

To: Communities Policy Overview Committee – 2nd June 2008

From: Mike Hill, Cabinet Member and Amanda Honey, Managing Director

Subject: **Financial Monitoring 2007/08**

Classification: Unrestricted

FOR INFORMATION

1. Introduction

- 1.1 This is a regular report to this Committee on the forecast outturn against budget for the Communities portfolio.

2. Background

- 2.1 Policy Overview Committees consider the draft Medium Term Financial Plan at their November and January meetings. To enable a more informed discussion, three reports will be presented to the Committee on a regular basis:

a) **Budget Monitoring reports**

A detailed quarterly budget monitoring report is presented to Cabinet, usually in September, December and March, and a draft final outturn report in June. A report for each directorate is annexed to the summary report, and the annex for the Communities directorate will be presented to this Committee at the meetings following those Cabinet meetings. This will help inform this POC about current trends, pressures and management actions in advance of the next year's budget setting.

We are trying to address the gaps between these quarterly reports to Cabinet and the timing of POC meetings but this will have to be treated as a corporate issue and cannot be easily be resolved by individual POCs. There has not been a quarterly report to Cabinet since the POC met on 2nd April and Cabinet has only received exception reports on 14th April and 12th May. The content of this report takes account of the exception reports but the attached appendix is the same quarterly report to cabinet on 17th March as reported on 2nd April (albeit we have included a % variation as requested at the last meeting).

b) **Performance data**

This will be reported to this Committee twice a year in January and June, the first report being in January 2008

c) **Outturn report**

Effectively an amalgam of the above two, the outturn report will summarise both the financial and performance information for the whole of the preceding year. This will be reported to the next POC on 22nd September.

- 2.2 Armed with the above, the POCs will be in a stronger position to question and comment on the future budget and medium term proposals, as they will be asked to do at the November and January meetings.

3 Quarterly monitoring report

- 3.1 Attached is the monitoring report for the third quarter for Communities directorate. The main points (including any issues identified in subsequent exception reports) are highlighted below. The table has been amended to show net variance as an amount and percentage.

3.2 **Revenue**

- a. The position for the Adult Education service remains the same as the last quarter with the service unable to implement plans to repay the £500k loan that was made available in 2006/07 and an in year deficit of expenditure exceeding income of £330k due to unexpected decline in enrolments and the service's inability to reduce costs in line with the reduced tuition fee income and additional costs associated with staff restructuring and premises reorganisation.

We have developed a strategy to cover the accumulated deficit of £830k in 2008/09 and 2009/10, and identified the changes the service needs to make in order that it can be more responsive to variations in income in future. This strategy is currently being translated into a detailed action plan together with contingencies in 2008/09 and 2009/10 which should enable the service to absorb variations from the plan until such time as it can make structural changes to be in a position to respond to market conditions more rapidly. In the meantime the service remains exposed to market volatility.

Inevitably these changes will mean the service has to take a more business like approach which could have an impact on the employment of permanent staff, where courses are delivered, and the fees paid by students. In particular, the strategy to increase the yield from tuition fees through attracting more students to existing courses, developing new courses where students pay the full cost of courses including contribution to overheads, and developing new markets is the subject of a separate report to the POC later on the agenda.

- b. The budget for the Coroners shows an increased forecast overspend of £106k since the last report, and is now reporting an over spend of £312k. The additional overspend is as a result of claims for the additional cost of long inquests and further unexpected price increases for mortuary provision. We had previously flagged the risk that the costs associated with long inquests are unpredictable. We are continuing to work with Coroners to identify trends in expenditure and variations between the 4 Coroner's districts in an attempt to

make costs more predictable. The additional overspend is offset by additional under spends on non staffing budgets.

Due to the nature of Coroner's work much of the pressure is unavoidable and KCC cannot directly influence their work. We have identified an additional £200k to add to the Coroner's base budget in 2008/09. This should bring the budget back into balance as some of the pressures in 2007/08 are one-offs, although we are still vulnerable if there are any long or major inquests.

- c. We have completed the restructuring of the Cultural Development unit. This restructuring was driven by KCC's need to make the unit more strategic rather than in response to budget issues, and will not address the forecast overspend of £140k in 2007/08 which mainly arises from loss of income from EU grants and trading activity through Kent Superior Pictures based in Dover.

The new structure will ensure that the unit can deliver its more strategic role without any change to the overall net budget for 2008/09 and beyond, as this reflects the reductions in both expenditure and income. We have completed the transfer of Kent Superior Pictures to a local school. There will be some redundancy costs to be absorbed in 2008/09 as only the net reduction in posts can be funded from the Corporate Workforce Reduction Fund. These redundancy costs will be covered through managing vacant posts.

- d. The Library service has faced diminishing income from the rental of audio visual resources due to increased availability of alternative sources. The service has undertaken a review of its marketing strategy and has repositioned itself to recover some of the lost income although it will not be able to fully achieve the original planned budget resulting in a revised budget which is £120k less. The service reviewed the expenditure budgets for AV purchases and other consumables and non staffing budgets to offset this forecast loss of income.

Despite encouraging signs from a pilot study, the rollout of the new strategy is not achieving the revised target of number of issues and we are anticipated and income is forecast to be a further £130k short of the revised budget. The service has been able to make up this shortfall through merchandising other products in libraries.

The Library service has also made a significant contribution of £100k towards the directorate target to generate £500k of savings on non essential non staffing budgets to offset the forecast overspends in Coroners, Cultural Development and YOS.

- e. There are a number of budgets that are held centrally which are not devolved to individual services to manage. This includes day to day revenue building maintenance, directorate wide events and initiatives, internal recharges to Adult Education, rollovers from previous years and income from Dedicated Schools Grant (DSG). Since the last report we have had to incur additional expenditure on the day to day building maintenance budget which is forecast to overspend by £130k over and above that reported in the March report to Cabinet. We are planning to cover this over spend, the deficit rollovers from previous years, and a

number of other one off issues that have arisen during the year affecting this central budget from reviewing reserves.

- f. The number of calls to Consumer Direct South East is less than 2006/07 and the service is forecasting to a net shortfall of £188k on income levels principally due to lower than anticipated call volumes. Within this income the service has been able to earn a quality bonus worth £95k and has earned other income worth £59k. The service has under spent on staffing and other expenditure budgets by £86k. This leaves a net deficit £102k which is planned to be met from reserves set up when the service was first established to cover trading deficits.
- g. As previously reported we have set services targets to deliver under spends on non-essential non-staffing budgets to cover the forecast overspends on Youth Offending Service, Cultural Development and Coroners. It is planned that the over spend on Adult Education will be rolled forward. The over spend on central budgets and Consumer Direct South East will be covered from a draw down from reserves.

