

To: CABINET – 12 March 2007

By: Nick Chard, Cabinet Member – Finance

Lynda McMullan, Director of Finance

REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

This exception report, based upon returns from directorates, highlights the main movements since last month. There remain significant revenue budget pressures within some directorates that will need to be managed during the remainder of 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.

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

REVENUE

	This month £m	Last month £m	Movement £m
Children, Families & Education	-1.100	-0.856	-0.244
Asylum	+2.650	+2.650	-
Adult Services	+0.872	+0.999	-0.127
Environment & Regeneration	-1.515	-0.385	-1.130
Communities	+0.517	+0.517	-
Chief Executives	-0.091	+0.061	-0.152
Financing Items	-1.000	-0.700	-0.300
	+0.333	+2.286	-1.953
Schools	-2.207	-2.207	-
	-1.874	+0.079	-1.953
Dedicated Schools Grant (DSG)	+2.432	+2.432	-
	+0.558	+2.511	-1.953

CAPITAL

	This month £m	Last month £m	Movement £m
Children, Families & Education	-32.908	-31.721	-1.187
Adult Services	-1.956	-1.964	+0.008
Environment & Regeneration	-35.025	-35.460	+0.435
Communities	-6.722	-6.492	-0.230
Chief Executives	-6.723	-5.550	-1.173
	-83.334	-81.187	-2.147
Adult Services PFI Housing	-6.900	-6.900	-
	-90.234	-88.087	-2.147

2. 2006-07 REVENUE MONITORING POSITION BY DIRECTORATE

2.1 Children, Families & Education Directorate:

The directorate reported an underspend of £0.856m in the last monitoring, excluding schools delegated budgets and the pressure on asylum. This underspend has increased by £0.244m to £1.100m this month as a result of the following movements:

Education & School Improvement portfolio:

- 2.1.1 -£0.582m ICT: The phasing of the expenditure on broadband connectivity has changed and a greater proportion of the work than was first anticipated will be carried out in the last five months of this 17 month project. This will result in an estimated underspend of £1.165m by the end of the financial year, 50% of which is funded from Standards Fund grant and 50% of which is match funded. The unspent grant element will be treated as a receipt in advance, in accordance with the accounting principle agreed with our external auditors, and will therefore have no impact on the outturn. However the remaining 50%, our £0.582m of match funding, will show as an underspend against our base funding but will need to be rolled forward to 2007-08 in order to complete the project.
- 2.1.2 +£0.504m Clusters: It is now clear that the previously reported underspend of £0.504m on the cluster budget relates to services funded from the Dedicated Schools Grant (DSG) and will therefore roll into the new year in accordance with the ring fencing rules that surround DSG, rather than show as an underspend against our base budget. As previously reported, this will be done by transferring any unspent DSG balance at year end into a new earmarked reserve.
- 2.1.3 +£0.232m International Development: Following an audit of the 2005-06 Intereg project conducted by GOSE, it is now thought that some expenditure is unlikely to be recovered in full for the current and previous year, at a potential cost of £0.232m. This is as a result of GOSE tightening the rules surrounding match funding. We consider this to be an unfair interpretation and one that we are in the process of challenging, but until the result of the challenge is known, it seems prudent to report the possible extent of the shortfall.

Children & Family Services portfolio:

- 2.1.4 -£0.398m Children's Social Services: The pressure on the Children's Social Services budgets has continued to reduce in line with the management action plan. This month there has been a reduction in the overall pressure from £0.439m to only £0.041m, an improvement of £0.398m. However, there is still an underlying pressure on the fostering and adoption budgets of about £2m, but this is being addressed in the 2007-10 Medium Term Financial Plan. In the current year this pressure has been offset by other underspends and management action, which has resulted in the vacancy freeze and the consequent underspends on family support and assessment and related staffing.
- 2.1.5 Overall, the £1.100m underspend reported for the directorate (excluding the schools delegated budget and asylum) comprises £0.225m to support the shortfall in DSG and £0.582m of re-phased expenditure on broadband connectivity, leaving a true underspend on the base budget of £0.293m. This compares to an underlying underspend of £0.631m reported last month (£0.856m less £0.225m to support the shortfall in DSG).

