

To: CABINET – 14 January 2008

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REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

1.1 The second full monitoring report for 2007-08 was presented to Cabinet in December. This exception report highlights the main movements since that report. There remain significant revenue budget pressures that will need to be managed during the rest of the financial year if we are to have a balanced revenue position by year end. The proposed management actions will be closely monitored throughout the remainder of the year to determine progress towards achieving a balanced outturn position for the authority (excluding Asylum).

The current underlying net revenue position by portfolio after the implementation of assumed management action, compared with the net position reported last month, is shown in **table 1** below.

Table 1: Net Revenue Position after Proposed Management Action

| Portfolio | Gross Position £m | Proposed Management Action £m | Net Position after mgmt action £m | | Movement £m |
|----------------------------|----------------------|----------------------------------|--------------------------------------|---------------|----------------|
| | | | This month | Last month | |
| OR&S (CFE) * | +2.644 | -1.829 | +0.815 | +0.820 | -0.005 |
| CF&EA | +1.879 | -2.144 | -0.265 | -0.265 | - |
| KASS | +3.666 | -1.751 | +1.915 | +1.915 | - |
| EH&W | -2.465 | - | -2.465 | -1.700 | -0.765 |
| R&SI | -0.765 | - | -0.765 | -0.795 | +0.030 |
| Communities | +1.262 | -0.432 | +0.830 | +0.830 | - |
| Public Health | -0.050 | - | -0.050 | -0.050 | - |
| Corporate Support | -0.180 | - | -0.180 | -0.145 | -0.035 |
| Policy & Performance | - | - | - | - | - |
| Finance | -4.504 | - | -4.504 | -1.559 | -2.945 |
| Total (excl Asylum) | +1.487 | -6.156 | -4.669 | -0.949 | -3.720 |

* Of the £0.815m residual pressure within the OR&S (CFE) portfolio, +£0.570m relates to budgets managed within the CFE directorate and +£0.245m relates to budgets managed within the Chief Executives directorate (Kent Works).

- 1.2 In addition to the projected portfolio variances, there are two projected overspends:
- The Asylum Service is expected to overspend by £4.071m. This is an increase of £0.675m from the position reported last month, and this movement is explained in section 2.1.1 below.
 - Schools are projecting a draw-down of their reserves of £15m. This is the same as the position reported last month.
- 1.3 **Table 2** shows the forecast underlying gross position **before** the implementation of proposed management action, compared with the gross position reported last month.

Table 2: Gross Revenue Position before Management Action

| |
|----------|
| Variance |
|----------|

| Portfolio | This Month £m | Last Month £m | Movement £m |
|--|------------------|------------------|----------------|
| Operations, Resources & Skills (OR&S) (CFE) | +2.644 | +2.649 | -0.005 |
| Children, Families & Educational Achievement (CF&EA) | +1.879 | +1.879 | - |
| Kent Adult Social Services (KASS) | +3.666 | +4.109 | -0.443 |
| Environment, Highways & Waste (EH&W) | -2.465 | -1.700 | -0.765 |
| Regeneration & Supporting Independence (R&SI) | -0.765 | -0.795 | +0.030 |
| Communities | +1.262 | +1.365 | -0.103 |
| Public Health | -0.050 | -0.050 | - |
| Corporate Support | -0.180 | -0.145 | -0.035 |
| Policy & Performance | - | - | - |
| Finance | -4.504 | -1.559 | -2.945 |
| Total (excl Asylum) | +1.487 | +5.753 | -4.266 |
| Asylum | +4.071 | +3.396 | +0.675 |
| Total (incl Asylum) | +5.558 | +9.149 | -3.591 |

