

To: CABINET – 16 July 2007
 By: Nick Chard, Cabinet Member – Finance
 Lynda McMullan, Director of Finance

REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

1.1 This is the first exception report for 2007-08, which identifies a number of significant pressures that will need to be managed during the year if we are to have a balanced revenue position by year end.

A summary of the forecast revenue pressures, excluding schools, is shown in **table 1** below:

Portfolio	Forecast Variance £m	Pressure/Saving
Education & School Improvement	+1.300	Costs previously charged to capital but latest external audit advice is that these may need to be charged to revenue.
Children & Family Services	+0.870	SEN Home to School Transport
Kent Adult Social Services	+4.042	Demographic pressures
Environment, Highways & Waste	+0.600	Budgeted in-year management action plan still to be developed
Regeneration & Supporting Independence	+0.030	Unfunded post in Change & Development
Communities	+0.543	Youth Offending Service – increased demand for secure accommodation, transport & escort costs and reduced staff turnover expected compared to budget assumption, and Arts Unit – reduced EU grant income
Public Health	0	
Corporate Support	0	
Policy & Performance	0	
Finance	-1.009	Debt re-structuring savings and increased interest.
Total (excl Asylum)	+6.376	
Asylum	+2.730	Same grant rules and unit costs as 2006-07 assumed, giving a pressure of £3.852m, offset by £1.122m balance in Asylum Reserve.
Total (incl Asylum)	+9.106	

1.2 The £9.106m pressure shown in table 1 above is before the implementation of management action. Directorates are currently working to identify options to reduce these pressures with the intention of delivering a balanced budget position (excluding Asylum) by 31 March 2008.

2. 2007-08 REVENUE MONITORING POSITION BY DIRECTORATE & PORTFOLIO

2.1 Children, Families & Education Directorate:

Most of the 2006-07 major budget pressures have been addressed in the medium term plan but there are some difficult savings for the directorate to achieve this year. This is especially true with the high level of staff savings which total just under £3m.

There are significant pressures on this year's budget, as identified below, and the directorate is potentially looking at a budget pressure of £2.170m, assuming all savings targets other than SEN transport (see section 1.2.1.2 below) are achieved. If there is no permanent resolution to these pressures in 2007-08 then they will become issues for future years, but as far as 2007-08 is concerned the directorate is starting work to identify options that will enable them to deliver a balanced budget by March 2008.

2.1.1 Education & School Improvement portfolio:

The external auditors have raised a number of issues relating to costs historically charged to the capital programme that they now believe should be charged to revenue. Any expectation that we should make these changes in the current year would result in a budget pressure of up to £1.3m, which we could only manage with reductions in service, if compensatory switching of funds from revenue to capital cannot be found. We are highlighting this issue at this early stage but appreciate the external auditors may have a different view after they have completed their audit later this month.

We received notification of the final DSG settlement for 2007-08 on 7 June. The final DSG allocation is £751.848m, which is £7.6m lower than the DSG figure contained within the 2007-08 published Budget Book. Of this, £2.4m of the movement relates to the shortfall in DSG funding from 2006-07. Although the funding has reduced for this, the expenditure commitment had already been adjusted for within the CFE spending plans, and therefore this reduction has no impact. The DfES has also adjusted their final allocation by £5.0m for three secondary schools in Maidstone that are transferring to academy status on 1 September 2007. When the original estimate of DSG was calculated, the decision to transfer to academy status had not been taken. Finally the DfES has reduced the DSG by £0.2m following a data cleansing exercise to remove dual registered pupils within and between Local Authorities. This is consistent with previous years and was anticipated. After taking into consideration the above adjustments, our final estimate was only £51k different from the final DfES settlement figure.

2.1.2 Children & Family Services portfolio:

The current MTFP assumes a saving of £0.870m on SEN Transport, much of which we were expected to deliver from purchase cards and similar efficiency savings. Whilst a detailed response is still being prepared for the Leader, the outcome of the parental survey and other work we have done has indicated that this saving is unlikely to be achieved (unless alternatives are identified through work with Commercial Services) without significant policy changes to reduce costs, which cannot be implemented in the current financial year. We are working with colleagues in Commercial Services to try to identify alternative ways of delivering this saving and the outcome of this work is due in a few weeks. Connected to this issue, for the basis of the monitoring, we are assuming that Commercial Services are able to limit the price increase on all types of home to school transport to 5%, as per the budget assumption.

