Cabinet 19 September 2017	TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	**Classification:** Unrestricted
Corporate Budget Monitoring Report ***Period 3 (June 2017) 2017-18***	

Lead Member	**Councillor David Edgar, Cabinet Member for Resources**
Originating Officer(s)	**Kevin Miles**, Chief Accountant
Wards affected	All Wards
Key Decision?	No

Executive Summary

In February 2017 the Council agreed a General Fund (GF) revenue budget of £338.9m and a Capital programme of £216.2m (GF £103.1m, £113.1m Housing Revenue Account (HRA) for 2017-18). This report details the projected outturn position for 2017-18 based on information as at the end of Period 3 (June 2017). The report includes details of:-

- General Fund (GF) Revenue Budget Position
- Housing Revenue Account (HRA) Budget Position
- GF and HRA Capital Programme Performance
- Progress delivering 2017-18 Savings
- Progress delivering Council Growth Priorities, including Mayoral Priority Growth
- Forecast use of Reserves
- S106, CIL and Capital Receipts Income
- Council Tax and Business Rates Income
- Debtors & Creditors
- Treasury Management Activities
- Pension Fund Investments Position

The Medium Term Financial Plan (MTFP) assumed in 2017-18 there would be a small contribution of £0.5m to the Council's General Fund reserves.

Currently the General Fund forecast outturn is projecting an **underspend of £1.5m**. The HRA is projecting an **underspend of £0.7m**.

There are significant pressures in Children's Services however which is currently projecting a large overspend, much of this is attributable to social care. Similar concerns in Health, Adults and Community have been largely mitigated with the application of the Improved Better Care Fund and new Adult Social Care grants. The Resources Directorate are forecasting an outturn position of £0.6m overspent largely due to the costs of the contact centre.

The MTFS outlined for 2017-18 approved savings of £20.4m in order to deliver a balanced budget. An additional £5.7m relating to slippage from previous years must also be achieved.

The following items are potential risks to the budget, and Corporate Directors and Business Partners are working to mitigate these risks and reduce the risk of overspending.

- Social Care Costs
- Ofsted Outcomes
- Savings Delivery

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the Council's forecast outturn position against Revenue and HRA budgets agreed for 2017-18, based on information as at the end of June as detailed in Sections 3-10.
2. Note the summary savings position.
3. Endorse Management action to achieve savings.
4. Note current position of balance sheet items.
5. Note Reserve Position.
6. Note the Capital forecast outturn position.
7. Increase the capital estimate for the ICT Solution Handheld Devices by £0.45m to £1m in the capital programme.

1. ALTERNATIVE OPTIONS

1.1. The regular reporting of Revenue and Capital Budget Monitoring information provides detailed financial information to members, senior officers and other interested parties on the financial performance of the council. It sets out the key variances being reported by budget holders and the management action being implemented to address the identified issues.

1.2. Further information across the Council’s key financial activities are also included to ensure that CLT and Members have a full picture to inform their consideration of any financial decisions set out in this report and also their broader understanding of the Council’s financial context when considering reports at the various Council Committees.

1.3. Set alongside relevant performance information it also informs decision making to ensure that Members’ priorities are delivered within the agreed budget provision.

1.4. It is important that issues are addressed to remain within the approved budget provision or where they cannot be contained by individual service management action, alternative proposals are developed and solutions proposed which address the financial impact; CLT and Members have a key role in approving such actions as they represent changes to the budget originally set and approved by them.

2. REASONS FOR THE DECISIONS

2.1. The Council could choose to monitor its budgetary performance against an alternative timeframe but it is considered that the reporting schedule provides the appropriate balance to allow strategic oversight of the budget by members and to manage the Council’s exposure to financial risk. More frequent monitoring is undertaken by officers and considered by individual service Directors and the Council’s Corporate Leadership Team (CLT) including approval of management action.

2.2. To the extent that there are options for managing the issues identified these are highlighted in the report in order to ensure that members have a full picture of the issues and proposed solutions as part of their decision making.

3. DETAILS OF REPORT

3.1. General Fund Revenue Budget Position

2016-17 Outturn position

- The final outturn position for 2016-17 was reported to Cabinet in June, this showed a net underspend of £0.7m. Although Children’s Services and Health, Adults and Community Directorates showed significant overspends (mainly around social care), this was offset by corporate underspends due to growth and inflation not being required, the councils contingency and lower than expected capital financing costs.

- In total there was a net drawdown of £5.5m from the Council's reserves. A small number of earmarked reserves were also created to support Transformation and other Council priorities. Reserves were established to support the new Civic Centre and the Council's IT Strategy. At the 31 March 2017 the General Fund reserve was £31.7m which was in line with the MTFS.

2017-18 Budget Position

- In February 2017 the Council approved its Medium Term Financial Strategy (MTFS) for the period 2017 – 2020 including its 2017-18 General Fund budget of £345.9m.
- The General Fund forecast outturn for period 3 is currently showing an underspend of £1.5m after the application of approved growth and reserves. The forecast position for the Housing Revenue Account (HRA) is a surplus of £0.7m.
- Section 4 onwards provides the further detail supporting the Council's overall financial performance in 2017-18.

Table 1 – Summary – Corporate Monitoring Position Period 3 - June 2017

Directorate	Health, Adults & Community	Children's Services	Place	Governance	Resources	Corporate Costs	General Fund	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revised Budget	**138,619**	**101,672**	**61,768**	**12,578**	**24,218**	**7,058**	**345,913**	**12,014**	**357,927**
Budget to Date	34,655	25,418	15,442	3,145	6,055	1,765	**86,478**	**3,004**	**89,482**
Actual	21,749	28,984	7,523	3,917	15,862	1,024	**79,059**	**(35,648)**	**43,411**
Forecast Outturn Position	**139,087**	**110,676**	**62,168**	**12,778**	**24,772**	**(5,381)**	**344,369**	**11,294**	**355,659**
Outturn Variance	**468**	**9,004**	**400**	**200**	**554**	**(12,224)**	**(1,544)**	**(720)**	**(2,268)**
Cause of Variance:									
Savings not achieved - Directorate	3,866	430	1,150	159	250		**5,855**		**5,855**
Savings - Cross Directorate						1,400	**1,400**		**1,400**
Corporate Provision						(4,690)	**(4,690)**		**-**
Impact on General Reserves	(3,398)	8,574	(750)	41	304	(8,880)	**(8,880)**	**(720)**	**(9,523)**
Total Variance	**468**	**9,004**	**400**	**200**	**554**	**(12,170)**	**(1,544)**	**(720)**	**(2,268)**

4. DIRECTORATE POSITION

4.1. Governance

- The Governance directorate has a net General Fund budget of £12.7m in 2017-18. As at month 3, the directorate is forecasting an overspend of £0.2m which is associated with the Registrars Service. The service income targets established as a result of previous years' savings are proving challenging to achieve. The service was unable to achieve those income targets and in 2016-17 the overspend (£138k) was mitigated through directorate underspends which are unlikely to re-occur in 2017-18. The directorate is reviewing the mitigation options and will bring forward a position paper to CLT in due course.
- There is a risk that the Strategy, Policy & Performance proposal to deliver savings of £0.6m in 2017-18 through the centralisation and consolidation of SPP functions is progressing however early indications are that the full savings target is unlikely to be achieved this year.
- There is also the potential that demand led pressures within legal services could lead to budget pressures within the service particularly as a result of the impact of the OFSTED inspection and the consequent actions being taken. This is being reviewed to ascertain if this is a true growth in service demand or a time limited position as a result of needing to deal with a backlog of cases. All other services within the Governance Directorate are currently forecasting a balanced position.