- 1.4 The gross underlying revenue pressure (excluding schools) is currently £5.558m as shown in table 2 above, but this is expected to reduce to an underspend of £4.669m (excluding the pressure on Asylum) by year end, after assuming the implementation of management action, as shown in table 1. However, with the inclusion of the Asylum pressure of £4.071m, this reduces to an overall underspend of £0.598m. The first call upon any further underspending within the Financing Items budgets of the Finance portfolio will be to offset the risk on Asylum, although KCC fully expects Government to meet the full costs of this national pressure. The latest position on Asylum was reported to the December Cabinet meeting and we will provide updates to that situation as and when the position changes.
- 1.5 Table 1 identifies that even after management action, residual pressures are still forecast within the Operations, Resources & Skills (CFE), Kent Adult Social Services and Communities portfolios.
- 1.5.1 Of the residual pressure of £0.815m within the Operations, Resources & Skills (CFE) portfolio, £0.245m relates to budgets managed within the Chief Executives directorate (Kent Works) and £0.570m relates to budgets managed within the CFE directorate which, as historically directorates have been able to use the underspend on one portfolio to offset pressures on another, is partially offset by the underspend on the Children, Families & Educational Achievement portfolio of £0.265m, leaving a pressure of £0.305m on budgets managed within the CFE directorate. This is expected to reduce as further budget variances come to light through the remainder of the year, however should the position worsen, the directorate will need to consider further management action. A review of the Kent Works operation, which should address this year's overspend, is due to be completed soon.
- 1.5.2 Within Kent Adult Social Services, the £1.915m residual pressure, mainly due to demographic pressures, will be considered in the draft 2008-11 MTP however, the directorate will continue to try to reduce this position by year end.
- 1.5.3 The £0.830m residual pressure within the Communities portfolio relates to a number of one-off issues following a major restructure of the Adult Education Service together with a significant reduction in tuition fee income due to lower than anticipated take-up of courses and the difficulty the service has faced to try to deliver the challenging target of generating a £0.5m surplus to fully repay the loan provided in 2006-07 from the Finance portfolio. A number of options are currently being considered for dealing with this over the medium term.
- 1.6 Within the capital programme, there has been further significant re-phasing of projects forecast this month, however re-phasing of -£9.820m is largely offset by the addition of £5.770m of BSF development costs, £0.5m early development costs of the Maidstone Area Academies and £2.4m for the Eurokent Spine Road (further details are provided in sections 3.3 and 3.6), providing a net movement of -£1.15m, as shown in table 3. Details of the main changes are provided in section 3 of this report. The current forecast capital position by portfolio, compared with the position reported last month is shown in **table 3** below and **table 4** shows the impact of this variance on each of the funding sources.

Table 3: Capital Position

| | Variance |
|--|----------|
|--|----------|

| Portfolio | This Month £m | Last Month £m | Movement £m |
|--|------------------|------------------|----------------|
| Operations, Resources & Skills (CFE) | -34.885 | -37.386 | +2.501 |
| Children, Families & Educational Achievement | -1.184 | -1.169 | -0.015 |
| Kent Adult Social Services | -5.172 | -4.974 | -0.198 |
| Environment, Highways & Waste | -25.988 | -22.988 | -3.000 |
| Regeneration & Supporting Independence | -3.724 | -4.950 | +1.226 |
| Communities | -18.279 | -17.610 | -0.669 |
| Corporate Support | -1.369 | -0.669 | -0.700 |
| Policy & Performance | - | - | - |
| Finance | -1.708 | -1.413 | -0.295 |
| Total (excl Schools) | -92.309 | -91.159 | -1.150 |
| Schools | - | - | - |
| Total | -92.309 | -91.159 | -1.150 |

- 1.7 The majority of this variance is on those schemes that are still at the approval to plan or preliminary stage. There has tended to be a degree of optimism that projects will proceed without problems (such as planning permissions). In order to address this issue for the coming MTP process, two special meetings have taken place to more carefully consider the timing of delivery of projects before they are reflected in the budget.

Table 4: 2007-08 Capital Variance analysed by funding source

| | Capital Variance £m |
|---|------------------------|
| Supported Borrowing | -4.707 |
| Prudential | -20.545 |
| Prudential/Revenue | -8.630 |
| Grant | -18.976 |
| External Funding | -6.671 |
| Revenue & Renewals | -1.989 |
| Capital Receipts | -32.991 |
| General Capital Receipts (generated by Property Enterprise Fund) | +2.200 |
| TOTAL | -92.309 |

- 1.8 In line with our review of last year's capital outturn, it is estimated that almost 80% of the current year's variance is due to 33 large projects, with variances of £1m or more in the current year. The majority of these are detailed in the directorate annex reports of the detailed budget monitoring reported to Cabinet on 3 December, which Policy Overview Committees will be scrutinising, and subsequent changes are contained in section 3 of this report.

