Cabinet 28 November 2017	TOWER HAMLETS
Report of: Zena Cooke – Corporate Director, Resources	**Classification:** Unrestricted
Corporate Budget Monitoring Report ***Period 6 (September 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 6 (September 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 £1.4m** after the application of reserves and corporate contingency (see paragraph 5). The HRA is projecting an **underspend of £0.4m**.

There are significant pressures in Children's Services 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. There is also an overspend in the Resources Directorate which is largely due to the costs of the contact centre, administration of the Housing benefit function. .

The Place directorate is forecasting a overspend position. This is predominantly where budgeted savings are not being made. Other areas of potential overspend are the subject to the application of earmarked reserves.

Corporate costs and capital financing (including the corporate contingency) is currently showing a £16.0m underspend which will be used, alongside approved earmarked reserves, to offset unplanned pressures.

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 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 September as detailed in Sections 3-7.
2. Note the summary savings position.
3. Endorse Management action to achieve savings.
4. Note the position on the Mayoral Priority Budget

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 is 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

3.1.1. The final outturn position for 2016-17 was reported to Cabinet in July, 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.

3.1.2. 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

3.1.3. The overall revised revenue budget is currently £345.9m, which is an increase of £7m from the £338.9m originally approved by the Council in February as part of the Medium Term Financial Strategy (MTFS) for the period 2017 – 2020. This increase was wholly due to funding from the Improved Better Care Fund.

3.1.4. The General Fund forecast outturn for Period 6 is currently showing an underspend of £1.4m after the application of approved growth and reserves. The forecast position for the Housing Revenue Account (HRA) is a surplus of £0.4m.

3.1.5. Section 4 onwards provides the further detail supporting the Council's overall financial performance in 2017-18.

Table 1 – Summary – Corporate Monitoring Position Period 6 – September 2017

Directorate	Governance	Health, Adults & Community	Children's Services (General Fund)	Place	Resources	Corporate Costs	General Fund	Children's Services (DSG)	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revised Budget	**12,751**	**139,506**	**103,462**	**63,283**	**24,747**	**2,164**	**345,913**	**(148)**	12,014	**357,779**
Pending Adjustments							**0**			**0**
Budget to Date	6,402	69,743	51,805	21,337	12,373	1,082	**162,742**	0	(26,176)	**136,566**
Actual	7,277	56,406	54,505	26,968	16,061	8,180	**169,398**	89,082	(26,922)	**231,558**
Forecast Outturn Position	**13,401**	**139,664**	**113,343**	**65,948**	**25,958**	**(13,826)**	**344,488**	**1,019**	11,614	**357,121**
Outturn Variance	**650**	**158**	**9,881**	**2,665**	**1,211**	**(15,990)**	**(1,425)**	**1,167**	**(400)**	
Cause of Variance:										
Earmarked Reserves	0	0	0	1,939	46		**1,985**	0		**1,985**
Savings not achieved - Directorate	459	3,856	320		250		**4,885**			**4,885**
Savings - Cross Directorate						(1,539)	**(1,539)**			**(1,539)**
Corporate Provision						3,500	**3,500**			**3,500**
Impact on General Reserves	191	(3,698)	9,561	726	916	(17,951)	**(10,256)**	1,167	(400)	**(9,489)**
Total Variance	**650**	**158**	**9,881**	**2,665**	**1,211**	**(15,990)**	**(1,425)**	**1,167**	**(400)**	

4. DIRECTORATE POSITION

4.1. Governance – Overspend £0.650m

4.1.1. The Governance directorate has a net General Fund budget of £12.8m in 2017-18. As at month 6, the directorate is forecasting an overspend of £0.650m which is associated with the Registrars Service and Corporate Strategy and Equalities. Key pressures are;

- Registrars; the service income targets £200k 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 service is reviewing options for reducing costs during the second half of this year to reduce the level of overspend in 2017/18 and proposing increases in fees and charges from next year through the fees and charges report as additional measures to help mitigate this budget pressure in the longer term.
- Corporate Strategy and Equalities; there is a risk that the Strategy, Policy & Performance (SPP), 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- thus there is a risk of c.£450k overspend (one off) in 2017-18 that will need to be managed

4.1.2. 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 £10.8m (£9.7m – General Fund).

4.2.1. The Children's Service directorate has an approved budget of £103.6m, against this it is forecasting an overspend of £10.8m, of which £9.7m relates to the General Fund. The remaining £1.1m relates to Dedicated Schools Grant (DSG).