4.2. Children's Services – Overspend £10.1m

- The Children's Service directorate has an approved budget of £101.7m, against this it is forecasting an overspend of £10.1m, of which £9.0m relates to the General Fund. The remaining £1.1m relates to Dedicated Schools Grant (DSG).
- **Children's Social Care** is currently forecasting an overspend of £5.8m against a budget of £47.6m. It should be noted that this reflects the national picture, as 75% of councils nationally are reporting overspends in children's services according to recent research by the LGA. Key pressures are:
  - **Staffing (£2.5m):** There are three factors contributing to this overspend:
    a) Underfunding of posts in the budget, where establishments have been budgeted based on the midpoint of salary scales, but where current postholders are weighted more towards the top of the scale.
    b) Additional posts over establishment that have been recruited to meet additional demand.

c) Increased costs from using agency staff instead of directly employed staff.

Following the ‘inadequate’ Ofsted rating, the service is experiencing an increase in demand with 15% more children on the caseload, an increase in monthly contacts of 41% and in referrals of 66% since April 2017. This is coupled with recruitment and retention issues due to the competitive market for children’s social workers, leading to a need for increasing numbers of agency staff to fill meet short term staffing needs. Over a third of social work posts across Children’s Social Care are currently covered by agency staff,. Our recruitment and retention package has been reviewed to ensure that it is competitive to attract sufficient skilled and experienced staff and we are implementing a recruitment and retention strategy to ensure that sufficient permanent staff will be recruited to reduce the pressure. Work is ongoing to quantify the long term additional needs for staffing budgets. It is likely that there will be a requirement for growth in future years.

- **Looked After Children (LAC) (£0.7m)**. Tower Hamlets has historically had a low number of looked after children and the Ofsted report identified issues with delays in care proceedings and high thresholds. Work to resolve these issues are resulting in increasing numbers of children in care and we anticipate that these numbers will continue to rise; placing a pressure on the budget for looked after children. We have a relatively high proportion of older children coming into care with higher cost placements. Our sufficiency strategy will address how we can intervene earlier and improve the early help offer so that where children need to be taken into care they enter the system earlier, and that we are more effective in our interventions to support older children and prevent them from entering the care system. This will result in a shift in our LAC profile towards younger children, with lower placement costs and improved chances of permanency through adoption. Work on the sufficiency strategy includes financial modelling to forecast the impact of this shift which is likely to increase costs in the short term but reduce them in the medium to long term. This work will be completed in September to inform financial planning for the next three years. pressures on LAC costs will increase if there is a delay in this strategy.
- **Family support (£0.3m)** Pressure on Section 17 Children in Need. The demand pressures highlighted above in relation to staffing are also impacting on this budget. In particular, there has been an increase in the provision of support for children in need pre- legal care proceedings. Our review of legal processes will help to reduce this pressure by streamlining processes to reduce the amount of time that children require this support. In addition we are seeing an increase in the number of independent assessments that are being commissioned.

Again it is likely that growth will need to be identified in the MTFS for this budget at least in the short term. Our review of legal processes will have some impact during the next quarter and in the medium to long term, our work to improve the early help offer for children and families will help to manage demand for these services.

- **Family Intervention (£0.9m)** Pressure on SSF (Troubled Families) the service is currently looking at options to reduce these costs through a restructure, and reduction in costs of unfunded services.

  Leaving Care (£1.5m) £1.4m of this pressure relates to the Leaving care accommodation budget and various factors have accounted for this. These include: increase in numbers of 18's year old clients, many of whom became part of LAC cohort late. These cohort tend to have expensive packages during and after transition hence the year on year increase in cost. The length of stay has also increased as clients can now be dependent to the authority until they are 25. This will have further budget implications over the coming years. Clients are also moving out of shared accommodation into higher needs accommodation with the rents of these properties being much higher. There was a pressure on this budget in 16/17 but apparently this was not reported and no growth requested during the last MTFP budget process.

- **Ofsted Improvement Plan**. Following the findings of the Ofsted Report published in April 2017; Children's Services have recently submitted their Ofsted Improvement plan to CLT for consideration. The initial costing exercise suggests that the additional one off cost is estimated at £5.1m over two years. The funding for these one off costs to deliver the improvements will have to be met from Council's reserves with suitable performance targets against them. There will be further work needed to establish the impact on ongoing service costs which will then need to be reflected in the MTFS.

- There is currently an overspend of £1.6m forecast against the Children's & Adults Resources budget. Key pressures are:

  - **Contract Services (£0.6m)**. Contract Services (£0.6m). A review of the catering element of contract services has been undertaken and this identified a number of factors which has contributed to the deficit position. A revised set of options for meal menus and prices has been drawn up and was presented to the Schools Forum in June where it was confirmed that meal prices would increase to £2.35 for primary schools and £2.75 for secondary schools. Once fully implemented the meal price increases will address the current deficit. The Service will also be looking at options for future service delivery in order to reduce the immediate pressures on the budget; and it is also intending to create substantive changes to its ways of working and operating in order to resolve any future potential for overspends.

- **Buildings (£0.3m).** Security on empty buildings is causing a pressure.
- **School redundancies (£0.4m)**. The costs of school redundancies cannot be met from DSG and therefore falls as a cost to the General Fund. In the light of current and anticipated reductions in the level of school budgets, schools are undertaking reorganisations which will give rise to some redundancy costs.
- **Tower Hamlets Youth Sports Foundation (YSF)**. The impact of the 2016-17 deficit on the Langdon Park School budget has been confirmed at £0.152m and this unbudgeted cost has been met by the Council in 2017-18. A further deficit relating to 2017-18 is anticipated and the Council has procured consultancy support to work with the school and the YSF to quantify this cost and minimise it as far as possible. Staff consultation on closure of the service has now commenced.

- **Learning** and **Achievement Service.** This Service is reporting an overspend of £2.5m (£1.4m General Fund and £1.1m DSG) against a budget of £85.6m (£17.8m General Fund and £67.8m DSG). Children's Centres has a savings target of £0.1m on hold pending the early years' service review. Work is ongoing to cost the impact of the reduction in Early Years DSG funding arrangements, which has been halved for 2017/18. Key pressures reported are:
  - **Special Educational Needs (SEN) (£0.8m General Fund and £1.1m DSG).** This service is subject to a wider service review. The pressures on the General fund are primarily due to increased activity within both internal and external Transport services. DSG pressures – the growing population of SEN cases in maintained and special schools is not in line with the cash allocation provided. Work is ongoing to review the top up funding for all provisions which have identified pressures.
  - **School Improvement Secondary (£0.4m).** The service will close by late October with only Home Services and NQTs operating as a traded service.
  - **Careers Service (£0.4m).** The Careers service is currently restructuring to make savings and is expected to move to the Place Directorate at the end of this financial year with a balanced budget.
  - **Pupil Admissions and Exclusions (-£0.1m)** The underspend on this service is due to the reduction in client transport activity

- **Sports, Leisure & Youth Service.** The youth service has been allocated £300K in 2017-18 from the Mayors Reserve Fund. This is funding £170K total cost of A Team Arts and the remainder for two pilot projects which will go out to procurement once the income has been drawn down.
- The £170K Annual Cost of A Team Arts is £99K staffing costs, £61K project costs and £10K for recharges. These amounts are recurring and the service would need to review structures again to accommodate the staffing costs beyond March 2018 unless the base budget is increased. The service has profiled the £199K staffing costs to the end of the year and any additional spend is being profiled monthly as it occurs as an actual, this is partly contributing to the forecast overspend of £200K
- A Team Arts sessional workers have also been paid backpay to 2013 for annual rate increases that were not applied at the time, this is not yet showing in youth service actual budgets but may be an additional pressure if allocated to the existing A Team budget code
- In addition to the existing projected overspend the youth service restructure implementation has been delayed by six months. Of the £1.8m saving in the medium term financial strategy £1.6m of this was to be achieved from the structure so this represents an additional overspend risk of up to £800K though this is likely to be mitigated somewhat by vacancies.

