

TO: Corporate Policy Overview & Scrutiny Committee – 11th January 2012

BY: Paul Carter, Leader
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SUBJECT: Financial Monitoring 2011/12

Classification: Unrestricted

Summary:

Members of the POSC are asked to note the second quarter's budget monitoring report for 2011/12 as reported to Cabinet on 5th December 2011 and the latest exception report on 9th January 2012.

FOR INFORMATION

1. Introduction

1.1 This is a regular report to this Committee on the forecast outturn for the Business Strategy & Support Directorate and Financing Items budgets within the Corporate Services portfolios.

2. Forecast Outturn

2.1 A detailed quarterly budget monitoring report is presented to Cabinet, usually in September, December and March, and a draft final outturn report in June. These reports outline the full financial position for each portfolio and are reported to POSCs after they have been considered by Cabinet. In the intervening months an exception report is made to Cabinet outlining any significant variations from the quarterly report.

2.2 The second quarter's monitoring report for 2011/12 was presented to Cabinet on 5th December 2011. Extracts from the annex for the Business Strategy & Support Directorate for the portfolios reporting to this POSC and the annex for Financing Items are attached as annexes 1 and 2. The figures within the annexes relate to quarter 2 monitoring. An exception report was presented to Cabinet on 9th January 2012 which identified some variations from the quarterly report for the Business Strategy & Support Directorate and to financing items. Para 2.3.1 (a – e) refer to the current position for each unit and the figures quoted may therefore vary from the quarter 2 tables.

2.3 Revenue Budget

Business Strategy & Support Directorate

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

- a. A further reduction in the pressure on the Finance & Procurement unit was reported in quarter 2 through natural wastage, however subsequently, it was recognised that operationally it was impossible to provide adequate service in some areas given the level of vacancies and many of these posts needed to be covered until the launch of the new structure, by agency staff. Consequently the pressure for Finance & Procurement is currently at a similar level to that reported to the November POSC, at £168k. This is partially off-set by an underspend within the Audit team, in the Deputy Leader's portfolio.
- b. The pressure in HR Business Operations (HRBO) has been increased by +£260k, off-set by a compensating movement in the HR Non-Business Operations units, bringing the forecast for the Corporate Director for Human Resources to break-even. The movement in HRBO is primarily down to a reduction in demand for training courses, resulting in variances to income of £660k and part compensating expenditure of -£457k, producing a pressure of +£201k. In HR Non-Business Operations, expenditure on Adult Learning (-£264k) and Schools (-£194k) training activity has been reduced. Although there is some effect on income, other income has been found to replace that lost.
- c. In the quarter 2 report, a pressure of £761k was exposed in the Strategic Management & Directorate Support budgets relating to unallocated savings being held centrally before being allocated to specific units. These savings have now been allocated and will be achieved.
- d. The development of the Enterprise Resource Planning (ERP) project has resulted in a pressure of £950k which is to be funded by a drawdown from the IT Asset Maintenance Reserve in the current year. The money to repay this loan has been put in to the 2012-15 MTFP.
- e. Information, Communication and Technology (ICT) have been holding vacancies in order to address the previously reported pressure of £107k and return the unit to a break-even forecast.

2.3.2 The overall impact is a net forecast underspend of -£256k for the Portfolios reporting to the Corporate Policy Overview & Scrutiny Committee.

Financing Items

2.3.4 The Financing Items report for Quarter 2 moved to an underspend of -£5.7m. Members of the POSC are directed to Annex 2 to read the detailed explanations of this movement.

2.3.5 The exception report on 9th January 2012 identified a further increased underspend for Financing Items of £1.5m taking it to -£7.2m. This is due to Early Intervention Grant smoothing money – following the Government reduction in this grant in the 2011-12 budget, we held a one-off contingency to smooth the effects of this reduction in the short term. However, we have been successful in achieving the efficiencies required earlier than anticipated, enabling £1.5m of this smoothing money to be released. The draft 2012-13 budget proposals assume that £1m of this is transferred to reserves to support next year's budget.

2.4 Capital

2.4.1 The capital forecast for Quarter 2 showed an over spend of £1.4m for 2011/12 due to the introduction of the Enterprise Resource Planning project. Cabinet have subsequently given approval to plan status to this project and the budget has now been allocated. The monitoring also showed a re-phasing of £725k from 2011/12 to 2012/13, primarily due to changes in phasing for the Modernisation of Assets programme and Oracle Release 12. The exception report highlighted the need for budget approval in the current year of £652k for the Integrated Children's System – procurement and implementation of a suitable long term ICT solution to replace the existing system which is no longer fit for purpose. Cabinet have subsequently given approval for prudential borrowing to fund this project.