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

2.1 Children, Families & Educational Achievement portfolio - ASYLUM:

- 2.1.1 The Service for Unaccompanied Asylum Seeking Children (SUASC) Duty and Assessment team continues to receive considerably higher than forecast numbers of referrals. In November, 68 referrals were received, 23 higher than originally estimated. In first 11 days of December 39 referrals were received, our forecast for the entire month is 45. The full financial impact will not become clear until we establish how many of the referrals received are assessed as being appropriate, so at the moment the forecast for 2007-08 issues remains unchanged. However, currently we have outstanding special circumstances bids for 2006-07, £2.4m from the Home Office and £1.9m from the DCSF. These amounts have increased by £0.9m and £0.3m respectively since previous reports, following the results of on-going data matching work with both departments. A number of clients which were rejected from the main Asylum claims due to data matching problems have been added to the special circumstances bids. Historically we have assumed that we will be successful in receiving only part of this income, and if we assume, for the increase in these special circumstances bids, that the same proportion is successful, then a further £0.675m will need to be found to fund the shortfall, hence the increase in the forecast this month.

Additionally, there is £0.7m outstanding from the DCSF relating to the special circumstances bid for 2005-06. The 2006-07 Home Office bid is currently being audited and we should soon know whether or not the funding has been approved. There is no formal procedure for the DCSF special circumstances bids and we are reliant on lobbying central government to meet these additional costs. If we receive less income than we have assumed from these special circumstances bids, then the forecast will increase from the current £4.071m. A breakdown of this forecast is shown below:

- +£4.518m pressure in the current year, £4.018m of direct spending and £0.5m of indirect costs;
- +£0.675m pressure relating to 2006-07 arising from the data matching exercise which has reduced the main Asylum claim and increased the special circumstances bids for that year, of which, to be prudent, we assume we will only receive a proportion although lobbying will continue to ensure a successful resolution;
- -£1.122m balance in the Asylum reserve which will be drawn down to offset these pressures.

Following the Joint Councils meeting on 13 November and the briefing of MPs and Government officials at Westminster, all relevant Councils have now signed up in principle to the independent audit of the costs which these Authorities claim is owed to them by the Government for the care of unaccompanied asylum seeking children.

2.2 Kent Adult Social Services:

2.2.1 The latest forecast indicates a pressure before management action of £3.666m, which is a reduction of £0.443m since last month. Although the forecast continues to reduce there is still some concern that the directorate will not achieve the full value of management actions to ensure a balanced position by year end. Even though the full amount of management action within Mental Health and administration and support lines has been achieved, there has been little progress within the Area commissioning budgets as achieving substantial reductions on the major purchasing lines has proved difficult in the face of continuing demand. However, there is optimism the December spend will start to see reductions and the directorate will continue with the management actions in place with the intention to get as close as possible to a balanced outturn position, but it would not be prudent to assume that all management actions will be fully achieved in the remaining months of the year so a year end pressure, after management action, of £1.915m is still forecast.

2.2.2 The main movements this month are:

- -£0.273m Older People – a reduction in the pressure from £1.014m to £0.741m. This primarily relates from a net decrease of 20 residential and nursing placements in West Kent together with some small increases in the amount of income forecast within East Kent. There have however been increases in both domiciliary care and a further five clients in Direct Payments.
- -£0.130m Learning Disability – a reduction in the pressure from £4.504m to £4.374m. As with Older People, the decrease is primarily attributable to a reduction in residential care, with net placements reducing by six from last month. There has also been a net reduction of one in the number of clients in receipt of Direct Payments.
- +£0.176m Physical Disability – an increase in the pressure from £1.097m to £1.273m. Within this is a £0.037m increase for additional 1:1 support for one residential client, plus an increase in homecare costs within West Kent. There has also been a net increase of seven clients receiving Direct Payments.
- -£0.175m Mental Health – a movement from a £0.151m pressure to a £0.024m underspend which has been achieved through continued management action, primarily reductions and delays in planned residential placements, and vacancy management.
- -£0.109m Other Services – an increase in the underspend from £2.031m to £2.140m. This position reflects the impact of continued management action together with the release of a training provision for the Learning Resource Network that is no longer required following a reconfiguration of the directorate's training plans.

