

BARNSELY 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 30th SEPTEMBER 2019

1. Purpose of Report

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

2. Recommendations

- 2.1 It is recommended that Cabinet:

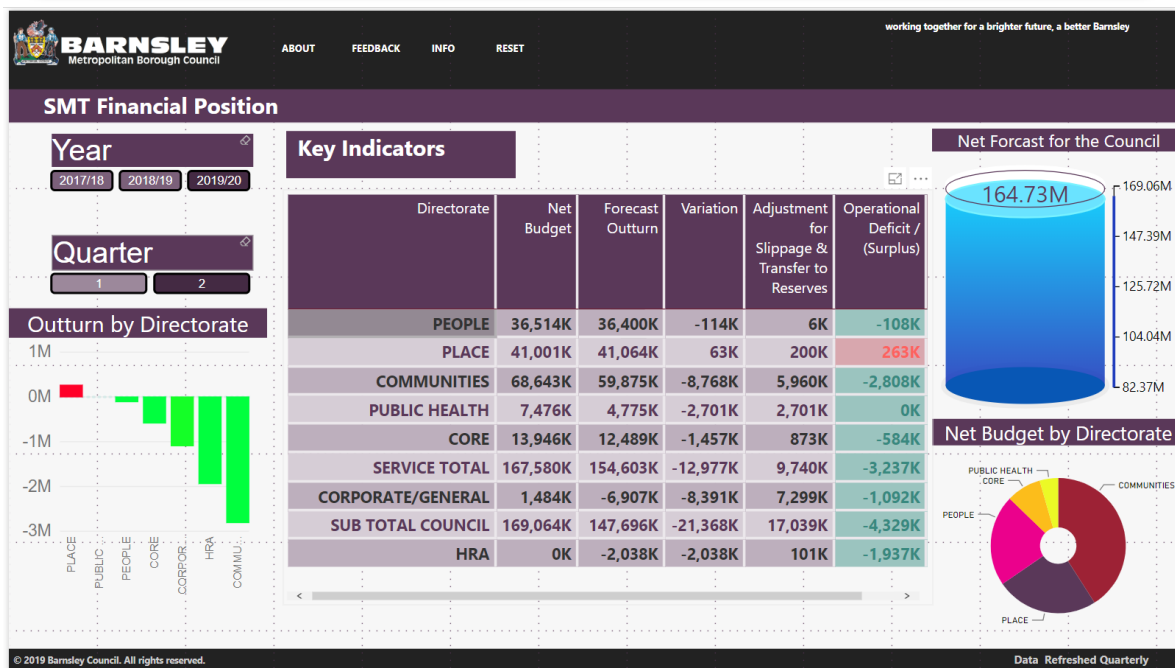
- **Note the current forecast General Fund revenue operational underspend for 2019/20 of £4.329M and agree that this be considered as part of the updated Reserves Strategy which will form part of the 20/21 budget setting process;**
- **Note the current forecast Housing Revenue account (HRA) operational underspend of £1.937M;**
- **Approve the writing off of historic bad debts totalling £0.646M (£0.578M General Fund/ £0.068M HRA);**
- **Note the forecast position on the 2019/20 and overall five year Capital Programme;**
- **Approve scheme slippage of £13.392M predominately relating to the M1 J36/37 redevelopments;**
- **Approve bringing forward of plans totalling £10.000M on the Glassworks scheme as a result of a revised programme of works;**
- **Approve a total net increase in scheme costs in 2019/20 and in total of £0.380M;**
- **Approve an additional loan advance to BBIC of £0.150M;**
- **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 September 2019

The Council is currently reporting an overall projected General Fund revenue underspend for 2019/20 of £4.329M. This is comprised of a forecast underspend on Directorate budgets of £3.237M and a further £1.092M underspend on Corporate budgets.

In addition, there is also an underspend of £1.937M 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 September 2019 is currently reporting a healthy forecast underspend of £4.329M. There is also a forecast underspend on the Housing Revenue Account of £1.937M which will be available to support future strategic housing priorities. It is proposed that these provisional balances be considered as part of an updated Reserves Strategy that will form part of the 20/21 budget setting process.
- 3.2 It should be noted that £17M 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 (95.97%) and Business Rate collections forecasting above target (98.85%).