3 Recommendations

- 3.1 Members of the POSC are asked to note:
- a) the projected outturn for the Business Strategy and Support Directorate and Financing Items for 2011/12 based on the second quarter's monitoring report to Cabinet and,
 - b) the changes in the exception report of 9th January 2012 as detailed in para 2.3.1 (a –e)

Background Documents:

- 1) Cabinet 5th December 2011 – Revenue and Capital Budgets, Key Activity and Risk Monitoring
- 2) Cabinet 9th January 2012 – Revenue and Capital Budget Monitoring Exception Report

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BUSINESS STRATEGY & SUPPORT DIRECTORATE SUMMARY OCTOBER 2011-12 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 1 of the executive summary.

1.1.2 **Table 1** below details the revenue position by A-Z budget line:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Finance & Business Support portfolio							
Finance & Procurement	19,637	-4,648	14,989	78	0	78	Delay of restructure plans
Business Strategy External Funding	0	0	0	0	0	0	
HR Business Operations	8,150	-5,431	2,719	-423	911	488	Under-delivery of increased income targets in SPS, partially offset by reduced staffing/ activity costs; overspend in ESC mainly on staffing; reduced activity in L&D offset by reduced income
Total F&BS portfolio	27,787	-10,079	17,708	-345	911	566	

Annex 1

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Business Strategy, Performance & Health Reform portfolio							
Strategic Management & Directorate Support budgets	1,628	-9,484	-7,856	775	-14	761	Directorate's as yet unallocated savings still to be allocated across units.
Governance & Law	8,248	-9,472	-1,224	1,297	-1,729	-432	£603k disbursements costs & income; additional costs & income from trading activities
Business Strategy	3,865	-99	3,766	-49	0	-49	Underspend in Performance Management due to maternity leave/ supplies & services underspend
Property & Infrastructure	28,559	-7,129	21,430	0	0	0	
Human Resources	12,748	-2,647	10,101	-503	15	-488	Reduction in base funded external training activity; reduction in training activity to schools
Information & Communication Technology (incl Schools ICT)	36,928	-16,921	20,007	1,500	-1,500	0	IT pay as you go activity funded by income
Health Reform	250		250	0	0	0	
Total BSP&HR portfolio	92,226	-45,752	46,474	3,020	-3,228	-208	
Deputy Leader portfolio							
Finance - Audit & Risk	1,671	-742	929	-120	42	-78	£67k u/spend on Insurance offset by reduced drawdown from Insurance Fund; delays in recruiting to vacancies/additional income in audit
Business Strategy - International, Partnerships & Cabinet Office	1,089	-269	820	0	0	0	
Democratic & Member Services	3,948	-3	3,945	48	-57	-9	
Local Democracy:							
- County Council Elections	505		505	0	0	0	
- District Grants	703		703	0	0	0	
Total DL portfolio	7,916	-1,014	6,902	-72	-15	-87	
TOTAL CORPORATE POSC	127,929	-56,845	71,084	2,603	-2,332	271	
Assumed Management Action:							
- F&BS portfolio						0	
- BSP&HR portfolio				-718		-718	
- Deputy Leader portfolio						0	
Forecast after Mgmt Action				1,885	-2,332	-447	

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:

Finance & Business Support Portfolio:

1.1.3.1 Human Resources – Business Operations: Gross -£423k, Income +£911k, Net +£488k

Schools Personnel Service (SPS) was given an additional income target of £150k for 2011-12, but this was set without the knowledge that there would be a £300k loss of income from ELS as a result of responsibility for undertaking CRB checks and other support being delegated to schools. Consequently SPS are forecasting an under-delivery of income of **+£364k**, but also a partially compensating underspend mainly on salaries of **-£149k**. The Learning & Development unit is experiencing significantly reduced take-up of training courses compared to previous years, causing under-delivery of income of **+£660k**, which is partially offset by reduced expenditure of **-£459k**. Employee Services are forecasting a net pressure of +£172k, which comprises a gross pressure of **+£237k** mainly on staffing, partially offset by increased income of £65k.

Business Strategy, Performance & Health Reform Portfolio:

1.1.3.2 Strategic Management & Directorate Support budgets: Gross +£775k, Income -£14k, Net +£761k

+£718k of the gross pressure relates to the Directorate's as yet unallocated savings, which are being held centrally before being allocated across units. Managers are currently being informed of their additional savings targets, and the impact of the allocation of these savings will be built into the monitoring returns for individual units in the future.

A further variance of **+£950k** has arisen as a result of the development of the Enterprise Resource Planning (ERP) project. It is proposed that this will be met by a temporary drawdown from the IT Asset Maintenance reserve of **-£950k** in the current year, with the repayment of this funding back to the IT Asset Maintenance Reserve in 2012-13, which will be drafted into the 2012-15 MTFP. **Cabinet is asked to approve this proposal.** *It has been assumed for the purposes of this report that this will be approved and the drawdown from the reserve is reflected in the forecast in order to give a net nil overall effect.*

1.1.3.3 Governance & Law – Legal Services: Gross +£1,297k, Income -£1,729k, Net -£432k

Variances on gross spend (**+£694k**) and income (**-£1,126k**) 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 **+/-£603k** are due to increased costs & their recovery for Disbursements.