4.3. **Health, Adults and Communities (H,A&C)**

- As at month 3 the H,A&C Directorate is forecasting a post-adjusted forecast overspend position of £0.5m being 0.3% of the revised budget of £138.8m. Table below provides a reconciliation between the pre and post adjusted financial position.

HAC Month 3 Summary Position

	Working Budget £000's	YTD £000's	Forecast as per Agresso £000's	Month 3 Variance £000's
Adults Social Care	89,560.60	18,160.30	90,969.80	1409.20
Commissioning & Health	12,652.70	4,746.10	11,711.60	-941.10
Public Health	33,513.40	1,676.20	33,513.40	0.00
Community Safety	3,107.50	1,031.00	3,107.50	0.00
Adult's Holding Accounts	0	-1,154.00	0	0.00
H,A&C Total	**138,834.20**	**24,459.50**	**139,302.30**	**468.10**

- **Adjustments**: The below summary provides details of the adjustments made to the HAC budget.

  In line with the medium term financial plan, the HAC Directorate has been awarded growth and inflation as detailed below.

  - Inflation £1.92m
  - Ethical Care Charter £1.41m
  - Pay inflation £0.17m

  This growth will be reflected in the budget going forward but has been assumed in the forecast outturn position

  Improved Better Care Fund: The month 3 budget excludes the allocation of £7m of one-off grant funding for tranche 2 of the Improved Better Care Fund. As at month 3 approx. £4.0m of this funding has been identified to fund new schemes and the remaining balance of £3.0m is earmarked to fund the sustainability of Adult Social Care. An update on use of this grant will be provided in quarter 2.

  In relation to the use of the £7m IBCF there are a number of risks/factors that need to be taken into consideration, this includes:

  - The proposed use of IBCF funding requires Tower Hamlets Clinical Commissioning Group (CCG) sign-off
  - The grant allocation may be decreased if targets around delayed transfers of care (DTOCs) are not met
  - The impact on the longer-term sustainability of Adult Social Care needs to be carefully managed due to the value of this grant reducing over the 3 years to 2019-20

- **Savings:** The 2017-18 budgets include £7m of savings. This includes £3.3m of unachieved savings from prior years, The table below provides high level details of the savings allocations:

  HAC Savings by Division Summary

	Savings allocations £000's
Adult Social Care (ASC)	4,793.00
Community Safety	1,398.00
Commissioning & Health	161.00
Public Health	678.00
Total Savings	**7,030.00**

- **Adult Social Care** budget is forecasting an adjusted month 3 position of £1.4m overspent. The below table provides a summary of ASC

Adult Social Care Adjusted Position

	Working Budget £000's	YTD £000's	Forecast as per Agresso £000's	Month 3 Variance £000's
Adults Social Care	79,036.40	18,160.30	86,986.80	7,950.30
Adjustments				
Improved Better Care Fund	7,017.20		3,983.00	-3,034.20
Ethical Care Charter	1,413.00	0.00	0.00	-1,413.00
Inflation (pay & non-pay)	2,094.00	0.00	0.00	-2,094.00
	89,560.60	**18,160.30**	**90,969.80**	**1,409.10**

The key pressure area continues to be in the demand led residential and community based care services. Savings targets are concentrated in this area and there needs to be increased progress in the delivery of savings in order to reduce the budget pressure. A number of other factors may be contributing to this pressure including growth in demand. A key strand of the Smarter Together Transformation Programme is demand management and in Adult Social Care we have:

- Carried out work to scope opportunities for improved demand management
- Carried out two ‘behavioural trials’ with front-line staff supported to have different conversations with residents contacting us for support – these conversations take a strengths-based approach and encourage people to access community and preventative services wherever possible
- Reviewed our web-based information and advice and will be refreshing the content of our web pages to better signpost people to appropriate support services

- **Commissioning & Health.** An underspend of £0.941m is forecast against a budget of £12.65m. The key drivers of this underspend are carers income and BCF Funding of £0.461m and the re-provision of supporting people contracts £0.591m. At month 3 this is being used to offset pressures in the Adult Social Care budgets.
- **Public Health Budget** is projecting a balanced budget. There is some risk associated with the contracts for Primary Care and Sexual Health services as these are demand led services. Robust monitoring processes are in place to monitor this risk and the division is holding a contingency budget of £0.328m to offset any budget pressures that emerge in-year. To the extent that there is an

end of year underspend against the Public Health grant this must be retained in an earmarked and ring-fenced reserve

- **Community Safety** is projected to be balanced at year-end. There is some risk around substance misuse as this is a demand lead budget that is funded through Public Health grant, which needs to be viewed in the context of the commentary for the Public Heath grant above.

4.4. **Place – Overspend £0.4m**

- The Council agreed a GF revenue budget for the Place Directorate of £61.8m (after net adjustment for parking control of 9.1m) in 2017-18. As at June 2017, the directorate base budget has been adjusted to recognise fully the income from Parking within the Place Directorate. Following this adjustment, there is a projected overspend of £0.4m. There are a number of factors that will impact on the directorate outturn position and these are detailed in the table.
- The forecast variance for the service reflects income generation opportunity from the CCTV network. This is targeted to achieve revenue of up to £0.4m. The last consultant report received stated that the likelihood of generating this level of income in the current market is optimistic and that a target of £0.2m should be considered. Further work is required to gauge whether this saving can be achieved with any certainty and progressed. This saving is being reported as a variance for this financial year and will be dependent on management action being in place to provide alternative options.
- **Housing & Regeneration variance of £0.3m**. This relates mainly to the underachievement of savings due to delays in the implementation of the restructure of the service. The variance also includes the impact of the increase of temporary accommodation costs not contained within the base budget.
- Due to the lack of availability of affordable temporary accommodation, around 85% of all placements are now out of the borough, with around 3% outside London. In order to increase supply and to avoid the high costs of temporary accommodation obtained on the external market, the Council has committed a capital investment of £30 million to purchase properties to let as temporary accommodation. Over time, significant cost savings should be realised from this initiative – the net revenue costs to the Council of placing applicants in its own units are estimated at £1,400 per annum per property, compared to an equivalent net annual cost of £6,500 for a nightly let obtained on the external market.
- In terms of managing demand, a range of initiatives are being undertaken. Examples include the service working with the Commissioning Team to develop a new hostels pathway designed to reduce demand for B&B for single homeless applicants and to increase throughput, and a preventing intentional homelessness protocol which, following a pilot with Poplar Harca, will be rolled out to other providers and private rented sector landlords.