- 3.5 Government have also 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).

Directorate Updates

Communities Directorate

- 3.4 There is currently a forecast **underspend** of £2.8M for the Communities Directorate, predominately due to an operational underspend in Adult Social Care of £2.4M resulting from the early delivery of future years efficiency savings (increased client contributions and additional funding from health).
- 3.5 Provider services are also forecasting an underspend of £0.6M mainly as a result of the early closure of the Keresforth centre and the early delivery of future years efficiencies within Assisted Living Technology services.
- 3.6 IT and Customer Services are currently reporting an overspend of £0.2M due mainly to the increased cost of software licences and equipment.

People Directorate

- 3.7 The People Directorate is currently forecasting an **underspend** of £0.1M. However, Children in Care remains an area of concern, projecting to be £1.0M overspent by the end of the year. Although this is fully offset by underspends elsewhere in the Directorate together with the use of the 2019/20 Social Care Grant, this position is unsustainable in the long term unless future spending reviews address the funding position on an ongoing basis.
- 3.7 It is also worth noting that the centrally retained Dedicated Schools Grant (DSG) budget is forecasting to be overspent by £5.9M by the year end mainly relating to the SEND/High Needs Block. The recent announcement by Government of additional funding for SEND will provide some mitigation alongside the ongoing the actions stemming from the strategic review of SEND and potential increased contributions from schools.

Place Directorate

- 3.8 An **overspend** of £0.263M is forecast within the Place Directorate. This is as a result of ongoing cost pressures associated with waste disposal due to the continuing problems in the recycling market together with an overspend in the Home to School Transport service reflecting the pressures in SEND. These overspends have been to some extent offset by underspends elsewhere in the Directorate predominately related to lower than expected property costs across the Council's asset portfolio.
- 3.9 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.

Public Health

- 3.10 Public Health is currently forecasting an **underspend** of £2.701M. 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.

Core Directorate

- 3.11 An **underspend** of £0.584M is forecast within the Core Directorate due to delays in recruiting to new staffing structures within the Finance and Business Improvement, HR and Communications business units 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

- 3.12 Corporate budgets are forecasting to be **underspent** by £1.092M 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.

Housing Revenue Account

- 3.13 The Housing Revenue Account (HRA) is also forecasting an **underspend** of £1.937M 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.
- 3.14 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 quarter.
- 3.15 In addition, the Housing Property Repair and Improvement Programme (PRIP) is currently in the process of being re-procured with the expected contract award being made during Q3.

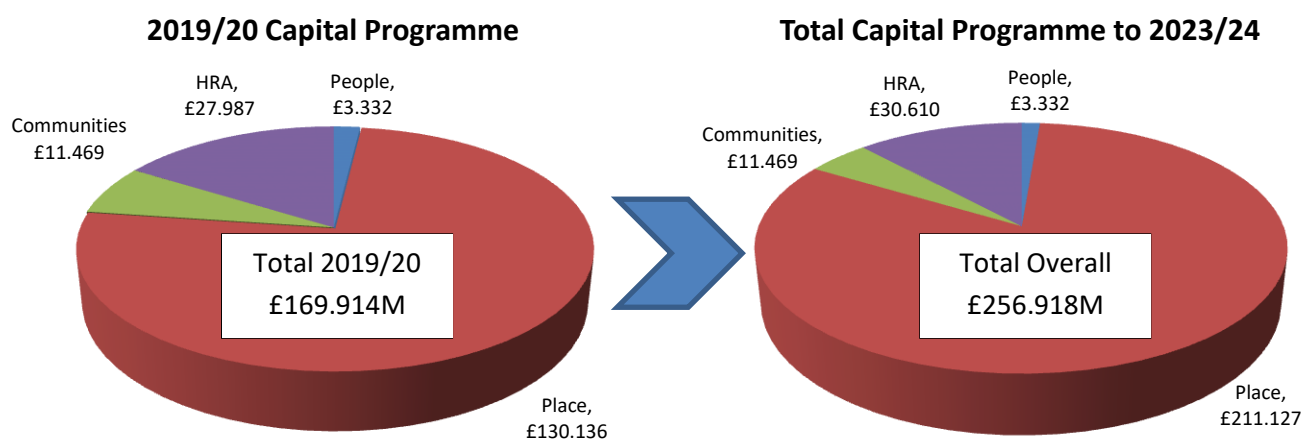
4. Overall Capital Position to the Quarter Ending September 2019

The position on the Council's Capital Programme for 2019/20 is currently projected to be an overall lower than anticipated expenditure of £3.010M.

