TO:	**Corporate Policy Overview & Scrutiny Committee – 20th March 2012**
BY:	**Paul Carter, Leader** **Alex King, Deputy Leader** **John Simmonds, Cabinet Member for Finance and Business Support** **Roger Gough, Cabinet Member for Business Strategy, Performance and Health Reform** **David Cockburn, Corporate Director, Business Strategy and Support**
SUBJECT:	**Financial Monitoring 2011/12**
Classification:	**Unrestricted**

Summary:

Members of the POSC are asked to note the third quarter's budget monitoring report for 2011/12 as reported to Cabinet on 19th March 2012.

FOR INFORMATION

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1. **Introduction**

1.1 This is a regular report to this Committee on the forecast outturn for the Business Strategy & Support Directorate and Financing Items budgets within the Corporate Services portfolios.

2. Forecast Outturn

2.1 A detailed quarterly budget monitoring report is presented to Cabinet, usually in September, December and March, and a draft final outturn report in June. These reports outline the full financial position for each portfolio and are reported to POSCs after they have been considered by Cabinet. In the intervening months an exception report is made to Cabinet outlining any significant variations from the quarterly report.

2.2 The third quarter's monitoring report for 2011/12 was presented to Cabinet on 19th March 2012. Extracts from the annex for the Business Strategy & Support Directorate for the portfolios reporting to this POSC and the annex for Financing Items are attached as annexes 1 and 2.

2.3 Revenue Budget

Business Strategy & Support Directorate

2.3.1 Since the last report to this POSC in January we have identified the following significant variations:

a. The pressure on Finance & Procurement has risen to £484k, which is partially off-set by an underspend within the Audit team (-£107k) in the Democracy & Partnerships portfolio. The pressure is due to all the one-off actions (setting up a dedicated ERP team; back-fills for vacancies and re-phasing of 11-12 savings) which support the complete restructure of the Finance & Procurement Division taking effect from 1st April 2012.

b. HR Business Operations (HRBO) have worked hard to reduce their pressures by -£250k this period, reducing their net overspend to +£238k. The Learning & Development team have generated more income (-£62k) and continued to reduce their expenditure (-£172k) as they adjust for the reduced demand experienced this year.
   HR Non-Business Operations have increased their underspend by -£279k, taking it to an outturn forecast of -£768k. The budgeted spend in the Adult Learning Resource Team has been delayed until the new Director of Families and Social Care develops a training strategy and decides on future commissioning requirements. Other costs have been reduced by changes to training venues and catering requirements.
   The forecast position for HR as a whole is therefore an underspend of -£530k.
c. Property & Infrastructure are forecasting a net underspend of -£496k this quarter due primarily to reduced activity whilst the centralisation of budgets for Corporate Landlord has taken place (-£584k). The Workplace Transformation Programme also has significant re-profiling (-£257k) due to the need to revise strategic priorities and align with the Capital programme. The Property & Infrastructure Group have been undergoing a complete restructure and this has contributed to these one-off delays in expenditure as well as generating reduced salary costs (-£250k) from the 1st tier management restructure. Gross underspends have been offset by some reduced income streams. Due to the expected backlog of maintenance requests resulting from the creation of the Corporate Landlord model, Property & Infrastructure will be requesting a roll-forward in order to meet the increased demand in the new financial year.
d. Information & Communication Technology (ICT) are reporting an underspend of -£343k which relates to the Kent Public Services Network (KPSN) contract. Although orders have been placed with the contract providers, long lead times have pushed delivery of some upgraded circuits to beyond 31st March 2012. A roll-forward of this money will therefore be required to meet the commitment in 2012-13.

2.3.2 The overall position for the Portfolios reporting to the Corporate Policy Overview & Scrutiny Committee is a forecasted underspend of -£1.674m. Revenue project re-phasing accounts for £0.652m, probable roll-forward requests for £0.239m, leaving -£783k currently 'uncommitted' underspend.

Financing Items

2.3.4 The Financing Items report for Quarter 3 moved to an underspend of -£10.1m. Members of the POSC are directed to Annex 2 to read the detailed explanations of this movement.

2.4 Capital

2.4.1 The capital forecast for Quarter 3 shows an underspend of -£4.0m due to significant re-phasing in the following projects:

- Modernisation of Assets (-£1.310m re-phasing). Understanding the budgets and requirements for all buildings centralised under Corporate Landlord has caused delays whilst needs and priorities have been assessed.
- Sustaining Kent – Maintaining the Infrastructure (-£1.253m re-phasing). Redesign of the delivery programme for Unified Communications in order to meet the Government Connects Code of Connection security requirements, has impacted

on the external technical resource availability, pushing delivery in to 2012-13 (-£0.655m).
A further (-£0.598m) re-phasing relates to other work streams within the overall programme, impacted by the delays to Unified Communications.

- Workplace Transformation (-£0.750m re-phasing). Strategic priorities for our Corporate Estate continue to be re-assessed, resulting in the need for further re-phasing.

3 Recommendations

3.1 Members of the POSC are asked to note:
the projected outturn for the Business Strategy and Support Directorate and Financing Items for 2011/12 based on the third quarter's monitoring report to Cabinet.

Background Documents:

1) Cabinet 19th March 2012 – Revenue and Capital Budgets, Key Activity and Risk Monitoring

Officer Contact:
Jackie Hansen
Acting Finance Business Partner
(Business Strategy & Support)
Ext. 4054

BUSINESS STRATEGY & SUPPORT DIRECTORATE SUMMARY JANUARY 2011-12 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" ie 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 virement of £0.070m from the Health Reform budget in the Business Strategy, Performance & Health Reform portfolio to the Public Health Management and Support budget within the Adult Social Care & Public Health portfolio for health inequalities and a number of other technical adjustments to budget.
- The inclusion of new 100% grants (ie grants which fully fund the additional costs) awarded since the budget was set. These are detailed in Appendix 1 of the executive summary.

1.1.2 **Table 1** below details the revenue position by A-Z budget line:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Adult Social Care & Public Health portfolio							
Public Health Management & Support	809	-430	379	31	-33	-2	£14k additional activity & income for Public Health Champions; £12k additional activity & income from C&C Directorate for Domestic Abuse Training
Public Health - Health Promotion	314	-221	93	-4	1	-3	
Public Health - Local Involvement Network (LINk)	0	0	0			0	
Total ASC&PH portfolio	**1,123**	**-651**	**472**	**27**	**-32**	**-5**	
Customer & Communities portfolio							
Public Health - Health Watch	78		78	2	0	2	
Total C&C portfolio	**78**	**0**	**78**	**2**	**0**	**2**	
Regeneration & Enterprise portfolio							
Directorate Management & Support	419		419	0	0	0	
Development Staff & Projects	4,421	-275	4,146	0	0	0	
Total R&E portfolio	**4,840**	**-275**	**4,565**	**0**	**0**	**0**	
Finance & Business Support portfolio							
Finance & Procurement	19,800	-7,102	12,698	290	194	484	Cost of back-fill for the dedicated Finance ERP team and short-term contracts to cover restructure of Unit; delays to delivery of savings in lieu of main restructure of whole Finance Function; reduced contracts with schools & academies