4.2.2. **Children's Social Care** is currently forecasting an overspend of £5.9m against a budget of £48.7m. 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 two factors contributing to this overspend:

a) Children's Services staffing budgets have an inbuilt 'vacancy factor' which was introduced as a savings initiative in 2013-14. This means that budgets are funded at 6% below establishment cost. In the context of the post Ofsted demand increase and improvement activity it has not been possible to leave vacant posts uncovered pending recruitment, meaning that the vacancy factor is no longer sustainable. This vacancy factor accounts for approx. £1.2m of the overspend. Additional posts over establishment that have been recruited to meet additional demand.

b) The use of agency staff to address the immediate staffing need of the service, including providing cover for maternity and long term sickness, is costing £1.7m more than the budget for directly employed staff. The underlying pressure therefore amounts to £2.9m but £0.4m has been offset by delay in recruiting staff to some of the new posts created through our service redesign

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. Staff turnover has increased which can be attributed to the increased pressure and demotivating effect of the inadequate rating. This is coupled with recruitment 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. Growth of £1.597m was agreed in the budget for 2017-18, to fund a new structure which is being implemented from 1st October. **Mitigation/Management action**: To address these issues, 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. This will reduce the need for agency staff in the medium term although it is unlikely that this will impact significantly in the current financial year. It is therefore likely that the service will require permanent growth of £1.2m to reverse the vacancy factor. The agency related pressure will ease from 2018-19 as recruitment and retention issues are addressed.

- **Looked After Children (LAC) (£0.7m)**. Tower Hamlets has historically had a low number of looked after children. This was recognised in 2016-17 resulting in thresholds for entering care being reviewed, and more children entering the care system. A high proportion of the new entrants to the care system were from older age groups, with high support needs and often needing placement outside the borough or in expensive secure placements costing in the region of £5k per week. This is likely to increase our pressure on LAC placements by an additional £1m for 2017-18 which is not in the current forecast. It is expected that management action, detailed below may mitigate this pressure. In addition, our in house capacity for foster care and residential placements has not been fully utilised due to poor alignment with the needs of our looked after children cohort leading to the use of more expensive external provision. **Mitigation/Management action**: Immediate measures are being taken including better gatekeeping of entry to care to ensure that other options to keep young people at home are used where appropriate. This will reduce the number of care entries for older children and avoid escalation in the overspend on these budgets. Our sufficiency strategy will ensure that in the medium to long term we develop provision of support options to enable young people to stay at home if this is an appropriate option. It will also ensure that we better use our data to match in house provision to the needs of current and future cohorts of looked after children, reducing the need for more expensive external provision. Over the medium term, a shift in the profile of looked after children towards a younger age group will mean that we avoid the need for higher cost placements, and increase the number of children that we can move to permanence, for example through adoption. This is recognised in the MTFS savings proposal for improving early help (CHI002/17-18.) We expect the forecast pressure for 2017-18 to remain and whilst our strategy will relieve this pressure in future years it is unlikely to significantly impact on the current forecast. 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.

- **Family support (£0.3m)** Pressure on Section 17, Children in Need, NRPF & Private Fostering. The demand pressures highlighted above in relation to staffing are also impacting on this budget. Private fostering was a specific area for attention in the Ofsted report where significant improvement activity is taking place. This is likely to increase the identification of private fostering arrangements and the need for associated support services. **Mitigation/ Management action:** It is likely that growth will need to be identified in the MTFS for this budget at least in the short term. 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) there are a range of services within this area that continue to run despite a loss of funding. **Mitigation/ Management action:** A restructure of the service will help to reduce this financial pressure from the second half of this financial year. We are also reviewing these services and their impact, within the context of our wider piece of work on early help, which will identify how an improved early help offer can be delivered within our existing budgets. The outcome of this work will be known in October.

- **Leaving Care (£1.5m)** There is an emerging pressure of approximately £1.3m in leaving care, which is currently reported in the forecast. This is associated with the increase in the number of older children coming into care as outlined above. These young people attract the right to leaving care services, and are often challenging to work with needing significant support. This support is being provided in many cases through supported living placements offering support services, and the current cohort includes several children needing out of borough placements that have to be purchased on a 'spot' basis and are expensive. **Mitigation/ Management action**: Our strategy to improve the edge of care response to older children and prevent them from coming into the care system will impact in future years on the number of young people requiring support as care leavers. There was a pressure on this budget in 2016-17 but apparently was not reported and no growth requested during the last MTFP budget process. It has recently been confirmed that NRPF for Care leavers will be funded corporately from contingencies/reserves. The Service is currently identifying client numbers and costs.

- **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 £2.4m 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 are adding to the pressures within Children's Social Care. Once identified, these pressures will then need to be reflected in the MTFS.

