

Board of Directors 18 th December 2017	
Report Authorised by: Neil Isaac, Interim Director of Finance Report Author: Tony McNamara	Report type: For Information
Title: Management accounts, delegated budgets and capital 2017/18 – period 7	

1. INTRODUCTION

- 1.1. This report sets out the Tower Hamlets Homes (THH) management accounts 2017/18 for period 7.

2. RECOMMENDATIONS

- 2.1. That the Board note:

- 2.1.1. The company accounts forecast an over spend of £594,000 which has increased from £533,000 reported in period 6. The main increases being:

- Asset Management - £140,000 between the capital programme team and repairs management team;
- Business Transformation - £148,000 between the increase of £91,000 on procurement SLA and smaller increases within Human Resources and the Directors office.
- Reduced small forecasts are reported in Finance and Neighbourhood Services.
- There are also £195,000 in costs that have recently been identified as costs that can be recharged to LBTH (note these costs are not included in Appendix 1 as they have recently been identified as relating to fire safety and an increase in the procurement SLA).

- 2.1.2. The delegated budgets are forecast to over achieve net income by £552,000 driven largely by an under spend on R&M.

- 2.1.3. The capital programme outturn position is forecast to underspend by £9.650m following completion of the mid-year budget review at Asset Governance Group. A verbal update will be given on the period 8 position.

3. COMPANY ACCOUNTS FORECAST OUTTURN

- 3.1. In summary, the period 7 position shows the business is projected to over spend to budget by £594,000 (£533,000) 1.9% (1.7%) this year (appendix 1).

Asset Management Overview

- 3.2. Asset Management is forecast to overspend by £224,000 with the over spend on employee & agency costs of £177,000 pertaining to the majority of the over spend. The capital programme team, investment planning and repairs management team are reporting over spends on employee costs including costs associated with the Emergency Call out system. There are also over spends of £30,000 on KWest surveys within the repairs management team and £26,000 on professional fees within the capital programme team. (It is possible that these could also be recharged to the Council as they are fire related structural surveys)

Business Transformation Overview

- 3.3. Business Transformation is forecast to over spend by £174,000 with the majority coming from increased costs of SLA'S managed by the Head of Resources. The ICT SLA is forecast to over spend by £53,000 as previously reported; in addition the procurement SLA is now reporting a £91,000 over spend following recent discussions with LBTH who believe the recharge is under stated. Should the charge for procurement be confirmed we would look for a commensurate increase in the management fee to offset the increase.
- 3.4. Facilities Management continue to report a £44,000 over spend on office R&M costs. There are various smaller variances reported across the Directorate including small under spends however none of these are significant.

Finance Overview

- 3.5. The Finance Directorate is forecasting an over spend of £80,000 with an over spend of £216,000 reported within the Finance Management Team from agency staff pending the move to the new structure early in 2018. This is offset from salary savings across other areas of the Directorate.

Neighbourhood Services Overview

- 3.6. Neighbourhood Services is forecast to over spend by £294,000 with the main pressure are driven from the caretaking service which is forecasting an over spend of £219,000 driven by overtime costs. This is partly due to the fire related overtime that can be charged to the Council and partly to the inadvertent removal of the weekend overtime budget. The delayed restructure of NHO's will also cost a further £154,000 however this offset by under spends in other areas, particularly leasehold services where an under spend of £108,000 has been reported.
- Note:** Caretaking overtime will reduce as a further £104,000 will now be charged to LBTH for fire safety work.

Contingency

- 3.7. The business contingency of £620,000 will meet unexpected costs incurred in 2017/18. To date, redundancy costs of £123,000 have been charged against the contingency as these costs exceed the provision previously set aside.

4. COSTS FUNDED FROM RESERVES OR LBTH

- 4.1. Following the recent fire events in London THH has been incurring costs that are to be recharged to LBTH. As at period 7 costs totalling £165,000 have been identified including staff overtime, hotel costs and other more general costs.
- 4.2. The office accommodation costs have been estimated at £800,000 however tenders have now been received and it is likely these costs may increase to £950,000 based on a first review of the tenders. A lot of this is down to increased electrical costs for rewiring the three floors to allow for the current configuration and Electrak under floor. These costs will need to be met from reserves this year.
- 4.3. The ICT digital strategy is forecast to spend £353,000 this year which is in line with previous forecasts.
- 4.4. The capital procurement team is forecast to spend £280,000 in line with previous forecasts.

