

Meeting:	BNG Board
Date:	Friday 23rd January 2009
Contact:	Ian Mackintosh/Jonathan Dunk
Board Action:	For Information
Sensitivity:	Public

Subject: Item 9 - Programme and Financial Update

Link to BNG Vision and Objectives:

The programme delivers the BNG Vision and Objectives in 2008-09.

Recommendation:

BNG Board notes the progress made in delivering the spend and output targets for the year.

Executive Summary:

BNG has a target of £33.96m expenditure to achieve in 2008-09. To date projects totalling £34.85m have been approved for this financial year.

As at 31st December £14.013m has been claimed from CLG. This is around 10% below the revised cash flow forecast of £15.533m for this period.

This leaves a balance of £19.9m to be defrayed in the final three months of the financial year, this is a concern. In part this is as a result of the cost of property acquisitions falling over the last year meaning that the same number of outputs can be achieved for less. In addition to this the number of new build starts on site is lower than planned. A number of mitigating actions are in place to manage this situation:

- Expenditure is being closely monitored by the Programme Management Group on a fortnightly basis
- A number of variations to the programme have been agreed to ensure that programme spend is achieved
- Cashflow forecasting and monitoring procedures are to be strengthened

Output performance is summarised in the table below:

Output	CLG Target 2008-09	Total Forecast 2008-09	Complete at end of November 2009
New homes constructed/conversions	63	63	39
Refurbishments	900	999	477
Acquisitions	140	168	100
Demolitions	400	487	341
Land Acquired	0.49 ha	0.49 ha	0

Implications

Financial:	BNG must deliver a programme with an expenditure target of £33.96m.
Equality:	All projects within the programme consider the impact on equalities during the appraisal process
Sustainability:	All projects within the programme consider the impact on sustainability during the appraisal process
Freedom of Information:	The report is a public document
Report Status:	Open

Risk:			
Risk Map Element	Brief description of any material risks, including of not proceeding.	Impact	Probability
Strategic:	The outcome of the programme may not have the desired effect on the strategic objectives	H	L
Financial:	Failure to achieve the spend target could result in loss of grant if underspent or needing to find alternative funding if overspent	H	M
Development:	Projects must be approved in sufficient time to allow development to take place in accordance with the programme	H	M
Operational:	Failure to achieve the contracted outputs could have an adverse effect on the programme in future years	H	M
Reputational:	Failure to deliver the programme spend and outputs would cause BNG to lose face with CLG and potentially residents and stakeholders	H	L

Paper Type:
For Information.