4.2.3 There is currently an overspend of £1.3m forecast against the Children's & Adults Resources budget. Key pressures are:

- **Buildings (£0.3m).** Security on empty buildings is causing a pressure.
- **School redundancies (£0.6m)**. 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. It is expected that this pressure will be met Corporately.
- **Professional Development Centre (£0.2m)** - Loss of income from University of Cumbria, Agency and Software costs are attributed to this pressure.
- **Information & Support Services (£0.1m)** This pressure is due to the recruitment costs for the Divisional Directors and support for Grenfell. CS Director to discuss if these costs can be met corporately.
- **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.

4.2.3. **Learning and Achievement Service.** This Service is reporting an overspend of £2.6m (£1.6m General Fund and £1m DSB) against a budget of £85m (£17.2m General Fund and £67.8m DSB). 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 DSB funding arrangements, which has been halved for 2017-18. Key pressures reported are:

- **Special Educational Needs (SEN) (£1.2m General Fund).** The forecast overspend is on transport for children with special educational needs and disabilities (SEND.) The forecast has increased by £0.4m to reflect the activity. Savings were proposed 2 years ago from operational efficiency in transport, and the budget was reduced accordingly by £350k. Work was completed which identified that changes to driver terms and conditions to implement shift working would be required to implement these savings, but this was not implemented. Demand has also increased, with year on year growth in the number of children getting Education, Health and Care Plans (EHCPs). During 2016-17 a further review of transport provision was completed by an external consultancy that specialises in this area, with the intention of bringing the service into a balanced budget position. This review concluded that significant cost savings could be made if the in house transport service was outsourced, but early informal discussions with members indicated that there was no appetite to implement this. **Mitigation/ Management action**: Some of the other findings from the review are still being implemented, for example better route planning, and these may bring some cost efficiencies but they will not be enough to balance the budget. In the medium to long term, our SEND strategy which is currently in draft form, will address some of this pressure by managing down the demand for transport provision. This will be through better early intervention avoiding the need for formal EHCPs, providing more locally based placements, expansion of some schools where demand currently outstrips supply and collaboration with neighbouring boroughs who may be able to provide more specialist placements closer to pupils' home. In addition, better management of the EHCP process will ensure that the need for transport for individual pupils will be reviewed on a more regular basis
- **School Improvement Secondary (£0.2m).** The service will close by late October with only Home Services and NQTs operating as a traded service.
- **Careers Service (£0.5m).** 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 & Exclusions/Schools Library Service (-£0.2m)** The underspend on this service is due to the reduction in client transport activity
- **Dedicated Schools Grant (DSG): (1.018m)** The reported pressure relates almost entirely to SEND Services. The growing number of children with ECHPs (detailed within the General Fund pressures) is continuing to cause a

budget pressure. In addition, the reassessment of schools funding by the Department of Education (DfE) and reduction in Local Government and other Public Sector Central Government grant funding, are key issues in the DSG budget pressures on these services. Currently unreported within the DSG are potential pressures of approx. £1m in the Early Years' Service.

These are driven by:

1. A delay in implementing the early years restructure, relating to the 2016-17 savings proposal. This presents a one –off pressure of £590k.

2. Use of agency staff in the day nurseries, pending potential outsourcing (to avoid significant TUPE obligations.) If outsourcing goes ahead this overspend of £653k will be reduced in future years.

3. Loss of income due to changes in the early years funding formula and the rules around central retention.

4. Despite funding 12 children's centres in the newly reorganised service, 8 delivery sites were added at the request of members. (£54k)

5. A reduction in funding for nursery schools as a result of changes in the national funding formula, and the provision of temporary funding to these schools to bridge that gap

4.2.4. **Youth Services & Commissioning. The service is currently reporting an overspend of £0.933m against a budget of £6.124m.**

Youth Service (£0.2m) The Youth service 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 back pay 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.

4.2.5. **Contract Services (£0.7m)** 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. Mitigation/ management action: The service is reviewing its processes in relation to use of agency staff which will reduce costs, and considering reducing the use of expensive organic foodstuffs. It should be noted that if implemented, this will result in a downgrading from ‘gold’ to ‘silver’ in the Food for Life standard although this will not impact on the nutritional value of meals for school children. However even after these measures are taken, an increase in price will be necessary to balance the budget. There is currently no political cover for this, as the price levels are set annually in the fees and charges report considered by Cabinet in January as part of the budget setting process. Any increase in price, if agreed, would take place from April 2018 resulting in a balanced budget in 2018-19. Following the recent CS restructure, this service will move to the Youth and Commissioning Services Division in P6.

4.3. Health, Adults and Communities (HAC)

4.3.1. The latest budget for the directorate is £139.4m and includes the following amounts awarded, as part of the budget process, to cover growth and inflationary pressures;

- Inflation £1.9m
- Ethical Care Charter £1.4m
- Pay inflation £0.2m
- Pension increase £0.6m
- Improved better care fund £7.0 m

4.3.2. As at month 6 the directorate is forecasting a post-adjusted overspend position of £156.6k and the table below provides a summary of the position by service area.

