

**TO: Environment, Highways and Waste (EHW) Policy
Overview and Scrutiny Committee – 14 September 2010**

**BY: Nick Chard, Cabinet Member for EHW
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SUBJECT: Financial Monitoring 2010/11

Classification: Unrestricted

Summary:

Members of the POSC are asked to note the first quarter's full budget monitoring report for 2010/11 reported to Cabinet on 13 September 2010.

FOR INFORMATION

1. Introduction

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

2. Background

- 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. The first quarter's monitoring report for 2010/11 is attached.

3. Revenue

- 3.1 There are no exceptional revenue changes since the writing of the attached report.

4. Capital

- 4.1 There are no exceptional capital changes since the writing of the attached report.

5 Recommendations

- 5.1 Members of the POSC are asked to note the budget variations for the EHW Portfolio for 2010/11 based on the first quarter's monitoring report to Cabinet.

ENVIRONMENT, HIGHWAYS & WASTE DIRECTORATE SUMMARY JULY 2010-11 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 budget was set to reflect the adjustments required as a result of the in year grant reductions as reported to Cabinet in July, the addition of £0.717m of roll forward from 2009-10, as approved by Cabinet on 14 June 2010 and a number of 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 2 of the executive summary.

1.1.2 **Table 1** below details the revenue position by Service Unit:

Budget Book Heading	Cash Limit			Variance			Comment
	G	I	N	G	I	N	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Environment, Highways & Waste portfolio							
Kent Highways Services	62,942	-12,724	50,218	0	0	0	
Public Transport Contracts	21,490	-2,977	18,513	537	0	537	Freedom Pass
Waste Management	69,945	-1,973	67,972	-600	0	-600	Increase in contract prices (£1.1m), offset by reduced tonnage (£1.7m)
Environmental Group	10,071	-4,830	5,241	0	0	0	
Planning & Development Group	770	-15	755	0	0	0	
Planning Applications	1,134	-477	657	0	0	0	
Transport Strategy Group	503		503	0	0	0	
Strategic Management	850		850	0	0	0	
Resources	5,255	-129	5,126	-150	0	-150	Vacancies
Support Services purchased from CED	1,768		1,768	0	0	0	
Total E, H & W	174,728	-23,125	151,603	-213	0	-213	
Assumed Management Action							
Forecast after Mgmt Action				-213	0	-213	

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:

[this section must include an explanation of every variance over £100k detailed in table 2]

Kent Highways Services (KHS):

1.1.3.1 The pothole find and fix programme is progressing well with approximately £4.1m spent after the first 13 weeks. The programme is expected to be completed by the Autumn and is estimated to outturn at around £6.5m. £2.448m of this programme has been funded by the Government, £2.5m from reserves and the remainder from funding released from efficiencies in other areas of Highways spend.

1.1.3.2 Estimates on the cost of the Freedom Pass show a pressure of £0.537m due to the popularity of the pass and the number of journeys now being undertaken. This may increase during the year depending on the take-up of passes in the new academic year and more will be known around October.

Waste Management:

1.1.3.2 The RPI index for April was much higher than budgeted, which has put significant price pressure on some of the Waste contracts. The Allington waste to energy price per tonne is £2.38 more than the budgeted figure which increases costs (assuming minimum tonnage through Allington of 325,000 tonnes) by £0.773m. Inflation on other disposal and Household Waste Recycling Centre contracts is expected to increase the total price pressure on waste to £1.1m.

1.1.3.3 This price pressure is expected to be offset by overall tonnage being less than the budgeted 760,000 tonnes. The draft April to July tonnage figures are below the affordable level. It is very early in the year to predict outturn tonnage with any level of certainty but on the basis of the April to July results, there is an expectation that tonnage will be at least 25,000 tonnes below budget which would give a saving of £1.7m at an average disposal cost per tonne of £68. Therefore, if waste tonnage does outturn at 25,000 tonnes below budget for the remainder of the year, it is expected that the waste budget will underspend by a net £0.6m (i.e. £1.7m saving on tonnage offset by £1.1m pressure on contract prices).

Resources

1.1.3.4 Staff vacancies of £0.15m are being held in order to help offset the pressure on the Freedom Pass.

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
EHW	Waste contract prices	+1,100	EHW	Waste tonnage	-1,700
EHW	Freedom Pass	+537	EHW	Resources vacancies	-150
		+1,637			-1,850

1.1.4 Actions required to achieve this position:

Vacancies in Resources are being deliberately held in order to achieve this position.

