

BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is not a Key Decision within the Council's definition and has not been included in the relevant Forward Plan

**Report of the Executive Director – Core Services &
Service Director – Finance (Section 151)**

CORPORATE FINANCIAL PERFORMANCE QUARTER ENDING 31st DECEMBER 2019

1. Purpose of Report

- 1.1 To consider the financial performance of the Authority during the third quarter ended December 2019 and assess the implications against the Council's Medium Term Financial Strategy (MTFS).

2. Recommendations

- 2.1 It is recommended that Cabinet:

CORPORATE FINANCIAL PERFORMANCE

- Note the current forecast General Fund revenue operational underspend for 2019/20 of £5.877M and agree that this be considered as part of the updated Reserves Strategy which will form part of the 20/21 budget setting process;
- Note the current forecast Housing Revenue account (HRA) operational underspend of £1.981M;
- Approve the writing off of historic bad debts totalling £1.736M (£1.563M General Fund/ £0.173M HRA);

CAPITAL PROGRAMME PERFORMANCE

- Note the forecast position on the 2019/20 and overall five year Capital Programme;
- Approve project scheme slippage of £22.487M;
- Note the new schemes approved during the Quarter totalling £11.922M;
- Approve a total net increase in scheme costs in 2019/20 of £0.482M;

TREASURY MANAGEMENT

- Note the key messages from the Council's Treasury Management activities carried out during the quarter.

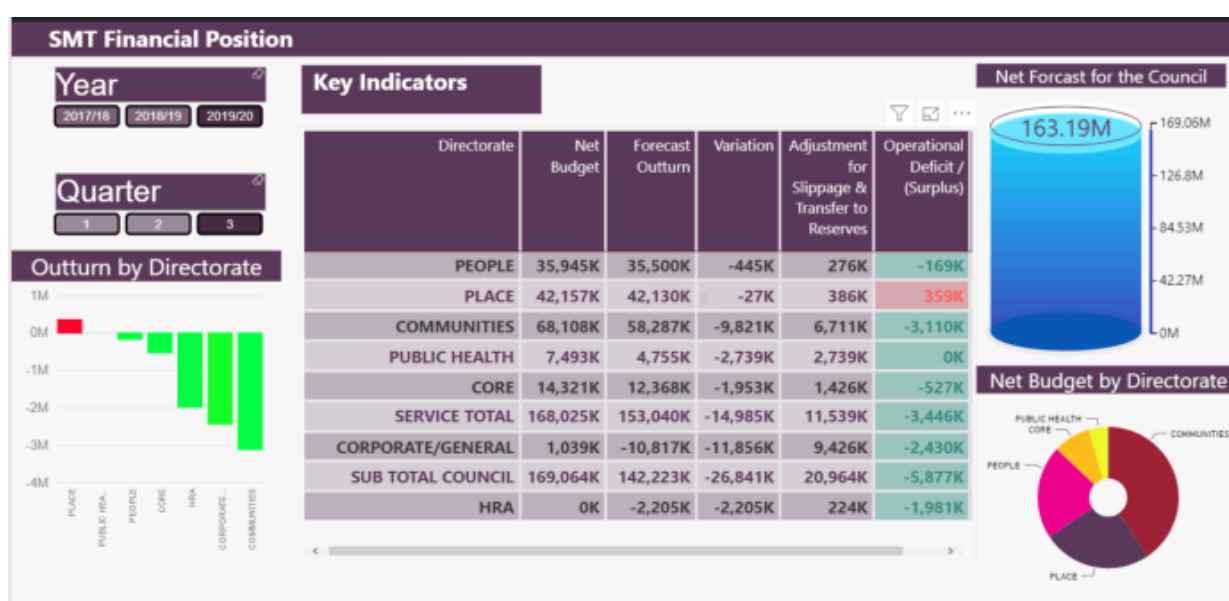
3. Overall General Fund Position to the Quarter Ending December 2019

The Council is currently reporting an overall projected General Fund revenue underspend for 2019/20 of £5.877M. This is comprised of a forecast underspend on Directorate budgets of £3.447M and a further £2.430M underspend on Corporate budgets.

