

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

CABINET 26 OCTOBER 2006

REPORT OF THE EXECUTIVE DIRECTOR FOR FINANCE, INFORMATION
SYSTEMS AND PROPERTY

**BUDGET MONITORING 2006/07 – QUARTER 2
NON-DEPARTMENTAL BUDGETS**

SUMMARY

REVENUE BUDGET

It is forecast at this stage that Non-Departmental Budgets will **underspend by £0.838** million (17.4%) by the year-end, due to interest income overachieved.

CAPITAL BUDGET

Capital receipts to the end of September 2006 amount to £2.4 million (66.1% of the annual budget). It is forecast that these will **meet the budget** by the year-end.

FOR INFORMATION

1 KEY ISSUES

- 1.1 Financing costs are less than budgeted.
- 1.2 The Cabinet has committed to support joint budgets with the PCT up to £1.4million, and this is expected to make a call on the Council's contingency budget. The amount depends on the HHASC outturn and on the PCT position but a current projection could be £0.7million. At this point, there are no other current commitments against the £1.9million balance, which will be reviewed during quarter 3.
- 1.3 Two items of grant income should be highlighted, although they have not yet been taken into account in the figures due to uncertainty of the sums expected.

We can confirm we will receive LPSA Round 1 Reward Grant sufficient to meet our commitment to the Local Area Agreement (LAA). Following audit there may be a further benefit for the Excellence All Round Fund. However all the 50% grant due to be received in 2006/07 is committed to the LAA.

The Local Authority Business Growth Incentive (LABGI) Scheme has been revised for its second year of operation (2006/07). The

government has removed both the ceiling on and scaling back of allocations. However the scheme is designed to distribute a fixed total (£1 billion) over three years and "*the total amount may be constrained or scaled up at the end of year 2 should growth rates be significantly above or below budgeted expectations*". This potentially increases the amount of grant available to the Royal Borough if we remain eligible under the scheme (business rate growth is sufficiently high). A very speculative estimate of the Royal Borough's 2006/07 entitlement could be as high as £4 million. The longer term future of this grant is subject to the recommendations made by the Lyon's Inquiry (due to report at the end of 2006) and the 2007 Comprehensive Spending Review.

2 REVENUE BUDGET

Revenue Budget Monitoring Report - Non-Departmental Budgets September 2006					
Description	Annual Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	RAG Status
Contingency and Central Budgets	2,681	2,681	0	0.0%	Green
Transfer to Asset Mgt Revenue A/c	-9,894	-9,290	604	-6.1%	Red
Interest and Investment Income	-6,700	-8,142	-1,442	21.5%	Red
Pension Fund Liabilities	6,566	6,566	0	0.0%	Green
Capital Financing Res incl MRP	-1,921	-1,921	0	0.0%	Green
Transfer to/from capital reserves	5,653	5,653	0	0.0%	Green
Transfer to/from revenue reserves	5,012	5,012	0	0.0%	Green
Levies	3,379	3,379	0	0.0%	Green
Formula Grant Adjustments - prior years	38	38	0	0.0%	Green
Total	4,814	3,976	-838	-17.4%	Red

RAG Status:

Red = £100k+ variance and over +/-5%

Amber = £100k+ variance and between +/-3-5%

Green = under £100k variance or under +/-3%

Commentary on Variances

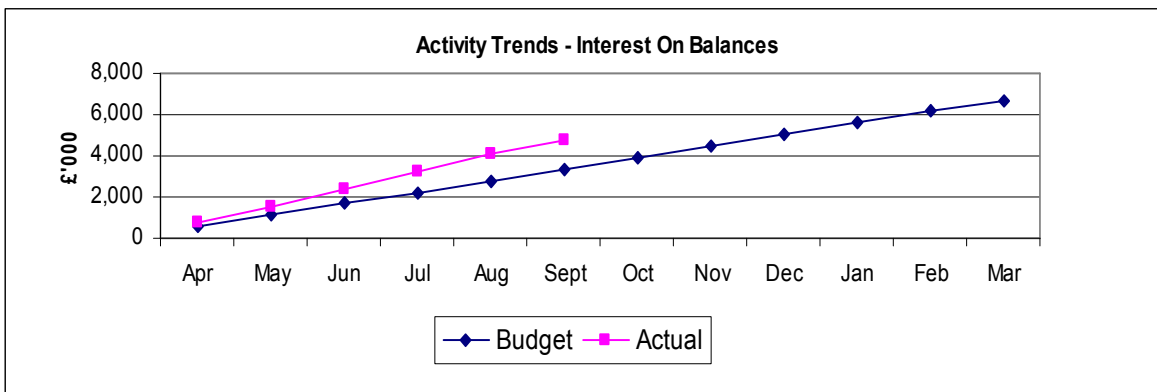
2.1 Interest and Investment Income

Interest on balances is affected by both the average level of cash balances and the interest earned on internally and externally managed funds. Balance levels can vary significantly over the course of the year and to date the average cash balance level has been approximately £242m. In part this is due to underspendings in 2005/06 and to capital slippage. Cash balances also include some £30m of advance borrowing, taken in late 2004/05 and 2005/06 when long-term interest rates were historically low, in order not to be forced to the market at a disadvantageous time, given the ALMO funding requirement in particular. Because short-term interest rates have been higher than the borrowing rates this has also boosted income. Average interest for the year is showing an annualised return of an extra 0.12% above the budgeted level.

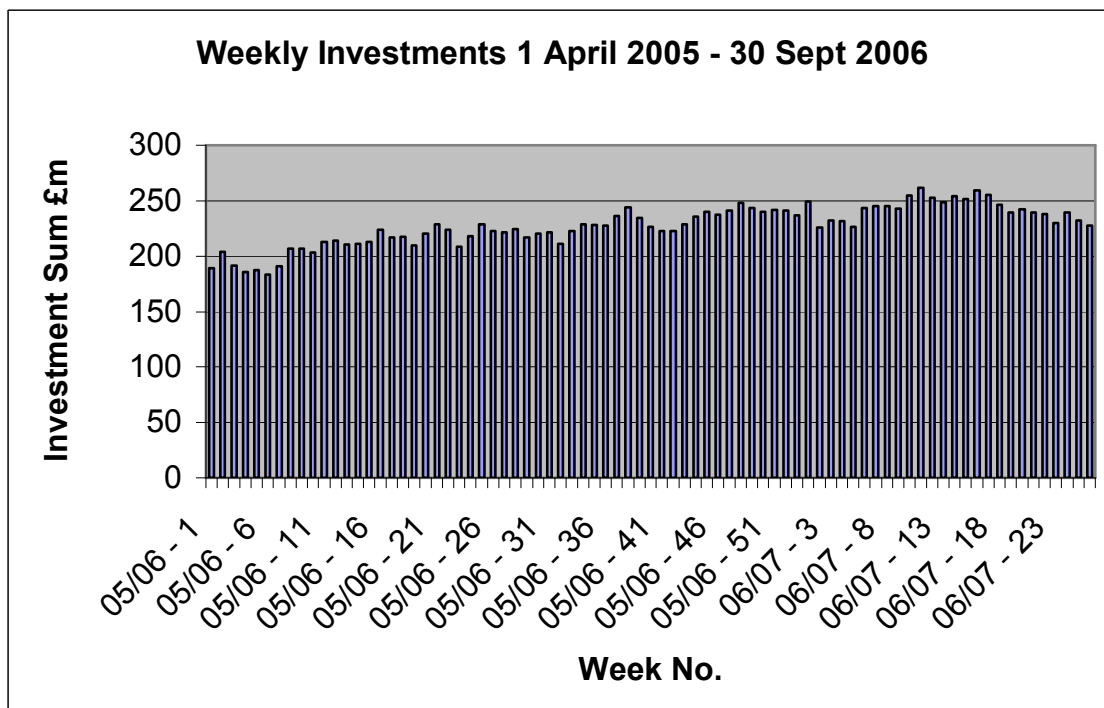
The proportion of interest attributable to non General Fund accounts (including the Pension Fund, the Housing Revenue Account and the London Residuary Body) has diminished with a resulting increase in the amount due to the General Fund. The additional interest is offset by higher financing charges on the additional borrowing, and by the allocation of debt costs. These factors taken together have resulted in an anticipated additional £1.4m interest for the year. The indications of capital slippage and revenue under spending suggest that cash balances will continue to be higher than originally anticipated.

