To: CABINET – 13 July 2009

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REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

1.1 This is the first exception report for 2009-10, which identifies a number of significant pressures that will need to be managed during the year if we are to have a balanced revenue position by year end.

1.2 Details of issues faced within the capital programme are provided in section 3.

2. 2009-10 REVENUE MONITORING POSITION BY PORTFOLIO

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

Portfolio	**Forecast Variance £m**	**Pressure/Saving**
Children, Families & Education	+0.830	Ongoing impact of pressures experienced in 08-09 on SEN Transport, Fostering, the boarding up & maintenance of closed schools and the moving & hiring of mobile classrooms. These pressures are partially offset by underspending on independent sector residential care and Assessment & Related due to increased income and vacancy management
Kent Adult Social Services	+0.508	Continuation of the trends in 08-09 relating to demographic pressures, more complex needs and a shift from residential to more community based care wherever appropriate
Environment, Highways & Waste	0	
Communities	+0.776	Key Training – impact of rolled forward deficit from 08-09 & base pressure arising from 08-09 late notification of reduction in LSC contracts. Dover Big Screen & Dilapidation costs & deferred projects from 08-09.
Regeneration	0	
Public Health & Health Reform	0	
Corporate Support Services & Performance Management	-0.100	Increased income within Legal Services from trading activity
Localism & Partnerships	+0.178	Continuation of the Committee Manager post through to March 2010 plus other salary pressures within Democratic Services and increased costs of School entry appeals process
Policy	0	
Finance	0	-£1.971m relating to 2009-10 write down of discount saving from 2008-09 debt restructuring but as planned this will be transferred to the Economic Downturn reserve.
Total (excl Asylum)	**+2.192**	

Portfolio	Forecast Variance £m	Pressure/Saving
Asylum	+3.500	Same grant rules & unit costs as 2008-09 assumed. Pressure mainly relates to 18+ care leavers where the Authority supports a high level of clients who do not qualify under the grant instructions. Forecast assumes a £1.2m special circumstances (SC) payment. This is a change in treatment. In previous years our forecasts have excluded income to be claimed through special circumstances due to it's uncertain nature. However, now that the Home Office has issued formal guidance on special circumstances, the receipt of this income is more certain and has therefore been included within the forecast.
Total (incl Asylum)	**+5.692**	

2.1 The £5.692m pressure shown in table 1 above is before the implementation of management action. Directorates are currently working to identify options to reduce these pressures with the intention of delivering a balanced budget position (excluding Asylum) by 31 March 2010. Details of management action plans, where these are already agreed, are included below and details of further plans will be reported in the next monitoring report to Cabinet.

2.2 <u>Children, Families & Education portfolio:</u>

2.2.1 A number of pressures have been identified within this portfolio, which largely reflects a continuation of the pressures experienced in 2008-09. Although we built into the MTP the extent of the pressures we knew about at that time, these pressures have continued to grow. The projected variances have been discussed with the CFE SMT, who support the proposed management action and budget virement detailed below:

- **+£1.000m Capital Strategy** – this budget overspent by £1.371m in 2008-09, mainly due to the costs of the boarding up and maintenance of unused school buildings and moving and hiring of mobile classrooms. Until the property market recovers, the cost of maintaining disused buildings will continue. We are currently forecasting a pressure of **£0.700m** in this area, which includes the assumption that a further £0.5m on top of this £0.7m will be met from the Property Enterprise Fund (PEF2) for properties which are being dealt with through this Fund. Further work will need to be done to firm up this forecast and a clearer position should be available for the next full monitoring report due to Cabinet in September. The pressure on moving and hiring mobile classrooms is projected to continue during 2009-10 due to the fairly constant activity, adding a further **£0.300m** pressure to this budget heading.

- **+£0.700m SEN Transport** – this budget overspent by £1.934m in 2008-09. This budget pressure was identified during the 2009-12 MTP process with £1.2m funding added. However, the current numbers of pupils travelling are still in excess of the numbers that are affordable given the expensive nature of some of the arrangements and consequently this budget is heading for a pressure of around £0.7m.