In addition, there is also an underspend of £1.981M forecast on the Housing Revenue Account.

This position is summarised below with further detail provided in the attached link.

Key Messages



- 3.1 The General Fund revenue outturn position as at December 2019 is currently reporting a healthy forecast underspend of £5.877M. There is also a forecast underspend on the Housing Revenue Account of £1.981M which will be available to support future strategic housing priorities. These provisional balances have been considered in the updated Reserves Strategy forming part of the 20/21 budget setting process.
- 3.2 It should be noted that £21M of resources available in 2019/20 will be spent in 2020/21 and beyond in line with the Council's Reserves Strategy which had always envisaged that some of these resources would be spent in future years and also recognising revised plans for specific schemes and initiatives originally anticipated to complete this financial year.
- 3.3 There is also a 100% delivery forecast against the 2019/20 efficiency targets.
- 3.4 Core income collection also remains positive with Council Tax collections being on track to deliver against target (96.00%) and Business Rate collections forecasting above target (98.85%).

- 3.5 Government have recently announced a one year spending review to provide some funding certainty for 2020/21. It is expected that this will release one-off resources to invest in key priorities. The Council's MTFS is currently in the process of being updated to reflect this and to roll forward the forecast for a further year (to 2022/23).
- 3.6 It should be noted that there remains considerable funding uncertainty beyond 20/21, pending the Government's full Comprehensive Spending and Fair Funding reviews.

Directorate Updates

People Directorate

- 3.7 The People Directorate is currently forecasting an **underspend of £0.169M**; a slight improvement from Q2 (£0.061M), as a result of increasing vacancies and staff turnover. However, Children in Care remains an area of concern, projecting an overspend of £0.452M for 2019/20, although this represents a reduction of £0.176M since Q2 due to the reduced cost of LAC placements. This overspend is fully offset by the planned use of the 2019/20 Social Care Grant, although this position is unsustainable in the long term unless future spending reviews address the funding position on an ongoing basis.
- 3.8 The outturn for centrally retained Dedicated Schools Grant (DSG) remains unchanged and continues to forecast an overspend of £5.9M by the year end mainly relating to the SEND/High Needs Block. The recent announcement by the Government of additional funding for SEND will provide some mitigation in future years alongside the ongoing actions stemming from the SEND Strategic Review action plan and potential increased contributions from schools which the schools forum have recently agreed.

Place Directorate

- 3.9 An **overspend of £0.359M** is forecast for the Place Directorate. Waste disposal continues to be a key area of concern for the Directorate due to the fall in the market price of recycled materials. The rising costs in Home to School Transport, reflecting the wider pressures in SEND, also continue to cause concern. These overspends have been mitigated to some extent by underspends elsewhere in the Directorate predominately relating to delays in recruitment to vacant posts and the early delivery of 2020/21 efficiency savings (LED street lighting).
- 3.10 The overspends in the Waste and Home to School Transport services have been mitigated moving forwards with additional budget provision provided for in the Council's MTFS.

Communities Directorate

- 3.11 The Communities Directorate is forecasting an overall **underspend of £3.1M**, an improvement of £0.302M from Q2. This is predominately due to an operational underspend in Adult Social Care of £2.7M resulting from the early delivery of future years efficiency savings (increased client contributions and additional funding from health), and increasing levels of non-recurrent funding. However, this is not sustainable longer term and the delay of the ASC Green Paper makes it difficult for long term planning.

- 3.12 Provider services are also forecasting an underspend of £0.589M mainly as a result of the early delivery of future years efficiencies (Keresforth centre and Assisted Living Technology).
- 3.13 An underspend of £0.164M is forecast for Safer, Stronger & Healthier Communities as a result of vacancies across the structure.
- 3.14 The above is offset by an overspend in IT and Customer Services of £0.360M mainly due to the increased cost of software licences, some of which is one-off in nature.

Public Health

- 3.15 Public Health continues to forecasting an **underspend of £2.7M**. This includes resources (£2.1M) previously identified as being required to support the 4 year plan. The remaining underspend relates to Regulatory Services which is due to staff vacancies / turnover and unspent resources carried forward from 2018/19. It is proposed that the full underspend be earmarked to support the delivery of the four year public health plan as well as delivering a number of planned food inspections.

