Corporate Budget Monitoring Report

Quarter 2 2019-20

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Classification	Unrestricted
Report of	Corporate Director of Resources
Lead Member	Cllr Ronald, Cabinet Member for Resources and the Voluntary Sector
Originating Officer(s)	Allister Bannin, Head of Strategic & Corporate Finance
Wards affected	All Wards
Key Decision?	No

Summary

General Fund forecast outturn variance £13.8m overspend

Dedicated Schools Grant (DSG) forecast outturn variance £7.7m overspend

Housing Revenue Account (HRA) forecast outturn variance £3.1m underspend

£m	2019-20 Forecast Outturn Variance: Estimated impact on General Fund GF/ DSG/ HRA	Variance before reserve adjustments	Contribution to /(from) Reserves	2019-20 Annual Figures: Current Budget [1]	Forecast Outturn Position	Figures to 30 September 2019: Budget to Date	Actual
Children & Culture (GF)	11.6	12.2	(0.6)	98.3	109.9	49.2	55.1
Resources	2.1	10.1	(8.0)	15.2	17.3	7.6	27.6
HA&C	4.1	4.8	(0.7)	106.7	110.8	53.4	60.5
Place	-	-	-	70.0	70.0	35.0	26.5
Governance	-	0.8	(0.8)	15.4	16.2	7.7	10.4
Corporate	(4.0)	(4.0)	-	2.8	(3.7)	1.4	6.0
General Fund	**13.8**	**23.9**	**(10.1)**	**308.4**	**320.5**	**154.3**	**186.1**
Ring-fenced Items							
Children's (DSG)	-	7.7	(7.7)	-	7.7	-	85.2
Public Health	-	-	-	34.1	34.1	17.1	5.8
HRA	-	(3.1)	3.1	36.7	33.6	(24.1)	(27.3)
Overall Position	**13.8**	**28.5**	**(14.7)**	**379.2**	**395.9**	**147.3**	**249.8**

Conventions: The use of brackets denotes either an income budget or a positive variance (underspend).

Note 1: The current budget reflects the original budget approved by Members in February 2019 adjusted for any subsequent approved budget virements. The budget history is included as Appendix 3.

In February 2019 the Council approved a revenue budget of £342.5m (including Public Health ring-fenced expenditure budget) which was to be financed by external funding sources such as council tax, business rates, grants and drawdown from the Council's Earmarked and General Fund reserves.

The current position is estimated to be a £13.8m overspend on the general fund after the application of £10.1m from reserves.

The HRA is currently projected to show additional income of £3.1m. This is demonstrated by the income from dwelling rents being forecast to be higher than budgeted due to lower levels of Right to Buy sales than was assumed when the budget was set, and void rates are also lower than anticipated.

The MTFP outlined for 2019-20 approved savings of £14.8m in order to deliver a balanced budget. An additional £10.3m relating to slippage from previous years must also be achieved. Therefore in total £25.1m of savings are to be delivered.

Quarter 2 2019-20

This report shows the quarter 2 position (as at the end of September) for the financial year. Forecasts at quarter 2 demonstrate an overspend on the general fund of £13.8m. Directorates are developing recovery plans to reduce these overspends and therefore reduce the requirement on general fund reserves funding.

£13.8m	**Overspend on General Fund**: after application of transformation reserves.
£25.1m	**Savings**: our total savings requirement for the current year taking into account slippage from earlier years; we believe that £6.1m will slip into future years and that £3.4m is at risk.
£325m	**Approved Capital budget:** original allocation of £263m, slippage from previous years of £16m and quarters 1 & 2 adjustments of £46m.
£598m	**Collectable income**: Total we expect to collect in total for Council Tax and Business Rates
£306m	**Treasury Investments**: a strategy for delivering additional income which was included in the budget proposals is well advanced.

Children's Services

Forecast outturn variance £11.6m General Fund overspend

Forecast outturn variance £7.7m DSG overspend

	Forecast Outturn Variance			Annual Figures		Figures to 30 September 2019	
£m	Estimated impact on General Fund (GF)	Variance before reserve adjustments	Contribution to /(from) Reserves	Current Budget (1)	Forecast Outturn Position	Budget to Date	Actual
Children's (GF)	11.6	12.2	(0.6)	98.3	109.9	49.2	55.1
Children's (DSG)	-	7.7	(7.7)	-	7.7	-	85.2

The general fund is projected to be overspent by £12.2m. The overspend is as follows: Children's Social Care £2.9m, Special Educational Needs £1.7m, Youth Services & Commissioning £1.5m, Children's Resources £1.3m and Sports, Leisure and Culture £0.6m.

Unachievable savings of £3.3m (Early Years £2.4m and SEND £0.9m) and slipped savings of £1.0m (Youth Services and Commissioning) are included in the £12.2m overspend.

C&C have a recovery action plan in place that currently suggests a reduction in the forecast overspend to £10.2m before drawdown from reserves of £0.6m (£0.5m for Ofsted and £0.1m to fund one term of EMA as Mayor 3 year funding ended at the end of 2018/19).