HAC Month 6 Summary Position

	Budget £000's	YTD as @ Month 6 £000's	Forecast P 6 £000's	Current Variance £000's	Variance from P5 £000's
Adults Social Care	90,133	38,973	90,632	499	0
Commissioning & Health	12,623	9,468	12,280	-343	0
Public Health	33,522	5,521	33,522	0	0
Community Safety DAAT and ASB	3,228	2,444	3,228	0	0
HAC Services Total	**139,506**	**56,406**	**139,662**	**156**	**0**

4.3.3. The forecast for the Improved Better Care Fund allocation is incorporated into the above and as at month 6 includes £3m for specific projects and approx. £4m for the sustainability of adult social care, which is earmarked to ensure that services to adult social care clients are protected from the risk of reducing Health income and potential slippage in savings agreed.

4.3.4. **Savings:** The 2017-18 budgets include £7m of savings. This includes £3.3m of unachieved savings from prior years, £3m of 17-18 MTFS savings and £0.7m of savings identified to fund the reduction to the public health grant. The below provides high level details of the savings allocations:

HA&C Savings by Division Summary

	Savings allocations £000's
Adult Social Care (ASC)	4,413.00
Community Safety	1,778.00
Commissioning & Health	161.00
Public Health	678.00
Total Savings	**7,030.00**

4.3.5. Approximately £2.9m of the £7m savings are at risk of slippage and £0.7m, principally historic savings, is unlikely to be delivered and needs to be considered for write off. The impact of this in 2017/18 is being managed through the better care fund to ensure impact on care provision is minimised.

4.3.6. **Adult Social Care** (ASC) budget is forecasting an adjusted month 6 position of £499.3k overspend, which is in line with the month 5 overspend and is due to the reallocation of savings from ASC to the Health& Commissioning service area. The main pressure continues to be in the demand led residential and community based care services.

4.3.7. There is also a risk in relation to unpaid 2016-17 CCG income. Currently this figure stands at approximately £3.2 million of income is outstanding. Of this approximately £2.7m has been accrued. Should income not be collected, this will create additional budget pressures in 2017-18. Work is underway to review all outstanding debt and to negotiate with the CCG.

4.3.8. **Commissioning & Health.** The month 6 position is projecting an underspend position of £342.2k, against a budget of £12.5m. The key drivers for this underspend is the re-provision of supporting people contracts.

4.3.9. **Public Health Budget** At month 6 the Public Health Budget continues to project a balanced budget. There is risk associated with the contracts for Primary Care and Sexual Health services as these are demand lead services. Robust monitoring processes are in place to monitor this risk and the division is holding a contingency budget of £225k 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

4.3.10. **Community Safety Budget** is projected to be balanced at year-end. There is a minor 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 £0.73m**

4.4.1. The Place directorate has a revised revenue budget of £63.2m. After adjustments for expenditure approved to be funded from reserves, there is a projected overspend of £0.73m. The directorate has already undertaken management action to deal with the previous variance reported. As new pressures are identified the directorate will continue to review and take appropriate action to mitigate the impact on the budget. Service Area variances and pressures are detailed below.

4.4.2. **Growth & Economic Development.** No variance to report. The Mayoral priorities growth funding will be re-profiled to reflect delivery of objectives. The allocation will be dependent on spend for the year.

4.4.3. **Housing & Regeneration.** No variance to report. Also includes £0.17m due to the impact of the increased cost of temporary accommodation not contained within the base budget. This will be covered from a drawdown from reserves.

4.4.4. The Housing Options Service manages the statutory homelessness obligations of the Council - a significant demand-led activity. Although this element of the service operates with a net 2017-18 budget of £2.0 million, the gross budget is £35.5 million, with the major cost element being the £33.5 million budget for the rent payable to landlords for the supply of temporary accommodation. The main source of income derives from the rents and charges that are levied to customers, with around 87% of the rental income being met through benefits payments.

4.4.5. 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 is committed to capital investment 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.

4.4.6. 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.

4.4.7. 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

4.4.8. Planning and Building Control Nil variance The unbudgeted Plan Making Team costs will be evidenced and drawn down from reserves.

4.4.9. Property and Major Programmes £0.5m. The Corporate Landlord is currently projecting increased cost associated with the condition survey reports that have highlighted immediate repairs requirements in managing the council's assets. A review will be carried out to reprioritise works to address urgent issues.

4.4.10. This area contains a number of unbudgeted revenue costs associated with the Whitechapel Civic Centre that total approximately £0.2m, cost relating to the renegotiation of the lease at Mulberry Place £0.05m and costs relating to vacant council premises awaiting disposal, also of approximately £0.2m. 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.