2.1.3 Asylum:

The Asylum budget is forecast to have a funding shortfall of £3.852m for the 2007-08 financial year. This is due to £3.352m of direct spending and £0.5m of indirect spending. The estimates assume that the Home Office and DfES use the same grant rules and unit costs as for 2006-07, but guidance has not been issued yet and therefore forecasts may alter if grant criteria change. There is also the issue of the 2006-07 outstanding grant income from our two Special Circumstances Bids, £1.5m from the Home Office and £1.6m from the DfES. Additionally, there is still £0.7m outstanding from the DfES for the 2005-06 Special Circumstances Bid. As reported to Cabinet in June, we have assumed that we will be successful in receiving part of this income and the balance has been met from the corporate asylum reserve. If elements of these expected grants are challenged and we receive less income than we have assumed from these special circumstances bids, then the forecast will increase from the current estimate of £3.852m. Officers are in the process of arranging meetings with the DfES and Home Office to take these issues forward.

Further details, including details of the grants outstanding, are provided in appendix 1.

2.2 Kent Adult Social Services:

The initial forecasts indicate a pressure of £4.042m. It should be noted that detailed forecasts are currently being worked on, in order that next months report is more firmly based. Over the forthcoming weeks the KASS SMT will be working to ensure that they have management action plans in place to reduce the pressure in order to achieve a balanced budget position by the end of the financial year. Also, a Sub-Group has been established, with a specific brief to develop and propose management actions and to ensure that best practice is implemented consistently across all districts.

The main reasons for the £4.042m pressure are detailed below:

- 2.2.1 Older People +£1.555m – In spite of the continuing problems with the implementation of SWIFT, the client activity system, the directorate can now evidence that there was real demographic pressure in respect of Services for Older People during 2006-07. The forecast position reflects the full year effect of this. KASS staff are currently looking at activity for the first two months of the year to see if this growth represents an ongoing trend.
- 2.2.2 Learning Disability +£3.150m – Analysis of the outturn for 2006-07 has demonstrated that demographic pressures were greater than anticipated, particularly on residential care. The current forecast includes clients known to be coming into residential placements during the year ahead.
- 2.2.3 Physical Disability +£0.732m – This principally results from growth in direct payments with no corresponding reduction in other services.
- 2.2.4 Assessment & Related -£0.049m – This is underspending against staffing budgets. This forecast assumes delivery of £0.4m of budgeted savings from the modernisation of Assessment & Related Services.
- 2.2.5 Mental Health +£0.160m – pressure against residential care.
- 2.2.6 Specialist Services +£0.060m – the full year effect of increasing energy costs
- 2.2.7 Other Services -£1.566m – The result of management action to curtail expenditure on support services in order to offset the pressures elsewhere within the portfolio, as detailed above. This is consistent with the policy adopted in previous years.

2.3 Environment & Regeneration Directorate:

2.3.1 **Environment, Highways & Waste portfolio:**

- A £0.6m pressure is reported which is because the budgeted in-year management action plan of one-off actions is still to be developed.
- In addition to this, there will be emergency costs resulting from the substantial flooding in the Dover/Folkestone area on the night of 19 June, which washed away an entire section of road. Initial estimates suggest this could be in the region of £0.2m to £0.3m, of which some costs will be capital and some revenue. It is currently assumed that the costs will be met from the Emergency Conditions Reserve, which has a balance of £0.813m. These costs are not identified as a pressure in table 1 above, until a more robust estimate of the works required is known and therefore whether there will be any residual costs over and above the funding available from the Emergency Conditions Reserve. An update will be provided next month.

2.3.2 **Regeneration & Supporting Independence portfolio:**

A small pressure of £0.030m is forecast due to a half-year unfunded post within Change & Development.

