

**Economy and Enterprise
Overview and Scrutiny Committee**

19 December 2011



**Regeneration and Economic
Development Service – Quarter 2
Revenue and Capital Forecast Outturn
2011/12**

Report of Finance Manager – Azhar Rafiq

Purpose of the Report

1. To provide details of the forecast outturn budget position for the Regeneration and Economic Development (RED) service grouping highlighting major variances in comparison with the budget based on the position to the end of September 2011.

Background

2. County Council approved the Revenue and Capital budgets for 2011/12 at its meeting on 23 February 2011. This report covers the financial position for the following three major accounts maintained by the RED service grouping:
 - *RED Revenue Budget - £42.680m (original £39.617m)*
 - *Housing Revenue Account - £57.631m*
 - *RED Capital Programme – £110.418m (original £107.064m)*
3. The RED General Fund budget has been revised to incorporate a number of budget adjustments as follows:
 - Transfer of budget from AWH £11k
 - Use of ABG Reserve £235k
 - Use of Derwentside Training Reserve £30k
 - Use of Durham City Vision Reserve £35k
 - Use of LEGI Reserve £752k
 - Use of Performance Reward Grant £182k
 - Strategic Reserve for Redundancies £623k
 - Use of Archeology Reserve £82k
 - Use of Housing Planning Delivery Grant Reserve £250k
 - Use of Family Intervention Project and Empty Homes Reserves £102k
 - Support charges for use of Depots by Neighbourhoods £101k
 - Derwentside balance sheet adjustment £910k

- Reduction for Concessionary Fares underspend -£250k

The revised General Fund Budget now stands at **£42.680m**.

4. The summary financial statements contained in the report cover the financial year 2011/12 and show: -
- The approved annual budget;
 - The actual income and expenditure as recorded in the Council's financial management system;
 - The variance between the annual budget and the forecast outturn;
 - For the RED revenue budget, adjustments for items outside of the cash limit to take into account such items as redundancies met from the strategic reserve, capital charges not controlled by services and use of / or contributions to earmarked reserves.

Revenue - General Fund Services

5. The service is reporting an outturn position of **£42.301m** against the annual budget of **£42.680m** – an underspend of **£0.379m**.
6. The tables below compare the actual expenditure with the budget. The first table is analysed by Subjective Analysis (i.e. type of expense), and the second by Head of Service.

Subjective Analysis

	Annual Budget	YTD Actual	Forecast Outturn	Variance
Employees	25,516	15,277	26,388	872
Premises	1,925	525	2,126	201
Transport	1,376	763	1,382	6
Supplies and Services	11,677	4,985	10,396	(1,281)
Agency and Contracted	21,207	7,544	20,804	(403)
Transfer Payments	105	106	1,748	1,643
Central Costs	5,135	355	5,704	569
GROSS EXPENDITURE	66,941	29,555	68,548	1,607
INCOME	(24,261)	(12,967)	(26,247)	(1,986)
NET EXPENDITURE	42,680	16,588	42,301	(379)

Analysis by Head of Service

Head of Service Grouping	Annual Budget	YTD Actual	Forecast Outturn	Variance
Policy Planning Performance	1,181	621	1,160	(21)
Economic Development	8,315	3,017	8,196	(119)
Housing	5,131	2,107	4,998	(133)
Planning	6,122	3,181	5,857	(265)
Transport	16,617	8,074	16,277	(340)
Central Costs	5,314	(412)	5,813	499
NET EXPENDITURE	42,680	16,588	42,301	(379)

7. Attached in the table below is a brief commentary of the variances with the revised budget analysed into Head of Service groupings. The table identifies variances in the core budget only and excludes items outside of the cash limit (e.g. concessionary fares) and technical accounting adjustments (e.g. capital charges):

