


Cabinet 5 April 2016	 TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	Classification: Unrestricted
Corporate Revenue and Capital Budget Monitoring Q3 2015/16 (Month 9)	

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

Executive Summary

This monitoring report details the financial position of the Council at the end of December 2015 (Month 9) compared to budget. The report includes details of the:

- General Fund Revenue;
- Housing Revenue Account;
- Capital Programme.

The overall position at the end of quarter 3 indicates a forecast outturn position of £292.571m, this will give rise to a potential overspend of £1.209m, if the current pressures identified within Adult Care Services and Children’s Services are not mitigated. Management action is being taken to bring the outturn back in line with the budget.

Communities Localities and Culture are reporting a underspend of £964K which is contained within the Youth Service.

The budget for the capital programme has been revised down to £116.3m, and the spend is projected to be £100.665m. Slippage of £15.643m will be carried forward and spent in future years.

Recommendations:

The Mayor in Cabinet is recommended to:

- Note the Council’s revenue and capital financial performance compared to budget for 2015/16 as detailed in Sections 3 to 7 and Appendices 1-4 of this report.

1. REASONS FOR THE DECISIONS

- 1.1. Good financial practice requires that regular reports be submitted to Council/Committee setting out the financial position of the Council against budget.
- 1.2. The regular reporting of the Corporate Revenue and Capital Budget Monitoring provides detailed financial information to members, officers and other interested parties on the financial performance of the council.

2. ALTERNATIVE OPTIONS

- 2.1 The council reports its anticipated annual outturn position against budget for both revenue and capital net spend.
- 2.2 Significant variations, trends and corrective action are reported in the body and appendices of the report.
- 2.3 The council could choose not to produce regular budget monitoring reports but that would limit the council's ability to effectively monitor its financial position.

3. DETAILS OF REPORT

3.1 General Fund

3.1.1 As at the end of December 2015, the net projected General Fund outturn position was £292.571m. This includes a £2.2M pressure (a pressure is an uncertainty that if not addressed will result in a budget variance), contained within the Children's Services and Adult Care Services Directorates.

3.1.2 There is also a reported underspend in the Youth Service of £964k.

3.1.3 Overall if the anticipated pressures cannot be mitigated the resultant overspend will equate to £1,209m (0.41%) on the approved budget of 291.362m.

The current position after directorate action is summarised below

Narrative	£m
Budget	291.362
Children's Services - Pressure	1.200
Adult Care services - Pressure	1.000
Communities Localities and Culture – Youth Service Saving	(0.964)
Other Minor Movements	(0.027)
Forecast Outturn	292.571

3.2 Housing Revenue Account (HRA)

The HRA is projecting an underspend position of £0.955m for 2015/16. This represents 1.08% of the total budgeted income of £92.1m. The HRA is ringfenced and cannot be used for non HRA purposes.

3.3 Capital Programme

Directorates have spent 39% of their capital budgets for the year (£45.4m against budgets of £116.3m) and are projecting slippage of £15.636m. Further information is provided in section 5 of the report and Appendix 4.

3.4 More detailed financial information is contained in the following report appendices:

- Appendix 1 - lists Revenue budget / target adjustments (including virements).
- Appendix 2 - provides the General Fund budget outturn forecast by Directorate and explanations of any major variances.
- Appendix 3 – provides the budget outturn forecast for the HRA
- Appendix 4 – Monitors the Capital Programme.

4. FINANCE OVERVIEW

The following table summarises the current expected outturn position for the General Fund. Where a directorate has identified a course of action the impact of this action is identified in the 'Reserve Movement' column. In most cases this requires the transfer from (or to) a specified reserve set up in previous years. Reserves may be held locally by the directorate, or centrally. Setting reserves requires both Director and Member approval. Directorates manage the use of these reserves and drawdown can only be made when the original 'set up' criteria are met.

SUMMARY	Latest Budget £'000	Actual to Date £'000	Outturn £'000	Variance £'000	Reserve Movements £'000	After Reserve Movements £'000	Final Variance £'000
Law, Probity & Governance	9,525	7,791	9,525	0	0	9,525	0
Communities & Localities	78,707	45,901	77,743	(964)	0	77,743	(964)
Development and Renewal	15,962	15,391	15,928	(34)	0	15,928	(34)
Adult Care Services	124,991	84,906	132,705	7,714	6,714	125,991	1,000
Children's Services	89,923	79,470	93,506	3,583	2,383	91,123	1,200
Resources	7,441	37,720	7,448	7	0	7,448	7
Corporate Costs / Capital Financing	(35,188)	15,907	(35,188)	0	0	(35,188)	0
Total	291,361	287,086	301,667	10,306	9,097	292,570	1,209

4.2 Variances are explained in the detailed budget analysis in Appendix 2. The summary position for each service directorate is set out below and includes details of reserve movements and corrective action.

