

To: CABINET – 8 February 2007

By: Nick Chard, Cabinet Member – Finance

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## REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

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### 1. Introduction

This exception report, based upon returns from directorates, highlights the main movements since last month. There remain significant revenue budget pressures within the directorates that will need to be managed during the year if we are to have a balanced revenue position by year end. The position reported below includes a significant amount of management action which is expected to be achieved by year end. Further management action is currently being put in place within the Chief Executives directorate, which is expected to reduce their forecast further.

The current underlying pressure by directorate, compared with the position reported last month, is as follows:

#### REVENUE

	This month £m	Last month £m	Movement £m
Children, Families & Education	-0.856	-0.586	-0.270
Asylum	+2.650	+2.650	-
Adult Services	+0.999	+1.253	-0.254
Environment & Regeneration	-0.385	+0.120	-0.505
Communities	+0.517	+0.517	-
Chief Executives	+0.061	+0.912	-0.851
Financing Items	-0.700	-0.700	-
	+2.286	+4.166	-1.880
Schools	-2.207	-2.207	-
	+0.079	+1.959	-1.880
Dedicated Schools Grant	+2.432	+2.432	-
	+2.511	+4.391	-1.880

#### CAPITAL

	This month £m	Last month £m	Movement £m
Children, Families & Education	-31.721	-29.350	-2.371
Adult Services	-1.964	-2.054	+0.090
Environment & Regeneration	-35.460	-34.355	-1.105
Communities	-6.492	-6.636	+0.144
Chief Executives	-5.550	-1.564	-3.986
	-81.187	-73.959	-7.228
Adult Services PFI Housing	-6.900	-6.900	-
	-88.087	-80.859	-7.228

### 2. 2006-07 REVENUE MONITORING POSITION BY DIRECTORATE

#### 2.1 Children, Families & Education Directorate:

The directorate reported an underspend of £0.586m in the last monitoring, excluding schools delegated budgets and the pressure on asylum. This has increased by £0.270m to £0.856m this month, as a result of delays in the implementation of the Children's Centres programme.

2.1.1 Children's Centres - The Early Years and Childcare Unit has identified that work establishing Children's Centres is seriously behind schedule due to the need for a thorough consultation and approval process before capital building works can begin. This has not been allowed for in the

scheduling of revenue funding determined by the DfES, which should kick in once projects are open. It now looks likely that the underspend could be as large as £1.614m, however under the rules of the Local Area Agreement (LAA), Kent can roll forward underspend of up to 5% of its total grant into the next financial year, enabling us to re-phase the project. Any underspend up to this 5% will be treated as a receipt in advance, consistent with practice advised by our external auditors, and therefore will have no net effect on the 2006-07 outturn position. But, if the underspend does materialise at this level, this is £0.270m over and above the 5% threshold. However, because of the flexibilities of the LAA grant and the ability to 'vire' between headings, any underspend should not need to be repaid to the government but will be an underspend against our base budget, which will need to roll forward into 2007-08 to fund the re-phasing of the Children's Centres.

2.1.2 Dedicated Schools Grant (DSG) position - There are a few changes to the forecasts on DSG budget lines resulting in a £0.205m increase in the net surplus on the DSG budget from £0.076m to £0.281m. This is mainly due to a £0.5m increase in the underspend for 3 and 4 year old payments, due to the majority of providers continuing to offer 33 weeks rather than extending to the 38 weeks for which funding is offered, and a further overspend in Personnel and Development of £0.350m relating to two employment tribunals. This forecast does not include any variances on the schools contingency budget which are not possible to predict due to unknown claims from schools, the unpredictable nature of those claims and decisions yet to be made by the Schools Forum. As previously reported, it should be noted that the DSG is a ringfenced grant and any surplus or deficit at the end of the year must be carried forward to the next financial year in accordance with the regulations, and cannot be used to offset over or underspends elsewhere in the directorate budget. Therefore, at year end these balances will be transferred to a new earmarked reserve for DSG and hence are not included in the overall directorate forecast.