The Children's Social Care Ofsted inspection was completed in June 2019. The inspection was positive and resulted in a movement to a "Good" rating. This formal conclusion of the "intervention and monitoring" phase of strengthening services to children means that we are now at a point where we need to "Right-size" the budget for Children's Social Care.

The local growth in SEND, which is not matched by growth in funding, is resulting in budget pressures that are reflected nationally. A range of measures have been put in place to reduce the spending against the general fund as well as the High Needs Funding Block element of the DSG which will show impact over time and actions are being scoped to reduce pressures in the short term during the current financial year.

Details of the significant variances on the General Fund are shown below.

Forecast variance commentary

(in numerical descending order)	£m	
Children's Social Care **1. CSC - Staffing £1.0m** Agency workers – pressure reducing as permanent staff are recruited.	2.9	Much work has been undertaken over the past 12 months to put in place arrangements to reduce the numbers of agency Social Workers and to recruit and retain our own staff. The launch of the Social Work Academy and our continuing work with regard to the recruitment of experienced staff have had a positive impact on ensuring that staff turn-over is much reduced. This programme of work is spread over a three year plan and will continue over the next two years. However we are still require an experienced cohort of staff to maintain a level of experience and knowledge so that our more complex work can be allocated to those staff with the appropriate level of experience. Therefore, although staff cost pressures are reduced, they will continue for the next 12 months. £0.5m of this overspend relates to extra staffing spend for Ofsted improvement work and will be requested to be funded from transformation reserves.

2. CSC - Looked After Children (LAC) Placements £1.2m Work continues to reduce high cost placements		The forecast for the placement budget is based on LAC modelling and sufficiency strategy outcomes. There has been an increase of £0.6m in costs since 2018/19 outturn. Re-commissioning is expected to reduce costs. Reductions are being sought through the regular Panel that scrutinises receptions into care and prioritises placements within our own cohort of foster-carers. LAC Placements have stabilised over the past 12 months however like other LA's we experienced increased placement costs. . The placements budget has 2019-20 savings of £0.3m allocated against Adoption & Fostering. This will be fully achieved.
3. CSC – Leaving Care £0.9m Additional demands		£1m one-off growth in 2018-19 has now ended. We will review the effectiveness of the "Through Care" team in September 2019. Cumulative funding pressure as a result of responsibilities for increase UASC and change in legislation for LA responsibilities for up to age 25. In addition responsibilities for providing accommodation for Dubbs Children.
4. CSC – Mental Health and Disability Services (£0.4m) Forecast underspend		Underspends within Mental Health and Disability Services will be held to offset other pressures within CSC.
Special Educational Needs Continued increase of transportation costs. Includes £0.9m unachievable savings.	2.6	This is an ongoing pressure that is likely to increase. Grant Thornton has been commissioned to undertake a deep dive in order to understand the reasons and to recommend actions to address. Their recent report highlights the service is underfunded as there is no annual review to take account of demand, but alongside this during 2018-19 a retendering process resulted in an additional circa £0.8 pressure rather than a saving. Initial recommendations from GT have been discussed with elected members prior to moving forward on the final action plan to reduce cost, which will involve possibly controversial policy changes. No cost reductions are expected this financial year.
Early Years Unachievable Savings	2.4	These savings are unachievable in 2019-20 due to pressures on Early Years budgets.
Contract Services Full review of service	1.7	Options for the future delivery of Contract Services were presented to Cabinet in February 2019. The options included recommendations intended to reduce pressures on the budget for this service, including withdrawal of Secondary school catering, withdrawal from schools contract cleaning, a review of adults' welfare meals, and a review of primary schools SLAs. All recommendations were accepted by Cabinet; and an action plan is now in place to reduce pressures. However, the action plan will have a phased impact during 2019/20 with fully delivery from 2020-21.
Free School Meals Forecast underspend	(0.1)	The Mayors Free School Meal Programme now has an agreed Memorandum of Understanding (MoU) between LBTH and Primary schools, which sets conditions for the programme. This is expected to reduce the £0.5m pressure in 2018/19 to a slight underspend in 2019/20.
Sports Leisure & Culture	0.6	Recovery action plan proposes reducing spend against AEG income by £0.6m to offset pressures within this service. The action plan provides full details.
Building and Technical services	0.4	This overspend is the cost of providing security and NNDR charges for vacant buildings.
PFI		A successful bid was made for a new senior level PFI post which would ensure full compliance and integration with the range of council services which have a bearing on PFI. This post is in the Procurement Service structure, in Resources directorate and will be recruited to in the near future. School leaders are reporting pressures to budgets as a result of the payments due for the PFI. Detailed work around the extent of the pressures across