3.3 Capital

- a. Although the capital programme shows a significant under spend in 2007/08 (forecast spend of £4.719m against an original budget of £23.661m) the vast majority of this represents slippage into future years rather than under spending. Most of the slippage is on projects that are still in the planning stage and the revised spending forecast represent a more realistic assessment of when building works can commence. These changes are reflected in the revised capital programme published in 2008/11 Medium Term Financial Plan. Since the MTP was published there has been some minor slippage on remaining projects but none in excess of £250k.

4 Recommendations

- 4.1 Members of the POC are asked to note the projected outturn figures for the directorate as per the May exception monitoring report to Cabinet.

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Appendix: Communities Directorate Summary January 07-08 Full Monitoring Report

Appendix 1

COMMUNITIES DIRECTORATE SUMMARY JANUARY 2007-08 FULL MONITORING REPORT

1. FINANCE

1.1 REVENUE

1.1.1 All changes to cash limits are in accordance with the virement rules contained within the constitution, with the exception of those cash limit adjustments which are considered “technical adjustments” i.e. where there is no change in policy, including:

- Allocation of grants and previously unallocated budgets where further information regarding allocations and spending plans has become available since the budget setting process.
- Cash limits have been adjusted since the last full monitoring report to reflect a number of technical adjustments to budget.

1.1.2 **Table 1** on the next page details the revenue position by Service Unit:

| Budget Book Heading | Cash Limit | | | Variance | | | | Comment |
|-----------------------------------|------------|---------|--------|----------|--------|--------|----------|---|
| | G | I | N | G | I | N | Net as % | |
| | £'000s | £'000s | £'000s | £'000s | £'000s | £'000s | of Gross | |
| Communities portfolio | | | | | | | | |
| Turner Contemporary | 885 | -82 | 803 | 234 | -234 | 0 | 0.0 | Increased grant from Arts Council and expenditure on activities |
| Kent Drug & Alcohol Action Team | 15,165 | -13,438 | 1,727 | 976 | -1,004 | -28 | -0.2 | Increased income from NTA and expenditure on Stonehouse PFI |
| Youth Offending Service | 5,613 | -1,889 | 3,724 | 1,017 | -927 | 90 | 1.6 | Additional income from prevention grant & partners & associated expenditure |
| Adult Education | 12,667 | -13,213 | -546 | 1,097 | -267 | 830 | 6.6 | Non delivery of surplus, additional grant and contract income with associated expenditure, and loss of tuition fee income |
| Cultural Development | 1,404 | -225 | 1,179 | 38 | 102 | 140 | 10.0 | Ongoing impact of the loss of EU grants which have supported unit budget since restructuring in 2003/04 |
| Libraries, Information & Archives | 26,069 | -2,787 | 23,282 | -152 | -98 | -250 | -1.0 | Directorate savings & book fund purchases funded from developers contributions. |
| Dover Discovery Centre | 383 | -383 | 0 | | | | 0.0 | |
| Sports, Leisure & Olympics | 1,128 | -312 | 816 | 1,180 | -1,203 | -23 | -2.0 | External grants and directorate savings. |
| Youth Services | 9,092 | -1,570 | 7,522 | -23 | | -23 | -0.3 | Directorate savings |

| Budget Book Heading | Cash Limit | | | Variance | | | | Comment |
|---------------------------------------|-----------------|------------------|---------------|--------------|----------------|----------------|------------------|---|
| | G | I | N | G | I | N | Net as % | |
| Key Training | £'000s 4,000 | £'000s -3,865 | £'000s 135 | £'000s 7 | £'000s -134 | £'000s -127 | of Gross -3.2 | Bonuses on European Social Fund projects |
| Kent Community Safety Partnership | 4,706 | -134 | 4,572 | -86 | 75 | -11 | -0.2 | Directorate savings |
| Contact Centre | 4,877 | -1,921 | 2,956 | -299 | 266 | -33 | -0.7 | income shortfall due to reduced CDSE activity & directorate savings |
| Coroners | 2,089 | -322 | 1,767 | 255 | -49 | 206 | 9.9 | Mortuary & specialist fees, pay award & income from Medway |
| Emergency Planning | 753 | -172 | 581 | -41 | 30 | -11 | -1.5 | Directorate savings |
| Kent Scientific Services | 1,575 | -1,578 | -3 | -81 | 36 | -45 | -2.9 | Directorate savings |
| Registration | 4,242 | -2,452 | 1,790 | 123 | -188 | -65 | -1.5 | Accommodation expenditure & additional fee income |
| Trading Standards | 4,432 | -485 | 3,947 | 64 | -93 | -29 | -0.7 | Directorate savings |
| Policy & Resources | 1,456 | -97 | 1,359 | 2 | -8 | -6 | -0.4 | Directorate savings |
| Centrally Managed directorate budgets | 75 | -1,738 | -1,663 | -418 | 633 | 215 | 286.7 | Deficit rollover, unachieved vacancy savings, DSG and draw down from reserves |
| Total Communities controllable | 100,611 | -46,663 | 53,948 | 3,893 | -3,063 | 830 | 0.8 | |
| Original Turner Contemporary | | | | 300 | | 300 | | |
| Total | 100,611 | -46,663 | 53,948 | 4,193 | -3,063 | 1,130 | | |
| Assumed Management Action | | | | | | | | |
| Forecast after Mgmt Action | | | | 4,193 | -3,063 | 1,130 | | |

1.1.3 Major Reasons for Variance:

Table 2, at the end of this section, details all forecast revenue variances over £100k. Each of these variances is explained further below:

1.1.3.1 Turner Contemporary – The latest forecast gross expenditure and income on Turner Contemporary are £234k more than the cash limit. The additional income includes £200k secured from the Arts Council to support activities on Turner Contemporary. The additional expenditure relates to these activities.

1.1.3.2 Kent Drug and Alcohol Action Team – The latest forecast gross expenditure is £976k more than the cash limit and income is £1004k more than cash limit giving a net under spend of £28k. The net under spend represents the service's contribution from slowing down expenditure on non essential non staffing budgets as part of the directorate's response to over spends in other services within the directorate.