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
HR Business Operations	8,198	-5,810	2,388	-730	968	238	Under-delivery of increased income targets in SPS, partially offset by reduced staffing/ activity costs; overspend in ESC mainly on staffing; reduced activity in L&D offset by reduced income
Total F&BS portfolio	**27,998**	**-12,912**	**15,086**	**-440**	**1,162**	**722**	
Business Strategy, Performance & Health Reform portfolio							
Strategic Management & Directorate Support budgets	3,177	-5,153	-1,976	2	-11	-9	
Governance & Law	8,196	-9,647	-1,451	1,603	-2,036	-433	£863k disbursements costs & income; additional costs & income from trading activities
Business Strategy	3,462	-204	3,258	-54	-52	-106	U/spend on supplies & services across Unit; Interreg grant claim more than originally budgeted for
Property & Infrastructure	26,816	-6,787	20,029	-1,237	741	-496	U/spend on Corporate Landlord and Workplace Transformation - rephasing to 2012/13; savings from mgmt restructure & staff vacancies
Human Resources	12,668	-3,129	9,539	-592	-176	-768	-£328k Adult Learning Resource Team; -£209k Social Work Professional team
Information & Communication Technology (incl Schools ICT)	33,631	-14,070	19,561	2,178	-2,521	-343	IT pay as you go activity funded by income; KPSN renewals programme and project rephasing
Public Health - Local Involvement Network (LINk)	503	-30	473	-10	10	0	Reduced activity funded from Kent & Medway Network - receipt in advance set up for unspent money
Health Reform	180		180	-86	0	-86	Delays to planned Health Reform activity
Total BSP&HR portfolio	**88,633**	**-39,020**	**49,613**	**1,804**	**-4,045**	**-2,241**	
Democracy & Partnerships portfolio							
Finance - Audit	1,511	-701	810	-146	39	-107	-£65k u/spend on Insurance offset by reduced drawdown from Insurance Fund; -£68k delays in recruiting to vacancies/ -£27k additional income in Internal Audit

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Business Strategy - International, Partnerships & Cabinet Office	1,069	-269	800	-63	18	-45	General u/spend on activity across Unit resulting in reduced income, offset by £63k new income from Districts for Kent Forum support
Democratic & Member Services	3,935	-3	3,932	60	-60	0	£99k o/spend on staffing offset by underspend on transport; additional income from Academies for admission appeals & training
Local Democracy:							
- County Council Elections	505		505	0	0	0	
- District Grants	703		703	0	0	0	
Total D&P portfolio	**7,723**	**-973**	**6,750**	**-149**	**-3**	**-152**	
TOTAL CORPORATE POSC	**124,354**	**-52,905**	**71,449**	**1,215**	**-2,886**	**-1,671**	
Total BSS Controllable	**130,395**	**-53,831**	**76,564**	**1,244**	**-2,918**	**-1,674**	

1.1.3 **Major Reasons for Variance**: *[provides an explanation of the 'headings' in table 2]*

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

Finance & Business Support Portfolio:

1.1.3.1 Finance & Procurement: Gross +£290k, Income +£194k, Net +£484k

The projected net pressure is due to the following main issues: the cost of back-fill for the dedicated Finance Enterprise Resource Planning (ERP) team and the cost of short-term contracts during the restructure of the Unit **(+£353k)**; and a delay in delivering 2011-12 savings which transferred in from 'old' Directorate Finance Terms in lieu of the main restructure of the whole Finance Function **(+£238k)**.

There has also been a reduction in income from contracts with schools and academies **(+£227k)**, which has been offset by a corresponding reduction in related gross staffing and activity costs **(-£227k)**.

1.1.3.2 Human Resources – Business Operations: Gross -£730k, Income +£968k, Net +£238k

Schools Personnel Service (SPS) was given an additional income target of £150k for 2011-12, but this was set without the knowledge that there would be a £300k loss of guaranteed income from ELS as a result of responsibility for undertaking CRB checks and other support being devolved to schools, meaning that income levels are now dependent on the amount of business secured with schools. Consequently SPS are forecasting an under-delivery of income of **+£453k**, but also a partially compensating underspend mainly on salaries of **-£260k.** The Learning & Development unit is experiencing significantly reduced take-up of training courses compared to previous years, causing under-delivery of income of **+£592k**, which is offset by reduced expenditure of **-£625k.** Employee Services are also forecasting a gross pressure of **+£186k**, mainly on staffing.

Business Strategy, Performance & Health Reform Portfolio:

1.1.3.3 Strategic Management & Directorate Support budgets: Gross +£2k, Income -£11k, Net -£9k

A variance of **+£408k** has arisen as a result of the development of the Enterprise Resource Planning (ERP) project. Cabinet agreed in December that this can be met by a temporary drawdown from the IT Asset Maintenance reserve in the current year. A drawdown of £950k was originally identified but £542k of this has now rephased to 2012-13. The 2012-13 cost will also need to be met by a temporary drawdown from the IT Asset Maintenance reserve and repayment of the full £950k funding back to the IT Asset Maintenance Reserve will occur in 2012-13, as reflected in the recently approved 2012-15 MTFP.

1.1.3.4 Governance & Law – Legal Services: Gross +£1,603k, Income -£2,036k, Net -£433k

Variances on gross spend **(+£740k)** and income **(-£1,173k)** reflect the additional work that the function has taken on over and above that budgeted for, responding to both internal and external demand. Variances of **+/-£863k** are due to increased costs & their recovery for Disbursements.

1.1.3.5 Property & Infrastructure: Gross -£1,237k, Income +£741k, Net -£496k

Some of the variance on gross spend **(-£584k)** relates to a reduction in Corporate Landlord activity; this is partially offset by a reduction in income of **+£315k** as a result of unachievable internal recharge and income targets inherited in the centralisation of Corporate Landlord budgets. The reduced activity relating to Corporate Landlord is one-off and has arisen as a result of the centralisation of budgets from 1 April 2011, which has caused some delays to activity. The centralisation of budgets occurred during a period of significant reorganisation within the Property & Infrastructure Group, and this has contributed to the one-off delays in expenditure both in Corporate Landlord, as well as the Workplace Transformation Programme **(-£257k)**.
A saving of **-£250k** has been realised from the first tier management restructure and vacancy management across Property & Infrastructure Group. There has also been a reduction in income from capital projects and the room booking unit of **+£305k**.

1.1.3.6 Human Resources: Gross -£592k, Income -£176k, Net -£768k

Much of the underspend on gross relates to a **-£328k** underspend in the Adult Learning Resource Team, mainly due to delays to planned activity such as developing new strategies for the Private & Voluntary sector. There is a further underspend on gross of **-£209k** which relates to a reduction in the cost of providing social work professional training due to a reduction in external commissioning and reduced venue costs.
The income variance is largely due to additional income in the Workforce & Professional Development Unit from trading services (-£72k) and savings resulting from greater take-up of salary sacrifice schemes recovered from directorates (-£71k).

1.1.3.7 Information & Communication Technology (including Schools ICT): Gross +£2,178k, Income -£2,521k, Net -£343k

Variances of **+£2,452k** and **-£2,452k** on gross and income respectively reflect the increased demand for additional IT Pay-as-you-go projects. Project demand is difficult to predict during budget setting.
A further underspend on gross of **-£309k** has arisen in Kent Public Services Network (KPSN) and is caused by a delay between orders being placed with our external provider and their anticipated completion due to delivery constraints, resulting in some orders not being completed before 31st March 2012.