4.4.11. In the current financial year the additional costs in relation to this service area will be met from the corporate provision set aside to finance the Civic Centre 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.

4.4.12. **Public Realm Budget Nil variance.** The forecast outturn is dependent on the budget target adjustment of £0.2m being reinstated following the repayment of the £1m loan provided from Corporate Costs to fund the capital payment for Northumberland Wharf.

4.4.13. There still remain a number of risks within the service where one-off mitigations in the budget have been identified to cover the gap in the current year. Going forward these savings will continue to present a level of risk in the budget. This is due to the slippage in lead times for implementation and delivery of some of the savings proposals.

- Deletion of 10 Commercial Waste Tower Hamlet Enforcement Officer (THEO) posts of £0.5m. This MTFS saving will be incorporated within the divisional service restructure. There are currently two vacancies and spinal point drift which achieve a savings of £0.1m in the current year. This is in addition to Streetworks income projected to achieve up to £0.4m.

- 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 is being 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. This saving is being mitigated in year through the swapping of general funded costs that can be lawfully funded from the Parking Account which will release funding for the Schools Crossing service. Further work is needed to get to the position where agreement can be put in place with schools to deliver this service.
- 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. This savings is a one off and can be delivered through a range of actions including management of vacancies and one off additional income.
- The Advertising Income target of £1.2m has identified a budget gap of £0.400m. The expectation is that the digital bus shelter contract will actually deliver part year income. Any gap can be contained within the Service budget envelope.
- The Income generation opportunity from the CCTV network is targeted to achieve revenue of up to £0.400m. The last consultant report received stated that the likelihood of generating this level of income in the current market is optimistic. Further work is required to gauge whether this saving can be achieved with any certainty.
- Parking Services are projecting additional income of £0.5m due to increased bay suspension activity, which can be used to mitigate the CCTV income generation opportunity in the current financial year.
- Additional consultant costs relating to the retendering of the waste disposal contract of £0.1m. These costs were previously funded from reserves.

4.4.14. **Resources £0.2m** Budget gap identified due to unbudgeted senior management and support.

4.4.15. **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 2 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. The savings reported as a variance for this financial year will be dependent on management action being in place to provide alternative options where saving remain undelivered.

4.5. **Resources Overspend £1.2m**

4.5.1. The resources directorate has a net GF budget of £24.7m 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.

4.5.2. After adjusting for expenditure approved to be funded from specific reserves, the overspend risk is expected to be £1.2m 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.
- Council tax/NNDR - risk of up to £200k overspend anticipated due to previous years savings not realised (£100k 2015-16, £50k 2016-17 from additional court cost income). In 2016-17 this was mitigated through other resource directorate underspends, however, with significant new support service savings in 2017-18, this is unlikely to be possible going forward.

4.5.3. Housing Benefit - at this time expectations are that overall HB Admin will overspend by £378k as a result of an in year matching subsidy reduction

5. Corporate Costs & Capital Financing - £16.0m 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;

5.5. Income from earmarked reserves of £8.9m to fund ICT, Tackling poverty and Transformation savings projects.

5.6. General contingencies of £3.9m unallocated to support unforeseen pressures across services.

5.7. Additional contribution of £3.2m from Earmarked reserves will be required to fund the overspend in Place, CHI (DSG) and Resources directorates.

6. <u>Housing Revenue Account (HRA) Revenue Budget Position</u>

6.1. As at the end of September 2017, an underspend of £0.4m is projected against the overall Housing Revenue Account budget.

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

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 six months of the year, totalling 75 disposals against an estimate of 200 for the year i.e. a projection of 100 in a half year period. This is discussed below.

7. <u>Special Services, Rents, Rates & Taxes: £0.4m underspend</u>

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 September 2017 there have been 949 RTB sales, of which 75 disposals have taken place during the current financial year.

7.10. As at the end of the second quarter of 2017/18, the Authority has £95.891 million of ‘one for one’ retained receipts, the breakdown of which and proposed usage is shown in the table below. Of this £11.591 million was received in the first two quarters of the year.

