

Meeting:	BNG Board
Date:	13 March 2009
Contact:	Ian Mackintosh
Board Action:	For Decision
Sensitivity/FOI:	Public

## Item 7 - Financial Update

### Summary Report:

This report provides the latest financial position and forecast for 2008-09; the draft budget for 2009-10; cash flow forecast and the draft efficiency plan.

### Recommendations:

1. note the financial position for 2008-09;
2. approve the draft budget for 2009-10;
3. approve the draft efficiency plan for 2009-10, and
4. appoint a Board Member to act as 'Efficiency Champion'

### Implications:

Financial: The combined Growth and Renewal Programme amounts to £34.1m in 2008-09 and is estimated to be £33.8m in 2009-10.

Equality: Equality issues are considered under the project appraisal process.

Sustainability: Sustainability issues are considered under the project appraisal process

Advisory Group / Appraisal Panel / Residents' Panel: Appraisal Panel 6<sup>th</sup> March

### Risk:

Strategic: Failure to deliver the programme as outlined.

Financial: Potential loss of grant if programme is not delivered.

Development: Failure to bring forward developments included in programme.

Operational: All projects may not be deliverable as outlined in programme.

Reputational: Failure to deliver programme would have an adverse effect on the reputation of BNG and associated partner organisations.

**Report to:** BNG Board 13<sup>th</sup> March 2009

**Subject:** Financial Update

**Agenda Item:** 7

## 1. INTRODUCTION

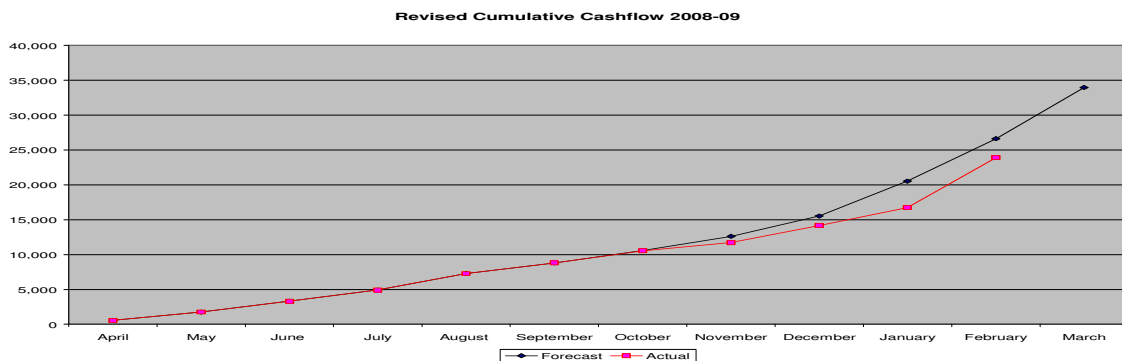
This report provides:

- An update on expenditure to the end of February and a forecast to the year end of 2008-09.
- A draft budget for 2009-10 for the overall growth and renewal programme and a more detailed Core Team budget.
- Cashflow forecasts for 2009-2011.
- A draft Efficiency Plan that details cash targets for 2009-10 and provides indicative figures for 2010-11.

### 2.1 2008-09 FINANCIAL POSITION

BNG has a target of £33.96m expenditure to achieve in 2008-09. To date projects totalling £39.08m have been approved for this financial year.

As at 28<sup>th</sup> February £23.9m has been claimed from CLG/HCA. This is around 10% below the revised cash flow forecast of £26.6m for this period. This leaves a balance of £10m to be defrayed in the final month of the year. However £3.375m of acquisitions in Gateshead are currently being processed through the legal system and it is anticipated that they will be complete early in March. Programme Management Group meets weekly to assess the situation and the latest forecast for the year end is expenditure of up to £34.35m. However there are a number of risks, notably around land assembly, to achieving this figure amounting to approximately £1.5m. Mitigating actions have been identified to ensure that the full programme spend is achieved.



The detailed programme and forecast is shown as **Appendix 1**.

Capital receipts in the sum of £489,000 are anticipated to be received during 2008-09. The forecast sum of £1.5m for Sunderland Road is now likely to be received in 2009-10.

### 2.2 2009-10 DRAFT BUDGET

BNG is now responsible for Housing Market Renewal and Growth Fund investment. A combined draft programme is attached at **Appendix 2**.

Housing Market Renewal funding for 2009-10 has not yet been confirmed, although it will be between £ 28.8m and £ 35.2m. Experience dictates that over programming of around 15% is needed to deliver programme targets.

HMR spend targets will still need to be achieved within year, although flexibilities across the years are in place for Growth funding. Community Infrastructure (CIF) Projects will be managed alongside but separated from HMR and Growth due to their funding conditions. The CIF allocation has not yet been received however it is understood that it will be project specific therefore the programme will be adjusted in line with the allocation.