1.1.3.4 Human Resources: Gross -£503k, Income +£15k, Net -£488k

Much of the underspend on gross relates to a **-£264k** underspend in the Adult Learning Resource Team, this is due to a reduction in base funded training activity. In addition, as a result of the reduction in demand from schools for training courses, there is a reduction in gross spend of **-£194k** in this area, which is offset by a compensating under recovery of income from schools of **+£195k**. However, this income shortfall is largely offset by smaller variances, including savings resulting from salary sacrifice schemes recovered from directorates and additional subscriptions from schools for Improving Together Network.

1.1.3.5 Information & Communication Technology (including Schools ICT): Gross +£1,500k, Income -£1,500k, net Nil

Variances of **+/-£1,500k** on gross and income reflect the increased demand for additional IT Pay-as-you-go projects. Project demand is difficult to predict during budget setting.

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
BSPHR	ICT: Information Systems costs of additional pay as you go activity	+1,500	BSPHR	ICT: Information Systems income from additional pay as you go activity	-1,500
BSPHR	Strat Mgt & Dir Support: Development of ERP project.	+950	BSPHR	Legal income resulting from additional work (partially offset by increased costs)	-1,126
BSPHR	Legal services cost of additional work (offset by increased income)	+694	BSPHR	Strat Mgmt & Dir Support: temporary drawdown of reserves to fund ERP project, to be repaid in 2012-13	-950
BSPHR	Strat Mgt & Dir Support: Directorate's as yet unallocated savings, still to be allocated across units.	+718	BSPHR	Legal Services: increased income relating to Disbursements	-603
F&BS	HR Business Ops: Learning & Development reduced income due to reduced take-up of training courses	+660	F&BS	HR Business Ops: Learning & Development reduced expenditure in line with reduced take-up of training courses	-459
BSPHR	Legal Services: increased costs of Disbursements	+603	BSPHR	HR: Adult Learning Resource Team reduced base funded training activity	-264
F&BS	HR Business Ops: Schools Personnel Service under delivery of increased income target/loss of internal income.	+364	BSPHR	HR: Reduced training activity provided to schools, offset by reduced income	-194
F&BS	HR Business Ops: pressure on Employee Services budget mainly on staffing	+237	F&BS	HR Business Ops: Schools Personnel Service underspend mainly on salaries, partially off-setting under delivery of income target	-149
BSPHR	HR: Underachievement of income due to reduction in demand for discretionary training provided to schools	+195			
		+5,921			-5,245

1.1.4 Actions required to achieve this position:

eg Management Action achieved to date including vacancy freeze, changes to assessment criteria etc. This section should provide details of the management action already achieved, reflected in the net position before assumed management action reported in table 1.

Vacancy management is already in place across all BSS units.

1.1.5 Implications for MTFP:

Within HR, the allocation of the 2011/12 savings targets will be re-visited in advance of setting 2012/13 budgets for individual units to ensure that achievable budgets are set across the function.

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]*

This section should provide details of the management action outstanding, as reflected in the assumed management action figure reported in table 1 and details of alternative actions where savings targets are not being achieved.

1.1.7.1 Finance & Procurement (Finance & Business Support/Deputy Leader Portfolio)

In the Finance & Business Support Portfolio, Finance & Procurement is reporting a net pressure of £78k. This is offset by a £78k net underspend in the Deputy Leader Portfolio (Finance – Audit & Risk) and therefore the overall budget forecast for the Corporate Director for Finance & Procurement is break-even.

1.1.7.2 Human Resources (Finance & Business Support/Business Strategy, Performance & Health Reform Portfolio)

In the Finance & Business Support Portfolio, 'HR – Business Operations' is reporting a net pressure of £488k. This is offset by a £488k net underspend in the Business Strategy, Performance & Health Reform Portfolio and therefore the overall budget forecast for the Corporate Director for Human Resources is break-even.

1.1.7.3 Strategic Management & Directorate Support Budgets (Business Strategy, Performance & Health Reform Portfolio)

The Directorate is currently holding £718k of unallocated savings centrally. Managers within the Directorate are currently being informed of their allocation of these savings targets, and the impact of this on individual units will be built into their future monitoring returns. It has been assumed that management action within the individual units will result in these savings being achieved.

1.2 CAPITAL

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

The capital cash limits have been adjusted since last reported to Cabinet on 17th October 2011, as detailed in section 4.1.