1.1.3.8 Health Reform: Gross -£86k, Income -£0k, Net -£86k

The -£86k underspend is due to rephasing of the implementation of the Corporate Activities this money was identified to deliver. This underspend will be required to roll forward in order to fund the costs of implementing these activities in 2012-13.

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

(shading denotes that a pressure has an offsetting saving, which is directly related, or vice versa)

Pressures (+)			Underspends (-)		
Portfolio		£000's	Portfolio		£000's
BSPHR	ICT: Information Systems costs of additional pay as you go activity	+2,452	BSPHR	ICT: Information Systems income from additional pay as you go activity	-2,452
BSPHR	Legal Services: increased costs of Disbursements	+863	BSPHR	Legal income resulting from additional work (partially offset by increased costs)	-1,173
BSPHR	Legal services cost of additional work (offset by increased income)	+740	BSPHR	Legal Services: increased income relating to Disbursements	-863
FBS	HR Business Ops: Learning & Development reduced income due to reduced take-up of training courses	+592	FBS	HR Business Ops: Learning & Development reduced expenditure in line with reduced take-up of training courses	-625
FBS	HR Business Ops: Schools Personnel Service under delivery of increased income target/loss of internal income.	+453	BSPHR	Property & Infrastructure: one-off reduced Corporate Landlord activity as result of centralisation of budgets and reorganisation of Unit	-584
BSPHR	Strat Mgt & Dir Support: Development of ERP project	+408	BSPHR	Strat Mgmt & Dir Support: temporary drawdown of reserves to fund ERP project, to be repaid in 2012-13	-408
FBS	Finance & Procurement: back-fill for dedicated Finance ERP Oracle Project team and short-term contracts to cover the restructure of the Unit	+353	BSPHR	HR: Delays to planned activity such as developing new strategies for the PV sector in the Adult Learning Resource Team	-328
BSPHR	Property & Infrastructure: reduction in internal recharging/income as a result of unachievable income targets inherited in the centralisation of budgets to Corporate Landlord	+315	BSPHR	ICT: Kent Public Services Network work ordered but not completed before 31st March 2012	-309
BSPHR	Property & Infrastructure: reduced income from capital projects and room booking unit	+305	FBS	HR Business Ops: Schools Personnel Service underspend mainly on salaries, partially off-setting under delivery of income target	-260
FBS	Finance & Procurement: delay to 2011/12 savings which transferred in from 'old' Directorate Finance Teams in lieu of main restructure of the whole of the Finance Function	+238	BSPHR	Property & Infrastructure: rephasing of Workplace Transformation Programme	-257
FBS	Finance & Procurement: Reduction in income from contracts with schools & academies.	+227	BSPHR	Property & Infrastructure: part-year saving from first tier management restructure and vacancy management	-250
FBS	HR Business Ops: pressure on Employee Services budget mainly on staffing	+186	BSPHR	Finance & Procurement: Reduced staff costs & related expenditure as result of reduction in income from contracts with schools & academies.	-227
			BSPHR	HR: Reduction in the cost of providing social work professional training.	-209
		+7,132			**-7,945**

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

eg Management Action achieved to date including vacancy freeze, changes to assessment criteria etc. This section should provide details of the management action already achieved, reflected in the net position reported in table 1.

1.1.4.1 Vacancy management is in place across all BSS units.

1.1.5 **Implications for MTFP**:

1.1.5.1 <u>Finance & Procurement (Finance & Business Support Portfolio)</u>
Delayed savings in 2011-12 will be delivered in 2012-13 as part of the Finance & Procurement reorganisation. These savings are reflected in the recently approved 2012-15 MTFP.

1.1.5.2 <u>Strategic Management & Directorate Support budgets (Business Strategy, Performance & Health Reform Portfolio)</u>
Repayment of the full £950k funding for ERP to the IT Asset Maintenance Reserve will occur in 2012-13, and this has been built into the 2012-15 MTFP.

1.1.5.3 <u>HR (Finance & Business Support Portfolio & (Business Strategy, Performance & Health Reform Portfolio)</u>
Within HR, the allocation of the 2011-12 savings targets has been re-visited as part of setting the 2012-13 budgets for individual units to ensure that achievable budgets are set across the function.

1.1.6 **Details of re-phasing of revenue projects**:

<u>Business Strategy, Performance & Health Reform Portfolio</u>

1.1.6.1 <u>Property & Infrastructure</u>
Workplace Transformation activity has been significantly re-phased as a result of the need to revise strategic priorities such as the shaping of One Council/Bold Steps for Kent. Roll forward of £257k will be required in order to fund this re-phasing into 2012-13.

1.1.6.2 <u>ICT</u>
Kent Public Services Network – Orders have been placed with the External Provider (£309k) but due to delivery constraints, will not be completed before 31st March 2012. Consequently, roll forward will be required to fund this commitment in 2012-13.

1.1.6.3 <u>Health Reform</u>
The -£86k underspend on Health Reform is due to re-phasing of the implementation of the Corporate Activities this money was identified to deliver. Roll forward of this underspend will be required in order to complete these activities in 2012-13.

1.1.7 **Details of proposals for residual variance**: *[eg roll forward proposals; mgmt action outstanding]*

This section should provide details of the management action outstanding, as reflected in the assumed management action figure reported in table 1 and details of alternative actions where savings targets are not being achieved.

1.1.7.1 <u>Property & Infrastructure</u>
The remaining forecast net underspend in the Property & Infrastructure Group (£239k) is largely due to one-off delays in budgeted activity during a time of significant change caused by the centralisation of property budgets to form the Corporate Landlord function and the reorganisation of the Unit. During 2011-12 a lot of time has been invested in understanding the budgets and requirements of the buildings inherited by Corporate Landlord from across the authority, which has caused delays in activity such as maintenance. It is likely that this underspend will be the subject of a roll-forward request in order to undertake some of the maintenance backlog.

1.1.7.2 Of the -£1,674k underspend, revenue project re-phasing accounts for +£652k (as detailed in section 1.1.6 above), leaving an underlying underspend of -£1,022k. Of this, there is likely to be a request to roll-forward £239k for property maintenance, leaving £783k "uncommitted".

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.

The capital cash limits have been adjusted to reflect the position in the 2012-15 MTFP as agreed by County Council on 9 February 2012, any further adjustments are detailed in section 4.1.

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

	Prev Yrs Exp £m	2011-12 £m	2012-13 £m	2013-14 £m	Future Yrs £m	TOTAL £m
Business Strategy, Performance & Health Reform						
Budget	11.489	11.309	13.291	6.701	4.245	47.035
Adjustments:						
Sustaining Kent-Maintaining the Infrastructure		0.598				0.598
						0.000
						0.000
Revised Budget	11.489	11.907	13.291	6.701	4.245	47.633
Variance		-4.063	3.944	0.000	0.000	-0.119
split:						
- real variance		-0.119	0.000	0.000	0.000	-0.119
- re-phasing		-3.944	3.944	0.000	0.000	0.000
Directorate Total						
Revised Budget	11.489	11.907	13.291	6.701	4.245	47.633
Variance	0.000	-4.063	3.944	0.000	0.000	-0.119
Real Variance	**0.000**	**-0.119**	**0.000**	**0.000**	**0.000**	**-0.119**
Re-phasing	**0.000**	**-3.944**	**3.944**	**0.000**	**0.000**	**0.000**

1.2.3 **Main Reasons for Variance**

Table 4 below, details all forecast capital variances over £250k in 2011-12 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 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 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.