1.1.5 Implications for MTP:

The base budget implications of issues identified in this monitoring report will be a call on the amounts identified in the 2010/13 MTP as emerging pressures in 2011/12 and 2012/13. The details of individual amounts will be included when the revised plan is published for consultation in January 2011 together with any new pressures forecast for 2011/12 and 2012/13. The significant issues for this portfolio arising from 2010/11 budget monitoring are:

- price increases on waste contracts – the April RPI figure, to which the indexation on many waste contracts is linked, was higher than expected in the MTP. Therefore if the index does not reverse in 2011, some catch up funding will be required, to maintain the purchasing power of the budget. This is estimated at about £1.2m currently.
- take-up and usage of the Freedom Pass – the Freedom Pass has proved extremely popular and the numbers of passes issued and the number of journeys undertaken is increasing. This will put a demand pressure on next year's budget of around £0.85m

The revised MTP will include proposals on how the in-year cuts in Government grants will be accommodated in base budgets once it has been confirmed that these reductions are permanent following the announcement of the provisional local government finance settlement for 2011/12 which we anticipate will be in late November/Early December. The revised plan will also include the strategy to address the likely reductions in funding over the lifetime of the current parliament following the Chancellor's emergency budget statement on 22nd June in which he outlined his plans to address the national budget deficit.

1.1.6 Details of re-phasing of revenue projects:

There are no re-phased revenue projects at this stage

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.

It is proposed that the forecast underspend of £0.213m is held at present to deal with possible future pressures. These pressures are likely to come from Highways for dealing with the extraordinary number of insurance claims currently being experienced, the popularity of the Freedom Pass, the possibility of another bad winter and general maintenance pressures (although KHS is working hard currently to contain these additional general pressures).

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 since last reported to Cabinet on 12th July 2010, as 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 £000s	2010-11 £000s	2011-12 £000s	2012-13 £000s	Future Yrs £000s	TOTAL £000s
Environment, Highways & Waste Portfolio						
Budget	193,123	167,010	119,582	83,605	224,661	787,981
Adjustments:						
- completed projects	-91,529					-91,529
-reduction in Gov. grants		-4,653				-4,653
Revised Budget	101,594	162,357	119,582	83,605	224,661	691,799
Variance		-1,615	-27,713	6,184	16,537	-6,607
split:						
- real variance		-364	-141	-115	-5,987	-6,607
- re-phasing		-1,251	-27,572	+6,299	+22,524	0

Real Variance		-364	-141	-115	-5,987	-6,607
Re-phasing		-1,251	-27,572	+6,299	+22,524	0

1.2.3 Main Reasons for Variance

Table 4 below, details all forecast capital variances over £250k in 2010-11 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

portfolio	Project	real/ phasing	Project Status			
			Rolling Programme	Approval to Spend	Approval to Plan	Preliminary Stage
			£'000s	£'000s	£'000s	£'000s
Overspends/Projects ahead of schedule						
	Integrated Transport scheme	real	500			
			+500	+0	+0	+0
Underspends/Projects behind schedule						
	Kent Thameside Strategic Programme	phasing			-1,027	
	Major Schemes Design Fees	real	-500			
	Rushenden Relief Road	real		-344		
			-500	-344	-1,027	-0
			-0	-344	-1,027	-0

1.2.4 Projects re-phasing by over £1m:

1.2.4.1 Kent Thameside Strategic Transport Programme – re-phasing of -£12.524m (-£1.027m in 2010-11, -£7.796m in 2011-12, -£3.701m in 2012-13 and +£12.524m in future years)

This programme is designed to deliver a package of Strategic Transport schemes in the Kent Thameside area. The programme has been re-phased by £12.524m. The re-phasing is due to the extended time that it has taken to secure Government funding for the programme.