The main reason for the variation in expenditure and income is £900k received from the National Treatment Agency to support the Stonehouse PFI project which provides 16 in patient de-toxification beds in a dedicated facility in Dartford.

1.1.3.3 Youth Offending Service – The latest forecast gross expenditure on YOS is £1.017m more than the cash limit and income is £927k more than cash limit giving a net overspend of £90k. Earlier forecasts identified that the net pressure was due to anticipated placement of offenders in secure accommodation following decisions by the courts. As the year has progressed there have been fewer placements in secure accommodation than we had forecast and this pressure has been resolved. Nonetheless, decisions by courts remain an unavoidable pressure for the service requiring a contingency in future year's budgets. However, a net £90k overspend is still being reported as since the last quarter's report we have identified unbudgeted office accommodation charges that have to be paid.

The main reason for the variation in expenditure and income is £566k Prevention Grant secured from the Youth Justice Board that was not included in the original budget. The remainder of the variances arise from expenditure on the head office and area teams and specific projects, which is offset by increased contributions from partners and funding for specific projects that were not included when the original budget was set. The staff element is £300k as when budgets have been set in the past the element of staff costs funded from partners has not been included as partner's additional contributions had not been finalised in time.

1.1.3.4 Adult Education – The latest forecast gross expenditure on the AE service is £1,097k more than cash limit, income is £267k more than the cash limit giving a net over spend of £830k which can be attributed to the difficulty the service has faced to deliver the challenging target to generate a £500k surplus in 2007/08 to fully repay the loan from Finance portfolio used to cover the deficit in 2006/07, the significant loss of tuition fee income due to lower than anticipated take-up of courses which cannot be fully offset by reducing expenditure on course provision, and the additional costs associated with restructuring and premises reorganisation. All the other variances represent matching income and expenditure and have no impact on the net costs.

The major reasons for the variances are by and large as previously reported and include:

- *Immigration Service* – The budget included the removal of the previous contract for the prisons service which came to end in July 2006 and transferred to the voluntary sector. Following a review the service has retained the provision of education services to the Immigration Service effective from April 2007. The revised forecast includes planned income of £381k and expenditure of £340k under this contract.
- *Business Development* – since the budget was agreed the AE service has adopted a new strategy towards business development and has employed a business development manager with a remit to generate more than twice as much income (£260k) than the annual salary and running costs (£120k).
- *LSC Formula Grants* – The service has received £230k more in its final settlement from the LSC for Adult and Community Learning (ACL) and Further Education (FE) than expected when the budget was set. Some of this additional funding has to be spent on particular activities e.g. £161k additional guided learning hours for Family Language, Literacy and Numeracy (FLLN) and Family Learning (FL) programmes. The service is facing the loss of Information and

Guidance grant and clawback on LSC grants for 2005/06 and 2006/07 which collectively reduce grant income by £117k.

- *Tuition Fees* – The budget included proposed changes to the fee and concession structures which would have increased total fee income by £133k but these have not been fully implemented as they were deemed not necessary in light of the other changes in income and expenditure. The budget also included an increase in the yield from tuition fees due to increased enrolments and charges. We are forecasting a further shortfall on tuition fees of £568k due to lower than anticipated take-up of courses in September. Enrolments in January are also slightly lower than planned but the impact is minimal as the majority of enrolments happen at the start of the academic year in September.
- *Staff Restructure & Redundancies* – The restructuring of the service in response to reductions in LSC funding has resulted in significant redundancies in 2006/07 and 2007/08. It was agreed that up to £240k would be funded from a corporate reserve. In 2007/08 the service is estimating redundancy costs of £176k of which only £95k can be funded out of the remainder of the £240k available leaving a net pressure of £81k. There is also a pressure of £15k resulting from delays in implementing the new arrangements resulting in an overall net pressure in 2007/08 of £96k.
- *Projects* – these include a number of projects that were not finalised at the time the budget was set that attract external funding increasing income (£161k) and expenditure (£104k).
- *Neighbourhood Learning and SIP* – The original budget included contributions of £135k towards the cost of these programmes which we no longer expect to receive. There has been a one-off contribution from the roll forward of Finance Portfolio under spend from 2006/07 towards the deficit carried forward from the 2006/07 programme but the service has to cover the ongoing cost of the programme within its overall income from 2007/08 and beyond without receiving these additional contributions.

1.1.3.5 Cultural Development Unit – The latest forecast spending is £38k more than cash limit, income is £102k less than cash limit, giving a net overspend of £140k. We had previously identified a shortfall of £100k on the Arts Unit budget due to the loss of income from EU grants. This will be addressed through a staff restructuring which will take effect in 2008/09. It was agreed to exclude the small team that produces audio visual resources for schools on a trading basis from the restructuring even though it was identified that the team is not fully recovering its costs from sales of audio visual materials to schools. The additional £40k overspend reflects this deficit on trading activities. We are seeking to outsource this venture and we have had some encouraging expressions of interest.

1.1.3.6 Libraries and Archives – The latest forecast spending is £152k less than the cash limit, income is £98k more than the cash limit giving a net under spend of £250k. The main contributing factor to the under spend is £100k savings being achieved by slowing down expenditure on non essential non staffing budgets as part of the directorate's response to over spends in other services within Communities.

The service has faced diminishing income from the rental of audio visual materials. The service undertook a thorough review and concluded that they could significantly increase issues if they focussed on the more specialist areas, offered loans for longer periods and reduced the cost of loans. This review resulted in a revised income projection of £701k against a budget of £821k. Although the graph and statistics in section 2.3 indicate we are falling short of this revised projection, the income for quarter 3 is incomplete as a number of districts missed the deadline for banking December income over the Christmas period which meant it was not

included in January reports. This income has now been banked and will be reflected in February reports. The service is confident they will still deliver the revised income projection resulting in £120k overspend. This will be offset by a combination of additional income from other sources not included in the original budget and a further reduction in spending on consumables. The income forecast also includes £60k of developer contributions which will be used to fund the cost of new library stock purchases in response to housing developments.

- 1.1.3.7 Sports, Leisure and Olympics – The latest forecast spending is £1.180m more than the cash limit and income £1.203m leaving a net under spend of £23k representing the unit's contribution from slowing down expenditure on non essential non staffing budgets as part of the directorate's response to over spends elsewhere within Communities.

The main sources of the additional income are grants from Sport England £300k, Regional Sports Board (RSB) of £250k, and the balance from a range of other bodies. Additional expenditure includes £113k on community sports coaches and £250k on staff and running costs associated with RSB grants.