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BNG BOARD

Agenda Item: 9

PROGRAMME AND FINANCIAL UPDATE

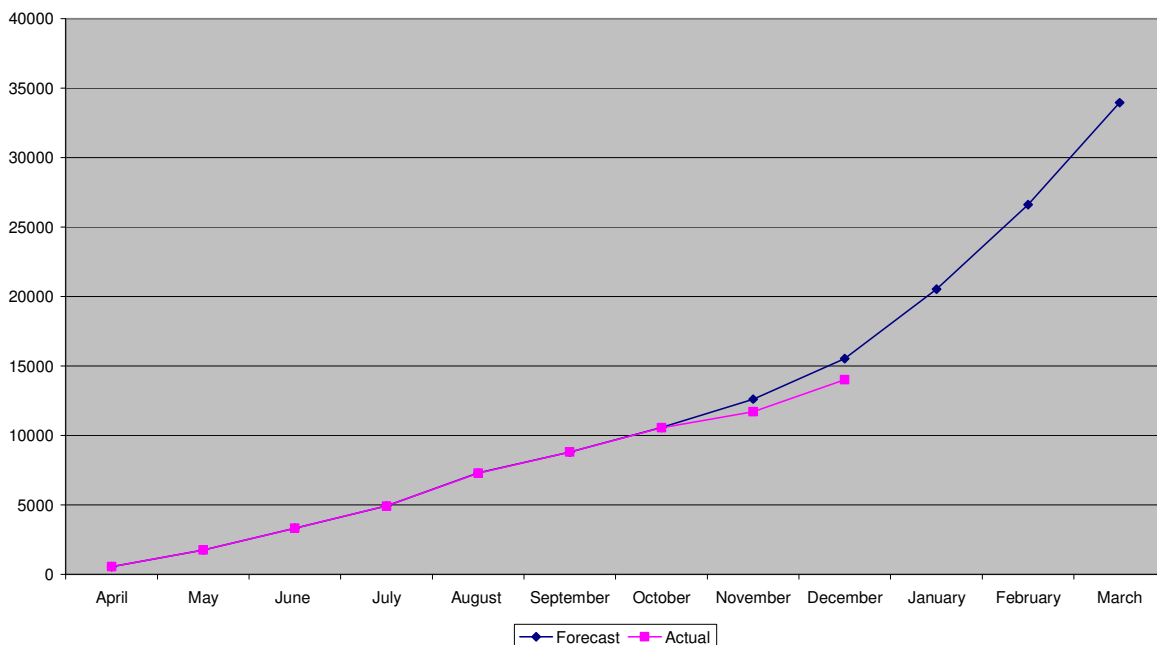
1. Summary

BNG has a target of £33.96m expenditure to achieve in 2008-09. To date projects totalling £34.85m have been approved for this financial year.

As at 31st December £14.013m has been claimed from CLG. This is around 10% below the revised cash flow forecast of £15.533m for this period.

This leaves a balance of £19.9m to be defrayed in the final three months of the financial year. This is being closely monitored by the Programme Management Group and a number of variations to the programme have been agreed by Project Appraisal Panel to ensure that programme spend is achieved.

