To: CABINET – 6 February 2008

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REVENUE & CAPITAL BUDGET MONITORING EXCEPTION REPORT

1. Introduction

1.1 This exception report highlights the main movements since the report to Cabinet on 14 January 2008. There has been little change in the overall revenue position within direct services this month but there is a further £1m of savings forecast on the financing items budgets within the Finance portfolio. There remain significant revenue budget pressures that will need to be managed during the rest of the financial year if we are to have a balanced revenue position by year end. The proposed management actions will be closely monitored throughout the remainder of the year to determine progress towards achieving a balanced outturn position for the authority (excluding Asylum). Details of the impact of these management actions are provided in section 2 of this report.

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

Table 1: Net Revenue Position after Proposed Management Action

Portfolio	Gross Position £m	Proposed Management Action £m	Net Position after mgmt action £m — This month	Net Position after mgmt action £m — Last month	Movement £m
OR&S (CFE) *	+2.644	-1.829	+0.815	+0.815	-
CF&EA	+1.809	-2.144	-0.335	-0.265	-0.070
KASS	+3.344	-1.429	+1.915	+1.915	-
EH&W	-2.255	-	-2.255	-2.465	+0.210
R&SI	-0.935	-	-0.935	-0.765	-0.170
Communities	+1.262	-0.432	+0.830	+0.830	-
Public Health	-0.050	-	-0.050	-0.050	-
Corporate Support	-0.180	-	-0.180	-0.180	-
Policy & Performance	-	-	-	-	-
Finance	-5.510	-	-5.510	-4.504	-1.006
Total (excl Asylum)	**+0.129**	**-5.834**	**-5.705**	**-4.669**	**-1.036**

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

1.2 In addition to the projected portfolio variances, there are two projected overspends, which remain as previously reported:

a) The Asylum Service is expected to overspend by £4.071m.

b) Schools are projecting a draw-down of their reserves of £15m.

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

Table 2: Gross Revenue Position before Management Action

Portfolio	Variance This Month £m	Variance Last Month £m	Movement £m
Operations, Resources & Skills (OR&S) (CFE)	+2.644	+2.644	-
Children, Families & Educational Achievement (CF&EA)	+1.809	+1.879	-0.070
Kent Adult Social Services (KASS)	+3.344	+3.666	-0.322
Environment, Highways & Waste (EH&W)	-2.255	-2.465	+0.210
Regeneration & Supporting Independence (R&SI)	-0.935	-0.765	-0.170
Communities	+1.262	+1.262	-
Public Health	-0.050	-0.050	-
Corporate Support	-0.180	-0.180	-
Policy & Performance	-	-	-
Finance	-5.510	-4.504	-1.006
Total (excl Asylum)	**+0.129**	**+1.487**	**-1.358**
Asylum	+4.071	+4.071	-
Total (incl Asylum)	**+4.200**	**+5.558**	**-1.358**

1.4 The gross underlying revenue pressure (excluding schools) is currently £4.2m as shown in table 2 above, but this is expected to reduce to an underspend of £5.705m (excluding the pressure on Asylum) by year end, after assuming the implementation of management action, as shown in table 1. However, with the inclusion of the Asylum pressure of £4.071m, this reduces to an overall underspend of £1.634m. The first call upon the underspending within the Financing Items budgets of the Finance portfolio will be to offset the risk on Asylum, although KCC fully expects Government to meet the full costs of this national pressure as reported to Cabinet in December. We will provide updates to this situation as and when the position changes.

1.5 Table 1 identifies that even after management action, residual pressures remain forecast within the Operations, Resources & Skills (CFE), Kent Adult Social Services and Communties portfolios, with no change forecast to these portfolios' net position after management action since last month.

1.6 Within the capital programme, there has been a further £9.964m of re-phasing of projects forecast this month. Details of the main changes are provided in section 3 of this report. The current forecast capital position by portfolio, compared with the position reported last month is shown in **table 3** below and **table 4** shows the impact of this variance on each of the funding sources.