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

	Prev Yrs Exp	2011-12	2012-13	2013-14	Future Yrs	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s
Business Strategy, Performance & Health Reform						
Budget	14,161	12,201	5,859	3,390	2,923	38,534
Adjustments:						
- Re-phasing August Monitoring		-4,483	1,733	2,750		0
- Completed Projects	-2,672					-2,672
- Disposal Costs		-40				-40
						0
Revised Budget	11,489	7,678	7,592	6,140	2,923	35,822
Variance		675	725	0	0	1,400
split:						
- real variance		+1,400				+1,400
- re-phasing		-725	+725			0
Portfolio Total						
Revised Budget	11,489	7,678	7,592	6,140	2,923	35,822
Variance	0	675	725	0	0	1,400
Real Variance	0	+1,400	0	0	0	+1,400
Re-phasing	0	-725	+725	0	0	0

1.2.3 Main Reasons for Variance

Table 4 below, details all forecast capital variances over £250k in 2011-12 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						
BSPHR	Enterprise Resource Programme	real			1,400	
			+0	+0	+1,400	+0
Underspends/Projects behind schedule						
BSPHR	Modernisation of Assets	phasing	-520			
			-520	-0	-0	-0
			-520	0	+1,400	0

1.2.5 Projects with real variances, including resourcing implications:

There is a real variance of +£1.4m in 2011-12.

Business Strategy, Performance & Health Reform portfolio:

Enterprise Resource Programme: +£1.400m (in 2011-12): capital investment is required for the improvement of Oracle to enable ongoing revenue savings of £3m per annum. **Members are asked to approve prudential borrowing to fund this project.**

Taking these into account, there is an underlying nil variance.

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.

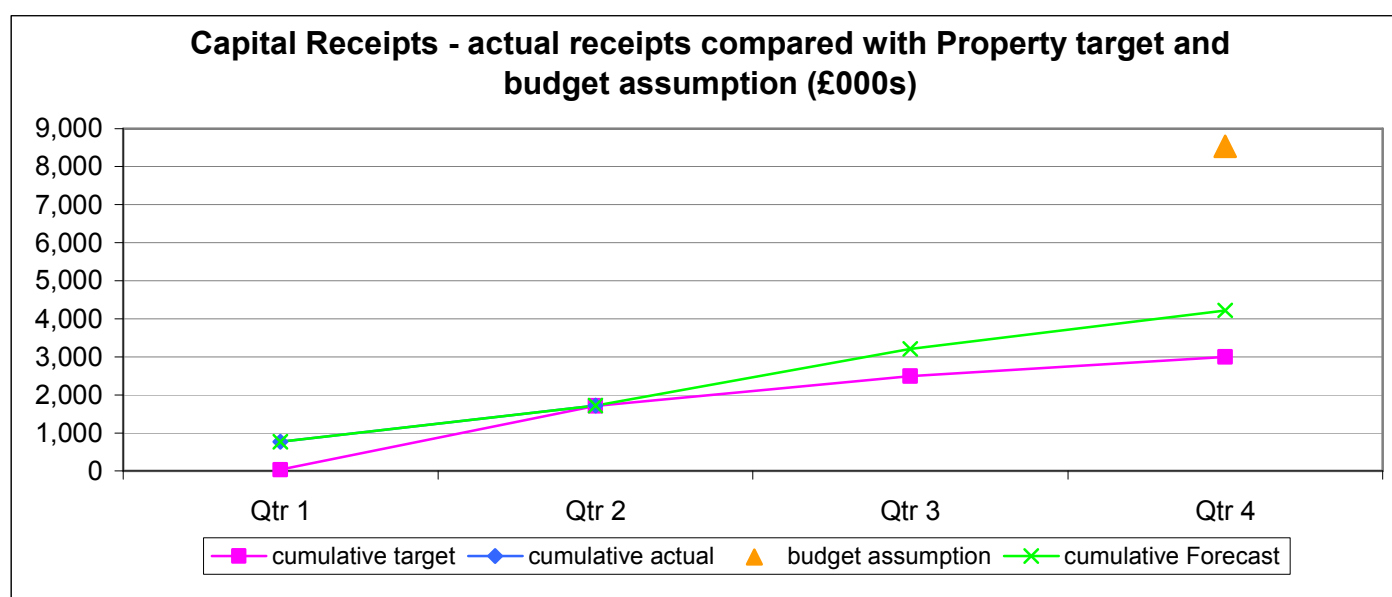
	2011-12	2012-13	2013-14	Future Years	Total
	£k	£k	£k	£k	£k
Modernisation of Assets (BSPHR)					
Amended total cash limits	+1,689	+1,250	+1,000	+2,000	+5,939
re-phasing	-520	+520	0	0	0
Revised project phasing	+1,169	+1,770	+1,000	+2,000	+5,939
Oracle Release 12 (BSPHR)					
Amended total cash limits	+534	0	0	0	+534
re-phasing	-140	+140	0	0	0
Revised project phasing	+394	+140	0	0	+534
Total re-phasing >£100k	-660	+660	0	0	0
Other re-phased Projects below £100k	-65	+65	0	0	0
TOTAL RE-PHASING	-725	+725	0	0	0

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 Capital Receipts – actual receipts compared to budget profile:

	2011-12			
	Budget funding assumption £000s	Cumulative Target Profile £000s	Cumulative Actual Receipts £000s	Cumulative Forecast receipts £000s
April - June		30	769	769
July - September		1,710	1,725	1,725
October - December		2,490		3,210
January - March		3,000		4,225
TOTAL	8,538	3,000	1,725	4,225

The cumulative target profile shows the anticipated receipts at the start of the year totalled £3.0m. 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 2011-12.