2.1.3 Asylum - The number of clients being referred to the Asylum team remains significantly higher than originally anticipated. Since October the asylum service has been running at more than twice its capacity, and in the first ten days of January the team received over 20 referrals, which was previously the average number for a full month. This level of referrals remains consistent with the position reported last month and provides confirmation of the increased forecast outturn position reflected last month. Later this month, the Leader and the Chief Executive will be attending a meeting with other local authorities experiencing funding shortfalls to discuss how this issue might be pursued with the government.

## 2.2 **Adult Services Directorate:**

This month the directorate is forecasting a £0.254m reduction in the expected year end position from +£1.253m to +£0.999m partly due to additional one-off savings being identified. However, this position assumes further management action of £1.660m will be achieved by year end, which means the current underlying pressure is £2.659m. This compares to a £3.900m underlying pressure reported last month, so there has been a significant reduction of £1.241m in the underlying position this month and the main movements are:

2.2.1 Older Persons -£0.346m – an increase in the underspend from £2.471m to £2.817m which can in part be attributed to the management actions around reductions in residential placements and domiciliary spend, but also reflects the decision to utilise a further £0.150m of reserves, which following an in depth review of reserves and provisions, has been identified as no longer required.

2.2.2 Learning Disability -£0.078m – a reduction in the pressure from £5.250m to £5.172m which relates to management action now achieved.

2.2.3 Physical Disability -£0.078m – a reduction in the pressure from £1.939m to £1.861m which relates to management action now achieved.

2.2.4 Assessment & Related -£0.079m – an increase in the underspend from £1.025m to £1.104m which relates to further slippage on recruitment.

2.2.5 Mental Health +£0.123m – an increase in the pressure from £0.461m to £0.584m which relates in part to pressures against staffing budgets (£0.071m) and the continued reduction of income from housing associations in respect of supporting people contracts that have ended (£0.076m), offset by savings in respect of grants to voluntary bodies.

- 2.2.6 Specialist Services -£0.153m – a reduction in the pressure from £0.524m to £0.371m which essentially all relates to significant improvement in the income forecasts within Adult Services Provider Unit, arising from greater certainty over contributions from the Health economy.
- 2.2.7 Other Services -£0.630m – an increase in the underspend from £0.778m to £1.408m. This reflects a number of significant movements in the forecasts, including:
- Realisation of £0.133m of management action against Area contracts and facilities budgets.
  - Delays in the directorate's training and development programme (£0.195m)
  - Delays in the 'Excellent Homes for All' project (£0.066m)
  - Savings arising from use of the E-tendering website (£0.033m)
  - Release of audit provisions established in previous years (£0.040m)
  - The directorate's new complaints process was implemented late and the costs have been absorbed saving £0.120m, together with £0.040m of other savings within Public Involvement.
- 2.2.8 Management Action – the Directorate is still working towards achieving its management action plan, which should enable us to reach the forecast outturn position of +£0.999m. It should be noted that any one-off savings made in reaching this position (currently amounting to £2.943m), together with the residual overspend at year end, will need to be built into the 2007-08 budget.

### **2.3 Environment & Regeneration Directorate:**

The forecast outturn position has reduced by £0.505m this month to an underspend of £0.385m. This movement is mainly as a result of further underspending on the Waste Management budget due to a continued reduction in waste volumes compared to the business plan assumption, together with further savings from staff vacancies and a reduction in the revenue funds required to replace the capital receipts used to fund the early design of the Colts Hill major road scheme, now that this scheme will not take place before 2011-12 at the earliest. The gales in early January have necessitated further emergency action due to fallen trees, the costs of which the directorate will need to absorb as there is only sufficient funding in the Emergency Reserve to cover the £0.450m previously reported emergency expenditure incurred due to road and drainage collapses. This represents the estimated costs to KCC and excludes any costs that are the responsibility of third parties. The current forecast underspend of £0.385m together with the funding from the Emergency Reserve of £0.450m, provide an underlying underspend of £0.835m, of which £0.415m will be requested to roll forward to 2007-08 for Waste (£0.250m), Public Transport (£0.065m), deferred activity on Midas system replacement (£0.070m) and Waste Local Development Framework (£0.030m). This leaves the directorate with a forecast underspend of £0.420m, however as mentioned above, there is now no funding available for any further emergency conditions whether it be due to gales, floods or snow including the gales on 18 January, so, as a precaution, this underspend is being held back pending any further emergency costs.

