Cabinet 4 October 2016	TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	**Classification:** Unrestricted
Corporate Budget Monitoring Report Period 4 (July) 2016-17	

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

This report details the projected outturn position of the Council at the end of Period 4 (July) 2016-17. The report includes details of:-

- General Fund Revenue and Housing Revenue Account;
- General Fund and HRA Capital Programme
- Key Balance Sheet information at end of June 2016

The Council's Medium Term Financial Strategy (MTFS) covering the period to 2019-20 was approved in February 2016. Government and grant funding is forecast to continue to fall, reflecting the on-going government austerity measures. The current projections suggest that the unfunded budget gap will be approximately £60m for the period to the end of 2019-20.

In the light of this it is important that strong financial management is maintained including remaining within the approved budget envelope, and developing and implementing approved saving proposals in accordance with the relevant timescales in order to avoid unplanned budget overspends occurring.

2015-16 Outturn Position

The 2015-16 outturn position showed an underspend of £12.1m which meant that, rather than the projected £7.8m drawdown from General Fund balances a contribution of £0.6m could be made. Usable Earmarked Reserves were also increased by £3.6m.

This puts the Council in a strong position to deliver against its MTFS target, however there are still risks inherent in some services for example Children's Services overspent by £4.7m before the application of reserves and, across the Council, further service savings of £17m are approved for delivery in 2016-17 - £11.1m of which are in Children's and Adult Services.

Revenue Budget Position 2016/17

The Council's 2016-17 revenue budget was also agreed in February 2016 and set at £297.6m. This assumed a net service cost of £361.9m against which the authority can expect to receive £338.6m via Central Government funding, Council tax, retained Business rates and core grants.

The resulting funding gap of £23.4m is proposed to be funded from the General Fund Balance and is in large part intended to support expenditure or provision for expenditure on the new Civic Centre.

At the end of Period 4 (July 2016), the Council's projected outturn position against the following components is:

- A minor General Fund revenue underspend of £0.4m set out in Table1.
- A Housing Revenue Account surplus of £11.2m.
- A projected variance against the originally approved Capital Programme being below the budgeted amount by £82m.

Proposed service management action is set out within the detailed explanations in this report.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the Council's revenue and capital financial forecast outturn position as detailed in Sections 3 to 7.
2. Note the Balance Sheet information in section 8.

1. REASONS FOR THE DECISIONS

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

1.3. 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; Members have a key role in approving such actions as they represent changes to the budget originally set and approved by them.

2. ALTERNATIVE OPTIONS

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 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 Management Team 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 possible solutions as part of their decision making.

3. DETAILS OF REPORT

3.1. General Fund Revenue

3.1.1. At the end of July 2016 service projections show a net General Fund revenue underspend of £0.4m. This position is based on budget managers' projections at the end of July and could be considered conservative given the outturn position achieved in 2015-16. However, achieving the 2016-17 savings of c£17m are a key component of successfully managing the budget and there are indications in most service areas of potential slippage against those proposals. It is important that managers continue to work rigorously to deliver these savings and also to manage any in-year pressures being seen.

3.1.2. There are however particular pressures and concerns within both Adults and Children's Services social care provision as a result of the non-delivery of savings approved in previous years as well as current pressures around the provision of social care packages. In addition there remain pressures against the ring-fenced Public Health Grant which has seen reductions by central government with further reductions confirmed for future years..

3.1.3. The use of General Fund Balances of £23.4m includes a contribution of £20m towards the refurbishment of the new Civic Centre in Whitechapel, together with the balance of £3.4m being provided for general support to the budget.

3.2. Housing Revenue Account (HRA)

3.2.1. The provisional HRA outturn is expected to show a £11.2m surplus. This sum is ring-fenced and will be added to the existing HRA Reserve of £32.1m as it cannot be used for other purposes. Full details can be found in section 5 of this report.

3.3. Capital Programme

3.3.1. The original capital Programme for 2016-17 has already been reduced by £28m from that approved in February 2016 and a further variance is now predicted - with expenditure a further £54m lower than the revised budget. Directorates have also only spent 3% of their capital budgets for the year (£6.7m against budgets of £200.3m) whilst this level of expenditure is consistent with the profile for previous years' this has resulted in the further underspending against the originally approved programme. Further information is provided in section 6.

