

Economy and Enterprise Scrutiny Committee

6 October 2011



Regeneration and Economic Development Service – Quarter 1 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 June 2011.

Background

2. County Council approved the Revenue and Capital budgets for 2011/12 at its meeting on 23 February 2011. The capital programme has subsequently been adjusted to account for increased resources secured since February and reviewed to identify the expected level of spend in 2011/12. This report covers the financial position for the following three major accounts maintained by the RED service grouping:
 - *RED Revenue Budget - £39.617m*
 - *Housing Revenue Account - £57.631m*
 - *RED Capital Programme - £107.064m*
3. The summary financial statements contained in the report cover the financial year 2010/11 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

4. The service is reporting an outturn position of **£39.338m** against the annual budget of **£39.617m** – an underspend of **£0.279m** when excluding items outside of the cash limit.
5. 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	Adjusted Variance
Employees	24,067	8,484	25,420	1,353	586
Premises	1,902	235	2,061	159	159
Transport	1,361	329	1,326	-35	-35
Supplies and Services	6,248	1,561	9,071	2,823	2,772
Agency and Contracted	20,944	3,950	21,297	353	202
Transfer Payments	105	1	103	-2	-2
Central Costs	5,033	71	5,037	4	3
GROSS EXPENDITURE	59,660	14,631	64,315	4,655	3,685
INCOME	(20,043)	(5,545)	(24,007)	(3,964)	(3,964)
NET EXPENDITURE	39,617	9,086	40,308	691	(279)

Analysis by Head of Service

Head of Service Grouping	Annual Budget	YTD Actual	Forecast Outturn	Variance	Adjusted Variance
Policy Planning Performance	1,180	302	1,175	-5	-6
Economic Development	6,037	332	6,910	873	-106
Housing	4,769	908	4,836	67	44
Planning	5,717	1,298	5,662	-55	-93
Transport	16,602	5,013	16,413	-189	-118
Central Costs	5,312	1,233	5,312	0	0
NET EXPENDITURE	39,617	9,086	40,308	691	-279

6. 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):

Head of Service	Service Area	Description	(Under) / Overspend £'000	(Under) / Overspend £'000
PPP	PPP	Savings in staffing mostly arising from pension contributions of staff not in the scheme	(2,803)	(5,844)
		Small savings on other running expenses across the service grouping	(3,041)	
Economic Development	Head of Economic Development	General savings on payroll	(3,456)	(105,686)
	Strategic Investments	Overspend on staffing	20,188	
	Economic Policy	Overspend on contribution to City of Sunderland Region which was included as MTFP savings, although other budgets have been cut to compensate	50,000	
		Underspend on research and evaluation budget which is not required	(121,113)	
		Underspend due to vacant manager post	(61,396)	
		General savings on supplies and services	(32,882)	
	Business Services	Underspend due to vacant posts and secondment of a member of staff	(40,849)	
		Overspend on Industrial Estates due to budget pressures on income and increased NNDR costs on vacant units due to change in rate relief rule	232,423	
	Funding and Programmes	Underspend on staffing due to 2 members of staff on maternity leave	(48,551)	
	Economic Regeneration	Underspend on staffing due to vacant posts, maternity leave and long term sickness	(100,050)	
Housing	Head of Housing	Overspend on Supplies and Services	4,000	43,994
	Housing Strategy	Officer currently seconded to Housing Options	(22,220)	
	Housing Regeneration	Estimated Savings not yet materialised	62,214	
Planning	Head of Planning	Employees - Underestimated employers NI contributions	1,073	(93,442)
	Planning Policy	General overspend on supplies and services	5,589	
	Development Management	Small overspend on staffing budget	17,986	
	Conservation and Design	General savings made on supplies and services	(16,591)	
	Archeology	Employees - underspend two members of staff not in Pension Scheme	5,341	
	Landscape and Ecology	Employees - underspend due to loss of Ecology Team Leader	(66,138)	
		Underspend on professional fees	(10,000)	
	Sustainability	Employees - underspend due to loss of 2 employees	(43,751)	
Heritage Coast	Income from Natural England budgeted higher than actuals	13,049		
Transport	Head of Transport	Employees - Underestimated employers NI contributions	2,844	(117,849)
	Strategic Transport Planning	Employees - Under spend is due to the loss of two member of staff	(89,867)	
	Traffic Management	Employees - Under spend is due to the loss of two member of staff	(39,441)	
		Premises - Higher than expected water charges	14,100	
		Supplies - Higher than expected Annual Service contracts	7,750	
		Central - Bad Debt write off	3,454	
	Network Management	Employees - over spend due to 3% salary savings not being realised	26,682	
		Transport - Vehicle cost are going to be higher than budgeted	16,392	
		Income - Fees and charges will be higher than budget	(63,544)	
		Central - Bad Debt write off	381	
	Transport - Potential overspend is due to higher Car Allowances	3,400		
Central	Central Costs		0	
TOTAL			(278,827)	