		Grouped Schools is currently being undertaken. One of the key drivers for the pressures relates to pupil numbers coming in lower than had been originally forecast. This drove the design specification of the PFI sites, therefore resulting in a situation where a number of schools are receiving lower than forecast pupil funding, whilst having unoccupied PFI buildings/classrooms which need to be paid for.
The Dedicated Schools Grant (DSG)	£m	The key impact on the DSG is the significant overspend in the High Needs Funding Block element. The actions being taken to address this are outlined below.
High Needs Block (HNB)	7.7	The Council are required to provide to the DfE a recovery plan that articulates how the overspend on the High Needs Funding Block (HNFB) will be addressed over the period 2019 – 2022 through: - significantly reducing the funding retained by LBTH to deliver support services, - reducing the demand for centrally retained funding for Alternative Provision, - reducing the rate of increase in EHC plan numbers, - a reduction across all school top-up payments All of the above are also fully detailed in the C&C Recovery Action Plan. The DfE published indicative High Needs Block funding allocations on 11/10/19 which demonstrate an increase in funding for 2020-21 of £7.3m, from the 2019-20 allocation of £50.8m to 58.1m for 2020-21. This increase in funding would decrease the overspend pressure for 2020-21.

Resources

Forecast outturn variance £2.1m overspend

£m	Forecast Outturn Variance: Estimated impact on General Fund (GF)	Forecast Outturn Variance: Variance before reserve adjustments	Forecast Outturn Variance: Contribution to /(from) Reserves	Annual Figures: Current Budget [1]	Annual Figures: Forecast Outturn Position	Figures to 30 September 2019: Budget to Date	Figures to 30 September 2019: Actual
Resources	2.1	10.1	(8.0)	15.2	17.3	7.6	27.6

The Resources directorate has a net budget of £15.2m. It is currently forecasting an outturn of £25.3m of which £8.0m of funding has been previously approved from the ICT Transformation Reserve leaving a potential directorate overspend of £2.1m.

The Resources directorate leadership team is reviewing all savings delivery across the directorate to identify mitigating actions to fully eliminate the estimated overspend.

Actual spend to date includes costs relating to Housing Benefit which will be offset by income.

Details of the areas at risk of overspending and mitigations are summarised below.

Forecast variance commentary

(in numerical descending order)	£m	Forecast variance commentary
Customer Access Savings slippage	0.9	Savings slippage due to delayed implementation of the Customer Access model of £1.2m, partially mitigated by holding temporary vacancies.
Human Resources Phase 2 review slippage	0.6	Savings slippage on phase 2 of the HR review of £0.7m, partially mitigated by holding temporary vacancies and reducing non-pay expenditure.
Business Support Phase 2 review slippage	0.9	Phase 2 of the business support review will take place one year after the full implementation of phase 1 which is in the recruitment and implementation stage. Slippage of £1m is partially mitigated by holding periods of vacancy.
Revenues Service One-off mitigation	(0.3)	One-off write back of credit balances.

Other comments

Use of Reserves	Approximately £8.0m will be required from the ICT Transformation reserve to fund ICT Transformation projects which were agreed by Cabinet in 2017-18.

Health, Adults & Community

Forecast outturn variance £4.1m overspend on the General Fund

£m	Forecast Outturn Variance: Estimated impact on General Fund (GF)	Variance before reserve adjustments	Contribution to / (from) Reserves	Annual Figures: Current Budget (1)	Forecast Outturn Position	Figures to 30 September 2019: Budget to Date	Actual
HA&C	4.1	4.8	(0.7)	106.7	110.8	53.4	60.5
Public Health	-	-	-	34.1	34.1	17.1	5.8

The Health, Adults and Community directorate forecast outturn for 2019-20 is for a £4.1m overspend after use of reserves. This position is driven by growing pressures in adult social care. The main variances are summarised below.

The 2019-20 budgets include £3.4m of savings, including £0.7m of savings from prior years. The directorate is forecasting to achieve £2.6m (76%) of these savings in 2019-20. The main area of slippage is in learning disability services (Supporting Independence programme). 100% of these savings remain achievable and work continues to deliver as much as possible this year.

A recovery plan has been developed to address the pressures being faced by the directorate, which focuses on opportunities to make sustainable changes that will lead to an ongoing reduction in expenditure, as well as one-off activities. The recovery plan is regularly reviewed and updated and requires more actions to fully close the forecast variance.

Forecast variance commentary

(in numerical descending order)	£m	
Adult Social Care & Integrated Commissioning An overspend due to demand for residential and community-based care services for disabled, mental health and older people.	4.4	The forecast outturn variance is a £4.4m overspend against a net budget of £100.9m. The forecast overspend is caused by pressures in both residential/nursing placements and community based services supporting service users in their own homes. These overspends are a continuation of the pressures seen and reported in the 2018-19 Outturn report. Similar pressures in adult social care budgets are reported by authorities nationally. The time-limited "Unpaid Invoice Hub" is still in operation and continuing to work through operational issues associated with the billing arrangements and electronic systems which support home care. This work has enabled improvements to reporting on planned & actual homecare delivery by providers. These reporting improvements have enabled more detailed forecasting to be undertaken, resulting in a £1m increase to forecast expenditure compared to the Quarter 1 report. The council currently provides around 31,000 hours of homecare per week. There has been a net increase of 19 residential care packages since the start of the financial year, which has led to a £0.5m increase in the forecast from Quarter 1. Further work is being undertaken to review the data and cases in detail, to provide a full understanding of the reasons for placement in residential care. Extra care housing (an alternative to a residential home placement) is available in the borough which is generally a better, more cost effective option for residents needing additional support who cannot remain in their own home.