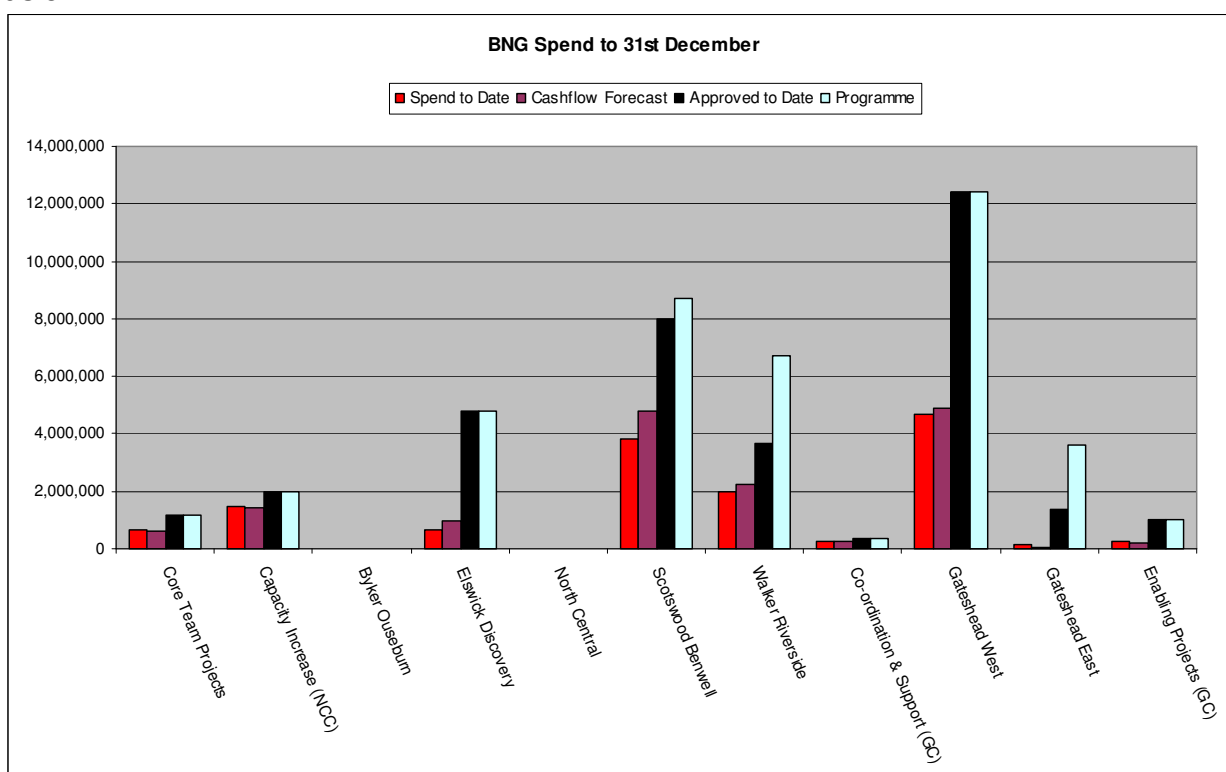
Revised Cumulative Cashflow 2008-09



The expenditure can be broken down into the following Strategic Intervention Areas:

Strategic Intervention Area	Spend to 31st December	Estimated Cashflow Forecast to 31st December	Approved to Date	2008-09 Programme
Core Team Projects	675,055	634,090	1,150,000	1,150,000
Capacity Increase (NCC)	1,500,000	1,443,000	2,000,000	2,000,000
Byker Ouseburn	18,000	17,270	18,000	18,000
Elswick Discovery	643,582	985,453	4,762,215	4,762,215
North Central	8,980	0	8,980	8,980
Scotswood Benwell	3,809,007	4,803,692	8,000,833	8,690,619
Walker Riverside	2,007,973	2,251,260	3,688,122	6,708,419
Co-ordination & Support (GC)	267,237	257,081	381,000	381,000
Gateshead West	4,673,318	4,888,160	12,434,418	12,434,418
Gateshead East	146,644	55,500	1,389,000	3,640,000
Enabling Projects (GC)	263,194	195,870	1,012,972	1,012,972
	14,012,991	15,531,376	34,845,540	40,806,623

This is represented graphically below.



Details of individual projects can be seen in the attached spreadsheet (Appendix 1).

Major Projects:

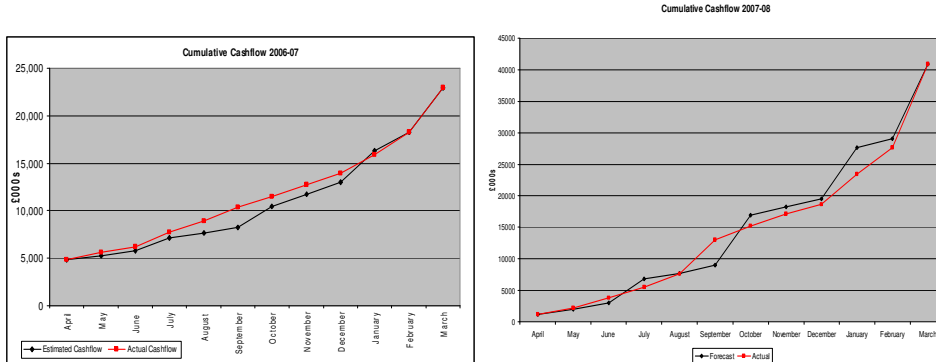
A number of projects in the programme for this year still have substantial amounts to defray and they could give rise to concern with regard to their deliverability:

- Cruddas Park – start on site has been achieved on the 8th of December. Some concerns, therefore, remain around the deliverability of all of the elements of the project in the current year. The situation is being closely monitored.
- Scotswood URV fees element – the competitive dialogue process is progressing well and is on target to complete negotiations by May 2009 with a formal partner selected by July. This scheme should meet expenditure targets.
- Inner West Renewal Area – this is a large scale refurbishment programme in Arthur's Hill due to run over several years. Contractors are on site and performing well. Phases 3 and 4 are nearing completion. The contract for phases 5, 6 and 7 was let at the end of December 2008.
- Scotswood Benwell Land Assembly – this is a large scale acquisition and demolition programme. Legal agreement has been reached with the Angel Group who own 38 properties in this area at an estimated cost of £ 1.8m.
- Walker Riverside Land Assembly - this is a large scale acquisition and demolition programme. No concerns have been raised with regard to deliverability at this stage.
- Cambrian Phase 2 – the impact of the 'credit crunch' appears to be having an effect on the new build programme. BNG is currently assessing the situation with Newcastle City Council and the developer partner and the possible changes this might require to the programme.
- Riversgate – The current phase of development is continuing on site. BNG funding for this phase is being presented on today's agenda.
- North West Quarter Clearance – Progress remains good on acquisitions with 41 being acquired to date and a further 32 with legal teams for completion. There is a risk of underspend given lower than planned property values, although plans are in place to increase acquisition numbers.
- Freight Depot – this relates to the acquisition of the 'Network Rail' element of the freight depot site. Terms have been agreed and the legal process is continuing. Completion is planned for March.
- Gateshead Housing Improvements – the contract is now let and contractors are on site. Resident take up has been good.
- Gateshead Partner Procurement – Work is on-going, although a slight underspend is forecast.
- Field Street – This is a property acquisition project in Gateshead. Negotiations are on-going with a landlord who owns the majority of the six properties.

Cashflow Monitoring.

Cashflow monitoring as a programme management tool was introduced in BNG during 2006-07.

The comparison of the forecast spend to the actual amount defrayed is shown below. During the first two years the programme as outlined was relatively static therefore the forecast was reasonably accurate.



A forecast was prepared at the start of 2008-09 based on the draft programme for the year. This was a judgement as no detailed information was available at the time of preparation. However, largely due to the economic downturn the programme has been amended so that the original cashflow forecast was no longer achievable.

In November the cashflow forecast was revised to take into account the amended programme and based on information provided on a project by project basis during the appraisal process.

In subsequent months the cashflow has been monitored resulting in the graph shown above in Section 1. From this it can be seen that the revised forecast spend is still not being achieved.

The situation in the current year is to be redressed as follows:

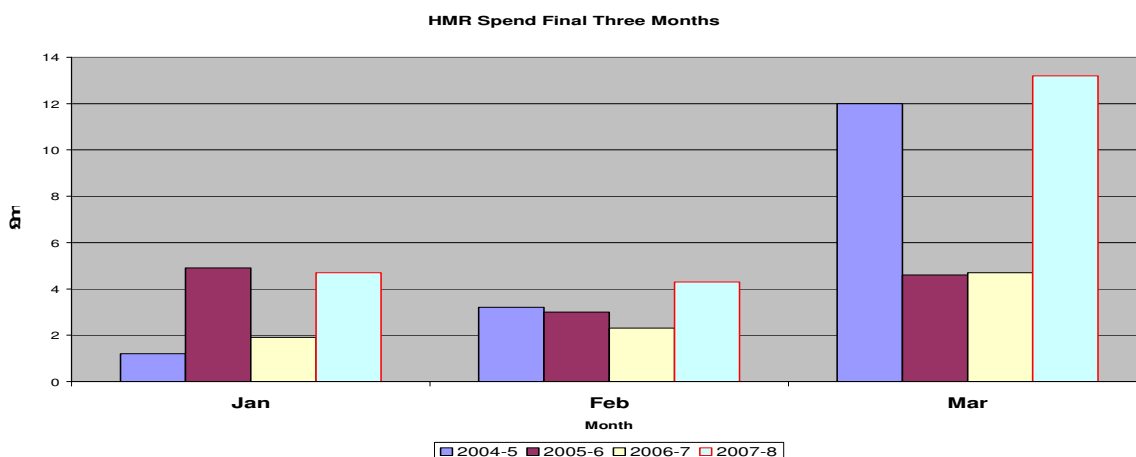
- Partners have been asked to explain any cashflow variances greater than £100k.
- The programme has been revised to introduce more overprogramming

To ensure that this situation is not repeated in future years;

- Expenditure profiles submitted by Project Officers as part of the project appraisal process are to be given much closer scrutiny.
- As a large proportion of the programme for 2009-11 has already been approved the cashflow forecasts in business plans will be based on more accurate information.