4. FINANCE OVERVIEW

4.1. Table 1 below summarises the forecast revenue outturn position for the General Fund for 2016/17.

Table 1

Summary	Revised Budget	Actual	Forecast	Variance
	£'000	£'000	£'000	£'000
Law, Probity & Governance	9,367	1,468	9,367	0
Communities, Localities & Culture	72,664	11,908	72,909	245
Development and Renewal	14,900	4,181	15,200	300
Adults Services	124,790	36,328	128,290	3,500
Children's' Services	90,914	170,037	97,814	6,900
Resources	7,152	38,642	7,152	0
Corporate Costs incl. Capital Financing	-22,180	-1,664	(33,509)	(11,329)
Directorate Total	297,607	260,900	297,223	(384)
Use of General Fund	-23,410	0	-23,410	0
Total	274,197	260,900	273,813	(384)

4.2. The Council is facing a number of significant challenges, and the strategic use of reserves is an important component of supporting the successful delivery of a balanced Medium Term Financial Strategy (MTFS).

4.3. As previously reported, the Director of Resources has undertaken a review of existing reserves with the Lead Member for Resources and, taking into account the purpose for which they were originally created, there is scope for rationalising a number of these reserves and ensuring that they are targeted at supporting the Council's strategic priorities i.e. providing the investment and support necessary to deliver the MTFS savings.

4.4. In order to support the MTFS the Director of Resources has already proposed the consolidation of a number of corporately held reserves previously created to facilitate saving programmes and change and these have been brought together into a single transformation reserve.

5. Directorate Summary position

Law, Probity and Governance (Nil variance)

5.1. As at Month 4 the directorate is forecasting a balanced budget position. However, there are a number of potential risks that the service considers could change that position, these are being closely monitored and include:

- £153k income is due from the Cabinet Office in relation to reimbursement for previous elections' expenditure. The income has not been received yet and officers are following up with the Cabinet Office.
- The Communications service is being reviewed following changes to the East End Life publication there is a significant risk of budget pressure within the service for 2016-17 due to the expected loss of income. This is being reviewed and monitored and management action to address the budget pressure is being identified.

Communities, Localities and Culture (£245k overspend)

5.2. The CLC base budget has been reduced by £5.8m to reflect the transfer of the Youth Service to the Children's Service with effect from April 2016. Therefore the revised budget for CLC in 2016-17 is £72.664m.

5.3. The directorate is currently identifying a number of risks, totalling £2.4m, in delivering its 2016-17 MTFS savings proposals. This is due to the slippage in lead times for implementing some of the savings proposals. The directorate is seeking at this time to put in place actions that will result in most or all of the budget pressures being mitigated during the course of this financial year.

5.4. The absence of Senior Management in Safer Communities particularly has resulted in elements of the savings programme slipping. This affects the following agreed savings - expected income generation from the CCTV network (£400k) and the alternative service delivery for the Animal Warden Service (£160k). The service considers however, that it is possible that this position can be substantially recovered through management action.

5.5. The Leisure contract is expected to result in savings of £1.24m. However, the achievement of the savings opportunity is subject to the successful re-negotiation of the GLL contract which is currently in progress. Given changes in the directorate the management and delivery of this element of the savings programme needs to be re-allocated.

5.6. The remaining budget pressures relate to slippage against the lead in times for the commencement of the consultation process associated with staffing restructures.

5.7. The decision to provide the Mela Festival in-house following the termination of the Boishakhi Mela Community Trust (BMCT) is estimated to cost in the region of £286k. Up to £170k was approved from reserves and the remaining cost has been met from sponsorship funding, income and £25k from the Arts and Events budget.

5.8. In 2015-16 the parking account delivered a surplus which was added to the existing Parking Account Reserve. In the current financial year it is estimated that there will be a £0.5m surplus which will be used to fund highways reactive maintenance expenditure. This will provide some assistance with mitigating the slippage and overspends identified above.

Children's Services (£6.9m overspend)

5.9. The directorate is currently reporting a £6.9m overspend position at the end of Period 4. Currently there is a 2016/17 directorate savings target of £5.7m; those elements which relate to Social Care are considered to be partly at risk given current year pressures in that area. However, there also remains a further £0.9m relating to undelivered savings against 2015-16 proposals against which there are significant concerns.

5.10. There are also increasing levels of demand for Special Education Needs (SEN) services in the Borough. There has been a significant increase in the numbers of children and young people assessed as having special educational needs in the Borough. Changes in the demographic make-up of the Borough are also leading to impacts in both the size and nature of the demand. This additional demand is having a significant impact on budgets, with an estimated £1.2m overspend for 2016-17.