2.4 **Communities:**

- 2.4.1 Arts Unit +£0.100m – This is due to a reduction in EU grant income. The newly appointed Head of Service will be looking at ways of managing this overspend within the Unit.
- 2.4.2 Youth Offending Service (YOS) +£0.443m – This is largely due to:
- Pressure on secure accommodation for young offenders. Placements are made by the Youth Justice System and the service has no control on where offenders are placed. The number of offenders placed in secure accommodation under a court order increased from 6 to 13 between 2005-06 and 2006-07.
 - There have been a number of cases recently where young people have been on remand for long periods of time pending the outcome of their case. This has created a pressure of £0.170m mainly due to the number of offenders placed outside Kent resulting in significant transport costs and escort costs.
- These pressures only came to light late in 2006-07, after the MTFP was finalised.
- Difficulty delivering the saving in the budget for managing vacancies (£0.182m), as there are currently no vacancies within the service. Savings on staffing have been possible in previous years as the service was building up capacity, but the service is now fully staffed and so savings will be more difficult to achieve. The saving assumes a historical level of turnover, if turnover remains at this historical level, then this saving will be achieved, but early indications suggest this is not the case.
- Communities finance staff are working closely with the new director of service to quantify the extent to which these pressures can be avoided and the actions that can be taken to deliver savings and an action plan will be agreed.
- 2.4.3 Coroners Service – the service faced unexpected pressures during 2006-07. Some of these were identified during the year e.g. increased demand for toxicology tests, but others did not materialise until late in the year e.g. increased mortuary fees from hospitals. These pressures are expected to continue into 2007-08. As with YOS, Communities staff are currently working on a detailed action plan to quantify the extent of unavoidable pressures.
- 2.4.4 Adult Education – a plan has been agreed to bring in year spending into balance with the income generated, however the budget assumes that the service will make a surplus of £0.5m in order to repay the loan from the Finance portfolio provided in 2006-07. In each of the last two years the Adult Education service has overspent by around £0.8m per annum, exhausting the reserve built up in previous years and running up a deficit. This is in spite of over £2m of cuts in spending in 2006-07 and a further reduction in expenditure of £0.7m in 2007-08, together with planned increases in tuition fee income of £0.9m. The service plans to start delivering a surplus in 2008-09. In the interim, plans are in place to defer expenditure in other Communities budgets from 2007-08 into 2008-09 in order to repay the £0.5m loan and then, in 2008-09, these deferred payments will be funded from the surplus generated by Adult Education. If it is not possible to defer payments for the full £0.5m, Adult Education will need to roll forward an overspend into 2008-09.
- 2.4.5 Contact Centre – the Contact Centre underspent in 2006-07, mainly due to delays in appointing staff. One option to offset any unresolved pressures in other units would be to further delay appointments within the Contact Centre.

2.5 Chief Executives Directorate and Financing Items budgets:

- 2.5.1 **Corporate Support portfolio:**
Although the portfolio is currently forecast to breakeven, this excludes the Home Computing Initiative which, due to the accounting treatment, will require an overspend of £0.258m to roll forward into 2008-09 to be met from staff salary deductions.
- 2.5.2 **Public Health portfolio and Policy & Performance portfolio:**
Both are currently forecast to breakeven
- 2.5.3 **Finance portfolio:**
A £1.009m underspend is forecast mainly as a result of savings made following some debt restructuring and increased interest receipts as a result of cash balances and an increase in base rates.

3. 2007-08 CAPITAL MONITORING POSITION BY DIRECTORATE

Although the capital monitoring returns from directorates show significant variances from budget, most of this will be resolved once the roll forward of the capital re-phasing from 2006-07 is added to the cash limits. This will be done for the first full monitoring return of the year, to be reported to Cabinet in September. There are, however, a few issues which are not related to the re-phasing and these are detailed below:

3.1 Education & School Improvement portfolio:

- -£2.046m - The Castle Hill freshstart project (formerly George Spurgeon) will re-phase into 2008-09. The project has only recently reached the approval to spend stage with confirmation of the start and completion dates. As a result a more robust phasing of the project is now available.
- -£0.407m – The Slade Primary Modernisation project has been removed from the current programme. This project may proceed as part of the 2008/9/10 Modernisation Programme.
- +£0.250m due to costs of developing the amalgamation projects at Swanscombe Infants/Sweyne Juniors and Oakfield Infants/Oakfield Juniors to a stage where they can proceed promptly in 2008-09.
- The Phoenix Community Primary School was added to the modernisation programme towards the end of 2006-07, after the 2007-10 budget process was finalised. This project will be funded by removing other modernisation projects from the planned 2006/7/8 programme, including Brockhill, Cage Green, Clarendon Grammar School, Hartsdown Technology College, Montgomery School, New Line Learning – Old Borough, Abbey School, and St Stephen’s Tonbridge. These projects may proceed as part of the 2008/9/10 Modernisation Programme.

3.2 Kent Adult Social Services portfolio:

- -£2.583m - The Dartford Social and Healthcare Centre will re-phase into 2008-09 due to delays in planning permission.
- +£0.150m - An overspend on Broadmeadow will be funded from revenue provision.