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 third quarter of 2017-18 (ending December 2017). 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		4.53	0.00	0.14	0.01	**4.68**	32.882
30 Sep 17	Q2 14/15	4.246	42.459		6.18	6.56	0.12	9.41	**22.27**	55.153

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
31 Dec 17	Q3 14/15	7.065	66.007		5.28	0.35	0.50	3.60	**9.73**	64.883
31 Mar 18	Q4 14/15	6.115	86.389		5.28		2.30	0.40	**7.98**	72.863
30 Jun 18	Q1 15/16	4.000	99.721				5.38		**5.38**	78.243
30 Sep 18	Q2 15/16	6.660	121.921				8.16		**8.16**	86.403
31 Dec 18	Q3 15/16	6.678	144.179				10.87		**10.87**	97.273
31 Mar 19	Q4 15/16	6.419	165.577			4.73	14.70		**19.43**	116.703
30 Jun 19	Q1 16/17	9.024	195.656				15.01		**15.01**	131.713
30 Sep 19	Q2 16/17	10.487	230.612				11.05		**11.05**	142.763
31 Dec 19	Q3 16/17	9.579	262.541				5.32		**5.32**	148.083
31 Mar 20	Q4 16/17	5.538	281.000				1.15		**1.15**	149.233
30 Jun 20	Q1 17/18	5.036	297.788							149.233
30 Sep 20	Q2 17/18	6.555	319.639							149.233
Total		**95.891**								

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. Mayoral Priority Growth

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

	2017-18					
Directorate	**Savings target £'000**	**Delivered/ cashed £'000**	**Forecast savings RAG Green £'000**	**Forecast savings RAG Amber £'000**	**Variance - Slippage £'000**	**Variance - Under / (over) delivery £'000**
Health, Adults & Community	7,030	1,398	2,476	998	2,894	662
Children's Services	3,201	110	110	2,216	486	389
Place	2,648	68	1,498	-	950	200
Resources	2,293	1,175	1,253	761	200	79
Governance	759	-	-	300	300	159
All	10,169	1,915	7,669	3,289	1,621	(2,410)
Total	**26,100**	**4,666**	**13,006**	**7,564**	**6,451**	**(921)**

9.1. Total target for 2017-18 is £26.1m (£20.4m relates to approved savings as part of the 2017-18 budget setting process, and £5.7m as a result of previous year savings not delivered)

- £13m is highlighted green indicating a higher level of confidence that savings are on track to be delivered / being delivered;
- £7.6m is highlighted amber indicating that further work needs to be done, or there is potential that delivery of forecast savings will slip to next year;
- £6.5m is forecast to slip into 2018-19 due to timing issues;
- £1.5m is currently classed as at risk of non-delivery, and there is expected to be over achievement of £2.4m, resulting in a net variance of -£0.9m..

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		-6,000	19,000	**Resources :** Smarter Together Programme
ICT / Finance Systems	25,000		-2100	25,000	**Resources :** ICT Transformation
Replacement Social Housing Reserve	7500			7,500	
Parking Control	3,295			3,295	
Sevices Reserve	7500			7,500	
- Governance				0	
- Health Adults and Communities				0	
- Childrens Services				0	
- Place		-1639		-1,639	
- Resources				0	
Insurance	22,100			22,100	
New Civic Centre	20,800			20,800	
New Homes Bonus	11,600			11,600	
Free School Meals	6,000			6,000	
Mayor's Priority Investment Reserve	10,000	-300		9,700	**Place:** Mayors Reserve Youth and Connections Service
Risk Reserve	15,000			15,000	
Mainstream Grants	400			400	
Mayor Tackling Poverty	5,000		-1000	4,000	**Resources :** Mayor Tackling Poverty
Earmarked Reserve Total	**159,195**	**-1,939**	**-7,000**	**150,256**	

10.4. A full Summary of projected Reserve movements during the period of the MTFP can be found in Appendix 7.

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 September 2017, a total of £92.6 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.

Section 106 - Council Projects

Directorate	Area	Balance at 1st April 2017 £,000	Receipts 2017-18 £,000	Balance at 30th Sep 2017 £,000	Allocated £,000	Unallocated £,000
Place	Affordable Housing	3,564	456	4,020	4,020	-
Place	Carbon Offsetting	1,187	542	1,728	1,050	679
Place	Community Facilities	2,660	2	2,662	1,606	1,056
Place	Environment & Public Realm (CLC)	6,718	8	6,726	2,981	3,745
Place	Master Plans and Studies	302	-	302	-	302
Place	Millennium Quarter	966	-	966	519	447
Place	Master Plan Studies	64	-	64	38	27
Place	Transport Infrastructure	4,618	243	4,861	1,832	3,029
Place	Employment & Enterprise	6,100	369	6,469	2,698	3,771
Total		**26,179**	**1,619**	**27,797**	**14,742**	**13,055**
Children's	Public Art	466	-	466	42	424
Children's	Community Facilities	766	-	766	217	549
Children's	Education	20,756	3,476	24,232	13,269	10,963
Children's	Leisure	2,447	50	2,496	1,940	556
Children's	Landscape and Open Space	6,436	4,492	10,928	3,886	7,043
Total		**30,870**	**8,019**	**38,889**	**19,354**	**19,535**
Resources	Community Facilities	475	9	484	307	177
Total		**475**	**9**	**484**	**307**	**177**
Total		**57,524**	**9,646**	**67,171**	**34,403**	**32,768**