- 1.1.3.8 KEY Training – The service has secured an additional £127k grant from the European Social Fund which was not included in the original income budgets. This relates to bonuses received on closure of ESF funded projects through the LSC where expenditure has already been incurred resulting in a net under spend in 2007/08.

- 1.1.3.9 Contact Centre – The latest forecast expenditure is £299k less than the cash limit and a shortfall in income of £266k leaving a net under spend of £33k representing the unit's contribution from slowing down expenditure on non essential non staffing budgets as part of the directorate's response to over spends elsewhere within Communities.

The main reason for the reduced income is due to lower than anticipated activity for Consumer Direct South East (CDSE), as demonstrated by the graph and statistics in section 2.1. This service is provided under a contract with Trading Standards South East Ltd (TSSL) which receives grant from the Office for Fair Trading. Under the contract CDSE receives funding according to the number of calls received. The income received is £249k less than budgeted. The service has made some savings on staff and other running costs but to achieve a balanced budget is drawing down £172k from reserves established to cover trading fluctuations.

- 1.1.3.10 Coroners Service – The latest forecast spending is £255k more than the cash limit, income is £49k more than cash limit giving a net overspend of £206k. The single major reason for this over spend is the increased cost of mortuary fees (£107k). This pressure arises from a number of factors including more referrals by doctors following the Shipman report, above inflation fees being charged by NHS hospital trusts for post mortems, and the cost of the transfer of bodies from Maidstone to Medway following the closure of the mortuary at Maidstone hospital. We have renegotiated these fees reducing the pressure from earlier forecasts. The service is also facing a pressure of £60k for other specialist fees due to increased referrals.

The Coroners pay award for 2007-08 (finally settled in November 2007) worked out to a 10.775% increase. This quarter's forecast includes the impact of the award which results in a £40k additional pressure on staff costs. We have negotiated an increase in contributions from Medway Council to reflect their share of the pressures and intend to draw up a more formal agreement to cover inflationary and demand increases. This will generate an extra £49k income.

1.1.3.11 Registration Service – The latest forecast spending is £123k more than the cash limit and income £188k leaving a net under spend of £65k.

The main reason for the additional spending is £126k on premises as a result of property acquisitions/lease renewals in previous years not reflected in the budget. The service is also spending £67k on the new Ceremonies and Registration Appointment system (CARA) that was not included in the budget and is saving on planned expenditure on enhancements to records storage facilities at the Tunbridge Wells office of £70k which needs to be included in the modernisation of assets programme in the capital budget for 2008/09.

The additional £188k income arises from a higher yield from charges for wedding and citizenship ceremonies than budgeted.

1.1.3.12 Centrally Managed Budgets – The centrally retained budget includes day to day buildings maintenance, income from DSG and recharges to AE, deficit rollovers on Coroners and Policy from 2006/07 and other issues that arise during the year. The deficits rolled forward amount to £221k and a number of one-off issues of £82k have arisen. To balance these we have undertaken a review of all the reserves and have identified £303k in reserves that could be drawn down if other savings cannot be achieved.

The Dedicated Schools Grant includes the allocation of £562k of income for services provided to schools in Libraries, Community Safety, Youth Service and Contact Centre which can be funded from the grant. The total income budget identified through the MTP is £782k. We have investigated our ability to charge individual schools for services but concluded this is not feasible. This leaves a residual pressure of £220k on the central budget which we have resolved from under spends in other services within Communities.

1.1.3.13 Mediation and Litigation on Original Turner Gallery – The directorate is forecasting expenditure in 2007/08 of £300k on legal and other professional fees related to the claim against the architects and their professional advisers responsible for the original design of the Turner Gallery in Margate. The basis of KCC's claim is that the architect and their advisers were negligent in substantially under estimating the costs of constructing a steel structure to be based in the sea. If we are successful the £300k costs involved in preparing our case would be recovered but it is unlikely this will now be resolved this year.

Table 2: REVENUE VARIANCES OVER £100K IN SIZE ORDER

| Pressures (+) | | | Underspends (-) | | |
|---------------|--|--------|-----------------|---|--------|
| portfolio | | £000's | portfolio | | £000's |
| CMY | KDAAT Costs associated with Stonehouse PFI supported by additional NTA funding | +900 | CMY | KDAAT NTA income for Stonehouse PFI | -900 |
| CMY | AE loss of Tuition Fees | +568 | CMY | YOS Prevention Grant Income | -566 |
| CMY | YOS Prevention Grant Expenditure | +566 | CMY | AE Income for Immigration Contract | -381 |
| CMY | AE Immigration Contract Expenditure covered by increased income | +340 | CMY | Central draw down from reserves | -303 |
| CMY | Expenditure on mediation and litigation on original Turner Gallery | +300 | CMY | Sports - Grant income from Sports England | -300 |
| CMY | YOS share of staff costs funded from Partner contributions | +300 | CMY | Increased partner contributions for YOS | -300 |
| CMY | Sports - RSB activity expenditure supported by income | +250 | CMY | AE Business Development Income | -260 |
| CMY | CDSE income shortfall due to reduced calls | +249 | CMY | Sports - RSB income to support activities | -250 |
| CMY | Rolled forward deficits form 2006/07 | +221 | CMY | Additional LSC AE Formula Grants | -230 |
| CMY | Services chargeable to Dedicated Schools Grant | +220 | CMY | Turner ACE Grants to support activities | -200 |

| Pressures (+) | | | Underspends (-) | | |
|---------------|---|--------|-----------------|---|--------|
| portfolio | | £000's | portfolio | | £000's |
| CMY | Expenditure on Turner Contemporary Activities supported by ACE Grant | +200 | CMY | Registration Fees from weddings and citizenship ceremonies | -188 |
| CMY | Increased guided learning hours for Family and Lifelong Learning in AE | +161 | CMY | CDSE draw-down from reserves | -172 |
| CMY | Neighbourhood Learning & SIP | +135 | CMY | AE Project grants | -161 |
| CMY | AE fee and concessions policy revisions not implemented | +133 | CMY | Key Training bonuses on European Social Fund grant | -127 |
| CMY | Registration premises leases | +126 | CMY | Libraries & Archives savings from reduced expenditure on non staffing budgets | -100 |
| CMY | AE Business Development Expenditure covered by increased income | +120 | | | |
| CMY | Libraries & Archives underachievement of AV income | +120 | | | |
| CMY | AE loss of Information & guidance grant and clawback of LSC grants from 2005-06 and 2006-07 | +117 | | | |
| CMY | Sports - project expenditure on community sports coaches | +113 | | | |
| CMY | Coroners Mortuary fees | +107 | | | |
| CMY | AE project expenditure covered by increased income | +104 | | | |
| CMY | Arts unit reduction in grant income | +100 | | | |
| | | +5,450 | | | -4,438 |

1.1.4 **Actions required to achieve this position:**

We have reviewed the YOS budget and tackled a number of issues relating to staffing and premises budgets, and income from partners. We have identified some unbudgeted expenditure for accommodation recharges which can be covered by under spends in other services within Communities. The Youth Offending Service will make provisions for these recharges within 2008/09 budget through reductions elsewhere. The budget for secure accommodation for young offenders sentenced by courts remains the only area for outstanding concern although the 2008-11 MTP includes provision for a £100k contingency for this.