- **-£1.004m Independent Sector Residential Care** – this service is now securing a significant amount of income from external agencies. Added to this, five disability placements are ending in 2009-10 as the children reach age 18, bringing the total saving in Independent Sector Residential Care to £1.004m. The CFE directorate will be requesting a budget virement to address some of the issues being faced by the fostering and adoption services (see below). The virement will be requested in the first full monitoring return, once further work has been done to firm up the figures.

- **+£0.896m Fostering** - In 2008-09 the fostering service overspent by £1.3m due to the very high levels of Independent Fostering Allowances (IFAs). A **£1.406m** pressure on IFAs is forecast for 2009-10 assuming the current levels of activity continue throughout the year. However, a large provision was made in the MTP to develop the more cost effective in-house service and this is expected to relieve the pressure on the IFA budget once the number of foster carers recruited internally has begun to rise. It is unlikely that the impact of this development will be seen until the second half of the financial year. The pressure on

IFAs is offset to some degree by a forecast underspend in the County Fostering Team of **-£0.237m** and Related Fostering of **-£0.273m**. There is a growing trend of carers moving away from fostering to Special Guardianship (now shown within the Adoption heading below). The overall impact of these variances is a pressure of £0.896m. Subject to approval, the CFE directorate will be looking to vire funds from the Independent Sector Residential Care service to address some of these issues.

- **+£0.387m Adoption** – the Special Guardianship service has been moved here from the Fostering Service this year. The service is forecasting a pressure of £0.387m. Special Guardianship is a relatively new legal option to provide a permanent home for a child for whom adoption in not appropriate. Since it came into force, there has been a growth in this area and a reduction in fostering (mainly related fostering). Subject to approval, the CFE directorate will be looking to vire funds from the Independent Sector Residential Care service to address this issue.

- **-£1.149m Assessment & Related** – there is a high level of staff vacancies, partly as a result of management action in 2008-09 to balance the overall position and partly as a result of delays in recruitment to new posts. It is difficult to judge at this early stage but it is expected that a saving of at least **£0.500m** could be achieved. In addition to this, the service has been successful in achieving income of **£0.450m** from the Health Service for occupational therapy equipment and a further **£0.199m** from various external agencies to support social worker training.

2.2.2 **CFE Management Action:**

A report on the forecast was considered by CFE SMT on 2nd June and a plan of management action was agreed to address the projected overspend and other pressures facing DSG funded budget lines. A number of new posts were agreed in the 2009-12 MTP, some of which are funded by specific grant. The process of recruiting to these posts is being managed through Establishment Panel to achieve a planned delay in recruitment where posts are funded internally. We are at an early stage in the process but initial projections suggest that there may be around £0.330m of savings to be achieved. The remaining £0.500m will be met from rebadging Early Years expenditure against the Sure Start grant, which is expected to underspend due to delays in the opening of Round 3 Children's Centres. This is the last year we can expect an underspend within Children's Centres, as the final round of centres is expected to be fully functioning by the end of this financial year.

In view of the pressures this year and in the coming MTP period, CFE SMT also agreed to look at a number of areas for further work:

- measures to provide more SEN provision in house to save on the costly out of county placements,
- cross-directorate working to develop proposals for the transition from CFE to KASS of 16/17 year olds with challenging behaviour, in order to achieve a better quality of service and improved value for money,
- reviewing income cash limits in the light of the outturn report to ensure that the directorate is maximising the use of budgets in the light of income levels achieved. Work on this has already begun within Children's Social Services, and an area of saving has been highlighted in the forecast.