Core Directorate

- 3.16 The Core Directorate is currently forecasting an **underspend of £0.527M**, a reduction of £0.057M since Q2. The underspend across the Directorate is mainly due to delays in recruiting to new staffing structures, together with the early delivery of 2020/21 efficiencies within the Council Governance BU. There is also additional one off income received from court fees and unexpected government grant income awarded to the Benefits and Taxation and Elections services respectively.

Corporate Budgets

- 3.17 Corporate budgets are forecasting to be **underspent** by £2.430M by the end of 2019/20. This relates to an underspend on the budget set aside to meet the Council's debt costs which is due to the continuing low interest rate environment, together with additional one-off government grant received in year.

Housing Revenue Account

- 3.18 The Housing Revenue Account (HRA) is forecasting an **underspend of £1.981M** due to higher than anticipated rental income from lower than expected void levels, together with the expected collection of an additional week's rent in this financial year.
- 3.19 The HRA Medium Term Financial Strategy and 30 year business plan is currently in the process of being updated. It is expected that this will release resources for further investment in both Council Housing and wider strategic housing priorities. This will be presented to Cabinet during the next financial year.
- 3.20 The Housing Property Repair and Improvement Programme (PRIP) contract has recently been re-procured with the new contractor (Wates Construction) to commence delivering the programme from 1st April 2020. The impact of this on Berneslai Homes operation and subsequent impact on the HRA is currently being determined

4. Overall Capital Position to the Quarter Ending September 2019

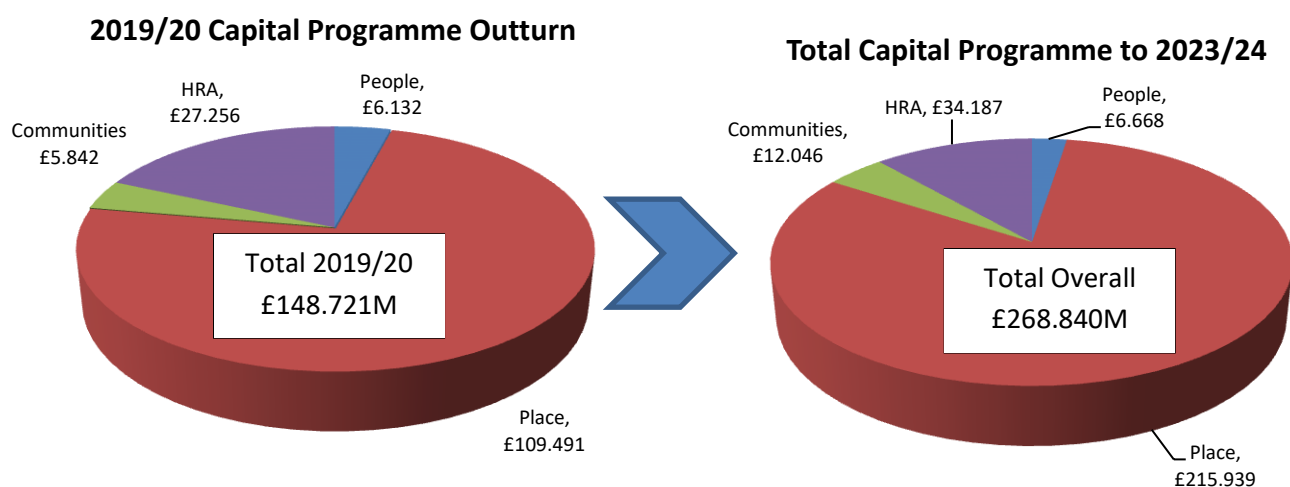
The position on the Council's Capital Programme for 2019/20 is currently projected to be an overall lower than anticipated expenditure of £22.045M.

This includes scheme slippage of £22.487M. There is also an increase in scheme costs totalling £0.388M which all relates to schemes with restricted (specific) funding.

There have also been new schemes approved during the quarter totalling £11.922M.