The Adult Education service has undertaken a major restructuring in response to a 16% reduction in LSC funding allocations and made changes to its tuition fee structure. This has resulted in the loss of nearly 70 permanent staff posts and a reduction in sessional tutor hours of over 30%. Some unforeseen one-off costs associated with the restructuring and loss of tuition fee income means the service cannot return to a balanced budget position this year and generate the necessary surplus to repay the £500k loan from the Finance portfolio allocated to cover previous year's overspends without resulting in irreparable damage to the service's reputation. Without the loss of tuition fee income due to lower than expected enrolments, the service would not have incurred the additional £330k deficit. The actions proposed to address the £500k and £330k are detailed in paragraph 1.1.7.

We have embarked on a restructuring of the Cultural Development unit. Consultation with staff and unions has taken place on the proposed structure. Four members of staff have opted for voluntary redundancy and we are currently completing recruitment to the new structure affecting the remaining 9 members of staff at risk. The savings accruing from the restructuring are needed to deliver the current MTP and will not deliver any additional savings. The cost of voluntary redundancies will be funded from the workforce reduction fund.

We have reviewed all budgets to identified areas where services can slow down expenditure on non essential non staffing budgets. Actions plans have been agreed with divisional directors and Heads of Services and £388k of savings are being delivered to offset the significant overspends in Coroners, Cultural Development and YOS identified in previous monitoring returns. These savings will not have any impact on front line services. We have also reviewed balances held in reserves and will be using some of these to offset against overspends rolled forward from 2006-07 and unachieved staffing savings.

The budget for the Policy Unit has an underlying pressure of £300k. This mainly relates to £165k for the Asset Management Team, which when funding was disaggregated was funded from the capital programme, but latest advice from external auditors is that this can no longer be treated as capital expenditure. We have been able to contain this pressure during 2007-08 by a number of factors including revising the amount of overheads recharged to externally funded services, holding vacancies longer than planned and identifying other revenue expenditure which can be charged to capital.

1.1.5 Implications for MTP:

The pressures on Coroners and YOS for secure accommodation are imposed outside the direct control of the authority and are reflected in the MTP as additional pressures.

The restructuring of the Cultural Development Unit is also reflected in the MTP through reduced income and expenditure following restructuring. The cost of ongoing early retirement payments arising from this restructuring have also been included in the MTP.

The repayment of the £500k loan to cover the 2006/07 deficit on the AE service is proposed to be rolled forward and is reflected in the MTP as £250k surplus in each of 2008/09 and 2009/10. The additional pressure to restore the AE base budget to a net zero to offset the £500k taken out of the base in 2007/08 is also reflected.

The underlying pressure in the Policy Unit mainly relates to costs that can no longer be charged to capital. We will resolve this by identifying revenue expenditure on IT upgrades and other asset enhancements which can be charged to capital and transfer the revenue funding into the policy unit. We will report the implications for the capital programme once we have identified the upgrade element that is integral within existing IT contracts.

The unallocated vacancy saving will be delivered through a range of further efficiency savings to be reflected as budget adjustments during the year. During 2007/08 we have achieved £388k of in year efficiency savings through slowing down expenditure on non essential non staffing budgets. We intend to make these savings base budget savings although it was not possible to include firm proposals in the MTP.

1.1.6 Details of re-phasing of revenue projects:

N/A

1.1.7 Details & impact of proposals for residual variance:

We will be seeking to rollover the £830k accumulated deficit on the AE service. As detailed in paragraph 1.1.5 above, the £500k loan from the Finance portfolio is now planned to be repaid across 2008-09 and 2009-10. Plans to reduce costs in order to repay this are already in place through £100k reduction in management and administration costs, £105k additional income from reviewing concessions policies and £295k additional income from tuition fees and developing new markets. Plans for the remaining £330k which represents the 2007-08 in year deficit of expenditure against income are currently being developed as part of a fundamental review of the AE service. This review will look at reducing the proportion of AE costs that are fixed in the short term (principally staff and buildings) so that the service can be more responsive to changes in student numbers (and thus fee income) and LSC funding in future.

1.2 CAPITAL

1.2.1 All changes to cash limits are in accordance with the virement rules contained within the constitution and have received the appropriate approval via the Leader or relevant delegated authority.

Cash limits have been adjusted since the last full monitoring report to reflect:

| | 2007-08 | 2008-09 | 2009-10 | Future Years |
|------------------------------|---------|---------|---------|--------------|
| | £000s | £000s | £000s | £000s |
| ▪ Re-phasing per 2008-11 MTP | -18,280 | -3,095 | +12,849 | +5,894 |

1.2.2 **Table 3** below provides a portfolio overview of the latest capital monitoring position.

| | Prev Yrs Exp £000s | 2007-08 £000s | 2008-09 £000s | 2009-10 £000s | Future Yrs £000s | TOTAL £000s |
|--------------------------------|-----------------------|------------------|------------------|------------------|---------------------|----------------|
| Communities | | | | | | |
| Revised budget per Dec Cabinet | 20,768 | 23,661 | 14,073 | 5,259 | 5,820 | 69,581 |
| Adjustments: | | | | | | |
| - re-phasing per 2008-11 MTP | | -18,280 | -3,095 | 12,849 | 5,894 | -2,632 |
| Revised Budget | 20,768 | 5,381 | 10,978 | 18,108 | 11,714 | 66,949 |
| Variance | | -563 | +499 | | | -64 |
| split: | | | | | | |
| - real variance | | -64 | | | 0 | -64 |
| - re-phasing | | -499 | +499 | | 0 | 0 |
| Real Variance | | -64 | 0 | 0 | 0 | -64 |
| Re-phasing | | -499 | +499 | 0 | 0 | 0 |

1.2.3 Main Reasons for Variance

Table 4 below, details all forecast capital variances over £250k in 2007-08 and identifies these between projects which are:

- part of our year on year rolling programmes e.g. maintenance and modernisation;
- projects which have received approval to spend and are underway;
- projects which are only at the approval to plan stage and
- projects at preliminary planning stage.