3.3 Communities portfolio:

- There has been some re-phasing of the Turner Contemporary project compared to the published budget. The published budget was based on early discussions with the architects at stage A of the RIBA process. We are now drawing to the end of stage C and are about to embark on stage D. Stage C will see firmer proposals on the final design although details of the timing will still not be finalised. Stage D will include detailed work plans when we will have a much clearer view of the phasing of costs. The Stage D report is due to be published in November. **The overall project is still on target to be completed in 2010 and the design construction and fitting out of the gallery building will be within the £17.4m budget.**
- The capital programme assumes grants of £4.1m from the Arts Council and £4m from SEEDA as contribution to the capital construction of the gallery. To date these amounts have not been approved and we are currently developing the necessary business plans and statement of case to support the applications. The timescale for applications is by early autumn. We are able to draw down up to £250k as advance grant from the Arts Council up to the end of August.

The forecast revised phasing of the project is shown below:

	2006-07	2007-08	2008-09	2009-10	2010-11	TOTAL
	£000s	£000s	£000s	£000s	£000s	£000s
Gallery Building						
Published budget	977	8,880	6,803	740		17,400
Latest forecast	370	2,944	2,109	7,556	4,421	17,400
Re-phasing	-607	-5,936	-4,694	+6,816	+4,421	0

3.4 Finance portfolio:

- Commercial Services are likely to spend significantly less than planned on the renewal of vehicles due to a continuation of the trend adopted last year of leasing vehicles rather than purchasing outright. Also, they are deferring the renewal of 30-40 vehicles for 6-12 months. The reduction in capital costs, estimated to be in excess of £1m, will be matched by a reduced contribution to their Renewals Fund.

4. RECOMMENDATIONS

- 4.1 Cabinet Members are asked to note the initial forecast revenue and capital budget monitoring position for 2007-08.

ASYLUM POSITION

The table below shows the amount that we are currently owed by the Home Office and the DfES in relation to asylum. The 2005-06 Home Office Special Circumstances bid has been agreed, subject to audit.

	2005-06		2006-07		TOTAL
	General Grant Rules	SC Bid	General Grant Rules	SC Bid	
	£m	£m	£m	£m	
Home Office	2.031	1.018	2.980	1.527	7.556
DfES	0.025	0.692	2.309	1.646	4.672
TOTAL	2.056	1.710	5.289	3.173	12.228

There is increasing concern amongst local authorities about expenditure and legal obligations to destitute people from abroad who, as a result of their immigration status have no recourse to public funds. The Immigration and Asylum Act 1999 ended access to housing benefit and social security. The result of this is local authorities often having to step in to provide support for 'destitute plus' (assessed as having a need for care and attention that is over and above the mere lack of accommodation and subsistence) people who have community care needs, or in order not to contravene Article 3 and/or 8 of the Human Rights Act. Local Authorities are not funded to provide this support and are currently lobbying central government for funding. Unfortunately, however, there is a lack of comprehensive data to evidence spend in this regard. This is a national problem and, given the location of Kent, is an area of growing concern.

KASS is currently supporting 11 adults who have presented in Kent as 'destitute plus', on average each is receiving £45 per week, and they are supported in bed and breakfast accommodation or shared houses, also funded by the Directorate. The Directorate, in line with other local authorities is supporting an increasing number of cases, with 3 new cases in Ashford this year 2 of which originate from Millbank (previously a receiving unit).

KASS is currently supporting a total of 11 people with no recourse to public funds, the forecasted total cost 2007/08 is £74159.14

KCC continues to press for repayment of asylum costs both independently and in partnership with other asylum authorities from within the South East and across the country. Meetings are actively being sought with key Ministers in the new Government, building on contacts with previous Ministers and senior officials within the spending departments and within the Treasury. Concerted and constructive action will continue, and be stepped up significantly on the return of Parliament in the Autumn, should a satisfactory outcome not be secured beforehand. Corporate Finance and CFE recently hosted a Treasury visit to view the asylum service and see the operation at Appledore plus discuss the funding issues.

KCC is also taking a major strategic role in terms of asylum and immigration policy to support its case for reform. The Leader and Chief Executive have established a grouping of key asylum authorities to develop a constructive and joint case to Government in relation to the support of Unaccompanied Minors. The first professional paper produced by this cross-party group was submitted to the Home Office in response to the recent UASC consultation and joint Ministerial meetings are being sought in the Autumn.

In addition, the Cabinet Member for Children and Family Services now chairs the South East Strategic Partnership on Migration, sitting on the national LGA Taskforce. Following the re-organisation of the Borders and Immigration Agency, the Chief Executive has also now been appointed to the National Migration Group, feeding directly into the Migration Impacts Board chaired by Ministers, both positions offering significant opportunities to influence and shape future asylum and migration policy.