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

			Project Status			
portfolio	Project	real/ phasing	Rolling Programme	Approval to Spend	Approval to Plan	Preliminary Stage
			£'000s	£'000s	£'000s	£'000s
Overspends/Projects ahead of schedule						
			+0.000	**+0.000**	**+0.000**	**+0.000**
Underspends/Projects behind schedule						
BSPHR	Modernisation of Assets	phasing	-1.310			
BSPHR	Sustaining Kent - Maintaining the Infrastructure	phasing		-1.253		
BSPHR	Workplace Transformation Progran	phasing			-0.750	
BSPHR	Integrated childrens System	phasing			-0.502	
BSPHR	Energy Efficiency & Renewable Energy in the KCC Estate			-0.253		
			-1.310	**-1.506**	**-1.252**	**-0.000**
			-1.310	**-1.506**	**-1.252**	**+0.000**

1.2.4 **Projects re-phasing by over £1m**:

1.2.4.1 **Modernisation of Assets re-phasing of -£1.310m** (in 2011-12)

The reduced activity relating to Modernisation of Assets is largely due to delays to planned activity during a time of significant change caused by the centralisation of property budgets to form the Corporate Landlord function on 1 April 2012, and the reorganisation of the Unit. During 2011-12 a lot of time has been invested in understanding the budgets and requirements of the buildings inherited by Corporate Landlord, which has caused delays in activity. A plan to 'catch up' on this re-phased activity is in place for 2012-13.

Revised phasing of the scheme is now as follows:

	Prior Years	2011-12	2012-13	2013-14	future years	Total
	£m	£m	£m	£m	£m	£m
BUDGET & FORECAST						
Budget		1.964	2.446	1.661	3.172	9.243
Forecast		0.654	3.756	1.661	3.172	9.243
Variance	0.000	-1.310	1.310	0.000	0.000	0.000
FUNDING						
Budget:						
prudential		1.653	1.885	1.261	2.772	7.571
revenue		0.061	0.061	0.000	0.000	0.122
grant		0.250	0.500	0.400	0.400	1.550
TOTAL	0.000	1.964	2.446	1.661	3.172	9.243
Forecast:						
prudential		0.493	3.045	1.261	2.772	7.571
revenue		0.061	0.061	0.000	0.000	0.122
grant		0.100	0.650	0.400	0.400	1.550
TOTAL	0.000	0.654	3.756	1.661	3.172	9.243
Variance	**0.000**	**-1.310**	**1.310**	**0.000**	**0.000**	**0.000**

1.2.4.2 **Sustaining Kent – Maintaining the Infrastructure re-phasing of -£1.253m** (in 2011-12)

£0.655m of this re-phasing relates to a delay in Unified Communications due to technical resource availability and a considerable amount of time spent on ensuring the technical design meets the Government Connects Code of Connection Security requirements. The remaining £0.598m re-phasing relates to other work-streams within the programme.

Revised phasing of the scheme is now as follows:

	Prior Years	2011-12	2012-13	2013-14	future years	Total
	£m	£m	£m	£m	£m	£m
BUDGET & FORECAST						
Budget	5.962	3.459	1.424			10.845
Forecast	5.962	2.206	2.677			10.845
Variance	0.000	-1.253	1.253	0.000	0.000	0.000
FUNDING						
Budget:						
prudential/revenue	5.815	2.861	1.424			10.100
revenue	0.147	0.213			0.000	0.360
prudential		0.292				0.292
external other		0.930				0.930
TOTAL	5.962	4.296	1.424	0.000	0.000	11.682
Forecast:						
prudential/revenue	5.815	1.608	2.677			10.100
revenue	0.147	0.213				0.360
prudential		0.292				0.292
external other		0.930				0.930
TOTAL	5.962	3.043	2.677	0.000	0.000	11.682
Variance	**0.000**	**-1.253**	**1.253**	**0.000**	**0.000**	**0.000**

1.2.5 **Projects with real variances, including resourcing implications:**

There is a real variance of -£0.119m in 2011-12.

Business Strategy, Performance & Health Reform portfolio:

Disposal Cost: -£0.126m (in 2011-12): The reorganisation of the Property & Infrastructure Group in 2011-12 has resulted in significant staff changes during the year. This has impacted on the disposals process, leading to a complete review of the disposals programme to ensure there is a strong link to the Workplace Transformation Programme.

Overall this leaves a residual balance of +£0.007m on a minor project.

1.2.6 **General Overview of capital programme**:

(a) Risks

N/A

(b) Details of action being taken to alleviate risks

N/A

1.2.7 Project Re-phasing

Cash limits are changed for projects that have re-phased by greater than £0.100m to reduce the reporting requirements during the year. Any subsequent re-phasing greater than £0.100m will be reported and the full extent of the re-phasing will be shown. The possible re-phasing is detailed in the table below.