		An increase of £0.8m is forecast on direct payments expenditure compared to the Quarter 1 position. This is based on an increasing upward trend in the value of direct payments made on a monthly basis. Whilst the number of direct payments has increased, this growth in expenditure appears larger than expected and without a corresponding reduction in home care costs. Additional work is underway to look at this as it appears the average size of direct payments is increasing. A recovery plan to reduce the forecast level of overspend has been developed and is regularly reviewed and monitored. The Council has utilised in full the short-term grants provided by central government to support pressures in social care and these are not sufficient to fully cover the pressures. Operationally, a "Practice and Quality Forum" is in place which encourages reflection on social work practice, giving consideration to how preventative and strength-based interventions can promote wellbeing and focus on improved outcomes for adults. Panels for signing off placements and care packages have also been put in place to increase control on costs. Where possible vacancies are also being held across the directorate and measures taken to minimise all staffing and non-pay budgets. The use of agency staff has reduced significantly and is carefully controlled.
Community Safety An underspend due to delays in police deployment of officers	(0.3)	The forecast outturn variance is a £0.3m underspend against a net budget of £6.4m. This is after the allocation of an expected £0.7m funding for the Partnership Task Force (Council funded Police Officers), from the Mayor's Investment Priorities earmarked reserve. The majority of the underspend is in relation to the general fund element of the Partnership Task Force (£0.2m), due to delays in police deployment of officers.
Public Health Breakeven position with the grant forecast	-	It is currently forecast that the public health grant will be fully utilised in 2019-20.

	Forecast Outturn Variance			Annual Figures		Figures to 30 September 2019	
£m	Estimated impact on General Fund (GF)	Variance before reserve adjustments	Contribution to /(from) Reserves	Current Budget (1)	Forecast Outturn Position	Budget to Date	Actual
Place	-	-	-	70.0	70.0	35.0	26.5

The Place Directorate has budgetary provision of £70m and is expecting to outturn in line this budget, nil variance. This position is exclusive of a Parking surplus of £1.5m. The use of this surplus is tightly controlled through s55 of the Road Traffic Regulation Act 1984 and places restrictions on the activities that can be funded from it. As this surplus is unavailable to offset general overspend within Place it has been excluded from the budget monitoring position reported.

Despite there being a nil variance, there are a number of significant pressures within the Directorate which have been mitigated by offsetting savings. Pressures have been forecast within Planning & Building Control, Resources, Markets and Asset Management. Compensatory savings have been identified within Housing and Public Realm.

Unachievable savings of £0.08m and slipped savings of £0.4m are included within the overspend position.

Details of the significant variances are outlined below:

in numerical descending order	Variance £m	Forecast variance commentary
Corporate Property & Capital Delivery Reduction in income from occupation of Jack Dash House; Staffing costs; Business Rate inflation; additional saving from appropriation of shops	0.7	A pressure of £0.8m resulting from loss of rent following Tower Hamlets Homes move from Jack Dash House in July 2018. This budgetary pressure will continue until a new tenant is secured or the property is put to a different use or disposed of. Costs are being incurred in relation to ensuring the security of vacant buildings whilst decisions and processes are completed around their future usage. Previously an overspend was reported which is now being contained within the wider corporate property service. Accruals totalling £0.1m for agency staff within the Asset Management team were not completed at the end of 2018/19. Timesheets were submitted to the agent but not charged back to the Council until after the deadline for inclusion in the accounts. As a result these costs will have to be met in 2019/20. Business Rate expenditure on Council owned property managed within the corporate landlord model is forecast to exceed budget by £0.2m. This relates to the annual inflation of costs for which there is no budgetary provision. The appropriation of shops from the Housing Revenue Account to the General Fund should yield a net income stream of £1.2m. The budget saving assigned to the appropriation is £0.8m, resulting in an underspend of £0.4m. The additional revenue appears to result from a greater number of assets transferring than was built into the original specification. There is a significant reliance being placed on the use of agency staff within the Corporate Property and Capital Delivery teams. The majority of work relates to