The variances are also identified as being either a real variance i.e. real under or overspending which has resourcing implications, or a phasing issue i.e. simply down to a difference in timing compared to the budget assumption.

Each of the variances in excess of £1m which is due to phasing of the project, excluding those projects identified as only being at the preliminary planning stage, is explained further in section 1.2.4 below.

All real variances are explained in section 1.2.5, together with the resourcing implications.

Now that the capital cash limits have been adjusted for the re-phasing which has been reflected in the 2008-11 MTP, there are no variances in excess of £250k.

Table 4: CAPITAL VARIANCES OVER £250K IN SIZE ORDER

| portfolio | Project | real/ phasing | Project Status | | | |
|--|---------|------------------|-------------------|-------------------|------------------|----------------------------|
| | | | Rolling Programme | Approval to Spend | Approval to Plan | Preliminary Planning Stage |
| | | | £'000s | £'000s | £'000s | £'000s |
| | | | | | | |
| Overspends/Projects ahead of schedule | | | | | | |
| | None | | | | | |
| | | | 0 | 0 | 0 | 0 |
| Underspends/Projects behind schedule | | | | | | |
| | None | | | | | |
| | | | 0 | 0 | 0 | 0 |
| | | | | | | |
| | | | 0 | 0 | 0 | 0 |

1.2.4 Projects re-phasing by over £1m:

None

1.2.5 Projects with real variances, including resourcing implications:

- Mortuaries Refurbishment – The cost of work at Medway Maritime Hospital is now confirmed and will result in a saving of £64k this year.

The true underlying variance is therefore an underspend of £64k.

1.2.6 General Overview of capital programme:

(a) Risks

- Adult Education at Canterbury High School – we may need to make provision for a part of any potential overspend on this project (a) if the school will not contribute the additional £160k spent last year on the project, and/or (b) if there is an over spend attributable to the adult education facility.
- Edenbridge – if the planning approval is not forthcoming this project cannot proceed. If the costs of the facility are higher than expected they will have to be met from the capital receipt. However, it is possible the capital receipt may be insufficient, particularly as £1m has been agreed to meet CFE costs in which case we will have to make provision for any overspend.

- (b) Details of action being taken to alleviate risks
- Adult Education at Canterbury High School – the school are taking legal action against their professional advisors to recover the overspend and further detailed work is in hand to identify how the additional costs should, if appropriate, be shared between the school and AE.
 - Edenbridge – the proposals are being developed in close co-operation with Sevenoaks planners, planning advisors and property valuers.

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

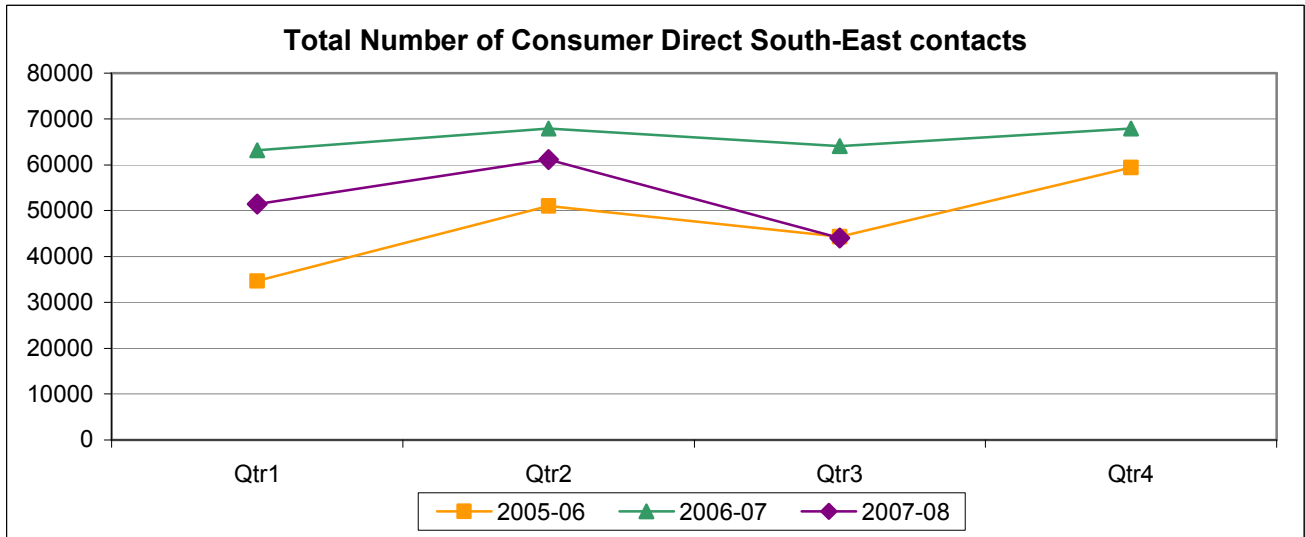
2.1 Number of Consumer Direct South-East contacts, by local authority area:

| | 2005-06 | 2006-07 | 2007-08 | | | | TOTAL |
|--|---------------------------|---------------------------|--|----------------------|----------------------|----------------------|---------------------------|
| | | | Qtr1 | Qtr2 | Qtr3 | Qtr4 | |
| | <i>Total for the year</i> | <i>Total for the year</i> | 01/04/07 to 30/06/07 | 01/07/07 to 30/09/07 | 01/10/07 to 31/12/07 | 01/01/08 to 31/03/08 | <i>Total for the year</i> |
| Bracknell Forest | 715 | 330 | 209 | 271 | 188 | | |
| Brighton & Hove | 7,116 | 5,834 | 987 | 899 | 662 | | |
| Buckinghamshire | 9,006 | 4,012 | 614 | 708 | 690 | | |
| East Sussex | 9,717 | 9,893 | 1,843 | 2,047 | 1,705 | | |
| Hampshire | 19,105 | 12,520 | 2,237 | 2,167 | 1,554 | | |
| Isle of Wight | 2,129 | 2,106 | 346 | 446 | 349 | | |
| Kent | 29,074 | 21,500 | 3,571 | 4,028 | 3,115 | | |
| Medway | 1,671 | 1,249 | 267 | 358 | 248 | | |
| Milton Keynes | 1,037 | 671 | 85 | 91 | 101 | | |
| Oxfordshire | | | No immediate plans to switch | | | | |
| Portsmouth | 5,524 | 4,332 | 571 | 547 | 548 | | |
| Reading | 2,582 | 2,952 | 534 | 564 | 536 | | |
| Royal Borough of Windsor & Maidenhead ² | 809 | | Callers to RBWM are asked to redial CDSE direct | | | | |
| Slough | 1,826 | 1,717 | 346 | 380 | 288 | | |
| Southampton | 4,680 | 3,780 | 24 | 374 | 454 | | |
| Surrey | 21,660 | 19,278 | 2,846 | 3,480 | 2,808 | | |
| West Berkshire | 1,503 | 1,831 | 278 | 261 | 179 | | |
| West Sussex ³ | | 2,334 | 1,441 | 1,257 | 991 | | |
| Wokingham | 758 | 648 | 176 | 170 | 171 | | |
| Main English Landline ^{*1} | 60,248 | 127,064 | 26,852 | 33,479 | 20,998 | | |
| Main English Mobile ^{*1} | 7,712 | 25,073 | 5,398 | 6,677 | 5,520 | | |
| Calls handled for other regions | 2,532 | 6,373 | 407 | 63 | 432 | | |
| Call-backs handled for other regions | | 1,017 | 0 | 407 | 56 | | |
| E-Mails | | 8,546 | 2,405 | 2,496 | 2,448 | | |
| 2007-08 TOTAL | | | 51,437 | 61,170 | 44,041 | | |
| 2006-07 TOTAL by Qtr | | 263,060 | 63,185 | 67,865 | 64,080 | 67,930 | |
| 2005-06 TOTAL by Qtr | 189,404 | | 34,616 | 51,015 | 44,334 | 59,439 | |

*1 – These are calls received directly on the 0845 number which, although known to be from one of the local authorities in the CDSE area, cannot be identified by individual local authority.

*2 – since 01/01/06 callers to RBWM Trading Standards are asked to redial CDSE direct

*3 – since January 2007, West Sussex calls and e-mails have been diverted to CDSE.



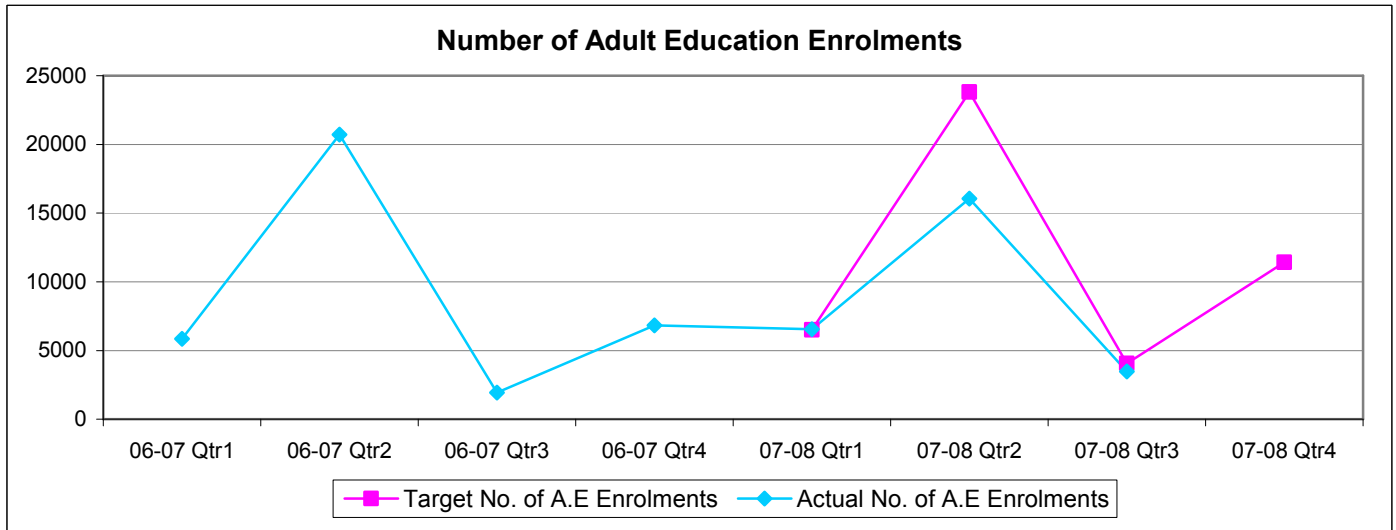
Comments

- Consumer Direct South East is funded according to the number of calls it receives. When it was established a reserve of £172k was set up to cover trading deficits. The impact of reduced call volumes means all this reserve needs to be drawn down in the current year.
- We are negotiating with Trading Standards South East Ltd (TSSL) and with partner authorities the extent to which they will cover potential trading deficits on CDSE in future. We are also working on decreasing the time taken to respond to calls

2.2 Number of Adult Education Enrolments:

| | Financial Year | | |
|--------------|----------------|---------------|----------------|
| | 2006-07 | 2007-08 | |
| | A.E Enrolments | Target | A.E Enrolments |
| April – June | 5,849 | 6,501 | 6,567 |
| July – Sept | 20,713 | 23,803 | 16,052 |
| Oct – Dec | 1,925 | 4,071 | 3,473 |
| Jan - March | 6,829 | 11,416 | |
| TOTAL | 35,316 | 45,791 | 22,619 |

In previous years we have shown the number of Adult Education learners. This year we have revised the data to show the number of enrolments as this gives a better picture, as some learners enrol on more than one course. Enrolments is a better indicator of income levels than student numbers as both LSC Further Education (FE) formula grants and tuition fees are based on enrolments.