Table 3: Capital Position

Portfolio	Variance This Month £m	Variance Last Month £m	Movement £m
Operations, Resources & Skills (CFE)	-41.962	-34.885	-7.077
Children, Families & Educational Achievement	-1.743	-1.184	-0.559
Kent Adult Social Services	-5.750	-5.172	-0.578
Environment, Highways & Waste	-26.711	-25.988	-0.723
Regeneration & Supporting Independence	-4.396	-3.724	-0.672
Communities	-18.279	-18.279	-
Corporate Support	-1.369	-1.369	-
Policy & Performance	-	-	-
Finance	-2.063	-1.708	-0.355
Total (excl Schools)	**-102.273**	**-92.309**	**-9.964**
Schools	-	-	-
Total	**-102.273**	**-92.309**	**-9.964**

1.7 At this point in the financial year there remains a fair number of larger projects which are still only at the approval to plan or preliminary stage and therefore are expected to incur no costs or only minimal preliminary costs this year. There has tended to be a degree of optimism that projects will proceed without problems (such as planning permissions). In order to address this issue for the 2008-11 MTP, two special meetings took place to more carefully consider the timing of delivery of projects before they were reflected in the draft budget.

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

	Capital Variance £m
Supported Borrowing	-4.889
Prudential	-22.229
Prudential/Revenue	-10.115
Grant	-26.588
External Funding	-6.915
Revenue & Renewals	-1.586
Capital Receipts	-32.151
General Capital Receipts (generated by Property Enterprise Fund)	+2.200
TOTAL	**-102.273**

1.8 In line with our review of last year's capital outturn, it is estimated that almost 81% of the current year's variance is due to 35 large projects, with variances of £1m or more in the current year. The majority of these are detailed in the directorate annex reports of the detailed budget monitoring reported to Cabinet on 3 December, which Policy Overview Committees will be scrutinising, and subsequent changes are contained in the budget monitoring exception report to Cabinet on 14 January 2008 and section 3 of this report.

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

2.1 Operations, Resources & Skills (CFE) portfolio:

2.1.1 The forecast position for this portfolio has not changed this month.

2.1.2 Impact of Management Actions:
Within this portfolio we have looked to identify savings that both help balance the budget and keep the impact on front line services to a minimum.
The impact of the management action taken is that all service units will have to fund the cost of the Technology Refresh Programme (TRP) from within their own resources, as the £0.132m budget set aside to support managers meet some of the additional costs of TRP has been offered up as a saving so there will be some limited impact on the running costs of services.
The use of the £0.463m budget that was due to be allocated to Units to meet the costs resulting from the 2007-08 superannuation increase, to help balance the overall position, means that all Units within this portfolio will have to hold vacancies for a slightly longer period than would have been the case previously. This will have some impact on service delivery.
The impact of the other savings (use of £0.699m one-off DSG underspend from 2006-07 to fund pensions & redundancy costs of schools staff and use of £0.535m one-off payment from DCSF for prior year mandatory student awards) is not direct but there is the opportunity cost of improvements that could have been made if the funding had not been needed to balance the budget.

2.2 Children, Families & Educational Achievement portfolio:

2.2.1 The forecast for this portfolio has reduced by £0.070m this month, from +£1.879m to +£1.809m, as a result of a re-phasing into 2008-09 of £0.140m on the secondary strategy – central co-ordination budget, which is 50% funded by Standards Fund. This is a 17 month project running from April 07 to August 08 and a greater proportion of work than originally anticipated is now to be carried out between April 08 and August 08. The re-phased Standards Fund element of £0.070m will be treated as a receipt in advance in accordance with the accounting principle agreed with the external auditors for unused grant in year and will therefore have no impact on the outturn position. The KCC 50% match funding contribution of £0.070m will reflect as an underspend in the current year and will need to roll forward into 2008-09 in order to complete the project.

2.2.2 Impact of Management Actions:
Within this portfolio we have also looked to identify savings that both help balance the budget and keep the impact on front line services to a minimum.
The use of the £0.644m budget that was due to be allocated to Units to meet the costs resulting from the 2007-08 superannuation increase, to help balance the overall position, means that all

Units within this portfolio will have to hold vacancies for a slightly longer period than would have been the case previously. This will have some impact on service delivery.

2.2.3 Asylum:
The forecast position on the Asylum service remains unchanged this month at a pressure of £4.071m, which is made up as follows:

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

In relation to previous years outstanding Special Circumstances Bids, the audit of the 2006-07 Home Office bid is continuing. The audits of these Local Authority bids are taking longer than expected; consequently the audit staff appointed by the Home Office have had their contracts extended for at least an additional month.
Following the Joint Councils meeting on 13 November and the briefing of MPs and Government officials at Westminster, PWC have commenced the independent audit of the costs which these Authorities claim is owed to them by the Government for the care of unaccompanied asylum seeking children and their field work is due to be completed shortly.