		the HRA and capital programme and is therefore recharged, which provides ongoing staffing flexibility in terms of variable capital delivery commitments. It is forecast that the recharges will be significantly higher than budgeted to reflect the high agency costs which will result in the general fund salary costs being in line with budgetary provision
Resources Reduced income at Kemnal Park Cemetery	0.2	Budget pressure of £0.2m in respect of Kemnal Park Multi-Faith Cemetery as a result of demand for burial plots not meeting originally estimated levels. Marketing continues to take place to highlight the availability of plots but is not effectively increasing uptake. This overspend has previously been met from corporate resources and if agreed again for the current year will mitigate the overspend within the Place Directorate. The expectation and agreement was that whilst the cemetery was transferred into the Place Directorate, the £0.2m would be met centrally.
Planning & Building Control Fees in relation to Planning Appeals; Planning Income	0.6	One off legal fees and costs currently estimated at £0.3m relating to an appeal following refusal of planning application for the Westferry Printworks site. LBTH has required significant specialist Counsel and expert witness representation due to the technical, complex and accelerated nature of the appeal. Current income projections for planning fees are forecast to under recover by £0.5m. However this position is demand driven and a small number of large planning applications could significantly improve this position. Pre-application fees are forecast to over recover by £0.2m, giving a net projected overspend on Planning income of £0.2m It is hoped that large planning applications at Canary Wharf (Wood Wharf scheme) and Commercial Road will be submitted in year, which would mitigate this overspend. This income has currently not been included within the forecast as there is uncertainty around the timing of applications. There is a background concern Brexit will significantly impact on income but there is no firm evidence to suggest planning activity is being adversely affected at present although activity is levelling off. This will continue to be monitored throughout the year.
Growth & Economic Development Breakeven position expected Additional costs from delays to restructuring being offset by additional funding	-	The Growth and Economic Development restructure was implemented on 1 July 2019. The budget is based on the new structure and as a result the delays in implementation have resulted in additional cost and overspend. This will be managed in-year by drawing on more of the approved s106 allocation to fund the additional cost, resulting in a balanced position. Mayoral Priority Growth was incorporated within the budget in 2018-19. Due to the re-profiling of projects, the funding was not fully spent. The balanced budget position is predicated on this funding totalling £1.2m being available and utilised in the current year.
Public Realm Over achievement of parking income from bay suspensions and permits; security costs and low income levels in Markets; Savings in rechargeable works and vacant posts	(0.1)	Parking income is projected to over achieve budgeted levels by £1.5m. The additional income results from a variety of factors, the main ones being that the current budget includes loss of income resulting from several large suspensions covering multiple years which have not come to fruition and the early introduction of permits for car clubs and casual parking. These savings are one off and not expected to recur in future years. The use of Parking surpluses is tightly controlled through s55 of the Road Traffic Regulation Act, 1984. As a result, this surplus will be excluded from the overall Place monitoring position as it cannot be used to subsidise general overspends.

		Markets are projected to overspend by £0.3m. This overspend is caused by a number of factors including security costs, in particular around Columbia Road and Brick Lane markets (£0.1m), reduced income primarily at Petticoat Lane and Whitechapel Road markets (£0.1m), staffing costs and unbudgeted revenue costs resulting from the implementation of the PSI (combined £0.1m overspend). This overspend will be mitigated through a drawdown from the street trading reserve resulting in a balanced position at year-end. There is a £0.1m underspend within Public Realm Management as a result of a vacant post within the management structure. The outsourced waste collection and Trade Waste services are projecting to spend in line with budget. These services will be brought back in-house in 2020/21. A budget of £2.5m has been identified for this mobilisation project and spend is projected to be in line with this budget allocation over the next two years. The retendering of the waste disposal contract has resulted in a reduced budget provision of £1m. This saving has been delivered and based on current tonnages the waste disposal service is forecasting to breakeven in line with the revised contract. There is a projected underspend of £0.2m Highways & Traffic Management rechargeable works. Highway development works were completed in 2018/19 but no s278 drawdown took place from reserves. As a result the costs were incurred in the previous year and service will benefit from the recharge in the current year. This drawdown will be on top of the rechargeable works undertaken in year. The Environmental Regulatory Service is forecasting to underspend by £0.1m as a result of vacant posts. Additional income from Landlord Licensing and HMO (House in Multiple Occupation) is being profiled to be allocated over the life of each licence issued. Income is received up front and drawn down over the five years it is valid to cover costs incurred. No variance is forecast.
Housing & Regeneration Slippage of savings proposal through improved utilisation of I.T and delivery of housing through Capital Letters. Over recovery of income relating to T.A. acquisitions; Additional income from the common housing register	(1.4)	Based on current activity and unit cost data, the Homelessness and Temporary Accommodation services are forecasting to underspend by £1.6m. Despite homeless numbers increasing, the saving results from additional income relating to acquisitions and a resultant reduction in the need for expensive nightly booked and bed & Breakfast accommodation. This forecast is inclusive of grant drawdowns totalling £1.348m in year to cover specific activity including rough sleepers, homelessness reduction act and flexible homelessness support. A savings target of £0.1m will slip into 2020/21 reducing the Homelessness and Temporary Accommodation underspend. The saving relates to the acquisition of properties through the pan London Capital Letters programme. The company is now live and in the market to procure property but the benefit derived from this will not impact in the current financial year. The Housing Options Lettings service is forecasting to underspend by £0.4m as a result of income from Registered Social Landlords (RSL's) exceeding budgeted targets as a result of the RSL's using the Council's common housing register and a charge being made to them for this service. A £0.3m savings target within the Housing options lettings service will not be delivered in 2019/20. This savings target relates partly to automating applications to the common housing register and also a review of the allocations policy, both of which will be implemented in year but the associated benefit will

not be realised until the following year.

There is a forecast overspend of £0.2m within Housing Regeneration as a result of historic unachievable income targets being carried forward into the 2019/20 budget. It is anticipated that a full budget review will take place across the Place Directorate with a view to mitigating this overspend in future years.