- The Lettings Policy is designed to stem demand by removing perverse incentives for households to apply as homeless, and the Council has applied a quota for permanent offers of accommodation to try to increase the rate of offers to match or exceed new demand
- There are no consistent methods for benchmarking homelessness prevention work however the Council reported in the Government's P1E return for quarter 1 that it prevented homelessness for 118 households, and that it was joint 14th lowest borough in London for homeless acceptances (109) in the first quarter of 2017.
- **Property and Major Programmes variance of £0.4m.** This area contains a number of unbudgeted revenue costs associated with the Whitechapel Civic Centre up to £0.2m; vacant council premises awaiting disposal costs of circa £0.2m, including security and energy costs have contributed to overspend in this area in the past. Consideration will be given as part of the 2018-19 budget process to determine how best to provide for these on-going cost commitments in the budget.
- In the current financial year the additional costs necessary to secure the new Civic Centre site will be met from the corporate provision set aside to finance this project. Budgetary pressures arising from costs associated with holding other vacant properties that are awaiting disposal will also be met corporately and will be considered in conjunction with the significant levels of capital receipts that these assets will generate when sales are completed.
- **Public Realm variance £3m.** Of this variance only £2.8m is covered by centrally held reserves which will be released as normal when evidence is provided. The remaining pressure of £0.2m relates to the final repayment of the loan provided to fund the £1m capital payment for Northumberland Wharf.
- **Public Realm Budget Risks.** In addition to the reported variance the service has identified a number of risks that total £1.5m that are set out below. During the course of 2016-17 a number of MTFS savings were not achieved. One off mitigations in the budget was identified to cover the gap. Going forward these savings will continue to present a level of risks in the budget. This is due to the slippage in lead times for implementation and delivery of some of the savings proposals. The service is seeking at this time to put in place actions that will result in all or some of the budget pressures being mitigated during the course of the financial year.
    - The risks include the deletion of 10 Commercial Waste Tower Hamlet Enforcement Officer (THEO) posts of £0.5m will need to be incorporated within the divisional service restructure. The alternative delivery model for the Animal Warden Service which sought to transfer the service to LB of Hackney through a service level agreement, this needs to be reviewed to determine whether the model is feasible and level of savings of £0.2m achievable.

- Schools Crossing Patrol saving of £0.1m has not been achieved by recharging the schools that use the service. The intention is for the saving to progress by charging the schools that require the service. However, further work is needed to get to the position where agreement can be put in place with schools to deliver this service. It is anticipated that this could be delivered for 2018-19. There are mitigations in place to enable savings to be covered for this financial year.
- In addition there is a one off in year saving of £0.4m to the Street Enforcement and Response Services prior to completion of the antisocial behaviour review and the restructure of the enforcement service. The savings opportunities will continue to be reviewed and monitored and management action to address the budget pressure identified.
- The Advertising Income target of £1.2m has identified a budget gap of £0.400m. The income from the digital bus shelters was expected to cover this gap. It is anticipated that this income will not come on stream until 2018-19 where up to £0.4m can be achieved that will contribute towards the budget gap of £0.4m that the service will need to address.
- The proposed management action to mitigate the risks identified includes management of vacancies across the service, one off additional income sums and review of contract arrangements which should enable all or some of the risks identified above to be mitigated for the current financial year.
- this income will not come on stream until 2018-19 where up to £0.4m can be achieved that will contribute towards the budget gap of £0.4m that the service will need to address.
- The proposed management action to mitigate the risks identified includes management of vacancies across the service, one off additional income sums and review of contract arrangements which should enable all or some of the risks identified above to be mitigated for the current financial year.

- **Progress Delivering Savings**

  The position on the overall savings for the directorate is set out in the detailed body of the report against each of the individual service areas. Appendix 3 sets out a total savings of £1.498m to be delivered in 2017-18 whilst identifying that there is still an outstanding savings requirement from 2016-17 of £ 1.2m. Both these totals are accounted for in arriving at the forecast outturn position.

4.5. **Resources Overspend £0.6m**

- The resources directorate has a net GF budget of £24.2m in 2017-18, including the Idea Stores and Idea Stores Learning budgets that have transferred in from the former CLC directorate and the smarter together budget requirement of £6.0m.

- After adjusting for expenditure approved to be funded from specific reserves, the overspend risk is expected to be £0.6m and management action is currently being reviewed to address this risk;
    - Budget pressure within the customer access service following loss of service / income from Tower Hamlets Homes – £0.6m risk.

5. Corporate Costs & Capital Financing - £12.2m Underspend

5.1. Corporate cost and Central financing budgets comprise provisions for unforeseen events (contingencies) and Council wide budgets for savings, growth and inflation approved at the time of the MTFS.

5.2. Currently the contingency budget can be used to offset unplanned service pressures highlighted above in the directorate sections of the report as well as the unavoidable growth and Mayoral priority expenditure and inflationary costs incurred in the current year.

5.3. The approved service pressure growth, inflation and mayoral priority growth still held centrally will be transferred to directorate budgets once evidence has been provided to demonstrate growth has materialised.

5.4. The total underspend is explained by

- Income from earmarked reserves of £8.9m to fund ICT, Tackling poverty and Transformation savings projects.
- General contingencies of £3.3m unallocated to support unforeseen pressures across services.

5.5. There is currently a risk of slippage in delivery of savings due to delays in the process; discussions are being held to identify mitigating actions and proposals for funding in the current year.

6. Housing Revenue Account (HRA) Revenue Budget Position

6.1. As at the end of June 2017, an underspend of £0.7m is projected against the overall Housing Revenue Account budget.

6.2. **Dwelling and Non-Dwelling Rents / Tenant and Leaseholder Service Charges: £0.2m underspend**

6.3. Rent and Service Charge income is currently projected to exceed budget, showing an estimated income of £0.2m above the full year budget of £90.4 million. This budget is directly affected by movements in dwelling stock numbers, particularly the number of Right to Buy disposals. Completions are slightly below estimated for the first two months of the year, totalling 21 disposals against an estimate of 200 for the year i.e. a projection of 33 in a two month period. This is discussed below.

7. Special Services, Rents, Rates & Taxes: £0.4m underspend

7.1. It is currently forecast that there will be an underspend on the energy budget due to prices being lower than was assumed when the budget was set. Expenditure against budget is volatile however, with demand particularly linked to weather conditions over the winter months. Any leaseholder service charge over-recovery that results from actual charges being lower than those included in the estimated bills raised at the start of the financial year will be reflected when the actual service charge adjustments are processed during 2018-19.

7.2. In addition to the above two items, there are smaller variances forecast in respect of the repairs and maintenance and supervision and management budgets.

7.3. A particular area of potential budget variance relates to the significant Revenue Contribution to Capital Outlay (RCCO) estimate. Although this is currently forecast in line with budget, the HRA estimates assume an RCCO of in excess of £23 million, the majority of which is earmarked to support the use of retained Right to Buy receipts to develop new social housing. The Council is currently holding substantial levels of Right to Buy receipts which must be used for the supply of new housing. Tight time constraints apply to the use of these resources (they must be spent within three years of receipt) and if they are not utilised they must be paid to the Government with significant interest penalties falling on the Council. Capital estimates are in place to meet the expenditure profile required to maximise the use of these resources.

7.4. **Retained Right to Buy Receipts**

7.5. The Government's reinvigoration of the Right to Buy system in April 2012, has led to a significant increase in the number of right to buy applications. Key elements of the policy were the increase of the maximum discount available to tenants and a change to the previous Right to Buy capital receipt pooling arrangements whereby now local authorities can retain receipts for replacement housing – provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement. Since April 2017, the maximum RTB discount is £104,900.

7.6. The Authority has therefore entered an agreement with the government to allow it to retain a proportion of Right to Buy receipts to be spent on replacement social housing, with the following conditions:

i. Retained 'one for one' receipts cannot fund more than 30% of total spend
ii. Receipts cannot be used in conjunction with funding from the GLA/HCA
iii. Receipts must be spent within three years or be returned with interest
iv. Receipts cannot be given to a body in which the local authority has a controlling interest

7.7. Alternatively, the authority may use the receipts to grant fund another body, such as a Registered Provider (RP).

7.8. **Right to Sales and Retained Receipts**

7.9. Between April 2012 and the end of June 2017 there have been 908 RTB sales, of which 34 disposals have taken place during the current financial year.

