To: CABINET – 20 April 2009

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REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

1.1 This exception report highlights the main movements since the third full monitoring report to Cabinet on 30 March 2009 and is based on the February monitoring returns.

2. Revenue

2.1 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 Variance	Proposed Management Action	Net Position after management action This Month	Net Position after management action Last Month	Movement
	£k	£k	£k	£k	£k
O,R&S (CFE)	+2,731	-1,197	**+1,534**	+1,325	+209
CF&EA	-1,534	0	**-1,534**	-1,325	-209
Kent Adult Social Services	-584	0	**-584**	0	-584
E,H&W	-2,929	0	**-2,929**	-2,929	0
Regen & SI	-969	0	**-969**	-661	-308
Communities	+72	-72	**0**	0	0
Public Health	-138	0	**-138**	-138	0
Corporate Support	-547	0	**-547**	-492	-55
Policy & Performance	-7	0	**-7**	+7	-14
Finance	-1,326	0	**-1,326**	-717	-609
TOTAL (excl Schools)	**-5,231**	**-1,269**	**-6,500**	**-4,930**	**-1,570**
Asylum	+5,222	0	+5,222	+5,222	0
TOTAL (excl Schools)	**-9**	**-1,269**	**-1,278**	**+292**	**-1,570**
Schools	**+8,000**	**0**	**+8,000**	**+8,000**	**0**

2.2 **Table 2** shows the forecast underlying gross position **before** the implementation of residual management action, compared with the gross position reported last month.

Table 2: Gross Revenue Position before Residual Management Action

Portfolio	Variance This Month £k	Variance Last Month £k	Movement £k
Operations, Resources & Skills (OR&S) (CFE)	+2,731	+2,731	-
Children, Families & Educational Achievement (CF&EA)	-1,534	-1,325	-209
Kent Adult Social Services (KASS)	-584	+33	-617
Environment, Highways & Waste (EH&W)	-2,929	-2,929	-
Regeneration & Supporting Independence (R&SI)	-969	-661	-308
Communities	+72	+338	-266
Public Health	-138	-138	-
Corporate Support & External Affairs	-547	-492	-55

Portfolio	Variance This Month £k	Variance Last Month £k	Movement £k
Policy & Performance	-7	+7	-14
Finance	-1,326	-717	-609
Total (excl Asylum)	**-5,231**	**-3,153**	**-2,078**
Asylum	+5,222	+5,222	-
Total (incl Asylum)	**-9**	**+2,069**	**-2,078**
Schools	**+8,000**	**-8,000**	**-**

2.3 The gross revenue position (excluding schools) is currently an underspend of £0.009m as shown in table 2 above, but this is expected to reduce to an underspend of £6.500m (excluding the pressure on Asylum) by year end, after assuming the implementation of residual management action, as shown in table 1. However, with the inclusion of the Asylum pressure of £5.222m, this reduces to an overall underspend of £1.278m.

2.4 Table 1 identifies that even after management action, a residual pressure is still forecast within the Operations, Resources & Skills portfolio, however this is offset by an underspend on the Children, Families & Educational Achievement portfolio.

3. 2008-09 REVENUE MONITORING POSITION BY DIRECTORATE & PORTFOLIO

The main changes in the gross position before management action this month, as shown in table 2, are:

3.1 Children, Families & Education:

3.1.1 Children, Families & Educational Achievement:
The overall movement in the gross position on this portfolio is an increase in the underspend of £0.209m from -£1.325m to -£1.534m. The main movements are:

- -£0.240m ASK Early Years – an increase in the underspend from -£0.760m to -£1.000m. This is due to lower than expected take up for the Graduate Leader fund which is a strand of the Sure Start grant that funds schemes for existing members of staff in PVI settings to increase their level of qualifications. This strand of the grant is not ring fenced and can be used to cover the underlying problem previously forecast thus allowing the full £1m underspend from delays in opening Children's Centres to be rebadged against this service.
- -£0.138m Independent Sector Residential Care – a reduction in the pressure from +£0.709m to +£0.571m. The pressure on the gross budget has reduced by £0.084m as a planned disability placement is no longer required. There has also been an increase in income of £0.054m following recent approval from Health to fund a placement.
- -£0.161m Other Services Support – a reduction in the pressure from £0.200m to £0.039m mainly due to a reduction in the forecast spend on the legal budget which has reduced by £0.200m due to re-phasing of legal costs into 2009-10. There has also been a small reduction in forecast income of £0.039m.
- +£0.314m Fostering Service – an increase in the pressure from £0.769m to £1.083m which is largely due to an increase in placements. There have been 39 additional KCC foster care placements at a cost of £0.110m; 3 new Independent Fostering Agency placements for children with special needs costing £0.055m; a new guardianship placement of £0.052m and additional 16+ placements of £0.070m. There have been small increases of £0.027m on various other fostering lines.
- +£0.016m Assessment and Related – a minor increase in the pressure from +£0.680m to +£0.696m. However the forecast gross expenditure and income on this service have increased by £0.288m and £0.272m respectively due to an increase in spend and income for Occupational Therapy equipment.