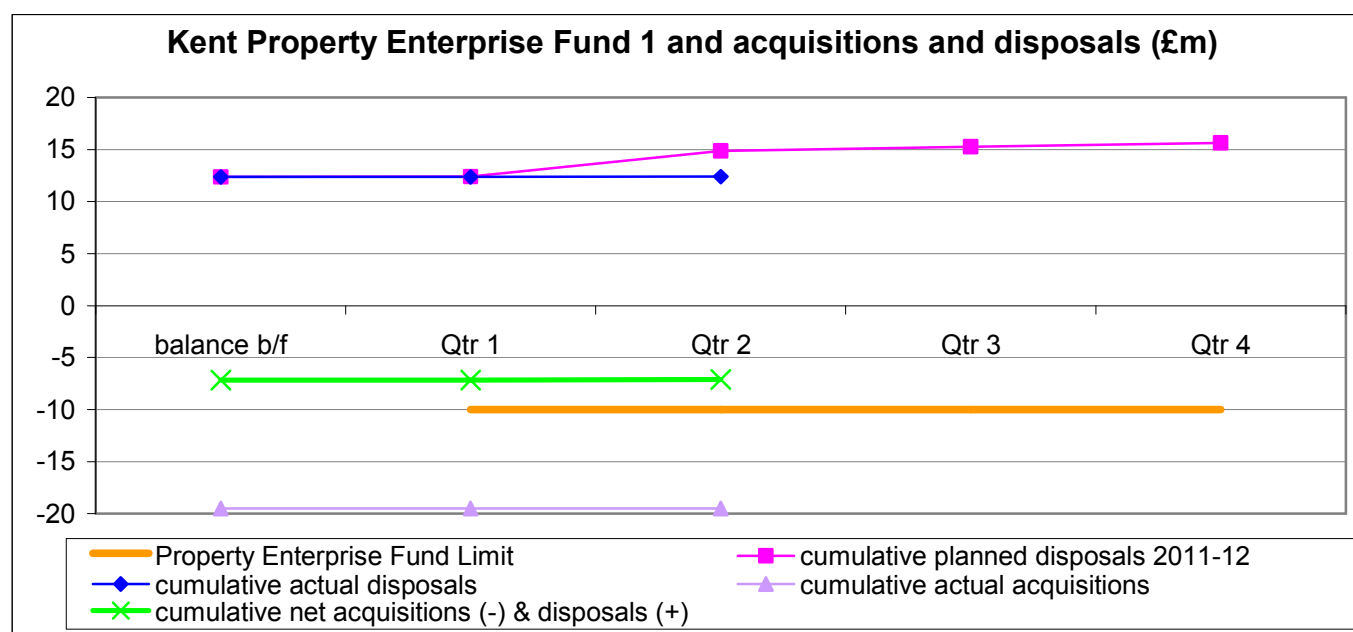
Comments:

- 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 is actually forecasting a total of £4.140m 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 £4.785m in 2011-12. This is due to receipts being forecast to be achieved during 2011-12 which are held to fund spend in future years of the programme.

	2011-12 £'000
Capital receipt funding per revised 2011-14 MTFP	8,538
Property Groups' actual (forecast for 11-12) receipts	4,140
Receipts banked in previous years for use	7,504
Capital receipts from other sources	1,679
Potential Surplus Receipts	4,785

2.2 Capital Receipts – Kent Property Enterprise Fund 1:

	2011-12				
	<i>Kent Property Enterprise Fund Limit</i> £m	Cumulative Planned Disposals (+) £m	Cumulative Actual Disposals (+) £m	Cumulative Actual Acquisitions (-) £m	Cumulative Net Acquisitions (-) & Disposals (+) £m
Balance b/f		12.342	12.342	-19.504	-7.162
April - June	-10	12.377	12.342	-19.504	-7.162
July - September	-10	14.862	12.393	-19.504	-7.111
October - December	-10	15.282			0
January - March	-10	15.638			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 2010-11 on PEF1 was **-£7.162m**.

A value of **£2.717m** has been identified for disposal in 2011-12. This is the risk adjusted figure to take on board the potential difficulties in disposing some of the properties.

As at the 30 September 2011 there has been one disposal generating a receipt of £0.051m.

The fund has been earmarked to provide **£0.197m** for Gateways in this financial year.

There has been a **£0.212m** repayment towards the £5.304m owed by East Kent Opportunities for the Spine Road, Manston.

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 £4.604m at the end of 2011-12.