Revised phasing of the scheme is now as follows:

	Prior Years	2010-11	2011-12	2012-13	future years	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
BUDGET & FORECAST						
Budget	231	2,317	9,743	11,497	127,510	151,298
Forecast	231	1,290	1,947	7,796	140,034	151,298
Variance	0	-1,027	-7,796	-3,701	+12,524	0
FUNDING						
Budget:						
Grant		838	7,471	4,783	34,510	47,602
Revenue	231					231
Developer Cont		1,479	2,272	6,714	93,000	103,465
TOTAL	231	2,317	9,743	11,497	127,510	151,298
Forecast:						
Grant		1,277	1,441	4,756	40,128	47,602
Revenue	231					231
Developer Cont		13	506	3,040	99,906	103,465
TOTAL	231	1,290	1,947	7,796	140,034	151,298
Variance	0	-1,027	-7,796	-3,701	12,524	0

1.2.4.2 Smart Link Ashford – re-phasing of -£20.0m (in 2011-12)

This Bus Project was anticipated to get programme entry from the Department for Transport in this autumn to qualify for funding. The Government have confirmed that programme entry will not be granted until at least 2011-12. Therefore, the construction of the scheme has now been re-phased.

	Prior Years	2010-11	2011-12	2012-13	future years	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
BUDGET & FORECAST						
Budget			20,000	10,000		30,000
Forecast				20,000	10,000	30,000
Variance	0	0	-20,000	10,000	10,000	0
FUNDING						
Budget:						
Grant			20,000	10,000		30,000
TOTAL	0	0	20,000	10,000	0	30,000
Forecast:						
Grant				20,000	10,000	30,000
TOTAL	0	0	0	20,000	10,000	30,000
Variance	0	0	-20,000	10,000	10,000	0

1.2.5 Projects with variances, including resourcing implications:

There is a real variance of -£6.607m (-£0.364m in 2010-11, -£0.141m in 2011-12, -£0.115m in 2012-13 and -£5.987m in future years) which is detailed as follows:

1.2.5.1 **Major scheme Design -£0.5m** (in 2010-11): the budget includes £0.5m to carry out the initial design of Smart Link Bus Project that was anticipated to get programme entry from the Department for Transport (DfT) for funding this autumn. The Government have confirmed that the scheme will not receive Programme Entry until at least 2011-12. **It is therefore requested to divert this funding to accelerating the A2 slip road project in Canterbury which is within the Integrated Transport Programme.**

1.2.5.2 **Kent Thameside Strategic Transport Programme - -£5.987m** (in future years): as well as the re-phasing mentioned in 1.2.4.2 above there is also a real variance in future years, this is due to the transfer of the A2 Bean junction improvement to the Regional Transport Programme.

1.2.5.3 **Rushenden Relief Road: -£0.600m** (-£0.344m in 2010-11, -£0.141m in 2011-12 and -£0.115m in 2012-13): the phase 1 of the scheme which included approach embankment was completed at the end of June. The revised forecast for the outturn is less than originally anticipated due to the allocated contingency provision for risk and compensation events not being fully utilised. This has given a real saving of £0.344m in 2010-11. Review of the scheme indicates that there will be a further saving of £0.256m in future years. There has also been a change in funding between SEEDA and developer contributions which is explained in the overview of the capital programme (section 1.2.6).

Taking these into account, there is an underlying variance of -£0.020m

1.2.6 General Overview of capital programme:

(a) Risks and action being taken to alleviate risks

East Kent Access Phase 2 - spend on this project is currently predicted to be ahead of the original DfT allocation for this year. DfT will be approached formally to bring forward its phasing of the budget in October. The total scheme outturn remains a concern particularly because of construction price inflation and utility costs but this is being closely monitored together with robust contract management to ensure that necessary management action can be taken at the appropriate time to reduce the risk.

Sittingbourne Northern Relief Road - spend on this project is also currently predicted to be ahead of the original DfT allocation for this year. DfT will be approached formally to bring forward its phasing of the budget in October.

Rushenden Relief Road - SEEDA has not been able to secure the £1.9m funding required to complete the scheme. The preferred option is not to leave this road part-finished because of the impact this will have on the development and regeneration of this area and therefore other ways of funding the shortfall are currently being explored. A charge on the land or S106 is being considered by Legal and it is thought they are likely to recommend S106. There is no work on-site at present while the completed earthworks are allowed to settle. Should the funding not be available the risk to KCC is minimal due to the fact that the construction of road has not started. A Member decision will be sought in the autumn, to approve the alternative funding (when secured) and to complete the road build.

Victoria Way, Ashford - this scheme is funded from the Community Infrastructure Fund. Funding expires at 31 March 2011. Late award has always made this completion date challenging and the need to remove unforeseen land contamination and difficulties with utilities are already threatening a delay beyond 31 March 2011. The project team are focused on preparing a plan of action to overcome the difficulties and to mitigate the risk of overrun beyond the funding deadline.