3.1.2 Management Action:
The management action remains as reported to Cabinet in March, (i.e. where possible rebadging eligible expenditure against Sure Start grant, the LA element of DSG and 2007-08 unspent LAA grant), although the value has reduced in light of the movements above.

3.2 Kent Adult Social Services:

3.2.1 The overall movement in the gross position on this portfolio is a reduction of £0.617m from +£0.033m to -£0.584m. The main movements are:

- -£0.330m Older People Residential Care – an increase in the underspend to £0.338m. The number of clients in permanent residential care has reduced by 25 since last month and 77 since the end of November as a result of higher than expected attrition. The reduction in the forecast position also results from revisions to the income forecast as well as reduced estimates for non-permanent weeks of care.
- -£0.353m Older People Nursing Care – an increase in the underspend to £0.448m. The number of clients in permanent care continues to fall because of higher than expected attrition, with the January figure standing at 1,339 which is down 25 from December. The continued high level of attrition has now been more fully reflected in the forecast because, as reported in the Cabinet report last month, there was some uncertainty as to how long this high level would continue. The average unit cost assumed within the forecast has also reduced slightly.
- -£0.035m Older People Other Services – although this forecast has only reduced by £0.035m this month to an underspend of £0.426m, within this is a declared underspend of approximately £0.200m in relation to the Partnerships for Older People Projects (POPPs) which is funded by the Department of Health. This underspend is offsetting increased pressures against the remaining services, including meals, payments to voluntary organisations, and in-house day-care. The POPPs underspend relates to the remaining balance of funding for this project and the Directorate has recently received written confirmation from the Department of Health about how to spend this balance.
- +£0.164m All Adults Assessment and Related – an increase in the pressure to £0.185m. Further savings resulting from holding recruitment to all non-essential posts have been offset by the decision taken with Corporate Finance to cover the known future costs of redundancy and retirement resulting from the review of management and support structures on the basis that the notice letters have been issued and we therefore now have an obligation to pay these costs. We are also accounting for £0.150m of funding from the Department of Health to re-launch the Joint Improvement Partnership (JIP) in the South East region. The JIP is a partnership of organisations involved in improving services within social care and is charged with:
  - Accelerating the pace of improvement and targeting it where capacity to improve is lacking.
  - Promoting and coordinating the range of high quality support available to organisations – mainly at no cost to the recipient – from existing agencies.
  - Promoting the culture that seeking support to deliver better services for users is a sign of strength not weakness.

  The funding from the Department of Health relates to all partners within the JIP. The re-launch will not now take place until the new financial year.
- -£0.158m Mental Health Domiciliary Care – the forecast variance has dropped by £0.158m to an underspend of £0.027m following an in-depth review of the forecasts. Part of this drop is offset with a small increase of £0.062m in residential care as difficulties remain in transferring clients back into the community.
- +£0.005m Mental Health Other Services – a reduction in the underspend from -£0.156m to -£0.151m, however within this variance is an underspend of £0.082m in relation to development work to enable Swift, the client activity system, to be integrated with the EPEX system used by the Kent and Medway Partnership NHS Trust, which will allow Mental Health social workers to input to only one system. The developmental work was to be funded from the increase in the Mental Health Area Based Grant, however due to other priorities in Swift, mainly Client Billing, this area of development has been re-phased to 2009-10.
- +£0.142m Resources – a reduction in the underspend to £0.402m following the decision taken with Corporate Finance to cover the known future costs of redundancy and retirement resulting from the review of management and support structures on the basis that the notice letters have been issued and we therefore now have an obligation to pay these costs. This is off-setting three underspends now declared relating to Client Billing, Data Quality Swift developments, and TDM (Transactional Data Matching) as follows:
  - a provision of £0.446m was created in 2007-08 for Client Billing because of uncertainty around the replacement grant for Social Care IT Infrastructure Capital grant from the Department of Health. However the Directorate has since been notified that it will receive

£0.362m in 2008-09 thereby allowing release of much of the provision to offset the overall revenue pressure within the Directorate (which has been included in previous forecasts). Due to the delay in implementing Client Billing, the Directorate was unable, during 2008-09, to fully develop or enhance some of the reports required for debt management.