Opening Balance – 01-04-11	-£7.162m
Planned Receipts (Risk adjusted)	£2.717m
Costs	-£0.173m
Acquisitions	-
Other Funding: - Gateways	-£0.197m
Repayment of Spine Road, Manston	£0.212m
Closing Balance – 31-03-12	-£4.604m

Revenue Implications

In 2011-12 the fund is currently forecasting £0.010m of low value revenue receipts but, with the need to fund both costs of borrowing (£0.527m) against the overdraft facility and the cost of managing properties held for disposal (net £0.102m), the PEF1 is forecasting a £2.222m 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

	2011-12 Forecast
	£m
Capital:	
Opening balance	-22.209
Properties to be agreed into PEF2	-23.835
Forecast sale of PEF2 properties	22.964
Disposal costs	-1.148
Closing balance	-24.228
Revenue:	
Opening balance	-3.417
Interest on borrowing	-0.929
Holding costs	-0.638
Closing balance	-4.984
Overall closing balance	-29.212

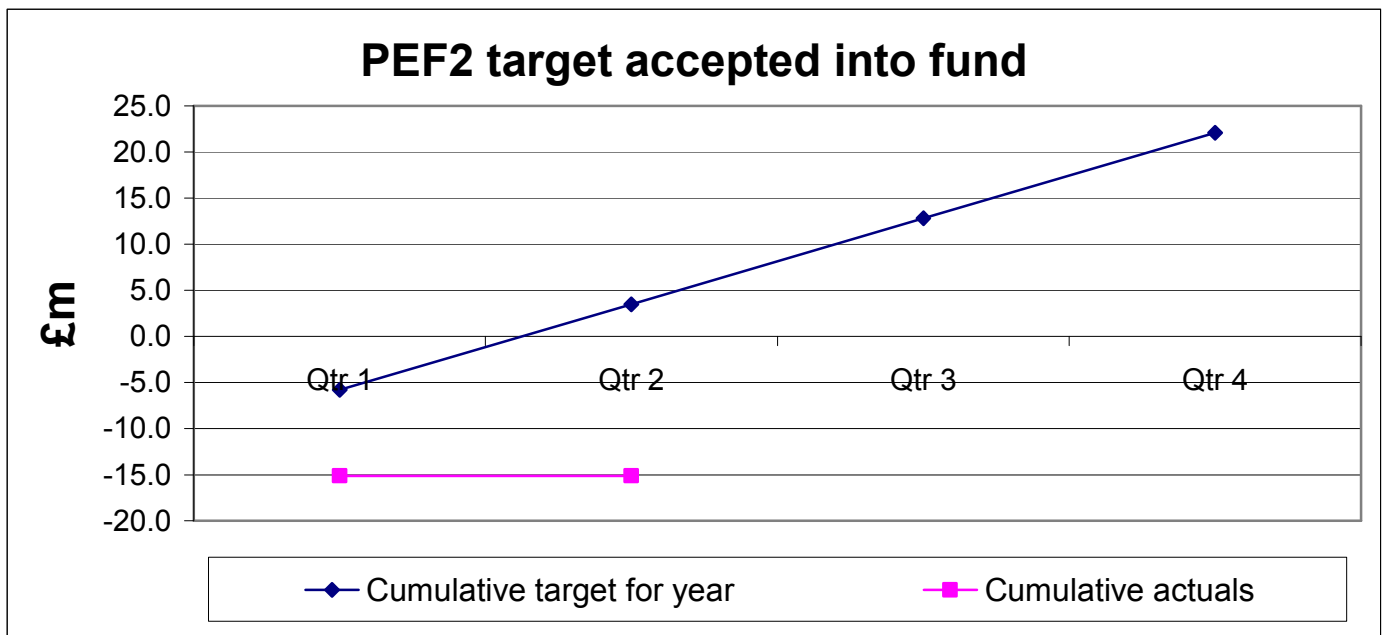
The forecast closing balance for PEF2 is -£29.212m, this is within the overdraft limit of £85m.

The target receipts to be accepted into PEF2 during 2011-12 equate to the PEF2 funding requirement in the 2011-14 budget book, and achievement against this is shown below:

	2011-12	
	Cumulative target for year	Cumulative actuals
	£m	£m
Balance b/fwd	-15.1	-15.1
Qtr 1	-5.8	-15.1
Qtr 2	3.5	-15.1
Qtr 3	12.8	
Qtr 4	22.1	

Comments:

- The above table shows a £15.1m deficit which is the net of a £17.6m deficit within ELS and £2.5m of PEF2 achieved in previous years by FSC and E&E 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 eight PEF2 properties have been sold and four are in the process of completing. The cumulative profit on disposal to date is £1.250m. 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 2011-12 were expected to total £0.878m.

Latest forecasts show interest costs of £0.929m, an increase of £0.51m. This is because the latest forecast value of disposals has decreased.

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

FINANCING ITEMS SUMMARY OCTOBER 2011-12 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 full monitoring report to reflect the virement of £0.307m from the underspend on debt charges to the Contact Centre budget within the Communities, Customer Services and Improvement portfolio to cover the increase in call volumes, as approved by Cabinet in September and a number of other 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 1 of the executive summary.