7.10. As at the end of the first quarter of 2017/18, the Authority has £89.336 million of 'one for one' retained receipts, the breakdown of which and proposed usage is shown in the table below. Of this £5.036 million was received in the first quarter.

7.11. **Use of Right to Buy Receipts**

7.12. The Council has various initiatives in place to use the retained receipts; however it is restricted by the fact that these receipts can only fund 30% of the costs. The remaining 70% therefore has to be financed from other capital resources, and the borrowing constraints within the Housing Revenue Account mean that the Council is currently undertaking initiatives within the General Fund.

7.13. There are strict quarterly deadlines for the use of the receipts, and these must be met in order to avoid having to pay the resources to the DCLG. The fourth column of the table below shows the total spend required by quarter compared with the actual and projected spend in the final column. As can be seen, if the proposed expenditure profile is met, then pressures arise in the second quarter of 2018-19 (ending September 2018). Schemes and initiatives are currently being developed to ensure that these resources are fully utilised, however it must be stressed that it is essential that spend deadlines are complied with and that close monitoring continues to be undertaken.

RIGHT TO BUY ONE FOR ONE RECEIPTS – TOTAL SPEND NEEDED AND DEADLINES

Spend already incurred

Deadline	Quarter Received	1-4-1 Receipts	TOTAL SPEND NEEDED	Poplar Baths & Dame Colet	Buy-backs	RP grant scheme	New-build	Other	Total in Q	CUMULATIVE SPEND (ACTUAL)
		£m	£m	£m	£m	£m	£m	£m	£m	£m
31 Dec 16	Q3 13/14	1.503	5.010	15.18					**15.18**	15.180
31 Mar 17	Q4 13/14	3.508	16.703		3.51	3.12	2.21	4.19	**13.02**	28.202
30 Jun 17	Q1 14/15	3.481	28.305		7.908	0.00	0.14	0.01	**8.06**	36.258

Spend forecast

Deadline	Quarter Received	1-4-1 Receipts	TOTAL SPEND NEEDED	Poplar Baths & Dame Colet	Buy-backs	RP grant scheme	New-build	Other	Total in Q	CUMULATIVE SPEND (FORECAST)
		£m	£m	£m	£m	£m	£m	£m	£m	£m
30 Sep 17	Q2 14/15	4.246	42.459		5.28	6.20	1.43	12.00	24.91	61.163
31 Dec 17	Q3 14/15	7.065	66.007		5.28	0.00	2.18	10.00	**17.46**	78.621
31 Mar 18	Q4 14/15	6.115	86.389		5.28	0.98	6.45	8.00	**21.11**	99.732
30 Jun 18	Q1 15/16	4.000	99.721				5.38		**5.38**	105.116
30 Sep 18	Q2 15/16	6.660	121.921				8.16		**8.16**	113.276

31 Dec 18	Q3 15/16	6.678	144.179				10.87		**10.87**	124.142
31 Mar 19	Q4 15/16	6.419	165.577			4.73	14.70		**19.42**	143.567
30 Jun 19	Q1 16/17	9.024	195.656				15.01		**15.01**	158.579
30 Sep 19	Q2 16/17	10.487	230.612				11.05		**11.05**	169.630
31 Dec 19	Q3 16/17	9.579	262.541				5.32		**5.32**	174.946
31 Mar 20	Q4 16/17	5.538	281.000				1.15		**1.15**	176.097
30 Jun 20	Q1 17/18	5.036	297.788							176.097
Total		**89.336**								

7.14. A decision will be made at the end of the financial year about how best to finance the HRA capital programme, at which point it may be considered better for the HRA to use other resources. If not fully required then the resulting underspend in RCCO will carry forward in HRA balances and be earmarked to fund capital in future years.

7.15. It should be noted that in order to address fire safety concerns following the recent fire at Dickenson House on the Avebury Estate, additional resources are being made available to Tower Hamlets Homes (THH) to fund the appointment of extra staff. This funding is being approved via a Mayoral decision. The financial implications will be reflected in future budget monitoring reports and will have the effect of increasing the revenue management fee payable to THH as well as requiring a re-profiling of the HRA capital programme.

8. <u>Mayoral Priority Growth</u>

8.1. The MTFS agreed on the 22nd February 2017 set aside budget provision for a number of specific mayoral priority projects designed to improve specific outcomes for residents and businesses.

8.2. The range of initiatives included projects that would improve employment opportunities for residents, with particular targeted support vulnerable groups such as young people, care leavers, residents over 50 and women. There are also initiatives to help improve the local environment and tackle poverty within the borough through the Mayors Tackling Poverty fund. The detailed list of projects and progress in delivering the mayoral and strategic priority outcomes is included in Appendix 5.

8.3. A number of schemes such as the ethical care charter and continuing with funding universal free school meals are already underway and directorate budget forecasts reflect this. The remaining projects are being developed and will be reflected in directorate forecasts in due course.

9. Total 2017-18 savings

9.1. Total target for 2017-18 is £26.1m (£20.4m relates to 2017-18 and £5.7m as a result of previous year savings not delivered.

Smarter Together Programme	Base budget £'000	2017-18 Savings target £'000	Delivered/ cashed £'000 Actual savings delivered to date	Forecast savings RAG Green £'000 Year end position	Forecast savings RAG Amber £'000 Year end position	Variance: Slippage £'000 Element of savings target that will be delivered in future years	Variance: Under / (over) delivery £'000 Amount not achievable (over achievement of savings)
Health, Adults & Community	78,956	7,430	448	2,470	1,094	570	3,296
Children's Services	16,265	3,201	-	1,900	871	186	244
Place	35,377	2,248	-	1,098	-	-	1,150
Resources	93,862	4,743	1,525	1,175	3,018	-	550
Governance	-	159	-	-	-	-	159
All	84,603	8,319	1,250	1,419	5,800	800	300
Total	**309,063**	**26,100**	**3,223**	**8,062**	**10,783**	**1,556**	**5,699**

9.2. Total target for 2017-18 is £26.1m (£20.4m relates to 2017-18 and £5.7m as a result of previous year savings not delivered)

- £8.1m is highlighted green indicating a higher level of confidence that savings are on track to be delivered / being delivered;
- £10.7m is highlighted amber indicating that further work needs to be done but there is an expectation that these projects will deliver desired savings;
- £1.5m is forecast to slip into 2018-19 due to timing issues;
- £5.7m is currently classed as at risk of non-delivery;
- £0.8m of this relates to new 2017-18 savings (£0.6m local presence / customer contact centre); and
- £4.9m relates to previous year savings – these have been designated as risk of non-delivery pending further work with Finance Business Partners to establish the status of these projects.

10. Forecast Use of Reserves

10.1. The Council is required to hold a number of reserves on its Balance Sheet against specific purposes or circumstances.

10.2. A small contribution of £0.5m will be made to General Fund if the forecast outturn position remains in line with that expected in the MTFP.

10.3. The table below shows a summary of Earmarked reserves requested, pending the approval of the Corporate Director, Resources.