3 KEY TRENDS, COST DRIVERS AND LEAD INDICATORS

3.1 The following graph shows performance of interest and investment income against budget to the end of September.



3.2 The following graph shows the level of cash investments to the end of September.



4 PERFORMANCE INDICATORS

The tables below show the monitoring of key balance sheet items and cash investment performance.

4.1 Long Term Loans Outstanding

Q1 05/06 £M	Q2 05/06 £M	Q3 05/06 £M	Q4 05/06 £M	Q1 06/07 £M	Q2 06/07 £M	Q3 06/07 £M	Q4 06/07 £M
212.5	211.7	215.2	230.1	230.1	226.6		

4.2 Cash Investments

Q1 05/06 £M	Q2 05/06 £M	Q3 05/06 £M	Q4 05/06 £M	Q1 06/07 £M	Q2 06/07 £M	Q3 06/07 £M	Q4 06/07 £M
207.3	221.7	226.4	237.0	249.0	227.3		

4.3 Annualised Returns on Investments

Q1 05/06 %	Q2 05/06 %	Q3 05/06 %	Q4 05/06 %	Q1 06/07 % *	Q2 06/07 %	Q3 06/07 %	Q4 06/07 %
RBKC In House							
4.88%	4.73%	4.61%	4.58%	4.59%	4.70%		
Investec							
5.92%	4.36%	4.60%	4.35%	3.44%	3.84%		
Alliance							
5.04%	4.56%	4.63%	4.22%	3.46%	-	-	-
SWIP							
-	-	-	-	3.9%	5.04%		

- Returns for Investec and SWIP for Q2 2006/07 are to the end of August 2006. Alliance ceased to operate as a fund manager at the end of April 2006. Funds were transferred to SWIP on the 19 June 2006.

5 MOVEMENTS IN RESERVES

Reserve movements actioned during the second quarter of the year are set out in the table below:-

Reserve	Amount Agreed £'000	Details
FAMILY AND CHILDREN'S SERVICES		
Carry Forward Reserve	36	Release from reserve to fund projects which have slipped from previous years
TRANSPORT, ENVIRONMENTAL AND LEISURE SERVICES		
Severance Reserve	159	Release to fund retirement commitments
HOUSING, HEALTH AND ADULT SOCIAL CARE		
Carry Forward Reserve	132	Release from reserve to fund projects which have slipped from previous years
CORPORATE SERVICES		
Private Health Care Liabilities Reserve	169	Release from reserve to fund overspend for two prior financial years
Corporate IS Initiatives Reserve	42	Release to meet additional costs of the ISD Enterprise Agreement
Strategic Communication Reserve	50	Release to meet costs arising from a secondment and various publications
Carry Forward Reserve	175	Release from reserve to fund projects which have slipped from previous years
	763	

6 CAPITAL

A proportion of capital receipts from the sale of assets and repayment of loans can be used to fund new capital spending. The table below shows the estimated and actual achieved to date (gross not usable proportion). RTB sales are already running ahead of the annual budget at this half way stage in the year.

CAPITAL RECEIPTS 2006/07

RECEIPTS	2006/07 ANNUAL BUDGET £'000	APRIL 2006 - SEPTEMBER 2006			
		PROFILED BUDGET £'000	ACTUAL RECEIPTS £'000	VARIANCE £'000	% OF ANNUAL BUDGET RECEIVED
Right-to-buy Sales	1,500	750	1,574	(824)	104.93
Other Sales	2,086	50	836	(787)	40.08
Other Receipts	70	35	7	28	9.66
TOTAL	3,656	835	2,417	(1,582)	66.11

The position on usable capital receipts to the end of September is set out in the table below.

	£'000
Usable Capital Receipts as at 1 April 2006	1,967
Usable Receipts Received 2006/07 to September 2006	1,075
Total Usable Capital Receipts to September 2006	3,042

S. BEAUCHAMP

**EXECUTIVE DIRECTOR FOR FINANCE, INFORMATION SYSTEMS
AND PROPERTY**