Service Area	Description	(Under) / Overspend £	(Under) / Overspend £
PPP	Savings in staffing arising from maternity leave	(22,827)	(20,984)
	Small over spend on other running expenses across the service grouping	1,843	
Head of Economic Development	General savings on employee budgets	(6,228)	(119,117)
	Anticipated savings on third party payments following closure of DCV, being reallocated to strategic investments to support on-going activity in Durham City	(71,578)	
Strategic Investments	Over spend due to salary savings not being realised	2,012	
Economic Strategy	Overspend on North Eastern LEP contribution	50,000	
	Underspend due to vacant manager post	(59,142)	
	Underspend on research and evaluation budgets	(75,587)	
Business Services	Underspend due to vacant posts and secondment of a member of staff	(52,836)	
	Overspend approved for Nightsafe Support service to continue until restructure finalised	60,500	
	Overspend on Industrial Estates due to budget pressures on income expectations from former assets service and increased NNDR costs on vacant units due to change in Government legislation	198,832	
Regeneration Funding	Underspend due to 2 members of staff on maternity leave	(37,695)	
Economic Regeneration	Underspend due to vacant posts, maternity leave and long term sickness	(180,395)	
	Overspend approved for creation of Co Durham Apprenticeship Programme	53,000	
Housing Solutions	Currently projecting an overspend on Family Intervention Project salaries (£82,140) which will be met from specific earmarked reserves	0	
	Employee underspend from vacant and seconded posts and underspend on training budgets.	(58,510)	
	Anticipated underspend on Rental Deposit Guarantee Scheme	(9,875)	
	Anticipated underspend on Mediation Services	(40,000)	

Service Area	Description	(Under) / Overspend £	(Under) / Overspend £
	Other general efficiency savings	(20,775)	
Supported Housing	Staffing and Service restructure (with loss of posts) has provided additional staffing savings to those required in original estimates.	(39,800)	
	Reduced Agency & Contract costs resulting from centralisation - rationalisation of contracts	(163,130)	
	Reduced Specific Grants (Supporting People Grant) resulting from lower client base	43,260	
	Reduced Fees & Charges resulting from unwinding of former District Council budgets (income originally overstated)	128,270	
	Purchase of essential equipment financed from savings	31,400	
Housing Strategy	Officer currently seconded to Housing Stock Options Project	(20,640)	
	Savings in audit fees and computer software budgets	(63,200)	
Housing Regeneration	Anticipated overspend on Car Allowances	11,840	
	Underspend on Salaries in Housing Regeneration Delivery (£61,730) offset by reduced capital contribution (service fully financed from Capital) - i.e. no impact on General Fund position	0	
	Additional expenditure on Empty Homes (£20,040) to be met from earmarked reserve	0	
	Estimated Salary Savings not yet materialised	68,640	(132,520)
Head of Planning	Overspend on Employees £5k Overspend on Contributions due to North Pennines budget £4k	8,663	
Planning Policy	Underspend on Employees due to vacant posts, maternity leave and reduced working hours £52k General underspend on supplies and services £29k Underspend on Transport £13k Overspend due to loss of Habitats Income £17k	(76,891)	
Local Development Framework	Projected £250k expenditure on LDF funded from HPDG reserve	0	
Development Management & Admin	Underspend on Employees budget	(25,369)	
Development Management	Underspend on Employees £38K Underspend projected on transport £94k Underspend on Blight works £110k General underspend on supplies and services £58k Overspend on Compensation Payments not budgeted £21k Underspend due to additional planning fee income 50k Underspend due to pre application advice income 12k	(341,202)	
Planning Appeals & Inquiries	Overspend due to 2 major appeals:- Bradley Open Cast from UK Coal Hamsterley Hall from Barratts	60,000	
Building Control	Overspend due to under achieved income on building control fees £350k Underspend on dangerous structures £51k General underspend on supplies and services £24k Underspend on Employees budget £31k	243,887	
Conservation and Design	General underspend on supplies and services	(15,681)	
Archaeology	Project spend on target	0	
Landscape and Ecology	Underspend on Employees due to vacant posts £52k General underspend on supplies and services £18k	(79,884)	