	Forecast Outturn Variance			Annual Figures		Figures to 30 September 2019	
£m	Estimated impact on General Fund (GF)	Variance before reserve adjustments	Contribution to /(from) Reserves	Current Budget (1)	Forecast Outturn Position	Budget to Date	Actual
Governance	-	0.8	(0.8)	15.4	16.2	7.7	10.4

The Governance directorate estimated impact on the general fund is nil, subject to the expected drawdown of £0.6m transformation reserve transitional funding for Strategy, Policy and Performance (SPP) and a further estimated £0.2m from the Children's Services Ofsted Improvement budget for strategic improvement work carried out by SPP.

The 2019-20 budgets include £0.05m of savings which the directorate is forecasting to achieve in full.

Other comments

Electoral Services	The European elections in May 2019 were grant funded. The costs of any by-elections would require use of identified corporate contingency funds.
Registrar Services	The move to St George's Town Hall in early 2020 will provide increased income earning opportunities.
Legal Services	The use of external legal services is being reviewed to reduce costs and the Council has joined frameworks for barristers and solicitors.
Communications	The communications division is reviewing the potential for street advertising income.

Corporate Costs

Forecast outturn variance of £4.0m underspend

	Forecast Outturn Variance			Annual Figures		Figures to 30 September 2019	
£m	Estimated impact on General Fund (GF)	Variance before reserve adjustments	Contribution to /(from) Reserves	Current Budget (1)	Forecast Outturn Position	Budget to Date	Actual
Corporate and financing costs	(4.0)	(4.0)	-	2.8	(3.7)	1.4	6.0

The corporate and financing costs area is forecasting an underspend of £4m. This is demonstrated by the centrally held non-pay inflation budget, corporate contingency and slippage in cross-directorate savings.

Details of the variances are summarised below:

(in numerical descending order)	£m	Forecast variance commentary
Non-pay inflation Budget for contractual inflation in directorates	(3.4)	The budget for contractual (non-staffing) inflation is held centrally, pending the evidencing of pressures by directorates.
Corporate contingency Budget to cover unforeseen circumstances	(3.1)	The centrally held budget (£3.1m) is forecast to help offset current overspend pressures across the Council.
Cross-Directorate Savings Slippage in savings achievement	2.5	Slippage in cross-directorate savings held centrally, being £1.5m slippage in Debt Management & Income Optimisation and £1.0m slippage in the Review of Printing/Scanning/Use of Multi-Functional Devices (MFD's).

Housing Revenue Account (HRA)

Forecast outturn variance for HRA £3.1m underspend

£m	Forecast Outturn Variance: Contribution to / (from) HRA	Contribution to /(from) Reserves	Outturn Variance before Adjustments	Annual Figures: Revised Budget	Forecast Outturn Position	Figures to 30 September 2019: Budget to Date	Actual
HRA	3.1	-	(3.1)	36.7	33.6	(24.1)	(27.3)

The overall forecast for the Housing Revenue Account is a £3.1m underspend. The main component of this is from £1.8m additional dwelling rent income above budget.

(in numerical descending order)	Variance £m	Forecast variance commentary
Dwelling rent income **Additional income recovered**	(1.8)	Rental income is currently forecast to be higher than budget due to lower void rates than assumed when this budget was set, along with a lower level of Right to Buy sales than forecast when the budget was set.
Leasehold service charge income **Additional income recovered**	(1.3)	The annual actualisation of service charges has seen an additional £1.1m of leasehold service charge income in the HRA. In addition some additional income is forecast to be received in relation to tenant service charges.
Other Issues		
Capital Financing charges		The 2019/20 budget assumes that there will be a large Revenue Contribution to Capital Outlay (RCCO) made from HRA revenue resources to finance the 2019/20 HRA capital programme. If all this budget is not required to fund the HRA capital programme in 2019/20, or if it is deemed more appropriate to use other HRA resources to fund the HRA capital programme then the RCCO will be lower than budgeted; any such underspend will carry forward in HRA balances.
Tower Hamlets Homes (THH) Delegated: **Special Services, Rents, Rates & Taxes/ Supervision & Management/ Repairs & Maintenance**		Although small net variances are currently being projected on the delegated budgets managed by Tower Hamlets Homes, some large demand led services are managed within this area, including the Repairs and Maintenance budget outlined above. These budgets are closely monitored in order that demand pressures are identified and financial implications addressed.

Capital expenditure: **Table 5.1**

	Forecast (under)/ over spend for year	Spent to date vs Budget			This year's fig (£m)	
		This year (Q2)	Last year (Q2)	Projection for year	Annual budget	Spent to date
	£m	%	%	£m	£m	£m
	A = D - E	B = F/E	C	D	E	F
Housing Revenue Account	(63.5)	13%	6%	44.5	108.0	14.0
Corporate	(1.5)	24%	11%	39.8	41.3	10.1
Children and Culture	(26.7)	12%	19%	31.9	58.6	6.8
Place	11.1	49%	38%	107.9	96.7	47.1
Health, Adult, Communities	(7.4)	0%	0%	6.1	13.5	0.05
Resources	(5.4)	9%	0%	1.1	6.5	0.6
Total	(93.3)	24%	19%	231.3	324.7	78.7

We've spent 24% of budget as at month 5, compared to 19% at month 5 last year. As per last year, we expect a higher proportion of spend later on in the financial year. We still however project slippage of £93.3m, but any unspent budget will be spent in future years rather than the current year. A new group (the Capital Governance Working Group) has been set up, this will support arrangements on the governance and administration of the capital programme, including the review of spend and slippage.