2.3 Kent Adult Social Services:

2.3.1 The latest forecast indicates a pressure before management action of £3.344m, which is a reduction of £0.322m since last month. Whilst there has been some progress in management actions within the Area commissioning budgets, particularly in Older Person's residential care in East Kent, doubts remain about achieving the full amount required to bring the Directorate and portfolio back to a balanced position by year end. This latest forecast pressure of £3.344m is after the achievement of £0.986m of management action to date. Most of these savings relate to admin and support budgets rather than the major purchasing budgets as, with the exception of Older Person's residential care and Mental Health, demand for services remains high, particularly within Learning Disability. The Directorate will obviously continue with the range of management actions identified to achieve a balanced position, however it would not be prudent to assume that all will be fully achieved in the remaining months of the year so a year end pressure, after management action, of £1.915m is forecast, which is unchanged from last month.

2.3.2 The main movements this month in the gross position before management action are:

- -£0.350m Older People – a reduction in the pressure from £0.741m to £0.391m. The primary reason for this is a net reduction in residential and nursing placements in West Kent. Although there has been little change in the number of permanent placements in East Kent it is believed that management actions and weekly residential panels are having an effect and this has been reflected in a corresponding drop in spend to date. There has also been a net decrease of six clients receiving Direct Payments. However, expenditure on domiciliary care remains a pressure with the overspend increasing again this month.
- +£0.149m Learning Disability – an increase in the pressure from £4.374m to £4.523m. Whilst the overall forecast for residential care has only marginally increased, there remains significant demand for services to keep people out of residential care and this month the impact of this has been felt in both daycare and supported accommodation budgets.
- -£0.112m Other Services – an increase in the underspend from £2.140m to £2.252m. This position reflects the impact of continued management action.

2.3.3 Impact of Management Actions:
The impacts on clients of our management actions are being mitigated by close and constructive working with the Health Service. Other management actions are creating delays in all activity. This is creating workload pressure for staff across the Directorate, which will not be long-term sustainable, and which is being closely monitored in order to mitigate impacts.

2.4 Environment, Highways & Waste portfolio:

The underspend for the portfolio has reduced by £0.210m this month to £2.255m. The main changes are:

- +£0.100m Kent Highways Services due to additional work on protective highways maintenance.
- +£0.110m Resources – this is due to increased costs of software licences for the GIS, a reduction in expected income and costs of the directorate restructure activity.

This forecast assumes that £0.490m of emergency expenditure arising from the flooding in June and the earthquake in Folkestone will be met from the Emergency Conditions Reserve, consistent with previous practice. The emergency costs associated with the recent gales in January, which caused flooding and many fallen trees, are currently being assessed and an update will be included in the next report.

2.5 Regeneration & Supporting Independence portfolio:

The underspend for the portfolio has increased by £0.170m this month to £0.935m. The main changes are within Planning & Development (-£0.110m) where there has been some further re-phasing of projects into 2008-09 including work on the Minerals & Waste Local Development Framework, the Local Transport Crossing Study and the Household Study.

2.6 Communities:

2.6.1 The gross pressure on this portfolio has remained at £1.262m this month, and this is still expected to be offset by £0.432m of management action year end, by slowing down expenditure on non essential non staffing items across all units and reviewing the programme for the replacement of equipment in order to release a one-off sum from the renewals reserve. This leaves a residual year end pressure of £0.830m in respect of Adult Education which will need to be rolled forward and addressed during the period of the 2008-11 MTP with progress monitored against an agreed action plan.

2.6.2 Impact of Management Actions:
Slowing down expenditure on non essential non staff budgets is designed to have minimal impact on front line services. Reviewing the replacement of equipment and releasing a one-off sum from the renewals reserve will mean that equipment will need to be used for longer than it was originally intended (maybe beyond what would normally be considered its useful life). We will need to ensure that we comply with health & safety and other statutory requirements as employers and inevitably some slow down of expenditure will be unpopular with managers and staff who have managed their budgets throughout the year.

2.7 Finance:

The underspend on this portfolio has increased by £1.006m to £5.510m due to further savings on the Interest on Cash Balances / Debt Charges budgets. As a result of the significant re-phasing of the capital programme and high cash balances, the level of new borrowing required in the current year has reduced, so new debt costs have been revised to reflect lower than assumed external borrowing. In addition, new external borrowing undertaken in 2007-08 has been arranged at a lower rate of interest than budgeted.