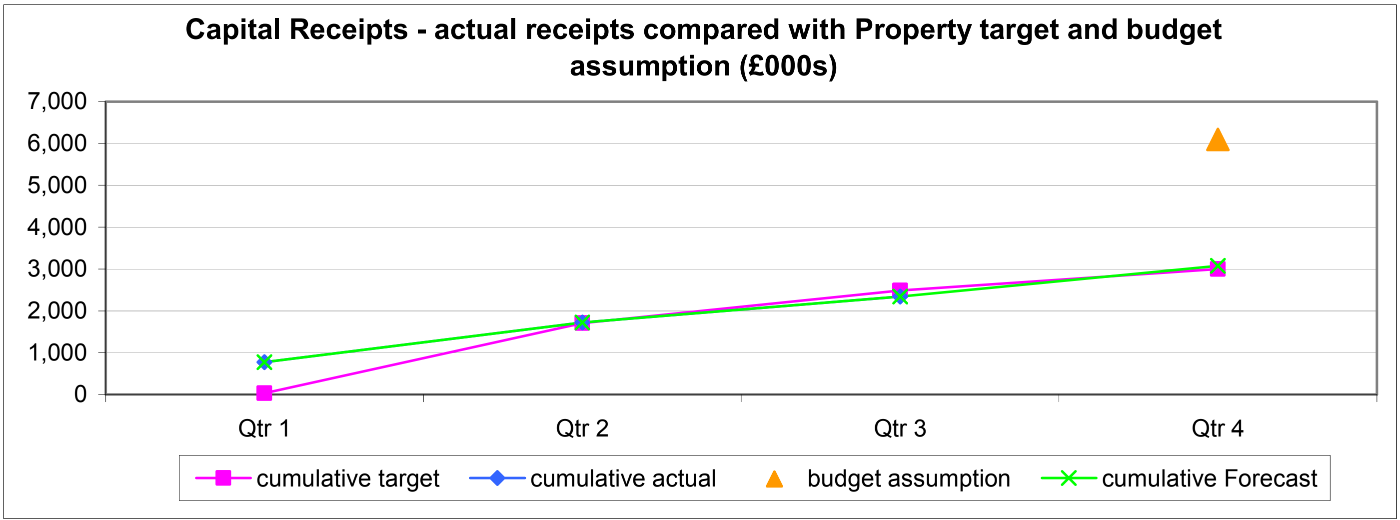
	#REF!	#REF!	#REF!	#REF!	Total
	£m	£m	£m	£m	£m
Modernisation of Assets (BSPHR)					
Amended total cash limits	1.964	2.446	1.611	3.172	9.193
re-phasing	-1.310	1.310	0.000	0.000	0.000
Revised project phasing	**0.654**	**3.756**	**1.611**	**3.172**	**9.193**
Sustaining Kent - Maintaining the Infrastructure (BSPHR)					
Amended total cash limits	3.459	1.424	0.000	0.000	4.883
re-phasing	-1.253	1.253	0.000	0.000	0.000
Revised project phasing	**2.206**	**2.677**	**0.000**	**0.000**	**4.883**
Energy Efficiency & Renewable Energy (BSPHR)					
Amended total cash limits	0.253	0.250	0.000	0.000	0.503
re-phasing	-0.253	0.253	0.000	0.000	0.000
Revised project phasing	**0.000**	**0.503**	**0.000**	**0.000**	**0.503**
Work Place Transformation (BSPHR)					
Amended total cash limits	0.750	3.320	4.250	0.000	8.320
re-phasing	-0.750	0.750	0.000	0.000	0.000
Revised project phasing	**0.000**	**4.070**	**4.250**	**0.000**	**8.320**
Enterprise Resource Programme (BSPHR)					
Amended total cash limits	0.648	0.750	0.000	0.000	1.398
re-phasing	0.126	-0.126	0.000	0.000	0.000
Revised project phasing	**0.774**	**0.624**	**0.000**	**0.000**	**1.398**
Integrated Children's System (BSPHR)					
Amended total cash limits	0.652	0.674	0.000	0.000	1.326
re-phasing	-0.502	0.502	0.000	0.000	0.000
Revised project phasing	**0.150**	**1.176**	**0.000**	**0.000**	**1.326**
Total re-phasing >£100k	**-3.942**	**3.942**	**0.000**	**0.000**	**0.000**
Other re-phased Projects below £100k	**-0.002**	**0.002**	**0.000**	**0.000**	**0.000**
TOTAL RE-PHASING	**-3.944**	**3.944**	**0.000**	**0.000**	**0.000**

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 **Capital Receipts – actual receipts compared to budget profile**:

	2011-12			
	Budget funding assumption £000s	Cumulative Target Profile £000s	Cumulative Actual Receipts £000s	Cumulative Forecast receipts £000s
April - June		30	769	769
July - September		1,710	1,725	1,725
October - December		2,490	2,345	2,345
January - March		3,000		3,079
TOTAL	**6,102**	**3,000**	**1,725**	**3,079**

Budget funding assumption has been updated to reflect the 2012-15 MTFP agreed at County Council on 9th February.
The cumulative target profile shows the anticipated receipts at the start of the year totalled £3.0m. The difference between this and the budget funding assumption is mainly attributable to timing differences between when the receipts are anticipated to come in and when the spend in the capital programme will occur. There are banked receipts achieved in prior years which were not required to be used for funding until 2011-12.



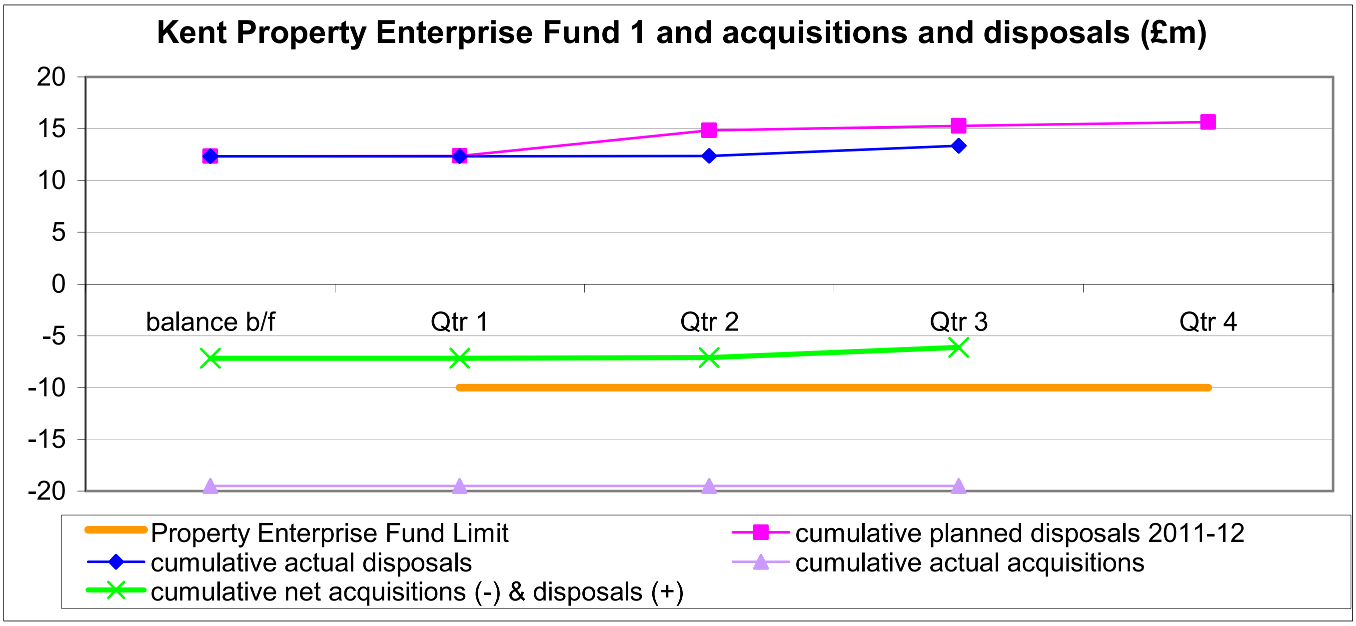
Comments:

- The table below compares the capital receipt funding required per the capital programme this year, with the expected receipts available to fund this.
- Property Group is actually forecasting a total of £2.993m to come in from capital receipts during the year. Taking into consideration the receipts banked in previous years and receipts from other sources there is a forecast a surplus of £2.082m in 2011-12. This is due to receipts being forecast to be achieved during 2011-12 which are held to fund spend in future years of the programme.