This includes slippage of £13.392M, re-phasing of £10.000M and variation in scheme costs of £0.380M. Approval of one new scheme totalling £0.150M is also required (additional loan to BBIC).

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 £0.380M 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 £256.918M. This is distributed across the respective directorates as shown in the chart below:



Key 2019/20 Movements

Reported Variance as at 30th September	2019/20 £M	Later Years £M	Total £M
<u>Slippage:</u>			
People	(0.142)	0.140	(0.002)
Place	(12.681)	12.681	-
Communities	(0.569)	0.569	-
Sub-Total	(13.392)	13.390	-
<u>Re-phasing:</u>			
Place	10.000	(10.000)	
Sub-Total	10.000	(10.000)	
<u>Funded Increases*/(Decreases**) in Scheme Costs:</u>			
Place	0.234	-	0.234
Housing Revenue Account	0.148	-	0.148
Sub-Total	0.382	-	0.382
<u>Unfunded Increases*/(Decreases**) in Scheme Costs:</u>			
BBIC Phase 5	0.150	-	0.150
Total	(2.860)	3.390	0.530

2019/20 Slippage

- 4.3 Scheme slippage totaling £13.392M is reported during the quarter. This includes slippage on the M1 J36/J37 improvement schemes (£8.5M) due to contractor retentions and minor delays in obtaining planning permission and in securing funding agreements with SCR.
- 4.4 There has also been slippage on the Highways Safer Roads programme due to the design phase taking longer than anticipated (£1M) and slippage in the delivery of the Principal Towns Programme at Penistone and Royston (£1M) due to complexities in the individual business cases for each programme. Delivery of phase 2 of the Council's Property Investment Fund will also complete in a future period due to issues in discharging conditions attached to the planning consent at the Everill Gate Lane site.

2019/20 Re-phasing

- 4.5 The above slippage has been offset in part by re-phasing on the Glassworks Scheme (£10.0M) reflecting the receipt and approval of an updated work programme from the main contractor including acceleration of works originally planned to commence during 2020/21. It should be noted the expected completion date (early Summer 2021) will not change as a result of this.

2019/20 Scheme Variation

- 4.6 There has also been a minor variation in scheme costs (£0.380M) across the programme the key variation being within Highways where the traffic signals upgrade project at Old Mill Lane / Huddersfield Road has increased in cost following an unanticipated extended time on site. Approval is also required for the provision of additional loan financing requested by BBIC to support their Phase 5 capital development project. Approval to this request will increase BBIC's borrowing from the Council's for this scheme from £0.570M to £0.720M.
- 4.7 This has been offset by an overall decrease in the cost of the carriageway resurfacing programme following receipt of an updated condition survey on roads previously identified to be re-surfaced.

Overall Summary

- 4.8 There are no funding or resourcing issues in this year or ongoing as a result of the movements highlighted within this report. Progress overall is on track to deliver a number of major schemes including the Glassworks redevelopment, the Cannon Hall Parks for People scheme, the Metrodome Boiler replacement and the Council Decent Homes Standard Scheme and Housing Growth programme.

5. Treasury Management update

Economic Summary

There has been a downward trend in borrowing rates throughout most of the quarter although recently there has been signs of increased volatility as the EU Exit deadline came and went. PWLB rates unexpectedly increased by 1% shortly after the quarter end.

Borrowing Activity

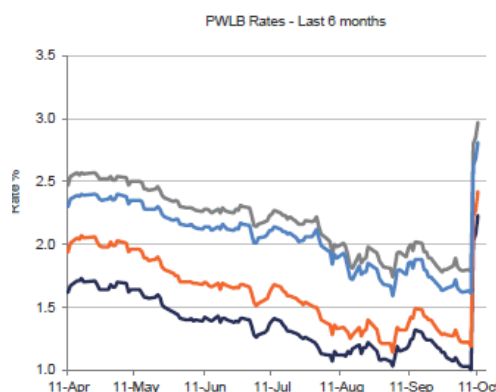
No additional long term borrowing was carried out during the quarter in line with expectations. However, the Council will need to borrow in excess of £200 Million over the next 3 years to fund its remaining capital financing requirements, some of which may be undertaken in the remainder of this financial year depending on rate movements in the remaining two quarters.