Drovers Roundabout - M20 Junction 9 - this scheme is funded by the Regional infrastructure Fund (RIF) and Growth Area Fund. As with Victoria way the funding expires on 31 March 2011. Progress is good so far but the feature bridge remains the biggest risk of delay. The team are focussed on plans to overcome that risk but if there is a RIF timing issue and consequent shortfall in funding, Ashford Borough Council has agreed that KCC will be able to claim S106 money to cover any underfunding. It is expected there will be sufficient S106 monies to cover any risk to KCC.

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 rephasing will be shown. The proposed re-phasing is detailed in the table below.

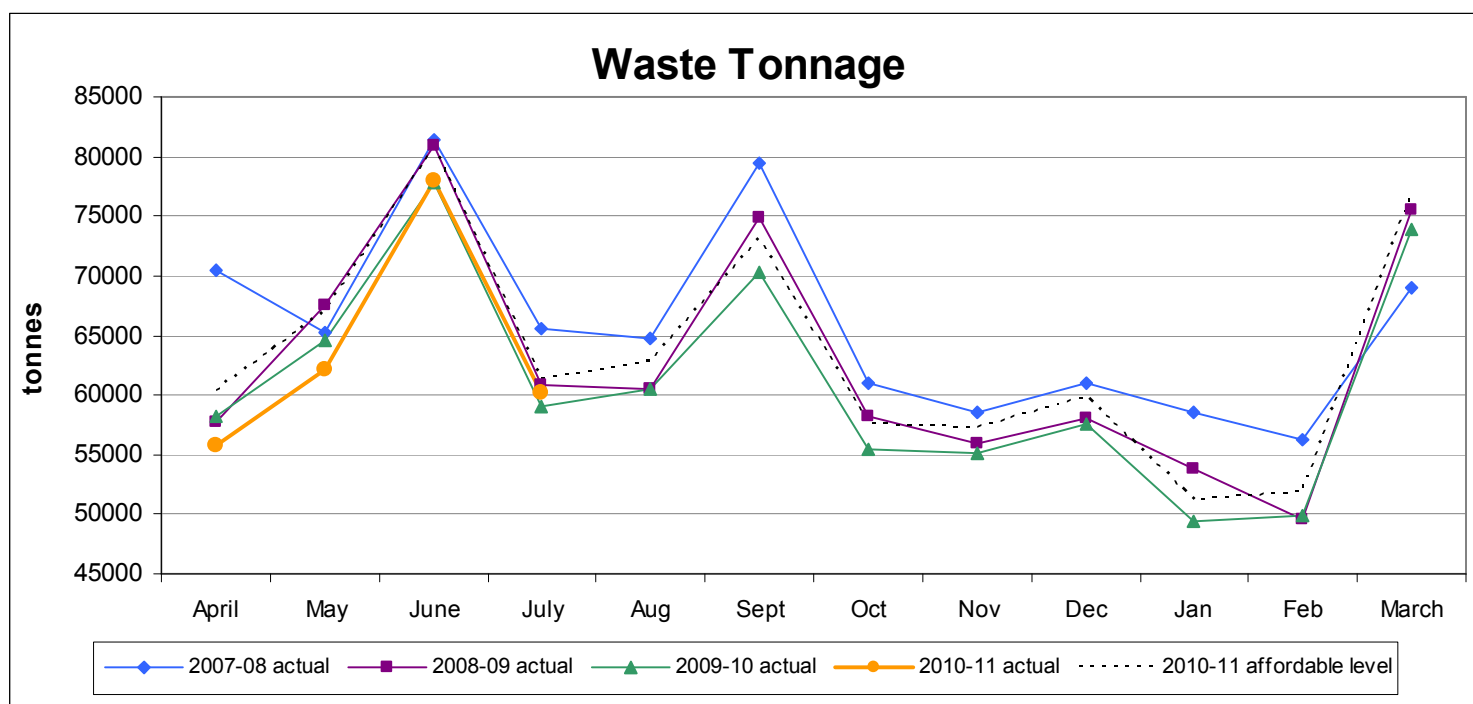
	2010-11	2011-12	2012-13	Future Years	Total
	£k	£k	£k	£k	
Energy and Water Efficiency Investment					
Amended total cash limits	+602	+605	+129	+373	+1,709
re-phasing	-224	+224			0
Revised project phasing	+378	+829	+129	+373	+1,709
Archaeological Resource Centre					
Amended total cash limits	+100	+600	+200		+900
re-phasing	-100	+100			0
Revised project phasing	0	+700	+200	0	+900
Windmills Refurbishments					
Amended total cash limits	0	+100			+100
re-phasing	+100	-100			0
Revised project phasing	+100	0	0	0	+100
Kent Thameside Strategic Transport Programme					
Amended total cash limits	+2,317	+9,743	+11,497	+127,510	+151,067
re-phasing	-1,027	-7,796	-3,701	+12,524	0
Revised project phasing	+1,290	+1,947	+7,796	+140,034	+151,067
Smart Link - Ashford					
Amended total cash limits	0	+20,000	+10,000		+30,000
re-phasing		-20,000	+10,000	+10,000	0
Revised project phasing	0	0	+20,000	+10,000	+30,000
Total re-phasing >£100k	-1,251	-27,572	+6,299	+22,524	0
Other re-phased Projects below £100k					
TOTAL RE-PHASING	-1,251	-27,572	+6,299	+22,524	0