1.1.2 **Table 1** below details the revenue position by A-Z budget line:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Finance & Business Support Portfolio							
Carbon Reduction Commitment Levy	1,368		1,368			0	
Contribution to/from Reserves	-11,245		-11,245	961		961	transfer of 11-12 write down of discount saving from 08-09 debt restructuring to reserves; transfer of MRP saving to reserves to fund potential impact in future years; drawdown of Insurance Reserve to cover pressure on Insurance Fund
Insurance Fund	3,479		3,479	1,125		1,125	increase in liability claims forecast to be paid & increase in provision for period of time claims
Modernisation of the Council	4,038		4,038			0	
Net Debt Charges (incl Investment Income)	123,889	-8,877	115,012	-7,297	1,128	-6,169	2011-12 write down of discount saving from 2008-09 debt restructuring; re-phasing of capital programme in 10-11 has provided savings on debt charges; saving on leasing costs; in year MRP reduction; savings as no new borrowing against current requirement

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Other	6,490	0	6,490	-1,617	0	-1,617	-£1.546m unexpected unringfenced grant increase held to offset pressures across Authority; -£0.1m subscriptions; +£0.079m costs of Transformation Programme Manager for Change & related project costs
Total F&BS portfolio	128,019	-8,877	119,142	-6,828	1,128	-5,700	
Business Strategy, Performance & Health Reform portfolio							
Contribution to IT Asset Maintenance Reserve	2,352		2,352			0	
Deputy Leader portfolio							
Audit Fees	464		464			0	
Total Controllable	130,835	-8,877	121,958	-6,828	1,128	-5,700	

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 Insurance Fund

A forecast pressure on the Insurance Fund, currently estimated at £1.125m, will need to be met by a drawdown from the Insurance Reserve (see 1.1.3.3 below). This is due to an increase in liability claims forecast to be paid in year and an increase in the provision for period of time claims. These are claims which span a number of years and are distinguishable from claims resulting from a single incident on a particular date. With period of time claims, a number of successive annual insurance policies held by an authority are triggered/become active and this raises difficulties where there are varying terms across the policies and the interests of more than one insurer to consider. We are maintaining our provision for each of our registered period of time claims to reflect a worse case settlement position whilst consideration is being given to correspondence received in connection with interpretation of policy terms by relevant insurers.

The pressure has reduced from the position reported in quarter 1 because a concerted effort by the liability claims team in pressing insurers to clarify the position on a large number of 'open' claims across several policy years has resulted in the opportunity to close a significant number and remove recorded provisions.

1.1.3.2 Net Debt Charges (including Investment Income):

- a) There is a saving of £3.683m as a result of:
 - deferring borrowing in 2010-11 due to the re-phasing of the capital programme and also no new borrowing in the first half of 2011-12, other than the replacement of maturing debt.
 - assumptions on the capital programme for 2011-12 and on cash flows generally.
- b) The complex calculation to establish the Minimum Revenue Provision (MRP) saving resulting from the re-phasing of the capital programme in 2010-11 has now been completed and this has confirmed a saving of £1.599m this year. This is because fewer assets became operational than anticipated last year. As reported in 2010-11, we have adopted the asset life method of calculating MRP. 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". However, once these assets do become operational we will incur MRP in the following year, therefore we need to transfer this £1.599m to reserves in order to fund the potential impact in future years of this re-phasing. **Cabinet is asked to approve this transfer to reserves.** The forecast within this report assumes that this transfer is approved.

- c) There is a saving of £0.487m which relates to the write-down in 2011-12 of the £4.024m discount saving on debt restructuring undertaken at the end of 2008-09. (£3.378m was written down during the period 2008-11, therefore leaving a further £0.159m to be written in 2012-13).
- d) There is a saving on leasing costs of £0.4m.

1.1.3.3 Contributions to/from reserves:

- a) As planned, the £0.487m write down of the discount saving earned from the debt restructuring in 2008-09, will be transferred to the Economic Downturn reserve to offset the Icelandic investments impairment cost incurred in 2010-11 (future interest receipts from the Icelandic investments will also go towards offsetting this impairment cost).
- b) At year end there will be a draw down from the Insurance Reserve to cover the pressure on the Insurance Fund, currently estimated at £1.125m.
- c) As referred to in 1.1.3.2 (b) above, £1.599m will be transferred to reserves in order to fund the potential impact in future years of the current year saving on MRP.

1.1.3.4 Other Financing Items:

- a) After the budget had been set we received notification of an unexpected un-ringfenced grant increase of £1.546m for Extended Rights to Free Travel. In light of the pressures faced by the Authority in the current year, we are holding this funding increase within the Finance & Business Support portfolio to offset pressures elsewhere across the Authority.
- b) There is a £0.1m saving on local authority subscriptions.
- c) There is a pressure of £0.079m relating to the Council restructure for the costs of the Transformation Programme Manager for Change and related project costs. It was originally anticipated that this work would be completed by 31 March 2011 but it continued through the first quarter of 2011-12.