2.2 Adult Services Directorate:

This month the directorate is forecasting a £0.127m reduction in the expected year end position from +£0.999m to +£0.872m partly due to additional one-off savings being identified. However, this position assumes further management action of £1.112m will be achieved by year end, which means the current underlying pressure is £1.984m. This compares to a £2.659m underlying pressure reported last month, so there has been a significant reduction of £0.675m in the underlying position this month and the main movements are detailed in paragraphs 2.2.1 to 2.2.7 below. The outstanding management action has reduced from £1.660m to £1.112m this month principally because a significant proportion is now reflected in the reduced forecast, in particular £0.3m received from Health in respect of old East and West Kent Health Authority debt.

- 2.2.1 Older Persons +£0.093m – a reduction in the underspend from £2.817m to £2.724m which can for the most part be explained by the increase in external provision for clients temporarily displaced by the modernisation of the in-house older persons service, including Broadmeadow.
- 2.2.2 Learning Disability -£0.155m – a reduction in the pressure from £5.172m to £5.017m which essentially relates to the receipt of Health monies referred to above.
- 2.2.3 Physical Disability -£0.201m – a reduction in the pressure from £1.861m to £1.660m. The opportunity has been taken to realign forecasts with expenditure trends as we near year end and this demonstrated an element of over-forecasting within the service.

- 2.2.4 Assessment & Related -£0.112m – an increase in the underspend from £1.104m to £1.216m owing to the combination of further reductions in staffing costs and additional income from the Primary Care Trusts.
- 2.2.5 Mental Health -£0.004m – a marginal reduction in the forecast pressure from £0.584m to £0.580m.
- 2.2.6 Specialist Services +£0.119m – an increase in the pressure from £0.371m to £0.490m. There are three main elements to this increase:
- Increase in the forecast energy costs at Westbrook House and West View of £0.060m
 - Pressures within the Occupational Therapy Service both in terms of sessional staff (£0.040m) and the purchase of minor equipment (£0.030m)
 - Pressures arising in respect of property maintenance.
- 2.2.7 Other Services -£0.415m – an increase in the underspend from £1.408m to £1.823m. This reflects a number of movements in the forecasts, but can principally be attributed to a refinement of staffing forecasts and the decision to hold vacancies for the remainder of the financial year; further savings against Training and Development budgets and the impact of some final budget disaggregation adjustments following the restructure of the County Council. Netted off against these reductions is £0.035m pressure in respect of asylum seekers where all rights of appeal have been exhausted and therefore the cost of providing services falls back to the Adult Services budget until they are deported.
- 2.2.8 Management Action – the Directorate is still working towards achieving its management action plan and a forecast outturn position of +£0.872m is achievable assuming £1.112m of management action can be delivered by year end. It should be noted that any one-off savings made in reaching this position (currently amounting to £3.054m), together with the residual overspend at year end, has been built into the 2007-08 budget.

2.3 **Environment & Regeneration Directorate:**

The forecast underspend has increased by £1.130m this month to £1.515m. The main movements are:

Environment, Highways & Waste portfolio:

- 2.3.1 -£1.070m Waste Management: Total tonnage to be managed continues to decline and the throughput at the Allington Waste to Energy plant is less than the budgeted assumption. The fluctuating tonnages going into Allington and the impacts of the overall diversion from the Allington plant to landfill is complex to assess and an over cautious view was reflected last month of the (short-term) benefit. Also, the revised operational plans for February and March have been reviewed and reflected in the current forecast outturn position and this produces a lower cost figure than if the usual Business Plan allocation had been adopted. In addition to this, as a result of re-phasing of pollution control and drainage works within the capital programme, £0.1m of revenue support will also need to re-phase into 2007-08.