3. <u>2007-08 CAPITAL MONITORING POSITION BY DIRECTORATE</u>

3.1 There has been one cash limit adjustments this month as detailed below:

		£000s
1.	As reported to Cabinet on 14 January 2008	367,952
2.	East Kent Resource Centre external contribution from East Kent Coastal PCT – CF&EA portfolio	10
		367,962
3.	PFI	36,301
		404,263

3.2 Overall there is a further -£9.964m of re-phasing of projects this month, as identified in table 3, the main movements are detailed below:

3.3 Operations, Resources & Skills (CFE) portfolio:

The forecast variance for the portfolio has moved by -£7.077m from -£34.885m to -£41.962m this month. The main changes are:

- -£6.647m Children's Centre Programme - this re-phasing is as a result of an in depth review of the programme following difficulties in both identifying suitable sites and securing additional funding before allowing projects to commence. The additional funding has been reflected within the draft 2008-11 Medium Term Plan.
- -£0.575m Dartford Campus (Development Opportunities) – this re-phasing mainly relates to the Dartford Tech College (-£0.252m) and the Adult Education (-£0.260m) parts of the project. The cause of this re-phasing is due to a combination of poor weather conditions, the need to undertake additional value engineering works plus an element of over optimism.
- -£0.223m Castle Hill Primary School Freshstart project (formerly George Spurgeon) – this project continues to be delayed whilst we await a response from the DCSF on our request for additional grant funding.
- +£0.190m Marlowe Innovation Centre – the re-phasing into 2008-09 previously forecast for this project has reduced from £0.552m to £0.362m upon the latest advice of the external consultants managing the project.
- +£0.092m St James the Great Primary School – latest forecasts show a small reduction in the re-phasing into 2008-09, from £1.620m to £1.528m.

3.4 Children, Families & Educational Achievement portfolio:

The forecast for the portfolio has moved by -£0.559m from -£1.184m to -£1.743m. The main movements are detailed below:

- -£0.265m Management & Modernisation of Assets – difficulties have been experienced in arranging the 2007-08 schedule of works and a significant element of the programme will need to be re-phased into 2008-09. The main projects re-phasing are:
  - Appledore Asylum Seekers Centre – mechanical, drainage and visual inspection survey reports are awaited before the major refurbishment project can commence.
  - Swale Family Support Centre – delays to the improvement of the reception area and work to the car park and roof have been caused by difficulties in obtaining planning permission and a shortage of contract labour.
  - Poultons Family Support Centre - re-phasing of the boiler installation until after the winter to avoid disruption to services which would be caused by having no heating.
  - Six Bells Family Support Centre – DDA works and Health & Safety works to improve the reception area have been delayed due to difficulties in obtaining planning permission and a shortage of contract labour.
- -£0.123m Improving Public Access, Lowfield Road – this project is unlikely to take place in its originally planned format and alternative proposals are being looked into.
- -£0.081m Grovehill Road – Rural projects in Cranbrook – plans are in hand to develop a rural Gateway project in partnership with a number of agencies and this will be the Children's Social Services contribution to the project, which will be required in 2008-09.

3.5 Kent Adult Social Services portfolio:

The forecast for the portfolio has moved by -£0.578m from -£5.172m to -£5.750m this month. The main changes are:

- -£0.450m Dignity In Care Grant – we have obtained DoH approval to re-phase some of this grant, which is for improving the care home environment for older people, into 2008-09, as several of the providers have been slower than anticipated in arranging the necessary works.
- -£0.093m Management & Modernisation of Assets – a genuine underspend in order to offset the repayment of some PFI Excellent Housing costs incurred in 2006-07 which were funded by prudential borrowing.

3.6 Environment, Highways & Waste portfolio:

The forecast for the portfolio has moved by -£0.723m from -£25.988m to -£26.711m. The main movements are detailed below:

- -£0.845m Re-shaping KHS Accommodation – further re-phasing resulting from a reduced estimate of the value of construction work on the Ashford depot by 31 March.
- +£0.099m A228 Leybourne/West Malling bypass – a reduction in the re-phasing into 2008-09.

3.7 Regeneration & Supporting Independence portfolio:

The forecast for the portfolio has moved by -£0.672m from -£3.724m to -£4.396m. This is due to further re-phasing on the Folkestone Arts & Business Centre project as the construction programme is now 5 weeks behind schedule as a result of adverse winter weather and unexpected difficulty with the ground work because of archaeological findings.

3.8 Finance portfolio:

The forecast for the portfolio has moved by -£0.355m from -£1.708m to -£2.063m this month. The main movements are:

- -£0.285m Works to Properties for Disposal – as a further number of projected property disposals have re-phased into 2008-09.
- -£0.070m as a result of a further reduction in the purchase of Vehicles, Plant and Equipment within Commercial Services from the Renewals Fund following the change in policy to take out operating leases instead.

4. RECOMMENDATIONS

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