2.2.3 **Asylum:**

Pressure continues on the asylum budget due to costs which cannot be claimed back from the Home Office under the grant rules. The majority of the pressure comes from the 18+ care leavers budget, as the Home Office grant does not fund clients once they have exhausted all right of appeal for residency, however the Authority has a duty under the Leaving Care Act to support these clients until they are deported or reach age 21. The Authority is continuing to lobby central government in order to seek further funding for these clients and a meeting is currently being scheduled for the end of July with the UK Borders Agency where this issue will be discussed. It is too early to give precise figures due to the volatility of the client numbers month by month and the fact that the 2009-10 grant prices have not yet been issued, but early indications suggest that the shortfall, after assuming an estimated special circumstances payment of £1.2m, may be in the region of £3m to £4m.

2.2.4 **Schools Delegated:**

Schools' revenue reserves reduced by 23% to £52.0m (excluding Unallocated Schools reserves of £11.2m) and capital reserves reduced by 44% to £9.5m at the end of 2008-09 financial year. This reduction was the effect of the review and subsequent tightening of the balance control mechanism, a means of clawing back schools reserves over and above a specified level, which schools have been encouraged to work towards before they formally apply at the end of the 2009-10 financial year.

The CFE Directorate, in consultation with its School Funding Forum, has agreed to run a similar process as last year, to challenge those schools with a high level of revenue reserves greater than 16% of their 2008-09 budgets for Primary and Special Schools or 10% for Secondary Schools.

It is impossible at this stage to estimate the impact this may have on school reserves for 2009-10. The first monitoring returns from schools are due in October and an update on the schools' forecast movement on their reserves during 2009-10 will be provided as soon as the information is available.

2.3 Kent Adult Social Services portfolio:

2.3.1 The initial forecast indicates a pressure of £0.508m. It should be noted that detailed forecasts are currently being worked on, in order that the report to be Cabinet in September is more firmly based. Over the forthcoming weeks, the KASS SMT will be working to ensure that appropriate Guidelines for Good Financial Practice are in place to reduce the pressure in order to achieve a balanced position by the end of the financial year. KASS are also in the process of reviewing all cash limits and affordable levels of activity in the light of the 2008-09 outturn and any changing trends in activity that have become apparent since the budget was set. Requests for virement or for realignment of gross and income cash limits will be submitted as part of the full monitoring report to Cabinet in September.
This forecast pressure assumes that all savings identified within the Medium Term Plan will be achieved. Work is on-going with Areas to identify methods of accurately tracking progress against each saving on a monthly basis.

The main reasons for the £0.508m pressure are detailed below:

2.3.2 **-£0.925m Older People Residential Care** – this forecast assumes a continued reduction in the number of people in permanent residential care based on known trends. The number of clients has dropped from 2,832 in March to 2,817 in April. The Directorate will review the level of cash limit against this heading in light of the continued reduction in placements and the budget pressure against nursing care.

2.3.3 **+£0.592m Older People Nursing Care** – although numbers of Older People who are frail and in a nursing placement are expected to remain fairly stable, it is assumed that the number of clients with dementia will increase. The overall number of nursing placements in April was 1,333, which is an increase of one from March. It should be noted that the budgets were realigned in 2008-09 to reflect the changed priorities in the Directorate to keep clients, wherever possible, within a community based setting and to reflect changing trends in activity. The Directorate is reviewing these assumptions for the first full monitoring report to Cabinet in September where requests for virement or realignment of gross and income cash limits may be submitted.

2.3.4 **-£0.667m Older People Domiciliary Care** – this budget remains very difficult to forecast with great accuracy at this early stage, as it is the most volatile activity line within the directorate. The number of clients has reduced from 6,490 in March to 6,457 in April and if this reduction continues it may be necessary to review the cash limit against this line.