Below is detail of projected variances.

	(Under)/ overspend £m	
Basic Need/Expansion	(10.303)	London Dock School has recently been approved and works were profiled to start in 19-20, however the revised start date is anticipated for early 20-21.
Purchase of properties for use as Temporary Accommodation and purchase of s106 properties	35.030	Accelerated spend is being undertaken in order to limit the amount of interest payable on Right to Buy one for one receipts. Budget will be brought forward from future years.
Establish a Housing Wholly-Owned Company	(5.0)	This represents the Council's equity investment in the housing company. The process of establishing the company has started and the first acquisitions are anticipated later this financial year.
Phase 2b Mixed Tenure Schemes (1-4-1)	(16.029)	Half of the budget was currently unallocated to schemes, they have been confirmed, with spend expected in 2019/20. However there may be a need to re-profile some of the schemes in light of approval dates.

Housing Pipeline Schemes Phase 2a (1-4-1)	(25.679)	Half of the budget was currently unallocated to schemes, they have been confirmed, with spend expected in 2019/20. However there may be a need to re-profile some of the schemes in light of approval dates.
Community Benefit Society – 1-4-1 Receipts	(4.5)	A company, Mulberry Housing Ltd has been set up. Potential properties have been identified and purchase is being progressed.
Housing Capital Programme	(11.690)	The housing capital programme currently has a possible 252 schemes that it can complete in the 2019/20 programme. The £19mill above is from 133 schemes that are fully approved. This leaves 119 schemes in the Housing capital programme, and also all of the schemes in fuel poverty works, that are 'at risk' of not being approved/completed in 2019/20. The reason for 'at risk' is that there may be a delay in getting contracts approved.

Capital receipts: **Table 5.2**

	This year
	£m
Dwellings sold under Right to Buy (RTB)	
Receipts from RTB sales	3.2
Less: poolable amount paid to DCLG	(0.8)
Sale of other HRA assets	
Preserved Right to Buy receipts	0.4
20 Alton Street	0.4
Sale of General Fund assets	
Wayside Gardens	1.9
	-
Total	5.1

Receipts shown gross before costs of sale are deducted

Current projections will :

Reduce our General Fund Reserve by £13.8m

Increase our HRA by £3.1m

Reduce our Earmarked Reserves by £10.1m

This table shows the balance on the general fund, HRA and useable reserves held for the previous 2 years as well as showing the projected impact on reserves for 2019-20.

The 2018-19 financial accounts are under audit and adjustments to the statements and notes will be required; some of these adjustments will change the reserves position. At this stage the final impact on reserves is still being identified. A final outturn report will be prepared, and this will include the final reserves position.

	Balance at 31 March 2018	Draft Balance at 31 March 2019	Contribution (to) / from Reserve	Projected Balance 31 March 2020
	£m	£m	£m	£m
General Fund Reserve	33.3	21.2	13.8	**7.4**
Housing Revenue Account (HRA)	47.6	54.6	(3.1)	**57.7**
Schools' Balances (DSG)	23.4	23.4	-	**23.4**
Earmarked Reserves	118.5	116.9	10.1	**106.8**
Total Usable Reserves	222.8	216.1	20.8	**195.3**

	Balance at 31 March 2018	Draft Balance at 31 March 2019	Contribution (to) / from Reserve	Projected Balance 31 March 2020
£m	£m	£m	£m	£m
Earmarked reserves consist of				
Transformation	15.0	8.4	1.4	**7.0**
ICT / Finance Systems	21.0	16.3	8.0	**8.3**
Other	0.9	0.9		**0.9**
Parking Control	3.3	3.3		**3.3**
Building Control	0.2	0.2		**0.2**
Land Charges	0.7	0.7		**0.7**
Insurance	21.2	21.2		**21.2**
Public Health Grant	1.3	1.7		**1.7**
New Civic Centre	17.2	17.2		**17.2**
New Homes Bonus	12.1	28.9		**28.9**
Free School Meals	4.0	4.0		**4.0**
Mayor's Investment Priorities	7.0	4.6	0.7	**3.9**
Risk Reserve	8.8	4.4		**4.4**
Revenue Grants	1.7	1.7		**1.7**
Mayor's Tackling Poverty Reserve	4.1	3.4		**3.4**
Totals	**118.5**	**116.9**	**10.1**	**106.8**