7. 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 the MTFP savings required in 2011/12 which are detailed in the ensuing paragraphs.

MTFP Savings 2011/12

8. A challenging target was set for the service which is significantly affected by a substantial drop in funding from Area Based Grants (ABG) in addition to the 25% reduction in core budget. Over the life of the MTFP, the target for RED is a reduction in core budget of **£5.866m** plus loss in ABG of **£11.956m** – a total of **£17.822m** representing a reduction of 47% of the 2010/11 base budget - the highest reduction of all service groupings in the Council. In 2011/12 savings of £15.9m in savings are required.
9. The RED service grouping is making good progress on achieving its MTFP savings target for 2011/12. The table below summarises reductions in the RED budget and whether we are on track on delivering the required savings this year.

Ref	Description	Saving	Status
RED 1	Staffing Restructure	1,010,927	GREEN
RED 2,3,4	Reduction in supplies and services	266,824	GREEN
RED 5,6	Reduction in contribution to outside bodies	16,500	GREEN
RED 7,8,9	Income Generation	114,007	GREEN
RED 10	Review of contracted services for building control	110,000	GREEN
RED 12	Review of contracted bus services	990,000	GREEN
n/a	Concessionary Fares	500,000	GREEN
AWH 9	Supporting People – Care Connects	600,000	GREEN
n/a	Supporting People – Care Connects	294,000	GREEN
ABG	ABG withdrawn by Central Government	11,955,871	GREEN
	Total	15,858,129	

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.

Housing Revenue Account	Budget £'000	Actual £'000	Variance £'000
Income			
Dwelling Rents	(56,611)	(56,626)	(15)
Other Income	(931)	(977)	(46)
Interest and investment income	(89)	(89)	-
	(57,631)	(57,692)	(61)
Expenditure			
ALMO Fees	18,266	18,266	-
Repairs, Supervision and Management Costs	11,871	12,099	228
Negative Subsidy Payment to CLG	4,514	3,928	(586)
Depreciation	11,696	11,696	-
Interest Payable	6,624	6,349	(275)
Revenue contribution to capital programme	4,660	5,354	694
	57,631	57,692	61
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) **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;
- b) **Special Management £74k underspend** – this is due to savings on cleaning charges and running expenses from the closure of communal halls
- c) **Negative HRA Subsidy £586k underspend** – this is due to additional subsidy to cover interest payments on decent homes funding of £14.6m allocated this year;
- d) **Interest payments £275k underspend** – an expected saving on interest payments due to assumptions on debt levels;
- e) **Revenue support to Capital £694k overspend** – the balancing item on the HRA which identifies the potential resources available to support the capital programme and reduce our reliance on borrowing.

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	-1,618	+16	GREEN
Building Control	Building Control Fees	-1,100	-960	+140	RED
Concessionary Fares	Contract Payments	10,500	10,300	-200	GREEN
Bus Contracts	Contract Payments	4,141	4,141	-	GREEN
Business Space	Rental Income	-2,234	-1,960	+274	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 at this stage is a shortfall in rental income from the Council's portfolio of industrial sites and building control fee income for the planning service. The service will closely examine savings in expenditure to mitigate against the reduced income streams.