- it has not been possible to undertake all of the Swift data quality work expected this year mainly due to the delay of Client Billing and capability within the team to deliver within existing resources. The work and the £0.041m spend that was due to be funded from the Client Billing provision will now occur in 2009-10 which has resulted in an underspend this year.
- during 2008-09 we will receive approximately £0.060m rebate from the Royal Bank of Scotland for the use of Transaction Data Management (TDM) in paying the vast majority of our domiciliary invoices. After much negotiation we eventually agreed the specifications with RBS for the development and commissioning of new reports which was part of the external audit recommendations in 2007-08. However it is highly unlikely that the reports will be fully developed before 31st March 2009, and at this stage we cannot be sure that there will not be further development costs with Northgate, the company who provide Swift.

There are a number of smaller movements across all other services, which are all below £0.1m.

3.3 Regeneration & Supporting Independence portfolio:

The underspend for the portfolio has increased by £0.308m this month to £0.969m. This is due to:

- -£0.170m A2 linear park project - this scheme is supported by £0.250m of KCC funding in 2009-10, together with other funding streams over the life of the project, some of which is time limited. In order to maintain maximum funding flexibility, it is prudent to use the time limited funding before we use our own £0.250m support. Currently, of the £0.250m spend to date, £0.170m is eligible to be charged against the Homes & Communities Agency (HCA) grant available for this project and we are negotiating for including the additional £0.080m. This will mean that £0.170m (possibly up to £0.250m), of our own funding support will not be used this year.
- -£0.138m Supporting Independence – this underspend is made up from £0.056m on apprenticeships and £0.082m on welfare reform. The apprenticeship underspend is a result of the current economic climate and businesses being wary of taking on apprenticeships at the current time. The National Government campaign was also delayed from November 2008 to February 2009. KCC decided to align our activity alongside the National campaign, therefore spend on anticipated 2008-09 activity has had to be directed to the next financial year. The welfare reform element of the underspend is again related to the unprecedented economic downturn. We are working with Job Centre Plus to revise previously agreed activity and approach in order to cope with the large increase in demand. We are looking to develop support and mentoring to benefit claimants, workshops and support sessions in high benefit user locations and targeted approaches to specific archetypes e.g., incapacity benefit claimants, lone parents etc.

3.4 Communities portfolio:

The gross position on this portfolio has improved by £0.266m to a pressure of £0.072m. The main changes are:

- -£0.135m Arts Unit – the Unit had been over optimistic in their spending plans, overstating their outturn position on staff and running costs. Staff costs have been reduced by reflecting staff savings accrued from vacant posts which have not been reflected in previous forecasts. Also there is a saving on the Future creative project and a rates rebate for Hextable Dance.
- -£0.131m from staff savings arising from vacancy management across the directorate. This accords with the management action previously reported.

In addition, Key Training Services are reporting a pressure arising from a reduction in LSC funding as a result of the Demand Led funding structure. The service predicts a £0.100m deficit as a result and has implemented a management action plan to recover the position (although given the timing it is doubtful whether this will have a significant impact). This includes appointing only to business critical posts, reducing expenditure on mileage, expenses and mobile phones and applying a general spending moratorium only permitting business critical expenditure. Any residual deficit will be met from a draw-down from Key Training reserves; therefore there will be no impact on the outturn position in the current year. We are currently investigating whether the implication of the funding volatility extends into the next financial year.

3.6 **Finance portfolio:**

The position on this portfolio has improved by £0.609m mainly on treasury management. This is largely the result of better than expected cash flows, reduced apportionment of interest to the Pension Fund, Schools and Fire in line with the reduction in LIBID rates and delays in new borrowing.

4. 2008-09 CAPITAL MONITORING POSITION BY DIRECTORATE

4.1 There have been a few cash limit adjustments this month as detailed below:

		2008-09 £000s	*2009-10 £000s*
1.	As reported to Cabinet on 30 March 2009	312,363	*404,873*
2.	Additional DCSF grant for Specialist Schools Programme (ORS portfolio)	30	*95*
3.	Dover Big Screen funded by revenue and external funding (Communities portfolio)	60	*20*
		312,453	***404,988***
4.	PFI	73,420	*54,983*
		385,873	*459,971*

4.2 In addition there has been a virement of £10k from the KASS portfolio to the Corporate Support & External Affairs portfolio for their contribution towards the Tenterden Gateway project.