4.1 **Law Probity and Governance**

Nil

The LP&G directorate is projected to break even at the year-end, any minor variances within the services will be contained within the directorate.

No key risks have been identified in the current financial year.

4.3 Communities, Localities and Culture

£964k underspend

Since the initial collation of the period 9 report a significant underspend has been reported by the CLC directorate. The underspend of £964K relates to Youth Services and the breakdown is as follows:-

Summer Grants	The budget for summer grants was identified as a saving to fund Mayoral priorities earlier this financial year.	0
Positive Activities for Young People (PAYP)	Forecast underspend as a result of detailed scrutiny of applications and the curtailing of grant awards.	148
Youth Opportunities Fund (YOF)		157
Total Savings from Grants		307
Service Level Agreements (SLA's)	The holiday programmes i.e. Local Area Partnership (LAP) area SLA's are forecast to underspend. A range of SLA's were discontinued from the end of September 2015, some were extended to March 2016 and some were re-procured and begin re-provision from April 2016.	88
	The borough wide SLA Provisions are forecast to underspend as a result of management decisions to reduce the award of SLA's during 2015/16.	23
	Positive Activities for Young People (PAYP) - No provision in 2015/16.	75
Total Savings from Service Level Agreements		186
Employees	Holiday Programme Provisions (LAP area 1-8). The curtailment of the holiday programmes has led to a substantial reduction in hours worked by both casual and zero hour workers.	471
	From April to August 2015 there was a total of 12 FTE's (Full time equivalents), which has now reduced to 5.5 FTE's. The decision to recruit further is pending as a result of a service review.	
Total Savings from Employees		471
Total Savings		964

No significant risks have been identified in the current financial year.

4.4 Development and Renewal

£34k Underspend

The net revenue outturn for the directorate for the year is £15.930m against the revised target of £15.964m, a net underspend of £34k, this represents less than 1% of the overall budget.

No key risks have been identified in the current financial year.

4.5 Children's Services

£1.2m Pressure

The directorate is experiencing pressures in relation to the 2015/16 MTFP savings targets and other pressures within Children's Social Care and Learning and Achievement.

The strategy to date in this financial year has been to use the one-off resources in the form of reserves and grants to mitigate these base budget pressures to a balanced budget. It is considered important to set out the base budget pressures, which will require management action to bring the financial position back into balance at the year end.

The Schools Budget is reporting a forecast unallocated DSG at year-end of £4.260m. Any underspend on the ringfenced DSG are discussed at Schools Forum who will decide how any underspends and unallocated reserves are utilised. £2m of this is projected underspend is Capital which would need to be set-aside for future years on a revenue contribution to capital for capacity building places for 2 year olds. The balance of underspends are used in the 2016-17 budget planning in the Schools budget.

The table below summarises the actions taken / resources used to reduce the impact of the potential overspend for Children's Services on the overall general fund budget

Childrens Services – Directorate actions identified

Net expenditure before action		93,506
Early Intervention Fund	(1,698)	
Better Care Funding	(585)	
In Service Action - Social Care	(100)	
Total Impact of directorate corrective action		(2,383)
		91,123
Identified Pressure 2015/16 requiring further management action		1,200

Key Risks in the Children's Services Area

The key risk to be noted is potential overspends relating to the **directorate savings of £0.989m** – prior to the use of reserves. In addition there are budget pressures which relate to Preventing Violent Extremism (PVE) which is an area of work not receiving extra funding and income target budgets in Learning and Achievement which have never been achieved.

4.6 Adult Care Services

£1.0m Pressure

The directorate is experiencing pressures in relation to the 2015/16 MTFP savings targets, staffing and care packages.

The strategy to date in this financial year has been to use the one-off resources in the form of reserves and grants to mitigate these base budget pressures to a balanced budget. It is considered important to set out the base budget pressures, which will require management action to bring the financial position back into balance at the year end. At present the directorate is forecasting that the current potential reserves held both in the directorate and centrally will be sufficient to contain the position to an overspend of £1m.

The table below summarises the actions taken / resources used to reduce the impact of the potential overspend for Adult Care Services on the overall general fund budget

Adults Services – Directorate action identified

Net expenditure before action		132,704
Drawdown from Public Health Reserve	(1,998)	
Better Care Funding	(2,528)	
Corporate Growth to be applied	(2,188)	
Total impact of directorate corrective action		(6,714)
		125,990
Identified Pressure for 2015/16 requiring further management action		1,000

Key Risks in the Adults Care Services Area

The main spend pressure is on the long term Care packages budget with an overspend on First Response, the Learning Disability Pooled Budget, Adult Protection and smaller budget pressures within other areas.