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 **£107.064m** - consisting of **£68.705m** for General Fund and **£38.359m** for the HRA. The current budget is the budget approved by Council in February plus slippage from 2010/11 plus additional funding secured since February. This budget has then been reprofiled over financial years, to identify spend that will be made from 2012/13 onwards, to leave the final re-profiled budget for 2011/12 shown in the table below.

Service	Budget Approved by Council 23/02/11	Slippage approved from 10/11 by MOWG and Cabinet	Budget Transfers	Budget adjustment due to additional Cabinet approval, new grant etc	Budget Reduction to finance 2010/11 overspend	Revised 2011/12 Base Budget	Final Profiled Budget 2011/12
	£000	£000	£000	£000	£000	£000	£000
General Fund	46,741	12,883	1,894	16,356	0	77,874	68,705
HRA	25,245	708	0	14,407	0	40,359	38,359
Total	71,986	13,591	1,894	30,763	0	118,233	107,064

19. Actual spend for the first quarter amounts to **£10.160m** – consisting of **£5.914m** for the General Fund and **£4.246m** for the HRA. **Appendix 3** provides a more detailed breakdown of spend across the major projects contained within the RED capital programme.
20. The programme has been re-profiled by service managers and the outturn is expected to be in line with the budget. Commentary on individual projects will be provided during the course of the year as progress is made on those schemes.

Earmarked Reserves

21. The RED service grouping holds a number of earmarked reserves and the movement on these during the year is as follows:

Reserve	Amount at 31/03/11	Use of / Contribution to / Transfers	Estimated Year end Balance
General Fund	£'000	£'000	£'000
ABG Working Neighbourhoods Fund	1,000	(235)	765
ABG Local Enterprise Growth Initiative	1,004	(511)	493
ABG Climate Change	22	(22)	0
Seaside Towns Reserve	200	(200)	0
City Centre Visioning	22	(22)	0
Derwentside Business Development Complex	247	(245)	2
Planning Reserve	1,901	(260)	1,641
Archeology Fund	133	-	133
Lottery Fund	23	(23)	0
East Durham Business Service	223	(200)	23
LABGI Economic Growth Fund (transfer below)	402	(402)	0
Regeneration and Communities Reserve	0	469	469
Derwentside Training	240	(30)	210
Durham City Vision	119	(35)	84
Growth Point	148	-	148
Social Housing Fraud	50	-	50
Family Intervention Programme	283	-	283
Housing Solutions	540	-	540
Prevention Fund	37	-	37
Empty Homes	25	-	25
LSVT Reserve	133	-	133
RED Cash Limit Reserve	2,391	279	2,670
Sub total	9,143	(1,437)	7,706
Housing Revenue Account			
General Reserve	7,674	-	7,674
Stock Options Reserve	402	-	402
Durham City Homes Improvement Plan	400	-	400
HRA Capital Reserve	2,400	(2,400)	-
Sub total	10,876	(2,400)	8,476
Grand Total	20,019	(3,837)	16,182

22. There is an overall reduction in reserves of £3.8m leaving a revised balance of £16.2m – of which £7.8m is General Fund and £8.5m in respect of the HRA. The cash limit for RED is expected to increase to £2.7m after incorporating the 2011/12 forecast underspend.

23. The following paragraphs provide details of the planned use of the major reserves in 2011/12.

ABG Working Neighbourhoods Fund (WNF)

This is a remaining balance on the WNF programme amounting to £1m which is being retained by RED to support its priorities. £400,000 has been earmarked for the Tourism service of which £235,000 will be used in the current year to support the service transformation.

ABG Local Enterprise Growth Initiative (LEGI)

A sum of £511,000 is forecast to be used to match ERDF grant until the programme closes down.

Seaside Towns Reserve

The Government provided some seaside local authorities a £200,000 grant from a national £5 million Seaside Towns Grant. The purpose is to tackle long term joblessness and help transform some of the most deprived seaside towns by creating jobs, supporting businesses, and improving skills. Durham County Council received £200,000 for the Seaham resort and a programme of works has been developed for use in that area. It is expected to be utilised this year.