2. KEY ACTIVITY INDICATORS AND BUDGET RISK ASSESSMENT MONITORING

2.1 Waste Tonnage:

	2007-08	2008-09	2009-10	2010-11	
	Waste Tonnage	Waste Tonnage	Waste Tonnage	Waste Tonnage *	Affordable Level
April	70,458	57,688	58,164	55,795	60,394
May	65,256	67,452	64,618	62,174	67,096
June	81,377	80,970	77,842	77,969	80,826
July	65,618	60,802	59,012	60,228	61,274
August	64,779	60,575	60,522		62,842
September	79,418	74,642	70,367		73,065
October	60,949	58,060	55,401		57,526
November	58,574	55,789	55,138		57,252
December	61,041	58,012	57,615		59,825
January	58,515	53,628	49,368		51,260
February	56,194	49,376	49,930		51,845
March	68,936	76,551	73,959		76,795
TOTAL	791,115	753,545	731,936	256,166	760,000

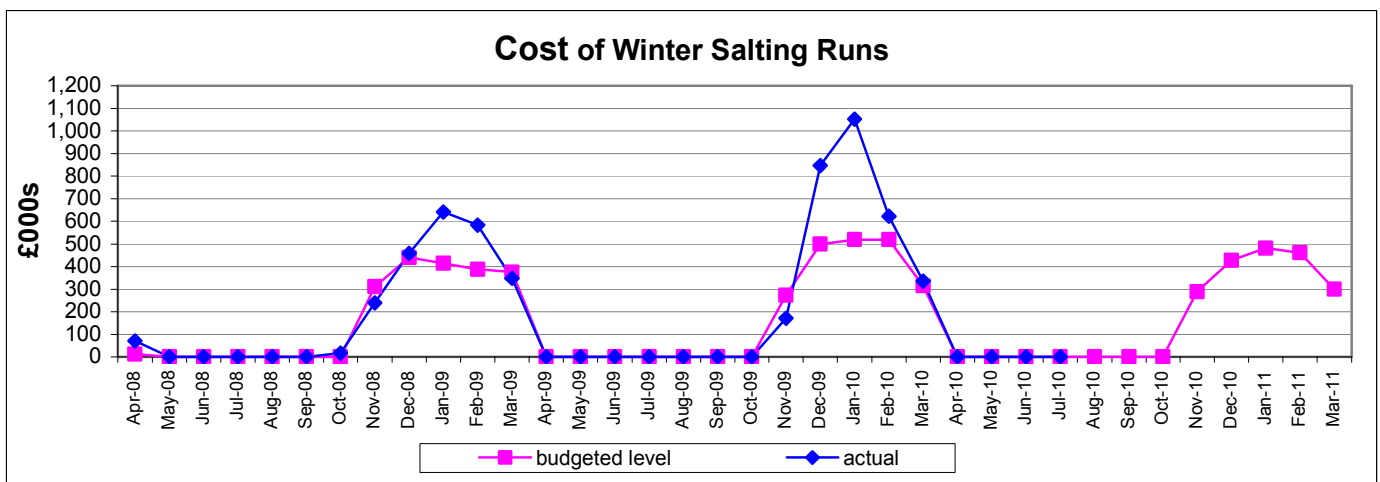
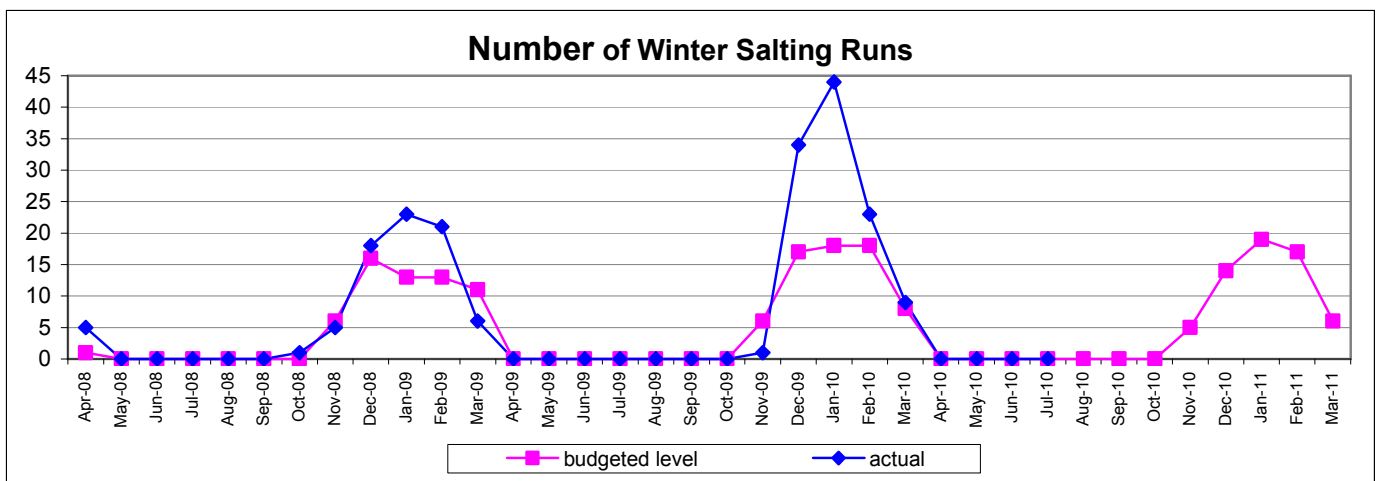
* Note: waste tonnages are subject to slight variations between quarterly reports as figures are refined and confirmed with Districts