2.3 Environment, Highways & Waste portfolio:

2.3.1 The forecast below reflects a revenue budget virement of £0.195m from the Waste Management budget to the Environment Group in respect of Health & Safety requirements, SSSI (Sites of Special Scientific Interest) obligation, income generation priming and e-Government initiative.

The underspend for the portfolio has increased by a further £0.765m this month to £2.465m. The main changes are:

- -£1.055m Waste Management - this is as a result of further disposal savings due to the non-operation of the Allington waste to energy plant.
- -£0.150m Public Transport – the increase in Freedom Pass numbers has not impacted on costs as much as expected.
- +£0.400m Kent Highway Services – +£0.2m is due to design costs for the Borough Green & Platt Bypass, also SLA legal charges will exceed the budget.

This forecast assumes that £0.475m of emergency expenditure arising from the flooding in June and the earthquake in Folkestone will be met from the Emergency Conditions Reserve, consistent with previous practice.

2.4 Communities:

2.4.1 The gross pressure on this portfolio has reduced by £0.103m this month to £1.262m. The main movements are:

- +£0.160m Policy Unit – last year a review of accounting procedures identified that the costs of the Asset Management Team (£0.160m), which were previously charged to the Libraries capital programme, now need to be met from revenue and the budget was removed from the capital programme. It was hoped that £0.160m of revenue spend would be identified that could be met from developer contributions, however so far only £0.060m of eligible expenditure has been identified within the Libraries Service. The full £0.160m pressure is shown within the Policy Unit forecast and the corresponding £0.060m saving is shown below in the Libraries and Archives forecast.
- -£0.160m Libraries and Archives – £0.060m of new book purchases for libraries, required as a result of new housing developments, can be met from developer contributions providing a saving on the Book Fund. In addition the service has made a £0.100m saving by slowing down expenditure on non essential and non staffing items.
- -£0.103m Coroners – this results from:
 - A re-negotiated contract for post mortems with the Maidstone & Tunbridge Wells NHS Trust, based on a revised estimate of the number of cases for 2007-08.
 - Increased income from Mid-Kent & Medway NHS Trust based on fee rates that reflect a percentage of total costs rather than a flat rate.

Management action of £0.432m is still expected to be delivered by year end, by slowing down expenditure on non essential non staffing items across all units and reviewing the programme for the replacement of equipment in order to release a one-off sum from the renewals reserve. This leaves a residual year end pressure of £0.830m in respect of Adult Education. A number of options to address this are being considered.

2.5 Finance:

2.5.1 The underspend on this portfolio has increased by £2.945m to £4.504m due to further savings on the Interest on Cash Balances / Debt Charges budgets. As a result of the significant re-phasing of the capital programme and high cash balances, the level of new borrowing required in the current year has reduced and no new borrowing has yet been taken for 2007-08, so new debt costs have been revised to reflect lower than assumed external borrowing.

3. 2007-08 CAPITAL MONITORING POSITION BY DIRECTORATE

3.1 There have been a number of cash limit adjustments this month as detailed below:

| | £000s |
|--|---------|
| 1. As reported to Cabinet on 3 December 2007 | 363,568 |
| 2. Marsh Academy Sponsorship (schools contribution) - OR&S (CFE) portfolio | 750 |

| | | |
|----|--|----------------|
| 3. | DCSF grant for Academies - OR&S (CFE) portfolio | 850 |
| 4. | DCSF grant for Implementation of Primary Strategy - OR&S (CFE) portfolio | 1,015 |
| 5. | External funding from Channel Corridor Partnership for Arts Projects within Major Road Scheme Designs (EH&W portfolio) | 110 |
| 6. | Fastrack Delivery Executive, DCLG grant to install ticket machines (R&SI portfolio) | 500 |
| 7. | Kent Science Resource Centre – new project funded by 100% DCLG grant (R&SI portfolio) | 717 |
| 8. | Gravesend Old Town Hall refurbishment - funded by DCLG Grant and SEEDA monies (R&SI portfolio) | 442 |
| | | 367,952 |
| 9. | PFI | 36,301 |
| | | 404,253 |

3.2 Overall there is a further -£1.150m of re-phasing of projects this month, as identified in table 3, the main movements are detailed below:

3.3 Operations, Resources & Skills (CFE) portfolio:

The forecast variance for the portfolio has moved by +£2.501m from -£37.386m to -£34.885m this month. The main changes are:

- +£5.770m BSF Development costs - this additional expenditure is as a result of KCC being successfully included in waves 3, 4, 5 and 6 of the national Building Schools for the Future programme, whereas the capital programme only allowed for inclusion in wave 3. These additional costs will be programmed into the draft 2008-11 MTP. Initially this additional expenditure will be managed from within the overall re-phasing on the capital programme this year, but ultimately it will be funded from the resource for the overall BSF programme.
- +£0.500m Maidstone Area Academies – this additional expenditure is in respect of early development costs which we now expect to spend in the current financial year. This and the additional costs expected in later years will be programmed into the draft 2008-11 MTP.
- +£0.166m Singleton Primary School – the Diocesan Board who are controlling the project have revised their outturn forecast and this additional spend will be funded from developer contributions.
- +£0.130m Modernisation Programme 2004/05/06 – this is largely due to two projects: Monkton Primary School (+£0.069m) – the increase in costs on completion are being disputed with the consultant and contractor, so the forecast should represent the worst case scenario; Regis Manor (+£0.063m) - previous forecasts did not include additional maintenance works which have been identified since the project commenced.
- -£0.731m Development Opportunity Projects – following a review of these projects, the following have been re-phased by one year to reflect need, more realistic timing and affordability: Astor of Hever -£0.231m, The Towers School -£0.2m, Istead Rise -£0.1m, Sevenoaks Primary School -£0.1m and Whitehill Primary School -£0.1m.
- -£0.725m Tonbridge Grammar School for Girls – further re-phasing due to difficulties obtaining Section 22 approval (regulations relating to the sale of school playing fields).
- -£0.714m Special Schools Review, Orchard School Phase 2 – the school has twice failed their Building Regulations air test, resulting in an extension of time being issued for Phase 1 of the project. This has consequently pushed back the proposed start on site date for the Phase 2 refurbishment works to the February 08 half-term week.
- -£0.580m Modernisation Programme 2006/07/08 – this is largely due to four projects: Crockham Hill Primary School (-£0.152m) – the project has been delayed awaiting approval for additional funding; Salmestone Primary School (-£0.150m) – the previous phasing was based on a best estimate, this has now been updated to reflect a start on site date of April 2008; Chatham House Grammar School (-£0.136m) - this is an overall saving as the programme of works has been reduced as BSF is pending; Sussex Road Primary School (-£0.103m) – the project has been delayed due to the need to seek additional funding. The start on site date has been rescheduled from 30 November 2007 to 3 January 2008.
- -£0.480m Castle Hill Primary School freshstart project (formerly George Spurgeon) - the project is on hold whilst additional grant funding is sought from the DCSF.
- -£0.446m Modernisation Programme 2007/08 – this is mainly due to Lypne Primary School (-£0.190m) where arrangements have been made to “tail end” KCC’s contribution to fund the enhancement element of this re-build project following the fire, which moves our contribution

from 2007-08 to 2008-09; and the previously unallocated budget of £0.180m will now be taken as a saving to deal with overspends elsewhere within the programme.

- -£0.224m Dartford Campus (Development Opportunities) – following revised phasing from the external consultants who are running the project on behalf of KCC.
- -£0.168m Site Acquisitions – the contingency element of this budget has provisionally been earmarked for the Sissinghurst project, which is not expected to take place until 2008-09.

3.4 Kent Adult Social Services portfolio:

The forecast for the portfolio has moved by -£0.198m from -£4.974m to -£5.172m this month because part of the prudential borrowing element of the PFI Excellent Housing project is now no longer required, as costs were lower than expected for the purchase of land to facilitate the PFI project.