4.3 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)	-3.038	-0.526	-2.512
Children, Families & Educational Achievement	-0.349	-0.003	-0.346
Kent Adult Social Services	-1.666	-0.732	-0.934
Environment, Highways & Waste	-2.618	-1.552	-1.066
Regeneration & Supporting Independence	-0.754	-0.404	-0.350
Communities	-2.407	-2.475	+0.068
Corporate Support & External Affairs	-0.104	-0.107	+0.003
Policy & Performance	-	-	-
Finance	-0.848	-0.572	-0.276
Total (excl Schools)	**-11.784**	**-6.371**	**-5.413**
Schools	-	-	-
Total	**-11.784**	**-6.371**	**-5.413**

4.4 **Table 4: 2008-09 Capital Variance analysed by funding source**

	Capital Variance £m
Supported Borrowing	-0.383
Prudential	-5.040
Prudential/Revenue (directorate funded)	-2.458
PEF2	-0.729
Grant	+1.242
External Funding - Other	+0.034
External Funding - Developer contributions	+0.699
Revenue & Renewals	-3.955
Capital Receipts	-2.103
General Capital Receipts (generated by Property Enterprise Fund)	+0.909
TOTAL	**-11.784**

4.5 The underspend against borrowing (both prudential and supported) shown in table 4 above is a contributory factor in the treasury management underspend reported within the revenue position of the Finance portfolio.

4.6 Overall there is a further -£5.413m of re-phasing of projects this month, as identified in table 3, the main movements are detailed below:

4.7 <u>Operations, Resources & Skills (CFE) portfolio:</u>
The forecast variance for the portfolio has moved by -£2.512m from -£0.526m to -£3.038m this month. The main changes are:

- -£0.982m Oakfield Primary School (Primary Pathfinder Programme) – this project has been delayed due to a variety of reasons which include: the late delivery of the timber frame from Germany; the need to divert a sewer which delayed the start of the nursery block plus a 2 week delay due to the inclement weather in February.
- -£1.003m Special Schools Review. There have been a number of changes on this programme, the more significant being:
  - -£1.435m Meadowfield School - this project has been very problematic. Delays have resulted from: resolving design issues, roof leaks, as well as contractor performance issues.
  - -£0.446m Valence School - The collapse of the access road has delayed progress on the residential accommodation. There has also been some design issues that needed to be resolved with regard to the electricity supply.
  - -£0.269m Milestone School - delays resulting from design & performance issues plus work has been delayed following the need to arrange for asbestos to be removed.
  - -£0.213m Rowhill School - the inclement weather in February together with the discovery of unknown buried utility services has delayed outdoor progress on the project.
  - +£0.970m Ifield School - This overspend relates to the cost of providing 6th Form accommodation at North West College (a second payment of a similar size is due in June 2009).
  - +£0.226m Bower Grove - Extra works have been required to complete the project, these include: basement infill, extra ceiling works & works to the dining hall. The current forecast also includes an assumption of contractor claim liabilities which have yet to be agreed.
- -£0.297m Modernisation Programme 2006/7/8. The larger changes on this programme relate to:
  - -£0.335m Sussex Road Primary School – delays in providing engineering drawings have led to delays on site.
  - -£0.108m Salmestone Primary School – this delay has been caused by the discovery of asbestos in the dining hall.

- +£0.129m Phoenix Community School – the increased spend in 2008-09 is a direct result of deferring a school contribution from 2008-09 to 2009-10.

- -£0.295m St James the Great (Development Opportunity) – this project has been delayed due to the severe weather conditions in February.
- +£0.143m Ashford, The Oaks (Primary Strategy) - £0.070m of the increased spend in 2008-09 is due to the deferral of a school contribution from 2008-09 to 2009-10. The balance of the increase relates to savings that we were previously hoping for not materialising.

Over the period of the MTP, a further pressure of £3.116m has been identified this month on the ORS portfolio, bringing the overall pressure on this portfolio to £5.645m over the MTP period. The previously reported £2.529m will be funded from unapplied capital resources and revenue contributions as explained in last months report. The main movement this month is on the Special Schools Review (SSR) where the costs have increased by £2.949m. The Special Schools Review programme will therefore be re-submitted to PAG, where the extra funding needed to meet these additional costs will be addressed. The reasons for the £2.949m increase in costs on SSR are:

- +£2.025m additional costs associated with providing 6th Form accommodation for Ifield School at North West Kent College
- +£0.500m additional costs required to convert and extend the old Dunkirk Primary School to create primary provision for Orchard Special School
- +£0.275m Bower Grove – extra works have been required to complete the project including basement infill, extra ceiling works and works to the dining hall. The current forecast also includes an assumption of contractor claim liabilities which have yet to be agreed and therefore the overspend may be overstated.