	2011-12 £'000
Capital receipt funding per revised 2012-15 MTFP	6,102
Property Groups' actual (forecast for 11-12) receipts	2,993
Receipts banked in previous years for use	3,735
Capital receipts from other sources	1,456
Potential Surplus Receipts	**2,082**

2.2 **Capital Receipts – Kent Property Enterprise Fund 1**:

	2011-12				
	Kent Property Enterprise Fund Limit *£m*	Cumulative Planned Disposals (+) £m	Cumulative Actual Disposals (+) £m	Cumulative Actual Acquisitions (-) £m	Cumulative Net Acquisitions (-) & Disposals (+) £m
Balance b/f		12.342	12.342	-19.504	-7.162
April - June	*-10*	12.377	12.342	-19.504	-7.162
July - September	*-10*	14.862	12.393	-19.504	-7.111
October - December	*-10*	15.282	13.373	-19.504	-6.131
January - March	*-10*	15.638			0



Background:

- County Council approved the establishment of the Property Enterprise Fund 1 (PEF1), with a maximum permitted deficit of £10m, but self-financing over a period of 10 years. The cost of any temporary borrowing will be charged to the Fund to reflect the opportunity cost of the investment. The aim of this Fund is to maximise the value of the Council's land and property portfolio through:
  - the investment of capital receipts from the disposal of non operational property into assets with higher growth potential, and
  - the strategic acquisition of land and property to add value to the Council's portfolio, aid the achievement of economic and regeneration objectives and the generation of income to supplement the Council's resources.

  Any temporary deficit will be offset as the disposal of assets are realised. It is anticipated that the Fund will be in surplus at the end of the 10 year period.

Comments:

The balance brought forward from 2010-11 on PEF1 was **-£7.162m**.

A value of **£1.909m** has been identified for disposal in 2011-12. This is the risk adjusted figure to take on board the potential difficulties in disposing some of the properties.

As at the 31 January 2012 there have been two disposals generating a receipt of £1.031m.

The fund has been earmarked to provide **£0.197m** for Gateways and **£0.300m** for improvements to Maidstone High Street in this financial year.

There has been a **£0.212m** repayment towards the £5.304m owed by East Kent Opportunities for the Spine Road, Manston.

At present there are no committed acquisitions to report, however forecast outturn for costs of disposals (staff and fees) is currently estimated at **£0.043m**..

Forecast Outturn

Taking all the above into consideration, the Fund is expected to be in a deficit position of £5.581m at the end of 2011-12.

Opening Balance – 01-04-11	-£7.162m
Planned Receipts (Risk adjusted)	£1.909m
Costs	-£0.043m
Acquisitions	-
Other Funding: - Gateways - Improvements to Maidstone High Street	 -£0.197m -£0.300m
Repayment of Spine Road, Manston	£0.212m
Closing Balance – 31-03-12	**-£5.581m**

Revenue Implications

In 2011-12 the fund is currently forecasting £0.022m of low value revenue receipts but, with the need to fund both costs of borrowing (£0.549m) against the overdraft facility and the cost of managing properties held for disposal (net £0.277m), the PEF1 is forecasting a £2.407m deficit on revenue which will be rolled forward to be met from future income streams.

2.3 **Capital Receipts – Kent Property Enterprise Fund 2 (PEF2)**:

County Council approved the establishment of PEF2 in September 2008 with a maximum permitted overdraft limit of £85m, but with the anticipation of the fund broadly breaking even over a rolling five year cycle. However, due to the slower than expected recovery, breakeven, is likely to occur over a rolling seven to eight year cycle. The purpose of PEF2 is to enable Directorates to continue with their capital programmes as far as possible, despite the downturn in the property market. The fund will provide a prudent amount of funding up front (prudential borrowing), in return for properties which will be held corporately until the property market recovers.

Overall forecast position on the fund

	2011-12 Forecast
	£m
Capital:	
Opening balance	-22.209
Properties to be agreed into PEF2	-2.009
Forecast sale of PEF2 properties	12.771
Disposal costs	-0.511
Closing balance	-11.958
Revenue:	
Opening balance	-3.417
Interest on borrowing	-0.683
Holding costs	-0.407
Closing balance	-4.507
Overall closing balance	-16.465

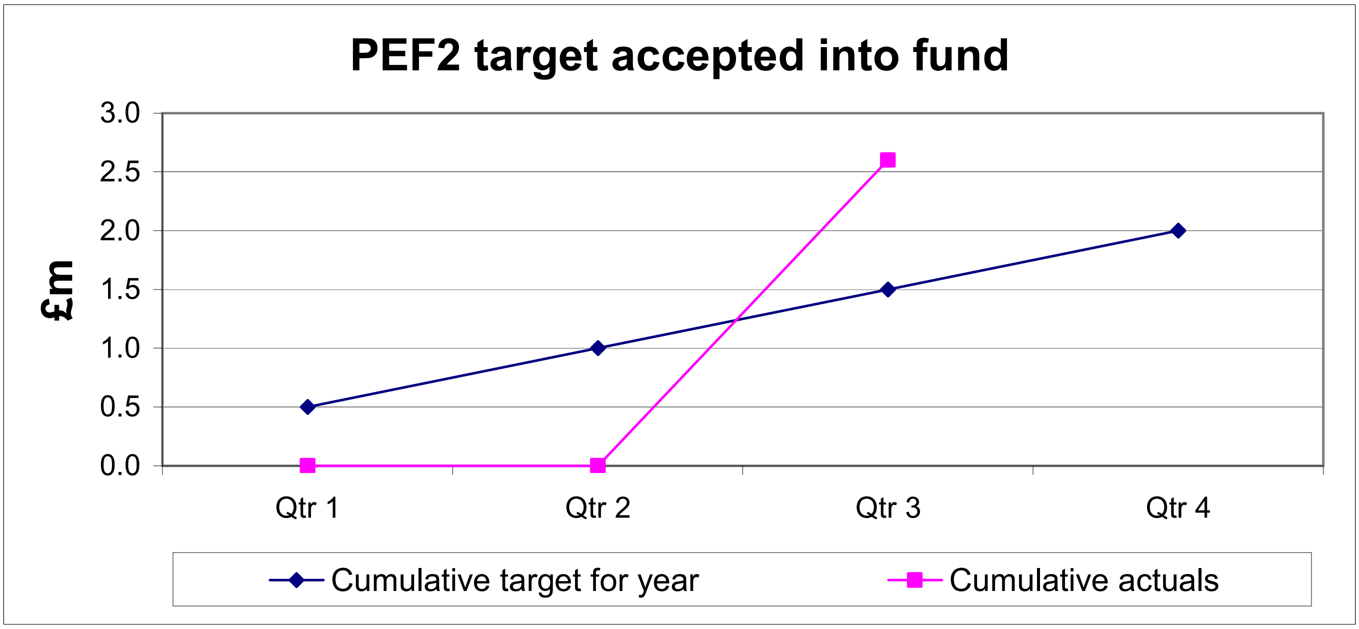
The forecast closing balance for PEF2 is -£16.465m, this is within the overdraft limit of £85m.

The target receipts to be accepted into PEF2 during 2011-12 equate to the PEF2 funding requirement in the 2012-15 budget book, and achievement against this is shown below:

	2011-12	
	Cumulative target for year	Cumulative actuals
	£m	£m
Qtr 1	0.5	0
Qtr 2	1.0	0
Qtr 3	1.5	2.6
Qtr 4	2.0	

Comments:

- The above table shows a £2.0m target is required, this is a net figure based the PEF2 funding required of £4.766m as per the 2012-15 MTFP less £2.757m of PEF2 achieved in previous years by FSC and E&E that was not required until later years.
- To date one property has been transferred into PEF2



PEF2 Disposals

To date nine PEF2 properties have been sold and three are in the process of completing. The cumulative profit on disposal to date is £1.304m. Large profits or losses are not anticipated over the lifetime of the fund.