Income continues to be a risk area as client income does not tend to follow a steady trend. In addition, there is significant historic unpaid client income, which will need to be continually monitored and recovered.

Further work is continuing to review the projected overspend position and to highlight the management action that will be required to ensure the year end position is balanced.

4.7 Resources

£7k Overspend

There are small variances in the resources directorate, but these are manageable within the overall resources budget, and overall a break even position is projected. The processing of housing benefit subsidy entries at year-end will offset expenditure to date.

No significant risks have been identified.

4.8 Corporate Costs & Capital Financing

Nil

A breakeven position is forecast for the financial year. Spend to date variance is due to items such as depreciation and minimum revenue provision being processed at year-end.

5. Housing Revenue Account (HRA)

£0.955m Underspend

- 5.1 The overall projected HRA underspend is the net result of a number of variances. During the first three quarters of 2015/16 there were 197 Right to Buy sales, which was more than assumed when setting the budget; as a result service charges are projected to be higher than budgeted, although offsetting this, dwelling rental income is forecast to be lower. Energy costs are forecast to be lower than budgeted, along with other utilities, this is a volatile budget and will be closely monitored. The additional net income needs to be seen in the context of emerging pressures on future rents brought about by changes in government policy, and the need to support future investment in existing or new stock as part of a sustainable HRA business plan.

6 CAPITAL

- 6.1 The capital budget for 2015/16 now totals £116.3m, decreased from the £119.3m reported to Cabinet in January 2016. The decrease is due mostly to re-profiling of budgets into future years.
- 6.2 Details of all the changes to the capital budget are set out in Appendix 1.
- 6.3 Total capital expenditure to the end of Quarter 3 represented 39% of the revised capital programme budget for 2015/16 as follows:

	Annual Budget as at 31-Dec-15	Spent to 31-Dec-15	% Budget Spent
	£m	£m	%
TOTALS BY DIRECTORATE:			
Adults' Care Services	0.400	0.013	3%
Children's Services	15.980	4.845	30%
Communities, Localities and Culture	10.028	3.644	36%
Development and Renewal	4.796	2.488	52%
Building Schools for the Future (BSF)	1.014	-0.197	-19%
Housing Revenue Account (HRA)	83.731	34.588	41%
Corporate	0.350	0.011	3%
GRAND TOTAL	116.299	45.392	39%

This compares with 36% at the same stage last year. Expenditure tends to be heavily profiled towards the latter months of the year as new schemes are under development at the start of the year.

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

	Annual Budget as at 31-Dec-15	Projection 31-Mar-16	Forecast Variance
	£m	£m	£m
TOTALS BY DIRECTORATE:			
Adults' Care Services	0.400	0.366	-0.034
Children's Services	15.980	12.081	-3.899
Communities, Localities and Culture	10.028	9.872	-0.156
Development and Renewal	4.796	3.514	-1.282
Building Schools for the Future (BSF)	1.014	1.014	0.000
Housing Revenue Account (HRA)	83.731	73.468	-10.263
Corporate	0.350	0.350	0.000
GRAND TOTAL	116.299	100.665	-15.634

Programme slippage of £15.634m is currently being projected for 2015/16. 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 main reasons for the variance are as follows:

- **Decent Homes Backlog (£5.9m)**

The residual Decent Homes programme is being managed by Tower Hamlets Homes. In 2015/16 the GLA grant-funded element totals £13.270 million and this will be fully utilised. The scheme is being managed in accordance with the terms of the GLA grant agreement which has placed a cap on the level of leaseholder recharges. The consequential effect of the enhanced leaseholder

consultation that has been undertaken has led to the programme for the financial year being backloaded, and it is therefore likely that some residual costs will be incurred in 2016-17, when the Decent Homes Backlog Programme will finish.

- **Basic Need/Expansion – Schools (£2.6m)**

Slippage is forecast on expansion schemes such as St Paul's Way Trust School, Olga Primary, Bow School and Stepney Green 6th Form due to the time taken to resolve contractual issues but work has now begun on site. Expenditure on these schemes is expected to take place in quarter 4 and into 2016/17.

- **Housing Capital programme (£1.8m)**

In light of the summer budget announcements and the need to maximise the use of one for one receipts, and an ongoing assessment of the needs arising from the initial findings of the recently completed stock condition survey, uncommitted elements of the HRA capital programme are being reviewed.

- **Private Sector Housing Improvement Grants (£1.0m)**

Resources are ring-fenced and any underspends will be carried forward into 2016/17 to fund ongoing commitments.