5. FINANCIAL ANALYSIS & OVERVIEW

- 5.1. Board should note that the forecast over spend is the net position reported across the business and therefore delivery is dependent on under spends reported at period 7 being delivered at year-end. Should services fail to deliver the under spends then the net over spend will increase. It is difficult to hold budget holders to account when they choose to reinvest under spends in their services, particularly if priorities change, but until over spends are managed the business does need to consider whether under spends reported are retained.
- 5.2. The business continues to forecast an over spend with the over spend increasing since last month by £61,000. There are likely to be further fire safety costs that will be recharged to LBTH however these are not expected to be significant as most costs have now been identified.
- 5.3. The contingency, while reported to budget, does have £498,000 capacity to cover the over spend. However with the continuation of transformation programme this budget is retained for potential redundancy liabilities that may fall due later in the year.
- 5.4. Although significant, the projected outturn is broadly in line with that reported to the last meeting. EMT are keeping the situation under close review and are meeting budget managers who are currently overspending or whose spending increased significantly in the final quarter of last year. The end of November position will be reviewed for any further movement. If necessary then EMT will take steps to contain expenditure by looking at discretionary spend in the final quarter.

COMPANY MANAGEMENT ACCOUNTS 2017/18				PERIOD 7		
DESCRIPTION	BUDGET	BUDGET	SPEND TO	VARIANCE	FORECAST	VARIANCE
	£000	£000	TO DATE	£000	£000	£000
			DATE			
Income						
Management Fee	-31,946	-18,635	-18,635	0	-31,946	0
Rechargeable Salaries	-188	-109	-78	31	-163	25
Interest	-25	-15	-1	14	-25	0
Transfer from Reserves	0	0	-273	-273	-1,583	-1,583
Additional Mgmt Fee	0	0	-165	-165	-318	-318
Total Income	-32,159	-18,759	-19,152	-393	-34,035	-1,876
Asset Mgmt	5,036	2,974	2,741	-233	5,260	224
Business Transformation	6,593	3,846	3,370	-476	6,767	174
CEO Office	377	220	145	-75	369	-8
Finance	2,419	1,411	1,004	-407	2,499	80
Neighbourhoods	17,113	9,982	9,485	-497	17,407	294
Contingency	621	326	123	-203	621	0
Cost of Service	32,159	18,759	16,868	-1,891	32,923	764
<i>Funded from Reserves</i>						
Accommodation	0	0	54	54	950	950
Digital Solutions	0	0	70	70	353	353
Procurement	0	0	149	149	280	280
Sub Total: Reserves Funding	0	0	273	273	1,583	1,583
<i>Subject to LBTH Funding</i>						
Emergency Work Funded - LBTH	0	0	165	165	165	165
Legal Costs	0	0	0	0	100	100
ICT SLA Costs	0	0	0	0	53	53
Sub Total: LBTH Funding	0	0	165	165	318	318
Net Cost of Service	0	0	-1,846	-1,846	789	789

Note: A further £195,000 has been identified and will be recharged to LBTH thus reducing the net cost of service to £594,000.

APPENDIX 2

COMPANY MANAGEMENT ACCOUNTS 2017/18				PERIOD 7		
DESCRIPTION	BUDGET	BUDGET	SPEND TO	VARIANCE	FORECAST	VARIANCE
	£000	TO DATE	DATE	£000	£000	£000
	£000	£000	£000	£000	£000	£000
Income						
Management Fee	-31,946	-18,635	-18,635	0	-31,946	0
Rechargeable Salaries	-188	-109	-78	31	-163	25
Interest	-25	-15	-1	14	-25	0
Transfer from Reserves	0	0	-273	-273	-1,583	-1,583
Additional Mgmt Fee	0	0	-165	-165	-318	-318
Total Income	-32,159	-18,759	-19,152	-393	-34,035	-1,876
Employee Costs	21,622	12,648	12,326	-322	22,031	409
SLA	6,040	3,523	2,833	-690	6,181	141
Supplies & Services	2,742	1,600	1,152	-448	2,945	203
Third Party Payments	437	254	94	-160	395	-42
Property Costs	487	284	249	-35	562	75
Transport Costs	185	108	68	-40	163	-22
Depreciation	25	15	23	8	25	0
Contingency	621	327	123	-204	621	0
Cost of Service	32,159	18,759	16,868	-1,891	32,923	764
<i>Funded from Reserves</i>						
Accommodation	0	0	54	54	950	950
Digital Solutions	0	0	70	70	353	353
Procurement	0	0	149	149	280	280
Sub Total: Reserves Funding	0	0	273	273	1,583	1,583
<i>Subject to LBTH Funding</i>						
Emergency Work Funded - LBTH	0	0	165	165	165	165
Legal Costs	0	0	0	0	100	100
ICT SLA Costs	0	0	0	0	53	53
Sub Total: LBTH Funding	0	0	165	165	318	318
Net Cost of Service	0	0	-1,846	-1,846	789	789

