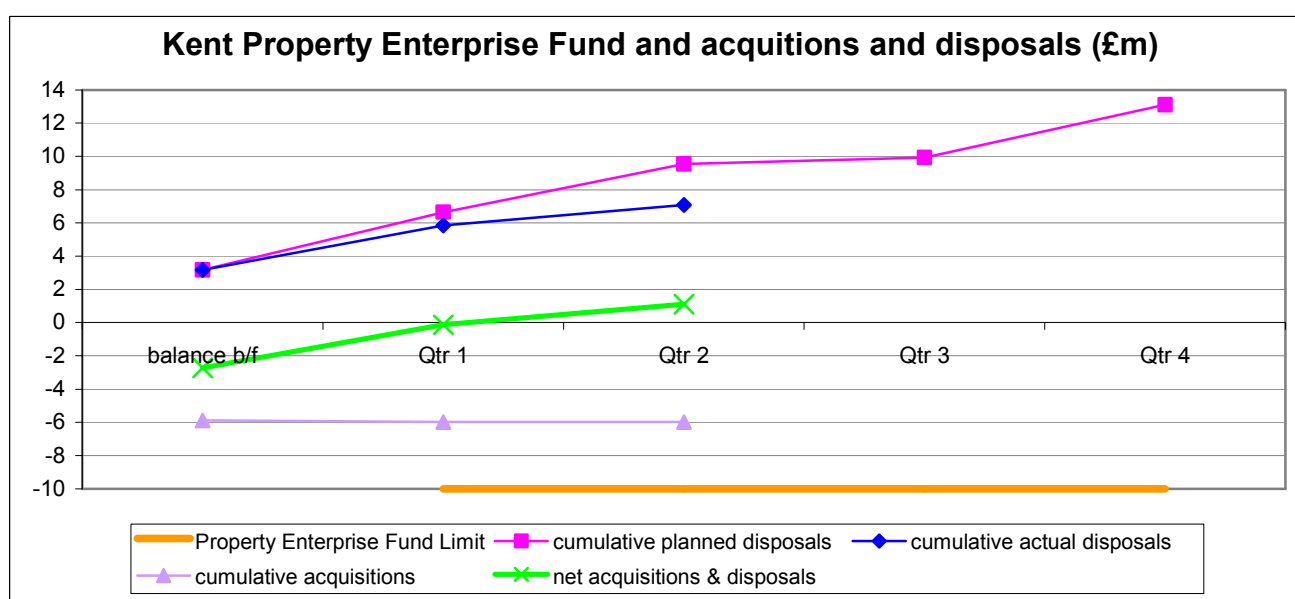
	2007-08 £'000	2008-09 £'000	2009-10 £'000	Total £'000
Capital receipt funding per 2007-10 MTP	47,973	71,943	50,424	170,340
Capital receipt roll forward changes	4,985	-10	-10	4,965
	52,958	71,933	50,414	175,305
Property Group's forecast receipts	31,540	54,725	22,800	109,065
Receipts banked in previous years for use	2,208	256		2,464
Receipt funding from other sources	1,782	1,500	4,500	7,782
Potential Surplus\Deficit (-) Receipts	-17,428	-15,452	-23,114	-55,994
Sites identified by Directorates for Property to work up for disposal*				57,800
Overall Potential Surplus				1,806

* Timescale for delivery uncertain until worked up by Property Group

2.2 Capital Receipts – Kent Property Enterprise Fund:

	<i>Kent Property Enterprise Fund Limit £m</i>	Cumulative Planned Disposals (+) £m	Cumulative Actual Disposals (+) £m	Cumulative Actual Acquisition s (-) £m	Cumulative Net Acquisition s (-) & Disposals (+) £m
Balance b/f		3.173	3.173	-5.888	-2.715
April - June	-10	6.655	5.847	-5.983	-0.136
July – September *	-10	9.540	7.093	-5.983	1.110
October - December	-10	9.938			
January - March	-10	13.122			

* reflects position to the end of July



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, £2.632m of capital receipts were realised from the disposal of non-operation property giving a balance of £3.173m for investment. The Fund was used to acquire land at Manston Business Park, which together with the acquisition and disposal costs in the year totalled £5.834m, leaving a deficit of £2.715m to be temporarily funded from the £10m borrowing facility.

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, potentially affecting the ability to achieve the £9.949m. A review of the target will be undertaken following a planned September auction.

Actual Disposals

As at the end of July 2007 the Fund had realised £3.92m of capital receipts this financial year through the sale of 27 non-operational properties.

Acquisitions

At present there are no committed acquisitions to report.

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 £5.2m for the Eurokent Access Road scheme in Ramsgate, Thanet.

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FINANCING ITEMS SUMMARY

JULY 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.
- This quarter cash limits have been adjusted to reflect a number of technical adjustments to budget, including the apportionment of £0.596m of the provision for Kent Scheme revision to service portfolios and the addition of £0.512m of roll forward from 2006-07, as agreed by Cabinet on 16 July 2007.

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 portfolio							
Contribution to IT Asset Maintenance Reserve	2,433		2,433			0	
PFI Grant		-683	-683			0	
Total Corporate Support	2,433	-683	1,750	0	0	0	
Finance Portfolio							
Insurance Fund	3,479		3,479			0	
County Council Elections	255		255			0	
Workforce Reduction	1,463		1,463			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	103,948	-6,297	97,651	-609	-700	-1,309	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	764		764			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
Total Finance	112,167	-17,666	94,501	-609	-450	-1,059
Total Controllable	114,600	-18,349	96,251	-609	-450	-1,059

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 persists making 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 £144.1m 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 and higher investment income due to cash balances and increased interest rates	-1,309
		+250			-1,309

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