- In terms of forward programme planning all projects to be delivered in 2009-2011 will need to provide a detailed cashflow forecast to be scrutinised by Programme Management Group in late January.
- Monitoring returns will be amended to request a report on variances of +/- 10% to include a corrective plan.
- The Programme and Finance Update reports will include more detail on cashflow variance on an exception basis.

There remains an issue of the volume of expenditure defrayed in the final quarter of the financial year. This is highlighted graphically in the following tables showing 2004-5 to 2007-8.



The detailed figures are;

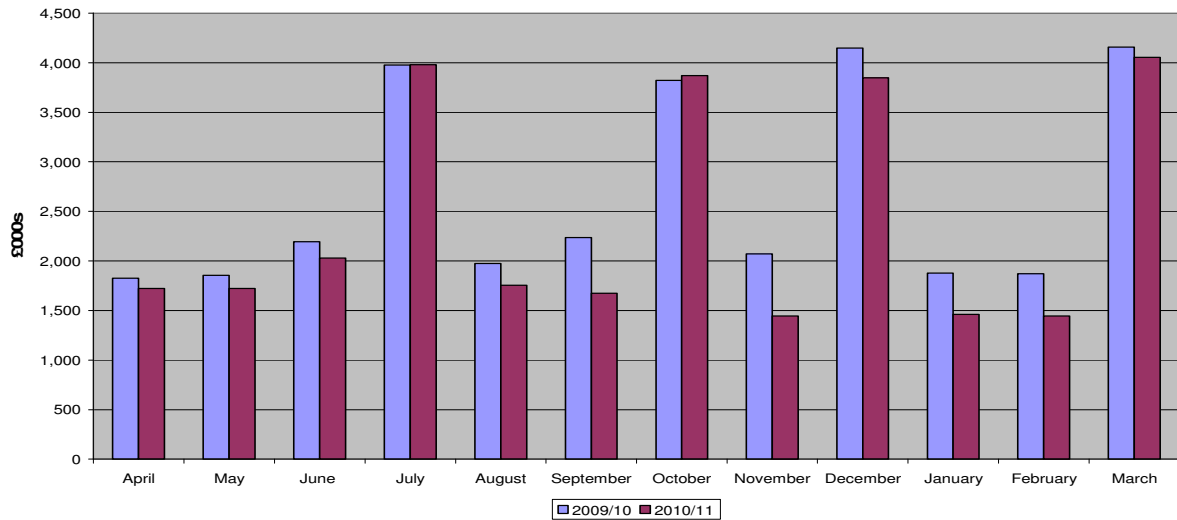
	2004-05	2005-06	2006-07	2007-08	2008-09
January	1.2	4.9	1.9	4.7	
February	3.2	3.0	2.3	4.3	
March	12	4.6	4.7	13.2	
Total (£ms)	16.4	12.5	8.9	22.2	19.8
Allocation (£ms)	28.0	31.92	23.0	40.91	33.96
% of Allocation	59%	39%	39%	54%	58%

Attempts have been made to smooth out the expenditure profiles for 2009-10 and 10-11 and the indications now show around 30% being defrayed in the final quarters.

The final quarter will inevitably be the highest in terms of expenditure as it includes quarterly bills for quarter 3 (December paid in January) and quarter 4 (paid in March).

When this is taken into account and the quarter 3 payments are allocated to December the 'true' forecast for 2009-10 and 10-11 is around 25% as shown below.