2.3.2 +£0.360m Kent Highway Services:

- An initial estimate of £0.250m has been included for the tree clearance emergency work due to the gales on 18th January and selected clearance work from the fall of snow on 24th/25th January. As reported last month, these emergency costs need to be absorbed by the directorate 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 remaining £0.110m of the increase in the forecast is down to the flexibility needed when forecasting for a complex programme of highway works.

Regeneration & Supporting Independence portfolio:

- 2.3.3 -£0.330m within the Strategy Division due to the re-phasing of projects into 2007-08 as detailed below. This funding will be requested to roll forward.
- -£0.270m Shaw Grange: due to a delay in acquiring the site, the Shaw Grange restoration works will not occur until early 2007-08. This funding will therefore need to be rolled forward.
 - -£0.040m for a Planning & Development Household Study.
 - -£0.020m for the Project Management of Technology in the Planning Applications Unit.

2.3.4 The current forecast underspend for the directorate of £1.515m, together with the funding from the Emergency Reserve of £0.450m, provide an underlying underspend of £1.965m, of which £1.185m will be requested to roll forward to 2007-08 for: Waste (£0.640m: £0.250m support to 2007-08 budget as built into the MTFP, £0.1m re-phasing of revenue funded support to the capital programme for drainage works and pollution control, £0.290m District recycling initiatives); Public Transport (£0.070m); deferred activity on Midas system replacement (£0.070m); Channel Tunnel Rail Link impact work (£0.045m); Household Study (£0.040m); Project Management of Technology in Planning Applications Unit (£0.020m); Waste Local Development Framework (£0.030m) and Shaw Grange restoration works (£0.270m). This leaves the directorate with a forecast underspend of £0.780m, however as mentioned above, there is now no funding available in the Emergency Reserve for any further emergency conditions whether it be due to gales, floods or snow including the snow of 8 February, so, as a precaution, this underspend is being held back pending any further emergency costs. If further Emergencies do not occur, the underspend will be used to absorb the £0.450m costs currently being earmarked against the Emergency Reserve, thereby preserving the reserve for future needs.

2.4 Communities Directorate:

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

- 2.4.1 +£0.109m Coroner Service – ongoing work has identified a potential overspend of some £0.109m, which is as a result of an increase in demand on the Coroners' service due to rising numbers of toxicology tests.
- 2.4.2 +£0.031m Trading Standards – due to increased expenditure on legal fees in response to increased demand on the enforcement service as new legislation is being rolled-out.
- 2.4.3 -£0.140m Community Safety – underspending caused by delays in recruiting Community Wardens to vacancies as a result of staff turnover rates.

2.5 Chief Executives Directorate:

- 2.5.1 The forecast outturn position has reduced by £0.152m from +£0.061m to -£0.091m this month, which is mainly due to:
- -£0.120m Kent Works (Policy & Performance portfolio) – this follows confirmation that the Children, Families & Education (CFE) directorate will meet some of the higher costs of establishing the on-going operation, which will be transferred to CFE in 2007-08 to form part of their vocational service.
 - -£0.020m Property Group (Finance portfolio) – due to the continuing impact of the vacancy freeze.
- 2.5.2 Due to the re-phasing of projects into 2007-08 reported last month, £0.180m will be required to roll forward to meet re-phased costs (£0.120m relating to the Reward Strategy system & Members training & development, £0.040m for IT audit and £0.020m for Performance Management Software). However, with the current forecast underspend at £0.091m, there is an underlying pressure of £0.089m still to be managed. Property are still in negotiations with service directorates to secure funding for the higher than expected increase in the energy costs of the county office estate. The directorate expects to manage this residual pressure by year end.