5.11. An independent review has been commissioned of the SEN service with the objective of providing a costed set of recommendations by end of September 2016 to identify the underlying demand and proposed solutions.

5.12. Within Children's Social Care (CSC) the current forecast overspend stands at £4.9m. The main driving forces for this overspend are the pressures around Looked after Children numbers (in particular complex needs cases) and the resultant need to maintain full staffing levels. This has required the use of more expensive agency staff and has led to an inability to meet the vacancy factor within the service area budgets.

5.13. The service re-design group, led by the CSC Service Head, has been undertaking a wholesale review of the CSC service area, looking at ways to maintain effective service provisions alongside actions for bringing the current budget variances back into line.

5.14. The Contract Services trading account continues to have the same pressures that were seen in 2015-16, which resulted in an overall £1.3m overspend. Current profiles suggest that 2016-17 will be no different, with a similar level of overspend being projected. Strategies are needed which will equalise the disparity between increasing expenditure and static income streams. A Service review has started, with the findings expected shortly. However this is unlikely to be in time to materially affect the 2016-17 figures.

5.15. The Youth Service has recently transferred to the Children's Service. Following a significant underspend in 2015-16 the service has moved to deliver an interim service offer pending the development of a sustainable service offer for the future. The interim service offer and the on-going service redesign are expected to contribute to the overall

Council's savings programme and it is expected that there will be a smaller underspend (c£200k) in 2016-17 than that seen in 2015-16.

Adults' Services (£3.5m overspend)

5.16. The directorate is currently reporting a £3.5m overspend position at the end of Period 4. The Public Health Service has identified a net overspend of £2.3m which reflects the the gap between savings agreed and the full effect of the central government grant reduction. The remaining Public Health reserve is now fully utilised. The service is working on a further recovery plan..

Adult Social Care is forecasting a £1.2m net overspend. There has been a net increase of 53 service users to date as well as undelivered savings from previous years which are contributing to this overall position.

5.17. New budget and activity reports have recently been put in place and this should help to validate the forward projections of spend in line with savings targets. The service is also considering how additional savings can be made to mitigate the current predicted overspend.

Development and Regeneration (300k overspend)

5.18. The directorate is currently reporting a broadly balanced position at the end of Period 4 with pressures expected to be offset by additional planning income. The following risks have, however been identified with the Directorate.

5.19. Building Control Revenue - This income budget represents the fees that are generated by the General Fund element of the Building Control service. Following the decision for the UK to leave the European Union, there is a risk that the housing market may decline. If so, this could lead to a reduction in activity and therefore fee income.

5.20. Housing Regeneration - This service is financed through recharges to capital projects, in particular regeneration schemes. Although income is also recharged for work that is undertaken on behalf of partners - e.g. CPO and Rights of Light activities, going forward there could be pressures on this revenue budget if capital projects do not progress.

Resources (Balanced)

5.21. As at Month 4 this directorate is forecasting a balanced budget position. However, an overspend in excess of £200k is currently forecast within the Customer Access budget as a consequence of THH withdrawing services from SLA arrangements. This is expected to be managed within directorate resources on a temporary basis until the longer term implications are resolved as part of the wider review of the customer access strategy across the Council.

Corporate Costs & Capital Financing (Budget provision of £11.3m available)

5.22. Corporate cost budgets comprise provisions for unforeseen events (contingencies) and Council wide budgets for growth and inflation approved at the time of the MTFS and totalling some £5.5m. A number of service based pressures may form legitimate calls against the growth budget at which time the appropriate budget transfer will be made to reduce the service overspend position. However, currently these are being held and reflected centrally.

5.23. Currently the contingency budget (£3.1m) will be used to offset any service pressures highlighted above although the Director of Resources has made it clear that she expects services to have fully considered management action to contain pressures. Corporate provision specifically to manage the risk associated with the slippage against approved savings can also be applied where it is clear that unavoidable delays are being experienced.

5.24. Given the level of underspending against the capital Programme for both the general fund and the HRA it is estimated that the need for borrowing in 2016/17 is much lower than expected and this will lead to an underspend against the corporate capital financing budgets.