Service Area	Description	(Under) / Overspend £	(Under) / Overspend £
	Underspend on consultants fees £10k		
Sustainability	Underspend on Employees due to vacant posts	(46,995)	
Heritage Coast	Overspend due to loss of income from Natural England	8,422	(265,050)
Head of Transport	Employees - Underestimated employers NI contributions	1,844	
	Supplies - Small saving in supplies and services	(600)	
Strategic Transport Planning	Employees - Under spend is due to the loss of three member of staff	(107,817)	
	Transport - Car Allowances are lower than budgeted	(2,300)	
	Supplies - Small saving in supplies and services	(3,500)	
	Income - Fees and charges will be higher that budget	(6,000)	
	Income – Recharges to capital projects will be lower due to the loss of staff	30,000	
Traffic Management	Employees - Under spend is due to the loss of staff	(66,646)	
	Premises - Lower NNDR charges and Repairs & Maintenance	(8,049)	
	Transport - Car Allowances are lower than budgeted	(2,490)	
	Supplies - Higher than expected Annual Service contracts	15,450	
	Central - Bad Debt write off	3,454	
Network Management	Employees - Under spend is due to the loss of staff	(40,462)	
	Transport - Vehicle cost are going to be higher than budgeted	15,347	
	Supplies - Higher than expected Annual Service contracts	550	
	Third Party - higher spend offset by additional Income below	55,000	
	Central - Bad Debt write off	2,581	
	Income - Government Grants additional income	(24,531)	
	Income - Fees and charges will be higher than budget	(97,000)	
Passenger Transport	Employees - Under spend is due to the loss of staff	(63,636)	
	Premises - Higher rent costs and Cleaning contract	40,715	
	Transport - Vehicle cost are going to be higher than budgeted	44,208	
	Supplies - General savings on supplies and services	(35,568)	
	Third Party - Saving fixed contract	(46)	
	Income - BSOG Grant	(34,000)	
	Income - Miscellaneous sales	(2,500)	
	Income - Fees and charges will be lower that budget	17,136	
	Income - Rents will be higher that budget	(200)	
	Income - Recharges for the Fleet will be higher than budget	(79,586)	
	Income - Misc Income will be higher than budget	8,750	(339,896)
Central Costs	Contribution to RED Restructure Reserve financed by additional staffing savings being made in the current year to facilitate the whole service restructure and manage staffing MTFP savings requirements in future years	499,000	499,000
Total			(378,567)

8. In summary, the service grouping is on track to maintain spending within its cash limit. It should also be noted that the estimated outturn position incorporates MTFP savings of £2.5m required in 2011/12 which are being fully delivered.

RED Cash Limit Reserve

9. The projections above mean that a contribution to the cash limit of £0.4m will be possible which will take the closing balance to £2.8m (when including a brought forward amount of £2.4m from last year). There are a number of commitments and pressures affecting RED services which these resources are being held against and these include:

- Industrial estates income pressures £250k;
- Building control income shortfalls £350k;
- Economic development initiatives of £588k;
- IT systems in planning, staffing pressures and dealing with appeals £500k;
- Condition surveys for asset management £500k;
- Transport commitments of £95k include concessionary fares review, LDF transport modelling, and staff to cover peaks in workload;
- Housing commitments include support to CCTV invest to save project of £350k.

Revenue – Housing Revenue Account (HRA)

10. The Authority is responsible for managing the HRA which is concerned solely with the management and maintenance of its housing stock of around 19,000 dwellings. The HRA comprises the housing stock inherited from former Easington, Wear Valley and Durham City councils. Two arms length management organisations (ALMOs) have been established to manage Easington and Wear Valley housing stock (East Durham Homes and Dale and Valley Homes respectively) whilst Durham City is managed in-house. The responsibility for managing the HRA lies solely with the Authority and this is not delegated or devolved to the ALMOs.

11. The table in **Appendix 2** shows the forecast outturn position on the HRA showing the actual position compared with the original budget. In summary it identifies a balanced outturn position on the revenue account after using a projected surplus of £975k towards the capital programme.