Interest costs

At the start of the year interest costs on the borrowing of the fund for 2011-12 were expected to total £0.878m.

Latest forecasts show interest costs of £0.683m, a decrease of £0.195m. This is due to a lower level of properties being required to transfer into PEF2 to fund the capital programme during 2011-12.

Interest costs on the fund are calculated at a rate of 4%.

FINANCING ITEMS SUMMARY
JANUARY 2011-12 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" ie 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:
  - the virement of £0.199m from the underspend on debt charges to reduce the budgeted contribution from Commercial Services within the Environment, Highways & Waste portfolio due to a reduction in the number of lease cars following the County Council decision to remove essential user status, as approved by Cabinet on 9 January;
  - the transfer of £3.150m contingency previously held within the Adult Social Care & Public Health portfolio against the ending of Social Care Reform Grant, following agreement to the use of the £16.226m NHS funding for Social Care
  - and a number of other technical adjustments to budget.
- The inclusion of new 100% grants (ie grants which fully fund the additional costs) awarded since the budget was set. These are detailed in Appendix 1 of the executive summary.

1.1.2 **Table 1** below details the revenue position by A-Z budget line:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Finance & Business Support Portfolio							
Carbon Reduction Commitment Levy	1,368		1,368	-1,088		-1,088	saving following recharge to schools
Contribution to/from Reserves	-11,245		-11,245	2,375		2,375	transfer of 11-12 write down of discount saving from 08-09 debt restructuring to reserves; transfer of MRP saving to reserves to fund potential impact in future years; drawdown of Insurance Reserve to cover pressure on Insurance Fund; contribution to reserves to support next years budget
Insurance Fund	3,479		3,479	1,590		1,590	increase in liability claims forecast to be paid & increase in provision for period of time claims
Modernisation of the Council	2,709		2,709			0	
Net Debt Charges (incl Investment Income)	123,231	-8,877	114,354	-7,795	1,180	-6,615	2011-12 write down of discount saving from 2008-09 debt restructuring; re-phasing of capital programme in 10-11 has provided savings on debt charges; saving on leasing costs; in year MRP reduction; savings as no new borrowing against current requirement

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Other	11,140	0	11,140	-6,267	0	-6,267	-£1.546m unexpected unringfenced grant increase held to offset pressures across Authority; -£1.5m release of EIG smoothing money; -£3.15m release of contingency held against the ending of SCRG; -£0.1m subscriptions; +£0.079m costs of Transformation Programme Manager for Change & related project costs
Total F&BS portfolio	**130,682**	**-8,877**	**121,805**	**-11,185**	**1,180**	**-10,005**	
Business Strategy, Performance & Health Reform portfolio							
Contribution to IT Asset Maintenance Reserve	**2,352**		**2,352**			**0**	
Democracy & Partnerships portfolio							
Audit Fees	**464**		**464**	**-100**		**-100**	rebate & cut in external audit fees
Total Controllable	**133,498**	**-8,877**	**124,621**	**-11,285**	**1,180**	**-10,105**	

1.1.3 **Major Reasons for Variance**: *[provides an explanation of the 'headings' in table 2]*

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

Finance & Business Support portfolio:

1.1.3.1 Carbon Reduction Commitment Levy:

There is a £1.088m saving against the Carbon Reduction Commitment Levy reflecting the intention to charge schools for their share of this cost costs in line with a recent change in school finance legislation.

1.1.3.2 Insurance Fund

A forecast pressure on the Insurance Fund, currently estimated at £1.590m, will need to be met by a drawdown from the Insurance Reserve (see 1.1.3.4b below). This is due to an increase in liability claims forecast to be paid in year and an increase in the provision for period of time claims. These are claims which span a number of years and are distinguishable from claims resulting from a single incident on a particular date. With period of time claims, a number of successive annual insurance policies held by an authority are triggered/become active and this raises difficulties where there are varying terms across the policies and the interests of more than one insurer to consider. We are maintaining our provision for each of our registered period of time claims to reflect a worse case settlement position whilst consideration is being given to correspondence received in connection with interpretation of policy terms by relevant insurers.

1.1.3.3 Net Debt Charges (including Investment Income):

a) There is a saving of £4.129m as a result of:
- deferring borrowing in 2010-11 due to the re-phasing of the capital programme and also no new borrowing in the first ten months of 2011-12, other than the replacement of maturing debt.
- assumptions on the capital programme for 2011-12 and on cash flows generally.

b) The complex calculation to establish the Minimum Revenue Provision (MRP) saving resulting from the re-phasing of the capital programme in 2010-11 has now been completed and this has confirmed a saving of £1.599m this year. This is because fewer assets became operational than anticipated last year. As reported in 2010-11, we have adopted the asset life method of calculating MRP. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an "MRP holiday". However, once these assets do become operational we will incur MRP in the following year, therefore we have transferred this £1.599m to reserves in order to fund the potential impact in future years of this re-phasing as approved by Cabinet in December (see 1.1.3.4c below).

c) There is a saving of £0.487m which relates to the write-down in 2011-12 of the £4.024m discount saving on debt restructuring undertaken at the end of 2008-09. (£3.378m was written down during the period 2008-11, therefore leaving a further £0.159m to be written in 2012-13) (see 1.1.3.4a below).

d) There is a saving on leasing costs of £0.4m.

1.1.3.4 <u>Contributions to/from reserves:</u>

a) As planned and as referred to in 1.1.3.3c above, the £0.487m write down of the discount saving earned from the debt restructuring in 2008-09, will be transferred to the Economic Downturn reserve to offset the Icelandic investments impairment cost incurred in 2010-11 (future interest receipts from the Icelandic investments will also go towards offsetting this impairment cost).

b) As referred to in 1.1.3.2 above, at year end there will be a draw down from the Insurance Reserve to cover the pressure on the Insurance Fund, currently estimated at £1.590m.

c) As referred to in 1.1.3.3b above, £1.599m will be transferred to reserves in order to fund the potential impact in future years of the current year saving on MRP.

d) £1.879m of the underspend within the Finance & Business Support portfolio has been transferred to reserves to support the 2012-13 budget as approved by County Council on 9 February 2012.

1.1.3.5 <u>Other Financing Items:</u>

a) After the budget had been set we received notification of an unexpected un-ringfenced grant increase of £1.546m for Extended Rights to Free Travel. In light of the pressures faced by the Authority in the current year, we are holding this funding increase within the Finance & Business Support portfolio to offset pressures elsewhere across the Authority.

b) Following the Government reduction of Early Intervention Grant in the 2011-12 budget, we held a one-off contingency to smooth the effects of this reduction in the short term. However, we have been successful in achieving the efficiencies required earlier than anticipated enabling £1.5m of this smoothing money to be released.

c) A contingency of £3.15m was held within the ASC&PH portfolio against the ending of the Social Care Reform Grant, but now that agreement has been reached on the use of the £16.226m NHS funding for Social Care, this contingency has been released to the Finance & Business Support portfolio.

d) There is a £0.1m saving on local authority subscriptions.

e) There is a pressure of £0.079m relating to the Council restructure for the costs of the Transformation Programme Manager for Change and related project costs. It was originally anticipated that this work would be completed by 31 March 2011 but it continued through the first quarter of 2011-12.