A draft Renewal and Growth programme of £ 38.159m is in place for 2009-10 with the Growth fund allocation for 2009-10 being £1.835m. The funding scenarios are therefore:

	Growth & HMR 90%	Growth & HMR 100%	Growth & HMR 110%
Funding Scenario	£30.635m	£33.835m	£37.035m
Draft Programme	£38.159m	£38.159m	£38.159m
Variance (% overprogrammed)	£ 7.524m (25%)	£4.324m (13%)	£1.124m (3%)

(HMR at 100% is £ 32.000m).

### **Core Team Budget.**

The programme highlighted above includes the following budgets relating to the BNG Core Team – further details are shown as **Appendix 3**:

Core Team	£817k
Research	£150k
Communications and Marketing	£183k

### **Research and Communications Programmes**

The Advisory Group considered the content of the proposed Research Programme for 2009-10 at its meeting on 27 February 2009. The group supported the proposals to carry out work to clarify the cumulative impact of the HMR programme and different elements of it (Audit Commission recommendation), a survey of people who have moved in the area over the last few years (as captured by the land registry data); final phases of the Modelling Future Markets research by Professor Glen Bramley to take account of the credit crunch and five North East Growth Points and the Housing Options work; follow up to the Value in Design research and the Northern Way's Residential Futures work.

The proposed budget for Communications has been increased to cover the anticipated costs of the residents' panel and training in Community Development, to be offered to panel members and a small number of relevant partnership officers.

### **Capital Receipts.**

It is anticipated that capital receipts totalling £1.8m will be achieved during 2009-10. If this happens the total amount received, including £1.15m brought forward, will amount to £2.95m. There is more flexibility governing the use of capital receipts, as opposed to HMR grant, in that they must be used within the Pathfinder for activities in support of regeneration rather than on HMR eligible expenditure. The capital receipts policy requires that they are used to maximise the impact in supporting BNG's strategic objectives and that their use is subject to approval by the Board. Once the receipts have been confirmed an action plan for the use of the capital receipts will be brought to Board for approval.

## Key Programme Risks.

Given the current economic climate it is inevitable that a programme such as this will have a number of inherent risks. In particular new build projects must be considered to be at risk such as The Cambrian Phase 2, Staithes and Boklok (£1.077m 2009-10, £1.837m 2010-11). As the programme has now developed to include fewer, larger, projects the potential risks to delivery have increased. There are several major projects which could have delivery issues in 2009-10 including Scotswood Expo (£2m); Cruddas Park (£6m); and Pottery Bank (£1m). These projects will be monitored through the year and regular updates will be brought to the Project Appraisal Panel and Board.

As the revenue allocation for the next two years has not yet been announced the programme has been developed around assumed levels of funding. The revenue allocation for 2008-09 HMR is £2.61m. If the revenue allocations are reduced the programme may need to be revisited. For the past three years the level of revenue expenditure in the programme has been supported through eligible funding swaps through the modern homes programmes of the two ALMOs where they support BNG interventions. These funding swaps are predicated on an equivalent amount of usable capital receipts generated through right to buy sales within the local authorities. Current projections are showing a significant reduction in receipts therefore this situation will need to be closely monitored.

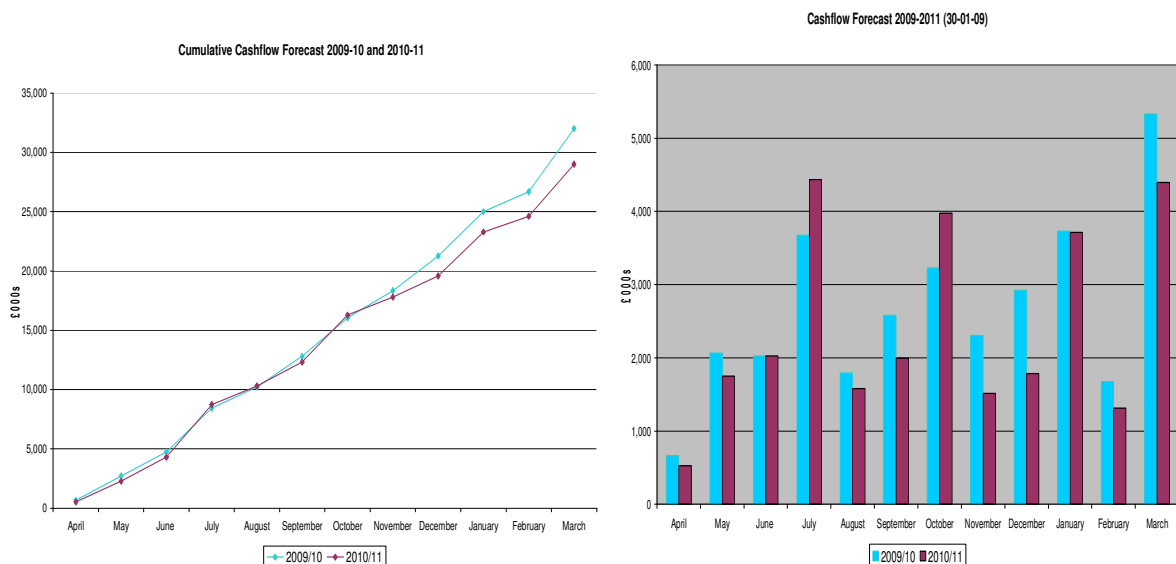
Due to the potential impact that the above risks could have on programme delivery options for further strategic investment in 2009-10 are being examined including:

- More property conversions e.g. New Mills
- Site infrastructure, preparation and de-risking
- Accelerated land and property acquisitions
- Accelerated property refurbishments
- Support to Housing Options work.

Further information on the programme will be brought forward to the next Board.

## 2.3 CASHFLOW FORECAST

The following chart shows the draft cashflow forecast for 2009-10 and 2010-11. The forecast is based on the assumption that 100% of the HMR allocation will be received.



The cashflow forecasts will be refined as information is received from Project Officers as part of the Gateway Review process which is due to be completed by the end of March. This will establish a project baseline and determine cashflow forecasts and milestones for the following two years (2009-2011). These will form key elements of the improved performance management framework to be implemented with effect from April 2009. The revised cashflow forecast will be brought back to the next Board.

The project monitoring system for 2009-10 has been amended to include commitments in addition to expenditure actually defrayed. In future the cashflow monitoring graph will include forecast, actual expenditure claimed and actual plus committed. This will give the Board a truer position in relation to programme delivery than is currently provided.

## 2.4 EFFICIENCY PLAN

As discussed in previous reports to the Board a draft Efficiency Plan has been produced with cash targets as detailed in **Appendix 4**. To date efficiency gains of £2.5m (7%) have been identified in 2009-10 and £3.3m (10%) in 2010-11.

The efficiency targets are based on:

- Capping staffing budgets for the BNG Core Team and both local authorities;
- Mainstreaming /tapering the budgets for neighbourhood management projects;
- A 2% reduction in all projects to be tendered in 2009-11;
- A reduction in the budget for 'general consultancy' work;
- Aligning the programme management of renewal and growth;
- Subsuming the Relocation Team into Your Homes Newcastle providing an improved service at reduced cost;
- Reducing the anticipated 'gap funding' budget for the next phase of The Cambrian on the basis of the initial independent assessment by DTZ;
- Reducing the profit to be generated by the developer in Walker Riverside by 25% from that which would normally be anticipated on this type of scheme.

Further work is being carried out to identify additional efficiency targets and it is anticipated that this list will increase.

An analysis has been undertaken of the 'Use of Resources' assessments undertaken on all Pathfinders by the Audit Commission (**Appendix 5**) and any areas of good practice are being followed up to identify any further lessons to learn. Where relevant ideas have been built into the draft efficiency plan.

The requirement to produce an efficiency plan is a key recommendation from both the Use of Resources and Overall Performance reviews undertaken by the Audit Commission. This work needs to be completed by 30<sup>th</sup> April. The Audit Commission have now been procured to provide advice on our plan. This work is anticipated to be completed by the end of March and any recommendations will be implemented as required. Initial discussions with the Auditor have been favourable and one early recommendation has been made. It has been suggested that it would be beneficial to establish a Board Member to act as 'Efficiency Champion' to work more closely with officers in determining and delivering efficiency gains. Examples of local authority efficiency plan formats have also been provided, as no such examples exist within Pathfinders at present, and these will be reviewed and used to further develop the BNG plan. An update on the Efficiency

Plan will be brought to the next Board.

3. **NEXT STEPS**

The outturn for 2008-09 will continue to be closely monitored by Programme Management Group and an additional meeting of the Project Appraisal Panel is to be held towards the end of March.

The programme for 2009-10 will be further developed and delivered as the resource allocation becomes clearer. Regular progress reports will be brought to Project Appraisal Panel and Board including cashflow and commitment forecasting and risk impact.

The Efficiency Plan will be further developed in accordance with Audit Commission suggestions that emerge and target achievement will be monitored and reported as part of the regular finance updates to Project Appraisal Panel and Board.

4. **RECOMMENDATIONS**

BNG Board is recommended to:

- 1) Note the 2008-09 financial position;
- 2) Approve the draft programme for 2009-10;
- 3) Approve the draft efficiency plan, and
- 4) Appoint a Board Member as 'Efficiency Champion'