Section 106 - Projects undertaken with External Delivery Partners

HAC	Health	17,938	1,208	19,146	2,668	16,478
Total		**17,938**	**1,208**	**19,146**	**2,668**	**16,478**
External	London Thames Gateway Development Corporation	2,259	2,172	4,431	3,382	1,049
External	Transport for London	1,814	4	1,818	1,719	99
Total		**4,073**	**2,176**	**6,250**	**5,101**	**1,148**
Total		**22,011**	**3,384**	**25,395**	**7,769**	**17,626**
GRAND TOTAL		**79,535**	**13,031**	**92,566**	**42,172**	**50,394**

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 September 2017, the Council had received CIL income totalling £36.1million.

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 (September 2016) set out below.

CIL Regulation 123 List (September 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 and social care 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 September 2017, the Council had received CIL income totalling £36.1 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 September 2017

Balance at 1st April 2017 £,000	Receipts 2017-18 £,000	Balance at 30th June 2017 £,000	Allocated £,000	Unallocated £,000
25,135	11,015	36,139	135	36,004

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

11.16. 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**	**245.0**	**55%**	**20.7**	**7.6**	**28%**
Council's share (30%)	133.2	73.5		6.2	1.7	
GLA's share (37%)	164.3	90.6				
Government's share (33%)	146.5	80.9				
Council Tax	**116.5**	**57.0**	**49%**	**16.9**	**2.4**	**14%**
Council's share (77%)	89.7	43.9		13.0	1.8	
Government's share (23%)	26.8	13.1		3.9		

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 six months of the year shows that there has been a significant increase in the in the debtors position of £55m. With the largest movement in the other debt category – a breakdown of which can be found in tye second table. 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	**30-09-2017 £'000**
Central Government	21,669	13,193
Local Authorities	3,320	-2,080
Other Debtors	52,661	121,530
Payments in Advance	2,837	3,606
Total	**80,487**	**136,249**

Other debtors breakdown

Trade and Sundry debtors	31,028	-3,384	
Council Tax debtors	2,542	-5,203	This is the net position including Council Tax receipts, this is grossed up at year end to eliminate receipts
Payroll Debtors	2,570	61,569	Recovery from schools to be put through at year end
Parking	721	15,781	Old year is net of bad debt provision
Rents & Service Charges	2,430	45,597	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	**121,530**	

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 £186m and this is largely due to unallocated government grants totalling £197m.

	31-03-2017 £'000	**30-09-2017 £'000**
Central Government	29,330	215,254
Local Authorities	8,871	8,115
Sundry Creditors	61,174	85,205
Accruals	40,292	69
Receipts in Advance	14,487	11,823
Total	**154,154**	**320,467**

14. Treasury Management Activities

14.1. Overall investment balances reduced during September and closed lower at £447.10m, from £466m. .

14.2. The weighted average rate of return of the Council's investment portfolio for September was 0.53% compared to the average return of 0.41% earned for August. The current benchmark return is based upon the 7 day London Interbank Bid rate (LIBID) and average rate as at September 2017 was 0.10%.

Investments Outstanding & Maturity Structure

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

FINANCIAL SECTOR	£m	%
Banks in the UK	55.00	12.30
Building Societies in the UK	20.00	4.47
Banks in the Rest of the World	160.00	35.79
Government & Local Authorities	166.00	37.13
Money Market Funds	46.10	10.31
Investments Outstanding as at 30/09/2017	447.10	100.00

14.4. We currently have 10.31% of the total portfolio Investments, held in the Money Market Funds to provide liquidity and to diversify risk. Almost 40% of the outstanding investments have less than 3 months to mature. Only £20m of investments are held for periods longer than 12 months.

Maturity Profile of Investments	£m Portfolio Value	Portfolio %
O/Night	46.10	10.31%
< 1 Month	105.00	23.48%
1- 3 Months	25.00	5.59%
3 - 6 Months	136.00	30.42%
6 - 9 Months	60.00	13.42%
9 - 12 Months	55.00	12.30%
Over 12 Months	20.00	4.47%
Total	**447.10**	**100.00**

14.5. 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.

14.6. **Borrowing:** The Council's borrowing portfolio stood at £85.9m at the end of September 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 30/09/2017	**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 30th September, the fund increased by £99m from £1.399bn to 1.498bn. The Actuary estimates the funding level of the pension fund had increased to 85.9% at 31st March 2017 from 82.8% of 2016 formal valuation funding level – this represents a deficit of £222.9m, down from £235m.