### **2.4 Communities Directorate:**

There is no change to the overall bottom line position on the Communities budget this month, however there are a couple of compensating movements:

- 2.4.1 +£0.2m within the Cultural Development Unit (CDU) – ongoing work has identified a potential overspend of up to £0.2m. This mainly relates to delays in agreeing the lease of the Hextable Dance Academy with the Hextable Dance Trust. This has meant that the unit has had to meet the cost of the electricity bill and other costs associated with running the building that were planned to be met by the Trust. This potential overspend has only recently been identified following extensive negotiations with the Trust. We will be seeking to reduce the overspend through negotiations with Hextable School to meet their fair share of the running costs and with Sevenoaks District Council to agree to charitable relief on the rates. There is also a forecast overspend on grants to Arts Organisations. In the main this is offset by underspends on staffing and other budgets and we are working with the unit to reduce any remaining payments to only committed sums. There is also a risk that GOSE will be recovering grants paid in previous years unless we can justify claims. We have to submit revised claims by the end of January.
- 2.4.2 -£0.2m on Turner Contemporary – following the agreement of a revised staffing structure (necessary to deliver a £0.2m saving in 2007-08) and the dissolution of the Maidstone based team there is a knock on saving in 2006-07. This has been exacerbated by delays in recruiting to the new structure meaning the service has been running with vacancies longer than we would have liked. If we are able to reduce the overspend on CDU (through recovering costs of

Hextable Dance and limiting grant payments) we would be looking to agree that underspends on Turner staffing could be used to help fund the residual costs of the original Turner project (reported last month) or the costs of preparing litigation.

## **2.5 Chief Executives Directorate:**

The forecast pressure has reduced by £0.851m to £0.061m this month, which is mainly due to:

- -£0.716m due to the potential change in the accounting treatment of two projects.
- -£0.120m due to the re-phasing of two projects within Personnel & Development, which will be requested to roll forward to 2007-08. These are: part of the development of the Reward Strategy system (£0.070m) and Members training & development (£0.050m).
- -£0.020m due to a delay in purchasing performance management software until there is a consensus across the directorates as to the most suitable software. This will also be requested to roll forward to 2007-08.

Due to the re-phasing of projects into 2007-08, £0.180m will be required to roll forward to meet these re-phased costs (£0.140m as detailed above and £0.040m for IT audit in 2007-08). This, together with the current forecast pressure of £0.061m, gives an underlying pressure still to be managed of £0.241m of which £0.150m relates to Kent Works, who have been tasked with identifying management action to address this and the balance is mainly in respect of increased energy costs. Property are still in negotiations with service directorates regarding the funding of these, agreement has already been reached with two directorates. The directorate expect to manage this residual pressure by year end.

## **3. 2006-07 CAPITAL MONITORING POSITION BY DIRECTORATE**

### **3.1 Children, Families & Education Directorate:**

3.1.1 The forecast for the directorate has moved by -£2.371m this month to -£31.721m, all within the Education & School Improvement portfolio. The main change is.

- -£2.632m Dartford Campus: Phase 2 of this Development Opportunities project has been halted following delays in obtaining Section 77 (sale of playing fields) approval from the DfES. The balance of +£0.261m is made up of a range of relatively minor re-phasings across a number of projects, where the projects are progressing faster than previously anticipated, the most significant being The North School, Ashford (+£0.052m) and Newington Primary School Amalgamation (+£0.051m).

3.1.2 Although there has been no movement in the forecast of the Children & Family Services portfolio this month, it should be noted that the Integrated Children's Systems project is experiencing supplier difficulties and is currently under review. The eventual outcome is likely to result in significant re-phasing from 2006-07 to 2007-08. The outcome of this review will be confirmed in next months monitoring.

### **3.2 Adult Services Directorate:**

3.2.1 The forecast for the directorate has moved by +£0.090m this month to -£1.964m, excluding PFI. This movement is due to increased forecast spend against the Home Support Fund but this will be funded by client contributions.