- **Provision for 2 Year Olds (£1.0m)**

Slippage on the programme is due to the timescale for resolving lease agreements and procurement/portal issues on the following schemes: Whitehorse Road 1 o'clock club, Bethnal Green Gardens new nursery, Limehouse child care provision and Lincoln Hall playgroup.

6.5 The total approved budget, taking into account the whole life of all capital schemes, is currently £976.7m against which full spend is forecast.

The breakdown by directorate is shown below:

	All years budget as at 31-Dec-15	Projection (all years)	Variance
	£m	£m	£m
Adults' Care Services	1.274	1.274	0.000
Children's Services	117.276	117.276	0.000
Communities, Localities and Culture	66.074	66.074	0.000
Development and Renewal	30.350	30.350	0.000
Building Schools for the Future (BSF)	332.146	332.146	0.000
Housing Revenue Account (HRA)	416.718	416.718	0.000
Corporate	12.846	12.846	0.000
GRAND TOTAL	976.684	976.684	0.000

6.6 Capital receipts received in 2015/16 from the sale of Housing and General Fund assets as at 31st December 2015 are as follows:

Capital Receipts		
	£m	£m
Sale of Housing Revenue Account (HRA) assets		
Receipts from Right to Buy (196 properties)	23.978	
less pooled amount paid to DCLG	-1.330	
Preserved Right to Buy receipts	1.810	
296 Bethnal Green Road	0.554	
Blue Anchor Public House	0.235	
		25.247
Sale of General Fund assets		
Wapping Lane overage payments	0.064	
Land adjacent to 309-317 Cambridge Heath Road	0.085	
		0.149
Total Capital Receipts 2015/16		25.396

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 ringfenced for this purpose and are not available for general allocation.

7. Glossary of Terms and Acronyms

ACS	-	Adult Care Services
BATs	-	Buildings and Technical Services
C&L	-	Communities and Localities
CMBM	-	Corporate Monthly Budget Monitor
CS	-	Children's Services
D&R	-	Development and Renewal
DCLG	-	Department of Communities & Local Government
DSG	-	Dedicated Schools Grant
GF	-	General Fund
GLA	-	Greater London Authority
HRA	-	Housing Revenue Account
LAP	-	Local Area Partnership
LPG	-	Law, Probity and Governance
PAYP	-	Positive Activities for Young People
PH	-	Public Health
SLA	-	Service Level Agreement
YOF	-	Youth Opportunities Fund

8. COMMENTS OF THE CHIEF FINANCE OFFICER

- 8.1 Under Financial Regulations it is the responsibility of senior managers to contain expenditure within budgets and, where necessary, management action will need to be taken over the remainder of the financial year to avoid overspend.
- 8.2 Any ongoing revenue overspend during 2015/16 will have a negative impact on the Medium Term Financial Plan. At present a broadly break-even position for Directorates is predicted for 2015/16, however there are cost pressures within social care that potentially require the use of earmarked reserves during the year.

9. LEGAL COMMENTS

- 9.1 The report provides performance information, including by reference to key performance indicators and the budget. It is consistent with good administration for the Council to consider monitoring information in relation to plans and budgets that it has adopted. For the same reason, it is reasonable for the Council to consider the views of residents about the borough and how the Council is discharging its functions.
- 9.2 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 performance information is an important way in which that obligation can be fulfilled.
- 9.3 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 Members to receive information about the revenue and capital budgets as set out in the report.
- 9.4 When considering its performance and any procurement, 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 targets are formulated by reference to its public sector equality duty and monitoring performance against those targets should help to ensure they are delivered.

10. CONCLUSIONS

This report and the subsequent appendices are for noting only.

11. ONE TOWER HAMLETS CONSIDERATIONS

The Corporate Budget Monitor assists in reviewing the financial position 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.

12. BEST VALUE (BV) IMPLICATIONS

Best Value implications for 2015/16 are incorporated within the forecast outturn. Best Value is assessed annually as part of the final audit of the Council's financial statements.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

There are no specific actions for a greener environment implications

14. RISK MANAGEMENT IMPLICATIONS

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.

15. CRIME AND DISORDER REDUCTION IMPLICATIONS

There are no specific crime and disorder reduction implications.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE.

Appendices

- **Appendix 1** - lists revenue and capital budget / target adjustments (including virements).
- **Appendix 2** - provides the General Fund budget outturn forecast by Directorate and explanations of any major variances.
- **Appendix 3** – provides the budget outturn forecast for the HRA
- **Appendix 4** – provides the projected Capital Monitoring outturn position

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

Officer contact details for documents:

- N/A