EARMARKED RESERVES		Requested	Approved	Balance (Subject to Approval)	Comment
	£'000	£'000	£'000	£'000	
Transformation	25,000		-6000	19,000	**Resources :** Smarter Together Programme
ICT / Finance Systems	23,068		-2100	20,968	**Resources :** ICT Transformation
Other	962			962	
Parking Control	3,295			3,295	
Building Control	373			373	
Land Charges	749			749	
Place (formerly Development & Renewal) Other*	0			0	
Communities, Localities & Culture*	0			0	
Children, Schools & Families*	0	0		0	Children's Services : early intervention Reserve
Adults, Health & Wellbeing*	0			0	
Law, Probity & Governance & Resources*	0			0	
Insurance	20,771			20,771	
Schools Balances	24,714			24,714	
New Civic Centre	20,000			20,000	
New Homes Bonus	7,258			7,258	
Free School Meals	6,000			6,000	
Mayor's Investment Priorities	10,000			9,100	**Children's Services:** Mayors Reserve Youth and Connections Service
Risk Reserve	10,500			10,500	
Revenue Grants	1,643			1,643	
Welfare Reform	5,000		-1000	4,000	**Resources :** Mayor Tackling Poverty
Earmarked Reserve Total	**159,333**		**(9,100)**	**150,233**	

10.4. A full Summary of projected Reserve movements during the period of the MTFP can be found in Appendix 2.

11. Section 106 and Community Infrastructure Levy (CIL)

Section 106 - Background

11.1. Section 106 (S106) Agreements are legal agreements between Local Authorities and developers. They are drafted when it is considered that a development will have a significant impact on the local area that cannot be moderated by means of conditions attached to a planning decision.

11.2. The Council's approach to securing planning obligations is set out in the S106 Planning Obligations Supplementary Planning Document (SPD) adopted in 2012. This document formalises that s106 contributions are secured and paid by the developer to the Council. Payments are due at trigger points throughout the lifecycle of a development and are applied to finance expenditure under defined themes including; Affordable Housing, Education, Community & Leisure Facilities, Employment and Enterprise, Health, Sustainable Transport, Environmental Sustainability and Public Realm & Public Open Space.

11.3. Once s106 contributions are received, each is required to be spent in line with the funding requirements/themes for which it was initially secured and cannot be spent for any other purpose.

Section 106 Funding by Category

11.4. Planning Obligation funding (s106) can be spent on a range of projects and these categories are highlighted in the table below. Currently, projects are developed by the responsible Directorates and approvals are sought in accordance with the Council's Infrastructure Delivery Framework (IDF) that was approved by the Mayor in Cabinet in October 2016. Going forward, this may need further consideration as it would seem sensible to adopt a corporate approach linked to the Council's borough-wide capital strategy in order to form the basis for proposing the projects for decision through the IDF.

11.5. As at 30th June 2017, a total of £82.5 million was held in the s106 account. An analysis of the resources held between various categories of project and their status is shown in the table below, including the relevant delivery partners where appropriate.

11.6. In addition to the s106 balances listed, interest of £1.2 million has accrued to the account.

<u>Section 106 - Council Projects</u>

Directorate	Area	Balance at 1st April 2017 £,000	Receipts 2017-18 £,000	Balance at 30th June 2017 £,000	Allocated £,000	Unallocated £,000
Place	Affordable Housing	3,563	26	3,589	0	3,589
Place	Carbon Offsetting	1,187	500	1,687	439	1,248
Place	Community Facilities	2,660	2	2,662	1,056	1,606
Place	Environment & Public Realm (CLC)	6,718	4	6,722	3,695	3,027

Place	Master Plans and Studies	366	0	366	329	37
Place	Millennium Quarter	966	0	966	447	519
Place	Transport Infrastructure	4,619	8	4,627	2,986	1,641
Place	Employment & Enterprise	6,100	121	6,221	3,771	2,450
Total		**26,179**	**660**	**26,840**	**12,723**	**14,117**

Children's	Public Art	466	0	466	424	42
Children's	Community Facilities	766	0	766	549	217
Children's	Education	20,744	173	20,917	7,988	12,929
Children's	Leisure	2,447	50	2,497	556	1,941
Children's	Landscape and Open Space	6,436	1,168	7,604	2,974	4,630
Total		**30,859**	**1,391**	**32,250**	**12,491**	**19,759**

Resources	Community Facilities	475	9	484	177	307
Total		**475**	**9**	**484**	**177**	**307**
Total		**57,513**	**2,060**	**59,574**	**25,391**	**34,183**

Section 106 - Projects undertaken with External Delivery Partners

HAC	Health	17,950	897	18,847	8,927	9,920
Total		**17,950**	**897**	**18,847**	**8,927**	**9,920**

External	London Thames Gateway Development Corporation	2,259	0	2,259	1,049	1,210
External	Transport for London	1,799	0	1,799	73	1,726
External	Environment	15	0	15	0	15
Total		**4,073**	**0**	**4,073**	**1,122**	**2,951**
Total		**22,023**	**897**	**22,920**	**10,049**	**12,871**

GRAND TOTAL		**79,536**	**2,957**	**82,494**	**35,440**	**47,054**

Key:

'Allocated' – Contributions have been ring-fenced and allocated to a project in accordance with the Infrastructure Delivery Framework.

'Unallocated' – Section 106 contributions have been received by the Council but they have not yet been committed towards the funding of a project, although Project Initiation Documents (PIDs) might be in the process of being prepared. Projects being delivered by third parties (e.g. Transport for London or National Health Service partners) require a business case to be submitted prior to a PID being prepared and submitted for consideration by the Infrastructure Delivery Board.

11.7. Section 106 resources often come with time constraints and, whilst it is important that these resources are not lost, the prioritisation of projects needs to be seen in the context of the Council's Capital Strategy. Due to the risk that funding will have to be repaid to developers, with interest, if the time period specified in the Section 106 agreement expires, it is important to ensure that projects continue to be closely monitored and that actions are taken to mitigate any risk that resources will be lost. It is important that a sufficiently broad planning horizon continues to be implemented to reduce the risk of resources being lost but also to avoid the crowding out of other important capital priorities due to funding imperatives.

Community Infrastructure Levy - Background

11.8. The Council receives Community Infrastructure Levy funding for most new developments which create net additional floor space or a new dwelling. These resources help to finance the infrastructure required to support the development of the area, with spending decisions being made in accordance with the Council's Infrastructure Delivery Framework. The Council also collects CIL on behalf of the Mayor of London.

Mayor of London's CIL (MCIL)

11.9. This levy is set by the Mayor of London and is collected by the Council for which a 4% administration fee is retained. The MCIL is passed to Transport for London (TfL) where it is being used to fund Crossrail 1. The Mayor of London has recently completed a consultation into the introduction of MCIL2, with the intention that from April 2019 it will supersede the current arrangements and the associated planning obligation/S.106 charge scheme applicable in central London and the northern part of the Isle of Dogs. MCIL2 will be used to contribute to funding for Crossrail 2.

Tower Hamlets' CIL (THCIL)

11.10. The Council's CIL charging schedule was introduced in April 2015 and, as at 30th June 2017, the Council had received CIL income totalling £30.6 million.

11.11. The types of infrastructure projects the Council could wholly or partly spend THCIL on is described in the Council's CIL Regulation 123 List (April 2016) set out below.

CIL Regulation 123 List (April 2016)

Types of strategic infrastructure (including new provision, replacement or improvements to existing infrastructure, operation and maintenance):

- Community facilities
- Electricity supplies to all Council managed markets

- Employment and training facilities
- Energy and sustainability (including waste) infrastructure
- Flood defences
- Health facilities
- Infrastructure dedicated to public safety (for example, wider CCTV coverage)
- Leisure facilities such as sports facilities, libraries and Idea Stores
- Open space, parks and tree planting
- Public art provision
- Public education facilities
- Roads and other transport facilities

The inclusion of a type of infrastructure in the list does not signify a commitment from the Council to wholly or partly fund it through CIL which can only be used to fund the provision, improvement, replacement, operation or maintenance of infrastructure to support the development of the area.

