

# THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

CABINET 22 FEBRUARY 2007

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

### BUDGET MONITORING 2006/07 – QUARTER 3 NON-DEPARTMENTAL BUDGETS

#### SUMMARY

##### REVENUE BUDGET

Non-departmental budgets expect to make savings of **£5.949** million by the year-end, by overachieving investment income and releasing central contingencies.

##### CAPITAL BUDGET

Capital receipts to the end of December 2006 amount to £3.2 million (88.4% of the annual budget).

**FOR INFORMATION**

## 1 KEY ISSUES

### Interest and Investment Income

- 1.1 Interest earned is expected to exceed the budget for the year by £3.2 million. Interest receipts are affected by both the average level of cash balances and the interest rate 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 £245m. 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 0.31% above the budgeted level.
- 1.2 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 share due to the General Fund. The indications of capital slippage and net revenue underspending suggest that cash balances

will continue to be higher than originally anticipated.

- 1.3 The forecast also now assumes that the contingency budget can be released. Business Groups have been able to absorb contingent issues as they have arisen, including the support for joint work with the PCT that at one time was expected to make a substantial call on the contingency provision. Release now does assume that we are able to satisfy the Home Office on their review of Asylum cases from previous years.
- 1.4 Two items of grant income should be highlighted. 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.
- 1.5 The Local Authority Business Growth Incentive (LABGI) Scheme is intended to share with local authorities the additional rates yield resulting from increased business rateable value. In 2005/06 we received £2.1 million. The scheme has been revised and expanded for its second year of operation. The scheme is designed to distribute a fixed total 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"*. Any figure is speculative at this stage but the national total is trebled compared with last year. 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.
- 1.6 In the meantime, in anticipation of an allocation for 2007/08, members are requested to agree in principle to setting the grant aside in an earmarked reserve for strategic regeneration purposes.

**Revenue Budget Monitoring Report - Non-Departmental Budgets  
December 2006**

Description	Annual Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	RAG Status
Contingency and Central Budgets	2,632	51	-2,581	-98.1%	Red
Transfer to Asset Mgt Revenue A/c	4,143	4,117	-26	-0.6%	Green
Interest and Investment Income	-6,700	-9,900	-3,200	47.8%	Red
Pension Fund Liabilities	6,566	6,424	-142	-2.2%	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	5,441	5,441	0	0.0%	Green
Levies	3,379	3,379	0	0.0%	Green
Formula Grant Adjustments - prior years	38	38	0	0.0%	Green
<b>Total</b>	<b>19,231</b>	<b>13,282</b>	<b>-5,949</b>	<b>-30.9%</b>	<b>Red</b>