Note: A further £195,000 has been identified and will be recharged to LBTH thus reducing the net cost of service to £594,000.

1. DELEGATED BUDGET PROJECTED OUTTURN

1.1. Appendix 3 summarises the position at Period 7. In summary, the delegated accounts are projected to under spend on expenditure by £1.273m (£2.038m) and generate reduced income of £721,000 (£370,000) resulting in a net underspend to budget of £552,000 (£1.668m). The main budgets and variances are discussed below.

1.2. Expenditure

1.2.1. The overall forecast under spend of £1.273m has reduced by £765,000 which is mainly due to the underspend previously reported on communal energy being removed in light of the uncertainty in this area as THH do not have sight to costs incurred throughout the year. While it is likely this area will under spend significantly this year, this is likely to be offset by costs that were not accrued last year.

1.3. Repairs & Maintenance

1.3.1. Repairs & maintenance is forecast to under spend by £849,000. The majority of the contract under spend (£331,000) is reported on the Mears contract.

1.3.2. The repairs & maintenance budget also contains £825,000 that is set aside annually for communal works & painting programme. This budget has not been used in previous years but this year has been partially allocated to fund the curtilage project leaving a forecast under spend of £485,000.

1.4. Communal Energy

1.4.1. The issues surrounding communal energy are well documented and again continue to frustrate the internal monitoring process. While the current forecast is based on the limited information available it does not take into account unaccrued balances from 2016/17 or any other changes that may have occurred this year. Until there is clarity through accessing payment information, a nil variance is reported.

1.5. Water Rates

1.5.1. Water rates are forecast to underspend by £211,000 as charges are slightly lower than estimated when setting the budget last year. The budget is set by January but inflation increases, notified by Thames Water, often arrive later than the budget setting process.

1.6. Estate Project

1.6.1. This area is now managed by LBTH and will be excluded from future reports.

1.7. Income

1.7.1. Dwelling rents is broadly in line with budget with income 0.02% below budget.

- 1.7.2. Leasehold service charges are forecast £339,000 below budget following the actualisation of 2016/17 accounts which were less than estimated therefore reducing income.
- 1.7.3. Tenant service charges are forecast £261,000 under budget as electricity charges are lower than estimated. A more detailed review is needed in this area to determine whether the budget has been overstated or whether other events have reduced charges.
- 1.7.4. Water rates income is lower than budget by £90,000 reflecting lower charging based on late inflation indicators when setting the budget.
- 1.7.5. CDM fees will over recover income by £232,000 following the processing of prior year charging this year.
- 1.7.6. Drainage income will under achieve by £40,000 as the contract held by the service to provide drainage services has now ended.

2. FINANCIAL ANALYSIS & OVERVIEW

- 2.1. The overall position of £552,000 under spend reflects the amended position on communal energy which provides a prudent assumption this year pending access to regular data from LBTH in the future.
- 2.2. The under spend reported on R&M does cause some concern as this is inconsistent with previous year's spending and the assumption that budgets need to significantly increase in 2018/19 (see management fee paper). The Committee will recall that there have been issues with the value of the year end accrual for repairs. Asset Management and Finance are working together on the revising methodology for this work. This could have an impact on the year end projection.