Housing Revenue Account	Budget £'000	Forecast Outturn £'000	Variance £'000
Income			
Dwelling Rents	(56,611)	(56,714)	(103)
Other Income	(931)	(1,776)	(845)
Interest and investment income	(89)	(89)	-
	(57,631)	(58,579)	(948)
Expenditure			
ALMO Fees	18,266	18,266	-
Repairs, Supervision and Management Costs	11,871	11,939	68
Negative Subsidy Payment to CLG	4,514	4,220	(294)
Depreciation	11,696	11,696	-
Interest Payable	6,624	6,023	(601)
Revenue contribution to capital programme	4,660	6,435	1,775
	57,631	58,579	948
Net Position	-	-	-

12. In summary, the main variances with the budget are explained below and relate to the figures and corresponding notes shown in **Appendix 2**:
- a) **Income £948k underspend** – the main reason for this is due to a contribution from East Durham Homes of £800k met from company balances to support the Capital Programme. There is a corresponding expenditure item in the HRA under revenue contributions which means this is cost neutral;
 - b) **General Management £302k overspend**– this is attributable to the cost of rent rebates to tenants above a threshold set by Government – any amounts paid above this threshold are not reimbursed by Government grant and therefore fall to be met from the HRA;
 - c) **Special Management £74k underspend** – this is due to savings on cleaning charges and running expenses from the closure of communal halls
 - d) **Negative HRA Subsidy £294k underspend** – this is due to additional subsidy to cover interest payments on decent homes funding allocated this year;
 - e) **Share of other costs £160k underspend** – pension costs of former employees are reducing.
 - f) **Interest payments £601k underspend** – an expected saving on interest payments due to assumptions on debt levels;
 - g) **Revenue support to Capital £1,775k overspend** – the balancing item on the HRA which identifies the potential resources available to support the capital programme and reduce our reliance on borrowing. This includes £800k from East Durham Homes leaving a central contribution of £975k representing the projected in-year surplus on the revenue account.

Volatility Reporting (Risk Based Reporting)

13. There are certain budgets, both income and expenditure, that can be volatile in nature and require close scrutiny throughout the year. These include budgets that are subject to external demand beyond the immediate control of the Council and also include income which can be affected by economic pressures. Efforts are specifically directed at these areas, which pose the greatest financial risk to budget management and managing our cash limits effectively.
14. The following items currently form part of the 'volatility' reporting framework and the outturn position on these for the RED Service Grouping is as follows:

Cost Centre	Description	2011-12 Budget £'000	2011-12 Forecast Outturn £'000	Variance £'000	Status
Development Control	Planning Fees	-1,634	-1,696	-62	GREEN
Building Control	Building Control Fees	-1,100	-750	+350	RED
Concessionary Fares	Contract Payments	10,500	10,250	-250	GREEN
Bus Contracts	Contract Payments	4,141	4,141	-	GREEN
Business Space	Rental Income	-2,237	-1,965	+272	RED

15. The volatility status indicates the expected outturn on the specific budget head, with red indicating that the target is not being achieved, amber indicating that the target is not being achieved but the overall variance is within acceptable tolerances and green indicating that the target is being achieved or exceeded.
16. The key concern continues to be a shortfall in rental income from the Council's portfolio of industrial sites and building control fee income for the planning service.