The position on the Council's Capital Programme over the five year period to 2023/24 is currently projected to be an overall higher than anticipated expenditure of £0.388M mainly due to increased costs on the Council's Traffic Signals programme.

- 4.1 The Council's capital programme is planned over the five year period 2019/20 through 2023/24 inclusive. The total capital programme over the period stands at £268.840M. This is distributed across the respective directorates as shown in the chart below:



Key 2019/20 Movements

	2019/20 £M	Later Years £M	Total £M
Reported Variance as at 31st December			
<i>As a result of:</i>			
<u>Slippage:</u>			
People	(0.441)	0.441	-
Place	(18.007)	18.007	-
Communities	(1.519)	1.519	-
HRA	(2.520)	2.520	-
Sub-Total	(22.487)	22.487	-

<u>Re-phasing:</u>			
People	0.005	(0.005)	-
Communities	0.009	(0.009)	-
Sub-Total	0.014	0.014	-
<u>Funded Increases/(Decreases) in Scheme Costs*:</u>			
People	0.040	(0.040)	-
Place	(0.240)	-	(0.240)
Communities	(0.095)	-	(0.095)
Housing Revenue Account	0.723	-	0.723
Sub-Total	0.428	(0.040)	0.388
Total	(22.045)	22.433	0.388

2019/20 Slippage

4.3 Scheme slippage totaling £20.889M is reported during the quarter. This includes slippage on the Market Gate Bridge (£5.144M) to 2020/21 to align with the wider Glassworks construction program.

4.4 There has also been slippage on the Vehicle Replacement Programme (£5.565M) due to the lead time required between order and delivery. Minor slippage has also occurred other schemes including the Property Investment Fund Phase 2 (£1.043M), and Barnsley Homes Scheme – Roofing / Central Heating Replacement schemes (£1.700M).

2019/20 Re-phasing

4.5 The above slippage has been partly offset by re-phasing of the LED Street Light Replacement Programme (£1.598M) due to the lantern replacement element of the scheme being ahead of schedule.

2019/20 Scheme Variation

4.6 There has also been a minor cost variation of £0.388M across the programme. The key cost increase relates to additional adaptations works on the non Barnsley Homes Standard Major Adaptation scheme (£0.500M) due to an increase in demand.

2019/20 New Scheme Approval

4.7 A number of new capital schemes have been approved during the quarter totaling £11.922M. These include:

- New build housing developments at St Michaels -£5.341M (Cab 8.1.2020/3)
- New build housing development at Billingley View -£2.510M (Cab 8.1.2020/9);
- Increase in scheme costs on the M1 J36 Phase 2 – Goldthorpe scheme – £2.745M (Cab11.12.2019/17);
- Dorothy Hyman Phase 2 development - £0.381M (S106 Capital Board); and
- SAP infrastructure upgrade programme (£0.350M) (Cab 27.11.20019/4).

5. Treasury Management update

Economic Summary

There has been a steady rise in PWLB borrowing rates throughout most of the quarter following the 1% increase announced by HM Treasury. There is speculation that the base rate will fall in the near future due to low economic growth and uncertainty over future trade arrangements with the EU, although the general expectation remains that rates will rise over the medium term.

Borrowing Activity

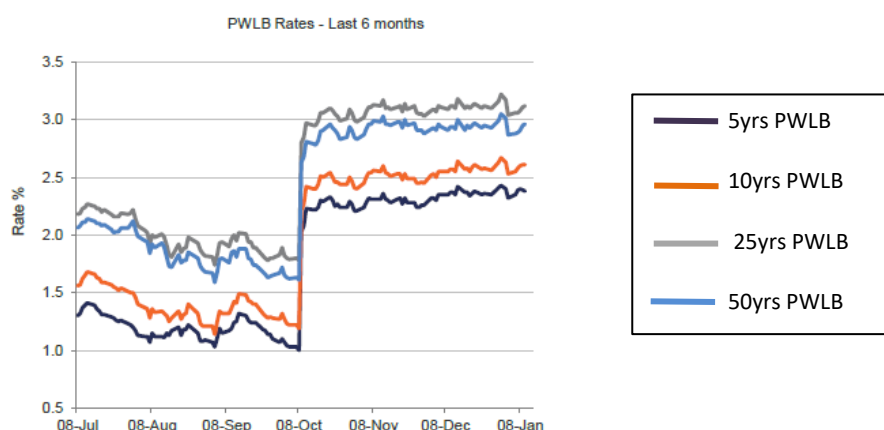
Some £38M of new fixed-rate borrowing was undertaken during the quarter, including drawing down the £20M deferred loan which was secured during 2018/19. The Council may need to borrow an additional £203M (including £68M of fixed-rate borrowing) by the end of 2021/22 to address the remaining capital financing requirement,