3.5 Environment, Highways & Waste portfolio:

The forecast for the portfolio has moved by -£3.000m from -£22.988m to -£25.988m. The main movements are detailed below:

- -£2.117m Highway Major Maintenance and Integrated Transport Programme – re-phasing of work into 2008-09.
- -£0.750m Rushenden Link Road – further re-phasing into 2008-09 due to the lack of progress by SEEDA on land assembly for the project.
- -£0.746m Re-shaping KHS Accommodation – further re-phasing as the Wrotham site is now under judicial review, so no construction spend is anticipated this year. There is also £5.010m of re-phasing from 2008-09 into 2009-10 forecast, to recognise the serious delay.
- -£0.448m Improving Roads and Footpaths – re-phasing of work into 2008-09 as there is insufficient time remaining to complete the programme in 2007-08.
- -£0.400m Waste Performance & Efficiency Grant (WPEG) – this funding is to be redirected to contribute towards the increased costs of the Ashford Ring Road project. WPEG has been paid under the Local Area Agreement “Safer and Stronger Communities” banner and it is considered that elements of the Ashford Ring Road project can be deemed as fulfilling the grant criteria.
- -£0.251m Everards Link - re-phasing into 2008-09. In addition there is a small increase in the scheme estimate which is to be funded by the developer.
- -£0.212m Salt Storage Infrastructure – the delay in the KHS co-location construction programme has resulted in this project re-phasing into 2008-09.
- +£1.264m Ashford Ring Road – this reflects £0.160m brought forward from 2008-09 and a £1.104m increase in the costs of the project. Additional funding is expected from Ashford Borough Council, Growth Area Fund 3 (GAF3) and Interreg, and as detailed above £0.4m of WPEG will be redirected to this project. This will leave a potential funding shortfall of around £0.4m for which further funding is being pursued.
- +£0.392m Newtown Way Improvement – the costs forecast for 2008-09 have also increased by £0.972m giving an overall increase in the scheme cost of £1.364m since last month, which is expected to be met by £0.575m funding from Network Rail, £0.700m from GAF3 and the balance to be met by Environment & Regeneration directorate.
- +£0.381m Thamesway – this cost increase has reduced the savings achieved from the value engineering exercise to £1.538m from £1.919m (these savings will be matched by a reduction in grant).

3.6 Regeneration & Supporting Independence portfolio:

The forecast for the portfolio has moved by +£1.226m from -£4.950m to -£3.724m. The main movements are:

- -£1.174m East Kent Empty Properties Initiative – this initiative provides loans to third parties to develop empty properties in East Kent in order to bring them back into use. This forecast reflects a more realistic estimate of loan take-up this year.

- +£2.400m Eurokent Spine Road – this project is supported by the Property Enterprise Fund, which will be providing temporary funding until the costs can be recovered from the Joint Venture in later years. There is also £3m of costs anticipated in 2008-09.

3.7 Communities portfolio:

The forecast for the portfolio has moved by -£0.669m from -£17.610m to -£18.279m. The main movements are detailed below:

- -£0.175m Grants to Village Halls – a £0.070m grant for Broadstairs will not be paid until 2008-09 and there is also an unallocated balance of £0.105m.
- -£0.145m Library Upgrade Programme – re-phasing due to delays in progressing plans at Deal, Tenterden and Hadlow libraries.
- -£0.129m Modernisation of Assets – re-phasing of DDA works, as part of the planned upgrades, at Deal, Tenterden and Hadlow libraries.
- -£0.110m Archives Development – work is proceeding to procure a development partner with bids currently being assessed. An HLF bid is planned to be submitted in March 2008 and a further report to the Property Advisory Group (PAG) will be made as soon as more details are available.
- There is also some minor re-phasing on Gravesend Library, Ashford Library & Information Centre, The Hub, Southborough and Grove Green Library totalling a further £0.110m.

3.8 Corporate Support portfolio:

The forecast for the portfolio has moved by -£0.700m from -£0.669m to -£1.369m this month due to:

- -£0.6m Sustaining Kent – the Sessions House machine room power upgrade and refurbishment has been re-phased until later in the programme.
- -£0.1m Connecting with Kent Programme as a result of delayed requirements from the Business.

3.9 Finance portfolio:

The forecast for the portfolio has moved by -£0.295m from -£1.413m to -£1.708m this month. The main movements are:

- -£0.122m as a result of a further reduction in the purchase of Vehicles, Plant and Equipment within Commercial Services from the Renewals Fund following the change in policy to take out operating leases instead.
- -£0.173m Works to Properties for Disposal – a number of projected property disposals have re-phased into 2008-09.

4. RECOMMENDATIONS

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