15.2. The September Pensions Committee finalise the new investment strategy for the pension fund. With strong equity performance in recent years, the fund locked in equity investment gains and also decreasing the equity investment risk in the fund from 60% of total fund value to 50%. Following a presentation from the new investment consultant, Mercer, the Committee gave further considerations to repositioning of equity assets and agreed disinvestment of 20% of the total fund value from passive UK equity and investment of 15% of total fund value in passive global equity and 15% of total fund asset into low carbon global equity.

15.3. The Committee requested for further analysis from the investment consultant to justify value for money in their decision of appointing LGIM as the Fund transition manager to oversee the repositioning of the Fund equity assets. The investment consultant provided the information that shows if the Fund was to independently engage a Transition Manager, that the lowest fee offered would be in the region of 0.04% to 0.05% of total assets traded (i.e. buys and sells accumulated). Applying these figures to this transition would suggest a fee of at least £235,000, whereas LGIM have quoted a flat fee of £115,000. With this information the Committee are now satisfied and the Chair and Vice Chair gave their approval to use LGIM as the transition manager for repositioning of the Fund equity portfolio.

15.4. An investment allocation for multi-asset credit (MAC) was also considered and the Committee requested for training on this asset class at their next meeting with a view to gain better understanding of this asset class in order to make an informed decision.

16. Capital

16.1. The capital budget for 2017/18 now totals £184.7m, decreased from the £231.7m reported to Cabinet in Quarter 1. The increase is mainly due to the re-profiling of expenditure into future years.

16.2. Details of all the changes to the capital budget are set out in Appendix 1a.

16.3. Total capital expenditure to the end of Quarter 2 represented 26% of the revised capital programme budget for 2017/18 as follows:

	Annual Budget as at 30-Sep-17	Spent to 30-Sep-17	% Budget Spent
	£m	£m	%
TOTALS BY DIRECTORATE:			
Health, Adults and Communities	3.489	0.397	11%
Children's Services	31.063	10.000	32%
Place	50.185	26.875	54%
Housing Revenue Account (HRA)	83.723	9.372	11%
Resources	1.367	0.000	0%
Corporate	14.825	1.025	7%
GRAND TOTAL	**184.652**	**47.669**	**26%**

This compares with 15% 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-Sep-17	Projection 30-Sep-17	Forecast Variance
	£m	£m	£m
TOTALS BY DIRECTORATE:			
Health, Adults and Communities	3.489	3.484	-0.005
Children's Services	31.063	24.197	-6.866
Place	50.185	60.001	9.816
Housing Revenue Account (HRA)	83.723	48.141	-35.582
Resources	1.367	1.367	0.000
Corporate	14.825	3.770	-11.055
GRAND TOTAL	**184.652**	**140.960**	**-43.692**

16.5. Programme slippage of £43.7m is currently being projected. The projection does not reflect an underspend but is due to timing differences between years. Any amount of slippage will be spent in future years. The largest in-year projected variances are set out below:

- **Corporate Budget Provision for Infrastructure Delivery (£10.6m slippage)**
  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. Any unallocated amounts in the current year will be rolled forward to future years

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

- **Purchase of Properties for use as Temporary Accommodation GF (£15.0m in excess of budget)**
  This programme using retained 1-4-1 right to buy receipts has been prioritised over the HRA scheme relating to buybacks to allow flexibility of use. This scheme has been highly successful and as such the purchases of temporary accommodation occurred earlier than is reflected in the annual profiled budget.

- **Parks (£3.9m slippage)**
  Projects have been re-programmed into future financial years. The scheme for Christ Church Gardens is currently awaiting a court appeal decision.

- **Culture (£1.7m slippage)**
  The indicative schemes which are yet to be developed are not expected to spend in the current financial year.

- **Conversion of Council Buildings to Temporary Accommodation (£1.5m slippage)**
  Schemes are under consultation and development and have an expected start date re-profiled for early 2018/19.

- **Schools – Conditions and Improvements (£1.1m slippage)**
  Some projects have slipped into next year, for example the project relating to Blue Gate Fields School roof will slip to next year due to issues with procuring contractors in time for works to take place during the school summer break.

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

Capital Receipts*		
	£m	£m
Dwellings Sold under Right To Buy (RTB)		
Receipts from RTB sales (75 properties)	14.198	
less poolable amount paid to DCLG	-0.870	
		13.328
Sale of other Housing Revenue Account (HRA) assets		
Preserved Right to Buy receipts	1.126	
43 Saltwell Street	0.023	
		1.149
Sale of General Fund assets		
		0.000
Total		**14.477**

* Receipts shown gross before costs of sale are deducted

16.7. 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 – Directorate Summary
Appendix 3 – Savings Tracker Summary and Detail
Appendix 4 – Reserve Movements
Appendix 5 – Capital Monitor
Appendix 6 – Mayoral Priorities