2.6 Financing Items:

- 2.6.1 The forecast underspend has increased by £0.3m this month to -£1.0m, as Commercial Services are now expecting to be able to meet their budgeted contribution to the overall KCC budget by year end.

3. 2006-07 CAPITAL MONITORING POSITION BY DIRECTORATE

3.1 Children, Families & Education Directorate:

The forecast for the directorate has moved by -£1.187m this month to -£32.908m, (Education & School Improvement portfolio -£32.260m and Children & Family Services portfolio -£0.648m). The main changes are detailed below:

- 3.1.1 Education & School Improvement portfolio:

This month there has been a forecast reduction in spend of £1.778m in 2006-07, but there are increased costs of £0.574m across all years of the capital programme.

The main changes in 2006-07 are:

- -£0.688m Children's Centres, Extended Schools & Development & Sustainability – Phase 2: Although most of the 52 Children's centre sites have now been identified, the delay in getting to this position means that it is likely that all we will spend this year will be project development fees.
- -£0.552m Modernisation Programme 2006/07/08: The main changes are:
 - -£0.414m Wilmington Hall School - re-phasing due to delays in agreeing the tender documentation because of the need to finalise DDA requirements.
 - -£0.138m Barton Court School – re-phasing due to delays following archaeological investigations.
- -£0.414m Greenfields Primary School Development Opportunity: Re-phasing due to a delay in the start on site which was due to Architect performance issues and increased tender prices. The project is under review.
- -£0.296m Modernisation Programme 2004-05: The main changes are:
 - -£0.134m Wilmington Grammar Girls – re-phasing due to the application of other funding streams rather than funding from the Modernisation Programme in 2006-07.
 - -£0.126m Hythe Bay CEPS – re-phasing due to planning delays.
- -£0.145m Specialist Schools Programme 2005-06: The projects at Fulston Manor and The Harvey Grammar School have slipped due to the unavailability of additional funding and the increased cost of the original project respectively.
- +£0.300m Schools Access Initiative: This overspend may reduce as we await confirmation of expected spend in 2006-07 from Bishops Down CP who are self managing a project within this programme of works. Other additional works, to ensure pupils with mobility issues can attend their school of choice, have been instructed at Maidstone Girls Grammar School and Maidstone Grammar School, totalling £0.130m plus an additional £0.050m of works at Ashford Learning Resource Centre.
- Maintenance Review: Following concerns over the expenditure levels on Emergency Maintenance a thorough review of all maintenance headings within the portfolio is being undertaken. In terms of this monitoring return, the overall effect is a net nil although the outturn forecast on Emergency Maintenance has been increased to £5m from £3.2m with corresponding savings found on other maintenance headings, predominantly the 2006-07 Condition Programme.

The main changes across all years are:

- +£0.300m Schools Access Initiative, as reported above. The overspend in 2006-07 will be contained within the lifetime of the MTFP by reducing the 2007-08 programme.
- +£0.120m Modernisation Programme 2006/07/08: increased costs being funded from a grant from the Sorrell Foundation – part of the 'Joined Up Design for Schools' Programme.
- +£0.128m Modernisation Programme 2004-05: made up of a number of minor increases across the programme of works. This will need to be managed within the totality of the capital programme.

3.1.2 Children & Family Services portfolio:

This month there has been a forecast increase in spend of £0.591m in 2006-07, but there are increased costs of £0.161m across all years of the capital programme.

The main changes in 2006-07 are:

- +£0.483m East Kent Children's Resource Centre: the latest consultancy forecasts indicate that the project is progressing well and is ahead of the MTFP profile.
- +£0.076m The Sunrise Centre: the final costs of this project are in dispute and have yet to be finalised. This overspend will be met from additional grant.

The main changes across all years are:

- Although the total costs of the programme have increased by £0.161m this month, (£0.076m on The Sunrise Centre, £0.075m on the Grovehill Project and £0.010m on East Kent Children's Resource Centre), this increase will be met in full by additional grant funding and revenue contributions.