In addition to the increased costs of SSR, there is a further £0.167m increase on other projects, mainly £0.157m on the Quarryfields project which will be funded by additional revenue contributions in 2009-10.

4.8 Children, Families & Educational Achievement portfolio:
The forecast variance for this portfolio has moved by -£0.346m this month from -£0.003m to -£0.349m. This is mainly due to -£0.297m re-phasing of the Transforming Short Breaks (Aiming High) Programme, principally on the Allsworth House project where previous forecasts were over ambitious as the process of agreeing a robust tender document took longer than anticipated. The tender process is now underway.

4.9 Kent Adult Social Services portfolio:
The forecast for the portfolio has moved by -£0.934m from £0.732m to -£1.666m this month. The main movements are:

- -£0.319m Modernisation of Assets/Public Access - an element of this re-phasing relates to recently approved projects, which will not be finalised by the end of the financial year. Another re-phased element has come about as a result of continued directorate restructuring leading to negotiation delays. Finally, KASS always 'hold back' some of their capital programme, pending any urgent works but the demand for this has been less than anticipated.
- -£0.200m Home Support Fund – this is re-phasing due to delays in commissioning work in the current financial year.
- -£0.130m System Renewal Programme – the current ongoing KASS restructuring plans for the directorate have unfortunately led to this re-phasing into 2009-10.

There are a number of other projects re-phasing into 2009-10 but all are below £100k.

4.10 Environment, Highways & Waste portfolio:
The forecast for the portfolio has moved by -£1.066m from -£1.552m to -£2.618m this month. The main movements are:

- -£0.638m Energy and Water Investment project re-phasing into 2009-10. £0.180m of this is due to tunnel lighting works and £0.102m relates to lighting control in KCC buildings which will not now be able to start this financial year. The balance of the underspend relates to various schools' lighting and biomass projects which have been delayed.
- -£0.435m Ashford Ring Road – a small part of this project has re-phased into the new year, although the road is open to the public. This re-phasing will cover CCTV, variable message signs and footway cycle ramps all of which will be carried out in 2009-10.
- -£0.145m re-phasing on the Victoria Way development in Ashford now that fee estimates have been firmed up.

- -£0.300m Household Waste Recycling Centres. Herne Bay site improvement and Dartford Heath site replacement have re-phased by £0.110m and £0.190m respectively, as work on the ground will not start until 2009-10.
- +£0.500m street lighting invest to save project (funded from the revenue underspend on waste). We previously only expected about £0.9m of this programme to be delivered by the year end but we are now forecasting that the full £1.4m of the invest to save project will be completed this year, although there is still the possibility that a small proportion may slip into the new year.

In addition, a £0.240m overspend on highways maintenance to address some of the major repairs due to the recent frost damage on carriageways will be covered by an underspend on the safety camera budget.

4.11 Regeneration & Supporting Independence portfolio:
The forecast for the portfolio has moved by -£0.350m from -£0.404m to -£0.754m this month due to re-phasing of the Dover Sea Change project, which is delayed until 2009-10 as a result of planning issues.

4.12 Communities portfolio:
The forecast for the portfolio has moved by +£0.068m from -£2.475 to -£2.407m this month. The main movements are:

- +£0.234m increased costs of the Ramsgate Library insurance betterment project, based on latest information from both the QS and Project Manager. This project is now forecast to overspend by £0.469m. This is to be funded by resources available from the Newington Library site, an anticipated underspend on the Canterbury High School AE project and an anticipated underspend on the Tunbridge Wells library project in 2009-10.
- +£0.100m Modernisation of Assets in respect of the KEY training IT upgrade to be funded by a transfer from revenue reserves.
- -£0.206m re-phasing of the Library Modernisation Programme. This is because of delays to works at Deal, Marling Cross and Folkestone libraries and works being postponed at Sandwich and Swan Valley libraries as partners have now withdrawn/delayed involvement.

4.13 Finance portfolio:
The forecast for the portfolio has moved by -£0.276m from -£0.572m to -£0.848m this month. The main movements are:

- +£0.100m increased spend on Commercial Services Vehicles, Plant and Equipment to be funded from their renewals fund.
- -£0.230m increased re-phasing of Modernisation of Assets as a result of the SHQ lift maintenance work not being completed until May 2009.
- -£0.090m re-phasing of the Better Workplaces project as installation work needed by ISG cannot be done until May 2009.

5. RECOMMENDATIONS

5.1 Cabinet Members are asked to note the latest forecast revenue and capital budget monitoring position for 2008-09.