- Waste volumes are below the affordable level for the four months of 2010-11 and the outturn assumptions in 1.1.3.3 above assume that tonnage will continue to remain below the budgeted levels for the rest of the year. Tonnages are too unpredictable to give a precise outturn at this stage but a reasonable assumption is that waste volumes will be around 25,000 tonnes below budget based on current figures. However waste may start to increase again at any point, now that the economy is picking up and continued falls in waste cannot be relied upon.

2.2 Number and Cost of winter salting runs:

	2008-09				2009-10				2010-11			
	Number of salting runs		Cost of salting runs		Number of salting runs		Cost of salting runs		Number of salting runs		Cost of salting runs	
	Actual	Budgeted Level	Actual £000s	Budgeted Level £000s	Actual	Budgeted Level	Actual £000s	Budgeted Level £000s	Actual	Budgeted level	Actual £000s	Budgeted Level £000s
April	5	1	70	13	-	-	-	-	-	-	-	-
May	-	-	-	-	-	-	-	-	-	-	-	-
June	-	-	-	-	-	-	-	-	-	-	-	-
July	-	-	-	-	-	-	-	-	-	-	-	-
August	-	-	-	-	-	-	-	-	-	-	-	-
September	-	-	-	-	-	-	-	-	-	-	-	-
October	1	-	16	-	-	-	-	-	-	-	-	-
November	5	6	239	310	1	6	171	273	5	-	288	-
December	18	16	458	440	34	17	847	499	14	-	427	-
January	23	13	642	414	44	18	1,052	519	19	-	482	-
February	21	13	584	388	23	18	622	519	17	-	461	-
March	6	11	348	375	9	8	335	315	6	-	299	-
TOTAL	79	60	2,357	1,940	111	67	3,027	2,125	-	61	-	1,957