As reported last month, 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 detailed monitoring report.

3.2 Adult Services Directorate:

3.2.1 There are no significant movements to report this month.

3.3 Environment & Regeneration Directorate:

The forecast for the directorate has moved by +£0.435m this month to -£35.025m (Environment, Highways & Waste portfolio -£19.037m and Regeneration & Supporting Independence portfolio -£15.988m). The main changes are:

3.3.1 Environment, Highways & Waste portfolio:

This month there has been a forecast reduction in spend of £0.740m, comprising:

- -£0.439m re-phasing of Capital Highway Maintenance into 2007-08.
- -£0.261m re-phasing of Street Lighting Column and Lantern replacement into 2007-08.
- -£0.040m re-phasing of Civic Amenity Site Drainage Works into 2007-08.

3.3.2 Regeneration & Supporting Independence portfolio:

This month there has been a forecast increase in spend of £1.175m, comprising:

- +£1.425m increase in Land Valuations for the Fastrack Major Road Scheme. This re-valuation has been notified this month by the professional advisers, as some Land Owners have secured planning certificates giving development potential status. The funding implications of this forecast cost increase are being considered in conjunction with Corporate Finance.
- -£0.150m reduction for Non TSG Land, compensation Claims and Blight.
- -£0.050m further re-phasing on the Sittingbourne Northern Relief Road.
- -£0.050m further re-phasing on the Rushenden Link Road.

3.4 Communities Directorate:

3.4.1 The forecast for the directorate has moved by -£0.230m this month to -£6.722m. The main change is -£0.165m of re-phasing into 2007-08 of grants to Village Halls and Community Centres due to delays in applications coming forward from local communities.

3.4.2 The Heritage Lottery Fund (HLF) has recently awarded a grant of £6.515m towards a £10m scheme to refurbish the Beaney Institute in Canterbury to provide a modern library and gallery facility. The scheme will be managed by Canterbury City Council (CCC) in partnership with KCC. To date KCC has spent £0.550m on working up the proposals as approved in existing budgets. As reported in the first full monitoring report in September, we have had approval to provide an additional £0.2m within the Communities capital programme funded from developer contributions and £0.3m has been agreed from the Adult Services capital programme, taking KCC's contribution to £1.05m. CCC has made provision for £0.6m contribution towards the project together with the land for the extension. This leaves a current £2m shortfall in funding. When the HLF bid was submitted, KCC agreed to underwrite £1.4m of the shortfall with CCC underwriting £0.6m. We anticipate that the £1.4m will be met from external funding and now that the bid has been successful, are working up proposals. Should we not be able to raise funding, we would need to identify capital receipts or reduce expenditure on other schemes to cover the commitment.

3.5 Chief Executives Directorate:

The forecast for the directorate has moved by -£1.173m this month to -£6.723m (Finance portfolio -£7.047m, Corporate Support & Health portfolio +£0.214m and Policy & Performance portfolio +£0.110m). The main changes are:

3.5.1 Finance portfolio:

- -£0.995m as Commercial Services will now be financing their vehicles through operating leases rather than funding from the Renewals Fund.
- -£0.080m reduction in the forecast cost of works to properties for disposal.

3.5.2 Corporate Support & Health portfolio:

- -£0.075m re-phasing into 2007-08 on the Sustaining Kent project following the re-call of some materials by a supplier due to a production fault.

3.6 Overall Capital Position:

Overall, we are currently forecasting a variance of -£83.334m against the 2006-07 capital budget, excluding PFI and schools devolved budgets, most of which relates to the re-phasing of projects rather than a real variance. This re-phasing has largely been reflected in the 2007-10 MTFP. As previously reported, 2006-07 capital cash limits will be adjusted to reflect the re-phasing built into the 2007-10 MTFP and this will be reflected in the next full detailed monitoring report to be presented to Cabinet on 16 April.

4. RECOMMENDATIONS

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