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
F&BS	Contribution to reserves of in year MRP saving to cover potential impact in future years	+1,599	F&BS	treasury savings: assumptions on capital programme for 11-12 and on cash flows generally, together with savings on debt charges due to re-phasing of capital programme in 10-	-3,683
F&BS	Pressure on the Insurance Fund due to increase in liability claims forecast to be paid & increase in provision for period of time claims	+1,125	F&BS	In year Minimum Revenue Provision saving as a result of 2010-11 re-phasing of the capital programme	-1,599
F&BS	Contribution to economic downturn reserve of 2011-12 write down of discount saving from 2008-09 debt restructuring	+487	F&BS	unexpected un-ringfenced grant for Extended Rights to Free Travel to be used to offset pressures across Authority	-1,546
			F&BS	drawdown from Insurance Reserve to cover pressure on the Insurance Fund	-1,125
			F&BS	2011-12 write down of discount saving from 2008-09 debt	-487
			F&BS	savings on leasing costs	-400
			F&BS	local authority subscriptions	-100
		+3,211			-8,940

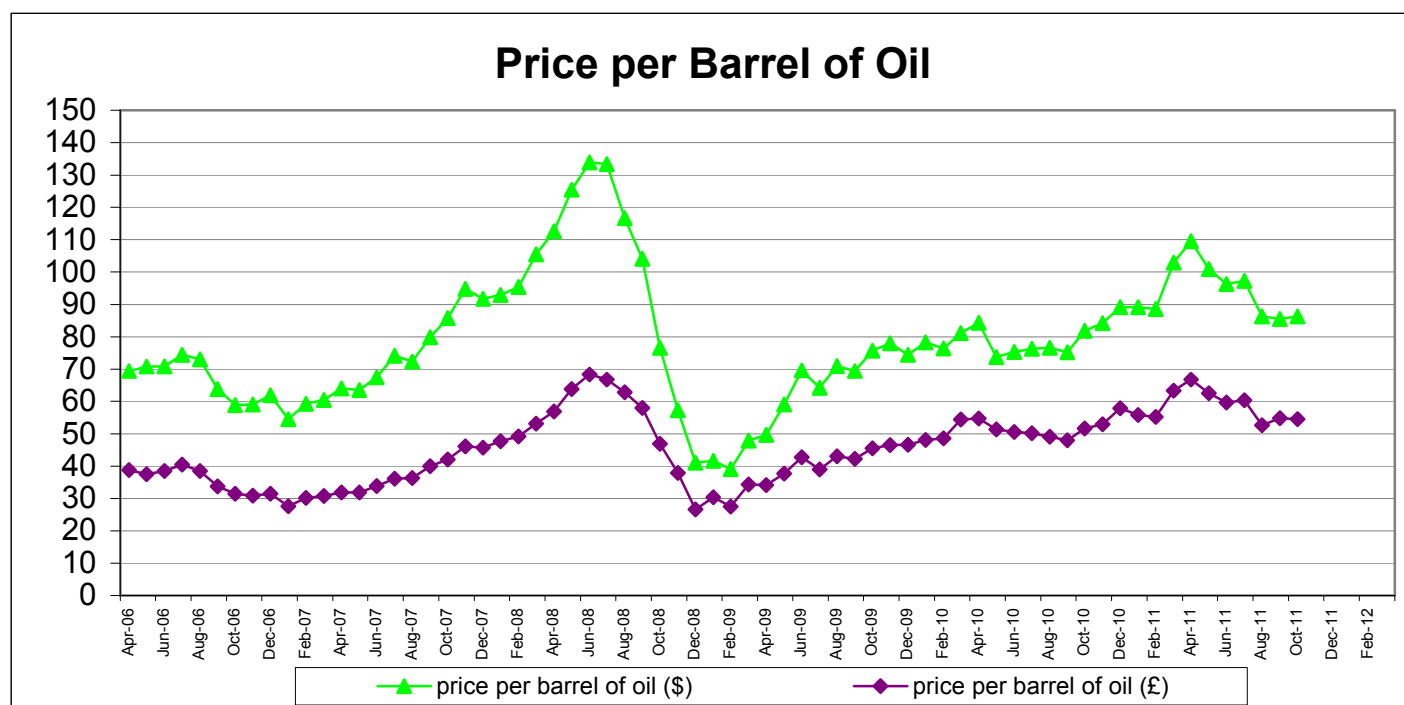
1.1.7 Details of proposals for residual variance: [eg roll forward proposals; mgmt action outstanding]

Currently the underspending on the Financing Items budgets is largely offsetting pressures elsewhere across the authority.

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	2011-12
	\$	\$	\$	\$	\$	\$
April	69.44	63.98	112.58	49.65	84.29	109.53
May	70.84	63.45	125.40	59.03	73.74	100.90
June	70.95	67.49	133.88	69.64	75.34	96.26
July	74.41	74.12	133.37	64.15	76.32	97.30
August	73.04	72.36	116.67	71.05	76.60	86.33
September	63.80	79.91	104.11	69.41	75.24	85.52
October	58.89	85.80	76.61	75.72	81.89	86.32
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	88.58	
March	60.44	105.45	47.94	81.20	102.86	



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.