Adjusted 2009-11 Cashflow Forecast

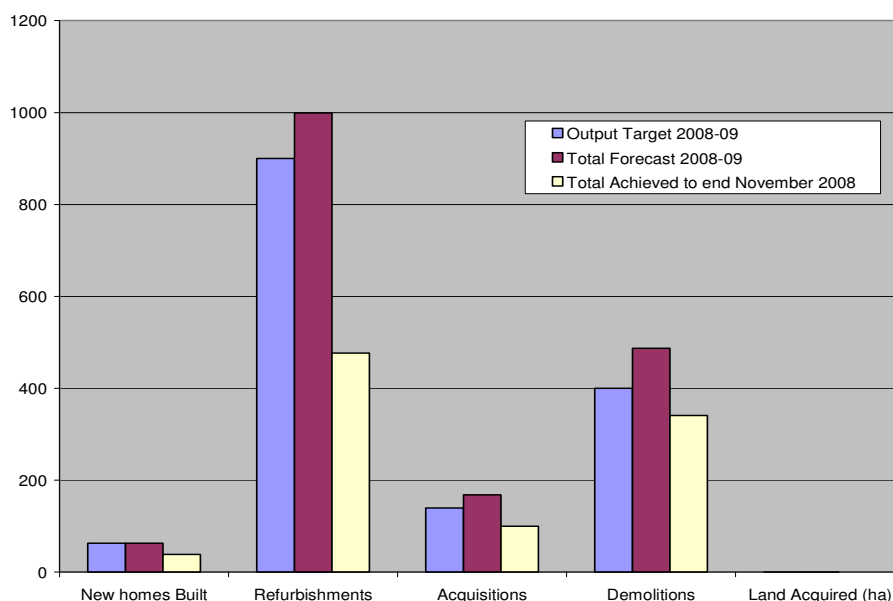


2. Output Performance

The table and graph below illustrates the progress being made in the delivery of core outputs to the end of November 2008.

Output	CLG Target 2008-09	Total Forecast 2008-09	Complete at end of November 2008
New homes constructed/conversions	63	63	39
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Land Acquired	0.49 ha	0.49 ha	0

Key Outputs 2008-09



New Homes Built

39 homes have been built out of a target of 63 for the year. This leaves a balance of 24 homes, all of which are on site. In addition to this there are a further 13 homes on site at Boklok that may complete this year.

Refurbishments

477 homes have been refurbished so far this year against a total annual target of 900. This leaves a balance of 423 to complete with 522 units currently on site.

Acquisitions

100 homes have been acquired to the end of November 2008 against a target of 140, leaving a balance of 40 to acquire. A further 55 properties are currently with legal teams for completion.

Demolitions

341 properties have been demolished to date against an annual target of 400. This leaves a balance of 59 to complete. All this work is delivered under a framework contract so properties are demolished on a rolling basis when 'blocks' become available.

Land Acquired

BNG has a target to acquire 0.49 ha of land this year, this target relates to the acquisition of part of the Freight Depot site owned by Network Rail. Legal

agreement has been reached and completion is expected by the 31st of March this year.

3. Project Milestones

The spreadsheet at Appendix 2 shows the progress of approved key projects in meeting milestones. Projects highlighted green have met their recent milestone and are on track:

- Freight Depot
- Scotswood Land Assembly
- Walker Land Assembly

Amber projects have missed a milestone by a small margin but still expect to deliver agreed annual targets:

- North West Quarter Clearance
- Scotswood EXPO Fees
- Inner West renewal
- Cruddas Park

Red projects have missed a milestone and will not achieve agreed annual targets.

4. Recommendations

That BNG Board notes the 2008-09 financial and output position.

Appendix 3 – Key Project Milestones

Key Project Milestones

Project	Milestone (date and task)	Achieved?	Narrative
Site Assembly			
North West Quarter Clearance	All offers accepted by property owners and with legal by the end of November	No	Target achieved for 78 out of the target of 90 properties
Freight Depot	Purchase agreed with Network Rail October 2008	Yes	Legal completion will be March 2009
Scotswood Land Assembly	50% of acquisition target achieved by Jan 2009	Yes	45% achieved by the end of December 2008
Walker Land Assembly	75% of acquisition target achieved by the end of February	Yes	68% of acquisition target met in December
Site Development			
Scotswood Expo Fees	Consolidation documents returned 20 th October 2008	No	Met 5 December 2009
Improvements to Houses			
Inner West Renewal Area 5, 6 and 7	Contract Let by 28 November 2008	No	Met 26 December
Gateshead Property Improvements	Project recently approved and milestones still to be agreed	NA	Start on site has been achieved with good resident take up
Cruddas Park	Start on site 12 September 2008	No	Met 8 th December 2008