DELEGATED REVENUE BUDGETS 2017/18

DESCRIPTION	BUDGET	BUDGET TO DATE	SPEND TO DATE	VARIANCE TO DATE	FORECAST	VARIANCE
	£000	£000	£000	£000	£000	£000
R&M	15,908	8,157	8,399	242	15,059	-849
Water Rates - Costs	4,841	3,352	3,488	136	4,630	-211
Communal Energy	3,950	116	386	270	3,950	0
Building Insurance	1,350	0	0	0	1,350	0
Estate Project	1,346	785	672	-113	1,484	138
TMO Allowances	901	675	540	-135	872	-29
Mayoral Bid - ASB	886	295	3	-292	598	-288
Cleaning Materials	600	350	295	-55	549	-51
Estate Capacity	600	350	141	-209	600	0
Concierge	430	251	210	-41	390	-40
Estate Parking	340	198	200	2	470	130
NNDR	275	0	0	0	232	-43
Service Charge Payments	200	117	249	132	220	20
Neighbourhood Action	100	44	-9	-53	50	-50
Rent Payments	63	37	15	-22	63	0
ASB	50	29	0	-29	50	0
Expenditure	31,840	14,756	14,589	-167	30,567	-1,273
Dwelling Rents	-65,601	-38,265	-36,739	1,526	-65,451	150
Leasehold Charges	-14,395	-14,070	-13,499	571	-14,056	339
Tenant Service Charge	-7,345	-4,284	-3,952	332	-7,084	261
Water Rates - Income	-4,559	-2,659	-2,521	138	-4,469	90
Garage Rents	-1,300	-758	-725	33	-1,300	0
Water Commission	-920	-1,022	-792	230	-792	128
Major Works	-300	-125	-316	-191	-350	-50
Estate Parking	-100	-58	-81	-23	-105	-5
CDM Fees	-70	-31	-302	-294	-302	-232
Drainage Income	-55	-24	-15	-9	-15	40
Mortgage Interest	-1	0	0	0	-1	-1
Income	-94,646	-61,296	-58,942	2,314	-93,925	721
Grand Total	-62,806	-46,540	-44,353	2,146	-63,358	-552

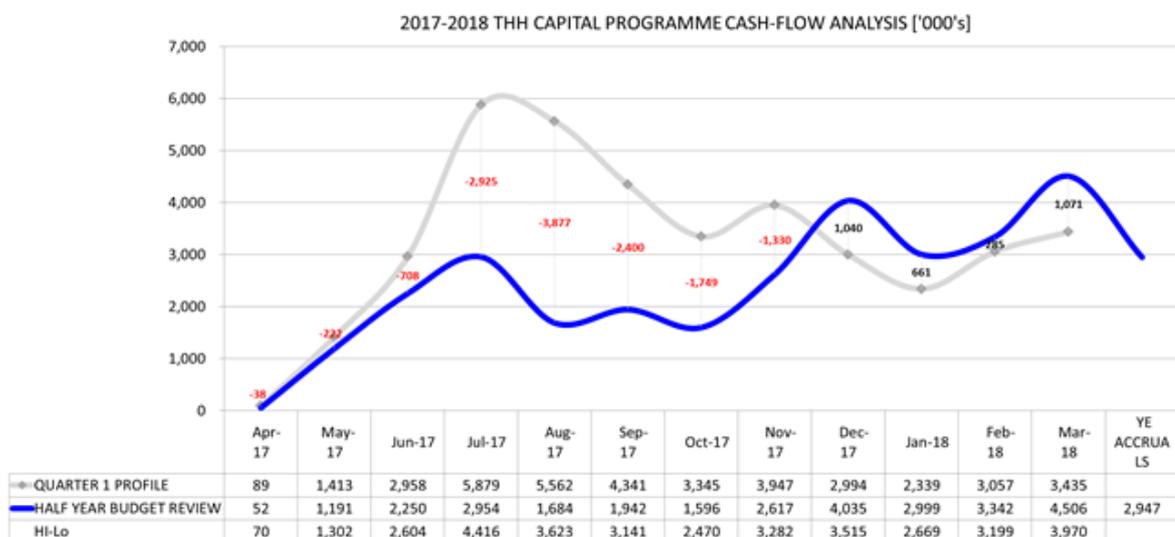
1. INTRODUCTION: CAPITAL PROGRAMME

1.1. CAPITAL WORKS PROJECTED OUTTURN

- 1.2. The THH capital programme outturn position at period 7 is forecast to deliver £32.114m spend (£39.936m) against a revised budget of £41.764m resulting in a projected underspend of £9.650m (£1.828m) which represents a 23% (4%) variance against budget (appendix 5).
- 1.3. The forecast variance under spend from £39.936m to £32.114m is as a result of the service's mid-year budget review agreed at the Asset Governance Group meeting held on 10th October. This saw £8.755m being taken out from across this years' programme, which is then partially offset by an anticipated increase in Fire Risk Works of £933.000 to deliver the reported result.
- 1.4. Further work has been undertaken on the detailed projections in the capital programme for period 8. This has identified that there will be further significant slippage into 2018/19. A verbal update will be given to Committee.