6. Housing Revenue Account (HRA)

6.1. The overall projected HRA underspend of £11.2m is due to two main variances; the first is that the 2016-17 HRA budget assumes that a levy of £8.4 million would be payable in relation to the Sale of Higher Value Void properties policy contained within the Housing and Planning Act 2016. At the moment it is not yet known when this levy will come into effect, what the size of the levy will be and whether the levy will be revenue or capital in nature. Therefore, it is now being assumed that there will be no cost against this budget in 2016-17.

6.2. In addition, the HRA budget assumes a Revenue Contribution to Capital (RCCO) of £2m. 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 appropriate for the HRA to use other resources. Given that the current projected HRA capital expenditure is showing an £18m positive variance the forecast assumes that no RCCO will take place.

6.3. As well as these two main areas there are some small variances forecast, the principal ones being that non-dwelling rental income (from shops) is projected to be higher than budget, and it is currently forecast that there will be a small overspend on the repairs budget due to pressures arising, particularly in relation to communal repairs.

7. Capital

7.1. The capital budget for 2016-17 now totals £200.3m, decreased from the £228.0m reported to Cabinet in February 2016 as part of the budget-setting process. The decrease is mainly due to re-profiling into 2017-18 of housing schemes relating to new housing supply which are at the pre-construction stage.

7.2. Total capital expenditure to the end of Quarter 1 represented 3% of the revised capital programme budget for 2016-17 as follows (and 7% as at month 4):

	Annual Budget as at 30-Jun-16	Spent to 30-Jun-16	% Budget Spent (Q1)	Spent to 31-Jul-16	% Budget Spent (Month 4)
	£m	£m	%	£m	%
TOTALS BY DIRECTORATE:					
Adults'	15.301	0.023	0%	0.025	0%
Children's	21.723	1.545	7%	3.866	18%
Communities, Localities and Culture	16.401	0.366	2%	0.640	4%
Development and Renewal	7.163	0.164	2%	0.239	3%
Housing Revenue Account (HRA)	105.551	4.632	4%	9.961	9%
Corporate	34.205	0.000	0%	0.000	0%
GRAND TOTAL	**200.344**	**6.730**	**3%**	**14.731**	**7%**

7.3. This compares with 3% at Quarter 1 last year (6% at month 4). Expenditure tends to be heavily profiled towards the latter half of the year as new schemes are under development at the start of the year.

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

	Annual Budget as at 30-Jun-16	Projection 31-Mar-17	Forecast Variance
	£m	£m	£m
TOTALS BY DIRECTORATE:			
Adults'	15.301	15.301	0.000
Children's	21.723	21.706	-0.017
Communities, Localities and Culture	16.401	14.414	-1.987
Development and Renewal	7.163	2.647	-4.516
Housing Revenue Account (HRA)	105.551	87.633	-17.918
Corporate	34.205	4.205	-30.000
GRAND TOTAL	**200.344**	**145.906**	**-54.438**

7.5. A variance of £54.438m is currently being projected. The main reasons for the variance are as follows:

- **Corporate Budget Provision for Infrastructure Delivery (£30.0m)**
  Details of this scheme are still being developed. Cabinet sessions have been scheduled to agree allocations in the year. It is anticipated any amounts unspent in the current year will be rolled forward to be delivered in later years.

- **New Housing Supply – budget provision (£13.9m)**
  This budget relates to provision set aside within the capital programme for future new-build schemes.

- **New Housing Supply – schemes on site (£1.2m)**
  This budget relates to new-build schemes that are currently on site (Watts Grove and the Extensions programme) or where work has finished and accounts are being finalised (Bradwell Street). It is forecast that the Extensions programme will underspend against the budget due to fewer extensions being completed than originally planned.

- **Blackwall Reach (£2.1m)**
  The remaining spend on this scheme relates to the purchase of leasehold interests, and it is forecast that due to delays in acquiring all necessary properties, this scheme will slip into future years.

- **Community Buildings Support Fund (£1.5m)**
  A report asking the Commissioners to note plans for reallocating the funding set aside for the Community Faith Buildings Support Scheme was agreed in April 2016. A further report will be presented to Cabinet in due course setting out the new proposals.

- **Building Schools for the Future (£1.3m)**
  The BSF programme is substantially finished. Final accounts are still being concluded and once this is resolved, a proposal will be brought forward to utilise any remaining resources.

- **Transport Section 106-funded Schemes (£1.3m)**
  Slippages are expected to occur due to the extension of work plans and objections raised following the consultation process.