Local Infrastructure Fund (LIF)

11.12. CIL Regulation 59A requires that 15% (or 25% where a neighbourhood plan is in place) of CIL collected should be allocated as the 'Neighbourhood Portion' to be spent on Council infrastructure priorities following consultation with local communities where development is taking place.

11.13. The Mayor in Cabinet has agreed that 25% of CIL receipts should be allocated as the CIL Neighbourhood Portion across the whole borough, to be entitled the 'Local Infrastructure Fund' (LIF). The Council consulted on LIF from 27th June to 8th August 2017, and the results of this consultation will ultimately inform the allocation of LIF to local projects. Expenditure will be determined as part of the Annual Infrastructure Statement (AIS) which will be considered by the Mayor in Cabinet in November 2017.

Council CIL Spending Proposals

11.14. The Council will have clearly set out proposals for the service allocation of CIL funding by the end of 2017. These proposals will be referred to the Mayor in Cabinet and will be reflective of information provided to officers through comprehensive evidence gathering, analysis and engagement as part of the alignment of the AIS with the requirements of the Capital Strategy.

11.15. As outlined above, as at 30th June 2017, the Council had received CIL income totalling £30.6 million. Of these resources, only £136,000 has been allocated to date – towards the financing of an Idea Store Interactive Learning project. Unlike Section 106 funds, CIL resources are not time limited in their use, nor ring-fenced to specific schemes.

Community Infrastructure Levy Resources – 30th June 2017

Balance at 1st April 2017 £,000	Receipts 2017-18 £,000	Balance at 30th June 2017 £,000	Allocated £,000	Unallocated £,000
25,557	5,031	30,588	135	30,453

11.16. The CIL regulations allow for up to 5% of these funds to be used to finance the Council's administration of the CIL process.

Conclusion – Section 106 and Community Infrastructure Levy

11.17. For both Section 106 and CIL resources, it is clear that identifying and understanding the relevant priorities of schemes that could be funded from these sources is essential in order to manage the value for money achieved from them.

12. Council Tax and Business Rates Income

12.1. The table below highlight the in-year collection performance for both Council Tax and Business Rates.

	Current Year debt (£m)	Total collected (£m)	Collection %	Previous Years debt (£m)	Total collected (£m)	Collection %
Business Rates	**444.0**	**120.0**	**27%**	**20.7**	**9.5**	**46%**
Council's share (30%)	133.2	36.0		6.2	2.9	
GLA's share (37%)	164.3	44.4				
Government's share (33%)	146.5	39.6				
Council Tax	**116.5**	**31.1**	**27%**	**16.9**	**2.0**	**12%**
Council's share (77%)	90.0	24.0		13.1	1.5	
Government's share (23%)	26.5	7.1		3.8		

12.2. For both Council Tax and Business Rates a Collection Fund operates to account for in-year activity, i.e. the actual amounts collected taking into account changes in the tax -base which happen during the year as new properties are added, taxpayers move, appeals are settled etc. however, the amount that is brought into an individual year's budget comprises three distinct elements:

- The estimated yield from the precept for the forthcoming financial year (FY) based on the January CTB / NNDR form (which once set does not vary);
- The estimated surplus or deficit (based on the January position) from the current FY; and
- The final surplus or deficit from the previous financial year, following closure of that year's accounts (bringing into account differences between the January estimate and the final outturn position).

12.3. There has been considerable growth in the Council Tax-base as a result of Single Person Discount (SPD) reviews, reducing long term empty properties and exemptions, changes to the Local Council Tax Support Scheme, and the rate of new properties being added to the Tax-base.

12.4. The effect of this increase has seen total properties rising from 126,094 to 127,454. Consequently, the Council Tax base has risen from 89,335 to 91,432 creating a rise in the collectable debit of £2.3m to £116.9m.

12.5. Currently the overall surplus for council tax is £2.0m to be shared with GLA

12.6. Currently the overall surplus for NNDR is £22.6m to be shared with GLA and central government. Please note however this may well reduce as we go through the year and instalments drop off in the final quarter.

13. Debtors and Creditors

13.1. Debtors are organisations, businesses and individuals that owe the council money. The table below categorises the nature of the debt on the same basis as the financial statements. The first three months of the year shows that there has been a small decrease overall in the debtors position of £2m. With the largest movement in the other debt category. Both Central Government and Local authorities are showing a decrease which is largely due to the collection fund deficit. Payments in advance are only a year end adjustment.

	31-03-2017 £'000	**30-06-2017 £'000**
Central Government	21,669	8,062
Local Authorities	3,320	-2,080
Other Debtors	52,661	72,705
Payments in Advance	2,837	
Total	**80,487**	**78,687**

Other debtors breakdown

Trade and Sundry debtors	31,028	2,189	
Council Tax debtors	2,542	-5,728	This is the net position including Council Tax receipts, this is grossed up at year end to eliminate receipts
Payroll Debtors	2,570	16,695	Recovery from schools to be put through
Parking	721	15,781	Old year is net of bad debt provision
Rents & Service Charges	2,430	36,597	Invoices raised at beginning of financial year
NNDR	6,200	-	This is the net position including NNDR receipts, this is grossed up at year end to eliminate the credits
Housing Benefits Overpayments	7,170	7,170	
	52,661	**72,705**	

13.2. Creditors are organisations, businesses and individuals that the council owes money to. The table below categorises the nature of the debt on the same basis as the financial statements. Overall this position has increased by £50m and this is largely due to unallocated government grants totalling £82m.

	31-03-2017 £'000	30-06-2017 £'000
Central Government	29,330	118,302
Local Authorities	8,871	6,844
Sundry Creditors	61,174	70,539
Accruals	40,292	68
Receipts in Advance	14,487	8,330
Total	**154,154**	**204,083**

14. Treasury Management Activities

14.1. Following on from a recent tender exercise, a new Treasury Management advisor, Arlingclose Ltd. have been appointed from 1st August.

14.2. Overall investment balances increased during June and closed higher at £501.9m, up from £487.9m. This increase was partly due to the withdrawal of £50m of pension equity investments to lock in gains. These monies are awaiting allocation to fund managers in line with the Pension Fund investment strategy a review of which is currently taking place.

14.3. The weighted average rate of return of the Council's investment portfolio for June was 0.41% compared to the average return of 0.48% earned for May. The current benchmark return is based upon the 7 day London Interbank Bid rate (LIBID) and average rate as at June 2017 was 0.10%.

Investments Outstanding & Maturity Structure

14.4. The table below shows the amount of investments outstanding at the end of June 2017, split according to the financial sector.

FINANCIAL SECTOR	£m	%
Banks in the UK	55.0	10.96
Building Societies in the UK	20.0	3.99
Banks in the Rest of the World	135.0	26.90
Government & Local Authorities	35.5	7.07
Money Market Funds	256.4	51.08
Investments Outstanding as at 30/06/2017	**501.9**	**100.00**

14.5. Just over half of the investments are held in Money Market Funds to provide liquidity and to diversify risk. Only £10m of investments are for periods longer than 12 months.

14.6. Work is being carried out to determine a more robust capital expenditure forecast in order to plan how best to invest surplus core cash for the longer term. Officers are also reviewing longer term investment options with our new advisors.

Borrowing

14.7. The Council's borrowing portfolio stood at £85.9m at the end of June 2017, however with a large investment balance, there is no major borrowing requirement for the foreseeable future as spending can be funded from investment balances.