2. FINANCIAL ANALYSIS & OVERVIEW

- 2.1. The capital programme spend-to-date of £11.182m includes the Breyer settlement and prior year adjustment for CDM and THH fees. When excluding these items average spend per month calculates to £1.283m for the first 7 months of the year. To achieve the outturn position of £32.114m, the programme needs to spend a further £20.932m between now and the end of March. This will require an increased average monthly spend of £3.800m for the rest of the year, allowing for a period 13 accrual and discounting December to account for the holidays. The current forecast spend for period 8 is cash-flowed to be £2.600m as outlined in the graph below which maps the change in the original cash-flow to the revised cash-flow resulting from the mid-year budget review.



- 2.2. Slippage within the programme, as quantified in the mid-year budget review is outlined as being:
- The delay with the LCP procurement plan by about 4 months because the service have had to include additional fire-works arising out of FRAs. This means approximately £5.000m will not be spent until April 2018 –funds which were originally due to be spent in this financial year.
 - The Globe Road Project was cancelled due to leasehold enfranchisement application.
 - Delays to some lift installations on Rodgers Estate so as to avoid multiple contractors working in one building at the same time resulting in a 2 month delay.
 - Some further delays due to planning issues and consultation on new windows at Cuff Point and Dunmore Point
- 2.3. Additional fire safety works for Cranbrook Estate, Avebury Estate, Brewster and Malting and Dickinson House are planned this year which has boosted projected spend on this budget from £1.500m to £2.506m. These works are fully cash-flowed and are due to commence in December.
- 2.4. Capital voids is currently forecast to budget of £1.5m although only £113,000 has been processed. The repairs manager has indicated that this budget will not be fully utilised this year but has been unable to provide an updated figure on the basis that further work needs to be carried out to identify buy back voids and asbestos costs. This remains a risk to the capital programme.
- 2.5. Although the service is confident of achieving its outturn projection, it is noted that as the programmes cash-flow has evolved over the course of the year to become a more back-ended programme, the risks associated with that strategy become more acute. The opportunity to recover from issues such as bad weather, disrupted supply chain or delays incurred from s20 consultation become a greater challenge as there are fewer months available to recover the position. As noted under item 2.1, the programme needs to spend an average of £3.800m per month for the rest of the year to achieve its outturn projection, failure to do so will mean that the spend pressure will increase incrementally and dramatically for each passing month.

CAPITAL BUDGETS 2017/18

DESCRIPTION	ORIGINAL BUDGET	REVISED BUDGET	REVISED BUDGET YTD	SPEND YTD	VARIANCE	OUTTURN	VARIANCE
	£000	£000	£000	£000	£000	£000	£000
Housing Capital Programme							
Better Neighbourhoods	30,700	28,769	7,705	7,995	291	22,252	-6,517
Mechanical & Electrical inc	7,170	7,275	1,734	2,466	731	4,638	-2,637
Fire Risk Assessment	1,500	1,500	23	261	238	2,506	1,006
Housing Initiatives	3,650	3,650	1,254	444	-810	2,702	-948
Contingency Projects	500	500	0	14	14	14	-486
Communal Play Areas	30	30	0	0	0	0	-30
Sub Total	43,550	41,724	10,716	11,180	465	32,112	-9,612
Fuel Poverty Works							
EWI	43	40	1	1	0	1	-39
Sub Total	43	40	1	1	0	1	-39
Total	43,593	41,764	10,717	11,182	465	32,114	-9,650
Reconciliation to Agresso							
Retentions				-2,377			
Unpaid Certificates				-929			
THH Fees Qtr 3				-116			
THH Salaries Qtr 3				0			
Balance on Agresso				7,760			