- **D&R Indicative Section 106 Schemes (£1.0m)**
  This budget area relates to s106 funded schemes that are yet to be formally approved through the new s106 & CIL Infrastructure Delivery Board.

Capital Receipts

7.6. Capital receipts received in 2016-17 from the sale of Housing and General Fund assets as at 30th June 2016 are as follows:

	£m	£m
Dwellings Sold under Right To Buy (RTB)		
Receipts from RTB sales (80 properties)	11.106	
less poolable amount paid to DCLG	-0.439	
		10.667
Sale of other Housing Revenue Account (HRA) assets		
Preserved Right to Buy receipts	0.361	
11-31 Toynbee St and 67-69 Commercial St	8.000	
32-34 Hessel St	0.024	
		8.385
Sale of General Fund assets		
2 Jubilee St	4.050	
		4.050
Total		**23.102**

* Receipts shown gross before costs of sale are deducted

7.7. 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.

8. Balance Sheet Information

8.1. The following information relating to the Council's balance sheet assets and liabilities is intended to give Members further information relating to the overall position of the Council's finances.

Debtors (assets)

8.2. Debtors are individuals, organisations and companies that owe the Council for goods and services. In year debtors are usually lower as a number of debtors are raised at year end to recover income from other government bodies.

	31 March 2016	30 June 2016	
Debtors	**£m**	**£m**	
- Council Tax Debtors*	16.5	14.1	
- NNDR Debtors*	14.6	14.2	Some backdated bills raised in 2016-17
- Other Debtors	66.2	37.5	Year-end debtor invoices paid in early 2016-17
Total Debtors	**97.3**	**65.8**	

* only debt pre 31/03/16 shown

Creditors (liability)

8.3. Creditors are individuals, organisations and companies that the Council owes for go[ods] and services.

	31 March 2016	30 June 2016	
	£m	**£m**	
Total Creditors	201.8	98.5	Most year-end accruals paid in early 2016-17

Reserves

8.4. Amounts set aside, which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

	31 March 2016	31 March 2017 (forecast)	
Usable Revenue Reserves	**£m**	**£m**	
- General Fund	72.1	48.7	
- Housing Revenue Account	32.1	43.3	Ring-fenced
- Schools	31.8	31.8	
- Earmarked Reserves	122.0	138.0	Includes £20m for New Civic Centre
- Capital Receipts unapplied	86.3	86.3	RTB receipts increased. Spend of receipts monitored to maximise usage and avoid penalty interest
- Capital Grants unapplied	56.2	56.2	
- Major Repairs Reserve (HRA)	9.2	9.2	
Total Reserves	**409.7**	**413.5**	

Business Rates

8.5. The first quarter of 2016-17 has seen the rateable value increase from the initial estimate of £842,978,868 to £867,838,237 at the end of June. As a result of this, Gross Rates receivable have also increased to £430,898,606 and is currently over £10m ahead of the forecasted end of year position. In terms of budgeted income, collection is on course to achieve target and is at 28.37% for the year as at 30th June 2016.

8.6. A review of Charitable Relief has seen a drop in the cost of awarding the relief of over £3m, but it is anticipated that this will increase again as full rate demands are sent out to those who have yet to complete the online application. It is however anticipated that the cost of charitable relief will reduce as a result of the review.

Council Tax

8.7. In 2016-17 the total budgeted yield from the Council Tax base is £99,928,720, of which the Council retains £76,885,062 (76.9%). This calculation is based on a tax base of 83,493 chargeable properties. As at 30th June, the tax base has risen to 83,779, so at this stage is ahead of the projected end of year position, although at this time of year students exemptions are at their lowest point, and these will increase again in September.

8.8. The budgeted collection rate is slightly ahead of target at 25.9% for the quarter ending 30th June 2016. Further growth in chargeable properties will be closely monitored to ensure Council Tax income potential is maximised and that sustainable growth in the Council Tax base is reflected in the MTFS.

9. COMMENTS OF THE CHIEF FINANCE OFFICER

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

10. LEGAL COMMENTS

10.1. 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.

10.2. 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.

10.3. 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.

11. ONE TOWER HAMLETS CONSIDERATIONS

11.1. 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.

12. BEST VALUE (BV) IMPLICATIONS

12.1. 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.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

14. RISK MANAGEMENT IMPLICATIONS

14.1. 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.

15. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE.

Appendices
None