**RAG Status (on net budget):**

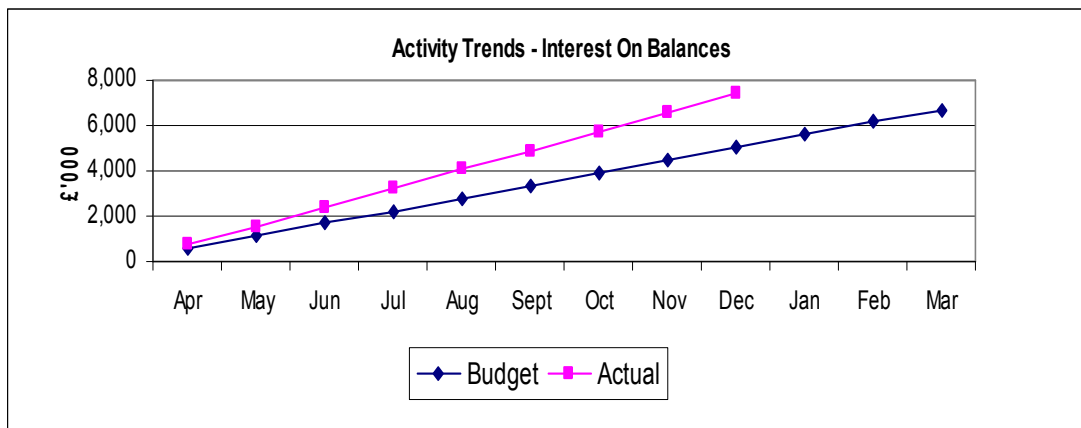
Red = £100k+ variance and over +/-5%

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

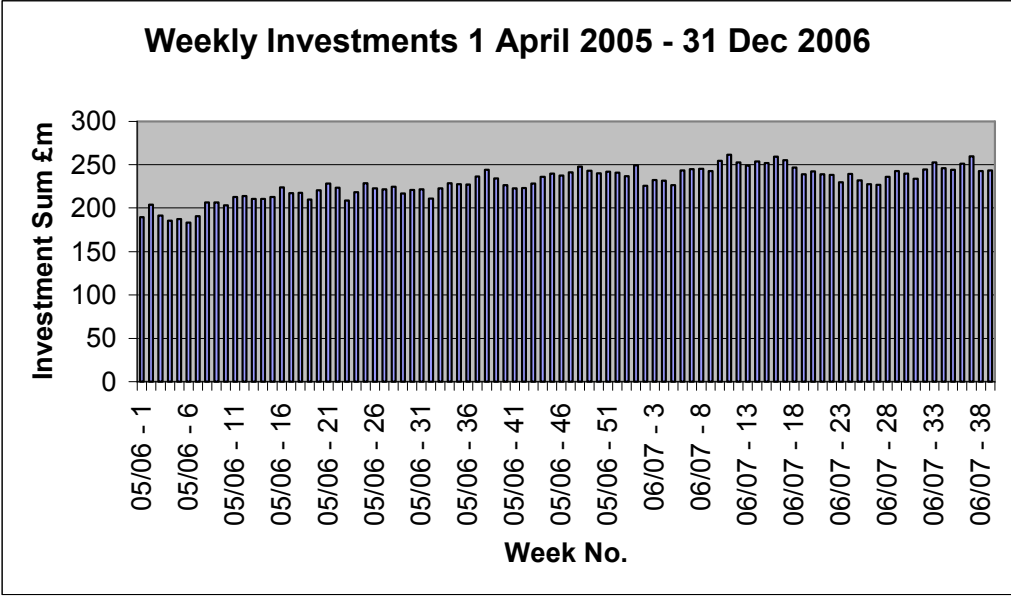
Green = under £100k variance or under +/-3%

## 2 KEY TRENDS, COST DRIVERS AND LEAD INDICATORS

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



2.3 The following graph shows the level of cash investments to the end of December.



**3 PERFORMANCE INDICATORS**

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

3.2 Long Term Loans Outstanding

<b>Q1 05/06 £M</b>	<b>Q2 05/06 £M</b>	<b>Q3 05/06 £M</b>	<b>Q4 05/06 £M</b>	<b>Q1 06/07 £M</b>	<b>Q2 06/07 £M</b>	<b>Q3 06/07 £M</b>	<b>Q4 06/07 £M</b>
212.5	211.7	215.2	230.1	230.1	226.6	<b>225.0</b>	

3.3 Cash Investments

<b>Q1 05/06 £M</b>	<b>Q2 05/06 £M</b>	<b>Q3 05/06 £M</b>	<b>Q4 05/06 £M</b>	<b>Q1 06/07 £M</b>	<b>Q2 06/07 £M</b>	<b>Q3 06/07 £M</b>	<b>Q4 06/07 £M</b>
207.3	221.7	226.4	237.0	249.0	227.3	<b>243.6</b>	

### 3.4 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 %
<b>RBKC In House</b>							
4.88%	4.73%	4.61%	4.58%	4.59%	4.70%	<b>4.92%</b>	
<b>Investec</b>							
5.92%	4.36%	4.60%	4.35%	3.44%	3.84%	<b>4.28%</b>	
<b>Alliance</b>							
5.04%	4.56%	4.63%	4.22%	3.46%	-	-	-
<b>SWIP</b>							
-	-	-	-	3.9%	5.04%	<b>5.36%</b>	

- Alliance ceased to operate as a fund manager at the end of April 2006. Funds were transferred to SWIP on the 19 June 2006.

## 4 MOVEMENTS IN RESERVES

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

Reserve	Amount Agreed £'000	Details
<b>HOUSING, HEALTH AND ADULT SOCIAL CARE</b>		
Local Initiatives Reserve	100	Release from reserve to fund Estate Renewal Initiative
Supporting People Reserve	- 533	Transfer to Reserve of underspend to allow savings strategy to be developed and implemented (agreed q2, implemented q3)
<b>PLANNING AND CONSERVATION</b>		
Carry Forward Reserve	18	Release from reserve to fund projects which have slipped from previous years
Economic Development Reserve	50	Release from reserve to Village Retail Commission expenditure
<b>CORPORATE SERVICES</b>		
Renewals and Repairs Reserve	- 64	Release to meet cost of email filter and transfer into reserve for SQL server backup
	429	

## 5 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). Right to Buy sales are running well ahead of the annual budget.

**CAPITAL RECEIPTS 2006/07**

RECEIPTS	2006/07 ANNUAL BUDGET £'000	APRIL 2006 - DECEMBER 2006			
		PROFILED BUDGET £'000	ACTUAL RECEIPTS £'000	VARIANCE £'000	% OF ANNUAL BUDGET RECEIVED
Right-to-buy Sales	1,500	1,125	2,299	(1,174)	153.24
Other Sales	2,086	1,565	926	638	44.37
Other Receipts	70	53	7	46	9.66
<b>TOTAL</b>	<b>3,656</b>	<b>2,742</b>	<b>3,231</b>	<b>(489)</b>	<b>88.37</b>

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

	£'000
Usable Capital Receipts as at 1 April 2006	1,967
Usable Receipts Received 2006/07 to December 2006	1,279
Total Usable Capital Receipts to December 2006	3,246

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