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

Key Messages – Economic Summary

- 5.1 Interest rates remain a key driver of the Council's Treasury Management activities. Officers constantly and carefully monitor rates and during the quarter the downward trend experienced in the latter part of quarter 1 continued. However, from mid-September there was increased volatility in rates as a result of the EU exit deadline approaching.
- 5.2 It should also be noted that shortly after the quarter end of 30th September HM Treasury announced a sharp increase in PWLB borrowing rates of 1% was not entirely expected. The main reason suggested for this increase was due to the significant rise in public sector borrowing which subsequently led to concerns over the Governments overall borrowing cap being exceeded. Government has also expressed concerns over borrowing by local authorities for purely commercial investment purposes, something the Council has to date avoided.



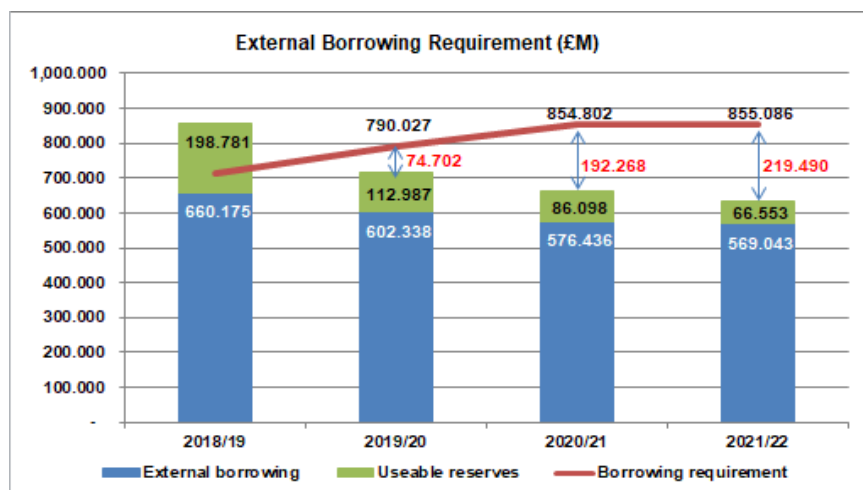
5.3 The S151 officer's advice in relation to the above, is that, on the basis that limited borrowing is required for the remainder of this year, to continue to monitor rate movements whilst also considering other funding sources (e.g forward loans) in preparation for when borrowing is required over the next two financial years.

Key Messages – Borrowing Activity

5.4 No long term borrowing was carried out during the quarter reflecting the continuing downward trend in interest rates.

5.5 As highlighted above there is a requirement to borrow upto £219M 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 £85M 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.

5.6 Previous expectations were that no further borrowing activity would be undertaken during the remainder of this financial year. Given the recent movement in interest rates the S151 Officer's advice is to keep a watching brief on further rate movements which may necessitate bringing forward borrowing activity into Q3 and / or Q4.



Key Messages - Investments

5.6 The Council's investment strategy objectives are security and liquidity.

5.7 In order to deliver this, the majority of new investments during the quarter were placed in secure money market funds and instant access accounts. A number of short term deposits are also held with reputable banks and other local authorities. The table below provides a breakdown of the investments held as at 30th September 2019.

	Balance on 01/07/2019 (£M)	New Investments (£M)	Redeemed Investments (£M)	Balance on 30/09/2019 (£M)	Net Movement (£M)
Short term deposits	154.000	39.500	(79.000)	114.500	(39.500)
Money Market Funds / instant access accounts	21.700	132.050	(119.650)	34.100	12.400
Total investments	175.700	171.550	198.650	148.600	(27.100)

Background Information – available on request

Corporate Finance Performance Q2 detailed

Capital Programme Monitoring Report Q2 detailed

Treasury Management Review Q2 detailed