Comments:

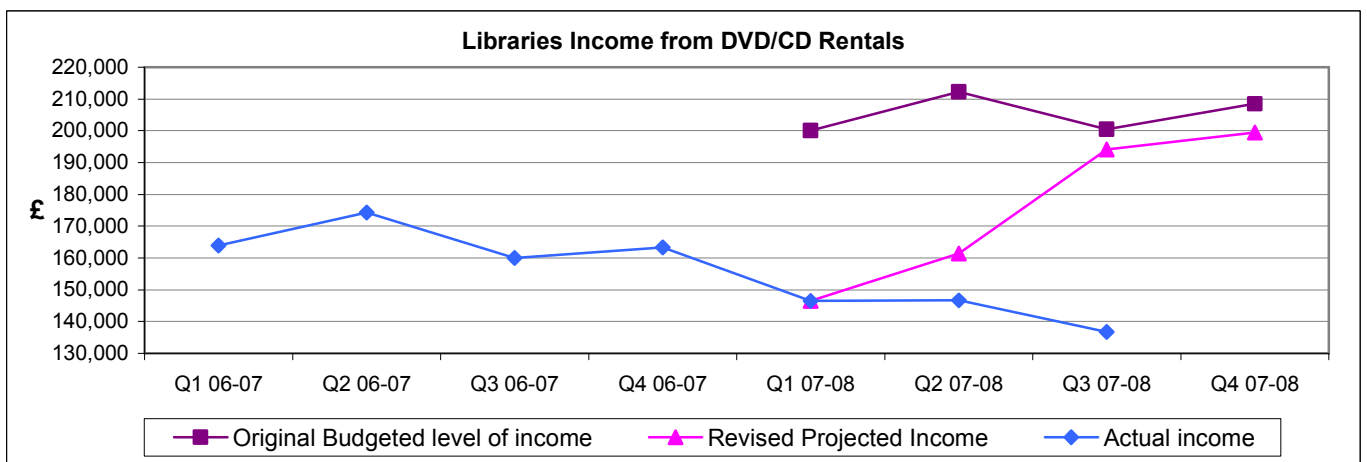
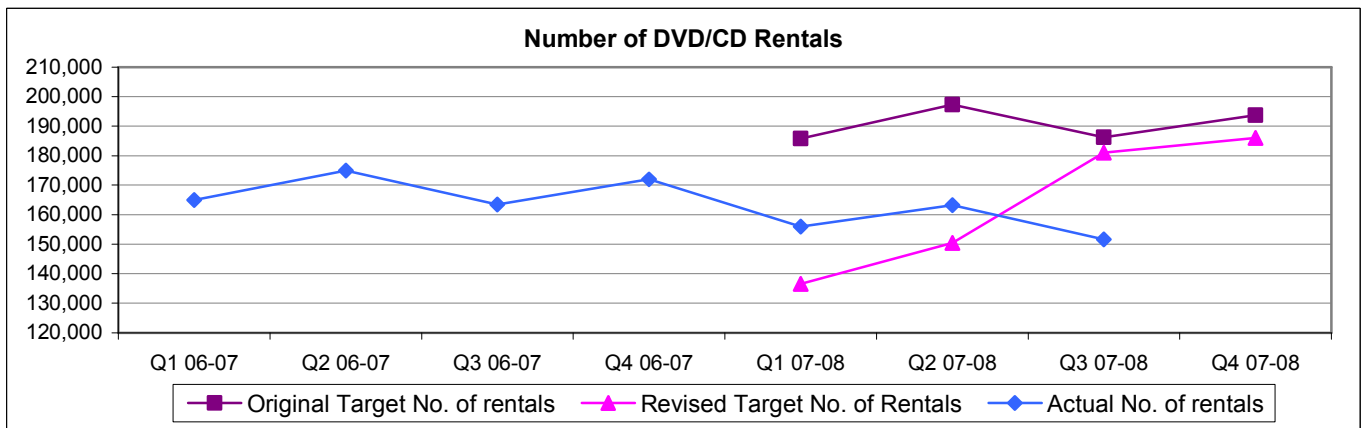
- The LSC formula grants depend partly on enrolments to courses. Students taking courses leading to a qualification are funded via Further Education (FE) grant based upon the course type and qualification. However, students taking non-vocational courses not leading to a formal qualification are funded via a block allocation not related to enrolments, referred to as Adult and Community Learning Grant (ACL) grant. Student enrolments are gathered via a census at three points during the academic year.

Students pay a fee to contribute towards costs of tuition and examinations. There is a concession on ACL tuition fees for those aged under 19, those in receipt of benefits and those over 60. FE courses are free for those aged under 19 or in receipt of benefits undertaking Basic Skills or Skills for Life Courses.

The AE service has reduced expenditure on course provision as a result of lower than anticipated enrolments, however there remains a residual pressure on the AE budget which is largely as a result of a reduction in tuition fee income due to the reduced enrolments.

2.3 Number of Library Audio Visual rentals together with income raised:

| | 2006-07 | | 2007-08 | | | | | |
|--------------|----------------|----------------|-----------------|----------------|----------------|----------------|--------------------------|----------------|
| | No of rentals | Income (£) | No of rentals | | | Income (£) | | |
| | actual | Actual | Budgeted target | revised target | actual | budget | revised projected income | actual |
| April – June | 164,943 | 163,872 | 185,800 | 136,556 | 155,958 | 200,000 | 146,437 | 146,437 |
| July – Sept | 174,975 | 174,247 | 197,300 | 150,500 | 163,230 | 212,300 | 161,390 | 146,690 |
| Oct – Dec | 163,470 | 160,027 | 186,200 | 181,000 | 151,650 | 200,400 | 194,096 | 136,698 |
| Jan – March | 171,979 | 163,269 | 193,700 | 186,000 | | 208,500 | 199,458 | |
| TOTAL | 675,367 | 661,415 | 763,000 | 654,056 | 470,838 | 821,200 | 701,381 | 429,825 |



Comments:

- Target figures for 2006/07 have not been shown as this data was not presented in monitoring reports last year
- Rentals of audio visual materials (especially videos and CDs) continue to decline as videos become more obsolete and alternative sources for music become more widely available. Demand for spoken word materials and DVDs has remained.
- Research undertaken by the service indicates issues can be increased if loans are offered for longer periods at a reduced fee. The service has also identified that it has a niche market for certain genres where demand can be sustained and there is little competition e.g. old TV shows.
- The service has reviewed its marketing strategy and set more realistic levels of rentals both in terms of volume and value. The service has increased income from other sources not included in the original budget and reduced expenditure on consumables to offset the estimated loss of £120k income.
- There was an increase in the rentals in quarter 2 but the income did not increase due to the reduced cost of rentals, as detailed in section 1.1.3.6 of this annex. Although rentals appear to have declined in quarter 3 this is partly due to incomplete data from some districts due to the Christmas break and missed deadlines for returns. A compensatory increase should be seen in the final quarter's data.
- In previous reports the actual number of rentals only included those from visits to lending libraries, the rentals now also include postal loans and reference materials.