Democracy & Partnerships portfolio:

1.1.3.6 Audit Fee

A £0.1m underspend is forecast which includes a rebate on the current year fee from the Audit Commission and a cut in fees reflecting lower continuing audit costs after implementing International Financial Reporting Standards (IFRS) and a new approach to local VFM audit work.

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

(shading denotes that a pressure has an offsetting saving, which is directly related, or vice versa)

Pressures (+)			Underspends (-)		
portfolio		£000's	portfolio		£000's
F&BS	Contribution to reserves of in year MRP saving to cover potential impact in future years	+1,599	F&BS	treasury savings: assumptions on capital programme for 11-12 and on cash flows generally, together with savings on debt charges due to re-phasing of capital programme in 10-	-4,129
F&BS	Pressure on the Insurance Fund due to increase in liability claims forecast to be paid & increase in provision for period of time claims	+1,590	F&BS	release of contingency previously held within the ASC&PH portfolio against the ending of Social Care Reform Grant	-3,150
F&BS	contribution to reserves to support next years budget (as approved by County Council on 9 Feb 12)	+1,879	F&BS	In year Minimum Revenue Provision saving as a result of 2010-11 re-phasing of the capital programme	-1,599
F&BS	Contribution to economic downturn reserve of 2011-12 write down of discount saving from 2008-09 debt restructuring	+487	F&BS	drawdown from Insurance Reserve to cover pressure on the Insurance Fund	-1,590
			F&BS	unexpected un-ringfenced grant for Extended Rights to Free Travel to be used to offset pressures across Authority	-1,546
			F&BS	release of Early Intervention Grant smoothing money	-1,500
			F&BS	Carbon Reduction Commitment Levy saving following recharge to schools	-1,088
			F&BS	2011-12 write down of discount saving from 2008-09 debt	-487
			F&BS	savings on leasing costs	-400
			F&BS	local authority subscriptions	-100
			D&P	Rebate & cut in external audit fee	-100
		+5,555			**-15,689**

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

N/A

1.1.5 **Implications for MTFP**:

The 2012-15 MTFP reflects a £1.879m contribution to reserves in 2011-12 from the reported underspending to support the 2012-13 budget, which is reported in section 1.1.3.4.d above. In addition, the Carbon Reduction Commitment Levy budget has been reduced in the 2012-15 MTFP to reflect the impact of recharging to schools and additional funding has been put into the Insurance fund.

The £3.15m contingency against the ending of Social Care Reform Grant has also been removed from the MTFP and remains unallocated in the 2012-13 budget.

1.1.6 **Details of re-phasing of revenue projects**:

N/A

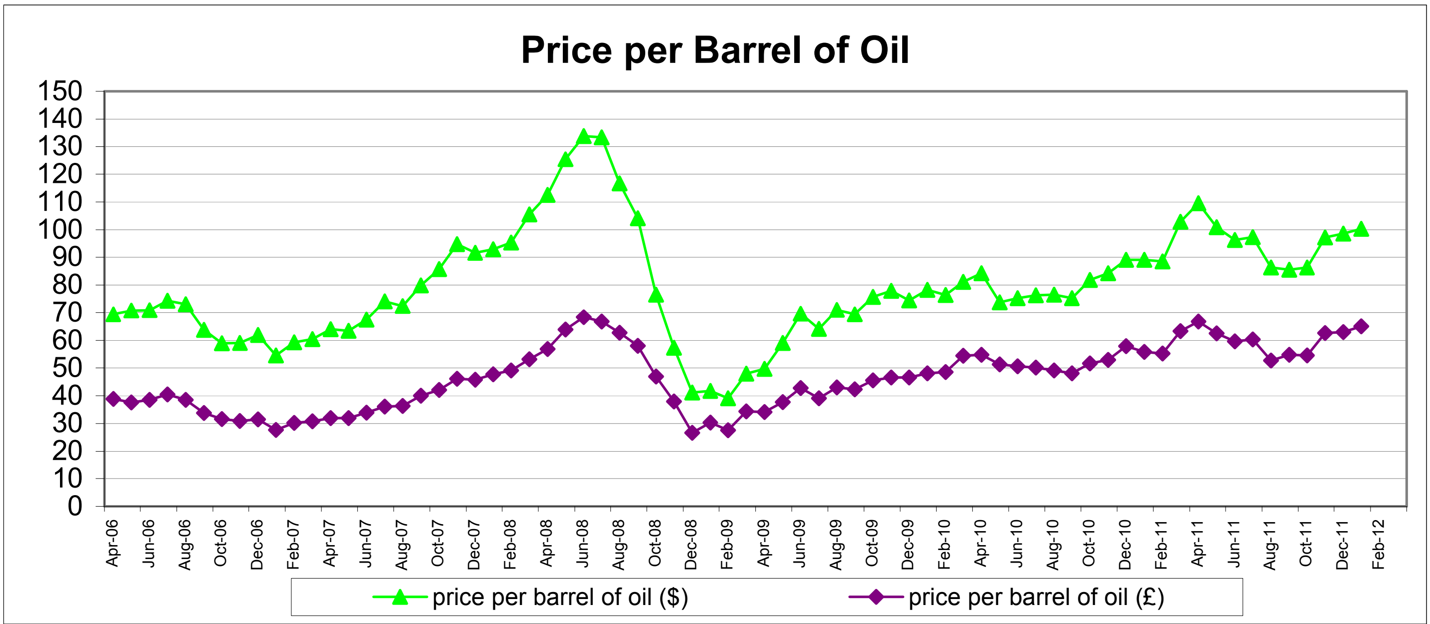
1.1.7 **Details of proposals for residual variance**: *[eg roll forward proposals; mgmt action outstanding]*

The underspending on the Financing Items budgets is largely offsetting the pressures reported within Specialist Children's Services.

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 Price per Barrel of Oil – average monthly price in dollars since April 2006:

	Price per Barrel of Oil					
	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
	$	$	$	$	$	$
April	69.44	63.98	112.58	49.65	84.29	109.53
May	70.84	63.45	125.40	59.03	73.74	100.90
June	70.95	67.49	133.88	69.64	75.34	96.26
July	74.41	74.12	133.37	64.15	76.32	97.30
August	73.04	72.36	116.67	71.05	76.60	86.33
September	63.80	79.91	104.11	69.41	75.24	85.52
October	58.89	85.80	76.61	75.72	81.89	86.32
November	59.08	94.77	57.31	77.99	84.25	97.16
December	61.96	91.69	41.12	74.47	89.15	98.56
January	54.51	92.97	41.71	78.33	89.17	100.27
February	59.28	95.39	39.09	76.39	88.58	
March	60.44	105.45	47.94	81.20	102.86	



Comments:

- The figures quoted are the West Texas Intermediate Spot Price in dollars per barrel, monthly average price.
- The dollar price has been converted to a sterling price using exchange rates obtained from the HMRC website.