2.3.5 **+£0.618m Learning Disability Residential** – this includes estimates of costs for clients known to be coming into residential placements during the year ahead. Alongside demographic growth within this client group, there is increasing pressure relating to new and existing clients whose needs are becoming more complex. This is particularly true for those clients coming through transition from childhood. The forecast assumes that a number of clients will be transferred into Supported Accommodation placements during the year and the success of this will have to be closely monitored. The number of clients has increased from 640 in March to 645 in April. It should be noted that the budgets were realigned in 2008-09 to reflect the changed priorities in the Directorate to keep clients, wherever possible, within a community based setting such as supported accommodation or via direct payments, rather than residential care, however this change has not happened as quickly as anticipated. The Directorate is reviewing these assumptions for the first full monitoring report to Cabinet in September where requests for virement or realignment of gross and income cash limits may be submitted.

2.3.6 **+£0.974m Physical Disability Residential Care** – this results from similar pressures seen within Learning Disability residential. Although the number of clients has reduced from 222 in March to 217 in April, this level remains significantly higher than the affordable level. It should be noted that as with Learning Disability Residential, the budgets were realigned in 2008-09 to reflect the changed priorities in the Directorate to keep clients, wherever possible, within a community based setting such as supported accommodation or via direct payments, rather than residential care, however this change has not happened as quickly as anticipated. Again the directorate is reviewing these assumptions for the first full monitoring report to Cabinet in September where requests for virement or realignment of gross and income cash limits may be submitted.

2.3.7 **+£0.305m Mental Health Residential** – the number of clients expected to remain within a residential placement is above the level afforded in the budget. The affordable level was reduced as a result of the decision in 2008-09 to realign budgets to reflect the changed priorities in the Directorate to keep clients, wherever possible, within a community based setting such as supported accommodation or via direct payments, rather than residential care, however this change has not happened as quickly as anticipated. These community based lines are forecasting a combined underspend of **-£0.165m** which helps to offset the pressure against residential.

2.3.8 **+£0.262m Mental Health Other Services** – this primarily results from the need to set up a provision for a potential future liability.

2.3.9 In addition to these variances, there are a number of other smaller variances, each below £0.1m, across all other services which make up a further £0.486m underspend, particularly within Physical Disability services.

2.4 Environment, Highways & Waste portfolio and Regeneration portfolio:

There are no pressures or underspends to report, however there will be a number of virements required to reflect reorganisation changes since the original budget and to resolve budget issues within service divisions that are reported as separate lines within the budget eg the Resources budget within EH&W portfolio also includes support to the Regeneration portfolio. The total of these adjustments is likely to mean a transfer to the Regeneration portfolio of around £0.4m. Formal virement requests will be submitted once the figures are finalised. This is likely to be in the first full monitoring report to Cabinet in September.

2.5 Communities portfolio:

A net pressure of £0.776m is forecast which is due to:

2.5.1 **+£0.533m KEY Training** – this is made up as follows:

- *+£0.211m*: the deficit on KEY in 2008-09 was £0.454m after drawing down £0.131m of available reserves. This deficit has been offset by £0.243m of underspends in 2008-09 elsewhere within the portfolio, giving an aggregated roll forward deficit on KEY of £0.211m (if approved by Cabinet).
- *-£0.145m*: part of the 2008-09 deficit was as a result of a mid-year change in payment profiles from the LSC for funding for Entry to Employment. Although this funding was earned during 2008-09, it will not be received until July 2009.
- *+£0.440m*: the reduction in LSC contracts in 2008-09 is a base pressure and will have a similar impact in 2009-10. The deficit in 2008-09 was £0.454m but this was after netting off £0.131m of reserves (which have now been fully utilised), therefore the gross pressure was £0.585m. We are expecting to receive £0.145m of Entry to Employment grant by July 2009 to offset part of this pressure, as this was purely a timing difference between incurring the costs and receiving the income, therefore the underlying base pressure is £0.440m.
- *+£0.027m*: the most current indication from the LSC of maximum contract values for 2009-10 shows a further reduction of £0.027m.

It should be noted that in view of the 2008-09 outturn and the potential for further changes to income levels, the Director of Finance and Cabinet Member for Finance have asked Internal Audit to review KEY's financial controls and monitoring processes.