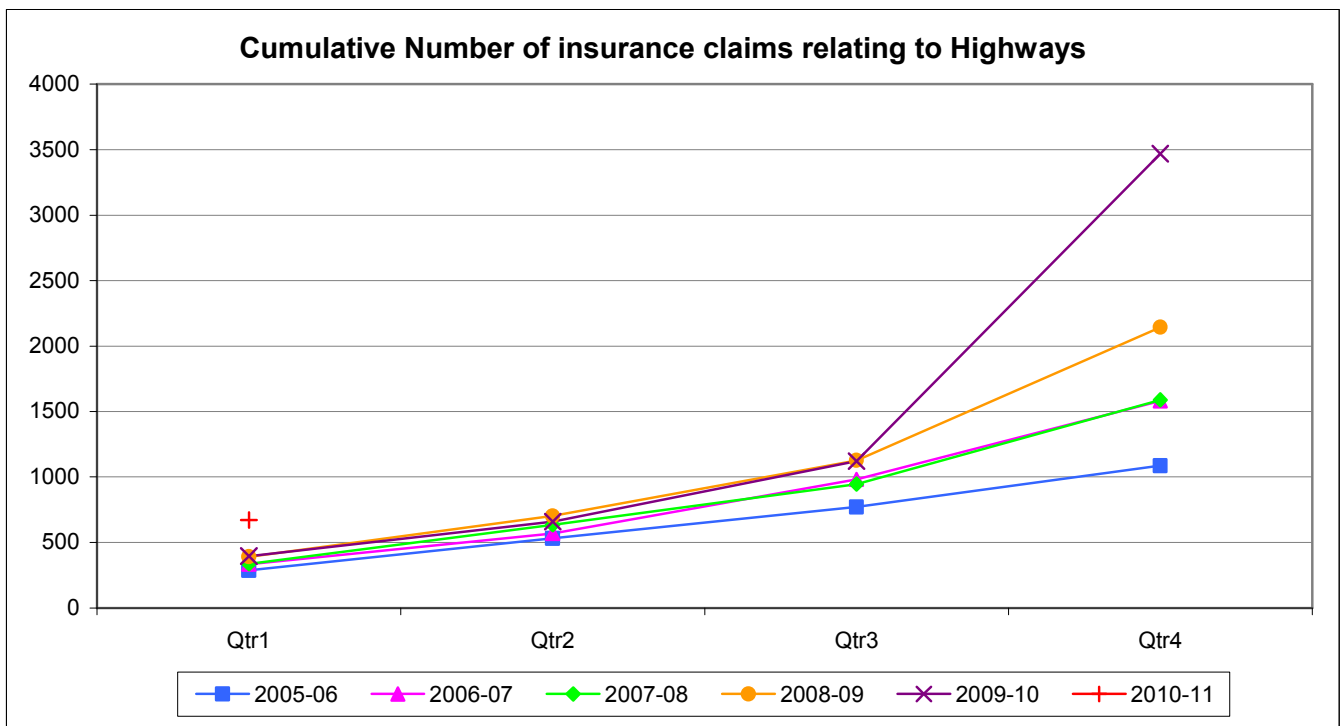


Comment:

- The charges for the Winter Maintenance Service reflect two elements of cost: the smaller element being the variable cost of the salting runs undertaken; the major element of costs, relating to overheads and mobilisation within the contract, have been apportioned equally over the 5 months of the salting period.

2.3 Number of insurance claims arising related to Highways:

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Cumulative no. of claims	Cumulative no. of claims	Cumulative no. of claims	Cumulative no. of claims	Cumulative no. of claims	Cumulative no. of claims
April – June	286	335	336	392	395	672
July – Sept	530	570	636	702	658	
Oct – Dec	771	982	946	1,126	1,122	
Jan - Mar	1,087	1,581	1,589	2,144	3,469	



Comments:

- Numbers of claims will continually change as new claims are received relating to accidents occurring in previous quarters. Claimants have 3 years to pursue an injury claim and 6 years for damage claims. The data previously reported has been updated to reflect claims logged with Insurance as at 1 July 2010.
- The number of claims rose sharply at the end of 2008-09 and 2009-10. The particularly adverse weather conditions and the consequent damage to the highway seems a major factor with this along with some possible effect from the economic downturn. Claims for the 1st quarter 2010-11 are also significantly above previous years (and will increase as more claims for that period are received in subsequent months).
- The Insurance section continues to work closely with Highways to try to reduce the number of successful claims and currently the Authority manages to achieve a rejection rate of claims where it is considered that we do not have any liability, of about 70%.

As previously reported, a new way of charging KHS for highways related insurance claims has been introduced for 2010-11 in order to more accurately reflect the risk and reward associated with managing risk within the Highways service. This will be reviewed at the end of the first year to see whether the new scheme has achieved this objective.

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