3.2.2 In addition, it is now proposed that the Building Care Capacity and Improving Services for Learning Disabled & Leaving Care projects, which were previously forecast as being re-phased into 2007-08, are now removed from the capital programme as part of the 2007-10 MTFP process, in order to help ease the expected pressure in the medium term on the borrowing costs within the authority's revenue budget. If approved, this will result in a £2.5m reduction in the 2006-09 Adult Services capital programme.

### **3.3 Environment & Regeneration Directorate:**

3.3.1 The forecast for the directorate has moved by -£1.105m this month to -£35.460m (Environment, Highways & Waste portfolio -£18.297m and Regeneration & Supporting Independence portfolio -£17.163m). The main changes are all within the Regeneration & Supporting Independence portfolio:

- -£2.0m reduction in the 2006-07 forecast for the PSA Property Target, which will need to be re-phased into following years.
- -£0.1m further re-phasing on the Rushenden Link Road.

Partially offset by:

- +£0.725m increase in the forecast for East Kent Access phase 1. £0.6m of this is due to faster progress than budgeted. The extra £0.125m funding needed for the total scheme cost is currently under review but is expected to be met from capital receipts.
- +£0.4m increase in the forecast for Ashford Ring Road due to improved progress.

3.3.2 In addition to the movement in the current year forecast there are also some changes to the forecast for later years:

E, H & W portfolio:

The Archaeological Research Centre project is currently under review as to the best way to proceed. This project has previously been reported as re-phasing into later years, however as part of the 2007-10 MTFP, it is now proposed that the existing proposal be removed, financially, from the programme, other than a fairly modest sum to enable the project (eg a business case) to be developed and the accompanying finance to be determined. Once the business case is complete, the directorate will be seeking external funding support for this project.

Regeneration & SI Portfolio:

Central Government has approved supported borrowing of £1m per annum for infrastructure projects in the general location of the Dartford Tunnel. Working with Network Rail, a scheme for the Greenhithe station and access has been developed. However, with KCC being a floor authority, the borrowing from Government through the LTP is no longer 'supported'. Therefore as part of the 2007-10 MTFP, it is no longer proposed to defer this scheme to 2007-08 as previously reported, but to not proceed at all with the Greenhithe scheme and therefore some £2m of borrowing will not be taken up.

**3.4 Communities Directorate:**

3.4.1 The forecast for the directorate has moved by +£0.144m this month to -£6.492m. The main changes are:

- +£0.077m Turner Contemporary due to revised phasing of the project.
- +£0.070m Marlowe Running Track – the full cost of this project is now reflected within Communities, whereas previously 50% was reflected within CFE. However, this £0.070m will still be met by a revenue contribution from CFE.

3.4.2 In addition, as part of the 2007-10 MTFP it is now proposed that the cost of the Gravesend Information and Library Campus is reduced by £1.865m to reduce borrowing requirements. We are preparing a HLF lottery bid to replace this funding and if successful approval to increase the capital budget will be sought. If the bid is unsuccessful, we will either amend the scheme or put forward alternative proposals.

**3.5 Chief Executives Directorate:**

The forecast for the directorate has moved by -£3.986m this month to -£5.550m (Finance portfolio -£5.939m, Corporate Support & Health portfolio +£0.279m and Policy & Performance portfolio +£0.110m). The main changes are:

Finance portfolio:

- -£4.194m reduction in forecast of Property Enterprise Fund. Considering there are only a few weeks remaining in this financial year, it is now unlikely that any further acquisitions will be made from the Fund in 2006-07. The current forecast spend of £5.806m relates to the purchase of land at Manston Business Park plus fees, together with costs incurred in

realising the capital receipts generated through the Fund. This expenditure will be funded by the capital receipts generated, with the balance to be met by the £10m borrowing facility approved by the County Council in November 2006.

- +£0.097m increase in the forecast on works to properties for disposal, which will be met from an increase in the capital receipts generated.

#### **4. RECOMMENDATIONS**

- 4.1 Cabinet Members are asked to note the latest forecast revenue and capital budget monitoring position for 2006-07.