2.5.2 **+£0.243m** as the 2008-09 underspending has been offset against the KEY deficit, there is no funding to roll forward to fund the following deferred projects and pressures**:**

- +£0.036m Kent Volunteers Towards 2010 target to support volunteer organisations whose aim is to enhance volunteering in Kent
- +£0.060m Dover Big Screen additional unanticipated costs, including highways, legal, piling and archaeological fees, which would delay the unveiling if not met
- +£0.039m deferred funding from 2008-09 in relation to Folkestone Forward project
- +£0.108m Contribution toward Church Street dilapidation costs. These are currently estimated at £0.3m for remediation of both the internal and external areas, with the dilapidation works currently out to tender. Negotiations are ongoing with the previous tenants and stakeholders regarding liability for funding these works.

2.5.3 **Management Action**

2.5.3.1 KEY Training

A review of the underlying pressure within KEY training is to be undertaken and recommendations for resolving this within the Communities Directorate by the end of 2009-10 will be brought to a future meeting of Cabinet for approval.

2.5.3.2 Other pressures

A management action plan is in the process of being devised to mitigate the £0.243m pressure identified in paragraph 2.5.2. This will be put forward in the next monitoring report to Cabinet in September.

2.6 Corporate Support Services & Performance Management portfolio:

A net saving of £0.100m is forecast, which is due to:

- **-£0.100m Legal Services** – this is based on a projection of April trading activity continuing at a similar level throughout the year.

2.7 Localism & Partnerships portfolio

A net pressure of £0.178m is forecast, which is due to:

- **+£0.178m Democratic Services** – £0.117m of this is due to the continuance of the Committee Manager post through to March 2010 plus other salary pressures including three incidents of maternity cover. The other £0.061m is due to the increased costs of running the school entry appeals process on behalf of CFE.

2.8 Finance portfolio:

Within this portfolio there is a saving of £1.971m which relates to the write down in 2009-10 of the £4.024m discount saving on the debt restructuring undertaken at the end of 2008-09. (£0.39m was written down into 2008-09, therefore leaving a further £1.663m to be written down over the period 2010-11 to 2012-13). As planned, this saving will be transferred to the Economic Downturn Reserve, hence a balanced position is currently forecast for this portfolio.

3. 2009-10 CAPITAL MONITORING POSITION BY DIRECTORATE

3.1 There have been a number of cash limit adjustments since the published 2009-10 budget book, some of which have already been reported, full details below:-

		£000s	*£000s*
		2009-10	*2010-11*
1	As published in 2009-10 Budget Book exc PFI	435,918	*420,361*
2	New grant for Playbuilder programme – CFE portfolio	548	*618*
3	Modernisation of Assets - additional external funding – CFE portfolio	38	
4	Sittingbourne Northern Relief Rd – additional grant – EH&W portfolio	20	*4*
5	A2 Linear - additional secured external funding - EH&W portfolio	859	
6	Shorne Wood Heritage Project - additional lottery funding - EH&W portfolio	41	
7	Works to Properties for Disposal - reduction to account for properties now in PEF2 - CSS&PM portfolio		*-621*
8	Ramsgate Library - reduction of PEF2 funding - property passed to KASS – CMY portfolio	-123	
9	Dover Big Screen - extra external funding – CMY portfolio	45	
10	Previously reported cash limit changes:		
	Specialist Schools - CFE portfolio	95	
	Tovil Primary - CFE portfolio	1,481	
	Manor Road - CFE portfolio	95	
	Dover Big Screen - CMY portfolio	20	
	Renewal of Library ICT - CMY portfolio	25	
	Works to Properties for Disposal - CSS&PM portfolio	-205	
		438,857	***420,362***
11	PFI	54,983	*27,101*
		493,840	*447,463*

3.2 Although the capital monitoring returns from Directorates show significant variances from budget, most of this will be resolved once the roll forward of the capital re-phasing from 2008-09 is added to the cash limits. This will be done for the first full monitoring return of the year which will go to Cabinet in September. There are a few issues not related to roll forwards and these are detailed below.