Derwentside Business Development Complex

£245,000 is planned to be spent at Consett Business Centre to undertake refurbishment works including dry lining, decoration, roof and heating system replacement.

Planning Reserve

A sum of £260,000 is being used this year to support the core budget.

East Durham Business Service

A sum of £200,000 has been granted to East Durham Business Service towards the provision of SME accommodation in the East of the County.

Derwentside Training

A sum of £30,000 is forecast to be used to support the service.

Durham City Vision

£35,000 is being used to support the revenue costs of DCV in the current year.

Regeneration and Communities

This reserve has been established from former LABGI funds and a transfer of some very small balances remaining on other RED reserves which are no longer needed. The purpose is to provide funds to support feasibility studies and master planning activities which cannot be charged to the capital programme but are essential in developing projects to support the regeneration ambitions of the County.

Stock Options Reserve

There will be costs to be met out of this reserve this year and an update will be provided in future reports.

HRA Capital Reserve

The full amount of the reserve is earmarked to finance the 2011/12 programme and is expected to be utilised this year.

Recommendations:

24. The Committee is requested to note and comment on 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 outturn position alongside details of balance sheet items such as earmarked reserves held by the service grouping to support its priorities.

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)	(56,626)	(15)	
Non Dwelling Rents: – Garages	(769)	(826)	(57)	
– Shops/Other	(96)	(96)	-	
Charges for Services and Facilities	(66)	(55)	11	
Contributions towards Expenditure	-	-	-	
Total Income	(57,542)	(54,721)	(61)	
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	a
Supervision and Management - Special	1,066	992	(74)	b
Rent, Rates, Taxes and Other Charges	42	42	0	
Negative HRA Subsidy Payable to CLG	4,514	3,928	(586)	c
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	44,344	(358)	
Net Cost of HRA Services per I&E Account	(12,840)	(13,259)	(419)	
Share of Corporate and Democratic Core	1,085	1,085	-	
Share of Other Costs Not Allocated to Specific Services	560	560	-	
Net Cost of HRA Services	(11,195)	(11,614)	(419)	
Interest Payable and Similar Charges	6,624	6,349	(275)	d
Direct Revenue Financing (Contribution to Capital)	4,660	5,354	694	e
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	-	

Appendix 3: RED Capital Programme 2011-12

General Fund	Profiled Annual Budget £000	Actual Spend to end of June £000
Economic Development		
Barnard Castle Vision	2,767	119
North Dock Seaham	1,094	306
Durham City Vision	2,922	420
St John's Square	323	-334
Durhamgate	6,583	902
NETPark	5,463	2,164
Town Centres	2,481	37
Industrial Estates	2,289	36
LEGI	12	0
Eastgate	525	0
Broadband	2,000	0
Durham City Plus	500	0
Bishop Auckland Castle and Park	100	31
Barnard Castle Suspension Bridge	313	0
General Fund Housing		
Disabled Facilities Grants	5,208	463
Housing Renewal Programme	5,574	189
Housing Growth Point	960	5
Travellers Sites – General	3,233	6
Travellers Site - East Howle	250	73
CCTV	350	0
Planning		
Energy Schemes	8,000	5
URRI Programme	1,789	82
Planning System	250	0
Transport		
Transit 15	2,090	131
Major Schemes	1,151	34
Growthpoint	114	-33
Local Transport Plan	5,298	703
Connect 2 Project	500	0
East Durham Rail Halt	500	0
Bishop Auckland Station	999	0
Park & Ride Extension	250	2
Transport Corridors	750	0
Minor Schemes	4,067	573
General Fund Total	68,705	5,914
Housing Revenue Account		
Durham City Homes	6,700	957
East Durham Homes	20,267	2,150
Dale and Valley Homes	5,900	102
New Build II: Wear Valley	2,096	953
Housing Demolitions & Regeneration	3,397	84
Housing Revenue Account Total	38,539	4,246
RED Total	107,244	10,160