Borrowing at 30/06/2017	Value £m	Rate %
PWLB: *Fixed*	8.436	6.64
Market Loan: *Fixed*	17.500	4.34
Market Loan: *LOBOs*	60.000	4.32
Total External Borrowing	**85.936**	**4.55**

15. Pension Fund Investments Position

15.1. Over the quarter to 30 June, the fund decreased marginally in value from £1.379bn to 1.377bn. The Actuary estimates the funding level of the pension fund had increased to 85.9% at 31st March 2017 from 82.8% in 2016 – this represents a deficit of £222.9m, down from £235m.

15.2. The July Pensions Committee agreed to discontinue the Global equity mandate with GMO worth £278m as at 30th June 2017. LGIM will be appointed transition manager. It was agreed to increase the investment in the Council's Diversified Global Funds mandate from 10% to 20% of the total fund by topping up the existing DGF fund mandates (Bailie Gifford and Ruffer held within the London CIV) by 5% each.

15.3. The September Pensions Committee will finalise the new investment strategy for the pension fund. With strong equity performance in recent years, the fund will be looking to lock in equity investment gains and also decreasing the equity investment risk in the fund. Following a presentation from the new advisors, Mercers, the Committee will give further considerations to repositioning of equity assets with a view of disinvestment in passive UK equity and investment in passive global equity, low carbon global equity and sustainable equities.

15.4. Investment allocations for long lease property assets and multi-asset credit would also be looked into.

16. Capital

16.1. The capital budget for 2017-18 now totals £231.7m, increased from the £216.3m reported to Cabinet in February 2017 as part of the budget-setting process. The increase is mainly due to the inclusion of previous year slippage into the current year budget and adoption of new capital estimates.

16.2. Details of all the changes to the capital budget are set out in Appendix 4

16.3. Total capital expenditure to the end of Quarter 1 represented 6% of the revised capital programme budget for 2017-18 as follows:

	Annual Budget as at 30-Jun-17	Spent to 30-Jun-17	% Budget Spent
	£m	£m	%
TOTALS BY DIRECTORATE:			
Health, Adults and Communities	3.489	0.397	11%
Children's Services	38.129	3.582	9%
Place	54.598	4.732	9%
Housing Revenue Account (HRA)	117.693	4.670	4%
Resources	1.367	0.000	0%
Corporate	16.469	0.551	3%
GRAND TOTAL	**231.745**	**13.932**	**6%**

This compares with 3% at the same stage last year. Expenditure tends to be heavily profiled towards the latter months of the financial year.

16.4. Projected capital expenditure for the year compared to budget is as follows:

	Annual Budget as at 30-Jun-17	Projection 30-Jun-17	Forecast Variance
	£m	£m	£m
TOTALS BY DIRECTORATE:			
Health, Adults and Communities	3.489	3.392	-0.097
Children's Services	38.129	31.502	-6.627
Place	54.598	51.629	-2.969
Housing Revenue Account (HRA)	117.693	83.803	-33.890
Resources	1.367	1.367	0.000
Corporate	16.469	6.340	-10.129
GRAND TOTAL	**231.745**	**178.033**	**-53.712**

Programme slippage of £53.7m is currently being projected. This indicates that there is a significant risk that the capital programme for 2017/18 will not be achieved. Some of the risks are set out below.

16.5. **Corporate Budget Provision for Infrastructure Delivery (£11.2m)**

This relates to budget provision for allocations made under the Infrastructure Delivery Framework (IDF) Process. Amounts will be moved to Directorates as allocations are approved, and spend projections will be added accordingly. Sessions have been scheduled to agree allocations in the year. It is anticipated any amounts unspent in the current year will be rolled forward to future years.

16.6. **Housing Buybacks 1-4-1 Receipts HRA (£26.3m)**

The budget for this programme will be re-profiled and partly moved to a General Fund scheme relating to purchase of properties for use as temporary accommodation.

16.7. **Parks (£3.9m)**

The scope of work is still under review for two schemes relating to Bartlett Park. Project plan developments are underway for schemes currently included in the budget as indicative. Projects are profiled to spend from quarter 2 onwards.

16.8. **Development and Renewal Section 106 Schemes (£2.3m)**

Most of this budget relates to s106 funded schemes that are yet to be formally approved through the s106 & CIL Infrastructure Delivery Board process.

16.9. **Blackwall Reach (£1.7m)**

The remaining budget under the Blackwall Reach regeneration programme will be re-profiled to 2023-24.

16.10. **ICT Solution - Handheld Devices £0.45m**

Approval is sought to increase the capital estimate by £0.45m for the implementation of the fusion mobile solution project. The total cost of the project for both phases one and two is £1m. The cost of the project has increased due to revisions to the scope to now include Markets, the complexity of functionalities and volumes associated with the PSI mobile project. The increased cost will be funded from the Street Trading Reserve £0.2m and the balance from the ICT Reserve.

16.11. **Capital receipts received in 2017-18** from the sale of Housing and General Fund assets as at 30th June 2017 are as follows:

Capital Receipts*		
	£m	£m
Dwellings Sold under Right To Buy (RTB)		
Receipts from RTB sales (34 properties)	6.279	
less poolable amount paid to DCLG (Q1 estimated)	-0.434	
		5.845
Sale of other Housing Revenue Account (HRA) assets		
Preserved Right to Buy receipts	1.126	
43 Saltwell Street	22.500	
		23.626
Sale of General Fund assets		
		0.000
Total		**29.471**

* Receipts shown gross before costs of sale are deducted

16.12. Retained Right to Buy receipts must be set aside to meet targets on housing provision as set out in regulations governing the pooling of housing capital receipts, so they must be ring-fenced for this purpose and are not available for general allocation.

17. COMMENTS OF THE CHIEF FINANCE OFFICER

17.1. This report is primarily financial in nature and therefore the appropriate comments are included throughout; there are no additional comments to make.

18. LEGAL COMMENTS

18.1. The report provides financial performance information. It is consistent with good administration for the Council to consider monitoring information in relation to plans and budgets that it has adopted.

18.2. Section 3 of the Local Government Act 1999 requires the Council as a best value authority to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Monitoring of financial and other performance information is an important way in which that obligation can be fulfilled.

18.3. The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's chief finance officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for the Cabinet to receive information about the revenue and capital budgets as set out in the report.

18.4. When considering its performance, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). The Council's budgets are formulated by reference to its public sector equality duty and monitoring performance should help to ensure they are delivered.

19. ONE TOWER HAMLETS CONSIDERATIONS

19.1. The budget monitoring report assists in reviewing the financial performance of the Council. It ensures that financial resources are applied to deliver services meeting the needs of the diverse communities living in Tower Hamlets and supporting delivery of One Tower Hamlets.

20. BEST VALUE (BV) IMPLICATIONS

20.1. The Council's achievement of the principles of Best Value are assessed annually as part of the final audit of the Council's financial statements by the Council's external auditors KPMG.

21. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

21.1. There are no specific actions for a greener environment implications

22. RISK MANAGEMENT IMPLICATIONS

22.1. There is a risk to the integrity of the authority's finances if an imbalance occurs between resources and needs. This is mitigated by regular monitoring and, where appropriate, corrective action. This report provides a corporate overview to supplement more frequent monitoring that takes place at detailed level. The explanations provided by the Directorates for the budget variances also contain analyses of risk factors.

23. CRIME AND DISORDER REDUCTION IMPLICATIONS

23.1. There are no specific crime and disorder reduction implications.

Linked Reports, Appendices and Background Documents

Linked Report
None

Appendices
Appendix 1 – Control Budget
Appendix 2 – Reserve Movements
Appendix 3 – Savings Tracker Summary and Detail
Appendix 4 – Capital Monitor
Appendix 5 – Mayoral Priorities