Capital Programme

17. The RED capital programme makes a significant contribution to the Regeneration ambitions of County Durham. The programme is relatively large and comprises over 200 schemes managed by around 40 project delivery officers.
18. The Regeneration and Economic Development capital programme is **£110.418m** - consisting of **£67.627m** for General Fund and **£42.791m** for the HRA. A number of budget revisions have been made to the original budget which include the following:
- Responsibility for the £2m Broadband budget has been transferred to the Resources service grouping, to reflect the corporate nature of the proposed developments that will be funded under this project.
 - The budget for the Durham City Vision (DCV) Partnership has been increased by £4.862m, supported by funds from the Single Programme operated by One North East (ONE) and from the Durham Villages Regeneration Company, a partnership between the Council and Keepmoat Homes. The main schemes are the Heart of the City project to regenerate the Market Place and Vennels and the development of the World Heritage Site Visitor Centre at Owengate.
 - The Council's Disabled Facilities Grant budget has been supplemented by a government grant allocation of £2.340m.
 - Responsibility for the £2m budget for energy efficiency measures has been transferred from the Resources service grouping. The initiatives include Away from G (£0.500m), Biomass Boilers (£0.250m), Gas Boiler Replacement (£0.250m) and an Energy Efficiency Fund (£1m) to be invested in self-financing initiatives.

The energy efficiency budget has been further increased by the £6m agreed by Council on 23 March to fund investment in Renewable Energy Technologies.

- The Town Centres budget consists of over 20 schemes covering targeted business improvements, public realm improvements, acquisition of strategic properties in shopping areas across the county and other regeneration projects. The programme has been reviewed and £2.249m has been reprofiled to reflect anticipated progress in the current market.
- Transit 15 is a project that aims to provide better accessibility for people through improved public transport along a number of corridors in the county. There has been lengthy consultation on each of the schemes that make up this initiative. Where a scheme requires a Traffic Regulation Order (TRO), a further formal consultation affords opponents another opportunity to delay the scheme. As a consequence of this highly responsive approach, it is anticipated that £2m will need to be carried forward into 2012/13.
- For the HRA, the Homes and Communities Agency (HCA) has allowed us to bring forward £4m of Decent Homes Backlog Funding from 2012/13 into this financial year. East Durham Homes is making a further contribution towards the capital programme of £400k (taking their total contribution to £800k) and there is also a residual cost of the New Build scheme in the Durham City area of £32k.

19. The revised annual budget and summary performance to the end of September is shown below.

Service	Revised Annual Budget 2011/12 £000	Projected Outturn at 30/09/2011		Slippage £000
		£000	% Spend	
Economic development	25,638	22,319	87%	3,828
Housing	15,575	12,449	80%	2,716
Planning	10,409	7,460	72%	2,033
Transport	11,652	10,210	88%	1,701
Minor Schemes	4,353	2,047	47%	2,622
HRA	42,791	42,529	99%	310
Total	110,418	97,014	88%	13,210

20. **Appendix 3** provides a more detailed breakdown of spend across the major projects contained within the RED capital programme. Actual spend for the first six months amounts to **£29.4m** – consisting of **£14.7m** for the General Fund and **£14.7m** for the HRA. Forecast outturns prepared by project managers indicate that 88% of the programme will be delivered at the year end. There has been some additional funding secured for projects amounting to £194k and the formal budget will be amended by Cabinet in due course.

21. The programme is currently being re-profiled by service managers and it is planned that details will be included in the Quarter 3 report. Commentary on the major individual projects will also be provided at that stage.

Recommendations:

22. The Committee is requested to note the contents of this report.

Appendix 1: Implications

Finance

Financial implications are detailed throughout the report which provides an analysis of the revenue and capital forecast outturn position.

Staffing

None.

Risk

None.

Equality and Diversity / Public Sector Equality Duty

None.

Accommodation

None.

Crime and disorder

None.

Human rights

None.

Consultation

None.

Procurement

None.

Disability Issues

None.

Legal Implications

None.