3.3 <u>Children, Families & Education portfolio</u>

- Multi Agency Resource Centre (Ashford) potential increase – within the Aiming High/Transforming Short Breaks Programme there is currently an allowance of £750k towards a Multi Agency Resource Centre in the Ashford area. However this project will be combining with a PCT funded scheme & the investment will increase to circa £4,650k. The development will take place on the Wyvern school site (Clockhouse) & hopefully will also link to the completion of Special School Review scheme.
- Special Schools Review: Current estimates would indicate a pressure in 2009/10 of £3.773m (all years £4.243m) in implementing the schemes approved. The main contributing elements to this overspend relate to the inclusion of :
  (i) Ifield School (+£1.659M in 2008/09 & a further +£0.180m in 2009/10) – this extra cost relates to the provision of 6th form accommodation for the school at North West Kent College,
  (ii) Orchard, Dunkirk (+£0.500m all in 2009/10) – agreement to convert & extend the old Dunkirk Primary School to create primary provision for Orchard Special School
  (iii) The Wyvern School (+£0.500m all in 2009/10) - The Wyvern project will involve the construction of two fit for purpose care suites and the complete refurbishment of the existing toilet areas. Refurbishment work is also required to the Brookfield premises where internal adaptations and redecoration works are required. The heating system will also be improved.

When complete the project will enable the school to operate coherently in more suitable accommodation than existing until the long-term solution of new accommodation can be delivered. The balance of additional costs has resulted from a number of design & performance issues across the programme. The overall funding shortfall will be addressed as part of Medium Term Planning process.

- Quarryfield Self Funded Project: +£145k - the outdoor environmental centre project is expected to complete in 2009/10 & will be fully funded from revenue contributions.

3.4 Adult Social Services portfolio

- Broadmeadow extension re-phase -£825k – The re-phased forecast against the Broadmeadow extension project has come about as a result of building works delayed until the start of November 2009, with an eight months build timeline.
- Princess Christian Farm -£614k - Princess Christian Farm has re-phased, the expected profile of this project is to start in 2010-11, reflecting ongoing negotiations with its future partner, Hadlow College.

3.5 Regeneration portfolio

- Forthill de-dualling +£80k - in order to complete public realm work at Harbour view and some remedial works at Parade. External funding and developer contribution is in place to cover this.
- The Kent Thames Delivery Board +£60k - this additional expenditure is due to capitalising project management and this will be funded from revenue.

3.6 Communities portfolio

- Modernisation of Assets +£385k brought forward from 2010-11 as part of the re-phasing of community infrastructure projects.
- Ramsgate Library +£216k is the additional overspend now forecast by the project manager. The total unfunded balance is £381k and will be met by the £280k under spend forecast on the Tunbridge Wells project and the balance managed within the overall capital programme or if necessary from a delay in the mobile library replacement programme.
- Turner Contemporary -£1,171k latest forecast profile from the contractor. In spite of this we are anticipating the gallery will be completed on time in 2010 with the official opening in 2011.
- Dover Big Screen +£45k – additional costs associated with piling and archaeology, funded from either a revenue contribution or from within the overall communities capital programme.
- Tunbridge Wells Library -£280k forecast underspend. This reflects the highest cost option of those being considered for essential DDA access works in co-operation with TWBC against a budget of £600k which was matched funding towards the Heritage Lottery Fund (HLF) bid proposals. The underspend will be required to fund the overspend on Ramsgate library.

4. RECOMMENDATIONS

Cabinet is asked to:

4.1 **Note** the initial forecast revenue and capital budget monitoring position for 2009-10.

4.2 **Note** that a review of the underlying pressure within KEY training will be undertaken and that recommendations for resolving this within the Communities Directorate will be brought to a future meeting of Cabinet for approval.