Investment Activity

Security and liquidity remained the key investment priorities, with the majority of new investments placed in secure Money Market Funds and instant access accounts.

Key Messages – Economic Summary

- 5.1 Interest rates remain a key driver of the Council's Treasury Management activities. There was a steady rise in PWLB borrowing rates throughout the quarter following the 1% increase announced by HM Treasury (on the 9th October):



- 5.2 There has since been some speculation of a base rate cut in the near future due to low economic growth and uncertainty over future trade arrangements with the EU. However, there is still a general expectation that rates will rise over the medium term, although any further rises are expected to be gradual (see table below from the Council's advisors):

	Latest Interest Rate Projections (Link Asset Services)
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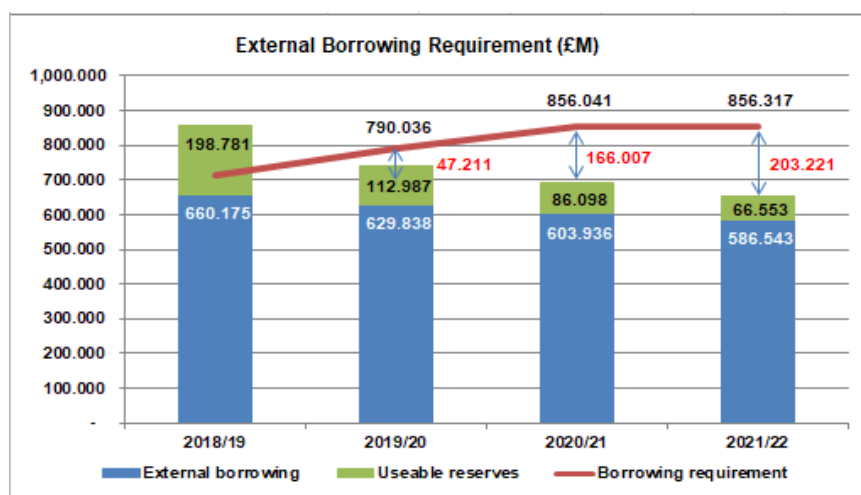
	Latest	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Base Rate	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
25 Year PWLB	2.95%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%
50 Year PWLB	2.78%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%

** The Public Works Loan Board (PWLB) is an Executive Agency of HM Treasury whose primary function is to lend money to local authorities.*

Key Messages – Borrowing Activity

5.3 As reported at Q2, and given the recent movement in interest rates the S151 Officer's advice was to keep a watching brief on further rate movements which may necessitate bringing forward borrowing activity into Q3 and / or Q4. Subsequently £38M of new fixed-rate borrowing was taken during the quarter, including £20M of deferred loan funding secured in 2018/19. The purpose of which was to cover the repayment of maturing PWLB loans.

5.4 As highlighted above there is a requirement to borrow upto £203M to the end of 2021/22 as a result of planned capital investment activity and existing loans that are due to mature. It is expected that upto £68M of this borrowing requirement will need to be fixed out to deliver the objective of reasonable cost certainty in line with the approved treasury management strategy.



Key Messages - Investments

5.6 The Council's investment strategy is to ensure that its cash balances are invested prudently and are available when needed to meet its spending commitments objectives are security and liquidity.

5.7 In order to deliver this any new investments are placed in secure money market funds and instant access accounts. However, advantage is also taken of the competitive rates offered on short term local authority deposits.

Background Information – available on request

Corporate Finance Performance Q3 detailed
Capital Programme Monitoring Report Q3 detailed
Treasury Management Review Q3 detailed