Appendix 2: 2011-12 Housing Revenue Account

	2011/12 Budget	2011/12 Forecast Outturn	Variance	
	£000	£000	£000	
Income				
Dwelling Rents	(56,611)	(56,714)	(103)	
Non Dwelling Rents: – Garages	(769)	(825)	(56)	
– Shops/Other	(96)	(96)	-	
Charges for Services and Facilities	(66)	(55)	11	
Contributions towards Expenditure	-	(800)	(800)	
Total Income	(57,542)	(58,490)	(948)	a
Expenditure				
ALMO Management Fee	18,266	18,266	0	
Repairs and Maintenance	4,156	4,156	0	
Supervision and Management - General	4,592	4,894	302	b
Supervision and Management - Special	1,066	992	(74)	c
Rent, Rates, Taxes and Other Charges	42	42	0	
Negative HRA Subsidy Payable to CLG	4,514	4,220	(294)	d
Depreciation and Impairment of Fixed Assets	11,696	11,696	0	
Bad Debt Provision and Debts Written Off	250	250	0	
Debt Management Costs	120	120	0	
Total Expenditure	44,702	44,636	(66)	
Net Cost of HRA Services per I&E Account	(12,840)	(13,854)	(1,014)	
Share of Corporate and Democratic Core	1,085	1,085	-	
Share of Other Costs Not Allocated to Specific Services	560	400	(160)	e
Net Cost of HRA Services	(11,195)	(12,369)	(1,174)	
Interest Payable and Similar Charges	6,624	6,023	(601)	f
Direct Revenue Financing (Contribution to Capital)	4,660	6,435	1,775	g
Interest and Investment Income	(89)	(89)	-	
(Surplus)/Deficit for Year	-	-	-	
HRA Reserves	7,674	7,674	-	
Stock Options Reserve	402	402	-	
Durham City Homes Improvement Plan	400	400	-	
Capital Reserve	2,400	0	2,400	

Appendix 3: RED Capital Programme 2011-12

	Revised Annual Budget £000	Quarter 2 Profiled Budget (1) £000	Actual Spend to 30 September £000	Forecast Outturn £000
General Fund				
Economic Development				
Barnard Castle Vision	2,767	1,383	264	1,261
North Dock Seaham	1,094	547	362	1,094
Durham City Vision	2,922	1,461	1,190	2,640
St John's Square	323	161	(111)	422
Durhamgate	6,583	3,291	1,726	5,784
NETPark	5,463	2,731	4,065	5,445
Town Centres	2,501	1,250	705	2,592
Industrial Estates	2,535	1,267	68	1,977
LEGI	12	-	-	-
Eastgate	525	-	-	525
Durham City Plus	500	250	105	378
Bishop Auckland Castle and Park	100	50	26	38
Barnard Castle Suspension Bridge	313	156	16	163
General Fund Housing				
Disabled Facilities Grants	5,208	2,604	1,607	5,258
Housing Renewal Programme	5,574	2,787	1,196	5,778
Housing Growth Point	960	-	-	-
Travellers Sites – General	3,233	1,616	318	813
Travellers Site - East Howle	250	125	73	250
CCTV	350	-	-	350
Planning				
Energy Schemes	8,000	4,000	502	5,051
Cobblers Hall – Surface Water Drainage	370	-	-	370
URRI Programme	1,789	894	580	1,789
Planning System	250	-	-	250
Transport				
Transit 15	2,090	1,045	238	2,132
Major Schemes	1,151	575	78	2,117
Growthpoint	114	-	(23)	69
Local Transport Plan	5,298	2,469	1,390	3,826
Connect-2 Project	500	-	-	500
East Durham Rail Station	500	-	-	60
Bishop Auckland Station	999	-	5	506
Park & Ride Extension	250	125	2	250
Transport Corridors	750	-	6	750
Minor Schemes	4,353	2,176	288	2,047
General Fund Total	67,627	30,963	14,676	54,485
Housing Revenue Account				
Durham City Homes	6,700	3,350	2,608	6,700
East Durham Homes	23,667	11,833	6,932	23,667
Dale and Valley Homes	6,900	3,450	2,482	6,980
New Build II: Wear Valley	3,429	1,714	2,392	3,397
Housing Demolitions & Regeneration	2,095	1,047	296	1,786
Housing Revenue Account Total	42,791	21,394	14,710	42,529
RED Total	110,418	52,357	29,386	97,014

(1) Updated profiled budgets are being prepared to reflect slippage but for the time being the budget has been profiled pro rata (equally over 12 months)