Target for year £25.1m

£m	Saving Target	19-20 Target	Prior Year Slippage	Forecast Savings	Slippage	Under Recovery	Over recovery
	A = B + C	B	C	(D = E + F +G) = A ✓	E ×	F ×	G ✓
Children and Culture	5.0	3.4	1.6	0.7	1.0	3.3	-
HA&C	3.4	2.7	0.7	2.6	0.8	-	-
Place	3.0	2.5	0.5	2.5	0.4	0.1	-
Governance	0.1	0.1	-	0.1	-	-	-
Resources	2.8	0.5	2.3	2.1	0.7	-	-
All	10.8	5.6	5.2	6.1	4.7	-	-
Total	**25.1**	**14.8**	**10.3**	**14.1**	**7.6**	**3.4**	**-**

tick: a higher level of confidence that savings are on track to be delivered.

cross: either timing issues, i.e. slippage into future years, or at risk of non-delivery.

Total savings target for 2019-20 is £25.1m (£14.8m relates to approved savings for the 2019-20 year, and £10.3m as a result of previous year savings not delivered)

- £14.1m is identified as being on track to deliver savings;
- A net position of £7.6m is forecast to slip into future years due to timing issues;
- £3.4m has been identified as unachievable; this is mainly in the Children and Culture areas of Early Years and Special Educational Needs & Disabilities (SEND).

This section shows the amount of money we have collected from tax payers of the borough, and the split between the amount that is retained and the amounts paid over to central and government and the GLA.

NNDR

We are expected to collect £464m for 2019-20.

We are expected to collect £464m in Business Rates. To the end of September we have collected £267m (58%).

At the end of the previous year there was also an outstanding debt of £20m relating to historic periods. Of this £10m (50%) has been collected.

Under the 2019-20 75% Retention Pilot arrangements we retain 48% of the total sums collected; any surplus over the baseline will be paid to central government (tariff) and City of London for administering the pilot.

Council Tax

We are expected to collect £134m for 2019-20.

CT is split between
Government 23%,
LBTH 77%

We are expected to collect £134m in Council Tax. We are on target to achieve this with £64m (48%) having been collected by the end of September.

We also have historic Council tax debt of £19m at the end of last year. Of this we have collected £3m (16%).

Overall Position **We have £306m of investments.** **£60m of LOBO loans repaid, and replaced by PWLB loans.**	For this period our portfolio totals £306m, and we are current receiving an average return of 0.95%. Following the repayment of the £60m LOBO loans we are holding £83m (27%) in Money Market Funds. About 55% (£169m) of the outstanding investments (including Money Market Funds) have less than 3 months until they mature. Of the remaining £137m, £37m (12%) will mature in less than 1 year and the remaining £100m (33%) of investments are held for periods longer than 12 months.
Income Position **Budgeted income of £4m.**	At the start of the year we budgeted £4m investment income, and we are broadly on target.
Benchmarking **We compare favourably for the return we get from our internally managed funds, but at present we do not hold external investments.**	According to the information we receive from our advisors, Arlingclose, we are out-performing both a group of London councils and a group of national local authorities (averaging 1.01% on internally invested funds against a local authority benchmark of 0.85%). In time we intend to invest more heavily in longer term options including more equities. We are continuing to look at alternatives that retain and protect the capital value of our investment. Our Treasury Management advisors are investigating options which will balance the risks and rewards whilst including Equity, Bonds and Property in the portfolio.
Inflation **Inflation is eroding the value of our investments.**	At the moment the Consumer Prices Index (CPI) inflation is running at 1.7%, and therefore the average return of 0.95% is lower. This means that the future value of the funds invested today will be less. The move of some funds into externally managed pooled funds is designed to improve this position.

Fund underperformed over the quarter.	The Fund underperformed its benchmark return of 3.24% by 0.84% for the quarter.
Five mandates matched or achieved benchmark set.	For this quarter, five mandates matched or achieved returns above the set benchmark. The five that did not achieve the benchmarks were the mandates with *LCIV BG (DGF), LCIV BG (GE), Insight and +GSAM bond portfolios. Fund Valuation of £1.560bn, a £35m increase over the quarter.
Fund underperformed over twelve months.	For the twelve months to September 2018, the Fund returned 7.81% marginally underperforming the benchmark of 7.88%, the Fund is behind its benchmark by 0.07%.
Four mandates matched or achieved benchmark set.	Four mandates underperformed their respective benchmark. The mandates that underperformed their respective benchmarks were *LCIV RF lagged behind by 1.66%, *LCIV BG (DGF) lagged behind by 2.45%, +GSAM lagged behind by 6.34% and Insight by 7.82%.
Fund is broadly in line with the strategic benchmark weight.	Looking at the longer term performance, the three year return for the Fund was 12.45%, above its benchmark return by 0.54% for that period. Over the five years, the Fund posted a return of 9.42% outperforming the benchmark return of 9.19% by 0.23%. The Fund remains in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight.

*LCIV BG (DGF) – fund manager is Baillie Gifford and investment is Diversified Growth Fund, LCIV BG (GE)- fund manager is Baillie Gifford and investment is Global Equity, LCIV RF – fund manager is Ruffer, +GSAM – Goldman Sachs Asset Management